

Trade Barriers Faced by Developing Countries' Exporters of Tropical and Diversification Products

I C T S D F A O

Debate on how best to treat agricultural products of export interest to developing countries remain protracted in the multilateral trade system. Tropical and diversification products¹ have been at the heart of this discussion given the extent of longstanding tariffs and non-tariff barriers affecting them, as well as due to their importance as a source of income, employment and rural development. The prospects for liberalisation of trade in these products, particularly opposed in some key markets, remain uncertain in the WTO's Doha Round of negotiations. While some developing countries, most visibly a group of Latin American economies, have persistently requested trade openness, others such as the African, Caribbean and Pacific (ACP) Group of states have expressed their concerns that a multilateral elimination of tariffs might result in loss of the preferential access to developed country markets they currently enjoy. Asian producers have so far mainly sought resolution through the Round's core talks on access for agricultural goods.

As a contribution to this discussion, the present Information Note provides facts and figures on the reality of trade in tropical and diversification products. It also explores the extent to which there is differential access to key import markets, and the implications of this for different groups of countries.

Tropical and Diversification Products in the WTO Negotiations

The built-in agenda of the Agreement on Agriculture concluded during the Uruguay Round reflects the longstanding priority given to tropical and diversification products:

“Having agreed that in implementing their commitments on market access, developed country Members would take fully into account the particular needs and conditions of developing country Members by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to these Members, including the fullest liberalization of trade in tropical agricultural products as agreed at the Mid-Term



International Centre for Trade and Sustainable Development



Box 1: Past Negotiations on Tropical Products

During the negotiations on the General Agreement on Tariffs and Trade (GATT), the topic of liberalising international trade in tropical products emerged in connection with the need to increase developing countries' export earnings. In the 1950s, the focus was on the problems of cocoa, coffee and tea, usually called "primary products" of interest to developing countries (and known as "tropical beverages").

In 1958, the GATT Contracting Parties decided to draw up a programme of action to speed up the liberalisation of world trade, with special priority given to increasing Least Developed Countries' (LDCs) export earnings. The body set up to move ahead in this area focused on 11 products of particular importance to developing countries, nine of which were agricultural: vegetable oils and oilseeds, cocoa, tobacco, jute goods, cotton goods, cotton, tea, wood and coffee.

It was not until the Kennedy Round (1964-1967) that tropical products were first considered as a special negotiating sector, yet no list of products covered by this protected designation was drawn up. The Special Group on Trade in Tropical Products continued working in between the Kennedy and Tokyo Rounds and decided in 1968 to give special priority to certain products, initially tea, coffee, cocoa, bananas, oilseeds and vegetable oils, and spices. The Declaration launching the Multilateral Trade Negotiations of the Tokyo Round (1973-1979) stated that tropical products had to be handled "as a special priority sector" and that negotiations had to include tariffs, non-tariff barriers and other measures affecting trade in tropical products in primary form or at any stage of processing.

During the Uruguay Round (1986-1994), it was decided that tropical products were so important for developing countries that they should be given "special attention", including in relation to the timing of negotiations and the entry into force of its results.² In the negotiating group on this topic, discussions began on seven groups of tropical products: (i) tropical beverages (cocoa, coffee and tea); (ii) spices, flowers and plants; (iii) some oilseeds, vegetable oils and oilcakes (for example palm and coconut oil); (iv) tropical roots, rice and tobacco; (v) tropical fruits and nuts (e.g. plantains, pineapples and peanuts); (vi) tropical wood and rubber and (vii) jute and hard fibres as detailed in Annex 4 of the WTO document TN/AG/S/17, *Past Negotiations and Consultations on Tropical Products* (WTO, 2005). However, the point was made that this was neither a definitive nor an exhaustive list of tropical products and could include other products.

Review, and for products of particular importance to the diversification of production from the growing of illicit narcotic crops".

The Framework Agreement reached in July 2004 notes that the full implementation of the liberalisation of trade in tropical and diversification products is "overdue and will be addressed effectively in the market access negotiations." At the same time, paragraph 44 of the Framework states that "the importance of long-standing preferences is fully recognised. The issue of preference erosion will be addressed".³

The Current Positions of Interested Countries on Tropical and Diversification Products

The positions of the main actors in the negotiation have become clearer in the course of 2006 and 2007. A group of Latin American countries (LACs)⁴, the ACP countries, the EC and the G-10⁵ have each proposed several measures related to the coverage and treatment of tropical and diversification products.⁶

In terms of the definition of tropical and diversification products, the LACs contend that tropical

products should include those cultivated between the Tropics of Cancer and Capricorn, and diversification products are those products “growing in tropical zones under the potential of growing illicit crops that threaten human and social development”. The group takes the Uruguay Round (UR) list as a starting point, but also supports a proposal submitted by the Cairns Group (March 2007), which includes 134 products at the six-digit level of the Harmonised System (HS) including several contentious products, such as sugar and bananas. The LACs consider that the products list should include the tropical products of high export importance for developing countries as well as alternative products essential for the diversification of production from the growing of illicit narcotic crops. The EC agrees that the list should be based on the Uruguay Round indicative list but suggests that it should not be extended to include products which are not predominantly tropical in origin and that are also produced in significant quantities in non-tropical zones.⁷ It also argues that issues related to tropical products and diversification products should be analysed separately, a suggestion opposed by the LACs. Finally, the ACP countries raised concerns about including in the tropical and diversification products lists products for which they have benefited from long standing preferences.⁸ They expressed, however, their commitment to continue working with other Members to find a satisfactory solution to the issue of the overlap between preference-receiving products and tropical and diversification products.

As for treatment, the LACs are seeking substantially more ambitious tariff reductions for tropical and diversification products than those that will be adopted in each of the general formula bands. The ACP group wants to ensure further access for certain products, but also wants significantly longer implementation periods for the products currently receiving longstanding preferences. It also seeks binding commitments from developed countries that will reduce preferential access, to provide targeted technical assistance to address supply-side constraints, ease the adjustment burden and promote the diversification of production in preference-receiving Members. For their part, the EC is seeking to moderate the extent of cuts to preferential products and argue that countries should be able to use sensitive product provisions for tropical and diversification products, a suggestion supported by the G-10 and opposed by the LACs.

It is unclear as yet whether developed countries will be able to designate such “tropical and diversification products” as sensitive products for lesser tariff reductions - a potential tension with the objective of the fullest liberalisation of such products. The issue of treatment of tropical and diversification products is not considered further in this Note.

The divergent positions of the different groups on the issue of coverage were reflected in the previous draft modalities circulated by the Chair of the Committee of Agriculture on 17 July 2007 and reviewed on 1 August 2007. The text in the revised draft circulated on 8 February 2008 includes two alternative lists (the Cairns Group list of 134 HS6 tariff lines and the existing UR list), with little guidance as to which should be included in any final agreement. On the issue of treatment, the Chair’s text presents different options. One option is for tariffs on tropical and diversification products below 25 percent to be eliminated, while the rest are subject to an 85 percent reduction, with no commodities in the product list eligible to be designated as ‘sensitive’. Another would subject most tropical and diversification products facing tariffs of over 10 percent to the highest percentage cut required by the standard reduction formula (even if they would not otherwise fall in the highest tier).

The Importance of Tropical Products to Developing Countries

The underlying rationale behind the need to provide special treatment for tropical products relates to the socio-economic importance of those products for developing countries. For the purpose of undertaking an analysis of patterns of trade in tropical products, the Cairns Group list is rather narrow, excluding many items which would generally be thought of as “tropical products”. It does not, for example, include raw coffee, cocoa beans, rubber, tropical wood, jute or hard fibres. This is partly because some products such as rubber or tropical woods are currently covered under the non-agricultural market access (NAMA) negotiations and partly because several products already benefit from duty free market access on a most-favoured-nation (MFN) basis in major importing markets. For the purpose of this particular section, however, the more inclusive Uruguay Round indicative list (TN/AG/S/17) is used

to assess the value of trade and the rate of dependency on tropical products. Data from two sources are used to explore patterns and trends in trade, FAOSTAT data on the value of exports from developing countries, and COMTRADE data on trade between specific sets of countries.

