Increasing the Market Access for Agricultural Products from Bangladesh to the EU

Paper 58

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The present paper titled ***Increasing the Market Access for Agricultural Products from Bangladesh to the EU*** has been prepared under the CPD programme on Trade Related Research and Policy Development (TRRPD). The paper was prepared by *Jorge Nufiez Ferrer,* Associate Research Fellow, Centre for European Policy Studies, University of Leuven, Belgium.

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Contents

Acronyms

AC	African and Caribbean Countries
ACP	African, Caribbean and Pacific Countries
CAP	Common Agricultural Policy
Cif	Cost Insurance and Freight
CN	Combined Nomenclature
CPD	Centre for Policy Dialogue
EBA	Everything but Arms
EC	European Communities
ECU	European Currency Unit
EPZ	Export Processing Zones
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preference
HACCP	Hazard Analysis Critical Control Point
HS	Harmonised System
Kg	Kilogram
LDCs	Least Developed Countries
MTR	Mid Term Review
RoO	Rules of Origin
SAARC	South Asian Association for Regional Cooperation
SPS	Sanitary and Phyto-Sanitary
TBT	Technical Barriers to Trade
TRA	Trade Related Assistance
TRIPs	Agreement on Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
US	United States
USDA	United States Department of Agriculture
WCO	World Customs Organisation
WTO	World Trade Organisation

Abstract

This paper analyses the present developments and future prospects for increased agricultural trade for Bangladesh with the EU. The trade relationship with the European Union (EU) is seeing important changes in recent years. The EU has unilaterally eliminated in 2001 tariff barriers for products originating in Less Developed Countries through the Everything But Arms (EBA) agreement, which includes the highly protected agricultural products. This creates important export opportunities for Bangladesh. The paper analyses in detail the export trends for major agricultural products from Bangladesh and other countries in the region to look for any evidence of an impact from the EBA. Despite the short period analysed, there are indications of some positive impacts. However, these are often rather weak and at times there are none where expected. Analysing the trends of regional competitors, the paper implies that even with EBA Bangladesh lacks price competitiveness in some products, and most importantly a lack of marketing strategy directed towards EU consumers. For the future, the impact of the EBA will also depend on a number of other factors, such as any progress in the farm liberalisation negotiations at WTO, amendments in the Sanitary and Phytosanitary rules and the reform of the EU's Common Agricultural Policy. All of these factors have the potential to erode the benefits of the EBA considerably. The paper also addresses some important strategic aspects to improve import opportunities, from marketing to taking advantage of the trade related assistance offered by the EU to the less developed countries.

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1. INTRODUCTION

Market access to the European Union (EU) is of crucial importance to agricultural exporters worldwide. The single market of 25 member countries (soon to expand to 27 or more) represents, for trading partners, a wealthy single market with nearly 460 million consumers. Having a total GDP of US$ 11017 billion in 2003, the EU is a crucial trade partner as well as the largest importer of agricultural products in the world, worth US$91 billion in 2002.

For Bangladesh, the EU represents the most important export market. Presently, among LDCs (Least Developed Countries), Bangladesh is the most prominent exporter to the EU, representing 20 per cent of the total exports from all LDCs to the European market. The principal exports to the EU are textile products (90% of the EU imports from Bangladesh). In the last decade Bangladesh has enjoyed a growing overall trade balance surplus with the EU, which stood at around US$3 billion in 2002-2004. Agricultural exports, however, are only a small fraction of overall trade and exports to the EU, representing €189 million (US$213 million) in 2004 (Eurostat data).

Bangladesh has a positive trade balance on agricultural products with the EU and has seen a rise in the total value of exports in recent years. The performance is mixed, however, as for the food component of these exports (animal products, crops and vegetables) has not developed favourably, the value of exports in dollar term in 2003 equals the value in 1996 (approximately US$75 million). The highest export revenue for these products was in 1998 (US$138 million) but has seen a strong decline since.

This paper has the objective to analyse four important aspects that will dominate the trade relationship between Bangladesh and the EU for agricultural products in the future:

(a). the EU-EBA (Everything But Arms) agreement, which abolishes all EU tariff barriers for all imports from the LDCs from 2001 onwards (with the exception of a delayed application for three sensitive products) and expresses a commitment to enhance trade related assistance (TRA);

(b). the implications for trade of the latest reform of the Common Agricultural Policy (CAP);

(c). the implications of the agreement on the modalities for the WTO Doha round of negotiations (the "July Package", agreed on 1 August 2004);

(d). the implications of the non-tariff barriers created by the SPS (sanitary and phytosanitary agreement of the WTO) measures and rules of origin requirements.

These four aspects have important implications for Bangladesh, as the EU is the principal trading partner, and new opportunities seem to be developing. The EU-EBA agreement has certainly the potential to increase the exports of agricultural products to the EU. However, the CAP reform and the likely agreement of generalised tariff reductions in the WTO can both benefit and harm the interests of Bangladesh. A reduction in tariff barriers for non-LDCs will certainly not benefit Bangladesh in its exports to the EU, as the price competitiveness with non-LDCs would be partially eroded. The rules of engagement in trade with the EU have to be analysed carefully and many aspects will depend on the decisions at WTO level, and the impact on domestic production of the latest reform of the EU's Common Agricultural Policy.

The developments in the interpretation of the Agreement on the Application of Sanitary and Phytosanitary Measures (the "SPS Agreement") by the EU is a matter of concern as are any changes in the rules of origin or alterations in other non-tariff barriers. These can have considerable trade impacts, as latest developments are increasing the possibilities for WTO members to go beyond the basic WTO rules if "justifiable".

2. EU TRADE AGREEMENTS AFFECTING BANGLADESH

The EU-EBA agreement has been introduced into the EU Generalised System of Preferences (GSP) in 2001. The GSP agreement came into force in 1971, because trade discrimination practices were not allowed under the GATT (General Agreement on Tariffs and Trade), a waver was introduced for developing countries (the so-called "enabling clause") creating the legal framework for the Generalised System of Tariff Preferences. Under this framework, developed countries are authorised to establish individual "Generalised Schemes of Tariff Preferences".

The countries covered by the EU-GSP include all developing countries and the EU member states. The present format of the policy originated in 1998. The main objective of this agreement is to grant special trade preferences to developing countries in order to foster development and help them to compete on international markets (EU Commission, 2001). The agreement has been renewed every three years. The EU Council Regulation (EC) No 2501/2001 (annexed to this document) contains the legal provisions for the GSP

scheme, which is applicable for the period from 1 January 2002 to 31 December 2005. However, the EBA regulation foresees that the special arrangements for LDCs should be maintained for an unlimited period of time and will not be subject to the periodic renewal of the EU scheme of generalised preferences. Therefore, the date of expiry of European Council Regulation (EC) No 2501/2001 does not apply to its EBA provisions. This section will only concentrate on those issues which are relevant to the EBA agreement.[1]

Presently there are 49 countries recorded as LDCs[2] and covered by the EBA agreement. The aim of this agreement is to provide more favourable treatment to the group of LDCs than to other developing countries benefiting from the GSP, by extending duty-free access to all products from LDCs without any quantitative restrictions, except to arms and munitions. Thus, the EBA provides the most favourable regime available. The particular importance of the EU-EBA agreement is that the EU excluded most agricultural products from the GSP. Access to the EU for agricultural products is very important for any LDC, given the importance of the agricultural sector for their economies.

The EU has thus added 919 tariffs lines (see Annex A) to the list of duty-free access, including such sensitive products as: beef and other meat; dairy products; fruit and vegetables, including processed fruit and vegetables; maize and other cereals; starch; oils; processed sugar products; cocoa products; pasta; and alcoholic beverages. However, the duty-free access is not immediate for the tariff lines of banana, sugar and rice, and specific phasing-in periods apply. The precise implications are described in Kurzweil, Ledebur and Salamon (2003)[3].

Banana The EBA initiative provides for the full liberalisation of the banana market between 1 January 2002 and 1 January 2006 by reducing the full EU tariff by 20 percent every year.

Rice Full liberalisation of the rice scheme will be phased-in between 1 September 2006 and 1 September 2009 by gradually reducing the full EU tariff to zero in the meantime in order to provide effective market access, LDCs rice can enter duty-free *within the limits of a tariff quota*. The initial quantities of this quota shall be based on the highest export

[1] A more detailed description of the EU trade agreements can be found in Kurzweil, Ledebur and Salamon, (2003) or in the European Commission's website: http://europa.eu.int/comm/trade/issues/global/gsp/gspguide.htm.

[2] The criteria for LDC categorisation and the list of countries can be found in the UNCTAD website http://r0.unctad.org/ldcs/

[3] The paper can be found in www.enapri.org.

levels to the EU in the recent past, plus 15 per cent. The quota will grow by 15 per cent every year, *from 2,517 metric ton (husked-rice equivalent) in 2001/02 to 6,696 metric ton in 2008/09* (September to August marketing year).

Sugar Full liberalisation of EBA imports of sugar will be phased-in between 1 July 2006 and 1 July 2009 by gradually reducing the full EU tariff to zero. In the meantime, as for rice, LDCs raw sugar can enter duty free within the limits of a tariff quota, which will grow from *74,185 MT (white-sugar equivalent) in 2001/02 to 197,355 MT in 2008/09* (July to June marketing year). This excludes the LDCs of the ACP countries, as these are part of the ACP-EU Sugar Protocol.

Since the EBA initiative represents one of the special incentive arrangements within the EC's GSP scheme, the corresponding rules of origin also apply here. Similar to the rules of origin, the SPS measures laid down in the agreement follow the guidelines of the GSP scheme, and thereby the WTO's SPS agreement. With respect to the WTO's TRIPs Agreement, the same applies to the protection of property rights. With respect to safeguard and withdrawal measures, the rules laid down in the GSP agreement apply.

3. THE EBA AND TRENDS IN TRADE WITH THE EU FOR BANGLADESH

The EBA aims to facilitate trade with LDCs in order to favour their development. The performance of this trade opening has been disappointing in the first years. Brenton (2003) and the USDA (2003) indicate that there is no evidence of increased exports to the EU. Of course, these reports only cover a period of two years since the EBA was introduced. One of the reasons for this lack of uptake is that, under the tariff lines newly liberalised, many LDCs did not export significantly anyway.

Bangladesh is, however, one of the countries which can potentially benefit most from EBA. As a matter of fact, another of the causes for the scant uptake of the EBA initiative is that many LDCs were part of the ACP group of countries already benefiting from preferential tariffs, thus rendering the benefits of EBA insignificant. Bangladesh, however, sees a significant improvement under the new conditions. This section will analyse the implications for the agricultural sector.

The implications and potential impacts for Bangladesh have been well documented in the study by Bhattacharya et al. (2004) Executive Director of the Centre for Policy Dialogue (CPD). The present study aims to complement rather than at reproduce Bhattacharya's study results, which already presented an excellent picture of the EBA implications. However, the study was based on the potential of the EBA alone. The present paper will

draw from its results, but aims to move beyond EBA. The latest reform of the EU's Common Agricultural Policy and the ongoing WTO negotiations will have important implications on world trade and the position of Bangladesh as an exporter to the EU and to the rest of the world.

