

Non-traditional agricultural exports (NTAEs)

SUMMARY

- ▶ *Most NTAEs are of horticultural products*
- ▶ *Unit values of non traditional fruits and vegetables have been maintained despite growth in export availability, making them an attractive diversification option*
- ▶ *Sanitary and phytosanitary (SPS) controls are a more important barrier to entry into destination markets than tariffs*
- ▶ *Private standards imposed by global retailers and processors are even more stringent and costs of compliance correspondingly high.*

World market trends for non-traditional agricultural exports

Total world trade in non traditional fruits and vegetables (excluding bananas and citrus.) is worth around US\$16 billion, with developing countries accounting for nearly 60 percent of this. Three fruits — apples, grapes and pears — account for around 50 percent of world trade in non traditional fruits. Around 60 percent of all world trade in vegetables is in the “other vegetables” category, which covers a wide range of green vegetables, salads and root vegetables, pumpkins/squashes etc. Individually, tomatoes are by far the most important traded vegetable, accounting for around 20 percent of world trade by value. In the speciality products category, combined trade in chillies, ginger and garlic is worth more than US\$1.5 billion and two thirds of this trade originates from developing countries. Among the processed NTAEs, the prepared fruit and vegetable category, which includes juices (with the major exception of single strength orange juice), and canned and dried products, are by far the most important with a trade value exceeding US\$8 billion divided almost equally between developing and developed countries.

However, it is apparent that the export markets for non traditional fruits and vegetables are dominated by just a handful of developing country suppliers. More than 40 percent of world developing country fruit exports by value are shipped by just four suppliers: Mexico, Chile, Ecuador and Costa Rica. Export trade in vegetables is similarly concentrated, although the regional bias is less marked: Mexico is a leading supplier of tomatoes, asparagus, aubergines and onions; Zimbabwe and Guatemala dominate the world market for green peas, whilst Kenya supplies 25 percent of world trade in green beans. Mexico alone, with its proximity to the huge United States market, accounts for two-thirds of developing country vegetable exports.

The concentration is also marked in the case of speciality NTAEs. Mexico accounts for more than 40 percent of world trade in chillies, China for 45

percent, 33 percent and 21 percent of world trade in ginger, garlic and medicinal herbs, respectively, and Colombia for 14 percent of world trade in cut flowers. The processed products category is also similarly controlled by just a handful of developing country exporters: China accounts for more than half of world trade in both dried mushrooms and canned mushrooms; Thailand has nearly half of world trade in canned pineapple; Chile and Argentina account for one quarter of world trade in concentrated apple juice; Turkey, Chile and China for more than a third of world trade in tomato paste.

In contrast to the performance of leading developing country exporters of NTAEs, LDCs exports of NTAEs can be measured in thousands of dollars and hundreds of metric tonnes. Exports are typically small-scale with considerable variability in the volumes shipped year-on-year. Overall, the LDCs are significant exporters of only one product — green beans — with a 12 percent share in world trade.

Unlike values of traditional agricultural exports, the unit values of non traditional fruits and vegetables have held up fairly well during the past 10 years despite strong underlying growth in export availability. Unit values of tomatoes have risen over the period, reflecting the trend towards the export of speciality lines such as vine and baby tomatoes. A similar trend is apparent for chillies and peppers, also reflecting innovations in the range and value of products available in this category. The empirical evidence indicates that producers and exporters of non traditional fruits and vegetables must innovate continuously in order to retain their market share and maintain unit values. Hence, exporters are developing new product lines which include high care products (trimmed and packed beans, ready prepared salads, pre-prepared stir fry mixes, prepared fruits); speciality products (baby vegetables, purple carrots, smaller-sized watermelons) and exotics (cape gooseberries, Chinese vegetables, fresh hearts of palm, tropical peppers). Unlike the fresh produce sector, there has been comparatively little innovation in the presentation

and packaging of processed products. Perhaps because of this, the processed products category appears to have fared less well over the period, with unit values generally experiencing a downward trend.

