

Entry to Developed countries market

Bénédicte Hermelin
hermelin@gret.org



Overview of the presentation

- Access for developing countries' agricultural products to developed countries' markets (rich market)
- Barriers :
 - tariffs
 - quality requirements and other standards
- Niche markets

Tariffs

The WTO framework

- 3 pillars in the Agreement on Agriculture
 - ➔ Export competition
 - ➔ Domestic support
 - ➔ Market access : improve it
- Relevant measures : reduce market access
 - ➔ tariff (custom duties)
 - ➔ non tariff barriers :
 - ❖ import quotas
 - ❖ variable entry levies
 - ❖ minimum import prices
 - ❖ import licences

Reducing level of protection

- Bring transparency : converting existing non-tariff barriers into tariffs equivalents. Principle of tariffication
- Reduce new protections
 - 36 % over 6 years (1995-2000) for developed countries. At least 15 % per tariff line.
- Binding principle
 - at the end of the implementation period : tariffs are bound at the final level and cannot be increased.

To further open domestic markets to imports

- Minimum import threshold for products that has been tariffed
 - since 2000 : minimal access of 5% of the average internal consumption during 1986-1988

Exception : the Safeguard Provisions

- In the case of
 - rapid surge in the quantity of an imported product
 - or strong fall in the prices of imported products
- WTO member may apply an additional tax
 - no higher than 30 % of normal tariffs
 - limited period (one year).
- Other safeguard provisions under general rules of Gatt :
 - deterioration in the balance of payments
 - clearly established dumping
 - health protection of human / animal and to protect plants.

Preferential agreements

- Generalised system of preferences : international agreement, negotiated within the framework of UNCTAD. System of trade preferences granted by developed countries to developing countries. Recognised by WTO
- Lomé Convention / Cotonou Agreement : EU/ACP countries
- Everything but arms initiative : EU/LDCs
- AGOA (African growth opportunity Act) : USA/some African countries

Impact of the AoA on market access

- Tariffs reductions for entry to the market :
 - ➔ 37 % for all agricultural products
 - ➔ 43 % for tropical products
 - ❖ 35 % : coffee, cocoa, tea
 - ❖ 40 % : oilseeds, fats, oils
 - ❖ 48 % : cut flowers
 - ❖ 26 % : cereals
- But :
 - ➔ before the AoA tariffs on tropical products were already low
 - ➔ and tariffs on temperate zone food products were very high, and remain high.

Tariffs obstacles remain

- Still high tariffs in OECD countries
 - tariffs for agricultural products around 35 %
 - tariffs for industrial products around 4 %
 - peak tariffs : up to 300 % (some temperate products)
- Tariff escalation : duties increase according to the level of processing
 - true for wood, fruit, tobacco, tropical beverages.

Duties in some developed countries

	EU before UR	EU after UR	Japan before	Japan after	USA before UR	USA after UR
Green coffee	5	0	0	0	0	0
Cocoa beans	3	0	0	0	0	0
Fresh tropical fruits	9	5	17	4	7	5
Sugar	297	152	126	58	197	91
Wheat	170	82	240	152	6	4
Dairy products	289	178	489	326	144	93