Aware that it can rarely compete in the exports of bulk agricultural products, Europe is reorienting its agricultural sector. Support linked to the quantity of production is thus abandoned in favour of less intensive quality production. As a consequence, the EU will weaken its position as a major exporter in a number of basic products. The EU, however, will increase its competitiveness in some sectors, due to the price effect on inputs and the changes in the relative prices of products that the reforms will cause. A reform of the sugar regime will have strong implications for exporters to the EU with zero tariff preferential access, not as an export opportunity, but rather as a large revenue loss, as an increase in market access is linked to drastic cuts in the internal price of sugar and thus lowering benefits of trading with the EU. Without incorporating the CAP implications and the possible alternative WTO agreements, any study would under- or overestimate impacts for the countries with preferential access.

In order to reach any conclusion on future implications, however, one has to understand the present developments. This section will first analyse whether, on the basis of trade data, there are any indications that the EBA agreement has affected exports from Bangladesh to the EU in relevant tariff lines. This is based on agricultural trade figures for the years 1998, 2000, 2001, 2002, 2003 and, where available, 2004 data at the 6 digit level of the Harmonised System of Codes[4]; for some specific products 8 digit CN (Combined Nomenclature) codes are used. The selection of products is based on the main products exported by Bangladesh to the EU.

This analysis should indicate if there has been an uptake of the EU-EBA. The 1998 and 2000 figures will provide a picture of the pre-EBA trade situation for comparison. The changes will be compared to developments of trade partners in the region, with, with the exception of one, are not part of the EBA agreement: China (non-EBA), India (non-EBA, but part of the sugar protocol), Vietnam (EBA) and Thailand (non-EBA).[5] Quantities

[4] is an international multipurpose nomenclature which was elaborated under the auspices of the World Customs Organisation (WCO).

[5] Countries like Myanmar and Indonesia have not been included because these suffer from trade disturbances due to political instability.

will be compared, and the value per unit of imports will be derived (cif price[6]) to compare the competitive position of Bangladesh.

The comparison should allow detecting any evidence that the EBA has affected export levels of Bangladesh to the EU, but also identifying changes caused by other factors, such as dollar price fluctuations. If non-EBA countries show similar export developments, an increase in export might well be based on other factors than the EBA. These comparisons are all to be interpreted with caution, as quantities and values exported also depend on a large number of factors, such as fluctuations in levels of production at any given year and differentials in quality. Nevertheless, agricultural products are often relatively homogenous, different value and quantity developments can give an important signal. A weakness of the analysis is that it is not possible to distinguish from the data between the imports under EBA, i.e. fulfilling the rules of origin requirements and exempt of duty, and those that are imported under duty. For agricultural raw materials this is generally not an issue, but for processed products this could often be important.

The products analysed are listed in Annex B. These are product categories under cereals (rice), vegetables, pastry preparations, vegetable textile fabrics (jute), sugar and poultry.

Because of the tariff reduction scheme on sugar and rice until 2005, these two products have to be studied separately, and the analysis has to take into account the implications of the remaining price and quota rules. Therefore, these will be analysed after the overview of the results on other products.

3.1 EBA and Trends for HS 07 – Edible Vegetables and Certain Roots and Tubers

Under the HS 07 Heading, Bangladesh has seen a substantial increase in exports of vegetables between 2002 and 2003 (see Figure 1). Vietnam shows an increase too but so does India. From this graphical result alone, it is difficult to infer whether the increase is due to Bangladesh starting to take advantage of the EBA facilities or not. However, the magnitude of the increase has not been matched in any of the other countries researched. In 2003 Bangladesh has increased its exports by 40 per cent in volume compared to the previous year. Table 1 shows the index.

[6] Cost Insurance and Freight: This is the value of the imports at the EU borders before duties.

Table 1: Bangladesh % Change Exports, index 2001=100

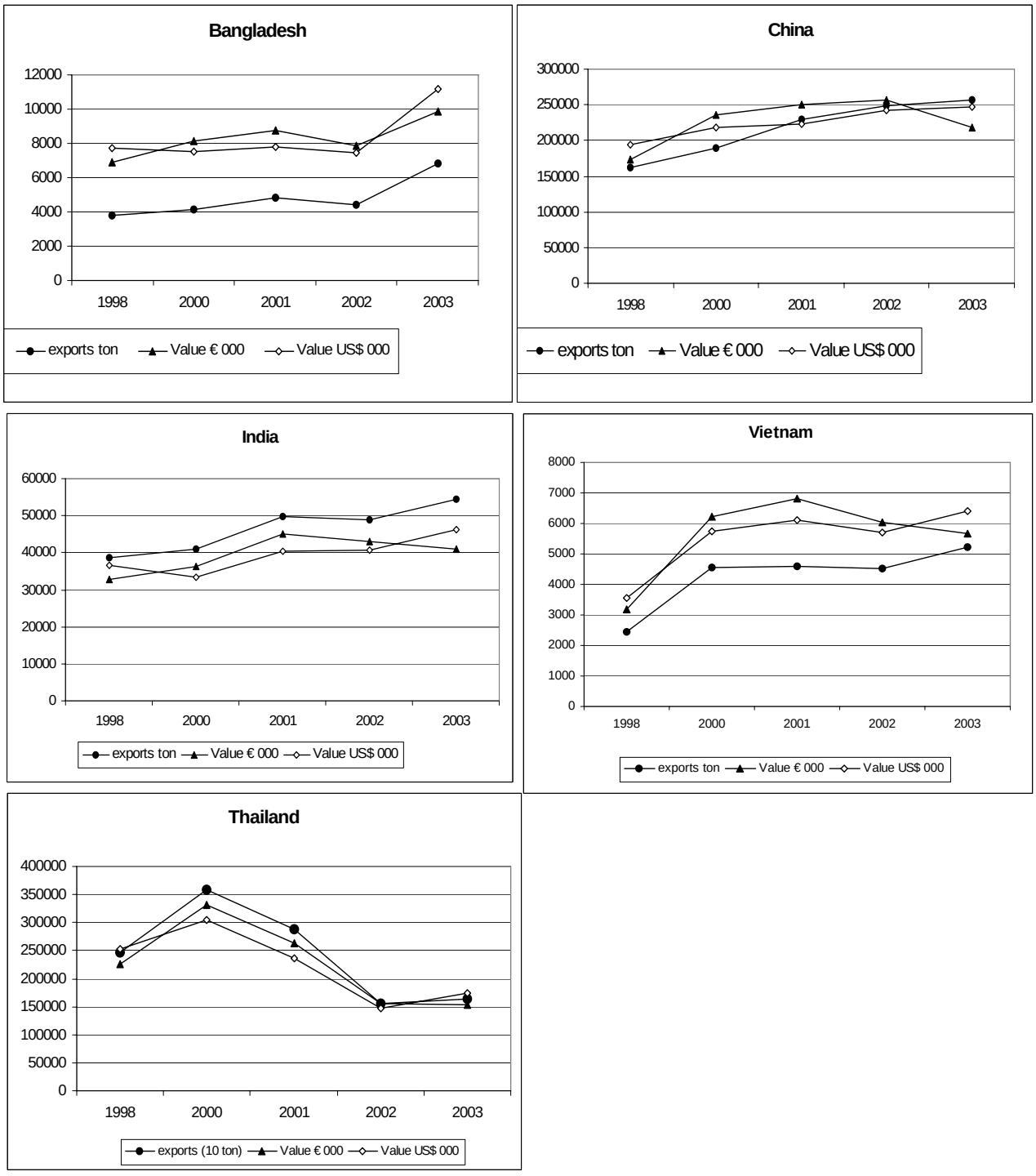
HS Heading 07	1998	2000	2001	2002	2003
Exports MT	78.26	85.59	100.00	90.40	140.13
Value € 000	79.24	93.43	100.00	90.14	113.20
Value US$ 000	99.19	96.35	100.00	95.18	142.98

Source: Own calculations based on Eurostat data.

In dollar terms, this represents an increase of 42 per cent in 2003 compared to 2001, and 55 per cent higher than in 2002. In Euro terms this is less, but it is due to a strong appreciation of the Euro against the US dollar. The time period is too short to attribute with certainty the change to the EBA regime, but there is a likely relationship if the performance is compared with trading neighbours.

The considerably more modest growth in export, or stagnation, of non-EBA traders indicates that the surge is unlikely to originate from the depreciation of the US dollar. China and India's export growth, while positive, are not of a comparable magnitude. Between 2002 and 2003, India, China and Thailand have increased their exports to the EU by 11 per cent 4 per cent and 6 per cent respectively. Vietnam, which also falls under the EBA, has exported 16 per cent more to the EU in 2003 than in 2002, which also provides some evidence of EBA benefits, even if the performance is not comparable to that of Bangladesh.

Figure 1: Exports of Vegetables to the EU (volume and value in € and US$)



Source: Own calculations based on Eurostat database

Average exports for the periods 1998-2000 and 2001-2003 also show interesting developments. For the group of products under HS 07, Bangladesh has seen an increase between the two periods of 37 per cent and a US$ value increase of 26 per cent.

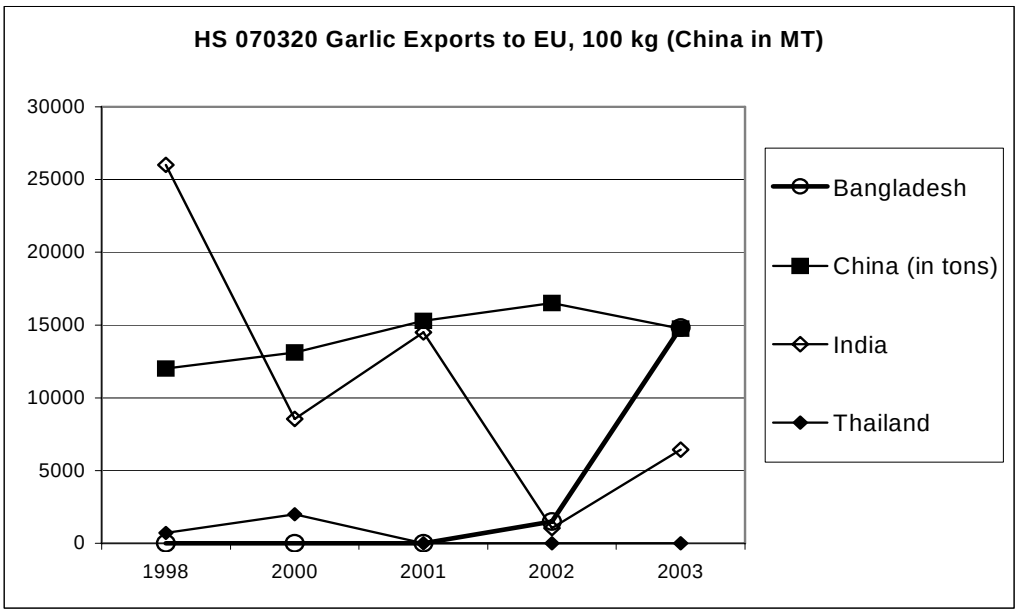
Apparently, there has been a shift in production in favour of garlic (HS 070320), fresh or chilled vegetables (HS 070990), leguminous vegetables (HS 071029) and a few other new exports, while other exports have declined. These three products make nearly 100 per cent of the exports in volume and 98 per cent of the export in value, distributed as follows: garlic (22%; 7%), Fresh and chilled vegetables (75%, 88%), leguminous vegetables (1% and 3%). The net effect over the period January to September 2004 is that while the volume of exports has slightly declined, the value has increased by nearly 14 per cent.

