FAO COMMODITY AND TRADE POLICY
RESEARCH WORKING PAPER No. 43

POLICY DEVELOPMENTS AFFECTING JUTE AND HARD FIBRES MARKETS AND THEIR IMPLICATIONS FOR PRODUCTION AND TRADE

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Rome, 2013

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I. INTRODUCTION

This document examines the existing policy framework impacting production and trade of jute, abaca, coir, kenaf and sisal (JACKS[1]). Policy discussion in this document is heavily biased towards producing countries, most of which are Least Developed Countries (LDC), because of the importance of these fibres to the economy of these countries and the attempt by these countries to articulate effective policies to accelerate the development of the respective fibre sub-sectors in a coherent manner. For importing consuming countries, there is virtually no specific policy for JACKS per se, rather they are covered under many areas including tariffs and regulations, sanitary and phytosanitary measures and consumer and environment protection.

Although research into the use of JACKS in producing composites has gathered momentum and available scientific evidence validates the use of JACKS in geo-textiles and building material composites, their financial and economic viability are still questionable as no country is yet producing these composites on a commercial scale. Commercial trials are still on-going and governments are beginning to consider enabling policies, including establishment of economic exclusion zones, and tax holidays for companies that are willing to invest in the production of composite building materials, to facilitate development of this sub-sector. This should not be confused with the commercialization of composites in developed countries, mainly those made from wood chips (in Scandinavian countries and the United States) and flax and hemp (in Europe).

II. TRENDS AND STRUCTURE OF JACKS TRADE

Increasingly, the world is realizing that better use must be made of precious natural resources. Changes in the regulations are playing an increasingly important role in encouraging industry to follow more environmentally sound practices. Of direct relevance to the natural fibres

1 JACKS: jute, abaca, coir, kenaf and sisal.

economy are a number of legislative provisions ranging from the banning of non-biodegradable plastic bags to the establishment of end-of-life recycling requirements for the automobile industry. These regulatory provisions are indicative of the pronounced trend in many high-income countries towards enacting legislation aimed at reducing environmental damage and the associated costs to society.

There is considerable scope for further developing commercial opportunities for JACKS which are exclusively supplied from developing countries. These natural fibre crops are of vital importance to the livelihood and food security of farmers in some of the poorest regions of the world. They provide employment for low-income populations in rural areas while contributing to food security in times of drought. For example, sisal plants tend to accumulate moisture around them which nourishes the food crops that are intercropped with them.

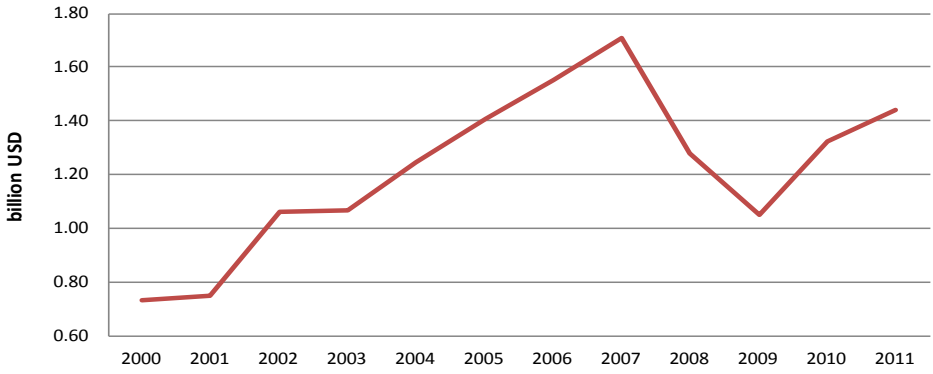
Although the traditional markets for JACKS have shrunk, mainly owing to the deep inroads made by synthetics, these fibres possess the technical and economic characteristics suitable for use in higher value innovative applications, such as composites, building materials, furniture and packaging material. Moreover, the potential for using biomass and waste to generate biogas, animal feed and fertilizer continues to grow. However, as mentioned in the introduction, the financial and economic viability of the production and trade of these products on a commercial scale are still being evaluated, particularly in terms of their competitiveness against existing products. So the use of JACKS in innovative industrial applications should take place alongside the traditional uses of these fibres.

In terms of world trade, jute and its manufactured products are the largest items traded, accounting for 60 percent of the total value of JACKS exported in 2011[2]. The value of world exports of jute and manufactured products increased from USD 0.74 billion in 2000 to USD 1.71 billion at its peak in 2007. After falling to a low of USD 1.05 billion in 2009, values eventually recovered to USD 1.44 billion in 2011 (Figure 1). For hard fibres,

2 Trade flow by source and destination are given in the policy supplement of the Statistical Bulletin CCP: HF/JU/ST 2013.