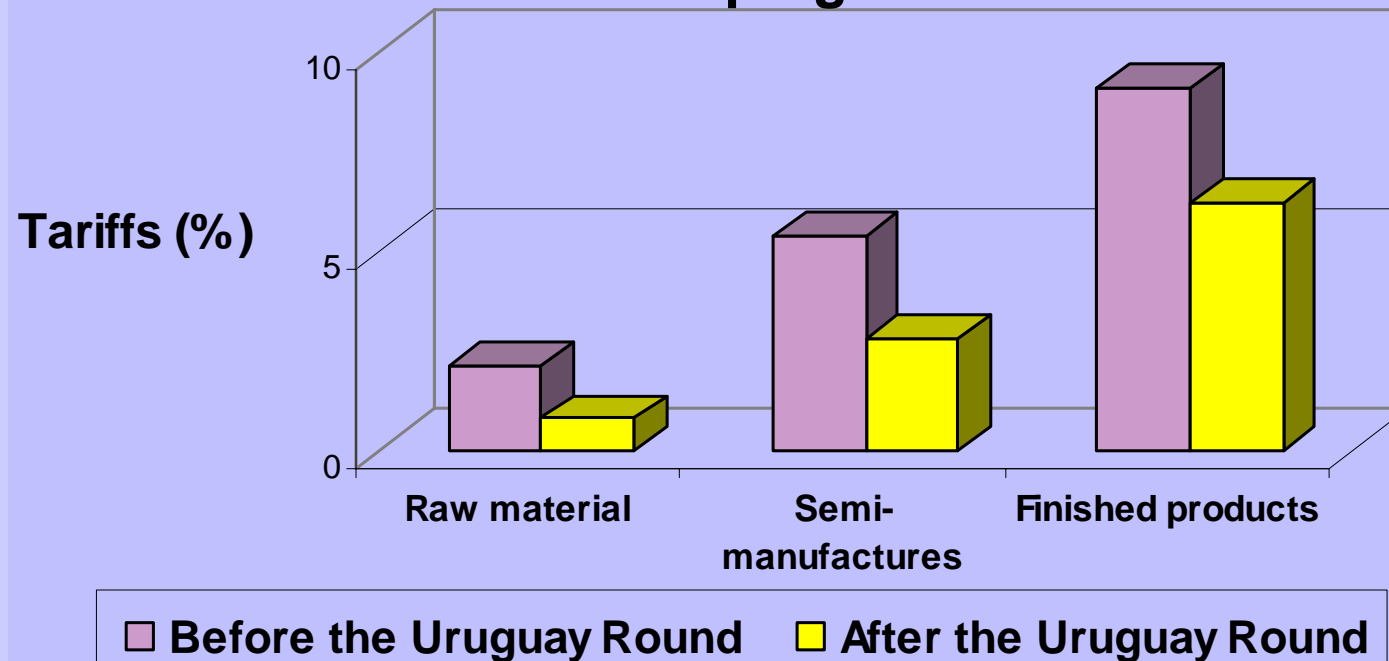
Source : OECD

UNCTAD - Internal training - 2003-12-03

GRET

Tariffs escalation

Tariff escalation applied by developed countries on all industrial products from developing countries

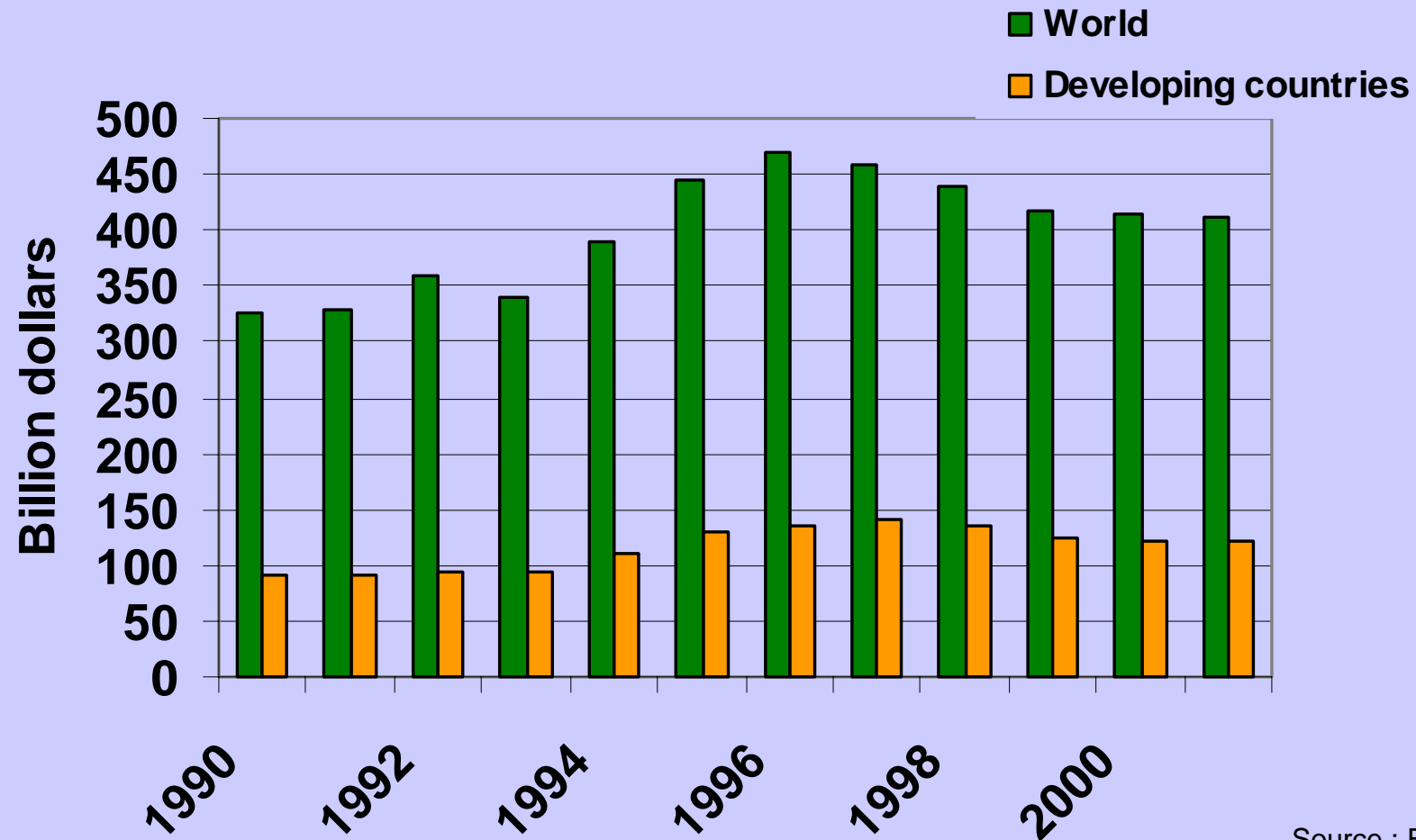


Source : WTO

Tariffs escalation

	Japan	USA	EU
Coffee non roasted	0	0	0
Coffee roasted	12	0	7.5
Cocoa beans	0	0	0
Cocoa paste not defatted	5	0	6.1
Cocoa powder with added sugar	29.8	Quota : 2,313 t/year	8

Trends in agricultural exports



Source : FAO

Quality requirements

WTO framework

- WTO agreements on standards : prevent them from being used as protection tools.
- Two agreements:
 - TBT : Technical barriers to trade
 - SPS : Sanitary and Phytosanitary
- TBT existed before the WTO : Tokyo round standards code (1979). Uruguay round : strengthening and clarifying.