For garlic, the non-EBA countries listed above pay a quota bound tariff rate of 9.6 per cent, plus an additional €120 per 100 kg for any amount over the preferential quota (EU first come first serve tariff quota rate). For fresh or chilled vegetables, the rates vary on specific products ranging from 5 per cent in quota to over 13 per cent in out of quota. Leguminous vegetables have charges ranging from 10.9 per cent in quota to 14.4 per cent in out of quota.

3.1.1 Developments in the Garlic Market

It is interesting to note that Bangladesh only started exporting garlic to the EU in 2002, probably as a response to the EBA (see Figure 2). In terms of cif price, Bangladesh is competitive with China and Thailand (that interestingly stopped exporting to the EU in 2001). India, however, is still competitive even after tariffs (in quota). After a bad year in 2002, India has partially recovered its import share in 2003, which corresponds with a big fall in the cif price.

Figure 2: Garlic Exports to the EU



Source: Eurostat database.

Table 2: Cif Prices in €/ 100 kg Garlic (HS 070320)

	1998	2000	2001	2002	2003
Bangladesh	n/a	n/a	n/a	52	50
China	67	66	76	78	61
India	82	63	67	54	34
Thailand	78	74	n/a	n/a	n/a
Tariff impact approx. (in quota)					
Bangladesh			0	52	50
China			83	86	67
India			74	59	37
Thailand			n/a	n/a	n/a

Source: Own calculations based on Eurostat database.

Nevertheless, Bangladesh has succeeded in increasing garlic exports from 0 to 1500 MT in two years. However, Eurostat data for 2004 indicate no imports from Bangladesh in 2004, while Indian imports have increased in 2003 undercutting prices of Bangladesh, although in the end of 2004 there has been a hike in the Indian price. What the results show is that though Bangladesh has *apparently profited from EBA in the garlic market,*

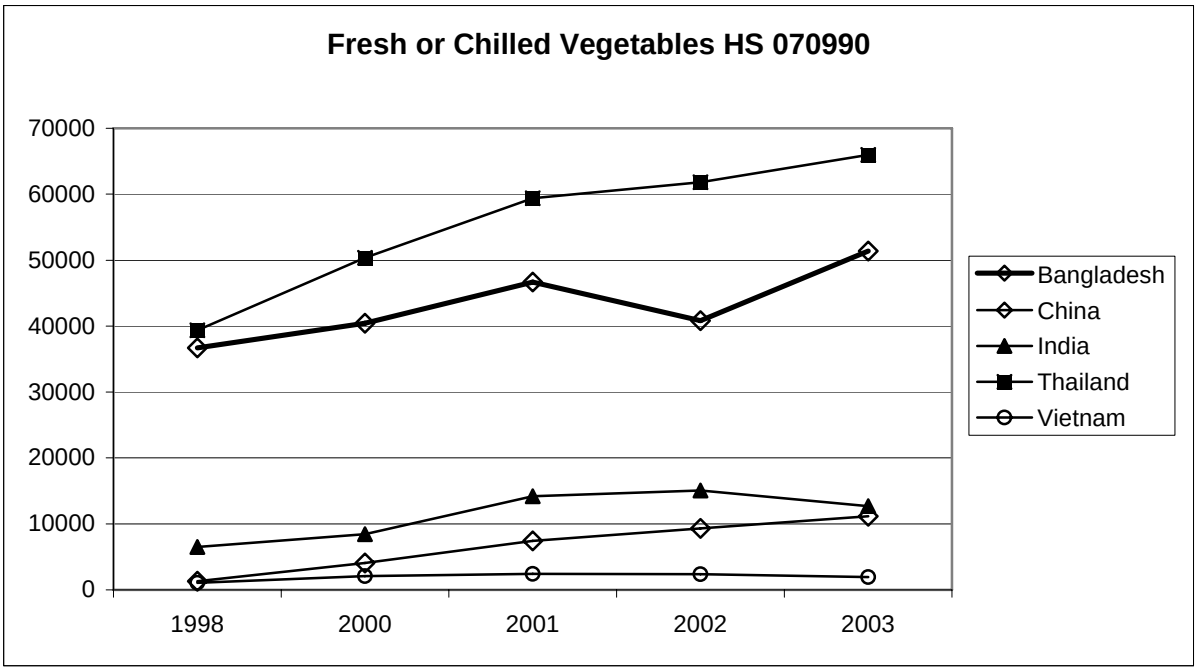
its position is not guaranteed. Other low-cost producers like India have the ability to undercut the producers of Bangladesh even under tariffs (the in-quota tariff).

3.1.2 Fresh and Chilled Vegetables

Fresh and chilled vegetables (HS 070990) are the main bulk of exports in volume and value. A large number of vegetables benefit in the EU from a considerable tariff protection. This is a set of products where the EBA can provide a clear advantage, but Bangladesh faces potential competition with some African LDCs and countries, such as Morocco, that enjoy preferential quota entry into the EU.

Of the Asian countries compared, Bangladesh is a leading exporter, and it has increased its exports considerably during the period 1998-2003. However, preliminary data for 2004 (until September) show a 2 per cent decline in imports, as compared with the same period of the previous year. Thailand is another large exporter, but its product composition and market characteristics are clearly different. The value per unit of import to the EU is twice the level of the other traders. Even at 8-digit CN disaggregation Thailand still shows cif prices double to those of Bangladesh. China's and India's exports are apparently closer substitutes with those of Bangladesh, and compete for similar markets at similar prices. Vietnam has higher prices despite exports in the same 8 digit CN categories as India and China, but the export performance is clearly weak for these products (Figure 3).

Figure 3: Exports of Fresh or Chilled Vegetables to the EU 100 kg



Source: Eurostat database.

It is difficult to draw any conclusions on the link between the EBA and export performance. Bangladesh seems to be relatively price competitive in the fresh or chilled vegetables exports compared to its competitors, though China is a growing competitive threat[7].

Table 3: Fresh or Chilled Vegetables (HS 070990), Cif prices in € per 100 kg

	1998	2000	2001	2002	2003
Bangladesh	181	195	179	182	169
China	223	182	196	160	119
India	186	187	163	182	183
Thailand	364	408	407	402	362
Vietnam	318	340	356	310	291

Source: Own calculations based on Eurostat database.

3.1.3 Other Vegetables

Bangladesh has seen a resurgence of exports in leguminous vegetables, and other frozen vegetables such as beans and spinach, where there was no trade, or the trade had stopped for a few years. However, the cif calculations performed show no particular competitive advantage even with tariff differences for these specific products compared to the studied group.

Bhattacharya et al. (2004) discussed the possibility of export of dried fruits and vegetables to the EU. This is a very good market for the EU and able to offer a high value for these products based on their quality and marketing. Exporters in Bangladesh should study this avenue.

Table 4: New Trade or Trade Resurgence? Exports to the EU, 100 kg

HS codes and summary description	2000	2001	2002	2003
071022 – Shelled or unshelled beans	2			12
071029 – Leguminous vegetables	36			964
071030 – Spinach				72
071080 – Vegetables, uncooked or cooked in water, frozen	91			300
071090 – Mixtures of vegetables, uncooked or cooked in water, frozen				30

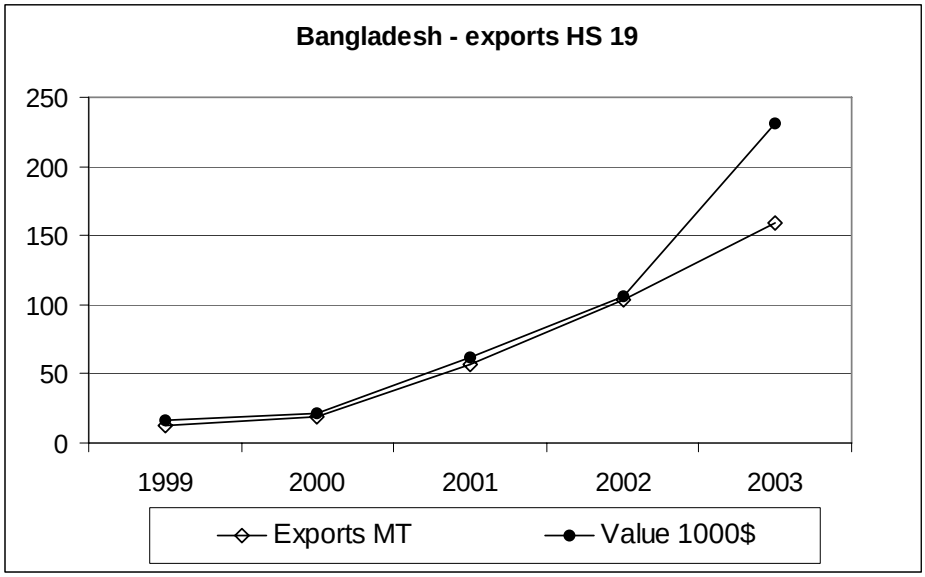
Source: Eurostat full description of HS is in Annex B.

[7] Results for China have to be interpreted with care, as the Chinese alleged undervalued currency against the dollar improves their competitive position.

3.2 EBA and Trends HS19 Preparations of cereals, flour, starch or milk; pastrycook products

The paper by Bhattacharya et al. (2004) presents a potential for biscuits, as this product (HS19059045) has been traded by Bangladesh in the period covered by the study. However, Bangladesh has started exporting in 2003 in other areas of HS 19 where there were no exports before. There is a possibility that EBA, which has abolished the tariffs on the individual agricultural components of the products, is responsible for this effect (under the condition that rules of origin are complied with).