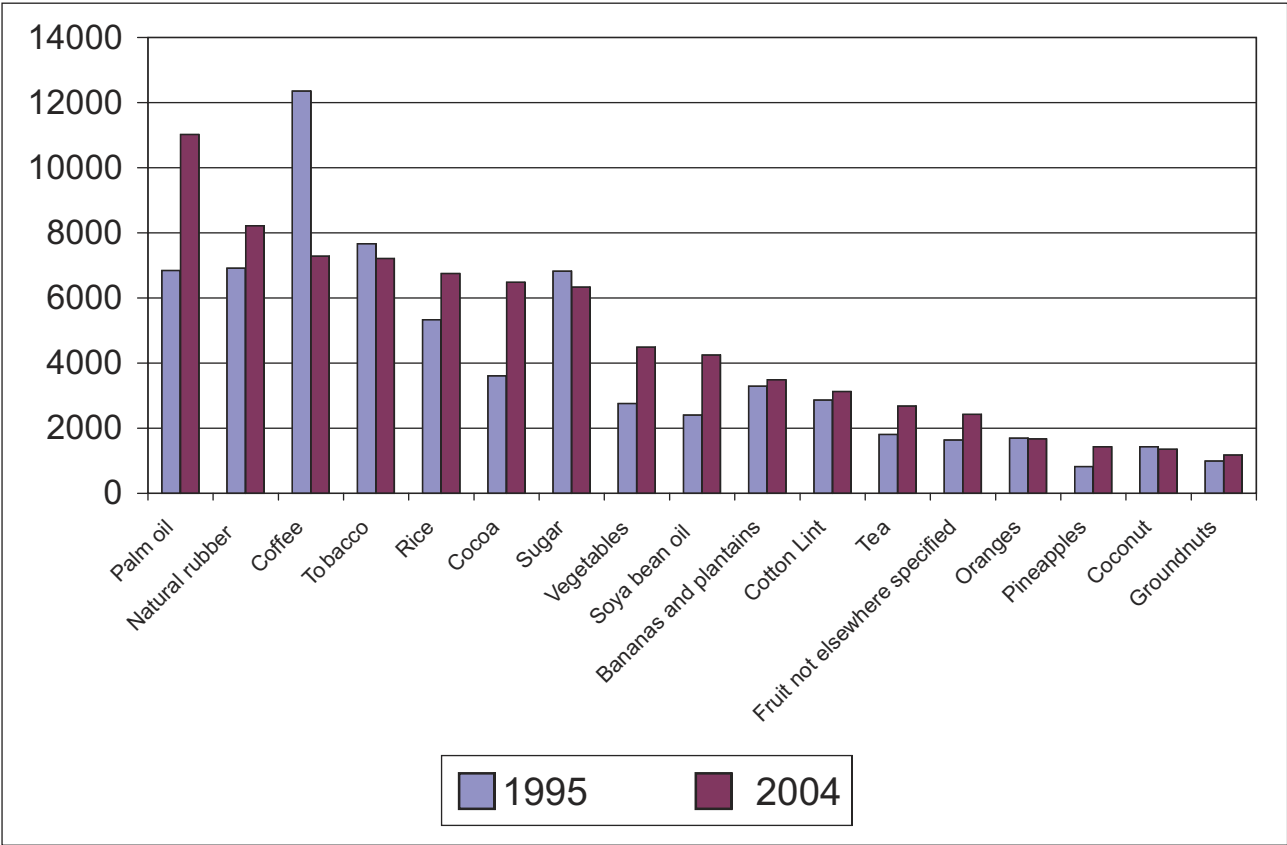
The most significant revenue-earning items are palm oil and kernels, rubber, coffee, tobacco (including manufactured cigarettes), rice and rice products, cocoa and chocolate, and sugar. One notable development between 1995 and 2004 is the increased importance of palm oil. The reduction in value of coffee exports in that period reflects a reduced level of prices in 2004, although export volumes were higher.

At the aggregate level, developing countries have a low and decreasing level of dependence on tropical products. Tropical products represented six percent of the total value of merchandise trade from developing countries in 1995, and only

three percent in 2004. For a considerable number of countries, however, these products are more significant. Of 147 developing countries for which data are available, 48 in 1995 and 30 in 2004 derived more than 25 percent of their export earnings from these products. A few of these countries remain heavily dependent on exports of one or a few tropical products. Ten countries in 1995 and four countries in 2004 derived 70 percent or more of their export earnings from those products. For Malawi in 2004, tropical products constituted 79 percent of total merchandise exports, and tobacco made up two thirds of this. For Gambia, they constituted 74 percent of total exports in 2004, with sugar and groundnuts accounting for more than eighty percent of the total. For Vanuatu, tropical products, essentially coconut and coconut products, accounted for 73 percent of the total value of merchandise exports.

In the period between 1995 and 2004, Sudan markedly reduced its dependence on cotton and sesame,

Figure 1: Value of Exports of Tropical Products from Developing Countries, 1995 and 2004 (USD millions)



Source: FAOSTAT. Note: In each case the product includes the raw product plus processed forms. Natural rubber includes rubber products, including tyres. Tobacco includes cigarettes. Cocoa includes chocolate. Fruits include fresh, dried, canned, juices, etc. Coconut includes copra, desiccated, etc. Values are in nominal terms.

Tanzania on coffee and cotton, and Uganda on coffee, while remaining important producers of these commodities. Over the same periods, countries such as Colombia, Costa Rica and Cuba have reduced their rate of dependency on tropical products by nearly 50%. A few countries, however, have become more dependent on tropical product exports.

While it has not been possible to systematically analyse trends in value-adding to tropical products, it does appear that an increasing proportion of trade is in processed products. For example, the value of exports of refined sugar increased from 23 to 39 percent of the total trade in sugar. Roasted coffee beans, while remaining a very small component, increased from 0.5 to 1 percent of the total coffee trade, and raw cocoa beans fell from 64 to 55 percent of the total trade in cocoa and chocolate.

While it might commonly be assumed that tropical products flow primarily from developing to developed countries, a considerable portion of the trade in those products as defined at the HS4 level is from developed countries. COMTRADE data were used to look in more detail at global trade flows in specific products. The total value of exports in tropical products in this data set in 2004 was USD 356 billion, of which 62 percent was from developed countries, with only 38 percent from developing countries.

For example, figure 2 shows that almost 63 percent of exports in the “rubber and tropical wood” group are from developed to other developed countries, with an additional eight percent flowing from developed to developing countries. In other categories as well, exports from developed countries are higher than might be expected - more than 60 percent of the value of exports of “spices, flowers and plants” accrues to developed countries.

It appears that developed countries participate strongly in the exports of tropical products for two main reasons.⁹ One is that the category includes not only raw materials but also processed and manufactured products based on raw tropical products. Unprocessed tropical products feature strongly in trade flows from developing to developed countries, but in many cases they are dominated by processed and manufactured items flowing from developed countries. Thus the group “tropical roots, rice and tobacco” includes manufactured cigarettes, which constitute 40 percent of the total by value, and

exports of which are dominated by developed countries. Exports of manufactured tyres constitute 16 percent of the total “rubber and tropical wood” which includes raw and processed natural rubber. Seventy-five percent of tyres are exported from developed countries.¹⁰

A second factor behind the high level of developed country participation in exports of tropical products is that these products are not exclusively the produce of tropical regions. Thus in the category “spices, flowers and plants, plaiting products, etc,” 95 percent of the live plants and mushrooms are exported by developed countries, as are 70 percent of the cut flowers and flower buds group. Vegetables, potatoes, tobacco and many other “tropical” products are, in fact, produced in and exported in significant quantities by developed countries with temperate climates.

Access to Developed Country Markets

Bureau *et al* (2007) shed light on the reality of market access conditions for tropical and diversification products in the main import markets, namely the EU, the US, Japan and Canada, for the LACs and the ACP countries.¹¹ A detailed analysis of the tariffs faced by tropical and diversification shows that the situation looks very different depending on whether one focuses on bound tariffs or on applied tariffs. Latin American countries, as well as most Asian countries, are often seen as being discriminated against by the EU and US preferential schemes that ACP countries benefit from. However, an analysis of applied tariffs shows that the LAC group actually benefits from tariff concessions in the EU, US, Canadian and Japanese markets that are quite similar to the ones granted to ACP countries for many tropical and diversification products.

