

**IMPROVING THE VALUE AND EFFECTIVE UTILIZATION
OF AGRICULTURAL TRADE PREFERENCES**

**A Conceptual Framework for
Case Studies of the Impact of Trade Preferences
in Agricultural Products**

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ACRONYMS and ABBREVIATIONS

| | |
|--------|--|
| ACP | African, Caribbean and Pacific |
| AGOA | the African Growth and Opportunity Act (AGOA) |
| APEC | Asian and Pacific Economic Cooperation grouping |
| ASEAN | Association of South East Asian countries |
| CAP | Common Agricultural Policy |
| CBI | Caribbean Basin Initiative |
| CBTPA | the Caribbean Basin Trade Partnership Act |
| CCC | Commodity Credit Corporation |
| DESA | UN Division for Sustainable Development |
| EBA | “Everything but Arms” |
| EFTA | the European Free Trade Area |
| EPZ | export processing zones |
| EU | European Union |
| FDI | foreign direct investment |
| FTAA | The Free Trade Area of the Americas |
| GDP | gross domestic product |
| GSP | Generalized System of Preferences |
| HS | Harmonized Commodity Description and Coding System |
| ILO | International Labour Organization |
| LDC | least developed country |
| MFN | most favoured nation |
| MVA | manufacturing value added |
| NICs | newly industrializing developing countries |
| REPA - | Regional Economic Partnership Agreement |
| SAARC | South Asian Association for Regional Cooperation |
| SGS | Société Générale de Surveillance |
| SPS | sanitary and phytosanitary |
| TNCs | transnational corporations |
| TOT | transfer of technology |
| TRAINS | Trade Analysis and Information System (UNCTAD) |
| UNCTAD | United Nations Conference on Trade and Development |
| UNIDO | United Nations Industrial Development Organization |
| USITC | US International Trade Commission |
| WTO | World Trade Organization |

I. INTRODUCTION

This report forms part of an FAO study programme which aims at assessing the experience of developing countries with trade preferences in agricultural products. The main objectives of the study programme are to evaluate trading opportunities and benefits of agricultural trade preferences for developing countries and to assess how gains are or could be affected by main actors in the supply and trading chain by existing government policies and by the market constellation.

More particularly, the main issues of interest include: (i) effective commercial opportunities created by trade preferences; (ii) how exporters and producers exploit these opportunities and the constraints to which they are subject; (iii) the ways and means of enhancing the utilization of preferential opportunities in agricultural products in order to accelerate agricultural development, improve food security and promote economic growth of the recipient countries; and (iv) what could be done to improve preference schemes.

This report provides a framework for analysing the factors that generally account for the success or failure of agricultural trade in developing countries. A deeper analysis of the specific impact of preferences on production, investment and incomes requires country case studies covering specific products. Such studies should confirm whether and if so to what extent the trade preferences have actually had an impact on production, incomes and stimulated investment. They should analyse the entire chain of decisions and actions involved in investment, production and exports, and potential links with importers/processors/retail traders in importing countries. The analysis would thus seek to identify the incidence of supply factors, examine the organization of production and exports, the role of government policies (or absence thereof), market entry barriers and possible improvements of preference schemes.

A parallel survey will be conducted in preference-giving countries, where major importers and processors of the selected products will be asked to what extent preferences influence their decisions to import from and invest in preference-receiving countries, rather than from or in alternative supply countries. Their views on ways and means of extending the benefits of preferences to more countries and products will be collected. The case studies will examine the

market structure and main trading channels and the value added chain, as well as private or public market entry barriers and efficient incentives.

These components of the study programme taken together provide an overview of the whole chain of policies and actors that determine the success or failure in using available trading opportunities and preferences. The country surveys for exporting and importing countries should follow the individual segments of the entire value chain, from the production to retail marketing of a specific product, to ascertain the most dynamic and profitable stages in each chain. They should evaluate the importance of the relationship between various actors, the decision-making, and the influence of the market behaviour of the various actors.

The results of the country studies will be discussed at regional meetings of experts and government officials from least developed countries (LDCs), African, Caribbean and Pacific (ACP) and other preference-receiving countries, with participation from preference-giving countries and the business community.

This FAO study programme should result in (i) proposals for improving government policies to strengthen supply; (ii) proposals for action by producers and traders for improving the organization of production and the trading chain; and (iii) proposals for improving the operation of preference schemes.

This report begins with a review of the literature on the effects of preferences, in particular under the Generalized System of Preferences (GSP) and the ACP-EU Convention of Lomé. It then analyses EU trade since the conclusion of the Uruguay Round in agricultural and processed food products to which preferences had been extended. Products for which growing markets and preferential or duty-free access provided substantial trading opportunities in major preference-giving countries since the mid-1990s will be analysed. This report also evaluates the uses made, in particular by ACP countries, of existing preferential opportunities in the EU market. Furthermore, it identifies specific country-product combinations, where GSP recipients and ACP countries achieved export success in the period after the conclusion of the Uruguay Round and the subsequent changes of the preference schemes. The results of the statistical analysis conducted for that purpose are summarized in the tables annexed. They provide data on Most-Favoured Nation (MFN) treatment and preferential trade at the most detailed tariff-line level, growth rates of related trade and the evolution of market shares in EU. The subsequent section provides a more general review on factors relevant to the role of preferences in enhancing production, investment

and incomes in the food and agricultural sector, improving food security and alleviating poverty. It also examines factors that may restrict making full use of trade preferences.

The case studies will test the relevance of these factors for specific exports of specific preference-receiving countries to enable the formulation of policy proposals to economic agents and governments in exporting and importing countries. In particular, they are designed to establish:

- i. Whether there is indeed a causal link between trade preferences for a specific product and its export success;
- ii. whether and how export expansion has been linked with decisions on production and investments for expanding acreage or for modernizing equipment; and
- iii. whether export expansion has had beneficial effects on production, employment and incomes in agriculture, for both producers and the labour they employ, or otherwise improved living conditions in the exporting country.

II. PREFERENCES IN A CHANGING ECONOMIC ENVIRONMENT

A. Changes in the international trading environment

Since the early 1990s, the international trading environment for agricultural products has changed substantially. The Uruguay Round resulted in major systemic changes in the nature of trade protection measures and preference schemes for agricultural products in their raw and processed forms. These negotiations were closely linked with a reform of the Common Agricultural Policy of the European Union (EU). The conclusion of the Round also led to important changes in agricultural policies, trade policy instruments and the application of subsidies in other developed countries. Subsequently, the trade provisions of the ACP-EU Agreement of Lomé were improved and the EU undertook a major reform of its GSP scheme. Developed countries in general adjusted their GSP schemes in the light of the Uruguay Round results and expanded their product coverage in agriculture. Most of them enlarged product coverage and preference margins for the least developed countries (LDCs). The Table below provides a schematic comparison of selected preferential trading arrangements between developed and developing countries. These are discussed in greater detail in Chapter IV.

The results of the Uruguay Round for agricultural products went beyond partial tariff reductions for a large number of raw and processed products, and included:

- (i) full tariff liberalization for a number of raw tropical commodities by major developed countries;
- (ii) removal of quantitative import restrictions, levies, voluntary export restraints, minimum entry price systems and equivalent import-restrictive measures;
- (iii) tariffication of these measures which in most cases have been replaced by extremely high tariff rates for temperate and Mediterranean zone products, and products of the food industry;
- (iv) the establishment of tariff quotas at lower than MFN rates;
- (v) subjecting domestic agricultural subsidies to international surveillance, although not necessarily reducing their level;
- (vi) a reduction of export subsidies;

- (vii) a new agreement establishing, a specific discipline for the application of sanitary and phytosanitary (SPS) measures for the first time; and
- (viii) changes in major rules of the multilateral trading system, including stricter disciplines on preferential arrangements, waivers and the implementation of World Trade Organization (WTO) decisions.

Subsequent to these changes in the multilateral rules for agricultural protection, the EU made important changes in the scope and significance of agricultural preferences for GSP beneficiaries and ACP countries:

- Tariff liberalization for major tropical products brought about a gradual phasing out of remaining preferences until mid-2000 for raw coffee and cocoa, papayas, mangoes and some other tropical fruit, roundwood, and other products. Preferences for rum were to be removed in 2003. For a number of other agricultural products subject to tariff reductions, preferences were also eroded.
- Tariffication of the various forms of quantitative import restrictions, levies, minimum prices and similar measures resulted in high MFN duties for many agricultural and processed products. This provided, in principle, new scope for applying trade-effective tariff preferences. The opening of new tariff quotas offered additional trading opportunities for suppliers under special preferential arrangements, especially where in-quota tariffs still constituted considerable barriers to MFN exporters. Tariff erosion in the EU was expected to be partly compensated by similar liberalization measures offering new trading opportunities in other major developed and developing country markets.

Table 2.1 Comparison of selected preferential trade schemes' coverage of agricultural products

| Trade Preference Scheme | Duration | Country Coverage | Product Coverage | Tariff Concession | Quota limits | Rules of Origin Requirements | Other Requirements |
|-------------------------|---------------|---------------------------------------|---|---|--------------|------------------------------|---|
| EBA (EU and LDC) | No time limit | 48 countries defined as LDC by the UN | All products (except arms and ammunition) | Duty-free for essentially all products. Duties on banana, rice and sugar will be reduced gradually until 2009 when they will be eliminated. | Quota-free | Rules of origin apply | To compensate for the delay in liberalization, the EU will offer market access through duty-free quotas (including sugar and rice) to these countries, based on the best figures during the 1990s with a yearly increase of 15 percent. These preferences are not reciprocal. |

| Trade Preference Scheme | Duration | Country Coverage | Product Coverage | Tariff Concession | Quota limits | Rules of Origin Requirements | Other Requirements |
|---|-----------|---|--|--|---|------------------------------|---|
| Cotonou Agreement (<i>EU and ACP Countries</i>) | 2000-2008 | 78 ACP Countries (except South Africa) | All products (manufactured and processed products, agricultural commodities) | Manufactured and processed products exempted from customs duties and non-tariff barriers | Some agricultural commodities are subject to quota. | Rules of origin apply. | ACP countries are not required to open their market for EU products. For certain selected and traditional agricultural products, free access but subject to quantity restrictions (i.e. bananas sugar, and rum). Certain products receive high prices based on the prices paid to the EU producers - sugar, beef and veal. In general, there are three principles on which preferences are accorded to ACP countries stability, contractuality and non-reciprocity. |

| Trade Preference Scheme | Duration | Country Coverage | Product Coverage | Tariff Concession | Quota limits | Rules of Origin Requirements | Other Requirements |
|---|----------|---|--------------------------|--|---------------------------------|------------------------------|---|
| GSP (Australia, Canada, Japan, Norway, Switzerland, EU and USA) | Variable | Each scheme has its own product eligibility criteria. | Product coverage varies. | Each scheme has a different preference tariff margin. For most LDCs, some products qualify for duty-free access. | Some schemes have import quota. | Rules of origin apply. | Each scheme has different criteria for eligibility. |

| Trade Preference Scheme | Duration | Country Coverage | Product Coverage | Tariff Concession | Quota limits | Rules of Origin Requirements | Other Requirements |
|-------------------------|-------------------------------|--------------------|---|--|--------------|---|---|
| AGOA (USA and Africa) | 2004 (to be extended to 2008) | 38 African Nations | Agricultural commodities (In addition: textiles, petroleum, footwear, luggage, handbags, watches, automobile parts) | Duty-free, but agricultural commodities subject to tariff rate quota | Quota-free | The rules of origin require that a product be "grown, produced or manufactured" in a beneficiary sub-Saharan African country. | Subject to visa requirements to prevent illegal and transshipment. Furthermore, nations should not provide support for international terrorism and should not engage in activities to undermine United States national security; they should make progress towards a market-based economy, eliminate barriers to United States trade and child labour, and finally respect human rights. These are reviewed on an annual basis. |

| Trade Preference Scheme | Duration | Country Coverage | Product Coverage | Tariff Concession | Quota limits | Rules of Origin Requirements | Other Requirements |
|--|---------------|------------------------------|---|----------------------------------|---|------------------------------|-------------------------|
| CBI (USA and Caribbean Basin Countries) | No time limit | 24 Caribbean Basin Countries | To qualify for eligibility the product should be imported directly from a beneficiary country in the US and have a minimum 35 percent of local content. | Duty-free for eligible products. | Quota for certain agricultural products | Rules of origin apply. | Prohibits child labour. |

Reforms of the GSP schemes

In its GSP reform, the European Union replaced its regime of tariff quotas for sensitive products by modulating preference margins ranging from 15 percent to 100 percent of the MFN duty according to import sensitivity. This frequently resulted in a significant rise of preferential duty rates. While the product coverage was expanded to a certain extent, most agricultural products were allocated to the highly sensitive and sensitive categories, with a 15 percent or 30 percent preference margin respectively. This provision was further changed for the period 2002-2004:

- (i) sensitive products (including all other partial preference products) now obtain a preference margin of at least 3.5 percentage points (or 30 percent of specific duties; the margin remains 3.5 percentage points for composite tariffs, i.e. specific duties remain payable; no reduction applies to in-tariff quota rates);
- (ii) for other products, existing GSP rates continue to be applied if they are lower than the rate resulting from a 3.5 percent reduction.

Other new features of the EU scheme are similar to those introduced by other preference-giving countries:

- (i) various newly industrializing developing countries (NICs) and high-income developing countries were excluded from the EU and other GSP schemes;
- (ii) progressive graduation of broad sectors was introduced by EU (instead of specific products as previously) where a preference-receiving country achieved a high export performance or an important share in the respective market;
- (iii) greater conditionality or exclusion from the scheme can be applied by the EU, the United States and others to a country for non-economic reasons;
- (iv) most preference-giving countries greatly extended preferences for LDCs, and zero preferential duties have been granted to them for important products;
- (v) the drug incentive schemes of the EU and the United States in favour of Member Countries of the Andean Group and the Central American Common Market have been substantially expanded; the EU introduced a new special incentive regime for countries applying the core International Labour Organization (ILO) labour standards and a high

level of environmental standards (although it has not been applied thus far, i.e. by mid-2002, except for Moldova).

Other preference-giving countries, in particular the United States, also made increasing use of graduation and policy conditionalities in their GSP schemes. However, they increased in parallel GSP advantages for selected LDCs and other relatively less advanced countries. Such conditionalities, for example, the non-observation of core labour standards or of democratic principles, or non-membership of WTO, were advanced for the exclusion of various developing countries, including LDCs, from preferences or MFN treatment (for example Myanmar, Afghanistan, Lao People's Democratic Republic, and various African LDCs).

In spite of various extensions of product coverage, generally accessible GSP benefits are granted only for a limited range of raw and processed agricultural products and vary from one preference-giving country to another. The preferences continue to be determined unilaterally by each preference-giving country; they have often been subject to frequent changes and short-term and ex-post renewals, as in the United States. In spite of the introduction of pluriannual schemes now, there is no guarantee of the continuation of their benefits for a specific exporter. This feature significantly detracts from the value of the GSP as a basis for major investment decisions for creating new plantations or factories, or for diversifying into new product lines.

Modification of special preferential arrangements

After the conclusion of the Uruguay Round, the various special preferential arrangements applied by EU, the United States, Canada and other developed countries underwent major changes. The ACP-EU Convention, the preference schemes of the United States under the Caribbean Basin Initiative, and the Andean trade preferences were adjusted to the new multilateral trading regime, with improvements in scope and depth of preferences.

Further important changes have since been made or are scheduled for the near future. The EU and the ACP countries have agreed to convert their traditional preferential arrangement into reciprocal free trade areas, which are to be fully consistent with WTO rules. The Cotonou Agreement set out a broad framework for political, development and trade cooperation, and set in motion a process for negotiating regional economic partnership agreements between sub-regional integration groupings and the EU. The ACP countries may choose

between bilateral free trade arrangements with EU and general GSP status, in the latter case enjoying the more extensive preferences accorded to LDCs described below. During a transitional period until 2008 present ACP preferences will continue. While the Cotonou Agreement further expanded product coverage and increased preferential margins, it did not provide free market access for a large number of food and processed food products.

In May 2000, the EU introduced its new *Everything But Arms (EBA) initiative*. Under this scheme EU grants, in principle, duty-free and quota-free entry for all products in favour of all LDCs. The suspension of duties took immediate effect for most raw and processed agricultural products. For sugar and rice, duty-free global quotas have been established that will rise by 15 percent each year; MFN duties will be reduced over three years to zero starting in 2006. As regards bananas, tariffs will progressively be reduced to zero for LDCs over the period 2002-2006.

The United States has significantly improved its special preference scheme for Caribbean and Central American countries under the Caribbean Basin Trade Partnership Act (CBTPA), in particular in favour of clothing products. It has also expanded product coverage under its GSP scheme offering duty-free access to LDCs. In particular, their exports of agricultural products within tariff quotas are no longer subject to duty.

In 2000, under the African Growth and Opportunity Act (AGOA), the United States established a new scheme for trade and investment cooperation. The new scheme offers duty-free preferential access to selected African countries for additional manufactures, petroleum products, metals, some agricultural products (within the tariff quotas, where applicable), and, in particular, certain clothing assembly products and textiles.¹ It further provides for measures intended to encourage development and investments by US enterprises in African countries. AGOA preferences are, however, subject to a wide range of policy conditions; an annual review evaluates to what an extent each eligible sub-Saharan African country respects these conditions or is making progress in their implementation (see section V).

From July 2000, when the Uruguay Round results were fully implemented by the EU, half of the agricultural exports of ACP countries have no

¹ Duty- and quota-free access of clothing is conditioned on stringent origin requirements and conditions of customs certification and cooperation.

longer enjoyed EU preferences, while the other half still have a preference margin averaging some 10 percent.² As a result of the improved preferences extended to them by the United States, Caribbean and Central American countries now enjoy very liberal preferential market access conditions both in the United States and in the EU market. (Some Caribbean countries also enjoy special preferential access to the Canadian market, which is more favourable than the GSP.)

Regional integration

In parallel to multilateral liberalization, regional integration has deepened and expanded throughout the 1990s, significantly affecting the potential impact of GSP and ACP preferences. The establishment of the Single European Market by the EU in 1992 had already removed customs controls on goods and was followed by the removal of border controls on the movement of persons. The European Economic Space and bilateral agreements facilitated preferential exports of food industry products and specific agricultural and fishery products from Norway, Switzerland and Iceland to EU. In the course of their accession to the EU, Sweden, Finland and Austria adopted its Common Agricultural Policy and its GSP scheme, and adhered to the ACP-EU Convention and the other trading and preferential arrangements of the EU. Furthermore, a number of new bilateral Free Trade Area agreements were concluded by developed and developing countries. Thus, by 1996 the preferences and the trading environment in which they operated had significantly changed.

As Central and Eastern European countries become full members of the EU, competition in the European market for agricultural products will further intensify. On the other hand, the financial implications of their agricultural integration into the EU may exert some downward pressure on the amount of the EU's agricultural subsidies. Furthermore, certain association agreements between the EU and major Mediterranean countries have been changed from preferential arrangements to mutual free trade areas or customs unions. Duty-free access for many products of export interest to other developing countries is consequently being progressively widened, although several major agricultural exports are still subject to MFN duties or are limited by ceilings and seasonal restrictions during the transition periods. New free trade area arrangements have entered into effect between the EU and South Africa, Mexico and Chile, and a new arrangement is envisaged with MERCOSUR. These arrangements could significantly alter market access conditions to Europe, because they involve leading world market

² See European Commission (1999).

producers of meat, fruits, vegetables, flowers, vegetable oils, cereals, sugar, fishery, and plywood, among others, and highly competitive exporters in the food processing industry.

