Major constraints to trade in processed agricultural products confronting developing countries

SUMMARY

- *Developing countries' share of processed agricultural exports is falling and many remain dependent on primary agricultural products.*
- *Tariff escalation hinders export growth and product diversification. Although declining, it persists in many commodity chains, particularly tropical raw materials, cocoa, coffee, tea, sugar and fruit.*
- *Growing market access barriers due to changes in industrial structure may also impede access to growing value added markets.*
- *Internal supply constraints prevent LDCs from taking full advantage of trading opportunities.*

ANNUAL WORLD TRADE IN PROCESSED, VALUE ADDED, AGRICULTURAL PRODUCTS TOTALS US$235 BILLION. ■ They comprise over 60 percent of total world agricultural trade (average, 1996-2000) and over the last 20 years has been growing faster than primary agricultural products. Exports of processed agricultural products grew at 6 percent annually during 1981-2000 (compared to 3.5 percent for primary products), raising their world market shares in total agricultural trade from 55 percent in 1981-1990 to 60 percent in 1991-2000. Growth has been particularly high (above the average 6 percent) for processed cereals, fruit, vegetables, pulses, tropical beverages and poultry products.

DEVELOPING COUNTRIES' TRADE SHARE OF PROCESSED PRODUCTS HAS DECLINED AND THEY REMAIN DEPENDANT ON PRIMARY AGRICULTURAL EXPORTS. ■ Their share in world exports of processed agricultural products decreased from 53 percent in 1981-1990 to 48 percent in 1991-2000. For LDCs, their share declined from 2.3 to 1.8 percent. Coffee is an example: the trade share of the top 10 coffee-exporting developing countries in global roasted coffee fell from 7 to 2 percent between 1981-90 and 1991-2000.

AVERAGE BOUND MFN (MOST FAVOURED NATION) TARIFFS IN THE MAJOR IMPORTING DEVELOPED COUNTRIES: SELECTED PRODUCTS

Product	Primary/ processing level	Average final bound MFN tariffs (Simple averages at the 6-digit of the harmonized system)			
		USA	EU	Japan	Canada
Cocoa	Beans	0	0	0	0
	Chocolate	6.9	21.1	21.3	59.0
Coffee	Green	0	0	0	0
	Roasted	0	9.0	12.0	0.4
Oranges	Fresh	3.5	16.7	24.0	0
	Juice	11.0	34.9	31.0	1.0
Pineapple	Fresh	1.2	5.8	12.1	0
	Juice	4.1	11.6	24.3	0
Hides & Skins	Raw	0	0	0	0
	Tanned	3.0	5.4	23.5	6.3
Sugar	Raw	32.8	134.7	224.9	8.5
	Refined	42.5	161.1	328.1	107.0

Source: FAO staff calculations

Major constraints

Tariff escalation

ALTHOUGH TARIFF ESCALATION[1] HAS BEEN REDUCED DURING THE POST-URUGUAY ROUND (UR), IT STILL PERSISTS IN MANY COMMODITY CHAINS. ■ Recent FAO analysis shows that in 12 out of 17 major commodity chains, significant tariff escalation exists, mostly at the first stage of processing. In the major import markets, escalation is most evident in tropical raw materials, cocoa, coffee, tea, sugar, and fruit (see Table 1).[2]

Tariff escalation in agricultural markets is a major factor for exporting countries, hindering export growth and diversification into processed products.

TARIFF ESCALATION AND THE CURRENT WTO AGRICULTURE NEGOTIATIONS. ■ Tariff escalation is one of the important market access issues to be addressed in the current WTO negotiations on agriculture. The March 2003 Draft of Modalities for the Further Commitments in the context of the WTO Agreement on Agriculture (AoA), proposes steeper cuts in the higher tariffs; where the tariff on a processed product is higher than for its primary form, the proposed tariff reduction for the processed product would be equivalent to that for its primary form, multiplied by at least a factor of 1.3.

Market structure and the distribution of gains from trade in agricultural products

Policy barriers to trade in processed agricultural products are important but when they are reduced, other factors come to the forefront, particularly from restrictive business practices.

AGRICULTURAL COMMODITY CHAINS ARE INCREASINGLY DOMINATED BY A FEW MULTINATIONAL ENTERPRISES (MNES) AND DISTRIBUTION COMPANIES. ■ In 1996, for example, 4 companies accounted for 50 percent of roasted coffee[3] and the number of cocoa trading houses in London has decreased from 30 in 1980 to about 10 in 1999. Similarly, the 6 largest chocolate manufacturers account for half of world chocolate sales. For vegetable oils, following mergers and acquisitions in the 1990s, a small number of MNEs now dominate the production, distribution and trade in oilseeds and oils. For grains, a few big companies have become vertically integrated businesses in trading, storage, processing and milling. Growing concentration may affect access to markets and returns to developing countries for their products.

THE GAP IS WIDENING BETWEEN CONSUMER PRICES AND PRODUCER PRICES FOR TROPICAL PRODUCTS. ■ There is a widening gap between world commodity prices and consumer prices in industrialized countries.[4] The growers' price is a very low share of the final price, ranging from 4 -8 percent for raw cotton and tobacco to 11-24 percent for jute and coffee.[5] The International Coffee Organization (ICO) reported that in the early 1990s export earnings by coffee-producing countries were US$10-12 billion and the value of retail sales of coffee, largely in the developed countries, was around US$30 billion. However, in coffee year 2000/2001, producing countries received only US$5.5 billion of the value of retail sales of more than US$70 billion. Greater access to developed country markets would enable developing countries to gain from added value exports.

Internal supply constraints

Many developing countries, particularly LDCs, face internal supply constraints that limit their ability to respond to opportunities for trade in processed agricultural products. These include weak technology; insufficient transport, storage and marketing infrastructure; inadequate legal and regulatory arrangements; and policy-induced disadvantages resulting from trade and macroeconomic policies that are biased against agriculture and exports.

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1 Tariff escalation occurs when the tariff applied on a product category rises with the degree of processing, giving greater protection to the processing industry of the importing country.

2 FAO (2003), *Tariff escalation in agricultural commodity markets*, Commodities and Trade Division.

3 UNCTAD (1999), *The world commodity economy: recent evolution, financial crises, and changing market structures.* (TD/B/COM.1/27), UNCTAD, Geneva.

4 See, for example, Morisset (1997), *Unfair trade: the increasing gap between world and domestic prices in commodity markets during the past 25 years,* The World Bank Economic Review, Vol. 12, No. 3: 503–26.

5 OECD (1997), *Market access for the least developed countries: where are the obstacles?*, OECD, Paris (OECD/GD/(97)174)

KEY CHALLENGES

- *To facilitate greater participation of developing countries in the growing trade in processed agricultural products;*
- *To reduce tariff escalation throughout commodity chains;*
- *To address growing market access barriers resulting from changing industry structures and restrictive business practices;*
- *To reduce internal supply constraints in LDCs resulting from inadequate technology, transport and storage infrastucture and upgrade food quality and safety systems.*

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