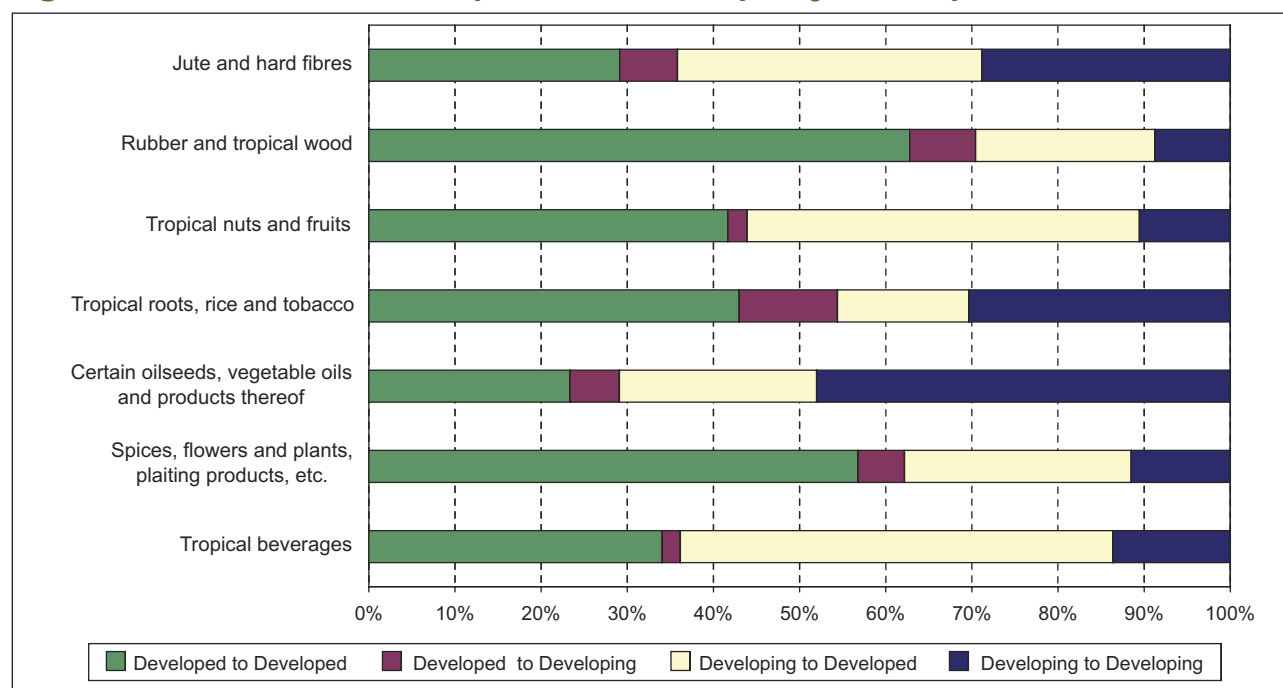
Most developing countries are granted reduced tariffs under the Generalised System of Preferences (GSP), but the coverage of the GSP is often partial and the depth of the preferential margins limited. The ACP countries and the group of LACs also benefit from several additional preferential schemes in the EU, the US and Canada. The combination of the EU GSP+, the US Andean Trade Promotion and Drug Enforcement Act (ATPDEA) and the Central American Free Trade Agreement (CAFTA) results in the elimination of the tariffs

Table 1: Tropical Product Exports as Percent of Total Merchandise Exports (Value) for Selected Countries with Higher Levels of Dependence on Tropical Products

| Country | Tropical Products as percent of total merchandise | | Composition of Tropical Products Exports 2004 |
|--------------------------|---|------|---|
| | 1995 | 2004 | |
| Belize | 67 | 59 | Sugar 30%, Bananas 32% |
| Benin | 47 | 63 | Cotton 80% |
| Burkina Faso | 26 | 57 | Cotton 90% |
| Burundi | 88 | 47 | Coffee 80% |
| Chad | 59 | 34 | Cotton 99% |
| Colombia | 27 | 13 | Coffee 31% |
| Comoros | 80 | 72 | Vanilla 65% |
| Costa Rica | 41 | 23 | Bananas 27%, Pineapple 14% |
| Côte d'Ivoire | 55 | 48 | Cocoa 72% |
| Cuba | 57 | 33 | Sugar 62%, Tobacco 26% |
| Dominica | 49 | 30 | Bananas 70% |
| Dominican Republic | 40 | 37 | Tobacco 48% |
| Ecuador | 30 | 20 | Bananas 52% |
| Ethiopia | 72 | 39 | Coffee 65% |
| Gambia | 65 | 74 | Sugar 54%, Groundnuts 30% |
| Ghana | 27 | 50 | Cocoa 80% |
| Grenada | 47 | 41 | Nutmeg, Mace, Cardamon 76% |
| Guatemala | 58 | 37 | Sugar 30%, Bananas 23% |
| Honduras | 49 | 48 | Coffee 30%, Bananas 26% |
| Kenya | 44 | 31 | Tea 56% |
| Malawi | 83 | 79 | Tobacco 67% |
| Nicaragua | 33 | 44 | Coffee 51% |
| Rwanda | 46 | 31 | Coffee 93% |
| Saint Lucia | 53 | 40 | Bananas 95% |
| Saint Vincent/Grenadines | 55 | 56 | Bananas 93% |
| Solomon Islands | 21 | 35 | Palm oil, Kernels 45% |
| Sudan | 50 | 10 | Sesame 51%, Cotton 27% |
| Tanzania | 51 | 20 | Tobacco 25%, Cotton 20%, Coffee 20% |
| Uganda | 74 | 27 | Coffee 51% |
| Vanuatu | 46 | 73 | Coconuts, Copra 92% |

Source: FAOSTAT

Figure 2: Trade Flows in Tropical Products by Major Group



Source: COMTRADE

faced by a large number of exports of the group of LACs in both the EU and US markets. The combination of the EU Cotonou Agreement, the Everything But Arms initiative and the Caribbean Basin Economic Recovery Act (CBERA) also provides duty free access to a large number of exports from ACP countries.

The recent agreements (GSP+ and CAFTA), together with the ATPDEA, now provide the eleven LACs with tariff exemptions that are quite similar to the ones granted to ACP countries in the EU and US markets. In practice, the Latin American group has access to the EU market, duty free or with minimal duty¹², for 87 percent of the tariff lines of the products that they would like to have considered as tropical.¹³

The fact that several countries already benefit from duty free market access under preferential schemes should not be interpreted however, as a reason not to liberalise multilaterally. Full liberalisation under the WTO would provide a more stable and predictable framework than the present set of non-reciprocal preferences granted to the ACP group and LACs. It would also provide both groups with greater access to markets that are still protected, such as Japan and emerging countries. The two groups would nevertheless face more competition from low-cost producers currently exporting under the GSP in the EU, US and Canadian markets.

Figures 3 and 4 below show the simple average tariff at the HS4 level faced by the ACP and LACs in the EU and US markets for selected tropical and diversification products taken from the Cairns Group list. It does this by comparing MFN rates with duties charged under different preferential schemes.

Figure 3 shows that in the case of the US, the preferences granted under the different existing schemes and bilateral agreements to ACP and LACs are strikingly similar. Overall, the US maintains fairly low tariffs on most tropical and diversification products with the exception of peanuts, tobacco and sugar, together with processed products which include milk and sugar such as chocolate.

The EU preferential schemes clearly show higher duties on more products and larger differences among preferential schemes. Overall, however, the GSP + preferences tend to be fairly similar to the ones granted under the Cotonou regime. The gap in the applied tariffs faced by ACP and LACs is often limited to a few percentage points which provide small relative margins, when compared to exchange rate fluctuations.