In the light of the above, it is likely that by 2005 to 2008, existing special preferential arrangements will be replaced by WTO-conformed free trade areas, leading to fully reciprocal liberalization of essentially all mutual trade. The Cotonou Agreement, the Caribbean Basin Initiative (CBI) and AGOA are moving into that direction. The Cotonou Agreement (and future bilateral free trade area agreements with African countries) will lead to the establishment of free trade and investment between an enlarged European Union and virtually all ACP developing countries. The Free Trade Area of the Americas (FTAA) is expected to expand free trade and investment on a reciprocal basis throughout the Western hemisphere. The United States intends to conclude free trade area agreements with certain AGOA beneficiaries and their groupings. The members of the Asian and Pacific Economic Cooperation grouping (APEC) are pursuing similar objectives for free trade and investment at both the multilateral and the regional level. Meanwhile, sub-regional and regional integration groupings among developing countries are accelerating efforts to liberalize their mutual trade in preparation for the liberalization of trade with major world trading nations.

The future of preferential arrangements

The common implication of all these regional arrangements is that they will significantly intensify competition in the major world markets. For all products taken as a whole, the main economic value of trade preferences will shift from price advantages to obtaining free access in order to avoid being discriminated against, and to other policy goals, such as increased investments. This does not preclude the continued value of trade preferences for products where protection is still high, as in the case of agricultural goods.

In the face of this challenge, multilateral trade liberalization is bound to progress in order to avoid segmentation of and discrimination between the two largest preference systems, those of EU and the United States. This is most relevant for developing countries that do not enjoy "least developed" status, or that have not yet obtained special preferential access to both markets. The success of the Doha Round of multilateral trade negotiations is critical for developing countries, which have already been graduated, in part or wholly, out of GSP or face the risk of graduation in the near future.

The Doha Round aims at “substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support to agriculture.”³ It should bring about further global liberalization of agricultural trade, a reduction of tariff peaks, and an enlargement of duty-free or low-duty tariff quotas, as well as easier access to domestic markets, in as much as producer subsidies in agriculture and fishery are to be reduced. Meanwhile, the EU made some further progress in agricultural policy reform under its Agenda 2000. The reform of its beef sector policy is expected to reduce beef prices significantly.⁴ Proposals for reforms of the sugar and fisheries sectors are under consideration. Further needs for agricultural policy reforms are likely to arise as a consequence of the new Round and the accession of new Member States. This trend should, to some extent, open up the entrenched market closures for major food products. ACP countries will also acquire new opportunities for market access in other dynamic markets, which should stimulate preparations for diversifying their export destinations.

In spite of the new Round, the GSP is likely to remain important in the trading relations between developed and developing countries, in particular the LDCs and other countries with limited market size. It will also have a role to play in inter-regional relationships outside the new free trade area arrangements, which tend to maintain the traditional North-South orientation in spite of inter-regional extensions, such as AGOA and EU free trade areas with Latin American countries. Even within the Cotonou Agreement, certain ACP countries that are not members of sub-regional integration groupings with deep mutual trade liberalization may evaluate the pros and cons of opting for a continued GSP status instead of entering into a free trade agreement with the EU. Certain ACP LDCs in the Pacific and the Sahel may also choose to continue to benefit from the EU scheme for LDCs. It should be noted that the EU envisages a further extension of its GSP scheme for the period 2005-2014.

³ WTO Ministerial Declaration, p. 3. Fourth Session of the Ministerial Conference, Doha, November 2001.

⁴ Intervention prices, which trigger the operation of government support, are to be reduced by 20 percent by 2003, and there will be a shift from direct intervention to storage by private traders, who will be subsidized for their storage costs. However, additional safety net procurement will remain in place at low prices, and producer premiums will even be increased to compensate for income losses from lower prices. FAO (2000c, p. 13).

In agriculture, substantial scope remains for maintaining the value of the GSP beyond the next Round. Even if a 30 percent reduction of agricultural duties could be achieved, or if a common ceiling rate could be agreed upon (for example, that no tariffed rate shall exceed, for instance, 30 percent), the resulting MFN rates will still remain at double-digit levels for many tariffed and food industry products. Many rates would still be prohibitive for many developing country exporters other than Free Trade Area (FTA) countries or LDCs with respect to: cereals, rice and their products; sugar, sugar-based food and chocolate products; several prepared and canned fruit and vegetables and fruit juices; meat products; canned and prepared fish and shrimps, coffee and cocoa products, as well as a number of other prepared or processed food products in rapidly growing demand by consumers. Even the new FTA arrangements are likely to phase tariff reductions for many of these products over lengthy transition periods.

These compounded changes in the international trading framework will lead to profound alterations of the competitive positions of individual producer and exporting countries in the world, regional and domestic markets for agricultural and processed products. The scope of these changes requires governments to focus their policies on strengthening supply capacities and increasing competitiveness in both domestic and export markets. Enterprises in developing countries are continuously challenged to augment productivity and technological capacities, and to improve their capacity to meet international quality, sanitary and safety standards. Existing trade preferences can buffer the adjustment process. Combined with investment cooperation, preferences can also provide an incentive to domestic and foreign investors to expand production. Favourable operating conditions and the availability of free or preferential market access to major developed countries and regional markets can play an important role in investment decisions.

**B. The domestic environment in developing countries:
Production and export performance of agriculture and food industries**

The domestic environment for an effective use of trading opportunities and preferences was characterized during the whole 1990s by continued structural adjustment and reforms. Growth during the first half of the period was, however, followed by a series of major crises, inflation and currency devaluations in several countries, including the earlier most successful exporters. The period as a whole was characterized by widening disparities in growth and economic performance among developing countries.

During the 1990s, the GDP grew by an annual average of 3.3 percent and per capita GDP by 1.8 percent for developing countries as a group. Growth was uneven among developing countries and regions. It was very strong in Eastern and Southern Asia, at rates of 7.5 percent and 5.6 percent respectively, but remained below average in sub-Saharan Africa (2.2 percent) where per capita GDP stagnated at a very low level of hardly more than \$1 per day. Per capita income regressed or stagnated in two-thirds of the ACP countries, except for Mauritius, the Dominican Republic, Lesotho, Uganda, Mozambique, Ethiopia and the Sudan, predominantly agriculture-based economies (in descending order of performance, see Table 3).

In several Asian developing countries, double-digit export growth made a major contribution to their rapid economic performance. Some Latin American countries, such as Argentina, Chile and most Central American countries, also achieved high export growth. In Africa, export performance varied widely: double-digit rates were achieved, for example, by Ghana, Benin, Uganda, Burkina Faso and Lesotho, all countries with a high dependence on agricultural production and exports.

Agriculture remains a major component of production and GDP, as well as the main source of employment for a large number of developing countries. This sector continues [to play a major role in stimulating overall development and provides [important resources for social development and investment. During the 1990s, agriculture grew in developing countries at a rate of 2.2 percent annually, and contributed importantly to overall income growth and employment. In East and South Asia, agricultural production grew at an average annual rate of 3.3 percent and in sub-Saharan Africa by 2.7 percent. In contrast to other regions, the growth of agriculture in Africa was faster than for manufacturing, which achieved a modest 1.6 percent. Agricultural growth was relatively high and outpaced GDP growth in Malawi, Sudan, Togo, Benin, Guinea, Tanzania, Zambia and Namibia (in descending order).

Central and South American countries achieved pronounced growth of agricultural exports. Such exports expanded or maintained their share in rapidly expanding world exports in Chile, Brazil, Uruguay, Ecuador, Peru, Bolivia, Venezuela, Nicaragua and Guatemala (in descending order). Strong agricultural exports also stimulated production growth in some Asian countries, such as Indonesia and the Lao People's Democratic Republic, whereas in many others, export expansion occurred mainly in the industrial sector. Nevertheless, the

global trend towards a reduced share of agricultural products in total exports continued (see Table 3).

In several developing countries, export growth made a significant contribution to the growth of agricultural value added, income and GDP. Certain ACP countries also combined fast export growth in agricultural products with significant growth of production: above-average growth of agricultural exports and production were achieved by Zimbabwe, Kenya, Ghana, Côte d'Ivoire, Togo, Benin, Burkina Faso, Mali, Uganda, Ethiopia, Mozambique and Lesotho (in descending order). On the other hand, most ACP countries achieved only a weak growth of production, exports and GDP, at rates insufficient for alleviating poverty.

Differing growth performance can be explained to some extent by the positive effects of currency devaluation, as in the West African Economic and Monetary Union (UEMOA). On the other hand, major agricultural policy reforms and market liberalization for cocoa, coffee, cotton and other agricultural products have provoked temporary disturbances of production. Poor performance of ACP and other commodity-dependent countries was mainly caused by the price collapse for major staple commodities on world markets. For some commodities, recent export prices were the lowest over the past two decades. This implied, for example, a farm-gate price of only \$0.11 per kg of Robusta coffee in early 2002, which was about 60 percent below the normal range of producer prices. In the absence of income stabilization facilities after full liberalization, producers were neither prepared for, nor capable of, absorbing such price shocks. Commodity future exchanges, hedging, bank credits, and similar compensatory methods are still in the early stages of development in most African regions.

Overdependence of export supplies on a narrow range of traditional raw commodities facing slow demand growth and a low income elasticity continues to remain at the roots of poor export performance of many developing countries. Such a lack of diversification increases vulnerability to climatic and economic shocks. The poor or negative performances of several African countries were often caused by political disturbances and wars.

III. EFFECTS OF PREFERENCES

A. Overview

Trade preferences were originally conceived as a means of promoting exports and industrial production in developing countries. The aim was to help producers in those countries in the initial phase to enlarge their market, specialize, increase the scale of production and raise productivity, and so become internationally competitive. For agricultural products, attaining a critical mass is as important as scale effects are in food processing and other industries.

Tariff preferences also have income effects, since tariff revenues are foregone in the preference-giving country. Most but not all preferences have been straightforward. Tariffs are paid by importers who are therefore the first, but not necessarily the final, recipients of the preferences. Who benefits depends on the market situation, the degree of product differentiation, as well as on the specific mechanisms of a particular preferential arrangement. As a result, the gains of the foregone tariff revenues may accrue to the importer or to other traders and consumers in the importing country, or may accrue partially or totally to exporters or producers in the preference-receiving country.

Preference margins are not net profits: part of the preference margin is absorbed by costs involved in the steps required for obtaining preferences. The major part of such transaction costs accrues in preference-receiving countries, because exporters have to prove and certify the origin of their goods. Such additional transaction costs and eventual losses of agricultural products due to procedural delays may absorb many of the preference margins.

Unlike the GSP, and the now largely duty-free treatment extended to LDCs, which essentially stand on their own, the special preferential regimes under the Cotonou Convention, the CBI and AGOA are embedded in a wider spectrum of development cooperation combining trade measures with investment cooperation, financial and technical support. The various ACP-EU Conventions have also provided financial support to stabilize export revenues in spite of heavily fluctuating commodity prices, as well as financial resources and technical assistance for rationalizing and diversifying agriculture. It was expected that trade preferences linked to development cooperation would have a greater chance of leading to the expansion of exports, production and investment than would isolated preferences.

Since the Uruguay Round, agricultural preferences have taken the form of either straight- forward tariff reductions or tariff quotas at zero or reduced tariff rates; above-quota tariffs are often high or prohibitive for MFN, GSP and ACP suppliers alike. In EU, GSP does not apply to duty rates applied within tariff quotas. ACP tariff quotas are specifically defined in terms of quantity and rates.

Export revenues of producers may increase due to rising demand for their products on the preferential markets. If the tariff margins are passed on to final consumers, the overall level of consumption in that market is likely to grow, and total demand will increase for all domestic and foreign producers together. If preferential tariffs are reduced close to the zero level, free market access improves the chances to compete successfully with domestic producers and others from the same integration grouping.

Preference margins may also be absorbed at various trading stages, for example by importers. In such cases, it is uncertain whether tariff preferences will raise export earnings. Where preference margins are small and there exists an international commodity market price for the product, it is less likely that volumes will increase. On the other hand, important preferential advantages could act as incentives to importers/traders to turn increasingly to preferential suppliers rather than other sources. Close relationships or identity of exporter and importer would tend to keep the tariff advantage at the trading stage.

At the other extreme, preference margins could accrue wholly or largely to producers. In this case the income effects would stimulate production for expanding exports, but there would be little increase in demand by importers or consumers for their products.

Who actually gains from the preference margin? This depends largely on the market constellation, in particular, on whether there are many or only a few suppliers, and whether they face concentrated or dispersed purchasers. A second determinant is whether there is a buyers' or a sellers' market. In products for which the market is saturated, or where market positions of traditional suppliers are entrenched, new exporters have little chance to obtain a larger share of preference margins, if they succeed in penetrating the market at all. However, markets for food and other agricultural products can change rapidly from excess supplies to shortages. In effect, the sharing of net benefits depends largely on negotiations. Producers and exporters have used the preferential argument in price negotiations.

Earlier studies on the price effects of preferences in the European Free Trade Area (EFTA) concluded that in practice preferential margins are likely to be fairly evenly shared over time between importers and exporters, depending on their relative and prevailing market conditions.

Market prices are not necessarily applied within integrated marketing chains of transnational corporations (TNCs). Tariff margins and taxes are frequently internalized and, together with mark-ups, form part of a system of standard pricing within a firm. Prices are set under the perspective of the enterprise as a whole. TNCs may, on the one hand, exert price pressures in procurement from atomized producers, or, on the other, pursue longer-term pricing policies so as to smooth out heavy short-term price fluctuations or to ensure continuity and consistency of quality supplies.

Consequently, preferences do not necessarily imply rising production in preference-receiving countries. Whether imports of a product from a specific origin rise depends largely on the market characteristics, the degree of atomization of supply, the actors involved, and market mechanisms and channels used. Price elasticities of consumption and import demand are determinant factors. Further, increased import demand does not necessarily require increased production or new investments. Additional export supplies can be obtained from higher collection rates of produce, more intensive capacity utilization, or from switching from the domestic to the preferential markets, between export markets or between products.

Preferences are likely to result in raising exports and production rather than investment. For new investment to be undertaken, the preferential advantages must be durable and certain, with the promise of growing and substantial market opportunities. In practice, preferences are likely to more often induce investments for a gradual expansion of production capacities, rather than for establishing greenfield plants or new plantations. Chances for larger-scale investment effects increase when more preferences are embedded in durable development, investment and financial cooperation arrangements.

For products where TNCs dominate international trade or the integral value-added chain, the location of large-scale new investments depends on worldwide corporate decision-making. Special opportunities for producing in locations that guarantee free access to major markets and large preference margins play an important role. Experience shows that vertically integrated TNCs responded rapidly to large tariff preferences and invested in expanding existing

production capacities in larger developing countries. They particularly expanded on markets within regional integration groupings, provided that operating conditions and profit prospects were favourable.

The surveys should shed some light on whether GSP and ACP preferences have helped exporters and producers to obtain higher prices, if preferences have stimulated export revenues through higher purchases by importers, or whether there was a simple shift of tariff revenues within the importing country. The surveys should investigate whether farmers have alternative production possibilities and what incomes they could achieve in the absence of preferential trading.

Effects of preferences within tariff quotas, ACP Protocols, and other special arrangements

Some preferential arrangements have long provided substantially higher than world market prices to exporters. Such income effects arise in the case of quota preferences, price preferences for Protocol products under the ACP-EU Conventions, and minimum or graduated import price and tariff regimes. Special provisions under the Protocols of the ACP-EU Conventions guarantee ACP exporters sugar prices close to the domestic price level of the EU within the limit of import quotas. The beef protocol grants ACP suppliers duty-free access within tariff quotas and a partial reduction of MFN rates. ACP preferences for bananas will move from high tariff preferences within specific quotas for established producers towards a regime of tariff preferences.⁵

Stagnating tariff quotas left little room for increased exports and did not encourage expansion of production capacities and new investments. However, the income effects of quota preferences were high, as import prices to some extent aligned to the higher domestic prices in preferential markets.

“Soft” benefits

In addition to the direct effects on production, investment and employment, exports may also provide “soft effects” for farmers and consumers in exporting countries. Exports to developed markets require upgrading of product quality, health and safety standards, which is likely to spread to all

⁵ The Rum Protocol provided only for tariff preferences. The MFN duties will be phased down to zero by 2003.

products of a supplier, including those destined for domestic consumption. Exports can increase the scale of production, introduce more efficient production methods and technologies, and hence increase productivity and income, stabilize earnings and lower consumer prices. Integrated farm development programmes for exports often involve upgrading or construction of roads, electricity and water supplies, which improve the availability of services and create employment opportunities in the region.

B. Effects of preferences: review of experience

According to the analytical studies and policy review reports available, the GSP has contributed significantly to industrial development in several Asian and Latin American developing countries, in particular in small- and medium-sized ones where it has supported their phase of industrial diversification and rapid growth. This is confirmed by periodic reviews of the effects of the GSP conducted by the United Nations Conference on Trade and Development (UNCTAD) and the governments of preference-receiving countries participating therein. The analysis provided for these reviews further indicates that exports of products receiving GSP benefits have been growing substantially. These reviews nevertheless also highlight important limitations of the various GSP schemes with respect to product coverage, ceilings, sector and country graduations without commonly agreed criteria, severe rules of origin, and uncertain duration. They also noted the growing tendency of preference-giving countries to impose conditionalities relating to policies regarding drugs and social and environmental considerations.⁶

The relatively few economic studies conducted on the effectiveness of the GSP supported the above conclusion. Most are *ex ante* model studies on the trade creation and trade diversion effects based on broad aggregated averages for elasticities and tariffs. The GSP Study Programme of UNCTAD included some country studies which evaluated, in more detail, the effects of the GSP on exports, industrialization and growth during the first 15 years, in some cases examining the effects on individual exporting enterprises during the early phase of implementation.⁷ The results of these studies are set out below:

⁶ See, *inter alia*, Davenport (1994), which provides a succinct summary of official policy evaluations, as well as the main issues inherent in the individual GSP schemes.

⁷ For a review of studies containing estimates of the economic effects of the GSP, see MacPhee (1989).

Malaysia

The enterprise survey conducted in the context of the UNCTAD study on Malaysia⁸ points to the rapid growth of the value and volume of exports covered by the GSP in the early years after its introduction. Products eligible for preferences had risen to 11 percent of total exports by 1978. Profits rose strongly with export sales. The industrial firms that made greatest use of the GSP appear to have experienced the largest increase in employment and productivity. Enhanced export earnings generated an improvement in the production capacity of the manufacturers concerned and a significant increase in employment. The GSP was responsible for a 13 percent increase in the output of industrial goods and the creation of 170 000 additional jobs during the period 1973-1976. The increase in employment subsequently stabilized at an annual average of about 20,000 (albeit subject to wide fluctuations). Higher exports and investments due to the GSP also accelerated income growth, including labour incomes. Higher export earnings further enabled manufacturers benefiting from the GSP to attract investment and to improve production capacities in the long run. Much of it took the form of foreign direct investment (FDI). According to estimates based on conventional ex ante methods and assumptions, the GSP accounted for an annual increase in the GNP of 2-4 percent over the 1973-1986 period.

From the outset, the GSP had considerable importance for the agricultural exports of Malaysia, even though the scheme had been mainly conceived as an instrument to foster industrialization and at the outset covered only a limited range of agricultural products. The benefits were highly concentrated on palm oil (with a share of about 40 percent in total GSP exports), wood and semi-processed wood, rubber and rubber products, cocoa and cocoa products (5-10 percent). For other eligible GSP products, such as canned pineapples, pineapple juice, pepper and various other food preparations, the shares did not exceed 1 percent. Firms exporting agricultural products covered by the GSP achieved the largest increases in export sales. Two-thirds of the agricultural manufacturing firms also showed marked profits throughout the years since the scheme's inception. On the other hand, only a few agricultural exporters increased employment.