TBT agreement

- Technical regulations : specific characteristics of a product :
 - size, design, functions, performance
 - the way it its labelled or packaged
 - the way it is produced : more appropriate to draft technical regulations on the production methods rather than the characteristics *per se* (case of organic products)

The objectives of the TBT agreement

- Protection of human safety or health
- Protection of animal and plant life or health
- Protection of the environment
- Protection of deceptive practices: to protect consumers through information (labelling requirement)
- Other : quality, trade facilitation. (ex : size of vegetables)

Principles of the TBT agreement

- Avoidance of unnecessary obstacles to trade
- Non-discrimination and national treatment
- Harmonisation: encourage members to use existing international standards
- Equivalence
- Mutual recognition of conformity assessment results
- Transparency
 - ➔ notifications
 - ➔ national enquiry point

SPS agreement

- Rules of procedure which define formulation and implementation of SPS measures in international trade
- Set of measures to protect life and health of human / animals, and to protect plants.
- But : does not define the measure.
 - ➔ Definition in under the responsibility of relevant international organisations (Codex alimentarius, Office international des épizooties, International plant protection convention) or member states

Two key principles

- National treatment : non-discrimination between foreign and national products
- Scientific justification : member states have to establish risk assessment, to scientifically justify the relation between a SPS measure and level of sanitary protection.

Modalities

- International standards already ratified
- International standards no ratified
- If a country wants to apply a higher level of sanitary protection
- If scientific proofs are insufficient
- Harmonisation on the basis of international standards
- Individual country measures allowed based on risk assessment
- Possible, with respect to the two principles : non-discrimination and relevant risk assessment
- Implementation of temporary measures is authorised

Transparency and equivalence

- All measures have to be notified to WTO SPS Committee, before their implementation
- Other members may be allowed to contest scientific proofs
- Members have to accept equivalent SPS measures implemented by other members, if they provide the same level of protection

Distinction between technical regulations and SPS measures

- A measure is SPS if its objective is to protect
 - human life from risks arising from additives, toxins, plant / animal disease
 - animal life from risks arising from additives, toxins, pests, diseases, disease carrying organisms
 - plant life from risks arising from pests, diseases, disease carrying organisms
 - a country from the risks arising from damage caused by the entry, establishment or spread of pests
- Measures adopted for other purpose are TBT measures

Special treatment for developing countries

- Recognition that developing countries may face difficulties
 - to conform to developed countries SPS/TBT measures (access to market)
 - to implement into their countries SPS measures
- Special treatment (market access)
 - provide technical assistance to developing countries
 - in case of implementation of new measures which may hardly reduce market access, the member have to provide technical assistance
 - more time to implement new measures

But

- Technical assistance is insufficient
- Restrictive implementation of equivalence :
 - developed countries look for similarity more than for equivalence
 - loss of flexibility.
- Lack of human resources or expertise to participate to the international organisations :
 - lack of ownership on SPS measures
 - difficulties to harmonise and implement standards.

Case study
Impact of EU legislation on
agricultural trade with
developing countries

EU legislation (1)

- 24 official texts, horizontal and specific (products)
- General food regulation : “form farm to table”
 - ➔ Producer or importer is responsible of food safety
 - ➔ Needs for importers to implement traceability systems

EU legislation (2)

- Hygiene regulation :
 - specific rules for food sector
 - self inspection plan in accordance with HACCP
 - general registration requirement for businesses, labelling requirement for food products, records of origin and traceability
- MRL (maximum residues level, for pesticides)
 - obligatory for all pesticides approved for use within the EU
 - based on the information given by the agro-chemical enterprise

Example for some Mercosur products

Vertical regulations

Horizontal regulations

Soybeans

- **traceability, labelling**

- **precautionary principle, GMO regulations**

Beef

- **traceability, labelling, animal welfare**

- **precautionary principle**

Coffee, citrus fruits

-

- **general regulation, labelling, precautionary principle**

Poultry meat

- **Animal welfare**

- **general regulation, labelling, precautionary principle**

Consequences of MRL regulation

- For pesticides non homologated for use within the EU
 - ➔ MRL = 0
- Old pesticides, non patented, would not be presented by firms (no economic interest)
- Most of those old pesticides are used in developing countries (cheap)
- Consequences : use of new products, generally more expensive

Green beans production in Kenya

	Rust	Caterpillars	Soil pests
Old pesticide	triforine	endosulfan	lindane
Cost/ha (US\$)	33	17	5
New pesticide	hexaconazole	Bacillus thuringiensis	imidacloprid
Cost/ha (US\$)	29	25	48

Consequences of food safety strengthening

- Increasing pressure on the food chain (legislation, consumers)
 - ➔ led to a proliferation of sector oriented Codes of practices
 - ➔ range of standards for all steps of food chain
- Not mandatory, but importers will only purchase from exporters who comply the requirements.
- + : products more attractive for consumers, and more competitive
- - : extra costs : training, equipment, fees for auditing by third party

Increasing power of retailers

- 15 huge retail chains will control 80% of the fresh produce sales to an expanded EU population of 450 millions
- Eurep, association leading supermarkets in Europe : private standards « WTO ++ »
 - ➔ agricultural, post-harvest, environment, labour practices
 - ➔ apply for import products too
- CIES (world association of supermarkets) : launched in June 2002 the Global food safety initiative : private standards.