By comparing the actual market access granted to both groups of countries, Bureau *et al* (2007) identified products for which the LAC group and the

ACP group would benefit from further liberalisation under the WTO negotiation. If we define such a list as those products for which either both the ACP and the LACs face high applied tariffs, or those products for which one of the groups faces significant tariffs while the other group has little export capacity, the list would include:

- **Cassava.** Both groups face tariff barriers in the EU. The main beneficiaries of trade liberalisation would be Costa Rica, followed by Ghana and Jamaica (item HS 71410). Ecuador and Cameroon, exporters of cassava starch (HS110810), would also benefit from a reduction in the high tariffs in the EU.
- **Tobacco.** With the exception of a few countries benefiting from a quota, both groups face very high tariffs for some particular products in the US.
- **Groundnuts.** Both groups face high tariffs in the US and Japan (HS120210 and 120220). Groundnuts are a significant export for Nicaragua, South Africa, Ghana, Malawi, Tanzania, the Gambia and Senegal. However, Senegal exports mainly groundnut oil, which faces less protection and is part of the ACP list of products for which preference erosion is a concern (HS150810).
- **Citrus (HS0805).** Both groups face high tariffs in the EU and Japan, grapefruits being less protected in the EU and lemons being less protected than other citrus fruits in Japan. South Africa is the largest exporter of citrus among the ACP countries and LACs, with exports totalling USD 950 million. It is followed by Zimbabwe, Honduras, Swaziland and Peru, whose exports range between USD 25 and 35 million.
- **Margarine (HS161710).** While quite incidental in terms of international trade, margarine faces a very high tariff in Canada, as well as significant tariffs in the EU and Japan.

Whilst access to key markets is broadly similar for a range of potential tropical and diversification products, the main products where the ACP countries and the eleven LACs have different access to developed countries' markets are as follows:

- Significant divergence in the **banana** sector, due to much lower tariffs for the ACP in the EU, and

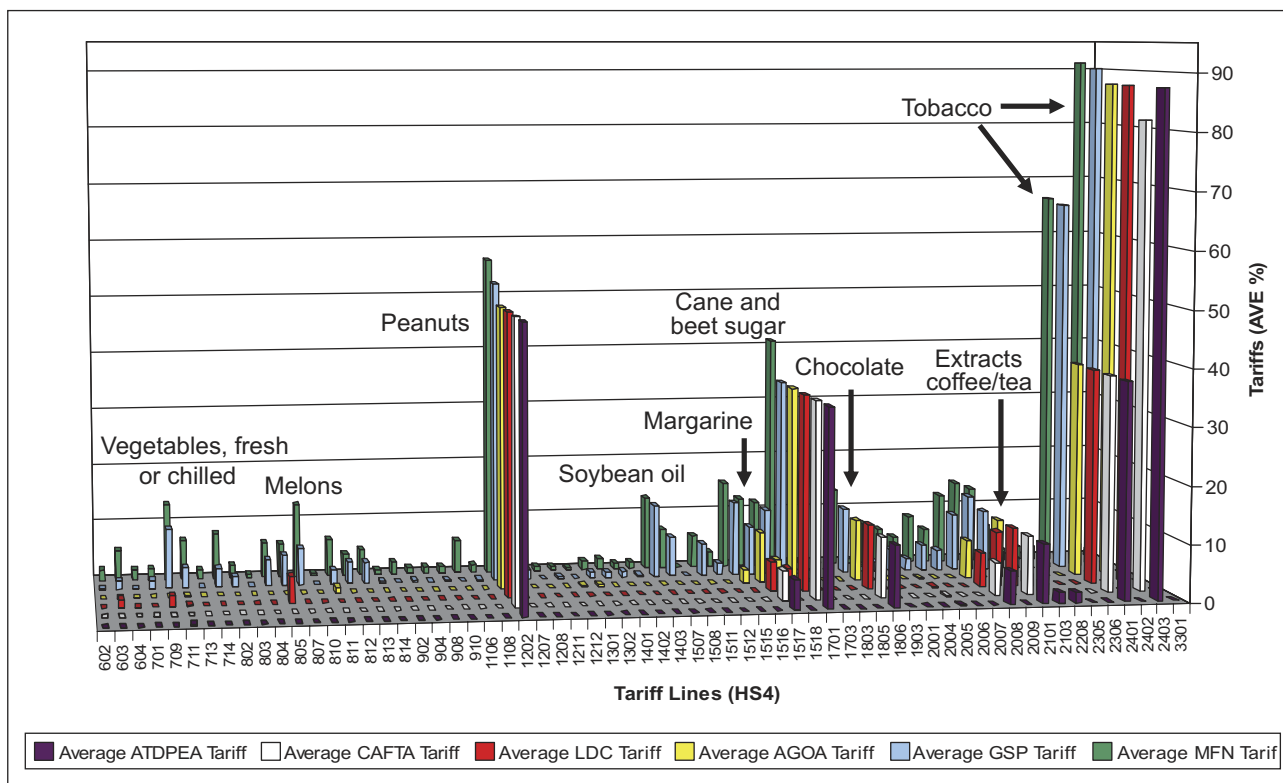
duty free access for the Least Developed Countries (LDCs) in the EU market (see Box 2 for further detail on the current status of the ongoing negotiations around this issue).

- Some difference in the **sugar** sector in the EU market, due to the quotas under the Everything But Arms initiative (EBA) and the ACP protocol and the duty free access for LDCs starting in 2009.
- Some difference regarding **rum** and other **ethyl alcohol** in the EU market. ACP countries have duty free access under the Cotonou agreement, while the eleven LACs face the MFN (most favoured nation) tariff, EUR 0.6 per percentage alcohol content in vol/hl, plus an additional duty of 3.2 EUR/hl (code 22084011), i.e. roughly an eight percent ad valorem equivalent.
- Some difference regarding particular **starch products** (arrowroot) in the EU. Those exported by the eleven LACs are more protected than those exported by the ACP countries to the EU (HS 071490). This may provide an advantage to Ghana, Jamaica and Dominican Republic over Costa Rica, Nicaragua and Colombia in exporting these products to the EU. It is however a small market given the decrease in EU grain prices following a succession of reforms in the Common Agricultural Policy (CAP).
- Some difference regarding the preparations of cocoa and preparations of fruits **including sugar**. For both categories of products, ACP exporters face lower tariffs than the eleven LAC exporters. In particular, chocolate products enter duty free in the EU market, while the eleven LAC exporters face a higher tariff as soon as they include sugar.