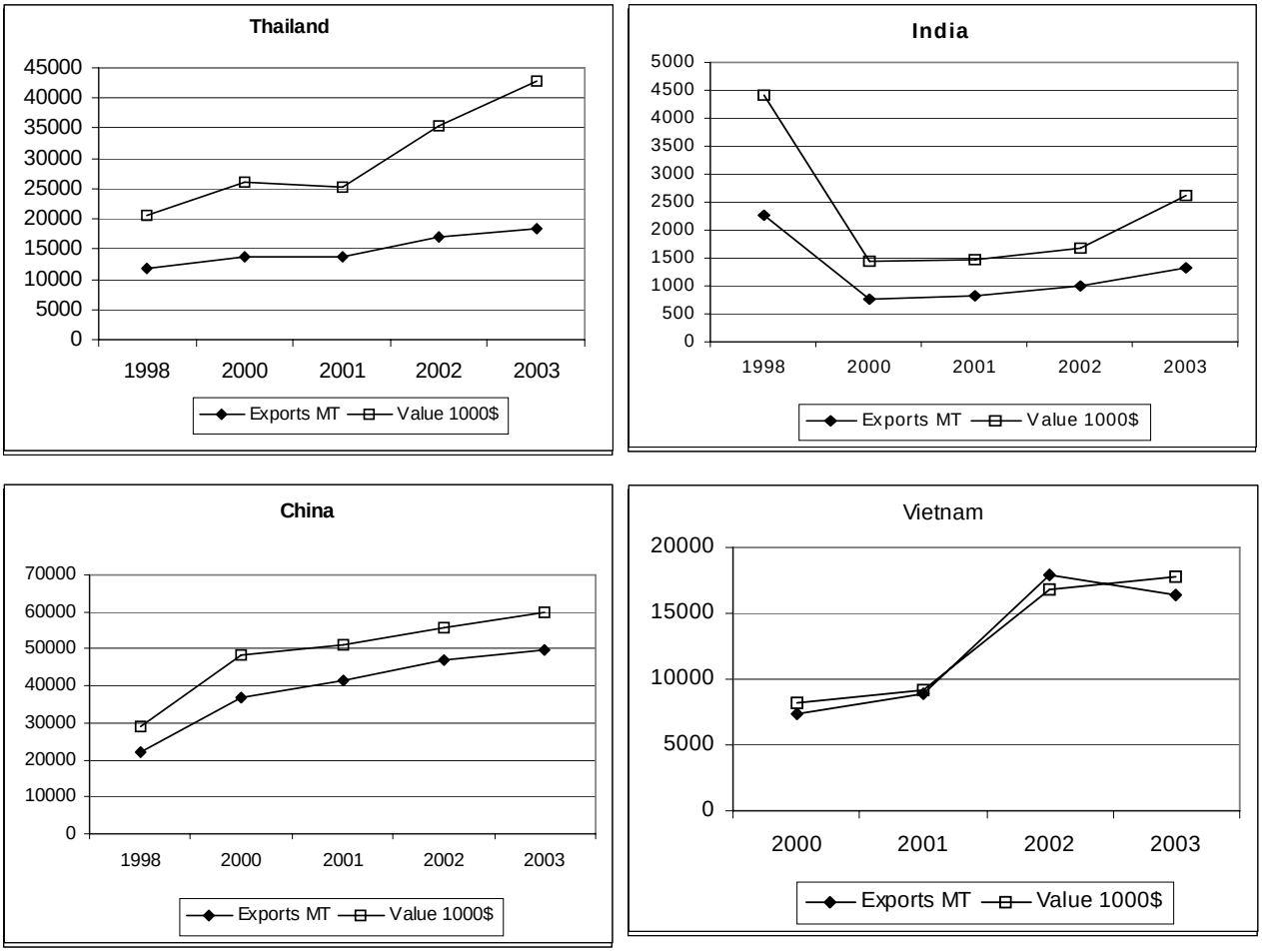
Figure 4: Exports of Pastry Products of Bangladesh, HS19



Source: Eurostat database.

However, a comparison with other EU trading partners indicates that imports of these products to the EU are increasing for India and Thailand, and it is not obvious to attribute the change in imports to the EBA agreement. On the other hand, India is recovering slowly from a dramatic fall in exports before the year 2000, thus its exports are far behind the 1998 levels; while China has seen exports growth reducing and falling in a full in the of exports of in 2003, although their value has increased slightly. As Figure 5 shows, Vietnam like Bangladesh seems to have benefited from a fast increase in exports. The parallel rapid performance gives an indication that both countries are encountering better access opportunities.

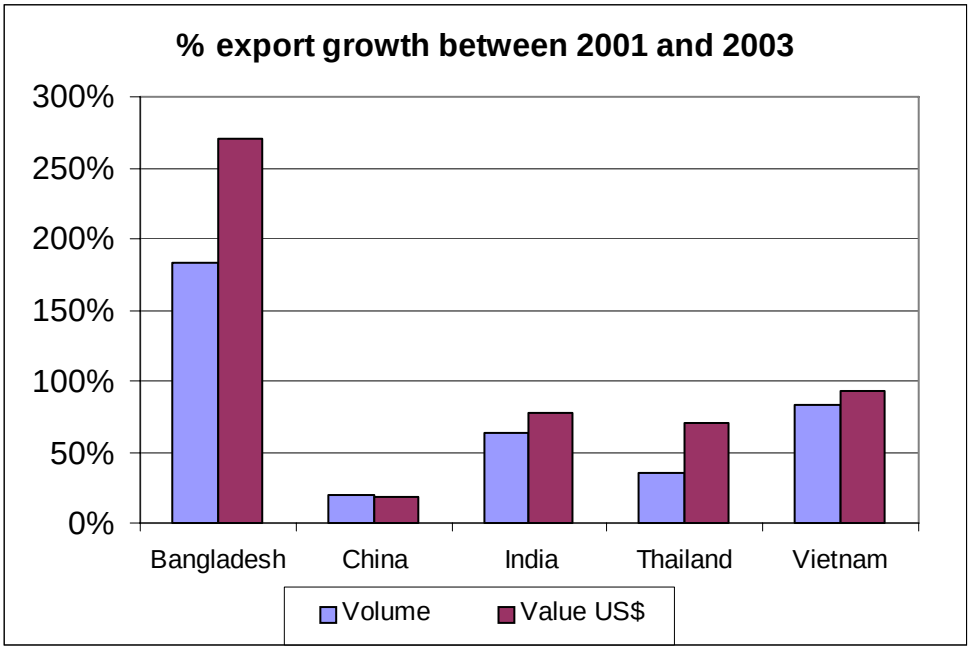
Figure 5: Export Performance of Regional Competitors, HS 19



Source: Eurostat database.

Between 2001 and 2003, the rates of growth of posts products exports to the EU are proportionally higher in the two EBA countries and remarkably so for Bangladesh (Figure 6), with a growth of 170 per cent in volume and 250 per cent in value.

Figure 6: Export Growth of Pastry Products, HS19



Source: Own calculations based on Eurostat database.

It is interesting to analyse the volume-value relationship. From a proportional point of view, Thailand has the greatest increase in value, which indicates the importance of product differentiation, marketing and quality differentials. This will be discussed later in the paper.

A competitiveness analysis for such products is difficult to undertake, as product characteristics are important in the determinant of the demand and price of processed products (see the Thailand's case). However, a quick look at the cif price differential clearly shows that amongst these trading partners Bangladesh is in a good competitive position, with the exception of pasta products and tapioca (HS190230 and HS190300).

Table 5: Cif Price Comparison HS 19 products, 2003

HS code		**Bangladesh**	**China**	**India**	**Thailand**	**Vietnam**
190120	Mixes and dougs of flour	151	200	193	320	117
190211	Uncooked Pasta containing eggs	49	98	228	103	40
190219	Uncooked Pasta, not containing eggs	130	75	260	119	64
190230	Pasta cooked	277	93	136	174	91
190300	Tapioca and similar	132	88	87	61	131
190410	Cereal food preparations	112	118	184	242	65
190420	Cereal unroasted food preparations	223	78	198	242	61
190490	Cereals in grain or flake form	47	203	49	270	127
190510	Crispbread	97	-	254	583	-
190531	Sweet biscuits, waffres, etc.	65	267	141	305	210
190540	Sweet biscuits	188	175		347	160
190590	Toasted bread, rusks	130	127	182	324	98

Source: Own calculations based on Eurostat database. For precise code definitions refer to Annex B

3.3 EBA and Trends for Rice

Rice imports under the EBA are still restricted until 2009, but in the meantime duty-free access is granted to LDCs under a tariff quota, which is based on the highest exports in the recent past increasing by 15 per cent a year. Thus, LDCs would be expected to have increased exports to the EU during the period 2001-2004. The increases in imports to the EU would thus be 32 per cent higher in 2003 and 54 per cent in 2004 if fully utilised (in husked rice equivalent). It is difficult to estimate what export share of the tariff quota should be used by Bangladesh, because it did not export to the EU before the EBA, with the exception of a limited amount of milled rice.

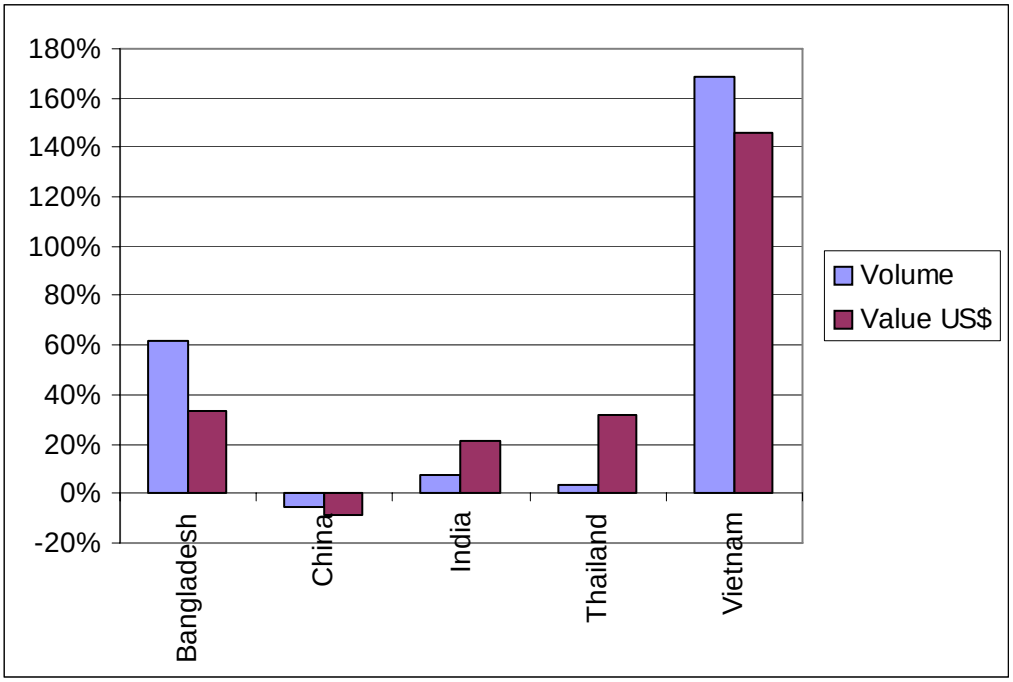
Figure 7: Rice Exports from Bangladesh to the EU in 2000-2003

Source: Eurostat database.

Figure 7 shows a remarkable increase in rice exports from Bangladesh to the EU and thus a clear trade diversion towards the EU between 2002 and 2003. Other non-LDC neighbouring exporters, however, also experience an increase (see Figure 8). In absolute value, the Indian and Thai exports outstrip Bangladesh by far, but for India it is actually a recovery from a drastic fall in exports at the end of the 1990s.

Like in the previous case, in non-EBA countries value increases more in proportion than volume. In both LDCs the increase in value is less than proportional to export volume growth, which indicates that the exports are of lower export value, either because the rice varieties are of lower quality or because marketing is weak. Processing and packaging are key ingredients to the value of products in the EU. The performance of higher prices regional competitors indicates that low prices alone are a misleading indicator for higher competitiveness. It is also important to interpret with caution the differences in magnitude of exports in terms of per centages. These have to be weighted by the actual volume and value of the changes in exports of Thailand and India. Large changes in exports of Bangladesh and Vietnam in per centages represent only a fraction of the changes in flows of the Thai and Indian export market.