Exclusion of small farmers

- Asumpal : co-operative of tomatoes producers in Guatemala
 - ➔ 330 members : 300 small farmers, and 30 medium farmers
 - ➔ since over supply on local markets, contract with McDonalds in Guatemala
 - ➔ specific private standards : size, colour, volume of frequent deliveries, packaging, temperature of deliveries, etc.
 - ➔ need to large investments
 - ➔ in one year, membership fell from 330 to 30

A double edged sword

- Increasing the market :
 - needs of large volume
 - continuous deliveries
 - access to world market
 - ❖ Carrefour exports melon from its sourcing network to 21 countries.
- Remove the distinction between local and global economy
 - bring global rules in the backyard of small farms and firms
 - exclusion of small-scale enterprises from local markets

Niche markets

Definition

- Marketing strategy that uses product differentiation to appeal a focused group of consumers

Product differentiation

- Based on intangible use criteria : purchase motivations are not economic
 - ➔ how the product is produced : organic products
 - ➔ identity of the producer : poor farmers in developing countries - fair trade
- Based on actual use criteria : derive from the product himself
 - ➔ timing : supplying fresh products before or after the primary season

Target markets

- Environmentally and/or ethically conscious consumers
- Rich countries consumers (supposed to be rich)

Fair trade : definition (1)

- A trade partnership
 - ➔ between a producers' organisation (developing country) and a fair trade organisation (developed country)
- Based on dialogue, transparency and respect
- For more equity in international trade

Fair trade : definition (2)

- Contributing to sustainable development, through
 - ➔ better trade conditions
 - ❖ fair price (minimum price and a development premium)
 - ❖ pre financing
 - ❖ long term trade relationship
 - ➔ guarantee of producers' rights
 - ❖ fair remuneration
 - ❖ respect of safety, social and sanitary conditions in work
 - ❖ respect of fundamental rights and core labour standards (ILO)
- And targeted on poor populations