Potential Tropical and Diversification Products Designated as Sensitive

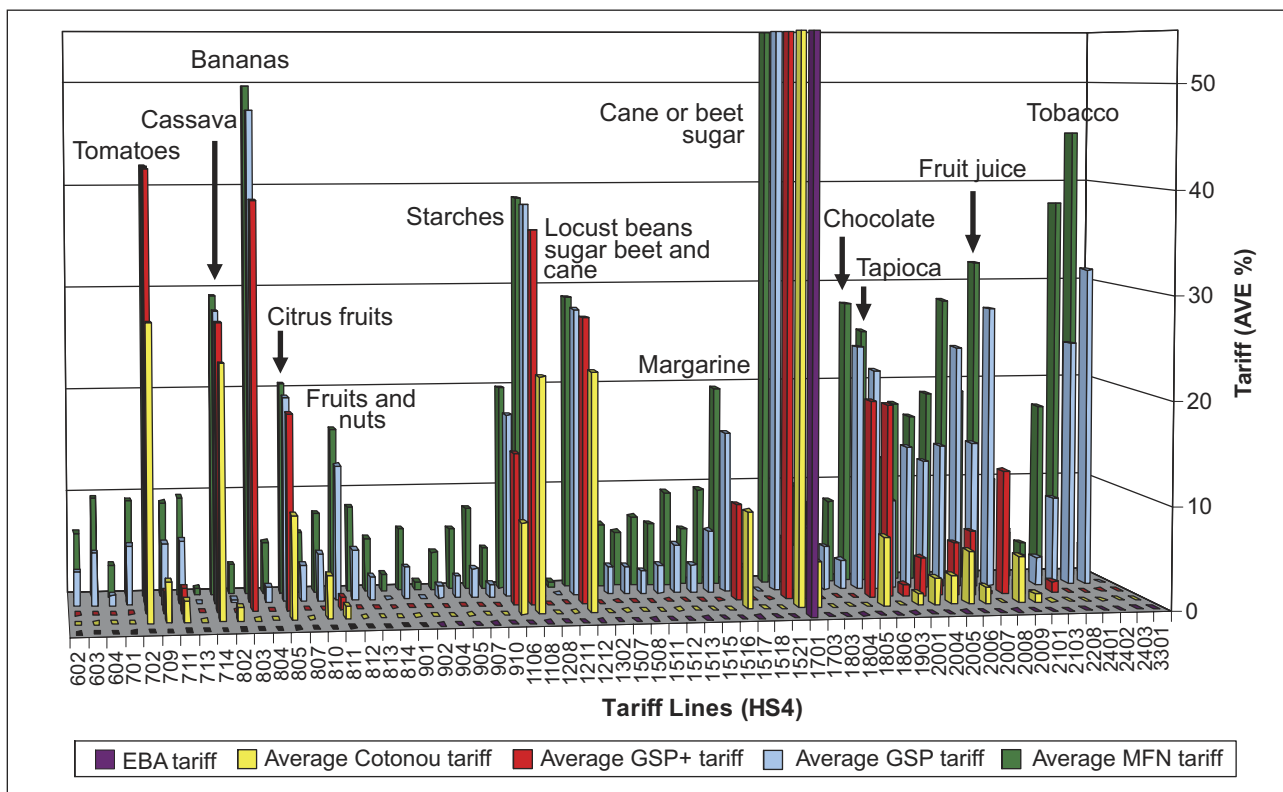
Another element which is likely to affect the treatment of tropical products is the flexibility envisaged in the Chair's draft modalities for sensitive products which will be eligible for smaller than formula cuts in return for the expansion of import quotas.¹⁴ A key question for evaluation is how the sensitive

Figure 3: Applied and MFN Tariff in the US on Selected Tropical and Diversification Products



Source: ICTSD using data by Bureau et al (2007). Authors' calculations, using USITC 2006 tariff data, HTS 2007 for preferences, and COMTRADE and IDB for ad valorem equivalents

Figure 4: Applied and MFN Tariff in the EU on Selected Tropical and Diversification Products



Source: ICTSD using data by Bureau et al (2007). IDB and Taric, tariffs for 2006 for Cotonou and GSP+.



products are likely to be chosen and the extent to which developed countries will be allowed to designate tropical products as sensitive. The selection of sensitive products is constrained by a set of specific rules, but left to the discretion of policy makers. Guessing which products may be selected as sensitive is therefore inevitably hazardous. Nevertheless, the elaboration of trade policy has already been scrutinised in depth in the literature, allowing well-grounded simulations to be made.

Jean, Laborde and Martin (2008) propose a simplified criterion for selection of sensitive products. It implies a tendency to select products that are important as shares of total imports (at domestic prices); that have high initial applied tariffs; and that would face large cuts in applied rates if the formula were applied without exceptions. The allowed number of sensitive products is still being negotiated. The calculations presented here are based on the assumption that 5% of tariff lines can be treated as sensitive. The analysis is carried out at the HS6 level, which entails significant simplification compared to the tariff line level at which the EU's lists should actually be established. Based on those assumptions, Jean and Laborde (2008) and Laborde and Martin (2008) suggest that the EU and the US are likely to designate some tropical and diversification products included in the Cairns list (WTO, 2007) as 'sensitive'. These would include shelled ground nuts (HS

120220), raw cane sugar (HS 170111), cane or beet sugar (HS 170199), sugar confectionary (HS 170490), chocolate (HS 180620), groundnuts (HS 200811), frozen orange juice (HS 200911), tobacco not stemmed (HS 240110), tobacco stemmed (HS 240120), and smoking tobacco (HS 240310) in the case of the US. The products coming up as most likely to be treated as sensitive by the EU include raw cane sugar (HS 170111), bananas (HS 080300), cane or beet sugar (HS 170199), fresh or dried manioc (cassava) (HS 071410), and semi-milled or wholly milled rice (HS 100630).

Tariff Escalation

The analysis of relative levels of access is further complicated by the existence of tariff escalation, which varies significantly across products and markets. The examination of the bound tariff structures of the EU, US, Canada and Japan indicates that tariff escalation is widespread. However, Bureau *et al* (2007) argue that this is not the case if the focus is on applied tariffs, i.e. if the preferential regimes are taken into account. Tariff escalation is observed for cotton in Japan and in the US, but for most of the other products, the preferences are such that the ACP countries and the LACs do not face serious tariff escalation. The only cases where tariff escalation seems to be

an issue are in Japan (coffee, cocoa, groundnuts, vegetables and citrus), which is a small market for ACP countries and LACs, with the exception of South Africa. In all other cases, there is little evidence that the value added is protected.

Some processed products such as fruit juice do face a higher tariff than the raw commodity in the EU and US. However, in most cases, this is explained by the introduction of components such as sugar or dairy products which are highly protected, or the concentration of fruit juice that increases the sugar content. This is well illustrated by the case of chocolate in the EU. As shown in table 2 below, cocoa beans face a zero MFN tariff, while paste and butter (which do not include sugar) face an MFN tariff between 7

to nearly 10 percent. This reflects protection of the processing industry at this first processing stage and represents a clear incentive to import raw material and process it in the EU.

In contrast, the progression of customs duties between butter, cocoa paste and chocolate does not reflect protection for the processing industry. Chocolate contains sugar and often milk which are subject to high duties. In other words one can only talk about tariff escalation if duties on chocolate are more than proportional to the duties on raw materials. In this particular case, calculations show that the tariffs on processed products roughly correspond to the duties on ingredients (sugar, dairy products, nuts). The same applies to producers exporting

Table 2: Tariff Escalation and Cocoa Industry Protection in the EU

| | MFN tariff % | GSP tariff % | GSP+ tariff % | Cotonou tariff % | EBA tariff % |
|--|--------------|--------------|---------------|------------------|--------------|
| Cocoa beans,raw or roasted | 0 | 0 | 0 | 0 | 0 |
| Cocoa paste | 9.6 | 6.1 | 0 | 0 | 0 |
| Cocoa butter, fat and oil | 7.7 | 4.2 | 0 | 0 | 0 |
| Cocoa powder, not containing added sugar | 8 | 2.8 | 0 | 0 | 0 |
| Cocoa powder, containing less than 5 % of sucrose | 8 | 2.8 | 0 | 0 | 0 |
| Cocoa powder containing 5 % or more but less than 65 % of sucrose | 27.7 | 22.5 | 19.7 | 19.7 | 0 |
| Cocoa powder containing 65 % or more but less than 80 % of sucrose | 26.2 | 22.7 | 18.2 | 18.2 | 0 |
| Cocoa powder containing 80 % or more of sucrose | 66.4 | 62.9 | 58.4 | 58.4 | 0 |
| Cocoa powder containing 31 % or more of cocoa butter or milkfat | 28.4 | 23.5 | 18.7 | 0 | 0 |
| Chocolate milk crumb | 58.4 | 53.9 | 43 | 0 | 0 |
| Chocolate flavour coating | 42 | 38.5 | 33.7 | 0 | 0 |
| Chocolate filled | 23.5 | 20 | 15.2 | 0 | 0 |
| Chocolate filled with added cereal, fruit or nuts | 24.2 | 20.7 | 15.9 | 0 | 0 |
| Cocoa preparation containing alcohol | 14.6 | 11.1 | 6.3 | 0 | 0 |
| Cocoa preparation filled | 22.8 | 19.3 | 14.5 | 0 | 0 |
| Cocoa preparation not filled | 19.4 | 15.9 | 11.1 | 0 | 0 |
| Sugar confectionery containing cocoa | 25.9 | 22.4 | 17.6 | 0 | 0 |
| Spreads containing cocoa | 23.4 | 19.9 | 15.1 | 15.1 | 0 |
| Preparations containing cocoa for making beverages | 21.7 | 18.2 | 13.4 | 13.4 | 0 |
| Other | 21.3 | 17.8 | 13 | 13 | 0 |

Source: Bureau et al (2007)

under the GSP or GSP+. In the case of Cotonou and EBA, there is even evidence of tariff de-escalation for certain products containing significant percentage of sugar.

