

Value Chains and Trade Policy

The Case of Agriculture

Chris Stevens

1 The Link between Market Access and Value Chains

The approach of value-chain analysis, with its emphasis on power and governance in explaining the distribution of gains from trade, throws light on traditional 'trade policy' questions such as the impact of protectionism and of preferences. In turn, trade analysis can pose questions for research on value chains that are not obvious when the focus is on production and marketing systems alone. This article highlights these overlaps and draws attention to further value-chain and trade-policy analysis that is shown to be desirable.

The underlying argument is that the two approaches are complementary; research that is too narrowly drawn may result in incorrect conclusions. Trade-policy analysis tends to assume that the effects of preferences are felt by producers and final consumers and that the distribution depends upon whether they are trade-creating or -diverting.¹ In cases of trade creation producers in the 'beneficiary' state gain, as do consumers in the preference-giving state; the 'cost' is borne by producers in the preference-giving state. In the case of trade diversion the cost is borne by producers in non-preferred states. There is no explicit consideration that the gain might accrue, for example, to the dominant force in a buyer-driven chain.

Value-chain analysis provides these insights, but unless it takes trade policy into account may find itself proposing development strategies that are illusory. The past success of, say, African horticulture producers may not be *only* the consequence of having met the demanding technical standards of the UK supermarkets that are the dominant force in the buyer-driven value chain (Dolan *et al.* 1999: 36–7). Meeting technical requirements may be a necessary but not a sufficient condition. Trade analysis suggests that past European Union (EU) trade policy has effectively excluded many of the most important global suppliers from the UK market. If correct, the implications are that:

- producers in non-preferred states could not emulate the success of African producers even if they meet the recommended technical standards;
- African producers may lose their place in the value chain if the preferences disappear.

The purpose of this article is to illustrate the ways in which trade policy has altered the environment in which value chains operate, and the types of value-chain research that could extend powerfully current knowledge on the impact of trade policy. It draws on empirical research that, necessarily given the state of play, is market- and product-specific. Analysis linking trade policy and value chains is too new yet to have produced conclusions that can be generalised across sectors and countries. The extent of the change will vary according to the characteristics of the market, the government interventions, and the producers and buyers. The effects of EU policy may differ from horticulture to clothing to footwear, and all three may be different from those produced by the North American Free Trade Agreement (NAFTA).

This article takes one group of products exported to one major market to show how the process works – and what changes are in store. The product group is temperate agriculture in general and horticulture in particular; the market is the EU. The choice has been influenced by the importance of the EU temperate agriculture market for poor countries (and, possibly, poor producers) and the availability of value-chain analysis in the horticulture sub-sector (Wood and Mayer 1998; Dolan *et al.* 1999). These are markets in which action by governments (of both the consumer and the producer state) has affected the substance of market access.

This will have altered the power relationship between producers and buyers compared with other product markets, but the extent to which this has happened is unclear because of the absence of case study research. This absence derives from the failure of value-chain and trade-policy analysis thus far to take adequately on board the other's agenda. A guide to the way in which value-chain relations have been affected can be obtained from the case study of sugar. Because this is an extreme example of producer–buyer relations being influenced by the trade-policy regime, the dynamics are relatively clear cut and it has been studied more than most. It indicates the types of question that need to be posed to the more important, but more opaque, case of horticulture, but which can be answered only if raised in the context of specific case studies.

2 Trade-policy Rents

All of the Organization for Economic Cooperation and Development (OECD) states offer some form of preferential market access to certain developing countries and, as shown in the next section, the impact on poor countries is ubiquitous. One of the fundamental mechanisms whereby protection supports domestic producers is by restricting supply in order to maintain prices at higher levels than would otherwise apply. In some cases these restrictions (and their price effects) are substantial.

Since some of the most interesting value chains are to be found in relation to products that face highly distorted trade policy, their internal dynamics are likely to have been affected. This includes products such as agriculture exported to Europe and textiles/clothing to most OECD states. An effect of the distortions is to create what may be termed trade-policy rents: policy artificially restricts supply resulting in economic rents for some operators. The principal intention of the distortions is normally to confer the rents on producers in the distorting state, but there is leakage. For a variety of reasons, some of the rent accrues to value chains that link producers in developing countries to developed country markets. And the existence of rents may result either in altered power relations within the chain (if, for example, the dominant buyer *needs* particular suppliers in order to acquire or perpetuate the rent) or, by easing financial constraints, allow greater experimentation (such as producer upgrading).

The protection–preference nexus makes sourcing imports from some suppliers more attractive than from others. Traditional trade-policy analysis provides little help in moving beyond such generalities to identify the ways in which this occurs and how it affects the returns to producers. The value-chain approach is particularly useful in this respect.

