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MARKET ACCESS, MARKET ENTRY AND COMPETITIVENESS

Background note by the UNCTAD secretariat*

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Executive summary

Many of the development gains arising from global market and trade negotiations depend on the ability of developing countries to respond to new opportunities existing in foreign markets. This ability is, however, adversely affected by market-access-related issues in developed countries, and difficulties in meeting market entry conditions set in importing countries and large distribution networks. For many developing countries, integration into the world economy means being able to meet those market entry conditions, and creating the necessary impetus for competitiveness and development. The inability to do so, which is frequently the case, implies that these conditions often become entry barriers with protectionist effects. Some of these barriers are difficult to overcome even for the European Union and United States in each other's markets. Thus the difficulty of market entry barriers for developing countries can only be multiplied given the latter's lesser capacity and sophistication as regards scientific and technological development. Escalating tariffs provide additional protection to domestic processing industries in developing countries and at the same time present an important problem for them in diversifying their production and exports. Basically there are four elements which may contribute to influencing positively or negatively the export competitiveness of developing countries, especially for least developed countries: (a) improved and effective market access in premium markets so that export opportunities that exist in areas which could generate foreign exchange and jobs on a large scale can be realized; (b) market entry conditions and globally accepted or unilaterally, privately imposed standards and food regulations which can nullify market access and pose new challenges to competitiveness; (c) competitiveness, and hence the export performance of firms and/or industries of developing countries and their agility in responding to changing market entry conditions and requirements; and (d) negotiations in the multilateral trade negotiations/Doha Work Programme and regional North–South, South–South contexts which should reduce and eliminate not only market access but also market entry barriers (these should be addressed in the context of non-agricultural market access, agriculture and rules-related negotiations). Key issues are ways and means in providing capacity-building assistance that improves the ability of developing countries to take full advantage of new opportunities for trade, and developing sound trade and trade-related policies in developing countries themselves, which should be reflected in development plans and strategies for poverty reduction.

Background

1. The Expert Meeting on Market Entry Conditions Affecting Competitiveness and Exports of Goods and Services of Developing Countries: Large Distribution Networks, Taking into Account the Special Needs of LDCs (TD/B/COM.1/EM.23/2) focused on the competitiveness of the exporter, which is determined by the relative cost and quality of the product. It considered the market entry conditions imposed by large distribution networks, which are becoming increasingly important for many products and services in which developing countries have a comparative advantage, such as agro-food products, textiles and clothing, and tourism. These market entry conditions relate to product characteristics, including (a) quality, appearance, cleanliness or taste; (b) safety (e.g. pesticide or artificial hormone residue, microbial presence); and (c) authenticity (guarantee of geographical origin or use of a traditional process). Other conditions relate to the nature of the production process (e.g. with respect to workers' health and safety, or environmental impact), prices and speed of delivery. These market entry conditions are becoming serious constraints that may affect the competitiveness of developing country exports, especially for commodity-dependent countries that rely on one or two products for their export earnings.

2. Recently UNCTAD organized a meeting of eminent persons on the impact of commodity problems on the development of commodity-dependent countries.[1] The coverage of the meeting went beyond the WTO issues. However, the multilateral trade negotiations are an important aspect of the commodity issues, and some of the items on the Cancún agenda were discussed by the eminent persons. Proposals made at the meeting were divided into short-term ones, involving urgent, immediate action in response to severe crises (e.g. the coffee crisis), with immediate discernible results; medium-term ones, involving a reorientation of policies and proposals that is eminently feasible; and long-term ones, which should be started now but implementation of which could take time. Thus, agricultural subsidies and the initiative proposed by four African countries – Benin, Burkina Faso, Chad and Mali – to deal with cotton subsidies were both discussed at length, as well as phytosanitary measures, intellectual property protection, and tariffs on processed products that limit the diversification and export competitiveness of many commodity-dependent countries. In this respect, it was pointed out that only 20 cents of every dollar that consumers spend on food reaches the farm gate. The remaining 80 cents goes to processing, marketing, distribution and retailing activities. In fact, this clearly shows that the gains arising from the openness of markets are unequally distributed among participants in the globalization process.

3. Being a global event, UNCTAD XI provides an excellent opportunity for stakeholders to seek ways and means, including influencing trade negotiations, which ensure that development gains from the international trading system are equitably distributed. This is a primary objective – namely, distribution gains – as many developing countries, especially least developed countries (LDCs), continue to depend heavily on a few commodities that are subject to large fluctuations in demand and supply. Consequently, the task of managing large fluctuations in commodity prices is made difficult and complicated by the emergence of increasingly concentrated market structures at the international level and stringent conditions for entry into developed country markets.

Effectiveness of policy measures

4. To benefit more from an increasingly globalized and interdependent world economy, developing countries need to build stronger supply capabilities. Becoming part of the global value chains of internationally traded goods and services represents the key channel for accessing markets, capital and technology. However, not all kinds of linkages to the global economy are equally positive for development, nor will integration through trade liberalization alone necessarily ensure the attainment of the development objectives of developing countries in the economic, social and environmental areas.

5. For developing countries, integration into the world economy will make sense only if the conditions favourable to their development are created. Integration itself will help competitiveness, but only if it is accompanied by domestic policies to build the productive capacity of the enterprise sector, promote technology transfer, adaptation and generation, encourage networking and clustering, and increase productivity. Such policies have to focus on building the competitiveness of enterprises, shifting trade specialization towards higher-value-added products, and creating domestic linkages making it possible to sustain export-led growth and translate it into more income gains domestically.

6. Achieving these goals requires actions to improve trading conditions for developing countries, including through rules and their application. The multilateral trading system must be

[1] Recommendations of this meeting and the Chairperson's summary are contained in document TD/B/50/11, 30 September 2003, UNCTAD, Geneva.

supportive of development, allowing developing countries the necessary space for applying policy instruments that will accelerate sustainable growth and development, expand employment opportunities, including those for women, and reduce poverty. Developed country partners should give special consideration to the concerns and interests of developing countries in their trade and trade-related policies and measures.