⁸ See Meyanathan (1989).

Brazil

The UNCTAD study on the effects of the GSP on Brazil was essentially based on model estimates. It resulted in a more differentiated evaluation between sectoral effects for specific eligible products and the macro-economic effects.⁹ Brazil has been one of the leading exporters of GSP-covered products, with exports receiving preferential treatment reaching US\$ 3.4 billion in 1984. Trade-creating effects have been important for specific eligible products. For exports to the United States, the aggregate trade effects (through both trade creation and trade diversion) amounted to 10 percent of exports effectively enjoying these preferences. In spite of many product exclusions and ceilings, exports of products eligible for preferences under the different schemes accounted for 26 percent of total Brazilian exports to preference-giving countries in 1980-1984.

On the other hand, the study concluded that the macro-economic effects were much less significant for a large developing country like Brazil than for smaller countries. It was estimated that the consequential increase in manufacturing output was 0.4 percent and in employment, 0.2 percent. Consequently, the GSP was hardly likely to have been a major stimulus to industrial investment or to have provided substantial efficiency gains to the Brazilian economy as a whole. There is, however, much variation among sectors in the ratio of GSP exports to domestic output, as well as a wide disparity in effective GSP coverage both by products and by sectors. Food, beverages and tobacco constituted almost 10 percent of GSP exports. Contrary to most industrial branches, where TNCs predominated, domestic food producers benefited most from the GSP.

Republic of Korea (ROK)

The UNCTAD study on the Republic of Korea (ROK)¹⁰ found that the GSP was used effectively as a means of export promotion, particularly at the earlier stages of its export-led industrialization. Since many firms in developing countries enter export markets as weak competitors, they need to acquire a greater competitive edge. The GSP seems to have provided some contribution in this respect. The Republic of Korea was the second largest exporter of GSP-covered products, before being subject to numerous product exclusions and ceilings and, finally, graduated from the EU and United States schemes in 1988-1989. By

⁹ See Fritsch (1989).

¹⁰ See Pyo (1989).

1986, GSP exports had reached \$5 billion, or 14 percent of total exports, after a peak of 26 percent attained in 1980.

In addition, the study found that preferential treatment of exports led not only to higher export earnings, but also to increased employment of labour, capital and material inputs. The extent of trade creation had increased over time to reach 3.7 percent of the country's total exports and 17.5 percent of its GSP exports in 1986 (or 3.2 percent and 15 percent respectively in terms of net trade creation). The result was a GNP increase of 1.4 percent in 1986. In view of its industrial transformation, agricultural products played only a minor role in GSP exports amounting to only 3.5 percent of all exports to the EU in 1986 that received preferential treatment.

In the survey of enterprises:

- (a) almost all firms replied that the GSP had been useful in promoting their export activities, particularly during the 1970s, when they started entering international markets;
- (b) most also replied that GSP-related investments contributed to improving productivity and quality control;
- (c) industrial complexes could substantially limit the problems of exporters with respect to infrastructure or the procurement of energy and other services (about 80 percent of the responding firms were located in export processing zones (EPZs) or industrial investment sites);
- (d) a quarter of the firms considered that they were "seriously affected" by graduation from the GSP, more than half that they were "affected", while only 20 percent felt they were "not affected". Since three-quarters of GSP exports were made by small and medium-sized industries, the combined impact of export loss and higher tariffs became quite burdensome. Most GSP exporters indicated that they would try to hang on to the previously established export markets, rather than switch to other markets after losing GSP advantages. They preferred to internalize the burden of the higher tariffs and to go in for greater product differentiation.

Japan

The UNCTAD study on Japan concluded that "the GSP, if implemented without restrictions, can provide a good incentive for the start of new industrial

exports. It goes without saying that the GSP benefit alone cannot provide enough incentive".¹¹

South East Asia

The impact of the GSP was further confirmed through the studies sponsored by UNCTAD and ESCAP on the effects of product graduation in four countries in South East Asia. These studies found that the graduation of individual products and the imposition of tariff quotas led to a loss of market shares. However, the remaining, less competitive beneficiaries of the GSP schemes did not increase their export share in consequence. It was, rather, the advanced industrial countries or other major beneficiaries that gained. On the other hand, the graduation of Singapore, Hong Kong, Taiwan Province of China and the Republic of Korea from the GSP scheme of the United States led to a rise of preferential imports from Indonesia, Malaysia and Thailand.¹²

In analysing the economic impact of the GSP, Davenport (op. cit.) found that preferential imports of OECD countries rose much faster than total dutiable imports reaching 24 percent in 1992 as against 20 percent in 1976. Based on deflated current value of exports, preferential imports by the OECD member countries grew in real terms by 8 percent per year over that period. For some countries, such as Australia, Austria, Finland and Norway, the increase exceeded 10 percent. The most important factors explaining these diverse import performances were the expansion of product coverage, and limited recourse to tariff quotas and other restrictions on GSP eligibility. Davenport therefore concluded that actual GSP performance fell far short of what could have been achieved. He estimated that the GSP resulted in a transfer of resources to beneficiary countries amounting to roughly 0.3 percent of their exports at constant 1980 prices (excluding the volume effects but including the dynamic effects of preferences).

The periodic GSP reviews by the UNCTAD Secretariat and the Davenport study underline the high concentration of preference-receiving trade on a few countries. The 12 largest beneficiaries of the EU scheme accounted for 80 percent, and the 6 largest beneficiaries of the United States scheme for 70 percent of preferential imports in 1992. The share achieved by LDCs failed to

¹¹ See Yamazawa (1988).

¹² See ESCAP (1992).

increase: it amounted to 1.3 percent of preferential OECD imports in 1976 and 1992, in spite of the improvements made in the schemes in their favour.

A study of trade preferences in agriculture found that in 1996 the preference margin for agricultural exports from developing countries resulting from the various preferential schemes of the EU, the United States and Japan was an estimated 12 percent of the total value of preferential trade, almost half of which was accounted for by sugar. If preferential schemes had not been improved pursuant to the Uruguay Round, preference margins would have decreased by one-third due to multilaterally applied tariff reductions.¹³

Some recent studies have focussed on the effects of trade between developing and developed countries on income distribution between and within countries, and on the question of where the most profitable and dynamic section of the value chain is situated. Kaplinsky proposed to use the conceptual framework of a dynamic value chain analysis to provide causal explanations for the growing disjuncture between economic activity and income distribution of the benefits of international trade¹ (Kaplinsky, 2000). The value chain describes the full range of activities required to bring a product from conception through production and delivery to final consumers, and then final disposal after use.

The analytical concept focuses on three dynamic aspects of the value chain:

- i. barriers to market entry and rents (“Which activity in the chain is the most profitable?”);
- ii. the issue of who governs the effective functioning of the value chain (“Who decides on product design and sources of supply?”); and
- iii. the issue of systemic efficiency (“How can linkages between the various actors create synergies and improve the overall efficiency of the chain as a whole?”).

Kaplinsky applied this concept to exports of canned peaches from South Africa to EU to explain why the value added in South Africa was less than 40 percent of the retail price and why fruit growers and canners achieved low levels of profitability even though they enjoyed a considerable comparative advantage. He blamed market distortions, in particular a combination of protection and subsidies in the industrially advanced countries. In addition to growers and retail

¹³ See Yamazaki (1996).

trade in these countries, brand name canners also enjoy important rents. Retail chains pay a significant premium for branded products, whereas canners request excessive prices for royalties conferred on developing country producers for the right to use their brand for exports to major world markets.

In addition, the most profitable activities were increasingly located in the major industrialized countries. Final retailers and supermarket chains predominantly governed the chain, while importers managed the procurement of supplies and searched for new sources of supply. The South African industry had the option of autonomously raising the systemic efficiency of the chain. However, that was difficult to achieve due to low levels of trust and cooperation. Kaplinsky concluded that there was “little scope for ameliorating adverse distributional trends within or between countries in the canned deciduous fruit value chain.”¹⁴

A study on the impact of supermarkets on the African horticulture industry emphasizes the extent of their control over trade in fresh vegetables in the United Kingdom (Dolan and Humphrey, 2000). Large retailers in Europe play a decisive role in structuring the production and processing of the rapidly growing exports of fresh vegetables from Africa. Their requirements for cost, quality, product variety, innovation, delivery, food safety and quality systems determine what type of producers and processors gain access to the fresh vegetables chain and the activities the latter must carry out. The behaviour of these large retailers has clear consequences for the inclusion or exclusion of different producers and exporters and affects the long-term prospects for the fresh vegetables industry in Kenya and Zimbabwe, the two exporting countries studied. Further, Lomé trade preferences were recognized as one of the most important factors for the growth of exports of fresh vegetables from these countries.

C. Agricultural trade and the effects of the GSP after the Uruguay Round

Trends in agricultural trade

This report focuses on agricultural trade since the conclusion of the Uruguay Round (i.e. in the second half of the 1990s), the associated changes in

¹⁴ With regard to this argument it should be noted that South Africa and the EU have since concluded a free trade area agreement, which will remove discrimination of South African products. The Doha Round offers new prospects for reducing EU subsidies. Furthermore, the EU has substantially reduced the amount of subsidies paid to its domestic fruit and vegetable producers.

agricultural protection, and the adjustments made to the GSP and special preferential arrangements during the period.¹⁵

Total agricultural imports of EU decreased by \$10 billion, from an initial \$84 billion in 1996 to \$74 billion in 2000, or by 12 percent. ACP exports to EU declined by almost 15 percent, to \$9.1 billion, their share in total EU imports falling to one-eighth.

By contrast, United States' imports of agricultural products rose by 13 percent from \$55 billion in 1996 to \$62 billion in 1999, the increase being greater for imports from developed countries than from developing countries. Imports from the latter rose below average, by 1.8 percent annually. Imports from ACP countries, consisting mainly of raw cocoa, coffee, sugar, tobacco, cigars and fishery products, declined at an average annual rate of 2.4 percent; their share in total imports fell from 3.2 percent to 2.6 percent over the period.

Towards the end of the 1990s, developing countries' export revenues were heavily affected by the major fall of world market prices to record lows for their major basic commodities, whereas they had attained relatively high levels during 1995 and 1996). Earnings from exports to the EU also suffered in terms of national currencies for most ACP countries due to the depreciation of the European currencies relative to the dollar. The significant change in relative export prices that could be obtained on dollar and euro markets did not, however, induce a general shift of African ACP countries' exports towards the United States market.

Notwithstanding this general characterization of agricultural trade, substantial trading opportunities existed for certain exports from developing countries and were indeed exploited by a number of them, including ACP producers. Thus, the EU market was a dynamic and growing one for fish and shrimps, plants, fruit, vegetables, spices, and certain food industry products such as cocoa products and chocolate, cereal products, a range of prepared and preserved vegetables and other readily prepared food industry products, as well as for non-alcoholic beverages, wine, rum and other spirits, wood, veneers and plywood. Developing countries, including ACP producers, were sometimes able

¹⁵ For the purpose of this study, agricultural products are defined essentially as products covered by the WTO Agreement on Agriculture, fresh and processed fishery products, and wood. Therefore, they comprise HS chapters 1 to 24 and 44, as well as agricultural raw materials contained in chapters 33, 35, 38, 41 and 50 to 53.

to expand their exports to the EU in spite of the falling tendency for total imports noted above. Therefore, they were able to significantly increase their revenue and market share (see Table 5).

An analysis of agricultural trade in 1996-2000 revealed some significant trends that are likely to point to possible future trading opportunities on the EU and other developed country markets.

- Consumer and import demand in EU and other developed country markets are generally shifting towards fresh products, for example, towards fresh and chilled, rather than canned, beef and fish (see section III).
- There is a shift towards readily prepared products for direct consumption. From 1996 to 2000, imports of finished food products, sauces and soups, etc. rose by almost 30 percent, or more than \$100 million, and imports of fish in filleted form by 40 percent (\$240 million). Readily prepared chicken, packaged tea, frozen potato chips, sugar confectionery, pasta and other ready-made flour products enjoyed major export success in European and United States markets.
- There was frequent change in the pattern of consumption in developed countries. Consumption shifted rapidly, for example, from beef and pork to poultry as a result of consumer concern over animal diseases; from cocoa butter to cocoa paste; and from traditional fruits and fruit juices to new fruits and tastes, mixed fruit juices, etc.

The *decline in EU imports* was fairly general for semi-manufactures and other processed agricultural products with a few exceptions such as veneers, plywood, and concentrates of essential oils, where imports rose.

Agricultural imports of the United States contain a greater share of temperate zone food, such as beef and sheep meat, cheese and other dairy products, than those of the EU. Imports rose rapidly for a broad range of processed food products, such as roasted coffee, canned beef, prepared and preserved fish, chocolate, pop corn, biscuits and other bakery ware, preserved and prepared vegetables, cigars and cigarettes, and most wood products. There was also strong import demand for fish, shrimps and other crustaceans, a range of fresh, frozen and preserved vegetables, fresh fruits and readily prepared consumer products. There was also a pronounced rise of import demand for all types of non-alcoholic beverages, beer, wine and spirits.

In many of these dynamic branches and products, MFN tariffs are still high in both the EU and the United States, so that special preferential arrangements and enhanced GSP benefits offer substantial preference margins over third-country producers. This is also the case for some specific products covered by the general GSP schemes. High preference margins continue to be provided for some semi-sensitive and non-sensitive agricultural products and semi-manufactures. Preferential arrangements gain in value where they provide duty-free market access, because they allow certain developing country producers to enter into competition with domestic producers. Duty-free access also expected to encourage TNCs from developed and developing countries to invest more in developing countries.

Trade in products covered by the GSP

A full analysis of the effects of preferences in a country has to consider trade in its specific products. There are wide variations in consumption and import growth among the various agricultural products, in the product coverage of the GSP and in other schemes. In addition, there is wide diversity in MFN rates and preferential margins among eligible products. The trade analysis made for this present report clearly shows that aggregates are misleading.

The periodical UNCTAD review on the operation of the GSP indicates that preference-receiving countries achieved substantial export success for several agricultural and processed products during the 1980s and the beginning of the 1990s. Their exports had grown rapidly and attained considerable import shares before product ceilings and exclusions from the various schemes curtailed their preferential access to major developed country markets. In 1996, agricultural exports to the EU from developing countries that were beneficiaries of the GSP but not of other preferential arrangements (i.e. excluding ACP countries and participants in free trade areas with the EU) attained \$30 billion. Furthermore, \$10 billion entered duty-free under MFN treatment. Exports of \$9.2 billion, or about one-third of their total agricultural exports, received GSP benefits, corresponding to half of their dutiable exports to the EU.

This export expansion ceased after the conclusion of the Uruguay Round and the GSP reform. The value of agricultural imports covered in principle by GSP preferences fell by one-quarter from \$11 billion in 1996 to \$8 billion in 2000. Exports actually receiving preferences were halved, falling from \$9.2 billion in 1996 to \$4.6 billion in 2000. Only about one-quarter of dutiable

agricultural trade of the GSP beneficiaries actually obtained preferential treatment, compared to almost half in 1996. This decline took place in the context of a fairly stable overall trade in agricultural products: total and dutiable trade decreased by only 10 percent. In 2000, total agricultural and fishery imports of the EU from “genuine” GSP countries (i.e. excluding ACP and Mediterranean countries) attained \$28 billion, and dutiable imports, \$18 billion (see Table 1).

In 2000, 38 developing countries obtained preferential treatment by the EU for agricultural exports exceeding \$1 million. Sixteen of them obtained GSP treatment at general rates and product coverage; 6 beneficiaries were subject to extensive sector exclusions; and 11 Andean and Central American countries benefited from the special preferential rates and extended product coverage similar to those granted to LDCs. Only 5 of the 8 LDCs exported more than \$1 million with preferences. The first group of 16 beneficiaries maintained generally stable preferential exports to the EU at about \$1.8 billion. Some larger developing countries among them successfully exploited their GSP advantages in the EU market: preferential imports from China, the biggest GSP beneficiary for agricultural products, rose above \$500 million. India, Argentina and Viet Nam also raised the preferential exports significantly (by \$110 million to \$260 million).¹⁶

Sector graduation accounted for much of the decline in preferential imports into the EU: the 6 countries most affected lost \$2.7 billion of preferential trade. Brazil, Philippines, Malaysia, Thailand and Indonesia experienced a decline of preferential exports ranging from \$250 million to \$1 billion after the GSP reform in 1996.

Preferential imports of agricultural products into the EU from the 11 Andean and Central American countries enjoying special GSP advantages fell from \$3.5 billion in 1996 to \$1.5 billion in 2000, a decline of 60 percent. Total agricultural imports from the 11 countries declined by about one-quarter. Half of the decline in preferential trade resulted from a reduced rate in utilization of the preferences from over 90 to 50 percent. Colombia had the largest losses of preferential exports but remained one of the main beneficiaries of EU preferences, exporting agricultural products to the value of \$400 million in 2000. Costa Rica, Ecuador and Peru obtained GSP treatment for exports of over \$200 million. All three countries achieved significant success in certain agricultural

¹⁶ During that period, China and India were subject to limited sector graduations, and Argentina to major sector graduations.

exports to the EU, which was, however, compensated by heavy losses in the export value of their major traditional commodities.

Several factors coincided to cause heavy losses of total and preferential exports of Andean and Central American exports of agricultural and fishery products to the EU:

- (a) the slump in world market prices for major export commodities and their processed products;
- (b) the removal of MFN tariffs on coffee and cocoa by the EU;
- (c) the decline of several preference margins to very low levels;
- (d) climatic disasters (El Niño, Hurricane Mitch); and
- (e) political crisis in some of these countries.

The erosion of coffee and other preferences may have contributed to a loss of market shares to non-preferential or graduated exporters and caused some shifts of supplies to EU producers.

Agricultural and fishery imports of the EU from Asian LDCs were 12 percent higher in 1999-2000, but were subject to heavy fluctuations. Preferential imports remained, however, below the 1996 level, amounting to only \$150 million in 2000 or 3.2 percent of preferential imports into the EU. The rate of utilization of EU preferences by Asian LDCs declined from 97 percent to 77 percent of imports covered by GSP over this period. Bangladesh was by far the major exporter among Asian LDCs to the EU. Its fishery and agricultural exports to the EU market rose from \$130 million to \$180 million in 2000 and its preferential exports were close to \$130 million in both years. Total exports of the Lao People's Democratic Republic, the Maldives and Yemen reached \$12 million to \$14 million in 2000, but only about half actually received preferential treatment. Preferential exports of Afghanistan amounted to about \$1.5 million, and those of Bhutan, Cambodia and Nepal to less than \$100 000. The combined preferential exports of these smaller Asian LDCs reached about \$30 million in 2000. The EU has suspended preferential treatment of Myanmar. The bulk of the preferential exports from Bangladesh and other Asian LDCs consisted in fishery products (see Table 4.7).

During the initial period of application in 2000 there was no quick and broad supply response from Asian LDCs to the substantial preferential opportunities created for agricultural products by the new EU scheme in favour of LDCs. Exports rose independently of the new EBA scheme: in 2000 Bangladesh

expanded its preferential exports of frozen shrimps and prawns, which were already duty-free under the GSP. The Maldives also substantially expanded fishery exports in recent years.