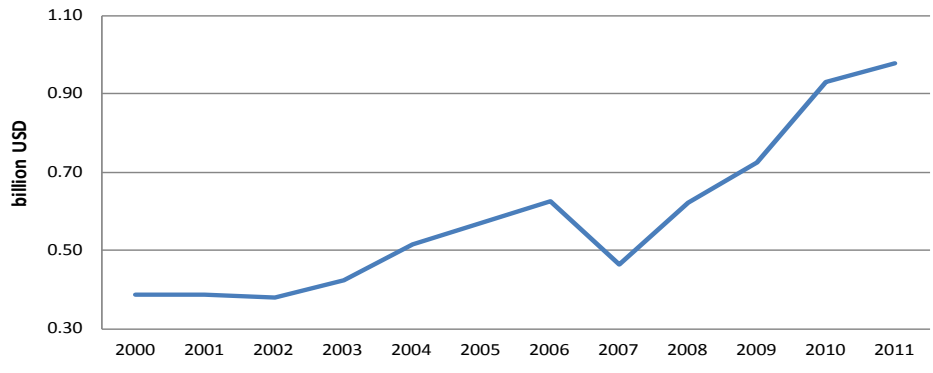
the value of exports peaked at USD 0.63 billion in 2006, dipped to USD 0.46 billion in 2007 before recovering in 2008 and reaching USD 0.98 billion in 2011 (Figure 2).

Figure 1: Trends in Jute Fibre and Manufactures Exports Value, 2000-2011



The export growth experienced from 2000 to 2007 can be attributed in part to increased global demand for processed JACKS, driven by rising demand for natural fibre due to environmental concerns over the cost and impact of increasing use of petroleum derivatives and unsustainable deforestation practices, exacerbated by rising public perception of the negative effects of climate change.

Figure 2: Trends in Hard Fibres Raw and Manufactures Exports Value, 2000-2011



III. COMPETITIVENESS AND KEY DRIVERS

The key factors having an impact on competitiveness and export availabilities of the JACKS are, on the production side, price stability and reliability of supplies. These, in turn, are affected by climatic conditions, relative prices of competing crops and returns to farmers in the previous season. Production policies, such as those favouring food crops, also influence farmer planting decisions. This is a factor driving intercropping practices in some producing countries such as in Tanzania, where intercropping sisal with food crops is a common occurrence.

On the demand side, competitiveness is influenced by prices of JACKS *vis-à-vis* those of competing fibres, particularly synthetics, in various end-use markets where substitution is a technically acceptable option. Aggressive price competition from synthetic products, particularly polypropylene, in many major end uses was the single most important factor responsible for the drop in demand for jute and hard fibres, until oil prices (and consequently polypropylene prices) increased more than threefold in 2010.

Underlying structural conditions such as the increasing share of smallholders in the supply chain and increasing domestic demand in many producing countries have had an impact on the size and distribution of markets. Although also confronted by competition from synthetics, domestic demand for JACKS has held up better in some of the large producing countries, such as China and India, than in some of the smaller producing countries relying on export markets. However, potential for developing composite building materials and other industrial products targeting import substitution is seen as a means to dramatically increase demand of JACKS in the smaller producing countries, such as Tanzania.

At the international level, competitiveness is affected by the policy environment under which trade occurs. Increasing trade of agricultural commodities, such as coffee, continued to be a major source of growth in demand for jute. Although bulk handling of commodities has made significant inroads in international trade, bagging is still extensively used for domestic transportation, distribution and storage in rural areas. Until the hike in oil prices from 2005/06, jute bags had been losing market share to bags made

from synthetics. However, demand has recovered largely through competitive prices, with assistance from deliberate policy choices by commodity traders, for example to use jute rather than synthetic bags for packing sugar to supply the domestic market, many of which are parastatals.

In the case of sisal, demand also fell with competition from synthetic baler twines prior to 2006. The decline became more pronounced as new harvesting techniques increased the size of hay and straw bales aimed at reducing unit cost of handling and better utilization of storage space. As in the case of jute, this trend was reversed as oil prices dramatically increased, and with environmental concerns in recent years, demand has accelerated even more. Among the JACKS, the only fibre that resisted competition from synthetics was and continues to be abaca, due to the superior properties of its fibre relative to synthetics in its chief end-use – specialty papers.