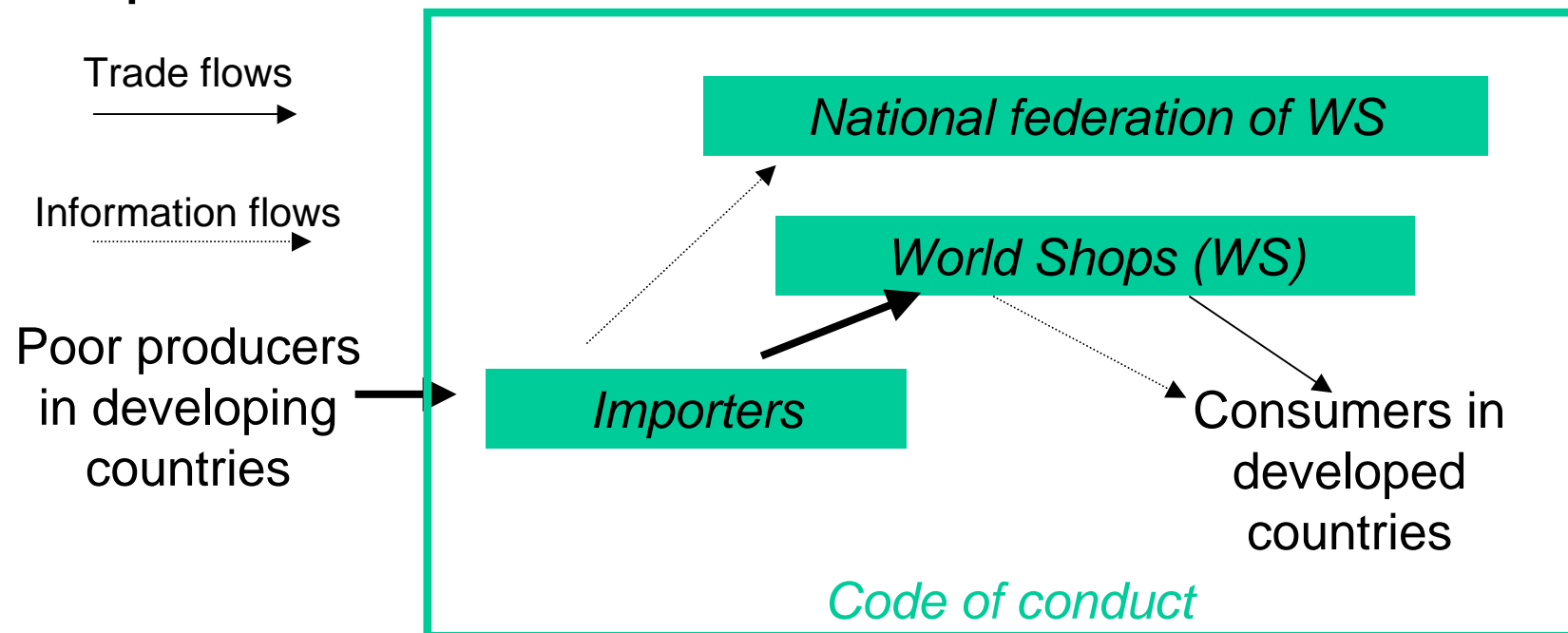
Fair trade : integrated chain

- Specialisation of operators

- importers

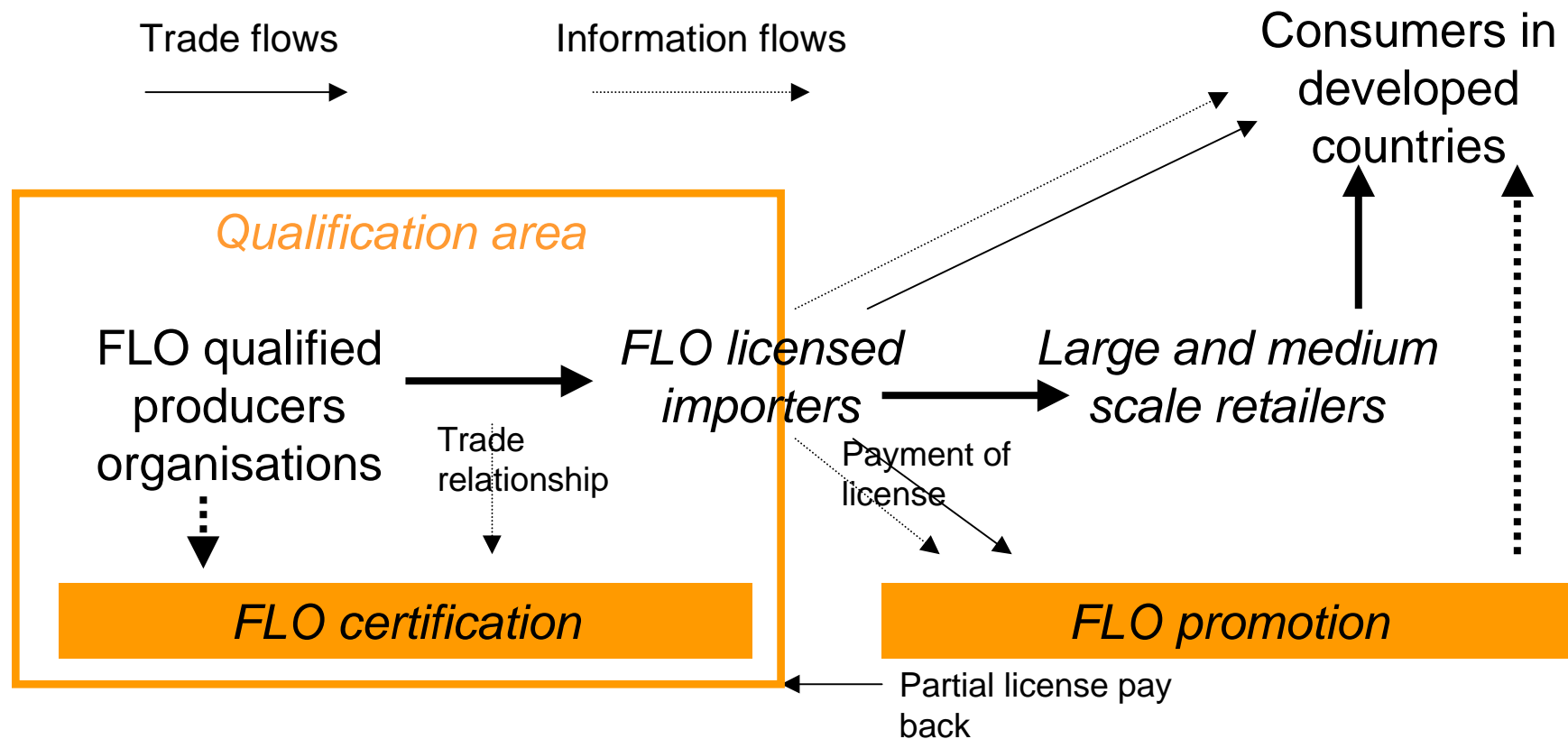
- world shops, and national federations

- respect of a code of conduct



Labelled chain

- Qualification offices
- Licensed enterprises (holders of label license)



Decomposition of coffee price

	Usual system	FLO (Max Havelaar) system
Consumer price	1.8 to 3 €	2.3 to 3.35 €
Roasting and distribution costs	1.41 to 2.61 €	1.45 to 2.5 €
Export costs	0.14 €	0.14 €
Co-operative management costs		0.08 €
Intermediaries	0.06 €	
Label fees		0.05 €
Producer price	0.19 €	0.58 €