7. Improving market access and eliminating or substantially reducing domestic support and export subsidies provided by developed countries in the agriculture sector with a view to their phasing out constitute the immediate objective of the WTO negotiations on agriculture. Economic gains from broad-based liberalization, similar to that in the Uruguay Round, are estimated at as much as $400 billion a year[2] and could also contribute to improved food security, poverty alleviation and rural development in all countries. Trade in agriculture is also closely linked to the improvement of gender equality, as the majority of female workers – up to 90 per cent or more – in many developing countries are employed in the agricultural sector.

8. Integration into global markets offers the potential for more rapid economic growth, the creation of better-paid jobs and poverty reduction. However, many of the poor developing countries have found it difficult to take full advantage of the global market opportunities. Supply response has been weak for a variety of structural reasons, including weak institutional capacity, but also because policy environments are often not supportive. Industrial countries have maintained market access barriers and agricultural policies that tend to penalize typical developing country products.

9. Therefore, a coherent approach to development and trade calls for trade policies that create market opportunities for developing countries, and for development policies that enable them to respond to these opportunities. The key components of such an approach may be: (a) enhancing predictable market access for the export of developing countries, including the poorest, within a framework of multilateral liberalization and combined with fair and equitable multilateral rules; (b) undertaking determined action, eliminating trade distortions that harm developing country exports; (c) providing capacity-building assistance that improves the ability of developing countries to take full advantage of new opportunities for trade; and (d) developing sound and coherent trade and trade-related policies in developing countries themselves, which should be reflected within development plans and strategies for poverty reduction.

10. The aim of this note is to analyse the interaction between the three key concepts – market access, market entry and competitiveness – in the agro-food sector and to catalyse consensus around a road map for an effective trade policy in developing countries, especially in the poorer ones. In this context, the strategic question for developing countries is how to build an efficient trade policy around these three concepts. Basically, there are three elements which may contribute to enhancing the export competitiveness of developing countries and ensuring development gains from trade, one of the themes of UNCTAD XI: (a) benefiting from improved market access to tap opportunities that exist in areas which could generate foreign exchange and jobs on a large scale; (b) meeting market entry conditions and globally accepted standards and food regulations; and (c) identifying factors that influence competitiveness, and hence the export performance of firms and/or industries. To illustrate these, this note first reviews market access barriers in the current multilateral trading system. Second, it covers the differences between market access and market entry conditions and attempts to show how the latter may undermine the competitiveness of developing country exports. Third, it provides a road map for enhancing competitiveness. Finally, it section suggests the way forward on aid and trade.

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[2] See Document on Preparations for UNCTAD XI, TD (XI)/PC/1, 6 August 2003, Geneva.

I. MARKET ACCESS BARRIERS

11. A major impediment to growth in agricultural trade remains the high level of protection and support to agriculture in the developed countries. The Uruguay Round initiated the process of opening up new opportunities for export diversification in agriculture through, *inter alia*, tariffication and across-the-board reductions in most-favoured-nation (MFN) tariffs on agricultural products, reduction of trade-distorting support, and the strengthening of trade rules, particularly those on sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT). Despite these changes, there has been little improvement and market access problems persist particularly for processed agricultural products.

Agricultural tariffs

Tariff peaks

12. Agricultural tariffs remain high and complex. Tariffs in the developed countries are generally lower on average, but there are many tariff peaks, particularly on processed products and temperate-zone products such as horticulture, sugar, cereals, dairy products and meat. These tariffs are often complex with several different *ad valorem*, specific and seasonal rates applying to the same products.[3] Bound tariffs are also high in many developing countries, although their applied rates are generally lower. Recent estimates show that nominal protection rates in the OECD countries have declined somewhat but remain high on the whole.[4] While tariff rate quotas (TRQs) have created some new trading opportunities, consistently low and declining fill rates indicate that there are difficulties in their implementation.

Tariff escalation

13. The existence of tariff escalation (tariffs which escalated with the degree of processing) in agricultural markets is regarded as one of the major hindrances to export growth and diversification in the exporting countries. Tariff escalation prevails in a large number of agricultural commodity chains. Of 17 major commodity chains of interest to developing countries, 12 suffer from tariff escalation, mostly at the first stage of processing. In developed countries, tariff escalation is particularly pronounced in cocoa, coffee, oilseeds, fruit, hides and skins. In developing countries, however, applied tariffs are often much lower than bound rates and in almost all cases they show relatively high escalation.

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[3] See Gibson, P., Wainio, J., Whitley D. and Bohman M. (2001), Profiles of tariffs in global agricultural markets, USDA, ERS, Agricultural Economic Report No. 796.
[4] See OECD (2002), Agricultural Policies in OECD Countries: Monitoring and Evaluation.

Box 1 Tariff escalation on cocoa products

The European Union applies a zero tariff on imports of cocoa beans (raw material), but cocoa paste (semi-processed) is subject to a 9.6 per cent duty, and processed chocolate is taxed under a mixed set of tariffs that can amount to as much as 25 per cent. For example, 90 per cent of the world's cocoa beans are grown in developing countries, but only 44 per cent of cocoa liquor and 29 per cent of cocoa powder are processed in developing in these countries. As a final product in developing countries, chocolate accounts for a mere 4 per cent of global production. Tariffs on cocoa exports from LDCs have been eliminated under the "Everything But Arms" initiative, but they are maintained for large non-LDC producers such as Ghana and Côte d'Ivoire.

Source: International Cocoa Organization; IMF estimates from tariff schedules.