IV. TRADE POLICIES AFFECTING FIBRES AND THEIR PRODUCTION

The Agreement on Agriculture under the Uruguay Round contained significant reductions in trade barriers and trade distorting support measures in many countries. JACKS are exclusively produced and exported by developing countries which, apart from Brazil, China and India, typically do not have the resources to provide trade distorting support. It is the support provided by countries producing and exporting competing products, such as hemp and flax, that are important for the competitiveness of the JACKS market. Although tariffs on JACKS have been generally brought down under both multilateral and bilateral trade liberalization, their market access is still plagued with some remaining levels of tariff escalation (tariff increases as the stage of processing rises) and the use of non-tariff barriers (NTBs) for non LDC countries. Some countries maintain these tariff escalation and NTBs to protect their domestic industries: for example, Iran imposes a tariff of 30-65 percent on jute manufactured products reportedly to protect its domestically produced wool (carpets) and polypropylene (bags) fibres. Pakistan imposes zero tariffs on jute fibre imports, while China and India apply MFN tariffs of

5 and 10 percent respectively (Table 1)[3]. Bangladesh, a key producer, imposes 25 percent MFN duties on all jute and jute products except jute twine and cordage for which the duty is zero for all countries. China imposes a tariff of 10-14 percent, India uniform at 10 percent and Pakistan 10-25 percent.

MFN Applied Tariffs

Table 1 - Tariffs on Jute and Jute Products for selected major importers

Product name	Jute fibres, raw or retted	Other raw fibre of Jute	Single Yarn of Jute	Multiple Yarn of Jute	Fabrics of jute : Un-bleached	Fabrics of jute : Other	Felt and stitch-bonded of Jute	Other felt of jute	Carpets of Jute	Sack and bags of Jute
HS Code	5303.10	5303.90	5307.10	5307.20	5310.10	5310.90	5602.10	5602.29	5702.39	6305.10
Australia	0	0	5	5	0	0	5	5	3.33	0
China	5	5	6	6	10	10	10	10	14	10
EU	0	0	0	0	4	4	6.7	6.7	8	3
Ghana	10	10	10	10	20	20	20	20	20	20
Indonesia	0	5	5	5	7.5	10	10	5	15	5
Iran	22	4	10	10	50	50	30	30	50	65
Japan	0	0	0	0	10	10	5.6	5.6	8.2	0
Nepal	5	5	10	10	15	15	15	15	30	15
Pakistan	0	0	10	10	25	25	15	15	25	25
Russian Fed.	5	5	5	5	10	10	15	15		15
Saudi Arabia	5	5	5	5	5	5	5	5	5	5
Syria	1	1	1	1	5	5	5	5	50	3
Thailand	5	5	5	5	5	5				10
Turkey	0	0	0	0	4	4	6.7	6.7	8	3
USA	0	0	0	0	0	0	11.3	6.3	1.8	0

Source: WTO.

Although the multilateral trade agreements under the WTO[4] have reduced import tariffs and imposed disciplines on other trade distorting

3 Complete tariff tables are available in the policy supplement of the Statistical Bulletin, CCP:HF/JU/ST/2013.

4 Beginning with the Ministerial decisions and declaration embodying the final act of the Uruguay Round Multilateral Trade Negotiations in Marrakesh in April 1994, and the Agreement to establish the World Trade Organization (WTO).

measures, such as domestic support and export subsidy measures, the tariff structure of JACKS and competing products exhibit the same pattern that existed prior to the WTO agreements[5]. MFN tariffs on raw and some semi-processed products are low to zero[6] in many countries with higher tariffs for processed products (tariff escalation). However, it should be pointed out that two of the largest exporters, Bangladesh for jute and Tanzania for sisal, are LDCs and enjoy tariff and quota free market access to the European Union (EU) for all their products under the Everything But Arms (EBA)[7] Agreement with the EU.

For the main competing products, such as polypropylene, imports are still widely taxed and often at higher rates in developing countries. Importantly, also, as tariff barriers are being dismantled in many countries, the use of non-tariff barriers (NTBs) still exists. Removal or gradual elimination of NTBs are likely to bring significant benefits for developing country exporters provided robust strategies are in place to capture gains along the value chain, especially if the emerging composite fibre market proves viable for JACKS.

Some major jute fibre producing countries are also key importers of jute fibre (India and China). However, Pakistan, a minor producer is the main jute fibre importer globally and, together with China and India, accounted for almost 75 percent of world imports of jute fibre in 2009.

The effectively applied tariffs in trade amongst developing countries are mostly governed under either some form of preferential, bilateral or regional trade agreements which are at or near zero, except in the fibre producing

5 The apparent reduction is deceiving because in most cases the bound rates committed under the Uruguay Round were higher than actual existing applied rates.