Many actual or potential developing country exporters are small-scale and hence should face highly elastic demand for their NTAEs. However, some large-scale individual producers, and individual producing regions, do face potentially lower own price elasticities of demand for certain NTAEs and in this case, increased production and exports would lead to a reduction in price and to a proportionately lower increase in sales revenues.

Trade and import policy in the non traditional agricultural export sector

In the non traditional agricultural export sector, the overwhelming majority of trade takes place in horticultural products and individual countries' import and tariff policies reflect this bias. Import policy measures aim to protect domestic fruit and vegetable producers in destination countries. In temperate countries, import tariffs and other measures tend to be lowest and least restrictive on tropical fruits; highest on temperate fruits and vegetables, particularly during the domestic growing season. The converse tends to be true within many developing countries, where import tariffs on tropical fruits are bound, although not necessarily applied, at generally high levels. Typically, these range between 35 percent and 100 percent.

The EU, Japan and the United States, the major markets for NTAEs, operate complex systems of seasonal duties, quotas and entry prices to regulate imports of NTAEs. However, the combination of tariff concessions extended to developing country and LDC exporters of fruits and vegetables by the European Union and the United States in particular, and the seasonal nature of those tariffs that remain, suggests that import tariffs per se are not the major barrier to entry into these markets.

Where exports of non traditional products are made in fresh form (fruits, vegetables and cut flowers) then a potentially more significant constraint to exporters are the sanitary and phytosanitary (SPS) controls that are imposed by destination buyers. These are particularly stringent in the United States and Japan, but they are also widely imposed elsewhere. A number of import controls which are reported to the WTO by implementing countries are SPS in origin. Not surprisingly, many of these also become the focus of subsequent trade disputes,

where it is felt that the measures taken by the importing country are disproportionate to the risks involved. Nearly 300 SPS measures have been introduced on imports of fresh fruit and vegetables over the last decade.

A further hindrance to trade in fresh produce worldwide is the lack of harmonized technical standards and treatments. Some countries apply the Codex Alimentarius standards for maximum (pesticide) residue levels (MRLs), whilst other countries apply their own, often stricter, MRLs which may only partially conform to Codex. New regulations in the EU regarding pesticide residues are also of concern, most particularly for their effect on production practices and agrochemical costs in exporting countries.

Statutory food safety policy instruments are also being overtaken by a large number of private standards imposed by the global retailers and processors, led by the supermarkets. In addition to these standards there are many structural difficulties which exporters, particularly new entrants, must overcome in order to successfully develop trade in NTAEs.

The supply chain for NTAEs has changed markedly in recent years with the emergence of the supermarkets as a major buyer force. These large retailers now control 70-90 percent of fresh produce imports from Africa. Demand for "convenience" among supermarket shoppers is providing developing countries with opportunities to grade, pre-prepare and package prior to export (Humphrey and Oetero). It is also opening up opportunities for innovative and exotic produce and introducing tropical crops, such as mangoes, into the mainstream market. Pushing these functions back onto origin countries has considerable advantages for supermarkets, but it also requires considerable investment by the producer/exporters at origin. Supermarkets' standards are exacting and costs of compliance with their quality assurance systems and traceability requirements can be high. Supply chains have tended to shorten in recent years and, typically, there is a greater degree of vertical integration as well as concentration at each stage.

The costs of freight, whether by sea or air, are a further major determinant of a country's export competitiveness. Whilst distance from markets is obviously an important determinant of overall freight costs other factors are also important, including the extent of competition in freight handling and whether a country operates an "open skies" policy. Freight costs tend to be lower among those countries that already have well-developed and frequently used freight routes, whether by sea or air.

Key challenges

- ▶ *Stringent national SPS controls and lack of harmonization internationally*
- ▶ *Proliferation of exacting private sector standards, and high costs of compliance*