14. Tariff escalation has been raised as one of the important market access issues in the current WTO negotiations on agriculture. Country proposals addressing tariff escalation[5] are suggesting the adoption of a harmonizing reduction formula that reduces higher tariffs by greater amounts, including tariff peaks, and eliminates tariff escalation. A recent study shows that while the adoption of a harmonizing formula for reducing tariffs such as the Swiss formula[6] appears to be a better option for reducing tariff escalation than linear methods, it is unlikely that this formula will achieve a substantial reduction in tariff escalation in all commodities of export interest to low-income agricultural-commodity-dependent exporters, particularly tropical products, unless it involves some additional criteria for capping tariff wedges along the processing chain.

Trade distortions and impact on competitiveness

Agricultural support: Domestic support and export subsidy

15. Despite reforms in recent years aimed at delinking subsidies from production, more than 70 per cent of assistance to producers continues to be provided through market price supports and payments per unit of output, partly associated with export subsidies. Within developed countries, this assistance is costly and regressive since much of the benefit accrues to large farms, and price supports hurt low-income consumers most because they spend a larger share of household expenditure on food. In other countries, especially the poorer ones unable to compensate for losses through measures of their own, the overproduction stimulated by the measures in developing countries reduces prices and incomes from the affected products and subjects them to greater volatility[7] (see box 2).

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[5] Thirteen out the 45 country negotiating proposals, submitted in the context of the ongoing WTO negotiations on agriculture, asked for a substantial reduction in tariff escalation, particularly in the developed country markets.

[6] See FAO (2003), Tariff escalation in agricultural commodity markets, The state of world agricultural commodity markets (SOCO), Rome. The Swiss formula is a method of tariff reduction used in the Tokyo Round of the GATT negotiations that reduces higher tariffs by greater amounts compared with lower ones.

[7] When industrial country production is insulated from world market conditions through support measures, the full burden of adjustments to changes in supply and demand falls on other producers, thus causing greater swings in prices.

Box 2 United States cotton subsidies and African producers

World cotton prices have been on the decline since the mid-1990s. Since 1997, United States farmers have received "emergency assistance". Total support in 2001 was estimated to have been in the range of $1.7–2.0 billion. Apart from enhanced support schemes that benefited a variety of sectors, cotton farmers were protected from imports by quotas, and received export support as well as price-based subsidies. These additional benefits have helped to shield cotton production decisions from relative price movements. Occasionally, cotton has had higher relative returns than substitute crops. As a result, while total area harvested in the world has been falling since 1995, in the United States it increased by around 10 per cent between 1998 and 2001. In the 2001/02 season, United States cotton exports would have reached their highest level since 1926/27. This contributed to the downward pressure on prices, hurting some of the world's poorest countries. For example, the loss of export receipts caused by the fall in world prices over the past two years is over 3 per cent of gross domestic product (GDP) in Mali and Benin, and 1–2 per cent of GDP in Burkina Faso and Chad. The value of annual HIPC initiative debt service relief to these countries has been in the range of 0.81 per cent to 1.58 per cent of GDP in 2001. In addition, the secretariat of the Internatinal Cotton Advisory Committee (ICAC) estimates that losses to all producers in 2001/02 caused by lower prices linked to government measures amounted to $14 billion, and that losses during 2003/03 amounted to $3 billion. For sub-Saharan African producers alone, the losses in income linked to subsidies to cotton production are estimated at $920 million in 2001/02 and $230 million in 2002/03. The impact of these losses on individual countries with high cotton dependency, such as Benin, Burkina Faso, Chad, Mali and Sudan, was substantial.

Source: ICAC; USDA cotton and IMF estimates, 2002.

Level of support and trends

16. Total OECD support to agriculture, through border measures and budgetary transfers, amounted to $317 billion or 1.2 per cent of GDP in 2002.[8] There is, however, a wide distribution across countries and commodities. Support levels are very low in Australia and New Zealand, and far above the average in Iceland, Japan, Norway, Switzerland and the Republic of Korea. They are higher in the EU, with subsidies increasing producer incomes by 62 per cent on average in 2000, than in the United States (28 per cent). Much of this support increases with the level of output, contributing to excess production that competes with the production of developing country farmers for markets. The need for genuine reforms has been broadly recognized, and is part of the Doha Work Programme.

[8] See OECD, *Agricultural Policies in OECD Countries and Millennium Development Goals Indicators website* (http://millenniumindicators.un.org).

Box 3 Impact of EU subsidies on the tomato industry of West Africa

The European Union provides more than €40 billion annually in subsidies to EU agriculture. As a result, nearly every agricultural product is directly or indirectly subsidized. The small and increasingly open markets of many developing countries are often flooded by these subsidized agro-food exports. While poor urban consumers may welcome cheap EU products, long-term development of the economy is hampered in these developing countries where the agricultural sector employs well over half of the population and is one of the main engines for development. For instance, investments in further processing of local farm products are often not profitable under these circumstances. Even existing small and medium-sized local industries are sometimes thrown out of business, when import controls are lifted in the process of liberalization.

In West Africa a flood of cheap Italian tomato concentrates undermines the processing of local tomatoes. The subsidy provided by the EU at an annual amount of €372 million in processing subsidies to southern European firms has thrown the long-existing local processing industries in West Africa into crisis. For example, in Senegal one of the two tomato-canning factories shut down as a result of cheap tomato concentrate imports. The other factory has turned to importing cheap triple concentrate in bulk from Italy, in order to can this into double concentrate, which it sells on the local market. Thousands of local farmers lost their market outlet for their tomatoes through this shift in corporate policy. Similar things have happened in Burkina Faso and Mali. Ghana has seen an enormous increase in imports of EU tomato concentrate recently, resulting in local fresh tomato producers losing their market shares.

Source: TWIN Third World Network website: (http://www.twinside.org.sg/title/farm-cn.htm) and Eurosteps.