6 Tariff cuts of developed countries were for the most part phased in over five years from 1 January 1995. The result is a 40 percent cut in their tariffs on industrial products, from an average of 6.3 percent to 3.8 percent. The value of imported industrial products that receive duty free treatment in developed countries will jump from 20 percent to 44 percent.

7 The agreement was reached in 2000, phasing out quotas and tariff restrictions for LDC exports to the EU for all commodities by 2009. In 2011, imports to the EU under the EBA was worth €10.5 billion or 12 percent of imports under its Generalised Scheme of Preferences (GSP).

countries where tariff escalation is common. For example, jute products attract a 25 percent tariff in Bangladesh, whereas jute twines enter duty free. Similarly, in Tanzania, a major sisal producer, imposes zero MFN duty for the raw fibre and 25 percent for processed sisal products. Furthermore, a number of developed countries have granted duty and quota free access to some LDCs and/or duty free access under the GSP.

Developing country exports to major importing developed countries, namely the EU, Japan and the United States, are mostly under GSP which renders tariffs at or near zero. However, a number of countries have not been able to effectively utilize these preferences due to stringent product specific rules of origin provisions in the case of the EU-GSP (the EBA) and competitive need limits, in the case of the United States – which requires that GSP treatment be suspended if imports of an eligible product from a single country exceeds a specified threshold limit.

GSP tariff rates are zero for slightly woven jute products while MFN tariff is 4 percent in the EU and 10 percent in Japan. As for hard fibres, the United States, which accounts for 61 percent of the world imports of sisal and sisal products, and Japan impose zero import tariff (GSP and MFN), while the EU, which accounts for 19 percent of world imports of sisal products, imposes a 12 percent MFN tariff (Table 2). Australia imposes a 5 percent duty on twines/cordage of sisal; China has a duty of 5 percent, and India charges 10 percent on ropes and twines of sisal.

India, Sri Lanka, the Philippines and Thailand are the major producers of coir fibre. China is the world's largest importer and imposes zero duty on the fibre, but 6 percent for coir yarn and 14 percent for coir floor covering (Table 3). The EU is the largest importer of coir yarn and mats. Its principal suppliers are India, Sri Lanka, Philippines and China. The EU imposes an MFN duty of 4 percent on coir floor coverings with zero on other products. However, most of the trade takes place under GSP or some other preferential arrangement.

MFN Applied Tariffs

Table 2 - Tariffs on Sisal and Sisal Products for selected major importers

Product Name	Raw Sisal fibre	Twine, cordage, ropes of Sisal (binder or baler twine)	Other twine, cordage, ropes of Sisal
HS Code	**5305.00** [1/]	**5607.21**	**5607.29**
Australia	0	5	5
Canada	0	0	6.7
Chile	6	6	6
China	4.8	5	5
Egypt	5	5	5
EU	0	12	12
India	10	10	10
Indonesia	5	5	5
Japan	0	0	4
Saudi Arabia	5	5	5
USA	0	0	3.6
VietNam	5	12	12

Source: WTO.

1/ The HS code for sisal fibre 5304.10 and 5304.90 was eliminated from the Harmonized System effective 1 January 2007. Therefore, sisal tariffs are classified under HS code 5305.00

MFN Applied Tariffs

Table 3 - Tariffs on Coir and Coir Products for selected major importers

Product Name	Raw Coir fibre	Coir yarn	Floor coverings of coir fibres
HS Code	**5305.00**	**5308.10**	**5702.20**
Australia	0	0	0
Canada	0	0	0
Chile	6	6	6
China	4.8	6	14
EU	0	0	4
Japan	0	0	0
Pakistan	0	10	25
Saudi Arabia	5	5	5
South Africa	0	0	30
USA	0	0	0

Source: WTO.

The Philippines and Ecuador are the main producers and exporters of abaca and abaca products principally to the EU, the United States and Japan. All countries have set a zero MFN duty for most products except for cordage and ropes of abaca, where the duties range from a low of 1.9 percent for the United States to a high of 5 percent in Egypt (Table 4).

MFN Applied Tariffs

Table 4 - Tariffs on Abaca and Abaca Products for selected major importers

Product Name	Raw Abaca fibre	Abaca cordage
HS Code	5305.00	5607.90
China	4.8	5
EU	0	7
Japan	0	1.7
Malaysia	0	1.8
Singapore	0	0
Thailand	5	5
USA	0	1.9

Source: WTO.