Effects of reduced preference margins, rules of origin and other factors

A major reason for the drastic reduction in the rate of utilization of the GSP in trade with the EU was the reduction in preference margins. In 2000, preferential treatment was neither claimed nor accorded for \$3.4 billion of eligible products. The three main groups of GSP beneficiaries shared this amount evenly among them. In LDCs, the utilization rate also shrank to three-quarters in 2000. The utilization rate declined even though pressures on prices tightened as international competition was much sharper. There were large surpluses on world markets and a significant depreciation of EU currencies. The European Commission recognized that this reduced rate of utilization could most probably be explained largely by the fact that certain EU preferences had become too small to be of interest to exporters and to cover the cost implied in certification requirements. For example, by 1999 preferential rates had been reduced to 1 percent ad valorem for cocoa and coffee (and became completely duty-free in July 2000); for several other products, preferential margins were reduced to even lower levels (see section IV.A). The number of products transferred to the sensitive and semi-sensitive categories was too large, and the 15 and 30 percent margins accorded in the 1996 reform were often too narrow to cover the cost involved in securing preferential treatment.

In certain cases other reasons may partly explain the lower rate of utilization. For example, EU imports of fishery products from GSP beneficiaries expanded rapidly, but not all of them may have qualified under the especially restrictive origin requirements for that sector (see section IV.A). In other sectors, the erosion of preferences may have contributed to a shift of production to EU suppliers, to a shift of imports from Mediterranean FTA partners, or to losses of market shares to non-preferential exporters.

The effects of sector country/graduations

The consequences of the country/sector exclusions confirm the importance that preferences had for exporters and their export success. This was also the reason advanced by the United States and the EU for the withdrawal of GSP benefits from certain countries, for frequent country/sector exclusions, and

for the imposition of ceilings.¹⁷ In the EU scheme, Brazil and Argentina have been excluded from GSP for meat and meat products; Thailand for all fish and shrimps products; Chile, Mexico and Thailand for all fruit, vegetables and flowers; Brazil for coffee and cocoa products, as well as tobacco; Malaysia, Indonesia and the Philippines for vegetable oils and the first two for wood products as well; Thailand, Brazil and Argentina for all products of their food and beverage industries in the HS chapters 16-23.¹⁸ Product exclusions were also frequent in the United States and covered a wide range of beneficiaries.

Where the sector corresponds to a specific branch or a closely related product group, graduated beneficiaries often effectively fulfilled such criteria as large exports and high shares in EU imports. This is not the case, however, where a sector is defined much more broadly, such as the food industry in the EU scheme. Brazil, Thailand and Argentina have indeed been highly successful in exporting certain processed and canned food to the EU, but this has not been the case for many other products of the food industry (In Brazil, the major export increases were concentrated on coffee extracts, orange and other fruit juices, canned palm hearts and prepared bovine tongue; and in Thailand on prepared and preserved pineapples, shrimps, prawns, surimi, crabs and snails, as well as pasta.) Some products from Thailand and Argentina attained high import shares that reflect the low value of EU imports from other preference-receiving countries, rather than impressive export performance and competitiveness. Exports of most final prepared food products are still at incipient stages in these countries. The situation is similar in the case of the "sector" comprising all fruit, vegetables and flowers: its being a successful exporter of orchid specialities and manioc prejudices the chances of Thailand to develop exports of other fresh vegetables and fruits to the EU. Product graduations extend sweepingly over many products with small trade values.

Nonetheless, countries affected by sector graduation were able to derive some benefits from the remaining GSP advantages - exports continued to grow in intermediate processing sectors, forestry and fishery products.

The reduction of GSP benefits of several successful agricultural and food industry exporters since the mid-1990s have curtailed their export

¹⁷ The Republic of Korea, Singapore, Hong Kong (China) and Taiwan Province of China have been graduated from almost all GSP schemes.

¹⁸ Further sector graduations are likely to be introduced by the EU in the course of 2002.

dynamism. Frequently, their import shares and values in the EU market stagnated or levelled off after the loss of GSP preferences.

The many systemic changes in the GSP for agricultural products, including extensive sector graduations, tariff modulation, removal of tariff ceilings, reclassification of sensitive products, as well as the MFN reductions, tariffication of levies and other changes in EU trade policies, did not basically alter a long-standing characteristic of the system, namely that the benefits have been concentrated on relatively few countries. In 2000 the six leading beneficiaries accounted for half of the trade of the “genuine” GSP-receiving countries, and the first ten for two-thirds. The main result of sector graduation was reducing preferential trade and easing the import pressures on EU producers. Contrary to some expectations, agricultural exports of other medium-sized and smaller developing countries benefiting from GSP or ACP preferences in the EU did not increase correspondingly.

D. Trade effects of ACP preferences

The trade effects of ACP preferences have been relatively limited in spite of having been in force since long before the introduction of the GSP. The European Commission has repeatedly deplored that the share of imports into the EU from ACP countries has continuously decreased.

The greatest benefits of the preferences have been for bananas, sugar and beef, for which special Protocols assured special duty-free quotas on the heavily regulated and high-price EU market. For sugar, exporters were guaranteed domestic EU prices much higher than world market prices. An FAO study estimated that the aggregate ACP preference margin for agricultural exports to the EU in 1996, when the Uruguay Round tariff reductions were initiated, was 14 percent of the value of trade covered, three-quarters of which was accounted for by sugar and beef alone. The study forecast a progressive erosion of ACP preferences: it predicted preference margins to fall by 16 percent once the Uruguay Round tariff reductions are fully implemented.¹⁹

Tangermann and Josling have estimated the preference margins for selected agricultural exports from the African ACP countries to the EU, based on 1999 tariffs and 1997 trade. Preference margins vary widely between different products in terms of the value of exports. They reached 75 percent for beef and 55

¹⁹ See Sharma, R. (1997).

percent for sugar exports under the Protocols; they averaged 7 percent for fresh fruit and vegetables and 20 percent for their processed products, 13 percent for fish, and 14 percent for tobacco. These preferential advantages accrued to significant proportions of the value of exports of individual beneficiary countries.²⁰ The income effects of Protocol preferences for African ACP countries amounted to almost \$260 million for sugar and \$90 million in 1997 for beef. Furthermore, ACP countries derived substantial trade and income benefits from the Banana Protocol, and several Caribbean and Pacific Members from their sizeable sugar exports to the EU, which were not covered in the studies.

In a subsequent study on the future of preferential trading arrangements for agricultural products in the light of the present round of WTO negotiations, Tangermann found that preference margins were not a reliable indicator of the actual welfare effects of trade preferences and the economic benefits were usually far smaller than preference margins suggested.²¹ Similarly, the actual economic effects of MFN tariff reductions for preference-receiving countries may be considerably smaller than suggested by the erosion of preferences, depending on how any benefits from trade preferences are distributed among the various groups of market participants, and in particular on whether they accrued to economic agents in the exporting country or to those in the importing developed country. According to Tangermann, this distribution depends partly on the competitive structure of the market concerned, and partly on how the trade preference is administered. Intuition suggested that the more concentrated trade is, and the closer supplies from exporting countries are to a situation of full competition, the greater the proportion of potential preferential benefits that would end up in the preference-giving country. In any case, with monopsonic structures and behaviours of the import trade, part of the preference margin will end up in the hands of agents in the importing country, rather than in the exporting country. Furthermore, costs of preferences also need to be considered in situations where production adjustments may be induced by preferences in sub-optimal locations. He also found that all quantitative estimates underestimated the dynamic effects of preferences, and in particular the “soft benefits” deriving from them.

It should be added that in spite of their highly important income effects for farmers, the long-term effects of Protocol preferences were also somewhat less pronounced than the above estimates tend to suggest. The Protocols did not allow much volume expansion during the operation of the Yaoundé, Lomé and

²⁰ Tangermann, S. and Josling, T. (1999). See also: Tangermann, S. (2000).

²¹ Tangermann, S. (2002).

Cotonou Agreements. Imports from each individual country were restricted by quotas, which remained generally unchanged for long periods (apart from some possibilities for transfers between beneficiaries and a few additional quotas opened for some of the new Member Countries upon their accession to the ACP-EU Agreement). In several instances, ACP countries have consistently under-utilized or completely failed to utilize the beef, sugar and banana quotas allocated to them, in spite of obtaining prices 50-90 percent higher than in the world market. The only special Protocol Product for which they have achieved substantial export expansion is rum from Caribbean countries, which received tariff preferences only. If the less successful ACP exporters had switched earlier to alternative, more dynamic production lines (e.g. from bananas to other horticultural products or fruits), they could probably have expanded their export earnings more rapidly.

Furthermore, it is not certain that all higher protocol prices pierce through the trading chain to farmers. Much depends on the market power of the various participants, the organization of the trade and the practice of licence allocation. Where licences are traded, growers are unlikely to benefit. Strong producer or exporter organizations may be able to influence the bargaining results in their favour.

On the other hand, in some cases the effects of the preferences under these Protocols may be much larger than the price advantage and the amount to the entire value added of exports to the EU. It is unlikely that the EU would import any sugar from ACP countries outside the arrangements, because it is fully self-sufficient and re-exports ACP sugar. Similarly, fewer bananas would probably have been exported in the absence of the Protocol.

Costs of preferences are becoming apparent for the Protocol products, as entrenched quota and price preferences for bananas and sugar have held back reforms and given rise to substantial adjustment needs among certain secondary beneficiaries of the EU's Common Agricultural Policy in ACP countries. In addition to large-scale support to its own banana producers, the EU is implementing a programme to support ACP countries for rationalizing and diversifying banana plantations.

Furthermore, successive reforms of the Common Agricultural Policy (CAP) have tended towards a decrease of domestic prices for beef and are likely to do so in the future for sugar. Successive EU enlargements intensify competition for the export of Protocol products and alternative products in cross-

competition. Recent and imminent accessions by important agricultural exporting countries to the EU, the ACP-EU Agreement, and a prospective free trade area between the EU and MERCOSUR will eventually extend liberal market access to a number of major suppliers. In the longer term they imply a major de facto liberalization of EU sugar and beef markets, as well as of the EU market for agricultural products more generally.

In general, ACP countries' agricultural preferences, apart from those for Protocol products, have been continuously eroded in size, product coverage and effectiveness over time. MFN duties for most tropical products have been progressively reduced and finally eliminated by EU in the course of the various rounds of multilateral trade negotiations. With respect to processed agricultural products and some temperate zone and Mediterranean agricultural products, erosion resulted mainly from the consecutive EU enlargements and free trade arrangements with European and Mediterranean countries. Mediterranean countries are competitive exporters of many fruits and vegetables, fishery products, canned and prepared products; the European Member States and Associates are competitive in processed coffee and cocoa products and in food industry products in general. The conclusion of free trade agreements with South Africa, Mexico and Chile further intensifies competition.

On the other hand, remaining preferential tariff margins are still high for many processed agricultural products where export production could be developed in ACP countries. These countries have demonstrated that they can provide raw materials for such industries at competitive terms, since they are major suppliers to the EU of many tropical commodities, fruit and vegetables.

For the bulk of the European agriculture and food industry, import liberalization and the removal of subsidies have not even started. With respect to products covered under the Common Agricultural Policy, trading opportunities at MFN rates are few, access under the GSP, virtually zero and ACP preference margins, small. With very few exceptions, preferential rates remain too high for ACP suppliers to export to the EU.²² Exporters from LDCs have a real potential to compete in several CAP products, but are limited for the time being by stringent tariff quotas for sugar and rice, which are their most promising CAP products for export to the EU. As a result of the Uruguay Round, the WTO tariff quotas that

²² This is mainly due to the high ad valorem incidence of specific duty elements, which normally remain fully applicable to imports under the ACP Agreement, with a few exceptions.

were opened for tariffed products suffer from too many limitations to offer real potential for expanding trade. They are generally small, have not been enlarged and often carry high duties. Further, they are often assigned to countries and are rapidly captured by free trade partners or major world market exporters.

Several ACP countries could export more sugar, meat, rice, maize and processed products to EU if preferential ACP tariffs were rapidly removed. Their exports of CAP and food industry products should be liberalized rapidly under the Regional Economic Partnership Agreements with the EU. The immediate removal of import tariffs, specific duty elements and related measures would provide some compensation for the erosion of preferences. Rapid liberalization would also provide a signal and an incentive for EU companies to engage more actively in investments in ACP countries.

ACP trade in 1996-2000

As Table 2 shows, agricultural and fishery exports of ACP countries to EU declined by 20 percent (about \$2.3 billion) from 1996 to 2000, and those of the LDCs among them by 23 percent (about \$650 million). Trade in products covered by ACP preferences declined by one-quarter, from \$9.2 billion to \$7 billion. In some ACP countries major reforms of their agricultural policies involved frictions and aggravated the crisis of commodity prices. The export losses were heavy for most countries, including the major exporters, in particular Côte d'Ivoire (\$640 million), Nigeria, Cameroon, Ghana, Democratic Republic of the Congo, Kenya, Mauritius and Uganda (losses ranged from \$100 million and \$250 million, in descending order).

Only a few countries succeeded in rapidly increasing exports to EU – foremost Namibia, Seychelles, Belize, Suriname and (among the LDCs) Zambia, the People's United Republic of Tanzania, Mozambique, and Sao Tome and Principe. Some other countries, such as Gabon, Liberia, Malawi and Burkina Faso primarily increased exports of products that enter the EU market at zero MFN rates.

The preferences accorded by the EU have made a distinct impact on the pattern of exports of ACP countries and on the sourcing of imports. ACP countries did achieve significant export success in the EU for certain products and sectors, counting among the leading exporters to the EU market. Kenya is the leading external supplier to the EU of fresh beans, peas and cut flowers, with shares of 40 percent and one-quarter of total imports, respectively. Zimbabwe,

Zambia, Senegal, Ethiopia and Burkina Faso also rank among the top suppliers of some horticultural products, with import shares ranging from 3 to 23 percent. Côte d'Ivoire is the leading supplier of fresh pineapples accounting for half of EU imports, with Ghana ranking third, with a 9 percent share. West African suppliers dominate the EU market for cocoa paste and cocoa butter: Côte d'Ivoire accounts for three-quarters and one-third, respectively, of EU imports, and Ghana ranks second and third, respectively. Côte d'Ivoire is the leading supplier of coffee extracts and canned tuna to the EU, accounting respectively for one-half and one-sixth of the imports. Kenya ranks second for preserved pineapples and third for pineapple juice. Senegal is the leading supplier of crude groundnut oil with over a half of EU imports. Zimbabwe ranks first for cigarettes accounting for half of EU imports, and the Dominican Republic comes second for cigars, with one-quarter of the import market.

The ACP countries are also important with respect to bovine meat, crude palm oil and palm kernel oil, fresh avocados and pumpkins, certain spices, oranges, refined sugar, rum, plywood and some other products, for which they enjoy duty-free entry and important preferences over MFN suppliers. These export successes have been built up over a long period and mainly involve:

- i. fresh out-of-season products, which became competitive through improved transport connections reducing cost disadvantages vis-à-vis Mediterranean competitors;
- ii. intermediate products for industrial use; or
- iii. exports by European companies established in ACP countries.

Countries benefiting from duty-free and preferential access dominate imports of high-duty products by the EU. In many cases virtually all imports originated from such countries, i.e. ACP countries, Andean and Central American countries, and Mediterranean and other free trade area partners. Hardly any imports of high-tariff products took place at MFN rates. Similarly, imports under general GSP rates were small, because the preference margin was often very small.

By contrast, the African ACP countries are virtually absent from other world markets for food and food industry products. Caribbean and Asian ACPs hold some smaller shares on regional North American and Japanese markets. African countries export few of those products, for which they dominate the EU market, to the United States or Canada. The North American markets for processed cocoa products are freely accessible and dominated by South East

Asian, Andean and EU competitors; the shares of Côte d'Ivoire and Ghana are small. In North American Free Trade Agreement (NAFTA) markets, suppliers from within the grouping, along with Latin American and EU exporters, are leading in imports of roasted coffee and coffee extracts, which are duty-free from all sources. No imports take place from African ACPs of fresh vegetables, pineapples (supplied by Costa Rica, Honduras, Mexico and the United States) and bananas (imported from Andean and Central American producers, as well as from the Dominican Republic). Canned pineapples are primarily imported from the ASEAN Members and from China, with only small amounts from Kenya. Pineapple juice comes from ASEAN Members, Costa Rica and the United States. The United States and Canada import fresh flowers mainly from Colombia, Ecuador, the Netherlands, Costa Rica and NAFTA partners.

The removal of tariffs on various tropical products and wood after the Uruguay Round reduced the trade coverage of ACP preferences considerably. However, this should not necessarily imply an important reduction of ACP exports to the EU. The African cocoa exporters already held the entire EU market (of \$1.6 billion) in 1999; no major change is expected. In the case of coffee, three-quarters of EU imports (of almost \$5 billion) already benefited from duty-free access under the GSP. However, there was a major shift among duty-free suppliers. Exports and market shares of African suppliers (29 percent in 1996 and 22 percent in 1999), and of Central and South American preferential exporters declined, whereas Viet Nam had doubled its exports and import share by 1999 to reach \$330 million, or 7.4 percent of the EU market. Brazil, the only major exporter that was subject to MFN duties (now removed), achieved a major market shift in its favour as it succeeded in raising the value of its exports in spite of declining markets. Its share in EU imports rose from 19 percent in 1996 to 25 percent in 1999, mainly at the cost of Colombia and other suppliers of Arabica coffee. Exports of the tropical fruits from ACP countries for which the small MFN duties were removed amounted to approximately \$65 million in 1999. As other preferential suppliers were already the main competitors, the removal of preferences had not changed the competitive position of ACP exporters. Most wood exports related to tropical specialities, for which MFN rates were low.

The above aggregate results conceal the ongoing process of intensive restructuring of the commodity patterns of exports in many preference-receiving countries. The predominance and heavy weight of traditional commodities in their exports, and the recent crisis in world market prices for these products have overshadowed the export successes achieved for a variety of products, including new agricultural exports, processed products, and manufactures. Successes

achieved in exports of fresh vegetables, flowers or specialty fish and shrimps have been largely offset by the heavy losses of export revenues for traditional exports, in particular raw coffee, cocoa or cotton, during the second half of the 1990s. Preferences, as well as the reduction of MFN tariffs, have facilitated market access and the process of diversification of demand and production (as illustrated with respect to the EU market in Tables 4.1 to 4.8). Sizeable trade preferences have also protected the specially preferred producers enjoying duty-free market access to major markets from growing or new competition from potential suppliers that are subject to MFN conditions or GSP rates close to MFN rates.

E. Effects on diversification

Asian and Latin American developing countries have undergone major structural changes in their economies, considerably diversifying their production and exports in manufacturing, services and agriculture. Dynamic export growth to world markets made a major contribution in many of these countries before the economic crisis in Asia and subsequently in Latin America. In addition, in particular in the large Asian and Latin American economies, rising incomes and domestic consumption of the middle-income group contributed to diversification. By contrast, most African and many Central American and Andean countries continue to depend heavily on traditional exports (crops, minerals or fuels). Commodity concentration of exports remains high in many African and other ACP countries, even increasing in some African countries like Kenya and Zimbabwe from 1990 to 1997.²³ Several Caribbean countries made some progress in diversification, but the concentration of exports remains very high.