Figure 8: Percentage Change in Rice Exports to the EU in 2002-2003

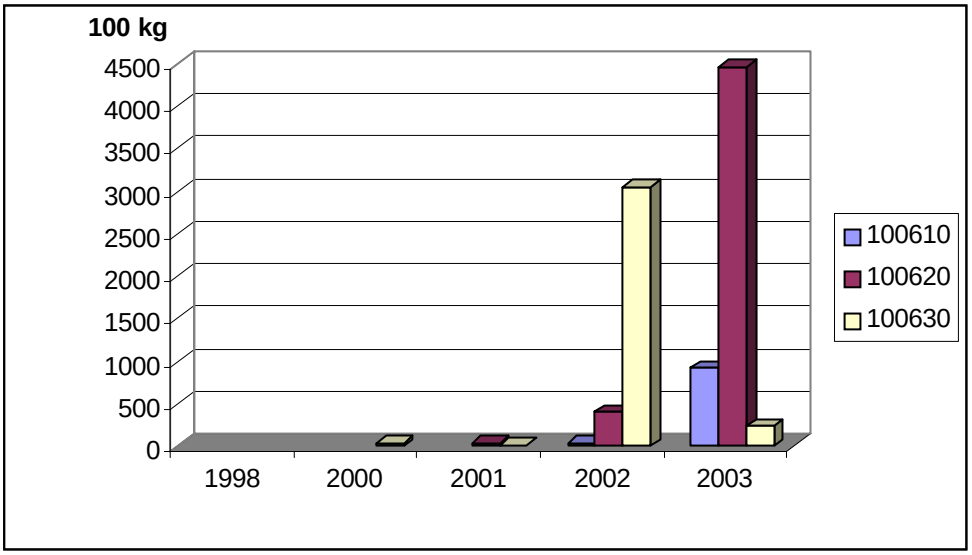


Source: Own calculations based on Eurostat database.

One conclusion that can be indirectly implied from the data is that there is a weakness in the processing and packaging sector in Bangladesh. This finding is confirmed by Bhattacharya et al. (2004). There is a need not only to invest in seed quality to improve production, but also a strong need to upgrade the quality of marketing and processing. Not only packaging quality, for presentation, but also such quality aspects as vacuum packaging to preserve the product's quality are absent, denting the value of the exported products. This is one reason value of exports is higher in more developed markets and should be addressed seriously in a strategy of export promotion.

Figure 9 presents the composition of exports from Bangladesh to the EU by rice variety. There is a clear new market being developed for rice. However, the composition of the exports by variety is not stable, which may be based on prices. The comparative prices between the countries analysed in this study suggest a possible relationship between the export volumes by variety and their price in the given year. In such a short timeframe, however, it is not possible to make any strong assertion in this respect, since, as mentioned earlier, other factors play an important role.

Figure 9: Disaggregated by Rice Variety - Exports from Bangladesh to the EU, 100 kg



Source: Eurostat database.

HS100610 rice in the husk, 'paddy' of rough; HS100620 – Husked or brown rice; HS100630 Semi-milled or wholly milled rice, whether or not polished or glazed (no broken rice exports to the EU).

3.4 EBA and Sugar

The EU sugar policy provides EU producers with very high price support combined with a regime of production quotas to limit excess production and the need for export subsidies. The intervention price of sugar in the EU stood at € 632 per ton in 2004, which is more than three times the average world price. The restrictive quota controls ensure that sugar factories sell to the market at a price slightly higher than intervention, € 655 per ton in 2004. The quota system is based on three quotas: A, to cover domestic consumption; B, determining the amount of sugar that could benefit of export subsidies; and C, which represents the excess over A and B that can be sold on the world market without export subsidies.

Trading partners have not universally challenged the policy, because the EU grants duty-free import quotas to major sugar producers of the African, Caribbean and Pacific (ACP) countries, India and other countries through bilateral agreements (see Huan-Niemi and Niemi (2003) for a description of the agreements). In recent years, EU internal production exceeded consumption by 1 million metric ton, thus it needed to export 2.6 million metric ton (adding an equivalent amount from the preferential sugar imports) through the B and C quotas.

The EU has not yet liberalised the sugar market for LDCs, as described in section 2. In order to compensate for the delay in the full liberalisation of sugar, raw sugar can be

exported duty-free by LDCs to the EU market within the limits of a tariff quota, which will be increased each year by 15 per cent from 74,185 metric ton (white-sugar equivalent) in 2001/2002 to 197,355 metric ton in 2008/2009. The increase in LDCs' sugar imports will, however, not increase the EU import of sugar, as a tariff quota will simultaneously decrease the imports of sugar from the remaining sugar protocol signatories. Only 13 members out of the 49 LDCs were eligible to export raw sugar under this protocol.

To allow the EU to adapt to a more open market in 2009 and prepare for probable cuts in the WTO of tariff barriers, the EU is preparing to reform the policy between 2006 and 2009. As a consequence, despite the delayed implementation of the liberalisation process of the sugar regime, the benefits from the present arrangement are likely to be considerably superior for the LDCs and Bangladesh then after 2009. More details of the consequences of a reform of the policy are discussed in section 4.

Since EBA was introduced, Bangladesh has the possibility of exporting sugar to the EU under a quota restriction (cane sugar for refining CN17011110) and benefit from the high EU internal price. However, Bangladesh has difficulties in taking full advantage from this possibility. According to the Association of Professional Sugar Traders of the EU[8] (ASSUC, 2001), Bangladesh faced a problem, as it only produced enough refined sugar for domestic consumption. Thus, exporting requires either increasing production or using imports to substitute the sugar exported, paying attention not to violate the rules of origin (see section 6.1).

However, this is not the only problem. Sugar trading, of course, requires buyers in the EU. It is only in 2004 that Bangladesh managed to access the EU by exporting sugar to France - more than 9,000 metric ton were imported during the year. The process also requires agreements on the attribution of the sugar quota amongst LDCs. Furthermore, other trading barriers, such as the rules of origin, also play a role in delaying the process.

Certainly, the EBA also brings another benefit: Bangladesh no longer pays a duty for processed products that contain sugar, as long as this sugar (like for other ingredients) follows the rules of origin. In fact, the pastry products can enter free of the tariffs formerly calculated based on their composition.

[8] ASSUC : *Association des Organisations Professionnelles du Commerce des Sucres pour les Pays de l'Union Européenne.*

3.5 Other Trade Opportunities of Non-EBA Affected Sectors

Bhattacharya et al. (2004) indicate that other important sectors for further trading with the EU, in which Bangladesh is competitive, are the jute and poultry meat markets. This section discusses these markets based on the latest developments and projections of the EU internal market. Some opportunities for organic products are also presented.

3.5.1 The Jute Export Market to the EU

The value of jute based products reached US$ 43 million in 2003[9]. Jute was already benefiting from 0 tariff rates under the GSP, thus, the EBA did not affect it directly, but this sector is considered as having export potential and deserves some attention.

However, the EU has halved its total imports of jute from the world market since the year 1998 (Table 6 – volume and value). Demand has fallen radically. Exports from Bangladesh to the EU have consequently also fallen in the last years, from around 78000 metric ton and per year between 1998-2000 to just under 62000 metric ton in 2003. The value of exports fell from US$ 59.7 million in 1998 to just 43.2 million US$ in 2003; thus, a higher fall in the value of exports, indicating either a fall in the entry price or a shift in the composition of exports to lower value products. One of the major competitors in the market is India. This country has also seen exports fall by a large amount from 80,000 metric ton to just 55,000 metric tons. There is, however, an important difference between the two countries. Figure 10 shows that despite the larger fall in exports to the EU, the per cent loss in value is lower for India.

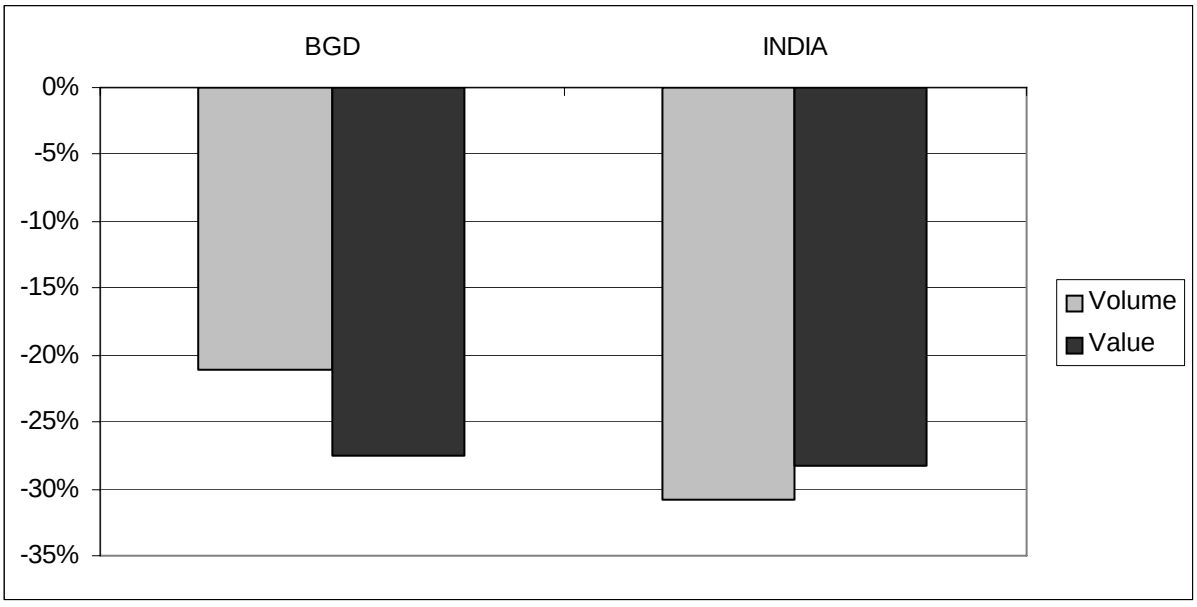
[9] HS headings 530310, 530390, 530710, 530720, 531010, 531090.

Table 6: Jute Exports to the EU from Bangladesh

Exports to the EU - Quantity 100 kg					
	1998	2000	2001	2002	2003
530310 – raw or retted	50998	46224	96971	90446	99389
530390 – processed but not spun	1661	2897	69	1081	2737
530710 – single yarn of jute	179222	183189	136286	118322	80000
530720 – multiple folded or cabled yarn	346692	354348	379732	388819	347112
531010 – woven fabrics unbleached	202787	148091	159426	93326	87790
531090 – woven fabrics bleached	3150	6005	4111	2300	1569
Total	784510	740754	776595	694294	618597
cumulative % change 1998 to 2003					-21 %
Exports to the EU – Value (US$ 1000)					
	1998	2000	2001	2002	2003
530310 – raw or retted	1771	1856	2814	3965	3964
530390 – processed but not spun	72	95	9	67	162
530710 – single yarn of jute	15223	14762	10526	8999	6410
530720 – multiple folded or cabled yarn	25966	24973	26598	27940	24090
531010 – woven fabrics unbleached	16448	11696	13438	8059	8449
531090 – woven fabrics bleached	231	505	192	254	164
Total	59712	53886	53577	49283	43239
cumulative % change 1998 to 2003					-28%

Source: Eurostat database. Please see Annex B for exact description of HS code.