Reducing the Overlap between Tropical and Diversification Products and Preference Erosion Products

Stevens and Kennan (2006) compare the list of items¹⁴ for which eight selected LACs seek substantial and rapid liberalisation, and the ACP list of items¹⁶ for which preference erosion is a concern. They suggest that at first sight, the overlap is so significant that a compromise may be difficult. However, if the ACP countries were willing to limit their exclusions just to goods that they actually export to the EU (in other than trivial amounts) and which face MFN tariffs of 10 percent or more, the overlap between the two lists could be halved. Similarly, if the signatories to the LAC paper agreed to remove from their list any remaining contentious items on which they already have duty-free access to the EU under GSP+, Stevens and Kennan suggest that the overlap could be reduced by another 82 percent.

What is left in their approach is a list of “hard cases” for which compromise will be difficult to reach, but which is sufficiently short that high-level discussions could feasibly produce a *modus vivendi* between the two groups. Then these products would be left out of the core list of tropical and diversification products, but accorded recognition and appropriate treatment through different means. Sugar and bananas (see Box 2) stand out clearly as major items on which there is a fundamental difference between the Latin American and ACP groups.

Other Barriers to Trade: Food Standards

Relative levels of access to developed countries markets are generally considered in terms of the tariff barriers that different countries face. However, for many tropical and diversification products, tariff barriers are not the most important factor in restricting access to developed country markets. Other barriers to trade include food standards (public and private), which are becoming more dominant

in the food trading system. These standards are mainly imposed by high-income countries and increasingly established by large food processing and distribution companies. While some argue that these standards act as new barriers to developing country exports, others argue that compliance with food standards can be a catalyst for the upgrading and modernisation of developing country's food supply systems and for export growth (Jaffe and Henson, 2005; Henson, 2006).

Disdier *et al* (2008) analyses the trade effects of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) on tropical and diversification products.¹⁷ The data on SPS and TBT measures come from the United Nations Conference on Trade and Development (UNCTAD) database on non-tariff barriers (NTBs) which uses notifications to the WTO, completed by individual countries trade policies survey as well as a series of national sources. One of the limitations of this approach however is the fact that WTO Members only have to notify changes to their SPS and TBT regimes. Measures that have been in place without modifications do not need to be notified and could be missing in the analysis.

Keeping these limitations in mind, the study shows that the EU, Canada and Switzerland mainly use authorizations, while the US, Japan and Australia mostly notify technical measures related to product characteristics requirements or related to testing, inspection or quarantine requirements. Australia also applies technical measures related to labeling requirements. In addition, importing countries cite different motives when imposing SPS and TBTs measures: the European Union aims to protect wildlife, while Canada focuses on the protection of plant health. The US, Japan and Switzerland aim to protect human health and finally, Australia's most frequent concerns are the protections of human and plant health.

The number of tropical and diversification products affected by a SPS and/or a TBT measure varies significantly among main importing country. Over the 134 products taken into account in the study, 131 face a SPS or a TBT. Only HS 200190 (vegetable, fruit, nuts not classified elsewhere prepared or preserved by vinegar), HS 330112 (essential oils of orange) and HS 3330113 (essential oils of lemon) do not face any barrier in any importing country. However, the number of notified products strongly differs among

importing countries. The EU notifies measures on only 6 products and Japan on 18 products. In the middle of the ranking, we find Canada (61 notified products), the US (67 products) and Switzerland (72 products). Finally, Australia notifies SPS and TBT measures on all except three products (HS 200190 - vegetable, fruit, nuts not classified elsewhere prepared or preserved by vinegar, HS 330112 - essential oils of orange and HS 330113 - essential oils of lemon).

There are strong variations in the average share of trade in tropical and diversification products affected by SPS/TBT measures between major export markets (see figure 5). The share of affected exports on each market depends on the notification of SPS and TBTs by the importing country. Australia notifies standards on almost all tropical and diversification products. Consequently, the share of exports to Australia affected by these standards is very high.

Box 2: Differential Access to the European Market – the Case of Bananas

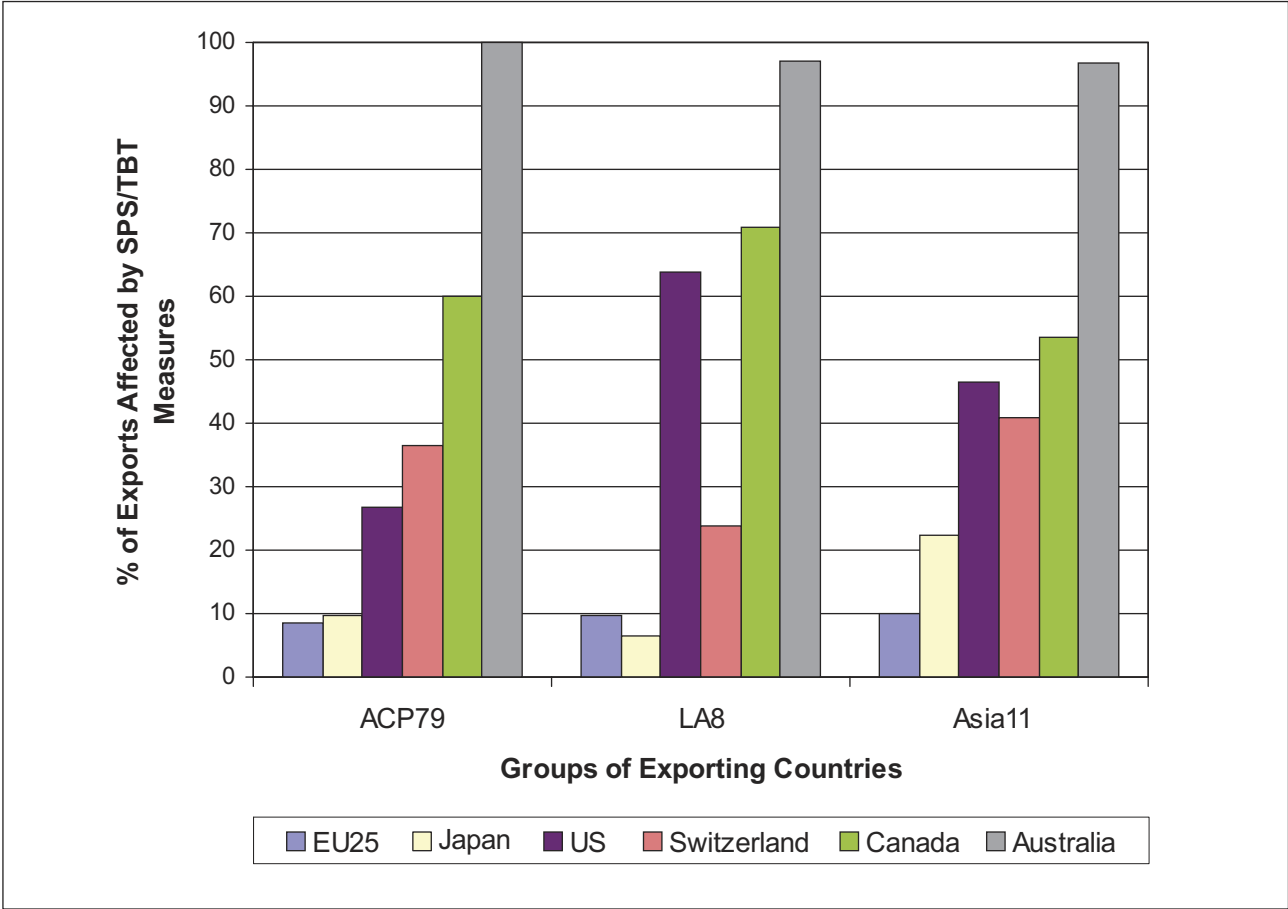
By both volume and value, bananas are the world's most exported fresh fruit and are an essential source of income and employment for several Latin American and ACP countries (notably in the Caribbean and West Africa). The EU, with 27 member states and a population of nearly half a billion consumers with high average incomes, is the world's largest market for bananas. It imported almost 4.5 million tonnes in 2006 from Latin America, Africa and the Caribbean, accounting for over one third of global banana imports.