17. The Uruguay Round Agreement on Agriculture (URAA) extended multilateral disciplines to domestic agricultural support policies and direct export subsidies. Its benefits are judged to have been modest, however, because in most cases the ceiling of support under these commitments was well above actual levels, and because of the aggregate, non-product-specific nature of commitments, which allowed support for some products to increase substantially. Moreover, countries subsidizing the agricultural sector have been declaring that some of their support falls under the kind allowed by the URAA (green or blue box) rather than those which should be reduced (amber box). Instead of cutting subsidies, both the EU and US reforms are seen merely as shifting subsidies into categories of subsidies (boxes) that are not subject to WTO reduction commitments. Blue box subsidies are only permitted under schemes which attempt to limit production (such as set-aside in the EU) and the green box subsidies are deemed not to distort trade or at most cause minimal distortion. The EU, however, has progressively been shifting amber box (AMS) subsidies into the blue box. In the ongoing WTO negotiations, there is a proposal to redefine Article 6.5 of the Agreement on Agriculture. In this proposal, direct payments are no longer subject to production-limiting programmes. They may occur if payments are based on fixed areas and yields; if payments are made on 85 per cent or less of the base level of production; or if livestock payments are made on a fixed number.

18. In the 1995/96 WTO reporting of domestic support, the EU's AMS stood at €47.5 billion, blue box payments at €20.8 billion and green box payments at €18.7 billion. A recent report on the Direct Support Schemes under the Common Agricultural Policy (CAP) put the EU figures at €28.6 billion for AMS and €29.4 billion for the blue box.[9] After the CAP final agreement of 2003, the EU will further shift from the blue to the green box. One estimate is that it will be able to shift about 75 per cent of subsidies from the blue to the green box as a result of this agreement.[10]

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[9] See European Parliament, 2003: Report on the proposal for a Council Regulation on Establishing Common Rules for Direct Support Schemes under the CAP and Support Schemes for producers of certain crops. May, 2003.

[10] See AgraEurope, 2003. A CAP reform agreement that – just about – delivers, 27 June 2003.

19. Regarding the amber box, one of the demands in the Harbinson text was for a 60 per cent cut in AMS over five years from the Uruguay final bound commitment.[11] The EU's calculation of AMS now has to include the ten new member States. According to the European Parliament, the latest estimate of E-15 AMS is €28.6 billion (which would rise to €32.1 billion for EU-25). Following the 2003 reforms, this would fall to about €26 billion for EU-15 (and about €29 billion for E-25). Export subsidies are still high. For the period 1995–2000, these amounted to $5.5 billion in the EU, $81 million in the United States, $311 million in Switzerland and $86 million in Norway. The four countries represented approximately 89 per cent of world total export subsidies for the same period.[12] The key issue in the Doha negotiations is that all developed countries should achieve reductions in trade-distorting support significantly larger than in the URAA. More radical cuts in domestic support are, however, needed. Support in OECD countries is not decreasing and the recent US Farm Bill will have little impact on high levels of production, trade distortion and dumping, but may harm the export competitiveness of many developing countries.

II. MARKET ACCESS AND MARKET ENTRY

20. Market access difficulties are compounded by market structure issues, as well as by trade policy and technical instruments such as tariffs, quotas, tariff rate quotas, anti-dumping measures, technical regulations and standards, SPS measures and different rules of origin. Almost 90 per cent of internationally traded goods are subject to measures taken by Governments for the protection of human health and the environment.[13] These (and growing private sector measures and requirements such as voluntary standards) make international markets less open, secure and transparent. As illustrated in table 1, the issue is that if you have 100 per cent market access but no market entry, you will not be able to sell anything. But the reverse is also true. The problem is that the latter is not seriously taken into consideration in WTO trade negotiations. The distinction between market access measures and market entry conditions should therefore be fully taken into account and systematically addressed in order to enable developing countries to reap the benefits of trade liberalization effectively. The process of improving competitiveness requires an increased focus on the strengthening of production structures, notably networks of enterprises, clusters, industrial districts and linkages between small and large firms. It also involves learning, technology transfer and diffusion processes, and thus effective mechanisms not only for enhancing the international competitiveness of firms but also for helping transform the economy towards higher-value-added activities and long-term, stable economic growth. Helping developing countries to become more standard-makers than standard-takers requires, in short, the improvement of their active participation in the value-added chains. On the other hand, it also requires quality improvement for products, upgrading the technological and skill content of export activity, expanding the base of domestic firms able to compete internationally, and developing links with global production and distribution networks. A key factor for enhancing such networks is access to reliable and efficient logistics services, including the application of information and communications technologies (ICT), supported by well-maintained transport and communication infrastructure.

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[11] The Harbinson draft proposal for amber box reduction was similar to the European Union proposal which called for a 55 per cent reduction from its final Uruguay Round bound commitment. The EU subsequently submitted a revised proposal to increase the reduction commitment to 60 per cent.
[12] Calculated by UNCTAD using WTO notifications.
[13] See TD(XI)PC/1, report submitted by the Secretary-General for UNCTAD XI, 6 August 2003, Geneva.

Non-tariff barriers

21. Non-tariff measures aggravate market access difficulties and reduce the transparency of market access conditions. Under the Uruguay Round agreements quotas have been significantly curtailed and converted into their tariff equivalent. But a complex use of quotas continues to affect products originating from developing countries. Principal products, which are at stake, even if they are not the focus of this report, are textiles and clothing. They are under a transition regime set to end in 2005.[14] Industrial countries have exploited the considerable leeway they have under this regime by backloading liberalization, and it is estimated that by 2004 the 11 principal developing country exporters will still face quota restrictions on 80 per cent of their exports of these products.