Figure 10: Volume and Value % decline between 1998 and 2003



Source: Eurostat database.

A closer look at the composition of the exports of jute-based products shows that Bangladesh relies more heavily on basic raw material exports, while India produces more valuable woven jute products. In 2003 the share of higher value woven jute and

vegetable-based fabrics (HS 531010) in the exports to the EU reached over 33 per cent of the volume and 42 per cent of the value, while in Bangladesh the shares were 14 per cent and 19 per cent respectively. India's exports of raw yarn products make less than 1 per cent of exports, while for Bangladesh the share is 16.5 per cent, affecting the overall value of the exports. In fact, Bangladesh has not only reduced exports, but increased exports of cheap raw jute HS 530310, while production of woven fabrics of jute HS 531010, which is worth twice the value and for which demand has not fallen in the EU, has declined sharply. Given the trends in India and Bangladesh, the future of jute as an export product to the EU is uncertain. The possibility of improving the quality and the value of jute products to reduce the decline in the value of exports should be considered.

3.5.2 Prospects for the Poultry Sector

Apart from jute, Bhattacharya et al. (2004) consider that, due to its competitive prices, the poultry sector of Bangladesh could develop to enter the EU market. In fact, poultry consumption in the EU is expected to increase in the future. The European Commission expects that internal production will also increase, but some increases in imports of frozen poultry are also expected. There is, thus, a possibility for Bangladesh to develop poultry exports to the EU. However, the rate of demand increase for poultry meat into the EU is slowing down.

Table 7: Poultry meat projection; (in million metric ton)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Production (gross)	8984	8938	8870	8951	9066	9231	9336	9429	9501	9572
Import of live animals	1	1	1	1	1	1	1	1	1	1
Export of live animals	5	6	5	5	5	5	5	5	5	5
Production (net)	8980	8933	8865	8947	9062	9227	9332	9425	9497	9568
Imports	741	694	694	700	720	732	740	745	748	748
Exports	964	1089	1002	1000	1000	1000	1000	1000	1000	1000
Stock changes	45	0	0	0	0	0	0	0	0	0
Consumption	8712	8538	8558	8647	8782	8959	9072	9170	9245	9316

Source: European Commission (2003).

Preparing the sector to export to the EU can also be extremely costly and difficult to achieve, as the rules governing food imports are increasing in complexity, especially the phytosanitary regulations. There is, however, another positive prospect for exports: It is likely that under the future WTO round export subsidies may be abolished. In this case, EU exports may lose their competitive edge in other poultry markets, which may become possible outlets for Bangladesh.

3.5.3 Organic Produce

The market for organic products has developed considerably in the EU and there is potential for importers to expand in this sector. The value of the market in the EU has doubled from 1997 to 2000 and the structure of the market is also changing. From a market predominately held by small producers with local direct marketing systems, organic agriculture is becoming a mass production business controlled by large corporations. The growth of the organic market is attracting the attention of large corporate food producers and retailers, which until recently had little interest in these products. In Europe and the US this is starting to have a strong impact (Ikerd, 1999). In Britain, large companies have entered the production and retail business of organic foods and have recently started a price competition (UK House of Commons report, 2001). Retail distribution in the UK is dominated by a relatively small number of large multiples including Tesco, Sainsbury, Waitrose and Safeway, all of which are active in the organic sector. Sainsbury claims to account for 25 per cent of total organic retail turnover.

Large companies, such as Asda and Iceland are aiming to put together an affordable range of organic products, which retail at a minimal extra cost compared to the non-organic alternative (USDA, 2000). A similar development is being observed in the Benelux countries (USDA, 2001). The share of organic produce imported to the EU has increased, as demand has been outstripping domestic supply. Thus, there is scope for Bangladesh to develop organic produce as providers for the large food chains in Europe. However, it has to be said that controls and labelling for organic produce are stricter and more costly than for conventional products. The only avenue for producers in Bangladesh to manage to penetrate this market is to have clear links to the large retailers and build up a capacity to supply the products following their strict standards.

3.6 Conclusions on Post-EBA Trade Performance

Bangladesh has successfully started diverting trade towards the EU for garlic, vegetables, pastries, rice and sugar, as expected by Bhattacharya et al. (2004). Bangladesh is clearly a rather small regional exporter facing large competitive neighbours: China and India, which are able to compete regardless of not being LDCs and not benefiting from the EBA. Undoubtedly Bangladesh has very competitive prices compared with average international prices for food products, but this is no reason for complacency.

Results indicate that most exports in agriculture consist of basic bulk production, susceptible to any competitive pressure by other traders. The benefits of improving product quality and distinctive trademarks can be seen in Thailand’s strong export value under apparently ‘uncompetitive’ prices, which indicates successful product

differentiation. A strategy on these lines requires extensive planning and investment. Thailand has performed a successful promotion campaign, creating distinctive Thai product features. It has managed to present Thai food products to European consumers as clearly distinct to other regional foods and introduced an image of sophistication and quality. This provides for price premia and market demand stability based on consumer loyalty.

Imports to the EU are not only a matter of open markets and no tariffs. In fact, after the EBA was agreed, not only imports from LDCs have not increased, but have even declined in aggregate. The lack of reaction in agriculture is an indication of the difficulties accessing the EU markets as well as complying with rules of origin and SPS, which are becoming increasingly stringent. Producers also need to establish contacts in the EU and active promotion is also of particular importance.

4. REFORMS OF THE COMMON AGRICULTURAL POLICY AND FUTURE TRADE IMPLICATIONS

The European Union's Common Agricultural Policy (CAP) has changed fundamentally in the last fifteen years. Originally, the CAP supported its agricultural sector through a system of high price support and high border tariffs. The consequences have been chronic excess and increasing costs for storage, destruction or export restitutions. The EU spent a large budget financing these actions. Export subsides had also well documented negative impacts on the world market, driving world market prices down, in particular for cereals, beef and milk products. Only an intricate system of quotas maintained the stability of the milk and sugar production.

This support system came under an increasing attack not as by trading partners, but also by a number of EU pressure groups. It was clear to the EU policymakers that the CAP price support policy was not only inefficient in targeting farm incomes, due to the effects in input prices and land values, but was also very ineffective in protecting the actual and rapidly developing interests of EU citizens and politicians. Without any further need for policy intervention to foster productivity, the EU has shifted its concerns to environmental, cultural and food safety issues. To address this new set of objectives a long process of reforms started, debuting with the MacSharry reform in 1992. The reforms gradually shifted price support to direct payments for farmers and specific support for environmental and food safety services under the heading of rural development.

After several rounds of reforms, the EU has managed to reduce many of the problems of the original system. The excessive stocks of production were successfully reduced. The price gap between the EU internal support price and the world market prices for most products has fallen considerably, and as a consequence so have export subsidies. In 2003, these accounted for €3.4 billion (US$3.8 billion[10]) compared to approximately ECU[11] 10 billion (approx. US$ 8.5 billion) in the early 1990s.[12] Production decisions, however, were still affected by the coupled nature of the support payments to farmers, as the share of land devoted to production and the kind of product were largely determined by the policy. This is the reason for the categorisation of EU direct payments in the blue box[13] of the WTO.

In June 2003 the EU agreed on the so-called Mid-term Review (MTR), which consists of a further fundamental reform of the CAP. This reform has multiple aims: a) to adapt the sector: to future challenges arising out of the combined requirements to enlarge the EU to ten new member states; b) to keep expenditure under the self-imposed ceiling to agricultural expenditures agreed between member states; c) to increase the rural development support; d) to comply with the WTO GATT agreements; and e) to prepare for an elimination of the export subsidies.

The reforms are based on the following set of actions:

1. Decouple link between support and production.

2. Modulate the level of direct payments (direct payments should be shifted gradually to payments linked to specific services for rural development, food safety and the environment).

3. Increase the support for rural development measures aimed at improving product quality and safety and at protecting social and environmental aspects of the EU's agriculture and rural areas.

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[10] Using the average exchange rate of 2003, 1.13 US$/€

[11] The Euro did not exist in 1992, the precursor of the €, the ECU (European Currency Unit) based on the relative weights of the European Union 12 member states is used. The US$/ECU exchange rate oscillated around 0.85 US$/ECU.

[12] The export subsidy value of the EU for the year 2005 will, however, be affected by the fall of the US$, as EU products loose their comparative value in the word market.

[13] The WTO regime categorises agricultural support policies according to their distortionary influence on production and trade: green box (none or very limited), blue box (indirect influence), amber box (highly distortionary)

While these reforms are mainly driven in response to internal needs of the EU, these have considerable implications on the future position of the EU as trading partner and will have an implication on the WTO negotiations in progress.

The MTR, however, is not the final reform of the EU policy. More are to come in particular, because the MTR does not cover all subsidised agricultural products. In April 2004 the EU agreed on a further reform for tobacco, hops, olive oil and cotton sectors. In the immediate future a reform of the sugar policy will be necessary, in particular, to allow the EU to fulfil its pledge under the EU-EBA to allow tariff free entry of sugar to the EU for the LDCs in 2009.

However, the impact of the CAP reform itself is relative, as it does not yet eliminate export subsidies or reduce tariff barriers to other importers. Thus, the competitiveness of Bangladesh vis-à-vis EU products in the world market will largely not be affected. The possible banning of export subsidies in the next WTO round will have impacts as it will limit the ability of the EU to undercut competitors' prices in other markets.

4.1 Implications of Decoupling

The most important aspect of these reforms is the EU's commitment to decoupling support from production, which requires reduction of distortive price support levels and the payment of direct subsidies independently from production decisions. The decoupling of support is a prime prerequisite to be able to eliminate export subsidies in the future. With the reduction in customs duties, the EU has no other solution than to ensure that internal prices become competitive in the world market. With the latest reforms, the EU hopes to be able to eliminate the last barrier towards the abolition of the export subsidy mechanism.

Decoupling is important for trading partners. First, because this will considerably reduce trade distortions, as production surpluses will no longer be driven by subsidies, and because it will allow the EU to open the market to foreign competition while maintaining the support for farmers. Second, decoupling will affect EU production decisions in altering internal production and import demand. EU production levels of certain agricultural products will be affected, as price support fades out. The production may fall as prices become less attractive for some products; others, however, will increase, as relative prices change.

The CAP reform agreement of June 2003 aims at full decoupling but allows member states to retain a partial decoupling if requested. However, full decoupling should cover at least 75 per cent of payments in the arable sector, and at least 50 per cent in the beef and

sheep sectors. This decoupled payment or "single farm payment" will be based on the average former direct payments claimed over the three-year reference period of 2000-2002. It will be paid by eligible hectare of land, and the maximum eligible land is fixed. These entitlements can be sold or transferred between farms as long as the recipient has enough entitled land. All payments will be conditional on compliance to environmental acreage set-aside rules.