The mechanics of trade pattern distortion depend upon the power distribution within a value chain. The trade-policy rent may:

- accrue to the producers in the preferred states, increasing the profitability of production and allowing them to (i) increase supply relative to that of non-preferred states; or (ii) compensate

for production, storage or transport inefficiency relative to that of non-preferred states; or (iii) invest in the human and physical capital required for upgrading;

- accrue to the buyers, increasing the profitability of importing from preferred states relative to non-preferred ones leading to (i) increased imports from the former; (ii) a need/willingness to shift value-adding processes to the producing state.

To see how these outcomes might occur, consider the way in which rents are created. They are most substantial for product markets that face protectionism so severe that it restricts sharply the possibility of importing from non-preferred sources. This is the case, for example, with sugar and beef, for which the EU import tariffs are between Euro 340 and Euro 420 per tonne (equivalent to an *ad valorem* tariff of 67–71 per cent) and 12.8 per cent + Euro 3,003 per tonne respectively (equivalent to a total *ad valorem* tariff of 65 per cent).² At the other end of the scale are items for which protection is so modest as to render any preferences of limited commercial value. For example, the tariff paid by non-preferred states on exports to the EU of shelled almonds is only 3.2 per cent compared with preferential rates of 0–2.9 per cent.

In the middle is a commodity group like horticulture. EU tariffs are moderately high (for example 12.8 per cent for aubergines) and so the duty-free access provided to a range of developing countries reduces significantly the tax burden on the value chain. But the preference is insufficient to offset any substantial price uncompetitiveness by producers or transporters or, of course, any other failings in the fiercely rigorous supply chain required to get perishable items from a sub-Saharan African field to a European supermarket shelf in hours.

The impact of rents is influenced both by the scale of protection and by the structure of the trade-policy regime. In the most heavily protected sectors preferences typically take the form of special quotas allowing some third parties to supply the high-priced market without paying the substantial import duties that either exclude other imports or drastically reduce their profitability (e.g. the

Cotonou beef and sugar regimes). In other cases, preferences relieve some third parties from all or a part of the import restrictions that maintain prices and therefore enhance their ability to compete with less-favoured imports (e.g. the EU's tariff reductions on fruit and vegetables available under Cotonou, and most of its bilateral agreements).

2.1 The impact on value chains: sugar, a clear-cut case

The effect of these changes on the environment within which a value chain operates is most easy to plot in the case of special quotas. The arrangements have the greatest favourable effect on those third parties that:

- receive preferences; and
- would not be able to sell larger volumes on the protected market even if it were unrestricted.

Hence, for example, the high-price Caribbean sugar producers benefit greatly from the Cotonou Sugar Protocol: they receive artificially high prices for their exports and are not adversely affected by the volume limitation since they have limited capacity to increase their output. Arguably some sub-Saharan African clothing exporters that benefit from Multifibre Arrangement (MFA) exemption under Cotonou are in a similar position. In such extreme cases, the exporters need the rent simply to remain in the market; their power within the value chain is intimately connected to their role in perpetuating the rent.

The most adversely affected third parties are the competitive producers that do not receive preferences. In the sugar case, for example, this would include the Philippines, Cuba and Brazil, which not only gain no advantage from the high EU prices (because they cannot export to Europe) but also face lower world prices as a result both of surplus EU exports and of the perpetuation of uncompetitive production, *inter alia* in the Caribbean.

In the middle are countries that are preferred but are also competitive producers (such as Zimbabwe in the case of sugar). In such cases, it is uncertain without a detailed analysis whether they gain more on the 'swings' of high EU prices than they lose on the 'roundabouts' of volume limitation.

One EU processor/distributor, Tate and Lyle, is substantially dependent for its supplies on preferential sugar imports and, in turn, is the monopoly buyer of exports to the EU under the Sugar Protocol. As a cane sugar refiner, the company needs access to imports since domestic European sugar production is of beet. And, because of the high EU tariff, the financial viability of its operations depends upon the continuation of supplies from preferred sources. Although the Caribbean is not the only source of preferential sugar (and others, such as Southern Africa, are cheaper) the country-specific quotas under the Sugar Protocol constrain severely its ability to switch.

At the same time, as the owner of the main cane sugar refineries in Europe, Tate and Lyle is the only feasible purchaser of African and Caribbean exports to the EU. The alternative of exporting already refined sugar to the EU is not considered to be commercially viable on a substantial scale. The only, very partial, alternative would be to sell outside the European harvesting season to EU beet refineries. But the beet and cane industries are in competition for market share.