22. Protection has shown a tendency to reappear under new guises such as "trade remedies", and in particular anti-dumping measures.[15] Almost half of the 4,999 anti-dumping investigations initiated by developed countries in 1995–2000 targeted developing countries, with another quarter targeting transition economies.[16] Anti-dumping measures have also become increasingly popular with developing countries themselves, with one third of measures directed at other developing countries. Technical, sanitary and phytosanitary standards are increasingly complex. They are generally developed with little involvement by developing countries and have strained the capacity of developing countries to meet them. Furthermore, there are concerns about the scope for the discriminatory use of these measures (see box 3). Even when the products affected are not commodities, protectionist measures on products of export interest to developing countries affect negatively the diversification alternatives available to commodity-dependent countries.

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[14] Developing countries themselves continue to make use of restrictive licensing of imports.
[15] Under certain conditions, trade remedies such as safeguards and anti-dumping are consistent with WTO agreements.
[16] However, exports of LDCs have been little affected.

Table 1
Distinction between market access and market entry measures

Market access		Market entry	
Illustrative measures	Features	Illustrative conditions	Features
Multilaterally agreed measures Tariffs, quotas, TRQs, import licensing procedures, trade remedies (AD, CVM and safeguards), and customs and administrative procedures and fees.	Negotiated and agreed by Governments multilaterally in the WTO, including through the use of request and offer approach, as well as in RTAs. More predictable, secure and binding commitments. Special and differential treatment (SDT) accorded to developing countries in tariffs, but erosion of preferences ongoing. SDT with regard to other measures is considered insufficient and/or inoperative. Subject to legal recourse: nullification and impairment can be quite easily challenged through Dispute Settlement Understanding (DSU). ***Trend***: Tariffs are being reduced; some tariff peaks and escalation still exist; residual quotas have been removed or are being phased out; increase in use of trade remedies.	*Under multilateral frameworks* Sanitary and phytosanitary measures, technical barriers, restrictive rules of origin, and intellectual property protection. *Outside multilateral frameworks* Product and quality standards, health and safety requirements, environmental measures, social and eco-labelling and consumer information, selective taxation, oligopolistic market structures and anti-competitive practices.	Mostly not multilaterally agreed, often unilaterally set by Governments and/or industry, or in the context of bilateral mutual recognition agreements (MRAs) between developed countries. Often unpredictable and discretionary. No preferential entry for developing countries. More difficult to challenge in DSU. Possibility of challenging under national law of importing country. Mostly privately instituted in the importing countries and outside the purview of the WTO. Possibility of challenging under national law of importing country. ***Trend***: Market entry barriers are becoming more frequent, stringent and complex.

Increasing Exigencies of Markets

23. Commodity markets are undergoing rapid change, with closed commodity chains rapidly replacing wholesale or spot markets. Highly concentrated agro-food processing, supermarkets, retailers and food service industries at the end of these chains are reducing their supply base and demanding increasingly stringent levels of quality and compliance with safety standards. With the increasing dominance of international distribution networks even in developing countries, these exigencies must be met even when supplying domestic markets. Only a small group of producers and exporters in developing countries have the capitalization, infrastructure, technical expertise and market information to meet the requirements of shippers, processors and retailers. And even for this highly capitalized group, it is very difficult to prevent bargaining power from being eroded as downstream agribusiness becomes ever more concentrated. Small producers without the financial and technical means to undertake adjustments for meeting these standards have been increasingly marginalized.

24. The restructuring of the agri-food chain into a vertically coordinated demand-driven chain with private standards, and the rise of contracts and specialized intermediaries, are proving to be a powerful driver of divergence and marginalization within farm communities. Under these closed contract production systems, market access has little to do with production efficiency, and everything to do with meeting the demands of large distribution networks such as supermarkets for consistency of supply and compliance with standards. These emerging factors of global markets are *market entry conditions,*[17] which tend to generate substantial costs for developing country exporters.

25. The drivers of change shaping the new international trade environment in agriculture are diverse. There is for example a constant change in consumer values and trends, especially in developed countries, impacting on international food marketing. Consumers are increasingly concerned about nutrition, food safety and health. They want higher quality (e.g. with regard to size, colour, condition, maturity, tenderness and consistency), more processed and higher-value-added food products, and more variety. In addition, there is a growing sensitivity concerning environmental and social issues (waste disposal, recycling, packaging, pollution, animal welfare, worker safety and welfare, child labour, etc). Therefore, exporters face a set of environmental and social issues that substantially determine customer acceptance of their products. Moreover, international trade law, domestic regulations and economic changes towards globalization in general shape distribution networks for food. They lead to globalization of food chains such as McDonalds and to more vertical and horizontal integration internationally. Industrial structures are likely to evolve towards more concentration or at least towards stricter contractual arrangements, not necessarily for cost efficiency but under competitive pressure to provide quality and safety attributes. New commercial relationships between producers, traders and retailers arise.

26. To prevent these diverse changes affecting the agricultural sector from resulting in new barriers to trade, the international trade and marketing of agricultural products has been covered under several WTO agreements: the Agreement on Agriculture (AoA), the Agreement on Technical Barriers to Trade (TBT) and the Agreement on Sanitary and Phytosanitary Measures (SPS). The TBT and SPS agreements have stipulated rules restricting the use of food quality and technical standards as non-

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[17] The Expert Meeting on Market Entry Conditions Affecting Competitiveness and Exports of Goods and Services of Developing Countries: Large Distribution Networks, Taking into Account the Special Needs of LDCs addressed market entry conditions affecting the competitiveness of developing country exporters. See TD/B/COM.1/EM.23, Geneva, 2003.

tariff trade barriers. However, conflicts are increasing slightly in agricultural trade negotiations and increasingly involve developing countries. Twelve of the 18 disputes since the establishment of the WTO in 1995 have involved developing countries, and there are already indications that their number will increase over time.[18]

III. A ROAD MAP FOR ENHANCING COMPETITIVENESS

Identifying and sequencing determinants of competitiveness

27. The competitiveness of agricultural markets in developing countries lies in the best use of improved market access and market entry conditions. In that connection, attention should be paid to the determinants of competitiveness, which may be identified at four levels – meta, macro, meso and micro.