Successful ACP products

The European Commission acknowledged earlier that over the years export diversification in the ACP Group of Countries had made some noticeable progress. Agricultural exports other than those of the protocol products grew by 26 percent in value from 1988 to 1997, and by 60 percent in sectors where the preferential margin was greater than 3 percent. Sectors with a large preferential margin and high export growth were flowers (230 percent), vegetables (132 percent), processed fishery products (110 percent), tobacco (83 percent) and processed fruit and vegetables (70 percent). Entirely new export product lines and strong market positions in the EU have been established by a few ACP countries

²³ See UNCTAD (2001a).

over the past 20 years as well as for beef, corned beef and other beef products, cocoa products, coffee extracts, canned and prepared fruit and fruit juices and plywood.²⁴

Analysing more recent trade data shows that further significant expansion was achieved in the late 1990s (see Tables 4 and 5). In 2000, successful ACP products earned export revenues of \$2.7 billion on the EU market, having averaged an annual 9 percent increase since 1996 in spite of the decline in EU's total agricultural imports. In 2000, this group of successful products accounted for 30 percent of all agricultural exports by ACP countries to the EU and was equivalent to the combined export value of raw cocoa, coffee and sugar.

Export growth involved over 100 different product groups (in terms of 6-digit HS headings). Successful food and horticultural products accounted for 60 percent of the additional export earnings, and beverages, tobacco and industrial raw materials for 20 percent each. EU imports grew much faster from ACP for these products than from other suppliers: the increase was 40 percent for successful food products from ACP compared to 16 percent from the other suppliers; 90 percent for beverages and tobacco from ACP compared to 60 percent; and 30 percent for successful industrial raw materials, against 12 percent worldwide.

The highest additional export earnings, amounting to \$210 million, were achieved by a variety of fresh and frozen fishery products, which doubled from 1996 to 2000 to reach \$860 million. Exports of horticultural products, beverages, tobacco and wood products contributed additional earnings close to \$160 million each, growing by a cumulative rate of 50-60 percent. Additional export earnings for successful food industry exports were comparatively modest with a mere \$50 million, but exports of these products grew fast, reaching \$120 million in 2000.

A more refined analysis of the trade of successful products according to MFN tariff rates and preferential advantages shows that the aggregate tariff savings from preferences amounted to \$207 million in 2000.

ACP countries required relatively high tariff preferences to achieve export success. One-sixth of the products that achieved export success in the EU did so in spite of a generally declining trend of total EU imports of these

²⁴ See European Commission (1999).

products, but with the help of substantial preferences throughout the period 1996-2000. For two-thirds of their trade value, the preference margins were 10 percent or more, reaching as high as 30 percent.

More generally, the average unweighted preference margin for successful export products amounted to 8.5 percent; the weighted average was 7.6 percent.²⁵ Some 60 percent of the export increases took place at preference margins of more than 6 percent and one-third at more than 12 percent. Exports of fish, food and horticultural products rose only if they had a preference margin of at least 8 percent and those of food industry products where the margin exceeded 12 percent. On the other hand, ACP exporters have generally been able to achieve substantial export success for industrial raw materials, such as sawnwood, hides and skins, without any or only very low preferences, as well as for certain spices (such as nutmeg and mace), groundnuts, seeds, other raw vegetable products, and rum.

These figures indicate that preferences did indeed help ACP producers expand their exports to the EU. In some cases it can be questioned whether there would have been any exports of the product at all had they been subject to MFN import duties (especially where the EU market declined).

Moreover, ACP success required not only high preferences, but also completely duty-free access to the EU market. Where a residual import duty was due, ACP countries generally did not export at all. In the exceptional case of brown rice, where ACP exports faced a residual duty of over 10 percent, there are important imports from MFN suppliers, and preferences are high (MFN rates above the tariff quota range from about 40 to 65 percent). Small exports of oranges, mandarins and manioc also took place at 3-5 percent ACP tariff rates. Sorghum can now be exported by Sudan at zero duties under the special arrangements for LDCs instead of at about 10 percent under the Cotonou Agreement.

Horizontal diversification in developing countries

Over the 1990s developing countries achieved some significant success in diversifying production and exports in favour of other vegetable and animal products with high-income elasticity of demand in the growing consumption

²⁵ Based on final post-Uruguay Round MFN rates and preferential rates resulting from the Cotonou Agreement.

markets of major developed countries. This included the rapid development of new exports from ACP countries of fresh vegetables, fruit and flowers to the EU. The export trade was initiated in a few African countries, but subsequently spread to a larger number of suppliers, including LDCs.

Diversification also involved fishery products, such as shrimps, octopus and crayfish, as well as other non-traditional fish species for which developed country markets were still receptive. In the EU, MFN duties, and hence tariff preferences for the major fishery exports of ACP, Andean, Caribbean and Maghreb countries, and LDCs, ranged from 12 percent to 22 percent (for human consumption). Fishing for exports, in particular of shrimps, other crustaceans and certain fish species, for which there has been rapidly rising demand in EU, is accessible for small and medium-sized developing countries and offer large employment opportunities. An FAO study on the economic viability of marine capture fisheries concluded that small- and medium-scale fishing can be competitive on export markets. In West Africa no significant difference was observed in the performance of small-scale fisheries compared with larger-scale ones. In Ghana and Senegal the small-scale sector generally performed well, except for small-scale deep-sea fish/shrimp trawling in the latter country.²⁶

(a) Horticultural products

(i) Fresh vegetables

EU consumption of fresh vegetables rose rapidly, as such products became more widely available out of season from Mediterranean members and third countries since the mid-1990s.

ACP exports of fresh vegetables to the EU generally enjoyed tariff preferences of 10-14 percent over MFN suppliers and 3.5-12 percent over GSP beneficiaries in 1999. Morocco and other Maghreb countries have enjoyed preferences during part of the European winter season. Whereas total EU imports rose by 5 percent from 1996 to 1999, those from ACP countries increased by more than 20 percent. Green beans and peas, fresh pumpkins, pimentos and sweet corn are exported in significant quantities to Europe (exceeding \$5 million annually).

²⁶ See FAO (1999b).

Consumption of *fresh beans* in the EU rose by 3.5 percent from 1996 to 2000, trade among EU countries by 13 percent, and imports from ACP and Mediterranean FTA partners by some 50 percent. Preferential imports were largely trade-creating as EU production for the home market remained fairly stable. The Union is itself a major and growing exporter of fresh beans. Exports from France and the Netherlands to third countries rose and regained competitiveness. Spain is the leading exporter, but producers are reorienting their sales increasingly to the rapidly growing domestic market.

Total EU imports of fresh beans have been expanding rapidly by an annual average of 6 percent from third countries during 1996- 2000 to reach \$145 million. Intra-EU trade also grew very rapidly, especially during the first half of the 1990s. MFN duties are maintained at high levels during the European production period, from July to September, even though they fell from 16.5 percent in 1996 to 13.6 percent in 2002. During the remaining nine months, tariffs were about 10 percent (considering the minimum tariff rate). Imports from ACP, Andean and Central American countries, as well as from LDCs and Morocco are admitted duty-free throughout the year. Imports from Egypt are also admitted duty-free from November to April, but within a tariff quota.

Almost all EU imports originate from preferential suppliers, of which ACP countries accounted for two-thirds in 2000; their exports to the EU were 13 percent higher than in 1996. Kenya is the dominant external supplier of fresh beans to the EU; its rapidly expanding exports reached \$63 million in 2000, accounting for 40 percent of EU imports. Other important ACP exporters are Senegal (about \$10 million) and Zimbabwe (\$7 million). Exports of Ethiopia, Burkina Faso, Zambia and Gambia ranged from \$2 million to \$5 million (in descending order) and their shares in EU imports from 1-4 percent. Other LDCs were also involved with smaller amounts. There were substantial exports throughout the year from some Kenyan producers, and small in-season exports from Zimbabwe and Zambia. These new exports represent major increases in production of beans in the exporting ACP countries and Morocco.

Only 10 percent of total imports from third countries took place within the European production season. They were exclusively from ACP countries and grew twice as fast as out-of-season imports.

Morocco and Egypt ranked second after Kenya, each with a 15 percent share of EU imports. Exports from Morocco rose five-fold in volume from 1996-2000, while those from Egypt were stable, being constrained by the tariff quota

and high duties noted above. Exports from GSP beneficiaries were minimal and only 1 percent of EU imports entered at MFN rates.

EU imports of *fresh peas* amounted to about \$50 million in 1999-2000. Almost all of them entered duty-free under preferential arrangements. Three-quarters of these imports were accounted for by ACP countries, having risen by two-thirds over the past five years. The MFN rates declined from 10 to 8 percent out of season, and from 17 to 13.6 percent in season, with zero rates for ACP, Andean and Central American countries, as well as for LDCs, Morocco and Egypt (subject to a tariff quota). As for *beans*, only ACP countries export to EU in-season.

Regarding most *fresh vegetable and fruit exports*, there are only a few major suppliers: Kenya accounted for half of the imports and Zimbabwe for one-quarter (up to 1999). Smaller ACP suppliers include Zambia, Gambia, the Dominican Republic and Madagascar (in descending order). The share of imports from Guatemala and Peru, which entered duty-free under the special provisions of the GSP was 13 percent, and the combined share of Morocco and Egypt was 7 percent. Exports from other GSP beneficiaries were minimal. Imports at MFN rates generally fluctuate around 1 percent of total imports, although there are sometimes larger imports from United States.

The exports to EU account for a large share of production in Kenya and Zambia. In major exporting countries output has also been rising to satisfy higher domestic demand, as well as exports.

(ii) Fresh fruit

The achievement of duty-free entry to the EU has helped to expand the market for non-traditional fresh fruit and coincided with the policy of major retail marketing chains to widen the variety of fruit on offer to attract consumers. Imports to EU from GSP beneficiaries and ACP countries of mangoes, guavas and other tropical fruit rose by one-third from 1996 to 1999, reaching \$130 million, and catching up rapidly with the fresh pineapple market. There were also higher EU imports of fresh papayas, passion fruit, rose hips and similar tropical fruit.

However, exporters from ACP countries were less successful and lost market shares in spite of preference margins vis-à-vis major competitors reaching up to 6 percent. MFN duties and preferential rates under the GSP remain very

high for non-tropical fruit (14-18 percent for most fresh oranges and mandarins, peaches, etc.), but ACP countries hardly export those products. Total EU imports and those from GSP beneficiaries were relatively stable over this period. Banana exports suffered from a major decline in world market prices, reducing the total value of EU imports from \$2.6 billion to \$2 billion. The ACP countries nevertheless increased their market share from 21 to 23 percent, and exports of organic bananas from Ghana also came onto the scene.

After a period of rapid expansion, EU consumption of *pineapples* has slowed down since 1998. The value of imports generally stagnated, although there was a rise in volume terms. MFN tariffs were reduced from 9 percent in 1995 to 6 percent in 2001 of imports amounting to \$190 million in 1999; almost all entered at duty-free preferential rates with ACP producers accounting for about 60 percent. Côte d'Ivoire alone supplied half of EU imports, while Ghana raised its import share to 10 percent.

All other EU imports of pineapples are equally duty-free. Costa Rica is the second most important EU supplier, with a market share of one-third. The preference margin under the general GSP is only 1 percentage point: imports from Sri Lanka and Viet Nam amounted to only \$0.5 million. Pineapples worth \$2 million were imported at the MFN rate, essentially from Thailand, which has been graduated out of the EU scheme and from the United States.

In Côte d'Ivoire and Ghana, production of pineapples depend heavily on exports to the EU, although in Ghana rising domestic demand has provided some additional stimulus to production. Costa Rica succeeded in doubling its share of the EU market from 1994 to 1999, with dynamic exports to its most important market, the United States. It was nevertheless a doubling of domestic demand that contributed most to higher production. In most of the smaller exporting countries, exports accounted for a relatively small share of total production.

(iii) Flowers

Tariff protection of flowers in EU remains high, even after implementation of the Uruguay Round concessions. MFN tariffs for fresh cut flowers were reduced from 20 percent in 1996 to 14 percent from June-October, 2000, and in the rest of the year from 14 percent to 8.5 percent. The ACP, Andean and Central American countries can compete freely with EU producers and enjoy substantial tariff advantages vis-à-vis other suppliers. Preferential margins under the GSP are minimal: flowers, like other horticultural products, are considered

highly sensitive.²⁷ The reduction by 15 percent of MFN rates amounted finally to only about one to two percentage points, so that exporters continued to face high residual duties. The new 3.5 percentage point GSP margin has improved access for GSP beneficiaries. However, taking into account the high costs and risks of intercontinental air transport, domestic market protection remains high. Duty-free preferential access for Israel, Morocco and certain other countries with bilateral agreements is limited to specified products, months and tariff quotas.

The value of flower imports by the EU stabilized after a period of rapid growth at around the mid-1990s level. Over 90 percent of the \$570 million of imports in 1999 entered free of duty, of which 40 percent was from ACP countries whose EU exports rose from 1996 to 2000 by one-third, reaching \$240 million. Kenya is the leading supplier, with one-quarter of EU imports; Zimbabwe has 10 percent, Zambia, 3 percent. The United Republic of Tanzania, Uganda and many other ACP countries are also important exporters. Most large- and medium-scale ACP flower exporters have generally doubled their exports to the EU since the mid-1990s. Notable exceptions are Uganda, Madagascar and Côte d'Ivoire, which faced important problems. Andean and Central American exporters are major duty-free exporters to the EU: Colombia's exports (ranking third in EU imports) have been declining sharply, whereas those of Ecuador (ranking fourth) doubled.²⁸ Participants in free trade agreements together account for one-quarter of EU's flower imports, Israel being by far the leading supplier among them with a share of 20 percent, followed by Turkey. Other GSP beneficiaries, notably India, also export to the EU at the general GSP rates, but their combined import share is less than 5 percent. A further 4 percent is accounted for by exporters subject to MFN rates, mainly by three countries that had been graduated out of EU's GSP scheme: exports of Thailand, Mexico and Chile fell by one-third or more thereafter (the latter two countries now receive preferences under bilateral free trade agreements).

The large number of exporters to the EU trade can be explained by the wide variety of flowers exported. Roses, carnations, chrysanthemums and other standard flowers dominate, but some specialities are exported to EU by certain countries only, such as dendrobiums and some other orchids from Thailand, anthuriums from Madagascar and proteas from South Africa and Australia.

²⁷ The only product considered semi-sensitive is orchids, and only from June to October (which is outside the main growing season in tropical countries).

²⁸ EU may apply a special safeguard clause to preferences for flower exports from Andean countries, if they exceed the historical levels.

Eighty-six percent of EU flower imports enter off season. In-season imports from developing countries are less than 10 percent of the total EU imports, and face strong competition from domestic producers both within and outside the EU. Dutch producers, for example, hold a leading position on the European market, have the largest share in Japanese flower imports, and rank third in the United States market,

A large proportion of European flower imports is channelled through the Amsterdam flower auctions, where trade is carried out in the name, and at the risk of the grower/exporter. The high risk involved induced a number of Colombian and other exporters to establish wholesale outlets or joint ventures at the market place, thereby enabling them to acquire a reputation and market confidence in their products and therefore obtain higher prices. Another important share of export sales follows traditional trading channels through wholesalers in importing countries to major retail chains or specialized retailers.

Since flowers are the most perishable product in international trade, exporting and logistics present high risks and a special challenge for overseas growers and traders. As seen above, there have been large-scale successes, but also market failures and problems in developing export countries. Some problems arose owing to the persistence of monoculture, overdependence on certain markets, market failures of new products, or lack of air transport facilities and cold storage. Others were related to climatic problems, such as an early start of domestic supplies in developed countries, or to hurricanes destroying glasshouses and related infrastructures.

(iv) Factors underlying horticultural export success or failure

The market patterns and trends described above suggest that EU tariff preferences have been effective in providing important market access opportunities to ACP, Andean, Central American and Mediterranean suppliers, while nonetheless effectively protecting domestic producers in EU against foreign competitors.

This conclusion is also supported by the findings of a survey conducted in Kenya and Zimbabwe on the impact of the market behaviour of supermarket chains in the United Kingdom regarding fresh vegetables. It found that Lomé preferences explained much of Africa's horticultural boom. Other important factors were the achievement of sub-regional economies through clustering,

which provided a critical mass of activity for organizing manpower training, technical learning and market information flows. International strategic partnerships assisted in technology transfer, logistics, market penetration and the creation of a market identity for African products. Inter-firm cooperation facilitated the effective coordination of internal and international logistics.²⁹ It should be added that African export success were made possible by substantial improvements in air transport availability and cold storage capacities, cheaper freight rates and the new satellite communication facilities.

Another major lesson is that export success often went hand-in-hand with an expansion of domestic demand and production. There was no evident trend for production to shift from domestic to export markets, even if prices were higher. On the contrary, the examples of pineapples in Costa Rica and Ghana, and of green peas in other exporting countries tend to point to the nutritional contribution that exports can make to diversifying and improving the diets of domestic populations. Domestic consumption increased, as these products became more readily available, and as prices became affordable to a larger segment of the population.

As seen above, horizontal diversification has not always been free of problems. As export-led diversification of exports of flowers, green beans and pineapples spread throughout developing countries, competition increased for these products, and it became more difficult for latecomers to enter the market. Diversifying further into new products has been a relatively slow and less successful process. Many attempts to produce other vegetables for exports failed after some initial success. The bulk of world production, even of tropical flowers and processed tropical drinks, is still in the developed countries. Apart from transport logistics and costs, output expansion in developing countries is often impeded by the high cost of investment. Also, like agricultural products in general, horticultural products are subject to shortages in basic supplies, as well as to damages caused by hurricanes and other climatic disasters.

There is considerable potential for innovation and the development of markets for new products and new tastes, but its exploitation has been by and large left to economic agents in the consumption centres in the developed countries, such as supermarket chains, or to major international fruit traders and canners. All the participants could do more in the production and marketing chain to exploit the potential for many tropical fruit and juices. There are also niche

²⁹ See Dolan and Humphrey (2000).

markets for specialities, such as baby carrots, baby pineapples, or special artichokes, which can sell at high prices. Demand in developed countries for organic vegetables and fruit is another area of increasing potential, offering higher prices to the benefit of both producers and exporters. At the consumption end of the chain they are highly profitable for supermarkets in developed countries.

(b) Fishery products

The rapidly growing North American and EU markets have provided substantial trading opportunities for fishery products to all groups of developing countries, especially in view of the shortages of fish resources in the North Atlantic and a shift of consumer demand from beef to fish and poultry as a result of the BSE outbreak. Fresh and frozen products, in particular frozen shrimps, certain chilled and frozen fish and fish fillets have been the most dynamic exports, having also the highest value added. In contrast to EU, demand in the United States is also rapidly growing for canned fish and readily prepared and frozen shrimps, prawns, crabs and other crustaceans.

Exporters from ACP countries were particularly successful in exploiting their substantial preferential advantages in the EU market. While total EU imports of fishery products have risen by one-eighth over the past four years, imports from ACP rose twice as fast, by one-quarter. The EU market was particularly dynamic for frozen shrimps, for which the MFN tariff is now 12 percent and eligible products under the general GSP scheme attracted a rate of 4 percent. Total EU imports reached \$1.5 billion in 1999 and those from ACP countries rose from \$260 to \$300 million from 1996 to 1999 (see Table A5). Other dynamic ACP exports included frozen octopus, chilled and frozen sturgeon (at 15 percent MFN and 5 percent GSP rates); chilled and frozen fillets of halibut, haddock, herrings and tunas (at 13-15 percent MFN rates; most products are not covered by the general GSP provisions). Fishery products are exported by a large number of ACP countries and are a major source of foreign exchange and income. The range of products exported to the EU is particularly wide in Côte d'Ivoire, Ghana and Senegal, the leading exporting countries. Several others successfully export speciality fish, for example, hake in Namibia and lake fish from Lake Victoria in East African countries, which have secured a niche market.