The buyer, producers, and exporting governments, therefore, have a certain overlap of interests. Tate and Lyle, for instance, have persisted in buying from the Caribbean despite a history of production problems. Both the company and the preferred states lobby vigorously to protect their overlapping (but not identical) interests. And, from time to time, they are joined by the EU sugar beet lobby. Despite their competition for market share, all three (cane refiners, beet producers and refiners, and African/Caribbean sugar exporters) have an interest in perpetuating EU protectionism.

But the relationship is a vulnerable one. The decision of the EU in February 2001 to offer unrestricted duty-free access to the sugar exports of all least developed countries has jolted it sharply.³ In future Tate and Lyle will be able to source cane sugar from least developed countries at a lower price than from either the Caribbean or the other Sugar Protocol beneficiaries (including the highly competitive Southern African ones). The beet and cane industries have lobbied hard against the least developed initiative.

The involvement of Caribbean and African cane sugar producers, and their governments, in this lobbying served the interests of the industry by extending their field of fire. The least developed initiative could be portrayed as 'anti-developmental' and not just 'anti-farmer'. But the terms of this involvement served the interests of the EU industry more than the Caribbean/African exporters. It has been evident to observers that the cane sugar exporters were using data supplied by the refiners to make their case. But the data arguably weakened the case of the cane exporters that their interests were under threat by too overtly focusing on the potential damage to the EU industry.⁴

As a result of the new EU trade policy, power will shift within the value chain. For the present, Tate and Lyle are committing themselves to continue buying under the Sugar Protocol. But the Protocol allows for an element of bargaining from year to year over the precise prices paid. At the very least, this could result in pressure on producer prices. It could also result in a shift in supply patterns so that some Caribbean suppliers leave the market altogether. The evolving situation is one that value-chain analysts will want to monitor.

2.2 Extending the analysis to horticulture

In other cases neither the impact on countries nor on actors within the value chain is so easy to identify, and further analysis is particularly desirable. This is especially true of markets in which the trade-policy rent is moderately large and there exist a number of buyers. Both features occur in the EU horticulture market which, for this reason, provides a particularly interesting example with which to probe the relationship between the protection-preference nexus and supply patterns.

Although the growing market share of a small number of supermarkets has been well documented (Dolan *et al.* 1999), there is no oligopoly in even one EU member state, let alone in all of them. The tax advantage of preferences can be over ten per cent of the cif price of imports, but it is available to a large number of supplying countries. And it does not appear sufficiently large by itself to exclude totally non-preferred suppliers.

There are lots of areas in which further research is needed: how important is this one? The answer is that it is difficult to find any area of non-traditional African agricultural exports to the EU that is not subject to policy rents in one form or another. Whilst the focus here is on horticulture, the issue is much broader. This is brought out in the next section, which reports research undertaken to establish the extent to which those developing countries that are heavily dependent upon agricultural exports have been affected by trade-policy rents.

3 The Prevalence of Trade-policy Rents

This section draws upon analyses undertaken using an agricultural trade database compiled at IDS.⁵ This has been used to identify the 13 states with the highest dependence on agricultural products.⁶ Thirty of their most significant exports to the EU face standard tariffs of 10 per cent or more and, hence, offer the possibility of a potent protectionism–preference combination.⁷ They include the following main products or groups: beef, floriculture, horticulture, rice, sugar (and by-products), processed fruit and juices, tobacco (and products), and bananas.⁸

How far is EU trade in these items affected by the protection–preference nexus? One way to answer this question is to rephrase it as: would the selected supplying countries gain or lose from general EU liberalisation (as, for example, in the WTO Agreement on Agriculture)? This question is addressed in Table 1, which identifies:

- the selected products on which EU protection is high;
- the selected countries that export to the EU each of these products;
- the nature of their interest in EU liberalisation.

The last bullet refers to the scope for preference erosion. Countries facing tariffs that are high and identical/similar to those faced by their competitors have an unambiguous interest in EU liberalisation. Countries that have preferential duty-free access, but whose competitors face high tariffs, may perceive themselves as having an unambiguous short-term interest in the EU's *not* liberalising. Those states that pay positive tariffs, but have at least some competitors paying higher tariffs, have an ambiguous interest.

The table shows, product by product, the category into which fall each of the selected states that export the item to the EU. Some judgement has been used in distributing ACP states between the two right-hand columns.⁹

This caveat aside, one interesting feature of the table stands out: it is that there are no products in which all the selected countries would unambiguously gain from EU liberalisation. For all products there are supplying states that appear to benefit from the protection–preference nexus. Moreover, the number of records in the central column (of states that would experience only preference erosion for the specified product) is much greater at 31 than either the three in the left-hand column (of states that would benefit from EU liberalisation), or the 12 in the right-hand column (where the effect is ambiguous).

4 Horticultural Exports of Kenya and Zimbabwe

In other words, trade-policy rents are prevalent in the exports of agriculturally dependent developing countries to the EU (their main market). How might they have affected trade patterns? This section provides an answer by looking more closely at the horticultural exports of Kenya and Zimbabwe.