The EU applies a general tariff of EUR 176 per tonne to banana imports. However, some groups of countries are exempt from this tariff. Bananas imported from any Least Developed Country (LDC) can enter duty-free without any quantitative restrictions in accordance with the EU's Everything But Arms initiative (EBA). Similarly, since January 2008 those non-LDC ACP countries which have signed an Economic Partnership Agreement (EPA) with the EU can export their bananas duty- and quota-free. Since all the ACP countries that supply substantial quantities of bananas to the EU have signed an EPA, in practice virtually all ACP bananas have free access to this market.

Latin American countries that export bananas to the EU have complained that the tariff of EUR176 per tonne is too high and constitutes unfair discrimination. In the previous EU system, duty-free imports of ACP bananas were capped by a quota of 775,000 tonnes. Since this quota was removed in January 2008, LACs fear that ACP bananas will displace their exports to the EU and insist that the tariff should be substantially reduced. Conversely, ACP countries oppose any tariff reduction on the ground that this tariff difference is needed to compensate for the lower competitiveness of their banana industries.

The issue is complex. It is too early to determine whether the EPAs will lead to an increase in imports of ACP bananas. A tariff reduction under the WTO negotiations would raise the competitiveness of Latin American suppliers vis-à-vis ACP suppliers. However, within each of these groups there are wide differences across countries in terms of income per capita, level of economic development and competitiveness of the banana industry. While Latin American banana producers tend to be modern and efficient, there are exceptions (e.g. Nicaragua and Panama). Also, within the ACP group, some suppliers (e.g. the Windward Islands and Jamaica) are less competitive while others (e.g. Cameroon and Côte d'Ivoire) have more efficient producers. The fact that imports of ACP bananas exceeded the duty-free quota of 775,000 tonnes in 2006 and 2007 means that some ACP suppliers can compete even when they face the same tariff as Latin American suppliers. However, a substantial tariff cut would have a strong negative impact on the exports of several Caribbean suppliers and may even lead to their exclusion from the EU market.

Figure 5: Average Share of Trade in Tropical and Diversification Products Affected by SPS/TBT Measures in Major Export Markets



Source: based on Disdier et al (2008). ACP79 refers to the group of 79 ACP countries. LA8 refers to eight Latin American countries seeking the fullest liberalisation of trade in tropical and diversification products (Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Nicaragua, Panama and Peru). Asia11 refers to eleven Asian countries which are members of the WTO and producers of tropical products (Bangladesh, Brunei, Cambodia, India, Indonesia, Malaysia, Myanmar, Philippines, Sri Lanka, Thailand and Viet Nam).

Table 3 shows the value of imports of the main developed countries affected by standards and the share of affected imports in the total imports of tropical and diversification products. There are strong variations in the share of affected imports in the total of imports. This share is above 50% for Canada (55.3%), the US (66.2%) and Australia (99.3%). On the other hand, it equals only 5% for the EU and 7.6% for Japan. Both countries notify less SPS and TBTs than other importing countries. Interestingly, the share is 18.1% for Switzerland. Switzerland notifies more measures than the EU, Japan and Canada. The smaller share of affected imports for Switzerland than for Canada (18.1% versus 55.3%) seems therefore to suggest that Switzerland’s notifications limit trade to a greater extent than Canadian measures.

Through econometric analysis based on the gravity equation approach, the study shows that imports

from ACP countries and some LACs are particularly affected by SPS and TBT measures. Furthermore, ACP countries are much more affected than LACs. With regards to the impact of SPS and TBTs on trade flows by sector, the trade effects of these measures seem to be positive for some exporters: cereals for LACs (HS 10); vegetables plaiting materials, vegetable products for some LACs (HS 14) and tobacco and manufactured tobacco substitutes for Asian countries (HS 24). However, ACP countries are the exporters for which the most sectors are negatively and significantly affected by SPS and TBTs (HS 08 - edible fruit, nuts, peel of citrus fruit, melons; HS 10 - cereals; HS 12 - oil seeds, oleaginous fruits, grain, seed, fruit; HS 18 - cocoa and cocoa preparations, HS 20 - vegetable, fruit, nut, food preparations and HS 21 - miscellaneous edible preparations).

In addition to public measures, there has been a proliferation of private sector initiatives to

Table 3: The Use of SPS and TBT Measures by Importing Countries

| Importing country | EU25 | Canada | US | Japan | Austral. | Switzerl. |
|--|------------|-----------|-----------|-----------|----------|-----------|
| Total imports of tropical and diversification products ('000s USD) | 15,946,583 | 1,056,462 | 9,119,398 | 2,192,672 | 372,593 | 345,747 |
| Imports of tropical and diversification products affected by standards ('000s USD) | 797,041 | 584,134 | 6,036,727 | 165,780 | 369,937 | 62,701 |
| Share of affected imports (%) | 5.0 | 55.3 | 66.2 | 7.6 | 99.3 | 18.1 |

Source: Disdier *et al* (2008). The study is based on products listed by the Cairns Group in the document JOB(07)/31, dated 16 March 2007.

set standards and certification programmes for agricultural products since the early 1990s. It is important that such considerations are not overlooked in discussing opportunities to access developed country markets. Concerns have arisen, especially in developing countries, over the burden that private standards place on producers and exporters. In particular, standards for food safety and good production practices have come under close scrutiny because they tend to be imposed by corporate buyers on their suppliers as a prerequisite for doing business, thereby becoming *de facto* mandatory. Unlike public standards (“technical regulations”), there is no consensus yet on whether they fall under the disciplines of the WTO. Critics argue that the process for their development is neither participatory nor transparent and that the requirements imposed are not always based on sound science or justifiable from a “risk” perspective.

Complying with new standards usually entails additional costs for suppliers. Investments are often necessary to upgrade production. Obtaining and maintaining certification is costly, as suppliers have to pay registration and inspection fees. Although certification benefits the entire supply chain, the costs of complying with food safety and good production practices certification are almost always entirely borne by suppliers (farmers, processors and exporters). Small suppliers may not be able to afford such costs and run the risk of being excluded from value added market segments.

It should be noted, however, that despite the above constraints, there are cases where food safety and quality standards actually benefit agricultural producers. The improved record keeping demanded by traceability requirements may improve the management and efficiency of the company. They may help them rationalise production and cut input costs (for example through a more efficient use of agrochemicals). Complying with standards may improve market access through enhanced product quality and improvement in the image of the farm or company. For example, most banana producers in Costa Rica interviewed by Disdier *et al* (2008) consider changes introduced by norms as positive and as an opportunity to access more profitable markets. Surveyed pineapple producers in the same country consider that the norms and technical regulations as well as private sector requirements benefit their exports. The cost of not complying with SPS and TBTs or with voluntary norms is to sell their products in the local market or in less profitable international markets.

Finally, there is evidence that some specific certification programmes that directly target consumers with an on-product label tend to add value through a price premium. This is the case for organic and fair trade certification. In addition, these value-adding standards bring about other benefits such as the enhancement of production factors in terms of improvements in natural resource use and in labour productivity. These benefits are difficult to quantify in financial terms but can be significant.

Reference list

Bureau, J.-C., Disdier, A.-C. and Ramos, P., (2007). *A Comparison of the Barriers Faced by Latin American and ACP Countries' Exports of Tropical Products*. ICTSD Project on Tropical Products, Issue Paper No.9. International Centre for Trade and Sustainable Development. Geneva. Switzerland. Available at: www.agradepolicy.org/output/ictsd/bureau_disdier_ramos.pdf

Disdier, A.-C., Fekadu, B., Murillo, C. and Wong, S., (2008). *Trade Effects of SPS and TBT Measures on Tropical Products*. ICTSD Project on Tropical Products, Issue Paper No.12. International Centre for Trade and Sustainable Development. Geneva. Switzerland. Forthcoming. (The draft version is available at: www.agradepolicy.org/output/ictsd/final_draft_disdier_fekadu_murillo_wong.pdf)

Henson, S., (2006). *The Role of Public and Private Standards in Regulating International Food Markets*. Paper presented at IATRC Summer Symposium, Bonn, Germany.