Export success for shrimps, prawns, octopus and other fishery products eligible for preferences was also pronounced in several other developing countries. Thailand had a highly successful trade with the EU in marine and

aquaculture products before graduation of this sector from its GSP scheme. China, Indonesia and India are other major suppliers that have benefited from the GSP advantages for their growing exports of eligible marine products. Fishery products figure prominently in the exports of Andean and Central American countries, generally entering at zero rates, except for shrimps.³⁰ Ecuador is the leading exporter of frozen shrimps to the EU with an import share of 12 percent (\$200 million in 1999). Fishery products account for the major part of the growth of trade that received GSP preferences in recent years in Argentina, Viet Nam and several other countries. Fishery products are a major source of export earnings for many LDCs. For example, Bangladesh, which already benefited earlier from duty-free entry in view of its LDC status, ranks third as a supplier of frozen shrimps to the EU (\$108 million, with a share of 7 percent in 1999); Yemen exported \$4 million.

Countries associated with the EU under various other trading arrangements are among the major exporters to EU and world markets; they include Norway, Iceland, Poland, Morocco, Turkey, South Africa and Chile. Members of the EU have a large trade among themselves as well as important exports to third markets.

Major suppliers to the EU that do not enjoy any preferences (i.e. attract MFN duties) include the Russian Federation, the United States, Canada, New Zealand, Singapore and Taiwan Province of China as well as Thailand.

Among the various *canned and prepared fishery products*, canned tuna and prepared shrimps and prawns dominate supplies to the European market. Imports of canned tuna into EU exceeded \$800 million in 1999. They carry MFN rates of 24 percent; imports from ACP countries and LDCs are duty-free, as are imports from Andean and Central American countries, although subject to a special safeguard clause. These products are not eligible for preferences under the general provisions of the EU's GSP scheme. Three duty-free exporters, Côte d'Ivoire, Ecuador and the Seychelles, hold the largest shares in EU imports, ranging from 12 percent to 16 percent. Other important exporters among the ACP countries are Ghana, Mauritius, Senegal, Madagascar, Kenya, Fiji, the Maldives and Papua New Guinea. Colombia, Costa Rica and Turkey are the main other duty-free exporters to the EU.

³⁰ The preferential rate for shrimps for these countries was 3.6 percent.

In spite of persistently high MFN duties, Thailand, the Philippines and Indonesia are also important exporters of canned and prepared tuna to the EU, the first two reaching imports of \$85 million and \$70 million, respectively (and import shares of 12 percent and 10 percent). Exports to the EU from other developing regions and from developed countries are small.

Among the other canned and prepared fish products, the EU imported \$70 million of sardines in 1999, overwhelmingly from Morocco (with an import share of three-quarters), followed by Namibia and Peru.

Imports into the EU of prepared and preserved shrimps and reached \$560 million in 1999; the MFN duty was 20 percent and the GSP rate 7 percent. Imports from ACP, Andean and Central American countries, LDCs and the Maghreb entered free of duty, as did imports from Iceland, Norway (subject to a tariff quota) and Greenland. EU imports come mainly from the latter three countries, which together shared 60 percent of the EU market. In spite of being subject to MFN rates, Thailand and Canada precede numerous GSP and preferential suppliers (with import share of 10 percent each). The main ACP suppliers are the least developed countries, Senegal, with exports of \$2 million and Benin. Bangladesh exported \$1.7 million worth.

The fishing industry in the EU primarily satisfies the highly protected domestic market. Exports to the United States and other third country markets are mainly from the United Kingdom. Norway is another important European exporter to world markets. The EU fishery industry continues to benefit from important subsidies, in particular for the construction of fishing vessels, which tend to discourage imports. Fishery exports are also confronted increasingly with environmental problems and the need to manage resources effectively to ensure sustained production capacity. Furthermore, health and sanitary problems have increasingly affected fishery production and exports.

Vertical diversification into food industry

Agricultural processing and food industries have made some major advances in a number of developing countries, in particular in South East and Southern Asia and in Latin America. A number of large firms export to world markets. Transnational food industries have been established in a few developing countries for food canning and fruit juices, canned beef, coffee extracts and roasted coffee, cocoa products, pasta, frozen fish and other food preparations,

beer and other beverages, and cigars and other tobacco products. As a result, developing countries have gained substantial shares in world production and trade for some products.

However, the EU is still the world's leading producer region of processed food products and has become increasingly so over the past decade: its share in worldwide manufacturing value added (MVA) in food industries rose from 27 percent in 1985 to 33 percent in 1998.³¹ The share of North America in the latter year was one-quarter and that of developing countries, one-fifth but rapidly rising. Production in Eastern Europe declined. With a share of 35 percent in 1998, the EU also remains the main producer region for beverage industries, although developing countries have been catching up fast, attaining a share of 28 percent. The tobacco industry has been developing rapidly in developing countries, which had raised their share of worldwide value added to 41 percent by the same year.

These gains in shares in worldwide production of food industries by developing countries were largely due to South and South East Asia, but Latin America remains nonetheless the main producer region for processed food and beverages (53 percent of total developing country value added). Asian countries have recently overtaken Latin America as the main producer region for the tobacco industry. African countries and LDCs could not keep pace with the dynamism of Asian food industries: their small shares in developing country value added declined further and were only 8.7 percent and 4.8 percent, respectively in 1997.

Sub-Saharan ACP countries continue to export agricultural products predominantly in their raw form; relatively few of them export processed intermediate products. With rare exceptions, exports of processed food still constitute a small fraction of the value of exports of the raw commodity. Nonetheless, some diversification into export-oriented agricultural processing has taken place in ACP countries, too. Exports of processed tropical fruit products and fruit juices to the EU grew substantially during the early 1990s. As indicated above, Côte d'Ivoire and Ghana are the leading suppliers of processed cocoa products to the EU; several ACP countries have important fish canning industries, as well as coffee and tea processing industries, sugar, rum and cigar industries, exporting much of their production. Some African countries have developed important exports of groundnut oil to the EU. Only a few processing industries

³¹ See UNIDO and the UN Division for Sustainable Development (DESA) (2000).

however, have been dynamic in more recent periods, such as crude palm, palm kernel and coconut oil, cocoa paste and preserved beans; exports have often involved only one or two ACP countries.

There is a large potential to be tapped for the development of processing industries. For example, fruit and vegetable preparations, as well as tropical and other fruit juices, could be diversified into new varieties. Essential oils and concentrates benefit from rising market demand. There is substantial scope for diversifying and processing through pre-packing of fresh vegetables and fruit, and their preparation for direct consumption. Such ready-for-consumption products may add considerable value added, exceeding by far that reached by traditional canning or industrial processing.³² Most of these products benefit from important preferences vis-à-vis third countries, as well as GSP beneficiaries.

However, food industries and other agricultural processing industries have not held their promise as a potential motor for African industrialization and development. Even though in many agricultural economies there are a favourable raw material base, low wages, and large preference margins on European markets, food and other agricultural processing industries have developed much more slowly than these advantages imply. There has been little dynamism in production and exports over the past five years. The value of exports to the EU of several established export industries even declined sharply over that period, including coffee extracts, pineapple juices and canned pineapples, canned and prepared beef, as well as canned fish and shrimps. These declines were only partly due to the fall in world market prices for the basic commodities used; they also reflected heavy losses of market shares.

Little has been achieved by way of penetrating into other world markets, although sub-regional markets provided some alternatives. Whatever new investment was undertaken was generally confined to simple conditioning and packaging operations, and processing extended no further than to semi-manufacturing. Exports of refined, final or prepared food industry products or major beverages and tobacco products remain rare and small with little progress achieved during the second half of the 1990s. Production of African and Caribbean food industries stagnated and exports lost market shares.

³² For example, shelf prices in supermarkets may double for carrots put into bags, as compared to loose products. The price of peeled and sliced carrots was seven times higher than for loose carrots. See Dolan, C. and Humphrey J. (2000), p.155.

In sum, progress in vertical diversification in ACP countries was sporadic, and in food industries, it involved only a few products and few exporting countries, with the EU as virtually the sole export market beyond neighbouring countries. There is a substantial untapped potential for further progress in processing agricultural products, which could raise the export earnings of those countries and render them more stable. In developed countries, MVA in food industries ranges, in the main, from 20 percent to 28 percent of output, but from only one-eighth to one-quarter in developing export countries. Producers in ACP countries should be assisted in the upstream processing of their commodities, so as to obtain a larger share of the value of the final product, by such means as joint ventures and well directed FDI. They could therefore be provided with the linkage between consumers and growers that is necessary for overcoming problems such as the inadequate introduction of new products, knowledge of markets, sanitary regulations, the role of brand names and the cost of publicity.

F. Production effects of preferences

It is difficult to quantitatively assess how far export success resulting from preferences in the sectors above affected production. There are some indications concerning the correlation of past export growth with growth of production and new investments, for example, for flowers in Andean countries and Thailand, and fishery products in South East Asia. However, with respect to the ACP countries, production data are scarce and many represent estimates only. In some instances, the export increases have indeed also been accompanied by rising production, for example, in the case of fresh beans in Zambia in 1996-1999, as well as those of green beans, peas, oranges and stemmed tobacco in Zimbabwe. Export increases were also associated with increased catches and production of frozen shrimps in Côte d'Ivoire, and for frozen and canned shrimps, octopus and squids in Senegal, as well as in several other developing countries that expanded their preferential trade with the EU. The substantial export increases in fresh flower exports gave rise to new production and employment opportunities. On the other hand, declines in exports of canned pineapples and fruit juices adversely affected production and employment in various ACP countries.

As noted above, many producers of horticultural products can export to Europe only during the winter season when they face less competition and high prices, enabling them to bear their high transport costs. For reasons of cost, scale and marketing organization, a case can be made for shifting to all-year production

for exports of fresh vegetables. Such exports have indeed been rising, particularly in Kenya, while for ACP countries as a whole, exports of fresh in-season beans and peas to the EU accounted for 24 percent of total ACP exports of these products in 1999, having risen by 40 percent since 1996, or almost twice as fast as out-of-season exports to that market. It will be a task for field surveys to investigate how much such export increases contributed to increased production and employment.

G. Preferences and investments

How far did preferences stimulate domestic or foreign investments in export-oriented production?

There are few cases of new large-scale export-oriented investments in African agriculture during the second half of the 1990s, whether domestic or foreign. Investment and some expansion of acreage for export production did take place in some African ACP countries for tropical fruit and vegetables, as well as for fresh flowers and plants, e.g. for organic bananas in Ghana and asparagus in Senegal. Nor was there a great deal of investment in export-oriented agricultural processing industries. Most of the foreign investment that did take place was in conditioning of basic commodities. Further examples include: investment by South East Asian firms in an export-oriented palm oil plant in Ghana and a plywood factory in Sierra Leone; a new cocoa-processing plant established by a TNC in Ghana; a new pineapple juice factory that started production for export in Côte d'Ivoire in 2002; and the rehabilitation of the Senegalese tomato processing plant.

One important constraint on foreign investment in ACP countries is the low level of incomes prevailing in most of them, resulting in a low level of domestic savings and limited domestic capacity to raise sizeable funds for financing large-scale export development. Venture capital financing is virtually unavailable in most of these countries, and Official Development Assistance (ODA) funds have been declining. Governments have progressively withdrawn from production and direct exports in most ACP countries and wound up many marketing boards and export marketing agencies. Large-scale development schemes for the development of new or additional export capacities in farm products consequently remain highly dependent on government finance and financing from multilateral and regional financing institutions, as well as from other banks cooperating with African countries.

In spite of the constraints on public finances, governments continue to play a key role in agricultural development, especially for integrated rural development projects. Such projects have frequently been the starting point for developing important exports over time to regional or developed country markets. Several of the most promising lines of production for export require substantial investment cost for initial installations, such as irrigation, feeder roads, cold storage and cold transport chains, and greenhouses. Large-scale projects for the development of a new agricultural product in a new region or for a substantial rise in yields may require financing on the scale of \$2-5 million (for 1 000 ha in the case of rice, for example).

The major price fluctuations and price declines for basic agricultural products have seriously limited the financial capacity of domestic producers and their possibilities of catering for replacement and rationalization investments. They may lead to more frequent disinvestments if price declines are as severe and durable as they have been in the case of coffee. The weakness of the domestic financial sector in African countries prevents them from providing the necessary service and capital to producers to change products, diversify or raise competitiveness. High inflation, currency devaluations and high domestic interest rates further reduce their capacity to invest.

Some developing countries have made efforts to raise the credit and guarantee capacities of producers and investors. An important step in this regard was to change the status of farmers from tenants to owners of farmland, thereby enabling them to invest their own funds and attract new investors. Governments of ACP and other developing countries have also intensified their efforts to attract FDI into export-oriented production by liberalizing investment codes, improving incentives and establishing EPZs for industrial plants, dealing with the scarcity of venture capital and bringing in the necessary technology, management and export marketing know-how from abroad.

The results of the efforts to attract FDI have been meagre in export-oriented agriculture and food industries. There have been little new investment in EPZs for agricultural processing industries. Sub-Saharan African countries have succeeded in attracting export-oriented FDI mainly in resource-based industries (such as petroleum, diamonds, gold and other minerals, and to a lesser extent in wood processing) and tourism. The FDI that has been directed to the food and beverage industries has mainly been targeted to the local or sub-regional market.

Joint ventures, sub-contracting, marketing arrangements and other forms of enterprise cooperation between local and foreign enterprises could provide opportunities for strengthening participation of domestic investors in investment in plantation crops and processing industries. There are some indications that such forms of cooperative investments are on the increase in African countries. Cooperation between ACP and EU enterprises could also benefit from various financial and promotional instruments established under the Cotonou Agreement. It would be interesting to survey on the ground to what extent such instruments have actually been used for export-oriented investment in agricultural and food production. Similarly, it should be investigated how far bilateral fishery agreements with the EU have actually supported the development of small- and medium-scale fishery in partner countries or promoted their fish-processing industries.

Major policy reforms and restructuring are nearing completion in various African countries, having involved the liberalization of the cocoa, coffee, cotton, beef and other sectors. They have led to the dissolution or transformation of the last remaining marketing boards, as well as to the removal of subsidies, guaranteed producer prices and similar support measures. It could be expected that liberalization and privatization will attract the participation of foreign companies, but for the time being, the new policies and instruments are not yet fully operational. Domestic investors therefore do not yet have the full means for action, and there is a “wait-and-see” attitude on the part of foreign investors.

Foreign investment in African food industries is also influenced by the intensive restructuring of the activities of major TNCs established in the continent. New alliances are being formed. Certain TNCs specialize whereas others turn to more elaborate, prepared food products, disengage from intermediate production and sell off their factories in African and other countries. The restructuring responds in particular to European integration, but partly also to competitive pressures and opportunities arising on a global scale.

Developed countries could probably do more to promote joint ventures and FDI by their major food companies in developing countries. The market surveys should ascertain the following:

- whether there is sufficient flexibility for granting investment guarantees to an interested investor in case there is no bilateral investment guarantee agreement with a potential host country.

- to what an extent the fiscal authorities tax away the benefits of investment incentives granted by host countries.³³
- with respect to home and host countries, how the establishment of wholesale companies (subsidiaries and joint ventures) located in major auction places or markets could be promoted.

It remains to be explored why there has not been more foreign investment in African export agriculture and food industries, at least in those countries that are politically stable, given the advantages they possess, as discussed above.

The field surveys should attempt to obtain a more complete picture of recent investments in export-oriented agriculture, fishery and food industries, the nature of investments (new, expansion or rationalization), the performance record of the company in exporting, and the degree of its dependence on preferences. They should, where possible, identify the “starters” of new projects, their rationale for new investments and the extent to which linkages had been established with actors in the market at early stages.

H. Preferences, income and poverty alleviation

The new horticultural, agricultural, fishery and forestry exports and their processed products have created substantial new income for African farmers. Diversification of agricultural production toward high-value crops can help reduce the vulnerability of resource-poor and small-scale farmers. To the extent that women have been drawn into the labour market, families dispose of a second income that should enable them to live above the poverty line. The question remains, however, as to how far the higher export earnings actually accrue to farmers and the level of their net income after deduction of the cost of inputs, equipment and interest. Some fair trade schemes pay prices above world market levels to small farmers’ cooperatives, thus enabling them to achieve higher net earnings, despite their high operating costs due to the small size of export transactions.³⁴

³³ Even where tax deduction schemes are applied, they may still subject large proportions of profits derived from investment incentives granted by host countries to taxation in home countries.

³⁴ See, for example, OXFAM (Great Britain) (2001), pp. 7-8.

The potential effect of preferences on poverty could be large if the benefits accrued at least partially to smallholders. Even a small share in preferences creates big dollar values in comparison to farmers' incomes, which in certain ACP regions averaged US\$100 per year.³⁵ Smallholders and subsistence farmers have high shares in agricultural production in ACP countries.³⁶

Case studies conducted by FAO on the contribution of bananas to income, employment and food security in Ghana, Ecuador and Costa Rica confirm that banana exports provide many jobs for plantation workers and significant income for their families.³⁷ Banana exports earned *Ecuador*, the largest exporter, \$900 million in 2000. The area planted to bananas rose by one-sixth from 1994 to 2000 and the number of producers by almost half. The plantations employed on average 200 000 field workers. In addition, banana exports created 11 000 jobs for port and associated workers. Approximately 1.1 million people (about 9 percent of the population) depend directly or indirectly on the export banana industry.

The banana industry of *Costa Rica*, the main commodity export earner, directly generated 33 000 jobs in 1997, or 13 percent of total agricultural employment, compared to 7 percent in 1990. Almost double this number of people (some 63 000) are estimated to be employed indirectly (workers at ports, agricultural and service suppliers, etc.), making a total of nearly 100 000 jobs or about 8 percent of total employment. Wages are relatively high compared to other agricultural jobs and alternative employments. In 1997 the average wage for unskilled workers on banana plantations was about twice the national minimum wage for unskilled labour, and some workers received additional benefits in the form of free housing, water and electricity. The banana industry created many jobs for women, primarily in the packinghouses, which provide a second income for households of banana workers in rural regions where there are few alternative employment opportunities.

The study on *Ghana* concluded that banana export provides employment and significant incomes for hundreds of plantation workers who have the highest incomes of all agricultural producers surveyed.

³⁵ Ibid. (The figure quoted is for Ethiopia.).

³⁶ In Côte d'Ivoire more than 90 percent of production originates from subsistence farms, although some large plantations also exist. The situation is similar in Ghana. See International Trade Centre UNCTAD/WTO, Geneva 2001.

³⁷ See FAO (1999) and FAO (2001a).

On the other hand, these three case studies underlined the fragility of this export sector. The major market fluctuations experienced in the recent past have created great uncertainties for suppliers, especially in Costa Rica. In Ghana, the uncertainty was essentially due to dependence on the support of “fair-trade” by NGOs in Europe and to the vagaries of the EU banana import regime. Ecuador has experienced several economic shocks, resulting in large macro-economic imbalances. High levels of inflation, regular devaluations and high interest rates have reduced the ability of the industry to invest. Real salaries have consequently fallen and poverty levels have risen over recent years.

It is further evident from these three studies that any reliable assessment of the impact of preferences on income must depend on evidence from field surveys concerning wages, value added, and the extent to which exporting has effectively contributed to alleviating poverty and improving standards of living for the poor. In addition to the direct income effects of exports, potential incomes from alternative land use and employment opportunities need to be explored in the course of the surveys.