As signatories of the Lomé Conventions, Kenya and Zimbabwe have benefited from highly preferential access to the EU since 1975. And, since their agricultural exports to the EU in the past have been heavily concentrated, any evidence of diversification/product upgrading should be easy to identify. Has the availability of rents produced a shift in trade towards Kenya and Zimbabwe, away, for instance, from Chile? If it has, the questions for future research that follow are:

- What effect has it had on the distribution of value within chains?
- How are the trade-policy rents likely to evolve and what are the implications for value chains?

Both Kenya and Zimbabwe have seen a clear increase in the current value of their significant horticultural exports to the EU in recent years.¹⁰ They have also been able to diversify their range of

Table 1: Products for which EU liberalisation would provide a combination of improved access and preference erosion

CN_1999	Description	Focus country exporters ^a that:		
		would experience <i>only</i> improved access	would experience <i>only</i> preference erosion	might experience both
02013000	fresh or chilled bovine meat, boneless	none	none	Zimbabwe
06031011	fresh cut roses and buds from 1 June to 31 October	none	Kenya, Zimbabwe	none
06031013	fresh cut carnations and buds from 1 June to 31 October	none	Kenya	none
06031029	fresh cut flowers and buds from 1 June to 31 October	none	Kenya, Zimbabwe	none
07081090	fresh or chilled peas 'pisum sativum' from 1 June to 31 August, shelled or unshelled	none	Kenya, Zimbabwe	none
07082090	fresh or chilled beans 'vigna spp., phaseolus spp.' from 1 July to 30 September, shelled or unshelled	none	Kenya	none
08030019	bananas, fresh (excl. plantains)	Costa Rica, Honduras, Nicaragua	Belize, St Vincent	Côte d'Ivoire
08051030	fresh navels, navelines, navelates, salustianas, vernas, valencia lates, maltese, shamoutis, ovalis, trovita and hamlins	none	none	Swaziland, Zimbabwe
08051050	fresh sweet oranges	none	none	Swaziland
08093010	fresh nectarines	none	none	Kiribati
10062098	long grain husked brown rice, length/width ratio >=3	none	none	Guyana
10064000	broken rice	none	none	Guyana
17011110	raw cane sugar, for refining (excl. added flavouring or colouring)	none	Belize, Côte d'Ivoire, Guyana	Malawi, Swaziland, Zimbabwe
17011190	raw cane sugar (excl. for refining and added flavouring or colouring)	none	none	Malawi
20055900	unshelled beans 'vigna spp., phaseolus spp.', prepared or preserved otherwise than by vinegar or acetic acid	none	Kenya	none
20082079	pineapples, prepared or preserved, containing added sugar but no added spirit, with sugar content of <= 19%, in packings of <= 1 kg	none	Kenya	none
20082099	pineapples, prepared or preserved, in packings of < 4.5 kg (excl. added sugar or spirit)	none	Kenya, Swaziland	none
20083071	grapefruit segments, prepared or preserved, containing added sugar but no added spirit, in packings of <= 1 kg	none	Swaziland	none
20083099	citrus fruit, prepared or preserved, in packings of < 4.5 kg (excl. added spirit or sugar)	none	Swaziland	none
20091199	frozen orange juice, density of <= 1.33 g/ccm at 20.c, whether or not containing added sugar or other sweetening matter	none	Belize	none
20092099	grapefruit juice, density of <= 1.33 g/ccm at 20.c, whether or not containing added sugar or other sweetening matter	none	Belize	none
20094030	pineapple juice, density of <= 1.33 g/ccm at 20.c, value of > 30 ecu per 100 kg, containing added sugar	none	Kenya	none
22071000	undenatured ethyl alcohol, of actual alcoholic strength of >= 80% rum and tafia, of a value <= 2 ecu/l of pure alcohol, in containers holding > 2 l	none	Nicaragua	none
22084099		none	Guyana	none

Table 1 continued

CN_1999	Description	Focus country exporters ^a that:		
		would experience <i>only</i> improved access	would experience <i>only</i> preference erosion	might experience both
24011010	flue-cured Virginia type tobacco (excl. stemmed or stripped)	none	Zimbabwe	none
24011020	light air-cured burley type tobacco, incl. burley hybrids (excl. stemmed or stripped)	none	Malawi	none
24012010	partly or wholly stemmed or stripped flue-cured Virginia type tobacco, otherwise unmanufactured	none	Malawi, Zimbabwe	none
24012020	partly or wholly stemmed or stripped light air-cured burley type tobacco, otherwise unmanufactured	none	Malawi, Zimbabwe	none
24021000	cigars, cheroots and cigarillos containing tobacco	none	Honduras	none
24022090	cigarettes, containing tobacco (excl. containing cloves)	none	Zimbabwe	none
Note ^a Only those focus country exporters whose exports meet the criteria used to determine 'important exports' - i.e. a value of \$5 million or more or representing 2 per cent or more by value of total agricultural exports to the EU.				