28. At the meta level, two groups of factors and trends have been identified which may influence the agricultural market in a developing country from outside and can cause serious barriers to trade for agricultural exports from such a country. The first group comprises sociocultural factors such as religion, language, values and attitudes. Differing perspectives about what constitute appropriate food safety regulations, or different values based on outcomes such as environmental quality can cause these rules to differ across countries and to be trade-distorting. The second group comprises political and economic global framework conditions such as the international trade rules being set by WTO. These factors and global trends have gained importance over time. Combined, they may expose developing countries to potentially new non-tariff trade barriers such as environmental standards, SPS, technical standards, brands and private labelling schemes.

29. At the macro level, the macroeconomic, political and legal framework for the agricultural market in a developing country is set. It includes fiscal policy, trade policy and judicial policies, and thus determines the governance system in a country. Policy failure often results in the insufficient provision of public goods and services, and thus impacts on the meso level.

30. At the meso level, targeted policies and institutional changes may strengthen the competitiveness of the agricultural sector in a country. Sectoral policies are, for example, agricultural policy, education policy and environmental policy. Institutions include standards organizations, testing and certification bodies, suppliers of inputs and services, and State trading enterprises. Education and training, marketing support, physical infrastructure, financing, small and medium-scale enterprises support and technology cooperation, integration into technological and institutional networks are further relevant factors at the meta level.

31. Microeconomic factors refer to the behaviour and strategies of individual enterprises, their managerial competence and logistics, for example.

32. Setting the right conditions at one of these levels is an important but not sufficient prerequisite for improving the competitiveness of the agricultural market in a country in the context of trade liberalization. All factors at the four different levels and their interactions have to be taken into account when determining the competitiveness of the agricultural market in a developing country. At the macrolevel, an enabling environment needs to be established for meso- and micro-level agents.

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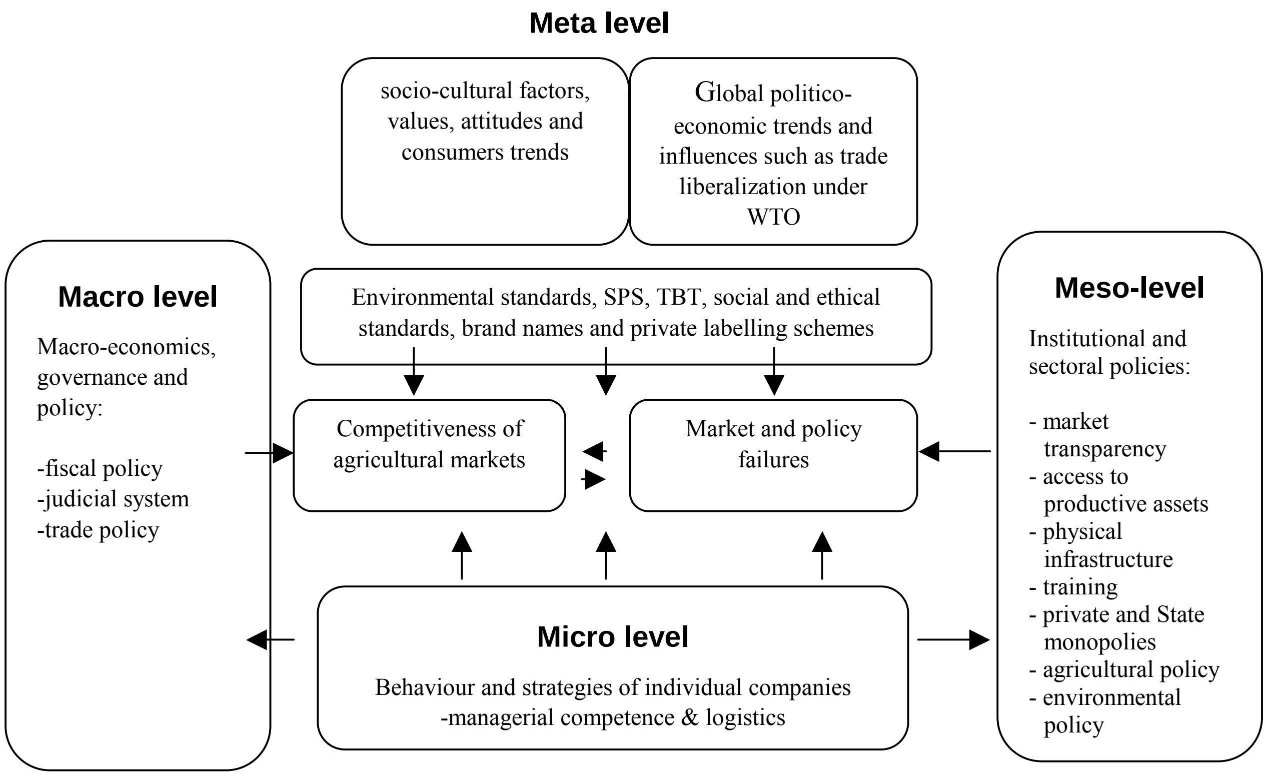
[18] This number is based on publication of disputes from WTO, 2002, Geneva. See WTO website (http://www.wto.org/english/tratop_e/dispu_e/dispu_subjects_index_e.htm)

The governance system at the macrolevel determines the delivery of public goods and services at the meso level. Figure 1 is a systematic approach for analysing the agricultural market in a country in terms of its determinants of competitiveness, which is directly linked to its market and government failures.