I. Preferences and food security

Preferential exports have contributed to food security primarily through their income effects. As discussed above, the additional income from sugar, beef and banana exports to the EU, as well as from the new horticultural and fishery exports has enabled farmers and fishermen to augment their food purchases and has helped them move out of subsistence farming and integrate into the monetary economy. Several developing countries, including a few ACP countries, also derived sizeable additional income from preferential exports of manufactures, including clothing. These export earnings established a durable capacity to access food and cater to the food needs of their families.

Preferential exports have also exerted direct effects on the availability of food supplies. As seen above, the new or increased export production also stimulated domestic demand for the same products, thus leading to increased output and production of vegetables, fruit and a wider variety of fish for the domestic market. To the extent that exporting enlarged the scale of production and fostered productivity, exports may also have rendered the products cheaper on the domestic market and made them more accessible to consumers. Diversification of supply and new investments induced by export opportunities also contributed to some shift toward healthier patterns of food consumption.

It should be noted that developing countries at present consume much less than the minimum of 70 kg of fruit per person annually recommended by FAO for a balanced diet. For example, in Cameroon the estimated per caput consumption of fresh fruit is 19 kg and of vegetables 17 kg; in Senegal the figures were 19 kg and 23 kg, respectively, in 1996 which contrasts with 100 kg and 140 kg, respectively, in Europe. A large potential also remains for the industrial processing of the great variety of fruit and vegetables in Africa with real innovation possibilities on domestic and foreign markets.³⁸ The quality and phytosanitary requirements set by importing developed countries should also lead to an improvement in the quality of products supplied for domestic consumption.

Although Ecuador does not benefit from banana preferences in the EU, an FAO country study nonetheless provides interesting insights into the interaction between exports and domestic supplies. Apart from Ecuador's export of 4.5 million tonnes of bananas in 2000, approximately 2 million tonnes were available for domestic use, of which only one-quarter were directly consumed and 150,000 tonnes were processed. Some 800,000 tonnes were used as animal feed, whereas about 540,000 tonnes went to waste. Domestic consumption is low in the main producing regions and among plantation workers; the large amount of waste could be a nutritional source for a sizeable proportion of the population with inadequate caloric intake.³⁹

These issues are of particular importance in the light of the further worsening of the net food trade positions of developing countries, in particular the LDCs and net food-importing developing countries. The food import bills of the developing countries as a whole are expected to rise substantially over the period 2000-2005, mainly reflecting higher volumes imported, but also, to some extent, slight increases in real prices. It is therefore important to boost and diversify food production capacities in these countries.⁴⁰

J. Effects on economic growth and development

The various GSP studies reviewed above confirm the contribution of preferences to stimulating economic growth, in particular in small and medium-sized developing countries, and at the incipient stages of new export-oriented production.

³⁸ See Temple, Dury and Monkam (2002).

³⁹ See FAO (2001a).

⁴⁰ Ibid.

However, even over a longer time horizon, this contribution has not been so clear-cut for ACP countries, even though the preferences have constituted part of a broader framework of intensive financial and development cooperation.⁴¹ The relatively ambitious development goals set by Lomé have not been attained, in spite of extended and intensive periods of structural adjustment policies pursued by these countries. In certain countries, initial positive results achieved at the macro-economic or sectoral levels did not prove lasting.

Supply-side problems have frequently been part of the explanation for the lack of clear-cut positive results including the incidence of climatic disasters. As regards fishery products, cattle and poultry, outbreaks of food-borne illness stubbornly continue to take place, in spite of significant progress in medicine, food science and the technology of production of food.⁴² Similar problems of plant health often face fruit cultivation as well. Lack of appropriate resource management in the past created the supply limitations presently encountered as a result of overfishing of certain species; supply problems have also arisen in certain African wood-exporting countries. Problems of cost, productivity and technology, among others, arise throughout the various stages of production and processing in many sectors. Inadequate transport infrastructure and discontinuous cold-storage chains are major export impediments.

While the new horticultural and processed agricultural exports have increased foreign exchange earnings and thus alleviated the balance of payments pressures, their weight in total export earnings is not sufficient to compensate for the fluctuations in revenues from traditional commodity exports. Furthermore, the new production also gave rise to additional imports of inputs for production and of equipment.

Budgetary receipts should rise as the taxable income base is broadened and farmers purchase more goods on the market. It remains to be seen, however, to what extent farm incomes are effectively taxed. Most exporting industrial plants are likely to be exempt from direct taxation for a number of years under investment incentives. Consequently, higher budgetary revenue must be derived mainly from consumption taxes, based on additional expenditures from newly created wages and farmer's earnings, as well as from direct taxes on trade, transport and related activities.

⁴¹ See European Commission (1998).

⁴² See FAO (2001b, p.88).

The major macro-economic effect will be that the ongoing shift toward new and more advanced export products will alter the commodity pattern of exports in the medium-term, confer greater stability on the ACP economies, and raise income levels.

IV. MARKET PROSPECTS

A. Trends in consumer demand

Prospects for the foreseeable future underline the need for strengthening production and related services in preference-receiving developing countries if agriculture and food industries are to foster development. Projections by FAO point to only a moderate growth of aggregate demand of developed countries for food and agricultural products up to 2005, since aggregate demand elasticity for food is low.⁴³

Section II indicated that demand in the EU and the United States for numerous developing country products was dynamic during 1996-2000 in spite of the slowdown of total agricultural imports in the EU. The dynamism may well continue as growth in these countries resumes and trade liberalization and tariff reductions are further pursued. Prospects nonetheless differ from one commodity to another.

Vegetables, fruit, beef, some fishery products and finished consumer goods are well placed since they enjoy above-average income elasticities of demand. Per capita consumption is still relatively low for several food and food industry products in some current and prospective EU Member States.

Exports of fresh fruit and vegetables can be further developed to extend beyond seasonal trade and diversified into new products with more countries entering into production and export. The high season for these products is very short: for example, in the major EU countries it lasts a mere two months. In the remaining ten months of the year consumption is only about half the seasonal peak, and there is a vast potential for African and other developing countries to fill supply gaps and to provide a variety of fresh products to consumers. Several ACP countries and other LDCs are well placed in this respect in view of their free access and preferential price advantages. Some have started to export citrus fruit and other Mediterranean fruit and vegetables, but such exports are still at an incipient stage. Strategies pursued by large supermarket chains for increasing variety to attract consumers offer bright prospects for exports of a wider assortment of tropical fruit. At present, international trade in tropical fruit accounts for only 3 percent of production in major exporting countries,⁴⁴ and

⁴³ See FAO (2000a).

⁴⁴ See FAO (2001b), p.40.

consumption in Europe is very low.⁴⁵ Demand prospects are also favourable for certain vegetable oils, fishery products, organic products, and prepared food products ready for consumption.⁴⁶

For some major basic foodstuffs, as well as for major tropical crops such as coffee, cocoa, tea and rice, demand in *Europe* is stagnating, not only in value, but also in volume terms. The EU is self-sufficient or in oversupply for sugar and milk products, where high market access barriers are applied. The beef and other meat markets have their specific problems, because recurrent animal diseases in the EU resulted in a loss of consumer confidence and a reduced import demand from all sources. Imports on MFN terms are virtually prohibitive for most temperate-zone CAP products, with the exception of a few carefully circumscribed, low-duty tariff quotas for specific exporters who accepted substantial reciprocal concessions in turn. High domestic subsidies encourage domestic producers and distort access to markets in major food and fishery sectors.⁴⁷ High residual access barriers also prevent the expansion of exports by more developed GSP and ACP suppliers, and discourage investments in these countries. Restrictive health standards and rapid change of standards contribute to the modest use of an otherwise existing potential of growing consumption and new market openings. With respect to processed food, imports remain subject to high protection for all non-LDC exporters, including ACP countries.⁴⁸

The *United States* market offers dynamic opportunities for a wider range of food products on more liberal terms of access, which are also extended to some temperate zone products. Section II showed that numerous food products enjoy a rapid growth of consumption and import demand. However, African ACP suppliers are hardly present on this market. The few dynamic exports of importance from Caribbean ACP countries include mainly rum and cigars. There were hardly any dynamic exports from African countries exceeding \$10 million in 1999. On the other hand, ACP exports to the United States were over-

⁴⁵ FAO estimated that European pineapple and avocado imports would grow by close to 40 percent from 1995 to 2005, and those of mango by 60 percent (*ibid.*, pp. 115-120).

⁴⁶ See ITC, FAO and Technical Centre for Agricultural and Rural Cooperation (TCARC) (2001).

⁴⁷ See Supper (2001). Annex 1 lists specific agricultural support measures by sectors and processing industries.

⁴⁸ FAO projected aggregate world food and agricultural trade to grow by 2.1 percent annually during 1994-2005, including increases in the volume of trade in wheat, coarse grains, cassava, dairy products and tropical beverages. It also expected continued growth of international trade in processed food (see FAO 2000a).

represented in products where the domestic market suffered a substantial decline. The new facilities created under the AGOA may facilitate access by African countries to the United States for food products (see section III below).

Consumer concerns and government policies in developed countries emphasize the importance of nutrition for health, which holds good prospects for future market growth of fruit and vegetables. Studies in EU on health and nutrition indicate that there is much scope for raising consumption of these products. France, for example, has adopted a National Nutrition and Health Programme, with the prime objectives of increasing consumption, *inter alia*, by doubling the number of consumers eating fruit and vegetables at least twice a day.⁴⁹ Such programmes imply a substantial rise in supplies, especially off season, and a widening of the assortment available on French and other European markets. The United States also has programmes to promote fruit consumption. Promotional measures that may be implemented under such programmes should guarantee future export growth for developing country and other off-season suppliers.

A sustained trend of strong and steady growth of consumer demand for organic and “bio- products” in developed countries has provided exports of these products with a viable and sometimes high value added market niche. Changes in dietary habits among many segments of the population, increased health awareness and the increasing demand for a wider variety of products are contributing to this growth. Demand is expanding particularly rapidly for organic horticultural products in the United States, the EU and Japan. However, consumers of organic food are highly demanding regarding the safety, production, processing methods, and the ecological and social aspects of production. They demand full transparency, traceability and control of the products and zero default. For the time being, the market share of organic products in total food sales is still small, ranging from 1 percent to 3 percent.⁵⁰ A few developing countries have small market shares for organic fruit. For example, producer cooperatives in the Dominican Republic and Ghana export organic bananas to the EU at prices higher than those obtained for traditionally grown bananas. On the other hand, the cost for “organic” certifications are high.

Food industries largely remain a domain of the developed countries and their TNCs. The major countries are themselves leading exporters of many processed food products. Their companies predominate in many food, fruit,

⁴⁹ Harzig (2001).

⁵⁰ See ITC, FAO and TCARC (2001).

cereal, beverage and tobacco industries, including those in which developing countries have a strong export and production base. The United States and the EU are the leading world exporters of roasted coffee, and the EU of coffee extracts (far ahead of Brazil and Colombia). The European Union is the top exporter of cocoa butter and cocoa powder, ahead of Malaysia, Indonesia and Côte d'Ivoire. The United States remains among the top exporters of fruit juices, whereas Brazil now leads in frozen orange juice. Canned and prepared pineapples are the major products where developing countries dominate world markets: Thailand, the Philippines, and Indonesia, followed by Kenya. The continued predominance of these suppliers on world markets is due to the financial and marketing strength of their companies. Their major assets include their brand names, their capacity to ensure consistently high quality, product innovation and publicity campaigns, as well as closeness to consumers combined with low transport costs.

Governmental policy also plays a role. High regional preferences within integration groupings, high import protection through tariffs, tariff escalation and anti-dumping measures, regional, research and other subsidies for developing agricultural processing, export subsidies and special export credit schemes contribute to maintaining or expanding production in industrialized countries. This makes it difficult for new exporters of processed food from developing countries to enter major markets. Some of their companies have nonetheless proven that it is possible to succeed as medium-sized exporters or TNCs in developing countries, or by means of subcontracting for retail chains.

Contrary to frequently taken positions, the markets for agricultural, fishery and food industry exports are not saturated; the challenge to farmers and business is to exploit new opportunities in the face of intensified competition. Governments can influence the future size of markets through multilateral negotiations, the negotiation of Regional Economic Partnership Agreements (REPAs) between ACP countries and the EU, regional integration and bilateral free trade agreements with other countries.

B. Prospects likely to derive from the Doha Round

Over the medium term, major changes may be expected to result from the multilateral trade negotiations under the Doha Round. In view of the negotiating objectives set for agriculture, above all one may expect further tariff reductions. A substantial reduction of peak tariffs to commercially viable levels would remove the prohibitive nature of many extremely high duty rates. A substantial increase of MFN tariff quotas can make a further important

contribution to future growth of agricultural trade, if countries are committed to apply zero tariffs, set them at commercially meaningful levels and enlarge them rapidly.

The removal of the sizeable *export subsidies* and subsidized *export credits* granted mainly by major developed countries will enable developing countries to increase domestic production, regional trade and third country exports of cereals, rice, sugar, a number of fruits and vegetables, bovine meat, poultry, cheese and other dairy products, canned fruit and fruit juices, cereal products, sugar products, soy bean and sunflower oils, and milk-based products.

Subsidies granted to producers loom large in major developed countries. The Uruguay Round achieved little actual reduction in regard to subsidies. Whether proportional to production or de-linked as income support to producers, subsidies severely limit the markets for efficient third country producers, reduce the level and growth of consumption and enable producers in these countries to be artificially competitive on domestic and export markets.

An autonomous reduction of the extremely high producer subsidies is presently under consideration, for example, for cereals and sugar by the EU and for milk products by Switzerland. This reduction should enhance market prospects for developing countries in such products. On the other hand, the EU's enlargement to a number of Central European countries will expand the coverage of the CAP, its protection and producer subsidies to the new Member States. The introduction of new producer subsidies in countries such as Poland, Hungary, and later on in Romania, is likely to stimulate production and absorb much of potential market opportunities that would otherwise arise on the EU market from future steps of market liberalization and growth of consumption.

The United States has reversed the direction of its farm policy reform and significantly raised actual expenditure on farm subsidies since 1998. The new Farm Bill of 2002 expanded the range of agricultural subsidies and put the former ad hoc increases on a regular basis (see section V.D).

It is, therefore, particularly important that the Doha Round succeed in effectively reducing the level and scope of all subsidies to agricultural producers without distinguishing among them. There is an urgent need to counterbalance the effects of expansion of new types of schemes, their country and product coverage, and hence their effect of petrifying past patterns of production in countries, which can only remain competitive at rising expenses for farm

subsidies. Markets could be significantly expanded by measures promoting structural adjustment. Production subsidies should be reduced in favour of support to farmers who achieve only low productivity to diversify into activities providing them collateral and alternative incomes (such as tourism, rural support services or agricultural processing). All countries should phase out export subsidies to allow a gradual shift of production in the direction of more efficient patterns, without a risk of temporary supply shortages. The next agreement on agriculture should set a target date for the end of the special transition period for the agricultural sector so as to finally integrate agriculture into the general WTO agreements.

The Doha Round could make a particularly important contribution to poverty alleviation by removing the subsidies in the fishery sector. The high subsidies granted in major fishery countries for the construction and modernization of fishing vessels are inconsistent with resource management objectives, since several fishery resources have become scarce in most seas. Removing subsidies could contribute to re-establishing the lost balance, conserving and replenishing the resources in the North Atlantic, and reducing pressures on developing countries for opening their fishing grounds to foreign fishing fleets. Reduced subsidies would further enlarge markets for fishery products from developing countries. GSP preferences should be extended to all fishery products of developing countries, beyond the LDCs, to assist them in facing fierce international competition from large-scale industrial fishery. Maintenance of high tariffs in their regard, reaching beyond 20 percent, is no longer rational when retail trade and processing industries confront increasing sourcing problems. In turn, poverty could be substantially alleviated in developing countries, as fishery products are now the single major export product of a large number of developing countries, including most LDCs, and more generally, the poor populations in many others.

The next Round will not risk rendering the preferential approach insignificant. As seen above, even under optimistic assumptions, tariff rates for many agricultural and processed products will remain high after the conclusion of the Doha Round. In some cases, such as sugar, dairy products, meat, wheat, rice and other cereals, as well as their processed products, MFN tariffs of some countries are even likely to remain at peak levels (e.g. in a range from 20 percent to 30 percent and above). This will assure the continued effectiveness of preferences under the various special preferential arrangements of major developed countries, including for products covered by the GSP for LDCs and other developing countries.

C. Prospects likely to derive from Regional Economic Partnership Agreements and the “Everything But Arms” scheme of the European Union

European consumption of food can be boosted by the progressive liberalization of the EU market for basic foodstuffs and food industry products by multilateral and preferential measures. There is room in several member countries for a significant further rise in consumption levels of several raw and processed products. New initiatives for reforms of the Common Agricultural Policy should provide further scope for enlarging product coverage and depth of preferences in that sector.

Regional Economic Partnership Agreements (REPAs)

The REPAs to be negotiated between ACP groupings or countries and the EU should substantially improve the market prospects of these countries for raw and processed agricultural products. Since ACP countries will have to grant free access to all industrial and agricultural exports from the EU, they can in turn expect full liberalization of their agricultural market access by the EU, as required by the WTO rules. Any small exceptions during the transition period ought to be reserved for safeguarding ACP production and should not be pre-empted by protecting agricultural production in the EU. All import duties, including the specific duties and duty components that are still levied on imports from ACP, ought thus to be removed. In particular, the liberalization of access for rice, maize and other cereals, sugar, bananas, beef and other meat products should open major new market prospects and investment opportunities for all ACP countries. Even where those countries now enjoy special price advantages or zero tariffs within tariff quotas, full liberalization will result in significant improvements, because these tariff quotas have not been enlarged for decades. Furthermore, the proposed changes in the CAP for beef, sugar and cereals will imply the reduction of prevailing EU prices, and hence of the price presently obtained or guaranteed for ACP exports.

In the past, there has therefore been little incentive to invest in products without prospects for expanding exports. Preferential liberalization would open substantial opportunities for ACP producers to access a sector, which in fact comprises the bulk of the consumption of food and food industry products in the EU. Full liberalization could give ACP suppliers a competitive edge as early starters over other suppliers and stimulate agricultural investments. REPAs should also boost prospects for establishing processing industries in ACP

countries, as the specific duty components for high-priced raw materials will be removed, and further instruments for investment cooperation should be in place.

“Everything But Arms” arrangement for LDCs

The “Everything But Arms” (EBA) arrangement, which entered into effect in March 2001, provides for the removal of all duties on all imports of the EU from LDCs, except arms. This new scheme immediately changed the market access for LDC countries for most raw and processed agricultural products. (Imports of manufactures and industrial raw materials from these countries were already duty-free before.)

The *Asian LDCs* – namely Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, the Maldives, Nepal and Yemen – are the major beneficiaries, as they obtained full liberalization for a widely enlarged range of agricultural and processed agricultural products, compared to their former LDC treatment.⁵¹ Duty-free access and major preferences have been made newly available for their important export products, including beef, sheep, goat and chicken meat and their processed products, several fresh and processed vegetables, fresh nuts, oranges, other major citrus fruit, apricots and other fresh fruits, several spices, cereals and flours. Furthermore, the removal of high specific duties or specific duty components for numerous primary and processed products resulted in substantial price advantages vis-à-vis major suppliers exporting at MFN conditions. This amounted to more than 80 percent for maize, 75 percent for manioc (above tariff quotas), 12 percent to 18 percent for several fresh fruits and vegetables (increasing with low export prices) and groundnut products, 25 percent to 60 percent for canned pineapples as well as juice from oranges, pineapples, apples and other fruit; well and 50 percent to 75 percent for cigarettes and smoking tobacco. LDC exports are subject to the general provisions and rules applicable under the GSP scheme of the EU, including its limited duration, conditionalities and origin requirements. In other words, all major raw materials such as fruit, vegetables, tobacco or sugar must originate in the exporting country. Nonetheless, exporters in Asian LDCs can make use of partial cumulation of origin for inputs from their respective sub-regional groupings, namely the Association of South East Asian countries (ASEAN) and the South Asian Association for Regional Cooperation (SAARC).