Sources: Eurostat (2000); Tatic (1999)

exports and, in several cases, increase their market share.¹¹ Their exports also receive substantial preferences, at least on paper, under the Lomé and Cotonou accords.

Are these 'paper' preferences effective ones? Preferences are effective if they confer a significant tax advantage over competitors. For this to occur three things must be in place:

1. there must be high taxes on imports;
2. the preference agreement must provide full or partial relief from these and, most importantly;
3. similar (or better) preferences must not be available to all competitors.

Horticultural products clearly fulfil the first criterion, as do Kenya and Zimbabwe the second. The third is more problematic. What market access barriers are faced by the main competitors of Kenya and Zimbabwe?

The principal external suppliers of the EU horticultural market appear to form a fairly stable group. Whilst competition is certainly fierce, the trade statistics do not bear out the view in Dolan *et*

al. (1999) that 'new countries are entering the sector all the time' (p.1), at least among states that have achieved a significant market share. On the contrary, the number of supplying countries appears to have been remarkably stable over the past decade. This is illustrated in Table 2, which takes the product groups that are most important in the horticultural exports of Kenya and Zimbabwe and shows the number of countries reaching a set threshold, established in both proportionate and absolute terms, in selected years. There is no evidence of a general increase in the number of supplying countries. Of course, this finding would be perfectly compatible with the one in Dolan *et al.* (1999) if each new entrant were offset by a departing supplier, but in general this is not the case.¹²

Competition within market niches cannot be gauged precisely from trade statistics. Even the most detailed product codes are larger than some of the real market niches into which Kenya and Zimbabwe sell. It remains perfectly possible, therefore, that *apparent* competitors identified from the trade statistics are actually selling into different niche markets. The only guidance on this point

Table 2: Kenya and Zimbabwe's competitors: number of significant EU suppliers of relevant horticultural imports

HS	Description	1989	1991	1993	1995	1997
Number of extra-EU countries supplying =>5 per cent of EU market						
7-8	All horticulture	5	6	5	4	4
070810	Peas 'pisum sativum'	4	5	5	4	4
070820	Beans 'vigna spp., phaseolus spp.'	5	5	6	6	6
0709	Other vegetables	8	9	9	7	7
0804	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens	6	6	9	8	7
0805	Citrus fruit	6	7	8	8	7
Number of extra-EU countries exporting to a value of Euro 1mn or more to the EU						
7-8	All horticulture	94	94	98	102	100
070810	Peas 'pisum sativum'	4	4	5	4	4
070820	Beans 'vigna spp., phaseolus spp.'	7	7	9	10	10
0709	Other vegetables	19	23	21	31	33
0804	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens	24	25	24	24	22
0805	Citrus fruit	19	19	18	18	20

Source: Eurostat (1998)

from the trade statistics is in relation to unit values. A 'longlist' of competitors has been provided by excluding from the analysis those sources of EU supply for the items exported by Kenya and Zimbabwe in which unit values are substantially different. These are countries whose unit value is less than 50 per cent or more than 150 per cent of the lower/higher unit value of Kenya/Zimbabwe.

In all cases except sweetcorn and some citrus hybrids, the access terms for Kenya and Zimbabwe are zero duty¹³ and almost all of the competitor countries identified are eligible for one of the higher-level EU preferences. There are only a handful of product/competitor combinations with access terms in 1997 that were less favourable than those of Kenya and Zimbabwe (see Stevens and Kennan 2000).

In other words, it appears that only a small, unchanging group of states supply the EU market for the horticultural products of interest to Kenya and Zimbabwe, and most of these have identical access terms (which are more favourable than those available to non-preferred states).

Two possible alternative explanations are that:

- All potential suppliers have preferences, in which case none receives a competitive advantage (and there is no trade-policy rent available to some value chains as opposed to others);
- The standard access barrier is sufficiently high to suffocate imports from non-preferred sources (and, hence, there is a trade-policy rent that is available to all of the value chains that include preferred states but not to others).

An indicator of which is the more plausible can be obtained by analysing the trade of states that export the items concerned but not to the EU. If the analysis of global trade patterns reveals the existence of competitive suppliers that do not export to the EU *and* face significant market access barriers in Europe it lends some credence to the second possible explanation. This, in turn, would support the expectation that trade-policy rents have affected the supply patterns of the value chains represented in the EU market.