Source : maxhavellaarfrance.org



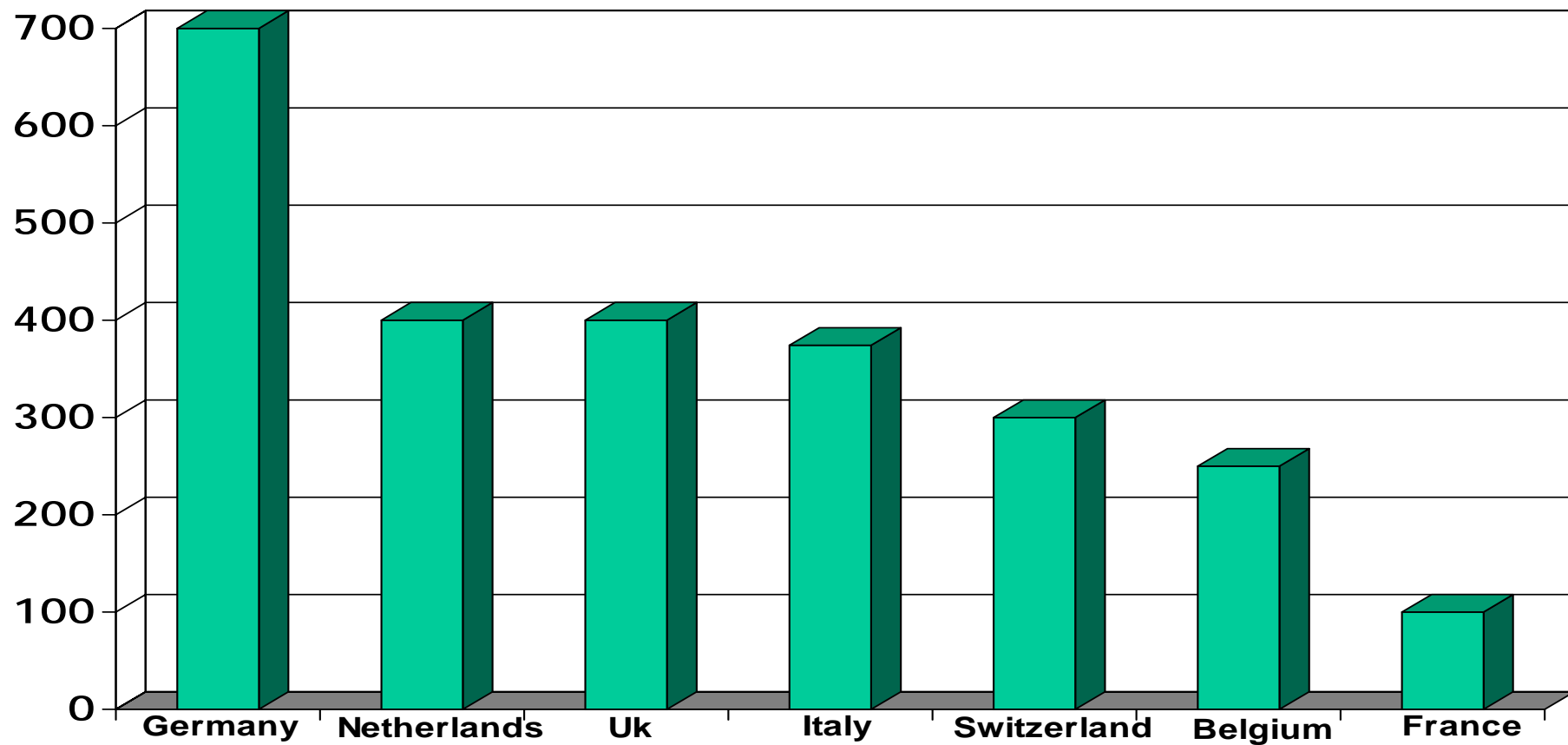
UNCTAD - Internal training - 2003-12-03

Case of Bolivian coffee

% of sale in fair trade system	80%	70%	30%	0%
% of sale in usual chain	20%	30%	70%	100%
Co-operative price (cents/pound)	44	32,5	15,8	
Traders price (cents/pound)	12,3	12,3	12,3	12,3
Total income (US\$ per year)	3 619	2 105	732	640
Number of working days	531	531	441	367
Family income / day (US\$)	16,03	9,32	3,49	4,32
Income / family worker (US\$/year)	1 809	1 052	366	320

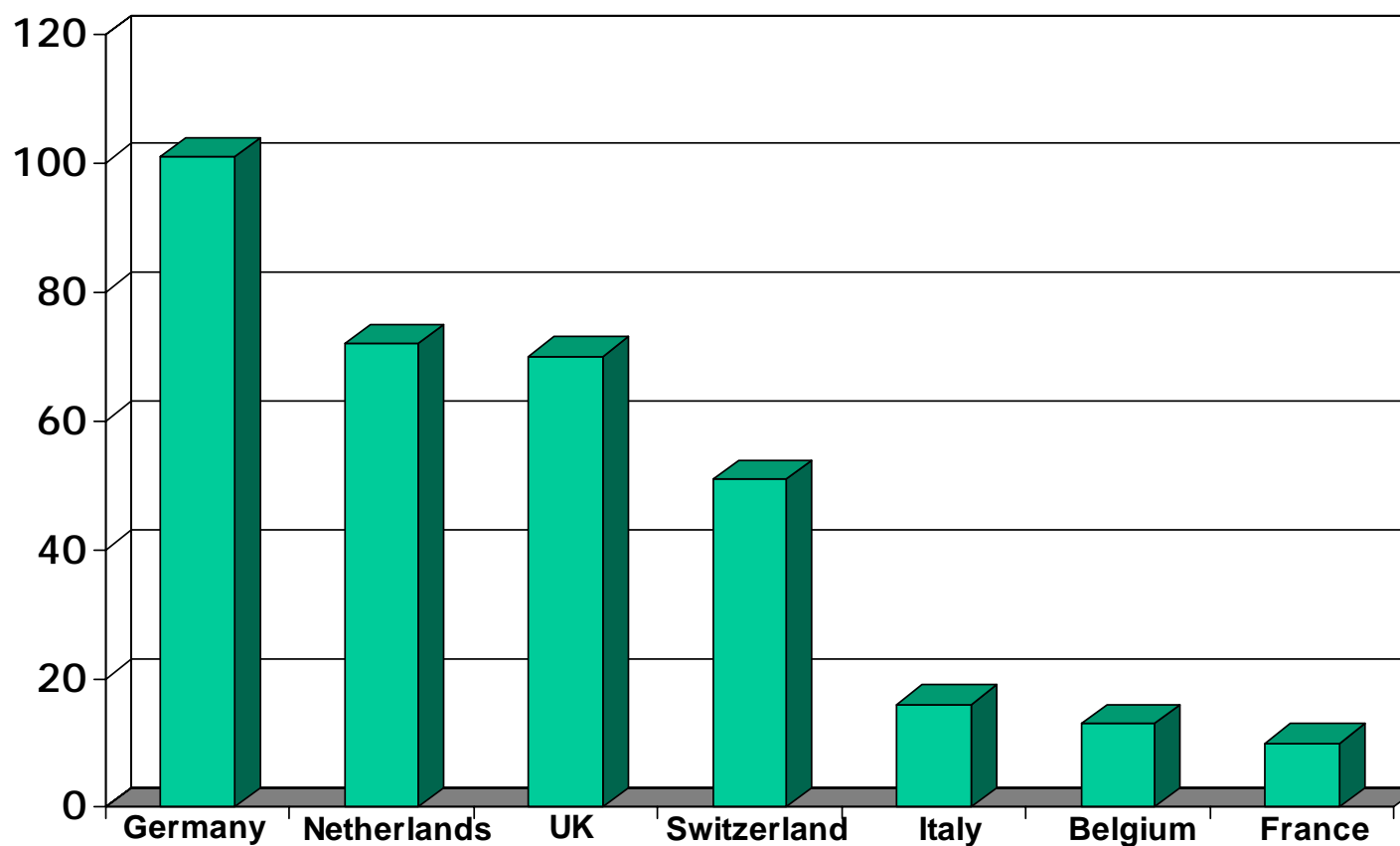
Minimum income for a sustainable way of life, including children's education : 1791 US\$ /year/family