⁵¹ EU has suspended Myanmar from the list of beneficiaries from its GSP and EBA schemes.

LDC countries belonging to ACP also immediately enjoyed substantial new advantages for a range of agricultural, and in particular processed, products. The EBA scheme offers significant improvements over ACP treatment, because it eliminates all specific duties still maintained under the Cotonou Agreement. For example, it removes duties for cereals, beef and other meat, their processed products, sugar-containing processed products, such as fruit preserves and juices, as well as for sweetened cocoa powder. Several ACP LDCs are important exporters or have a potential for exporting these products to the EU. Exporters opting for the LDC preferences rather than for ACP treatment are subject to the general GSP conditions and origin requirements for these products. They lose the advantage of regional cumulation within ACP (which may be important in cases such as mixed products, tobacco products, fruit preparations and juices or cocoa powder containing sugar).

For three highly import-sensitive products, import liberalization will be phased in during a transition period, and at the latest completed in 2009. Import duties for fresh bananas from LDCs are being reduced by 20 percent annually until 1 January 2006. This measure is important for several ACP- LDCs, as the duty-free tariff quota for imports from ACP countries is fully absorbed by the traditional ACP exporters.⁵²

For sugar and rice, two major export products of LDCs in all regions, tariff reductions will start only in September 2006 and reach zero in September 2009. In the meantime, the EU opened duty-free tariff quotas for the following products: rice (and rice products under HS number 1006) will grow from 2 500 tonnes in 2001/2002 to 6 700 tonnes in 2008/2009; and the tariff quota for sugar will grow from 74 000 tonnes in 2001/2002 to close to 200 000 tonnes in 2008/2009, before being fully liberalized by the EU. In terms of actual LDC exports, major trade effects of the EBA scheme will be felt, by and large, as of the marketing year 2007/2008, when duties will have been halved and the size of duty-free tariff quotas more than doubled. The Commission, in cooperation with Member States, monitors imports of rice, sugar and bananas from LDCs. The preferences may be suspended in cases such as fraud, failure to comply with origin rules, or huge increases in imports into the Community beyond the usual output or export capacity of the LDCs concerned.

⁵² In the past, Somalia was an important banana exporter to the EU as a result of major financial support by the EU. Other African LDCs, such as Uganda, Guinea and Madagascar, also exported small quantities of bananas to the EU.

Rice and sugar are major well-established exports to the EU of many LDCs among the ACP countries and in South Asia. Duty-free access will enable LDC suppliers to compete on equal footing with the high-cost suppliers of beet sugar in the EU and new future Member States. Sugar and rice preferences amount to, on average, more than 70 percent over other suppliers subject to MFN rates. The special LDC arrangements should, therefore, provide powerful incentives to boost production of sugar and rice for exports and have a high potential for alleviating poverty in these countries.

The EBA initiative can also encourage production and exports of food industries in LDCs. It remains highly important that regional cumulation of origin be maintained for inputs sourced from any ACP country, in order to enable LDCs to benefit from indirect exports of raw materials used by the food industry in neighbouring countries for the manufacture of products exported to the EU. It should therefore be considered to add the sub-regional groupings among ACP countries – or, preferably, the ACP-Group of countries - to the list of groupings for which cumulative origin can be applied under the GSP scheme of the EU.

A recent joint study by the Commonwealth Secretariat and UNCTAD estimated the expected ex ante benefits of the EBA scheme for selected LDCs. The study concludes that the LDCs surveyed will unambiguously gain from the EBA initiative, although the export increase will be small. The three main beneficiaries will be Malawi, the United Republic of Tanzania and Zambia: their exports being expected to increase by 2 percent to 6 percent, once EBA will have been implemented in full.⁵³ The estimated impact on the European Union from granting the preference is negligible in every respect, the only sensitive sector being sugar.⁵⁴ For this product, the effects are subject to the outcome of the proposed revision of the EU sugar policy.

The benefits to LDCs will be much greater if the United States, Canada, Japan follow the lead of the European Union and offer full duty- and quota-free access for all products from LDCs. In this case, LDC exports will increase by approximately 3 percent, the United Republic of Tanzania, Malawi and Bangladesh being the main beneficiaries with export increases ranging from 8

⁵³ The impact on export values may be lower in view of decreasing export prices for Protocol products, in particular sugar.

⁵⁴ See the joint UNCTAD and Commonwealth Secretariat Study (2001).

percent to 10 percent. Exports of Zambia, Uganda and the average for sub-Saharan African LDCs would increase by about 2 percent.⁵⁵

D. Prospects deriving from the African Growth and Opportunity Act, and other recent improvements in preferential arrangements of the United States

Prospects for least developed, African, Caribbean and Andean countries

The United States' market offers substantial prospects for further expansion, since market access conditions have been progressively improved after the Uruguay Round for a range of agricultural products, especially in favour of eligible least developed Caribbean, Central American and Andean countries. As the combined result of already prevailing zero or low MFN duties and recent improvements of special preferences, these countries now enjoy a substantial potential for export growth. In screening the list of eligible duty-free products, one finds several export products of these countries, notably, chilled and frozen fish, shrimps and other crustaceans; lamb and goat meat; most flowers and plants; most fresh and frozen fruit (including bananas, pineapples and other tropical fruit, stone fruit and berries), nuts and vegetables, manioc and arrowroot; raw and roasted coffee, tea, cocoa, cocoa butter and paste; spices; cereals and flours, including raw and milled rice, grain sorghum, millet, maize and wheat; soybeans, palm nuts and most other oilseeds; as well as a range of other raw vegetable products and materials, such as lac, gums, and dyeing and tanning products. Duty-free and low-duty products offer a large potential for horizontal diversification because they include several products with expanding demand in the United States. There are few other governmental measures constraining markets, such as subsidies, for many of the products listed, but they remain important for cereals, soybeans and groundnuts.

Eligible countries also enjoy favourable prospects for promoting processing and vertical integration in such duty-free (or low-duty) sectors such as vegetable oils and fats, meat preparations and canned meat, prepared and canned shrimps, octopus and other crustaceans, pasta, cornflakes, bakery and tapioca products, vegetable and fruit preparations and preserves, instant coffee and other coffee extracts, beer, wine, rum and tafia and other alcoholic beverages.

⁵⁵ Ibid.

High preference margins are enjoyed by eligible least developed, Caribbean and other countries vis-à-vis other suppliers for some of their readily exportable agricultural and processed agricultural products. They range, for example, from 11 percent to 22 percent for many fresh, frozen and prepared vegetables (including frozen potatoes, prepared and canned tomatoes and pimentos, etc.), sweet corn, arrowroot and similar tubers, watermelons, frozen papayas and berries, and certain other preserved and prepared fruit and nuts, soybean and groundnut oil, as well as canned sardines. Special preference margins are very high for orange, grapefruit and other fruit juices, and cigars, cigarettes and other tobacco products, and reach up to 30 percent, for example, for dates, melons and preserved apricots and 35 percent for canned tuna.

However, even LDCs (as well as the other beneficiaries of special preferential arrangements) continue to face numerous constraints on the United States market:

Major products, which LDCs can effectively export, remain subject to extremely high tariffs, although their exports of peak tariff products are generally duty-free within the limits of tariff quotas. This is notably the case for beef, subject to above-quota rates of 26 percent and for raw cane sugar that is subject to a prohibitive rate of about 240 percent. All major sugar-based processed products are similarly subject to high peak duties associated with tariff quotas. The above-quota rate for groundnuts amounts to 164 percent associated with a tariff quota of only 9 000 tonnes, which is also applicable to all other countries but Argentina. The MFN duty amounts to 132 percent for groundnut butter, and roasted, salted and preserved groundnuts. Another product of high export importance to LDCs, tobacco for the manufacture of cigarettes, is generally subject to an above-quota rate of 350 percent, with tariff quotas at the preferential zero duty of 10 000 to 12 000 tonnes for Malawi, Zimbabwe and Guatemala. The tariff quota amounts to only 3 000 tonnes for all other countries not having negotiated their own tariff quota with the United States (and applies, for example, among the LDCs, to Zambia). Most milk products, cheese and other dairy products are also subject to high peak tariffs and tariff quotas.

LDCs do not yet benefit from zero tariffs for some other exportable agricultural products, such as fresh roses, tomatoes, cucumbers and some other vegetables (in season), fresh sweet corn (the MFN rate exceeds 21 percent), dried onions and garlic (MFN rates reach 30 percent), fresh oranges, mandarins and grapefruit, mixtures of cereals, cocoa powder containing sugar, juices from oranges, grapefruit and pineapples, and preparations based on coffee extracts.

The GSP and LDC provisions are not applied to all LDCs defined by the United Nations. Coverage under the LDC scheme extended to 38 LDCs only. Some LDCs are not covered by GSP; Afghanistan and Laos did not enjoy MFN treatment until 2001

Furthermore, the United States maintains high duties for imports of clothing, textiles, shoes, leather goods and certain other manufactures from LDCs that are not eligible for preferences under AGOA or the Caribbean Basin Trade Partnership Act (CBTPA) as well as for imports that are not eligible under their special apparel provisions (see below).

Prospects under the African Growth and Opportunity Act (AGOA)

In the agricultural sector, AGOA has opened up a substantial new potential for the expansion of raw and processed products from those sub-Saharan African countries that are not LDCs. By 2002, 35 countries were designated as AGOA beneficiaries, including 24 LDCs, as defined by the United Nations. Virtually all others (including Cameroon, Côte d'Ivoire, Kenya, Mauritius, Nigeria and South Africa, but excluding, for the time being, Zimbabwe and Congo Democratic Republic) have been beneficiaries of this scheme since 2002. They newly obtained access to the duty-free preferential treatment granted hitherto to LDCs under the GSP, and now enjoy essentially equal treatment for agricultural products with LDCs, Caribbean, Central American and Andean countries.

AGOA extended duty-free treatment to a few additional agricultural products only. A comparison between the products covered by AGOA and the products previously covered by the GSP for LDCs shows that AGOA countries may newly export tomatoes throughout the year at zero tariffs, as well as celery, sweet corn, dried onions and garlic, oranges, mandarins, grapefruit and juices produced from these fruits.

African LDCs have thus received only little additional benefits for raw and processed agricultural products under AGOA. However, much more important additional benefits are likely to accrue to them in the industrial sector for exports of certain clothing products, textiles, metals and, eventually, for petroleum products. Only about half of all LDCs, as defined by the United

Nations, have access to AGOA or CBTPA preferences, and one-third of the African LDCs were not eligible for AGOA benefits in 2002.

An analysis of trade performance under AGOA thus far clearly indicates that for a wide range of beneficiaries its main potential is essentially in promoting clothing exports. In addition, a few African countries other than LDCs were able to raise substantial new exports of petroleum products; South Africa increased motor vehicle exports under this scheme. Total imports of the United States from AGOA beneficiaries were likely to fall from \$19 billion in 2001 to about \$13 billion in 2002, mainly due to the lower price for petroleum products, which account for the bulk of imports, as well as of preferential imports under AGOA (essentially from Nigeria and Gabon). By contrast, preferential trade in other products covered by the scheme has risen substantially: combined preferential imports under GSP and AGOA are estimated to rise from \$6.6 billion in 2001 to about \$8 billion in 2002.⁵⁶

Preferential imports of agricultural products from eligible countries are small. Total imports were likely to account for about \$180 million in 2002, of which \$80 million were imported duty-free under AGOA and GSP. This trade has not increased significantly since 1999/2000, except for South Africa, being the main country with a capacity for raising rapidly new agricultural exports due to AGOA. Ghana increased its agricultural exports under the GSP provisions, while in Madagascar, preferential exports of agricultural products shifted from GSP to AGOA without increasing significantly. AGOA plays only a small role for forest products; and United States imports from AGOA countries generally have stagnated since 1999.

Many eligible LDCs and other African countries have rapidly responded to the new export facilities created by the special provisions for clothing and textile exports to the United States. Two factors have particularly contributed:

- AGOA removed the quota constraints on textile and clothing imports from Kenya and Mauritius.
- Most sub-Saharan African countries can export to the United States clothing duty-free that is manufactured from fabric imported from anywhere in the world until 2004. This facility is available to beneficiaries whose per capita GDP does not exceed \$300, as well as to Botswana and Namibia, and is

⁵⁶ Source: USITC (2002).

subject to an overall ceiling for imports under special provisions from all AGOA beneficiaries.

Countries wanting to access the special regime for textiles and clothing must implement the special origin rules and establish an effective visa system as well as an enforcement mechanism to prevent illegal transshipment. By September 2002, 18 countries were eligible under the apparel provisions, of which 16, including 10 LDCs, were effectively accredited under the special origin rules for apparel. Preferential, duty-free clothing exports are likely to multiply from some \$100 million in 2001 to about \$700 million in 2002. Much of this new trade is due to AGOA preferences. These new exports are widely spread among African beneficiaries, including not only the traditional exporters, South Africa, Kenya and Mauritius, but also Lesotho, Madagascar, Malawi, Botswana and Ethiopia (in descending order of preferential exports). Such exports have a high-income impact, which spreads to the rural and urban poor. As clothing production involves a high proportion of women, these exports provide a second income to many poor families, thus increasing their capacity to buy food and other essentials and lifting them above the poverty line.

The records for the initial period of implementation also clearly indicate that the results achieved by AGOA were modest for most eligible countries in all other sectors, not only for agricultural products, but also for labour-intensive manufactures. These manufactures gained new duty-free market access to the United States, such as leather products and footwear, in spite of extremely high preference margins.

Possible improvements of the impact of preferences granted by the United States and other developed countries in favour of LDCs and other low-income countries.

The effectiveness of selective preference schemes, as applied by the United States and other developed countries such as Japan and Canada, should be further enhanced in depth, coverage and, especially, in their investment impact in favour of LDCs and other small, low-income countries. Country coverage of enhanced benefits should, in principle, be extended to all LDCs designated by the United Nations. Product coverage should be synchronized by extending additional benefits accorded under special preferential arrangements to all LDCs.

Over the medium-term, the United States, Japan, Canada, Norway, Switzerland, Australia and other preference-giving countries should, in line with

declared policy objectives, progress further towards granting duty-free market access for all products imported from LDCs as defined by the United Nations. (This should eventually be extended to those smaller, low-income countries that already enjoy comparable preferential treatment in the Caribbean, Central American, Andean and Pacific regions, as well as to sub-Saharan African countries that are not LDCs.)

If the policy objective is to achieve a high impact on alleviating poverty, imports of raw and processed agricultural products should be rapidly liberalized across-the-board and without limiting them by tariff quotas. Trade data confirm that LDCs have only a limited trade importance and slow trade performance with regard to almost all products that may be highly import-sensitive for production in a country like the United States or other developed countries. Tariff quotas should rather be exceptional for products where LDCs have an important market share and are highly competitive exporters: initially, sub-quotas could be opened especially for LDCs, in addition to the WTO quotas, and rapidly increased in view of a firm deadline for their definite removal. However, for most products, a special safeguard clause, as usually applied in preferential schemes, should suffice and obviate the need for ex ante limitations with regard to imports from LDCs. Removing the tariff quota limitations on duty-free access of agricultural products by preference-giving countries concerned, could also encourage investment into export-oriented agriculture and food processing in LDCs.

In order to achieve a major impact on growth and diversification of agricultural production and investment, the security and reliability of free market access need to be improved for domestic and foreign investors. At present, under most preference schemes, apart from possibly EBA, investors cannot rely on a sufficient duration of duty-free market access for recuperating their capital. For example, the AGOA scheme attaches a multitude of political and social conditions to its benefits. Each country is surveyed annually with respect to:

- its progress towards: improving labour rights, reducing child labour; establishing democracy, the rule of law and human rights, and anti-poverty policies;
- its struggle to improve government, fight against terrorism and drugs;
- and a wide range of other criteria, some relating to governments.

These conditions are hardly met in their totality by any country. Further, it is difficult to evaluate progress objectively from year to year. The required

annual confirmation creates a substantial degree of uncertainty for investors as to whether exports to United States will be effectively sustainable. After two rounds accomplished of comprehensive annual country reviews having been accomplished, it should now be possible to move to a more durable formula. Major reviews could be spaced over three or more years to provide for a minimal payback period for investments. Such investments are indeed required to spur diversification into new directions and products, which have some export prospects but require technology, capital and an intensive learning process by African producers.

The GSP scheme applied by EU is increasingly subject to economic and policy conditionality with regard to all beneficiaries, and the exact conditions of future market access for specific agricultural products to the EU from ACP countries are still to be negotiated by groupings or countries.

The original proposal had been to bind in WTO duty-free treatment for all products from all LDCs as defined by the United Nations. Although duty-free treatment for LDCs continues to be implemented as part of their GSP schemes, preference-giving countries should emphasize the investment aspects of LDC benefits, ensure multi-annual duration of LDC benefits, remove ceilings and tariff quotas and, to the maximum extent possible, refrain from applying policy conditionalities to these countries.

E. Supply-side policies

The major area for policy action lies on the supply side. Governments in many producer countries will have to focus on strengthening supply capacities and raising the competitiveness and attractiveness of export-oriented food and agricultural products. Developing countries have been able to build up a strong and competitive supply base for many of the agricultural and processed food products, which enjoy growing opportunities in major world markets. Certain competitive suppliers have rapidly expanded their exports of products, enjoying growing world demand. In some cases, developing countries have been able to raise their exports to stagnating or even shrinking markets in competition with developed country suppliers. The opening of low-duty tariff quotas and the expansion of preferential benefits to include agricultural and food industry products have contributed to this trend.

However, in many ACP and Caribbean Basin countries the supply base has remained very narrow. These countries have rarely participated in the trade

growth for those food products for which world markets are growing fastest. African market shares decline with each further stage of processing, and some export success proved possible only on the European market. These trends point to major deficiencies in the supply base in ACP countries: insufficient flexibility of suppliers to adjust to changes in world demand, along with failure to rapidly grasp new opportunities arising from shifts in consumer demand, trade liberalization or new preferences.

Developing countries themselves need to do more to strengthen the capacity of agricultural exporters and processing enterprises. International support should focus more directly on production requirements for export markets. The narrow production base for exportable products calls for measures to raise private investments in poor countries with limited market size: investors generally prefer large markets with low risks, dynamic growth and high domestic purchasing power.

To counteract a frequently negative perception of high investment risk in many African countries and other LDCs, it would be essential to reduce the payback period of capital to the maximum extent possible. Most African countries and other LDCs have put very generous investment regimes and incentives into place. Developed countries should provide their complementary contribution. These countries should renounce on levying any income and corporate taxes from their investors during an initial period of at least five years for agricultural and agro-processing investments in poor countries with a limited market size. Alternatively, investment incentives granted by poor countries could be partly or fully taxed away even if tax credits are granted. Combined initial tax relief could considerably shorten the pay-back period and reduce the risk incurred by investors, especially in the volatile agricultural production. At a rate of return on capital of 15 percent per annum, the full amount of the investment capital could thus be amortized within 5 years.

Moreover, a bigger impact of existing trade preferences on investments could further be achieved by renouncing on the condition of a bilateral investment guarantee agreement in poor countries with limited market size (i.e. in LDCs and countries with similar treatment). AGOA seems to open up some flexibility in that respect; some other developed countries also have flexibility to offer investment guarantees in particular cases for specific investment projects.