Jaffee, S.M. and Henson, S., (2005). *Agro-food Exports from Developing Countries: The Challenges Posed by Standards*. In (eds) Aksoy M.A. and J.C. Beghin. *Global Agricultural Trade and Developing Countries*. The World Bank. Washington D.C. USA.

Jean, S., and Laborde, D., (2008). *The Consequences of WTO Revised Draft Modalities for Agricultural Market Access in the European Union*. Draft paper prepared for the Dialogue on "Taking Stock of the Trade and Development Implications" organised by ICTSD, IPC and IFPRI, 12 March 2008, Geneva, Switzerland. (The paper is available at: www.ictsd.org/dlogue/2008-03-12/2008-03-12-doc.htm)

Jean, S., Laborde, D. and Martin, W., (2008). *Formulas and Flexibilities in Trade Negotiations: The Case of Sensitive Agricultural Products in the WTO*. Mimeo, IFPRI, INRA and the World Bank.

Laborde, D., and Martin, W., (2008). *The Impacts of the 2008 Draft Modalities on Agriculture Market Access in the United States*. Draft paper prepared for the Dialogue on "Taking Stock of the Trade and Development Implications" organised by ICTSD, IPC and IFPRI, 12 March 2008, Geneva, Switzerland. (The paper is available at: www.ictsd.org/dlogue/2008-03-12/2008-03-12-doc.htm)

Perry, S., (2008). *Tropical and Diversification Products: Strategic Options for Developing Countries*. ICTSD Project on Tropical Products, Issue Paper No.11. International Centre for Trade and Sustainable Development. Geneva. Switzerland. Forthcoming. (The draft version is available at: www.agradepolicy.org/output/ictsd/draft_santiago_perry.pdf)

Stevens, C. and Kennan, J. (2006). *Tropical Products under Doha: Balancing Liberalization and the Avoidance of Preference Erosion*. ICTSD Draft. Geneva. Switzerland. Available at: www.agradepolicy.org/output/ictsd/tropical%20products-preference%20erosion_Stevens-Kennan_June2006.pdf

WTO, (2005). *Past Negotiations and Consultations on Tropical Products*. Note by the Secretariat, TN/AG/S/17. WTO. Geneva. Switzerland.

WTO, (2006a). *Provisional Indicative List of Products relating to Long-Standing Preferences*. Proposal by the ACP Countries. Committee on Agriculture Special Session. JOB(06)/204. Geneva. Switzerland.

WTO, (2006b). *Fulllest Liberalization of Tropical and Alternative Products*. Proposal by the Latin American Countries. Committee on Agriculture Special Session. JOB(06)/129. WTO. Geneva. Switzerland.

WTO, (2007). *Tropical and Alternative Products*. Cairns Group Proposal. Committee on Agriculture Special Session. JOB(07)/31. WTO. Geneva. Switzerland.

Endnotes

¹ Diversification products refer to "products of particular importance to the diversification of production from the growing of illicit narcotic crops" (preamble in the Agreement on Agriculture and Paragraph 43 of the Agreed Framework).

² The Ministerial Declaration of Punta del Este stated the following:

"Negotiations shall aim at the fullest liberalization of trade in tropical products, including in their processed and semi-processed forms, and shall cover both tariff and non-tariff measures affecting trade in these products. The Contracting Parties recognize the importance of trade in tropical products to a large number of less developed contracting parties and agree that negotiations in this area shall receive special attention, including the timing of the negotiations and the implementation of the results."

³ The treatment of tropical and diversification products is likely to also be influenced by other elements of the agriculture negotiations, including by future provisions on sensitive products, or disciplines on commodities and tariff escalation. However, these implications are not addressed in the present note.

⁴ The "Tropical Products Group" includes Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru and Venezuela. Proposals on the fullest liberalisation of trade in tropical and diversification products were sometimes circulated on behalf of a few of those countries.

⁵ The G-10 include Iceland, Israel, Japan, Korea, Liechtenstein, Mauritius, Norway, Switzerland and Chinese Taipei.

⁶ Proposals by WTO Members on tropical and diversification products include: the JOB(06)/129 paper by LACs dated 28 April 2006, the JOB(07)/168 paper by LACs dated 2 November 2007, the JOB(06)/204 paper by ACP countries dated 21 June 2006, the ACP proposal for addressing long-standing preferences and preference erosion dated October 2007, the JOB(07)/31 paper by the Cairns Group dated 16 March 2007, the JOB(06)/190 paper by the EC dated 16 June 2006, the JOB(07)/116 paper by the EC dated 29 June 2007, and the JOB(06)/192 paper by the G-10 dated 16 June 2006.

⁷ Indeed, the EC indicated that it was unwilling to treat more than some 150 tariff lines (six digits) as tropical products, out of the 192 items of the guiding list of the Uruguay Round indicative list.

⁸ In a proposal dated 21 June 2006, the ACP submitted a list of products of "long standing preferences", which covered 43 tariff lines at the HS4 level, and which included, in addition to a series of tropical and diversification products, other agricultural goods of outstanding importance (meat, wheat, various fruits, etc.).

⁹ In reflecting on this data, it should be noted that the results of the analysis using COMTRADE data are likely to be biased towards developed countries because the dataset includes only countries that report their data in a given year. The proportion of developed countries reporting tends to be higher.

¹⁰ Rubber tyres contain a significant proportion, often well over 50 percent, of synthetic rubber.

¹¹ Bureau *et al* (2007) focuses on the products listed by eight Latin American countries in their document JOB(06)/129 of 28 April 2006. For the purpose of a generative dialogue convened by ICTSD at a specific moment in the current debate on these issues, the authors only considered exports of tropical and diversification products from Latin America and the Caribbean and other APC countries, and did not include exports from Asian countries in this analysis.

¹² In many cases, the duty free market access is the result of non-reciprocal preferences that are less predictable (subject to more frequent revisions) than the ones granted under bound WTO tariffs.

¹³ See the list of tropical and diversification products used in the JOB(06)/129 paper (WTO, 2006b).

¹⁴ The percentage of tariff lines allowed to be treated as sensitive is to be negotiated between 4 and 6 percent for industrial countries, except if they have more than 30 percent of their tariffs in the top band, or have scheduled their tariffs at the six digit level, in which case this percentage will lie between 6 and 8. If the formula cut is reduced by 2/3, then market access must be increased by 4-6 percent of domestic consumption; if the reduction is by 1/3, then the increase in market access is to be negotiated between 3 and 5 percent.

¹⁵ See the list of tropical and diversification products in the JOB(06)/129 paper (WTO, 2006b).

¹⁶ See the list of products relating to long-standing preferences in the JOB(06)/204 paper (WTO, 2006a).

¹⁷ The study focuses on the tropical and diversification products listed by the Cairns Group in the document JOB(07)/31, dated 16 March 2007, which were then supported by eight Latin American countries.

This Information Note is published jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the Food and Agriculture Organization of the United Nations (FAO). This Information Note will also be issued as FAO Trade Policy Brief No.16. FAO Trade Policy Briefs are available at: www.fao.org/es/esc/en/378/428/index.html.

Food and Agriculture Organization of the United Nations (FAO). Viale delle Terme di Caracalla. 00100 Rome, Italy. Telephone (+39) 06 57051. www.fao.org.

The International Centre for Trade and Sustainable Development (www.ictsd.org) is an independent non-profit and non-governmental organisation based in Geneva. Established in 1996, ICTSD's mission is to advance the goal of sustainable development by empowering stakeholders to influence trade policy-making through information, networking, dialogue, well-targeted research and capacity-building. This Information Note is produced as part of ICTSD's Programme on Agricultural Trade and Sustainable Development. More information about ICTSD activities in this area can be found on: www.agradepolicy.org.

Photo credits: istockphoto.com

ISSN 1995 1647. © FAO and ICTSD.