4.2 Impacts of CAP Reform for Trade

As mentioned earlier, the reforms will have only an indirect effect on trade; this is mainly due to internal changes in production as relative prices change. Import competition as such is not relevant, as the tariff barriers are not affected by the policy itself, and export subsidies still give a market guarantee to producers. Nevertheless, production impacts will affect import demand, and the European Commission (2003) has estimated the impacts on EU production and imports from the new reforms for some key agricultural products. This section analyses the implications of the reforms in areas in which Bangladesh has major trade interests. It also discusses the implications of expected future reforms of the sugar policy.

4.2.1 Rice

Of particular importance for Bangladesh are the reforms in the rice sector. The price of rice is being cut by 50 per cent and replaced by decoupled payments. The immediate effect is that EU rice becomes more price competitive in the EU relative to imported rice, but production is also expected to fall, cancelling out the trade effect (see Table 8).

Table 8: Total Rice Balance Sheet in the EU-15, 2001–2010 (million metric ton)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Usable production	1.50	1.58	1.50	1.41	1.44	1.45	1.47	1.49	1.50	1.53
Consumption	1.80	1.87	1.91	2.18	2.21	2.23	2.27	2.31	2.34	2.36
Imports	0.56	0.57	0.60	0.53	0.79	0.81	0.84	0.86	0.86	0.86
Exports	0.26	0.26	0.24	0.03	0.02	0.02	0.03	0.03	0.02	0.02
Beginning stocks	0.59	0.57	0.59	0.55	0.27	0.28	0.28	0.28	0.29	0.29
Ending stocks	0.57	0.59	0.55	0.27	0.28	0.28	0.28	0.29	0.29	0.30
of which intervention	0.35	0.42	0.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: European Commission (2003).

The EBA agreement excludes rice from total liberalisation until 2009, while the rice sector undertakes the reform process and adapts. Bangladesh and other LDCs will,

however, be able to supply the EU under a duty-free preferential quota tariff (see section 2).

The European Commission estimates that consumption would see an important increase, while internal production would initially contract and then recover slowly. The reform would induce a 14 per cent increase in consumption, followed by an annual increase of 1-2 per cent. Thus consumption in 2009 would have risen by 31 per cent. Import demand increases would exceed this, as production is expected to fall and not recover the 2001 levels until 2009. The Commission quantifies the increase in imports from 560,000 metric ton in 2001 to over 800,000 metric ton in 2009.

Important to note is that EU exports practically disappear, which indicates that the EU will retreat from foreign markets opening other opportunities for other exporters. For rice there is therefore, the double opportunity to increase exports to the EU and to access the markets formerly covered by EU exports. The biggest importers of EU rice are in the Middle East and North Africa (Lebanon, Turkey, Saudi Arabia, Syria, Israel, Algeria and Jordan), with 97 million metric ton of EU rice imported in 2003. Switzerland is also a large importer, with 17 million metric ton of EU rice imported in the same year. These markets represent potential rice exports destinations now and in the near future.

4.2.2 The Future Reforms of the Sugar Sector

The sugar policy is based on high price support combined with a regime of production quotas (see section 4.2 for the description) and has remained practically unchanged for 40 years. Now, the European Commission has already published a proposal for the reform of the sector in July 2004, which is under negotiations in the Council of Ministers of the EU.

The EU is presently a major participant in the world sugar market, being one of the top producers, importers and exporters in the world. The reform of the EU sugar regime will affect not only the EU member states but also countries that are associated with the EU through preferential, regional and multilateral trade agreements. In the EU sugar regime, the unique features of the trade concessions are that sugar under preferential import quotas can enter the EU market duty free, and the price paid for sugar equals to the high EU price for sugar.

The proposed reform of the sugar policy is not a full liberalisation of the sugar market in Europe, even if it proposes to eliminate import quotas by 2009. It reduces the price over the years from 2005 to 2008 to per metric ton €421 per metric ton, which is still double the world price. The price level for imports of raw sugar would decline to €329 per metric ton by 2009, nearly halving the value per ton of imports for the countries benefiting from

the sugar protocol and EBA. This is accompanied by the internal production quota reduction, calculated based on estimated consumption and expected imports, while remaining import tariffs for non ACP and LDCs would have to remain high even after a WTO agreement. Thus, EU production would fall from today's excess of 1 million metric ton to a deficit of 1.4 million metric ton by 2009, which would match the ACP-LDC import quota and balance the market, as import quotas increase during the reform period and are then abolished.

However, after 2009, the price level, which would still be above world prices, can only hold if the countries importing into the EU without tariffs, LDCs, certain ACPs and India, do not have the potential to flood the market. In this case, however, the EU will always have the ability to impose the EBA clause of excessive imports compared to historical levels to those LDCs which have increased imports strongly. Similar safety clauses are expected for other importers. However, the situation gets really problematic if any further reduction of tariff barriers through WTO opens the door to imports from other countries. A combination of a weak dollar exchange rate and lower tariffs could make the EU a destination of sugar imports from other countries. The future stability of the sugar policy is a balancing act, which depends on the accurateness of the expected imports of the EU by 2009; the calculations are based on the European Commission (2001b) estimates.

For the importers under free quota, the present arrangements create large financial benefits. It is no surprise that ACP countries now are requesting the EU not to open up the sugar market at this speed. Now, Bangladesh also participates in the request to continue benefiting from similar conditions like the ACP countries, and higher prices for a longer period of time. The EU is simultaneously facing a very damaging challenge by the WTO. The EU benefited from an agreement which allowed it to export under subsidies the equivalent amount of sugar imported by developing countries that benefit from preferential access under the sugar protocol, which now is extended to all LDCs. These export subsidies needed not be declared and were not subjected to the export subsidy limits agreed at the Uruguay round. This arrangement is now being challenged by the WTO, and if successful, the EU would encounter a very difficult situation, as it is already breaking the export subsidy limits in the absence of these additional exports. Furthermore, the WTO is challenging the value of an estimated indirect cross-subsidisation of sugar exported under the C quota in the export subsidy commitments for the EU.

The pressures on the sugar policy to reform are described in detail by Huan-Niemi and Niemi (2003). The EU has difficulties already keeping to its present WTO commitments on export subsidies. Maintaining the benefits for the LDCs and sugar protocol signatories,

while keeping to the WTO limits would require the EU to cut unilaterally the internal production quotas A and B. With the WTO even challenging the export subsidies for the diverted sugar due to the ACP, India and EBA agreements and the cross-subsidy of the exports under the C quota, the EU is not in a position to maintain the policy unaltered. Furthermore, the WTO is expected to impose further tariff cuts, and this would, without doubt, cancel the ability of the EU to control the internal price and production. The political damage for the EU in the WTO negotiations, in case it attempted to protect the policy, would be too high. The EU needs to be able to bring forward other interests to the negotiations round in order to defend its strategic needs. A dispute over the sugar policy, which is clearly in breach with many principles of the WTO, is not a priority.

5. FUTURE IMPLICATIONS OF A FURTHER WTO TRADE LIBERALISATION

In the next few years, a new set of trade liberalisation commitments will likely enter into force. The WTO negotiations have gone through a very difficult period since the Doha Development Round in November 2001, in which a declaration of intent to reduce trade barriers, eliminate export subsidies and reduce trade distorting domestic support was produced. Since then, however, the discussions stalled with a notorious failure to agree on the modalities in the Ministerial Meeting in Cancun in September 2003.

In August 2004, however, the 147 members of the WTO agreed in Geneva on a framework for the modalities for further trade liberalisation. From the text of these modalities it is possible to see what the steps will be, allowing to deduct some likely impacts of the expected changes.

There is a clear aim to further cut down the export subsidies with the objective of eradicating them and eliminating other trade distorting export practices. It was agreed that developing countries will not be required to liberalise their markets to the extent required for the developed countries. Bangladesh together with other LDCs will not have to undertake any commitments.

In essence, the new round concentrates on eliminating trade distorting domestic policies and allowing the unaltered existence of the green box. The agreement excludes issues which were proposed to be tabled in the past, such as animal welfare or social conditions of employment in the agricultural sector of the exporting country.

For LDCs and Bangladesh the real problem with the new reform proposals is the reduction in tariffs. After the EBA agreement any reduction of tariffs will be eroding the value of the preferential access across the board. This will increase the competitive

pressure on Bangladesh for exported products. Linked to the expected reduction in tariffs, the sugar reform would halve the benefits of Bangladesh from the preferential access to the EU.

5.1 Impacts of Likely WTO Agreements on Exports of Bangladesh to the EU

Based on the modalities agreed for the next round of the WTO, it is expected that new tariff reductions will be imposed. These would have considerable impacts for the EU as a trading partner and it is with this prospects that the EU has started the reform process it has embarked upon. This section will present some expected impacts that will potentially affect Bangladesh. These are the erosion of the benefits of preferential tariffs and the elimination of EU export subsidies. This section is only going to present the issues in general terms. The problems and opportunities for Bangladesh of changes in trading conditions due to a WTO round should be analysed in more detail in the future.

Expected general consequences for Bangladesh have been analysed by Lips et al. (2003). Their study did not concentrate only on agriculture, but gives an indication of the implications of different WTO agreements. The details presented here are based on the analysis of Brockmeier et al. (2005)[14], which indicates the likely implications for the EU and trading partners of WTO agreements in the agricultural sector, but does not treat Bangladesh in isolation as a trading partner.

5.1.1 Possible Tariff Reductions-Tariff Erosion Implications

The erosion of preferential tariff access due to the WTO is a growing concern for LDCs. If tariffs are reduced, the EU will facilitate entry to the market to other competitors eroding the benefits of a duty free entry for LDCs. As mentioned earlier, Bangladesh does not have a very strong competitive advantage in prices compared to regional competitors such as India and China, even taking into consideration the tariff levels. A reduction in tariffs would increase access by China and India to EU markets.

On tariff reductions, the modalities of the Doha Round of WTO negotiations are very vague. There are no clear commitments of the method to reduce tariff barriers. The authors of these studies have assumed that two possible options are the most likely. One is based on the WTO Harbison proposal (tariff cuts proportional to size of tariff) and the other is based on Swiss formula, which was an approach proposed by Switzerland on the

[14] These papers can be found on the ENARPRI website: www.enarpri.com

course of the negotiations, proposing a maximum tariff of 25 per cent and then reductions proportional to size below this level.

The effects of tariff cuts of these magnitudes affect the internal prices of the EU, the level of imports and internal production. Thus, Bangladesh will see the prices in the EU market falling, which translate to a fall in profits, and an increase in demand for imports combined to a stronger competition from non-LDC countries. The WTO agreement might include access under the terms of the EBA to all developed countries. This will assist LDCs, but the effects are questionable. Yu and Jensen (2003) estimated that LDCs would lose considerably from a WTO agreement because the extension of EBA to other developed countries appears not to compensate for the losses.

The rice and sugar exported to the EU are very important future markets for Bangladesh. A cut in tariff barriers would endanger the benefits acquired under the EBA. The implications for sugar are very significant. The present options to cut tariffs would, even in the favourable case, induce a tariff cut of 36 per cent. According to estimates by Hua-Niemi and Niemi (2003), the EU cannot sustain even this cut without reducing the price in the internal market. As this is one of the most favourable outcomes, the likely decision will suppose an even higher tariff reduction. Thus the WTO will entail a fall in the value of the sugar imports to the EU. It will depend partly on the severity of the sugar reform if the cut will be as high as 50 per cent.