33. In addition, for many developing countries, especially LDCs, one of the key reasons for the deteriorating situation is the difficulty in analysing collectively lessons learned from past unsuccessful strategies for linking agriculture, industry, trade, infrastructure and communication. Piecemeal past decisions contributed to promoting a production system that did not give priority to competitiveness. As a consequence, developing countries' production entities collectively have become less effective in terms of delivery.

Figure 1
Determinants of competitiveness of developing countries in agro-food exports



34. Agricultural natural resources cannot be developed to their full potential without building additional value added on the product and the process. In order to ensure a significant growing market share and increase development gains from international trade and trade negotiations, strategic approaches and benchmarking techniques should be developed and implemented in order to facilitate sound and predictable governance. To fuel the engine of development, agricultural commodities need to be processed and marketed in accordance with international competitive norms and standards.

Taking full advantage of preferential market access

35. Despite the current constraints on agricultural trade emanating from protection and support in the developed country markets, preferential trade arrangements involving developing countries have provided some opportunities for these countries to expand and diversify their agricultural exports. Three major forms of trade preferences can be distinguished: the Generalized System of Preferences (GSP), special preferential regimes for groups of developing countries (such as Lomé/Cotonou, the African Growth and Opportunity Act (AGOA), and the Caribbean Basin Initiative) and regional free-trade areas between developed and developing countries. This latter differs from the others in that it involves reciprocal rather than unilateral trade preferences.

36. However, while many developing countries have been accorded preferences for a large number of products, exceptions to these preferences often relate to agricultural products. For example, the European Union's initiative on "Everything But Arms" (EBA) offers free market access to LDC products, with less than 5 per cent of pre-EBA exports left facing a tariff barrier. A recent UNCTAD study, however, shows that the result of this initiative will be a relatively small increase, in the medium term, in exports from the LDCs, as 70 per cent of the potential positive trade effects would have come from free access for sugar, rice and beef, which has been deferred until 2006.[19] The AGOA has also started to open up markets in United States for African countries. But market entry is still limited, especially for agricultural products.

37. National and regional markets, including trade cooperation among developing countries, should not be neglected. South–South economic cooperation and regional integration are important elements of development strategies for developing countries and for their integration into the global economy. Developing countries members of the Group of 77, with UNCTAD's assistance, launched the Global System of Trade Preferences among Developing Countries (GSTP) to establish a framework for the exchange of trade preferences among themselves with a view to promoting mutual trade. The GSTP agreement represents a political and economic milestone in South–South cooperation, and deserves to be implemented expeditiously and more comprehensively.

Increasing value addition and focus on consumers

38. Several circumstances are contributing to an increasingly turbulent time in agro-food trade. They include some fundamental changes in the way trade is conducted, such as the disciplines imposed by multilateral trade rules, and the growing importance of international supermarket chains. However, while it can be expected that commodity prices will not significantly increase in the future and periods of excess supply and low prices will continue, value-adding activities for escaping from the impact of low prices and new risk management tools for dealing with fluctuations will provide opportunities.

39. Producers' greatest opportunities may lie in activities that add value to their products and move their point of first sale downstream towards consumers. Differentiation, through quality attributes or geographical specifications, can provide significant prospects in some cases. Producers must respond to market developments, determine what factors will drive the future of their industry, and adapt to change. This is a formidable task, especially for the commodity sector of developing countries, from the point of view of both human and financial requirements.

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[19] See United Nations General Assembly (2002), World commodity trends and prospects: Note by the Secretary-General, fifty-seventh session, item 86 (b) of the provisional agenda (A/57/381).

40. Consumers, particularly in developed markets, tend to buy a wider variety of unique food products, which are either very fresh and appealing from a health point of view, or highly processed and highly advertised and are less price-elastic than the traditional foods they replace. Consumers also increasingly rely on brand or company reputations as guides to quality.[20] Developing country exporters who want to enter dynamic markets have to insert themselves into this very sophisticated trading network. Six significant trends in consumer demand are (a) more convenience; (b) ethnic identity; (c) ageing population; (d) low-calorie foods; (e) fresh foods instead of frozen or canned ones; and (f) healthy natural foods and ethical products.[21] Boxes 4 and 5 illustrate these trends towards fairtrade and organic products.

Box 4 Fairtrade products and distribution networks

Fairtrade aims to alleviate poverty in the South by providing disadvantaged producers who agree to produce according to certain sustainability criteria with opportunities to access Northern markets on advantageous terms. It aims to build sustainable direct relationships between these producers in the South and consumers in the markets of developed countries. The goals of fairtrade are: (a) improving the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship; (b) promoting development opportunities for disadvantaged producers, especially women and indigenous people, and protecting children from exploitation in the production process; (c) raising awareness among consumers of the negative effects on producers of international trade so that they can exercise their purchasing power positively; and (d) protecting human rights by promoting social justice, sound environmental practice and economic security. In this light, fairtrade is not just about trade, but also about development both at the producer and consumer ends of international trade.

Fairtrade products have a label (e.g. Max Havelaar) that clearly distinguishes them from other products. Broad coalitions of concerned organizations (developmental or environmental non-governmental organizations) who commit themselves to actively promoting the label, and thus generate enough consumer demand, bring labelled products onto supermarket shelves and other sales channels such as commercial stores and specialty food shops. Marketable products are food products such as bananas, cocoa, coffee, mango, spices and tea, as well as a variety of handicrafts, including basketry, glassware, jewellery and musical instruments.

Recent developments show that fairtrade is developing and expanding worldwide, especially in Europe. Fairtrade products are now available in more than 43,000 supermarkets throughout Europe. Although still small compared with the total size of the market, the annual aggregate net retail value of fairtrade products (labelled and non-labelled) sold in Europe through alternative channels and supermarkets exceeds €260 million.