Table 3: Global horticulture trade: the world exports of major exporting states^a

HS6	Description	Supplier ^a	Exports 1998 (\$000)	Share exported to EU
070810	fresh or chilled peas 'pisum sativum', shelled or unshelled	Guatemala Mexico China HK SAR China Russian Fed.	9,895 5,368 4,695 2,895 1,446	19% 1% 1% 19%
070820	fresh or chilled beans 'vigna spp., phaseolus spp.', shelled or unshelled	Mexico Malaysia Egypt	19,516 1,687 1,567	0% 82%
070960	fresh or chilled fruits of the genus capsicum or pimenta	Mexico Turkey Slovak Rep. Macedonia FYR Korea Rep. Saudi Arabia Thailand Malaysia	299,065 19,481 5,688 4,974 4,786 2,599 2,132 2,091	0% 94% 2% 0% 24% 0%
070990	fresh or chilled vegetables n.e.s.	Mexico China Israel Thailand India Bangladesh Costa Rica Philippines Malaysia Panama Saudi Arabia Turkey SACU Brazil Trinidad/Tobago Guatemala	191,871 103,127 58,420 19,019 15,113 14,961 13,331 9,224 5,780 5,530 4,163 2,262 1,887 1,753 1,456 1,043	0% 0% 76% 28% 16% 7% 0% 0% 1% 80% 49% 4% 0%
071022	shelled or unshelled beans, uncooked or cooked by steaming or by boiling in water, frozen	Thailand Peru China	20,413 3,641 2,382	0% 12% 39%
080290	nuts, fresh or dried, whether or not shelled or peeled (excl. coconuts, brazil nuts, cashew nuts, almonds, hazelnuts, walnuts, chestnuts 'castania spp.' and pistachios)	China Indonesia China HK SAR Turkey Russian Fed. Singapore SACU Thailand Korea Rep. Malaysia	61,111 26,174 21,233 16,511 10,906 9,265 8,241 7,990 3,642 3,358	30% 0% 5% 67% 0% 0% 43% 1% 0%

Table 3 continued

HS6	Description	Supplier*	Exports 1998 (\$000)	Share exported to EU
		<i>Costa Rica</i>	2,048	27%
		<i>India</i>	1,114	21%
		<i>Mexico</i>	1,042	1%
080440	fresh or dried avocados	Mexico	53,935	24%
		Chile	41,383	0%
		Israel	29,921	96%
		SACU	26,051	98%
080450	fresh or dried guavas, mangoes and mangosteens	Mexico	143,539	4%
		Philippines	45,991	1%
		Brazil	32,517	73%
		India	19,805	12%
		Peru	11,827	39%
		Israel	9,328	88%
		China HK SAR	9,024	0%
		Thailand	6,060	2%
		Ecuador	5,730	26%
		SACU	5,365	83%
		Venezuela	4,630	75%
		Guatemala	3,905	10%
		Nicaragua	2,910	
		Costa Rica	2,818	80%
		Honduras	1,557	50%
		Malaysia	1,225	2%
		Egypt	1,003	4%
080510	fresh or dried oranges	SACU	152,947	62%
		Egypt	60,787	5%
		Israel	58,847	79%
		China HK SAR	49,604	
		Argentina	34,137	78%
		Turkey	29,230	13%
		Uruguay	26,310	74%
		Brazil	14,359	87%
		Tunisia	8,334	99%
		Singapore	6,403	
		Honduras	3,460	0%
		Mexico	3,046	1%
		Costa Rica	2,854	
		Venezuela	2,846	0%
		India	2,430	
		Lithuania	1,970	1%
		Colombia	1,913	
		Saudi Arabia	1,539	
		China	1,097	
080520	fresh or dried mandarins incl. tangerines and satsumas, clementines, wilkings and similar citrus hybrids	Turkey	49,719	37%
		China	45,025	0%
		Argentina	25,360	66%

Table 3 continued

HS6	Description	Supplier ^a	Exports 1998 (\$000)	Share exported to EU
		Israel	25,202	71%
		Uruguay	24,205	80%
		SACU	20,598	77%
		Korea Rep.	5,087	
		China HK SAR	4,585	
		Chile	3,811	42%
		Singapore	3,008	
		Brazil	2,524	49%
		Croatia	1,761	1%
080540	fresh or dried grapefruit	Israel	62,146	68%
		SACU	36,860	79%
		Turkey	19,282	54%
		Argentina	12,590	96%
		Honduras	1,560	88%
		China	1,377	1%
		Mexico	1,293	82%
		Uruguay	1,057	59%
081090	kiwifruit, tamarinds, cashew apples, jackfruit, lychees, sapodillo plums and other edible fruits, n.e.s., fresh	Chile	81,385	47%
		Thailand	68,717	2%
		China HK SAR	28,979	0%
		Malaysia	18,570	30%
		Israel	13,668	62%
		Colombia	9,313	56%
		China	5,607	1%
		India	4,994	19%
		Saudi Arabia	3,788	
		Singapore	2,806	
		SACU	2,627	64%
		Mexico	2,350	2%
		Turkey	2,250	89%
		Korea Rep.	1,391	
		Egypt	1,380	30%
		Venezuela	1,167	2%
Note				
^a The table covers the 62 developing countries for which we have relevant export data.				
^b All states whose total exports in the HS6 groups into which fall the important Kenyan/Zimbabwean CN 8-digit exports identified, exceeded US\$1 million. Italicised countries have high-level preferences in the EU (defined as better-than-Standard GSP access for at least one CN8 item in the HS6 heading – or the same access as Standard GSP where this is duty-free).				