Number of world shops



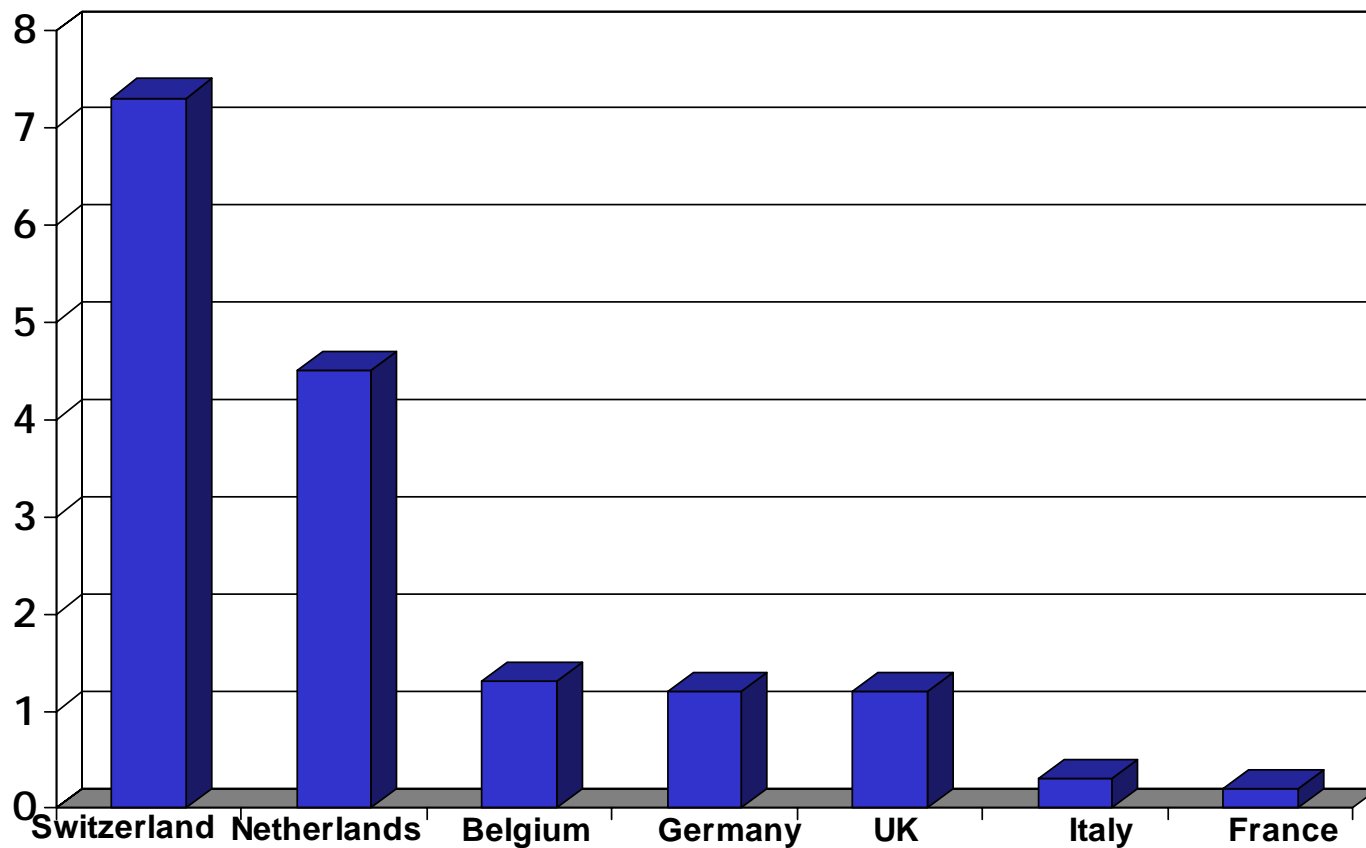
Source : EFTA (2001) & Solagrail

Sales (millions €)



Source : EFTA (2001)
& Solagral

Sales / capita (in €, per year)