Source: Fairtrade in Europe: Facts and Figures on the Fairtrade Sector in 18 European countries, European Fairtrade Association, 2001.

[20] See Connor, J. et al. (1997), "Consumer Demand for Food. Food System 21. Gearing Up for the New Millennium", Chapter 6. Purdue University Cooperative Extension Service, West Lafayette, Indiana.
[21] See Connor et al., op. cit.

Box 5 Demand for organic products is increasing

The major organic markets are expected to grow at rates between 10 to 30 per cent a year in the next five to ten years. In Europe and the United States, production of organic products has increased tremendously within the last 20 years, but there is considerable scope for imports of certified organic products. It has been reported that in the United Kingdom, demand for organic products is currently increasing by 40 per cent annually, whereas supply is expanding by only 25 per cent. Eighty per cent of organic fruits and vegetables sold in the United Kingdom are imported.

Accordingly, organically grown and certified fruits and vegetables from subtropical and tropical areas have good market prospects. At the export level, organic price premiums of about 10 to 15 per cent are reported. The international market for organic foods was worth a total of approximately $20 billion in 2000. Europe leads with sales of about $9 billion, followed by the United States with around $8 billion and Japan with $1.5 billion.

Therefore, there is every indication that the new markets for high-value-added crops and especially high-quality organic food remain to be conquered and may provide a significant growth opportunity, especially if certification costs that are often difficult for developing country producers to meet do not act as a deterrent.

Source: Organic Fruit and Vegetables from the Tropics: Market, Certification and Production Information for Producers and International Trading Companies, United Nations, New York and Geneva, 2003.

41. To increase the value added retained by producers, and in the producing countries, emphasis needs to be put on products that meet consumer desires or fill market niches. By utilizing value-added precepts for business development, producers can identify the desires of consumers and target markets, rather than taking the commodity to the market and hoping that consumers will like it and use it. Target markets are tightening as retailers and consumers pay more for a specific range of products. Success in these target markets requires knowing consumers' desires. For producers located in countries far from major markets, close links with the distribution networks have become inevitable. These links also call for a degree of sophistication that is often lacking in individual small producers, and sometimes in larger ones in developing countries. Thus, producers should stay attuned to the needs of the market place, instead of concentrating only on production and ignoring the final marketed product. They should see themselves as producing consumer products and services instead of undifferentiated homogeneous commodities.

IV. THE WAY FORWARD ON AID AND TRADE

42. Improved market access and technical assistance can make important contributions to the successful integration of developing countries into world trade. Perhaps the most basic factor is a clear commitment by developing countries themselves to create appropriate policy and institutional conditions. But for many developing countries, their entrepreneurial drive is often hampered by weaknesses in the institutional and market infrastructure for trade, and the concerns of these country producers are not always reflected correctly in international agreements (e.g. on standards).

43. In this respect, policies for trade and aid can be complementary tools for development, but have often lacked coherence. A coherent approach would require that trade policies create market opportunities for developing countries, and that development policies through aid enable them to respond to these opportunities. This is the essence of the Doha Work Programme of the WTO and is

reflected in the final report of the International Conference on Financing for Development in Monterrey.

44. A development-oriented trade policy would consist of broad-based and predictable improvements in market access for developing country exports, as well as liberalization by developing countries themselves. Priorities should be the elimination of tariff peaks and tariff escalation, which are particularly pernicious in their effects on poor countries. Determined efforts are required in order to phase out production and price-based supports, and in particular export subsidies, and eliminate associated border restrictions. Rules regarding non-tariff barriers, in particular trade remedies, must be tight enough to prevent their use as substitute tools for protection. In order to make progress in these areas there is a need, in the industrial countries, to build awareness of the impact and cost of existing policies and to strengthen assistance to those adversely affected by liberalization.

45. A trade-related development policy would provide assistance in tackling transaction costs and institutional weaknesses obstructing trade, and in strengthening the ability of developing countries to recognize and defend their interests in multilateral negotiations. Capacity-building would be an important instrument of such an approach, and would require significantly stepped-up funding for technical assistance. Finally, the agenda would require developing countries themselves to commit to creating supportive conditions for trade and investment as part of their national development strategies. This includes critical elements for enhancing competitiveness such as large output markets, stable macroeconomic and sectoral policy, institutional development, technological and market opportunities, access to seasonal finance, and appropriate technology and physical infrastructure, as well as product quality.

46. In that connection, the report of eminent persons on commodity issues[22] offers a wide range of actions which can improve the conditions in commodity markets and can help alleviate the poverty of many commodity producers, including through better crop management systems. Among the recommendations contained in the report of eminent persons, five were given the highest priority: (a) enhanced, equitable and predictable market access for commodities of key importance to developing countries; (b) addressing the problems of oversupply for many commodities; (c) making compensatory financing schemes user-friendly and operational; (d) strengthening capacity and institutions; and (e) pursuing the possibilities for the creation of a new International Diversification Fund.

47. Productive growth and competitive trade performance are derived from the combination of all these elements. In fact, improving productivity and competitiveness without harming social and economic development lies in (a) improved market access, including promoting the effectiveness of public and private partnerships in designing economic growth strategies and policies in the agricultural commodities sector; (b) harmonizing regional and national institutions supporting the private sector directly involved in the agro-industrial sectors; and (c) upgrading the production system with a special focus on organizational and managerial matters and the diffusion of best practices in line with international practices, with the objective of meeting the market entry conditions of value chains and distribution networks and offering real chances for taking advantage of the opportunities of the global market.

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[22] A meeting of eminent persons on "Commodity Issues, Including the Volatility in Commodity Prices and Declining Terms of Trade and the Impact These Have on the Development Efforts of Commodity-Dependent Developing Countries" was organized by UNCTAD from 22 to 23 September 2003 at the Palais des Nations, Geneva. See report in document TD/B/50/11, 30 September 2003.