Source: Data supplied by UNSD

This is provided in Table 3, which analyses global trade statistics on horticulture.¹⁴ It shows all states (for which we have global trade data) that export more than \$1 million of any of the main horticultural products analysed.¹⁵ Those states that have the most preferential access to the EU are italicised.

In many cases the main suppliers to the EU are not the largest global exporters (e.g. fresh beans, avocados, kiwi fruit etc.). And in almost all cases only highly preferred states sell a substantial proportion of their exports to the EU.

Table 3 provides strong *prima facie* evidence, therefore, to support the view that the uniformity of (preferential) access among the main horticultural suppliers does not result from the EU's offering liberal access to all states with a supply capacity. Rather, it results from the financial unattractiveness of importing from sources that face an import tax when adequate supplies can be obtained from those that do not.

In other words, trade-policy rents exist, have affected trade patterns and, probably, have influenced the nature of value chains. Importers appear to have established links with the favoured states and buy mainly from them even for items, such as mandarins from Turkey, on which they do not receive a preference.

5 The Future

There are significant trade-policy rents in the EU horticultural market and there is *prima facie* evidence that they have contributed to the dominant position of certain supplying states. A high priority for future research is to compare value chains that obtain/do not obtain trade-policy rents to determine how their character differs.

Such analysis is needed not only to explain the past but, more importantly, to help forecast how value chains may evolve in future in response to the erosion or shift of rents. There are four potential sources of policy change that will impact on the rents available to horticulture (and to temperate agriculture more generally) value chains operating in the EU. These are:

1. internally generated reforms to the Common Agricultural Policy (CAP);
2. changes to the EU's preferential trade regimes either for existing beneficiaries (including Kenya/Zimbabwe) or for an actual/potential competitor;
3. changes to EU agricultural policy that might result from the forthcoming WTO Agricultural Round;
4. changes to the agricultural trade regimes of Kenya's and Zimbabwe's competitors following the WTO Round.

Whilst it is unlikely that there will be dramatic changes in the next five years, at the same time it would be extremely complacent to assume that the CAP regime in 10–15 years' time will not differ substantially from what it is at present. And the direction of change will tend to be towards liberalisation. Hence, existing trade preferences (which provide relief from import tariffs) will be eroded as liberalisation progresses.

This process has been under way for two decades. Successive GATT Rounds led to a fall in many EU tariffs and the removal of old-style non-tariff barriers such as quotas. At the same time, there has been a tremendous growth in the number of countries to which the EU offers preferences.

But the reduction of tariffs and elimination of quotas does not mean that the EU, or other OECD states, have been converted unambiguously to the merits of liberal trade! The political reality of special pleading by powerful interest groups is as much in evidence today as it was in the 1970s. What has changed are:

- the areas in which such special pleading occurs (which are largely outside those represented by traditional ACP exports);
- the instruments through which governments respond to such pressure and impose restrictions on imports.

This gives rise to the possibility that new preferences and new sources of trade-policy rent, may arise. But this is not automatic and neither is there any certainty that the beneficiaries of the new preferences will be same as those of the old. Existing value chains in which producers currently

play an influential role could face a double whammy: the trade-policy rents that contributed to their present character will disappear and be

replaced by others that support a value chain with a very different membership/relationship. There is a lot of trade-policy research from a value-chain perspective to be done!