Source : EFTA (2001)
& Solagral

Fair trade : impact

- Fair coffee :
 - ➔ about 800,000 producers,
 - ➔ near 16,000 t of roasted coffee
- Traditional system
 - ➔ between 20 to 25 millions of producers
 - ➔ around 6.5 millions t of roasted coffee
- 27.7 millions euros added to producers' income
- but dependency and vulnerability

Organic products overview (1)

- Organic farming : no use of chemicals pesticides or fertilisers
- constraints on methods of production, non on products characteristics
- To be “organic” need of certification
- Increasing demand in developed countries
 - ➔ from 10 billions US \$ in 1997
 - ➔ to around 30 billions in 2005 (estimations)

Organic products overview (2)

- Demand linked to
 - economic situation
 - geopolitical situation
 - food scandals (in non-organic or in organic food)
- Increasing of domestic markets in some developing countries (pushed by European retailers) : Brazil, RSA, Argentina...

Certification

- Organic chapter in Codex
- Laws in developed countries, and developing countries (India, Thailand, Argentina, Brazil, Chile, Costa Rica, Mexico, Egypt, Tunisia)
- Developments of ISO norms
- International organisation (IFOAM)

Organic farming in developing countries

- Growing interest due to
 - ➔ resources degradation
 - ➔ opportunity of international markets (higher prices)
i.e. developed countries
- Areas
 - ➔ 200,000 ha in Africa
 - ➔ 400,000 ha in Asia
 - ➔ 4,700,000 ha in Latin America

Organic products in Africa

Coffee	Uganda, Tanzania, Madagascar
Cotton	Uganda, Senegal, Egypt, Zimbabwe, Benin, Mozambique
Cocoa	Tanzania, Ivory Coast, Madagascar
Pineapples	Ghana, Uganda, Mauritius, Cameroon, Madagascar
Sweet bananas	Uganda, Cameroon
Sesame	Uganda, Burkina Faso, Benin, Malawi
Honey	Algeria, Madagascar, Malawi, Zambia
Dried fruit	Uganda, Benin, Burkina Faso, Madagascar, Morocco
Vegetables	Cameroon, Madagascar, South Africa, Morocco, Tunisia
Vanilla	Madagascar
Herbs	Madagascar, Egypt, Tunisia, Morocco, South Africa, Zimbabwe
Avocados	South Africa, Uganda
Olive oil	Tunisia
Sugar	Mauritius, South Africa
Cashew nuts	Mozambique
Tea	Tanzania
Palm oil	Madagascar
Coconut	Madagascar, Benin
Vanilla	Comoro Islands
Spices	Tanzania, Zimbabwe

Cost of organic banana production in Ecuador

- Labour costs 30 - 40 % higher than conventional plantation
- Pesticides : no costs - Fertilisers : home made
- Production 80 - 90 % of conventional
- Organic production costs : \$ 2.30 - 2.40 per box
- Conventional production costs : \$ 1.6 - 1.8 per box
- Buying of cardboard boxes : \$1 - 1.2 each box
- Selling prices for organic bananas : \$ 6-7 per box
- Selling prices for conventional bananas : around \$ 2 per box

Non traditional agricultural exports

- Diverse

- ➔ more than 80 commodity categories into fruits and vegetables

- ➔ over 50 into the miscellaneous

- High value commodities

- Target developed countries market

Case study : cut flowers in Kenya

- World trade : high degree of concentration
 - by products : roses (47 %), carnations (20 %)
 - by destination: Germany, USA, Netherlands, Japan
 - by sources: NL is the world's leading exporter (re export 70 % of imported flowers)
- Increasing of exports from SSA to EU
 - 146 millions US\$ in 1994
 - 248 millions US\$ in 2000
- Leading SSA exporter of cut flower to EU :
Kenya (57 % SSA exports) in 2000

Kenyan cut flowers production

- Rapid increase : 4,000 tons in 1981 - 30,000 tons in 1998 (mainly due to roses)
 - favourable climate
 - intra annual consistency in daylight hours
 - inexpensive labour
- Adapting to consumers' preferences : varieties, colours,...
- 30 different flowers, with several varieties in each
- But dependent of top three : roses, statices, alstroemeria

Role of supermarkets (once again)

- Supermarket controlled supply chain responsible of growth of production in developing countries
 - buy large quantities of cut flowers to known producers
 - impossible to source from the Netherlands (sell through the auctions)
 - African producers are more attractive

Comparison of costs between some producing countries

	Capital costs (US\$ per sq.m.)	Operating costs (US\$ per sq.m.)
Uganda	27.68	22.68 – 28.12
Kenya	29.56	39.93
Zambia	29.64	30.50
Zimbabwe	36.64	30.50
The Netherlands	108.50	50.70

Is cut flowers production sustainable ?

- Demand driven market : more challenging , specific consumers preferences
- Many new exporters : over production for common flowers
- Slow decline in annual prices and short term and seasonal price fluctuation
- Hard constraints for small producers

Lessons from Kenyan experience

- Dynamic sector, not led by government initiatives
- Needs of collective actions
 - training (floriculture, supply chain)
 - developing environmental standards
 - packaging standardisation
 - cold chain investment
 - collect and dissemination of market information
 - floricultural research

Conclusions

- Tariffs: non a very important problem
- Main obstacles : quality requirements
- Buyers standards : nothing to do about implement them
- Nsiche markets : producers empowerment / leading by huge retailers
- How to manage private requirements for more equity ?