V. NON-TARIFF BARRIERS (NTBs)

Although there is no agreed formal definition of NTBs, in general, NTBs refer to all non-tariff restrictions on trade in goods, services and investment. These include border measures such as customs procedure as well as behind-the-border measures flowing from domestic laws, regulations and practices. Exporters of JACKS products face a number of NTBs which often inhibits their ability to profitably engage in international trade. These include strict packaging and labelling requirements, SPS measures, complex and bureaucratic customs and administrative procedures and import licensing requirements on the exports of processed fibre products.

Fibre products that are packed in wooden crates or placed on wooden pellets have to be quarantine treated. Up until recently methyl bromide was used to fumigate these crates and pellets, because of its penetrating ability, rapid action and high toxicity to a broad spectrum of insects and pests. However,

the use of methyl bromide is now banned in many countries[8]. Alternative treatments are costly because more than one chemical is needed to treat the broad spectrum of pests that need to be controlled to satisfy the quarantine requirements of importing countries. So far there does not seem to be any chemical available in the market to treat the same broad spectrum of pests as methyl bromide. A lot of confusion has also arisen because of the different phasing out periods in the use of methyl bromide between developed and developing countries under the Montreal Protocol. As developed countries were required to phase out the use of methyl bromide at the end of 2005, while developing countries could continue using the chemical until 2015, often shipments of fibre products treated with methyl bromide in developing countries were not allowed entry into developed importing countries.

A common complaint from exporters is that the plethora of standards imposed by importing countries has increased cost of compliance to significant levels and perhaps consideration should be given to harmonizing some of these standards. In Australia, sacks and woven fabrics require certification that industrially processed JACKS have originated from pest-free crops, while in Japan, blended products require additional certification depending on the specific percentage of certain JACKS in the fabric. Exporters who sell directly to specialised retail outlets also face obligatory requirements to meet private standards regarding such issues as health, safety, child labour, fair wages and working hours, freedom of association and environmental impacts. These concerns are considered legitimate or precautionary by the countries imposing them. Exporters cannot overcome the problems associated with application of these requirements unless they are effectively engaged and participate in both bilateral and multinational negotiation. Capacity building is also needed to enhance their ability to comply.

In the area of domestic support and other trade distorting measures, JACKS were not subject to reduction commitments under the WTO as key

8 Methyl bromide is a broad based pesticide used in fumigation of export commodities. In 1999, of the 71 500 tonnes of synthetic methyl bromide used worldwide, 97 percent was used for fumigation. In regard to export of JACKS, methyl bromide is used for fumigating packaging material and pest control in storage. Under the Montreal Protocol, developed countries agreed to phase out the use of methyl bromide by 2005 and a total phase out in developing countries by 2015.

producers and exporters - the developing countries - typically do not provide such support. Also, in the case of competing products, flax and hemp, no export subsidy commitments are reported to the WTO, with the exception of Canada which lists its total outlay for oilseeds in which linseeds (from flax) are covered.

VI. CONCLUDING REMARKS

The implementation of the Uruguay Round commitments and the phasing out of the Multi-Fibre Agreement (MFA) in 2004 were two important milestones for international trade in JACKS. Under the WTO, disciplines were put in place to reduce tariffs and convert other forms of restrictions into tariff equivalents and reduce them under an agreed formula for improvements in market access. The end of the MFA, which had imposed quota restrictions on textile imports and for which exports were charged MFA duty rates instead of lower GSP rates when imports exceeded quota limits, is expected to improve market access for textile and clothing products from developing countries. Added to these developments, the increase of bilateral and regional trade agreements in recent years have all served to create a conducive environment for exporters from developing countries. However, this situation should not encourage complacency, as there are still tariffs and significant NTBs that pose problems for JACKS producers and exporters in trying to exploit export opportunities. In particular, efforts need to be made to engage with trade partners in bilateral, regional and multilateral negotiations to review the remaining tariffs, and especially the issue of tariff escalation. In the case of NTBs, although minor progress has been made on some fronts, in terms of reporting and monitoring, no concrete actions or road map to their reduction and harmonization have been agreed at the multilateral level.

However, there is little point in improving market access if products are not available in acceptable quality and quantity. In this regard, producers of JACKS would need to ensure that supply-side and marketing constraints would be overcome. These need to be addressed on several fronts: through operationally effective policy, capacity and institution building, investment in research and development along the value chain and on market enhancing infrastructure. The focus should not be limited to improving the agronomic

conditions but should also include research and development on new and prospective end-uses, building on the current heightened environmental concerns over the use of synthetic substitutes. Enabling policies could be considered in JACKS producing countries to support the emerging composite fibres industry, for example, with incentives to use composite materials for the construction of public buildings, such as hospitals and schools.

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