Notes

1. Trade creation describes a situation in which the removal of protectionist market access barriers results in the displacement of domestic production by more competitive imports. Trade diversion occurs if partial liberalisation results in a shift in imports from more competitive but less preferred states to more preferred but less competitive ones.
2. The tariffs given are for raw cane sugar (Combined Nomenclature — CN — codes 17011110 and 17011190) and fresh or chilled boneless beef (CN 02013000). The *ad valorem* tariff equivalents were calculated using the average unit value of EU imports from all extra-EU suppliers in 1999.
3. The preference will be introduced by degrees over the period to 2009 (see Stevens and Kennan 2001).
4. See Stevens and Kennan (2001). The essential point is that the 'threat' of increased imports from least developed states was implausibly over-exaggerated, because only a very large rise would hurt the EU industry; the cane exporters, especially the Caribbean, could be hurt by a much smaller, and more plausible, increase.
5. Stevens *et al.* (2001).
6. Defined as those states in which agricultural items falling within Chapters 1–24 of the Harmonised System (HS) nomenclature accounted for 10 per cent or more of GDP. The countries are: Belize, Costa Rica, Côte d'Ivoire, Guyana, Honduras, Kenya, Kiribati, Malawi, Nicaragua, St Vincent, Swaziland, Vanuatu and Zimbabwe.
7. See Stevens *et al.* (2001) for a description of the selection methodology; essentially the list includes all items that were imported by the EU from a selected state to a value of \$5 million or more or accounted for 2 per cent or more of total agricultural imports from that country. The 'standard tariff' is defined as the Standard GSP or, in cases where there is no Standard GSP rate, the MFN tariff. All complex tariffs were assumed to exceed 10 per cent.
8. The items are: beef, roses, carnations, other flowers, peas, beans, bananas, oranges (two items), nectarines, rice (two items), raw cane sugar (two items), preserved beans, preserved pineapples (two items), preserved grapefruit, preserved citrus fruit, orange juice, grapefruit juice, pineapple juice, ethyl alcohol, rum and tafia, tobacco (four items), cigars, and cigarettes.
9. There are several cases in which the Cotonou Convention provides preferences that are valuable but still far from duty-free access (such as the quota-limited reduced duty on rice). It is a moot point whether or not some ACP states could prosper if they had unrestricted, duty-free access to a probably lower-priced EU market. In cases where the preliminary judgement of the team is that a state *might* be able to cope in this way, it has been placed in the extreme right-hand column; in other cases it is placed in the middle column.
10. Defined as exports to a value of Euro 500,000 or more; the analysis covers the period 1993–97.
11. See Stevens and Kennan (2000) for details.
12. The names of the supplying countries are not listed, to keep the table simple, but fuller details are supplied in Stevens and Kennan (2000): Appendix Table 1.
13. See Stevens and Kennan (2000) for details and caveats.
14. As derived from United Nations Statistics Division data covering 62 reporting countries only.
15. The analysis is undertaken, necessarily, at the HS six-digit level, which is more aggregated than the CN 8-digit analysis of Table 1. This is because the HS is common to all user states only up to six digits of disaggregation.

References

- Dolan, C., J. Humphrey, and C. Harris-Pascal (1999) 'Horticulture commodity chains: the impact of the UK market on the African fresh vegetable industry', *IDS Working Paper* No. 96, Brighton: Institute of Development Studies (September).
- Eurostat (1998) *Intra- and extra-EU trade (annual data – Combined Nomenclature)*, Supplement 2 (CD-Rom), Luxembourg: Statistical Office of the European Communities.
- Eurostat (2000) *Intra- and extra-EU trade: monthly data – Combined Nomenclature, 3/2000* (CD-Rom), Luxembourg: Office for Official Publications of the European Communities.
- FAO (1999) 'Some issues that may arise in the continuation of the reform process in agriculture', paper presented at a Round Table on Follow Up to the Uruguay Round Agreement on Agriculture, New Delhi, India, 18–19 January 1999, by Panos Konandreas, Ramesh Sharma and Jim Greenfield.
- Stevens, C. and J. Kennan (2000) 'Will Africa's participation in horticulture chains survive liberalisation?', *IDS Working Paper* No. 106, Brighton: Institute of Development Studies (March).
- Stevens, C. and J. Kennan (2001) 'The impact of the EU's "Everything but Arms" proposal: a report to Oxfam', Brighton: Institute of Development Studies.
- Stevens, C., J. Kennan, C. Caspari and M. Christodoulou (2001) 'EU agricultural and fisheries market access for developing and transition countries', report prepared for the Department for International Development, Brighton: Institute of Development Studies; and Brussels: Bureau Européen de Recherches.
- Taric (1999) 'Integrated tariff of the European Communities', *Official Journal of the European Communities*, No. C 212 – C 212A (23 July 1999, CD-Rom), Luxembourg: Statistical Office of the European Communities.
- Wood, A. and J. Mayer (1998) *Africa's Export Structure in a Comparative Perspective*, Geneva: United Nations Conference on Trade and Development.
- WTO (1996) *The Results of the Uruguay Round* (CD-Rom), Geneva: World Trade Organization.
- WTO (1999) *Document Dissemination Facility* (www.wto.org/wto/ddf/ep/public.html), Geneva: World Trade Organization.