A fall in the tariffs will make the EU sugar market more sensitive to exchange rate fluctuations. A strong Euro could make the EU market more easily accessible.

5.2 Elimination of Export Subsidies

Export subsidies have been the most criticised policy of the EU. Originally conceived as a counter-cyclical policy to safeguard internal prices when the world market prices fall below internal floor prices, it soon developed into a recurrent mechanism to shed chronic agricultural produce surpluses in the world market, due to the ever higher intervention prices offered to EU producers.

The export subsidies are accused to have caused the following effects on the world market:

(a). Distorting world trade, by suppressing the world market price;

(b). Competing unfairly in local third country markets, driving out local producers.

(c). Fostering larger exports by the EU, as producers have the prices guaranteed regardless of production levels, thus reinforcing the negative effects;

(d). Providing, on the positive side, cheaper food products for net importing developing countries.

Export subsidies have been the main challenge against the EU by the WTO, and this challenge has been one of the main drivers for the EU to reduce and now even plan to abolish this subsidy through reductions in the internal EU intervention prices. While other developed countries often compensate, directly or indirectly, domestic exporters through various means, the EU dominated export subsidies and accounted for 90 per cent of the total expenditure for subsidies at the end of the 1990s.

The elimination of export subsidies will reduce the competitive distortions in the world market caused by the surpluses of the EU. It is expected that world prices should increase for the products no longer subsidised. This is positive for exporters in Bangladesh, but may increase costs of imported goods as Bangladesh is a net importer of agricultural products from the EU. It will depend on a number of factors such as the reaction of local producers if the net-effect is welfare enhancing or reducing.

A ban on export subsidies will reduce EU exports of some commodities and open the possibility for other countries to enter the markets from which they retreats. Estimates of the full impact of trade liberalisation and the elimination of export subsidies have been performed by Brockmeyer et al. (2004). The results generally show a trade balance deterioration for the EU in a number of products, in particular the bovine, pork, poultry and fruit and vegetable sectors.

The positive effects will likely to be reinforced by the EU's justified requirement that other indirect practices used other developed countries to subsidise exports are also reviewed. The US exports credit system, for example, which accounts for 46 per cent of the world's total, is supposed to shield US exporters from world market fluctuations, as the terms of repayment are linked to world market conditions. The effects of this scheme have been presented at Brenton and Núñez Ferrer (2000), where both the EU and the US seem largely unaffected by world price fluctuations compared to other less supported exporters.

With the elimination of export subsidies and more stringent rules on other export management and promotion mechanisms for developed countries, world prices are expected to increase. The volume of exports by developed countries is also expected to fall opening formerly saturated markets to other exporters. It is important for Bangladesh

to analyse how to take advantage of the increasing opportunities. For rice, for example, the biggest markets have been indicated earlier in this paper. Not all is positive, as reduced tariffs and internal price reductions within the EU will also reduce the prices for imports of Bangladesh to the EU.

6. IMPACTS OF IMPORT REQUIREMENTS OF THE EU

The reductions in tariff barriers through WTO or initiatives like EBA have been accompanied by increasingly complex non-tariff based access rules. For agriculture, increasingly stringent rules of origin and severe SPS requirements are threatening to diminish the benefits of trade liberalisation and in some cases even to worsen the situation for developing countries.

6.1 Rules of Origin

Rules of origin are conceived to ensure that no trade deflection occurs, avoiding that a non-beneficiary country re-directs exported material through a country benefiting of duty-free access. EU rules of origin are product-specific and complex, requiring combined obligations on the level of allowed imported inputs, level of processing and changes in tariff headings based on components of the product.

While the logic is understandable, the rules imposed to avoid trade deflection are, according to Brenton (2003), often excessively strict and costly, beyond the actual requirements to ensure genuine origin. According to the same author, data suggest that 50 per cent of eligible imports from the non-ACP LDCs are not benefiting from preferential access based on the inability of the exporter to fulfil the rules of origin requirements. It appears that the high costs required to comply can often not be taken on board by the exporters.

The EU in fact, requires that goods are shipped directly to the EU, or that documentary evidence is provided that the goods have remained under the supervision of the customs authorities in the country of transit, did not enter the domestic market and only underwent operations of unloading and reloading. This documentation is very difficult to obtain in practice.

Brenton (2003) complains that the rules of origin are not negotiated with each trading partner to ensure that only the necessary steps are undertaken, allowing costs to be minimised. Rules of domestic processing requirements often make little sense as a rule of origin requirement, and Brenton presents the case of double or triple processing requirements for yarn or fibre, which he considers a hidden protection for EU producers.

The rules of origin provisions are furthermore out of touch with the process of trade liberalisation and globalisation. Rules of origin impose on exporting countries that inputs are domestically produced and processed, allowing some limited exceptions on regional cumulation (see below), or very restricted per centages of third country inputs. This requires the setting up of an integrated production structure within countries, which is often financially inefficient, reducing value added, and restricting the LDCs from integrating global production networks. Thus, the common argument is that the rules of origin ensure that countries develop a streamlined production structure, increase employment and ensure that production is of higher value added, is not defendable (Brenton, 2003).

In practice, these countries are subject to a limitation on the choice of suppliers, and thus the likelihood that the product has less value added increases. For some LDCs, especially small countries, local sourcing might even be impossible to ensure appropriate and sufficient supplies of inputs for some production. Not surprisingly, some LDCs that are members of the ACP preferential trading block prefer not to use the EBA tariff free system to be able to use the ACP cumulation rules, even if tariffs are levied on the product exported (Brenton 2003; Brenton and Takako 2005).

The new GSP in preparation by the European Commission does not relax the rules of origin, but this should actually do so. LDCs are more often damaged by the rules than assisted by them, particularly smaller countries with limited domestic resources.

6.1.1 Rules of Origin and Cumulation for Bangladesh

The EBA is contained in the GSP scheme and is governed by the rules of origin specified in the GSP. These rules allow Bangladesh to use inputs produced in SAARC countries[15] and sell the processed output in the EU duty free. This *diagonal* cumulation allows originating *material* (thus satisfying the EU's rules of origin too) from the SAARC group of countries to be processed and sold as originating from Bangladesh. However, the value added of the final product must exceed the highest customs value of the inputs.

The value added requirement can cause difficulties. Bangladesh imports fabric for processing from India, but Indian fabrics obtain value added of 65-75 per cent while Bangladesh only manages 25-30 per cent. Any fabric woven in Bangladesh using Indian fabric will thus not be able to use the EBA 0 tariff rate access, but only the GSP

[15] South Asian Association for Regional Cooperation: India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, Maldives

preferential rate at 9.6 per cent (Brenton, 2003). The limitations can affect the effectiveness of initiatives like the EPZs (Export Processing Zones) in Bangladesh, which are duty free zones allowing for imports to be processed and re-exported from there. Van der Geest (2004) notes the effectiveness, success and value to the economy and employment of these zones. However, GSP measures limiting the choice of import suppliers can be very restrictive and can undermine their operation.

However, for rice and sugar, the rules of origin have been made stricter. Bangladesh can only use inputs for processing from those SAARC members that are also part of the LDC list. This excludes the use of rice and sugar from India and Pakistan.

6.2 SPS Requirements

Of all the WTO agreements, SPS is the most important and relevant for agriculture. High food safety standards by themselves are not necessarily a burden for LDCs exports. These can also be an opportunity to induce a modernisation of the supply chain in the countries, increasing the value of the exports and also food safety in the country itself (Jaffee and Henson, 2005). However, exporters to the EU are experiencing a constant rise of barriers, due to SPS regulations, to levels that are at times widely viewed as protectionist non-tariff barriers rather than genuine and scientifically based safety needs.

An indication of the rising SPS requirements is the increase in the number of rejections of imported goods to the EU from 230 cases in 1998 to 1520 cases in 2003. This is due to the increase in the number and tightening of standards. The rejections concentrated especially on fish and crustaceans, meat, fruits and vegetables.

Non-compliance to the SPS requirements can have devastating effects for the exporter. Bangladesh has already suffered the impact of SPS-related trade ban in 1997, when the EU banned the import of shrimps, as SPS requirements were not correctly fulfilled. The shrimp exports of Bangladesh to the EU accounted for 5 per cent of total exports in the 1990s. It was US$ 297 million in 2003. The EU alone accounted for 52 per cent of the total export market in 2003, therefore any disruption in this sector has dire consequences. Khatun (2004) describes in detail the impact of a trade ban on the shrimp sector.

This crisis ensued because the EU's Hazard Analysis Critical Control Point (HACCP) was not implemented in Bangladesh. The introduction of the safety rules had not only a large financial cost, but also affected the livelihood of many farmers and processing workers. The HACCP rules require specific conditions of processing which meant that traditional processing plants closed inducing difficult social changes.

A new problem faced by Bangladesh, and which could cause again severe disruptions in agricultural trade, is the newly introduced food safety regulation by the EU. This safety regulation which became binding this year shifts the safety procedures further down the chain of production to the individual farmer (Regulation (EC) No 178/2002).

The traceability rules of Article 18 of this regulation clearly indicate that the responsibility for food safety is now extended to the individual farmers. In a country like Bangladesh, where more than 60 per cent of the population is dependent on agriculture and largely semi-subsistence farming, it is difficult to conceive a system of this kind.

Article 18

Traceability

1. The traceability of food, feed, food-producing animals, and any other substance intended to be, or expected to be, incorporated into a food or feed shall be established at all stages of production, processing and distribution.

2. Food and feed business operators shall be able to identify any person from whom they have been supplied with a food, a feed, a food-producing animal, or any substance intended to be, or expected to be, incorporated into a food or feed. To this end, such operators shall have in place systems and procedures which allow for this information to be made available to the competent authorities on demand.

3. Food and feed business operators shall have in place systems and procedures to identify the other businesses to which their products have been supplied. This information shall be made available to the competent authorities on demand.

4. Food or feed which is placed on the market or is likely to be placed on the market in

the Community shall be adequately labelled or identified to facilitate its traceability, through relevant documentation or information in accordance with the relevant requirements of more specific provisions.

5. Provisions for the purpose of applying the requirements of this Article in respect of specific sectors may be adopted in accordance with the procedure laid down in Article 58(2).

One of the impacts of the regulation is that further streamlining of production will be required, with a serious sectoral restructuring. The most damaging effect of these rules is that small farmers selling their produce to processors are likely to see their produce rejected. Only larger commercial operators will be able to record their input methods and input suppliers. Any informal seed or feed exchange, any dealings with small feed producers will not be possible to ensure full traceability. The consequences are clear. While the developed countries show concerns for the need to assist the development of the LDCs and preach the importance of agriculture for the livelihood of families and the future of rural development, new SPS rules will, in fact, cut the capacity of most inhabitants of rural areas to supply in the processing sector.

The safety level under this new SPS is certainly based on a risk perception by European consumers and policymakers, but it is questionable that the cost of implementation is appropriate for the level of actual risk. It is interesting to note the contradiction between the statement of the article on the precautionary principle that “measures should not be more restrictive that is required” and the “regard being taken to technical and economic feasibility” and the traceability rules.

Under the WTO rules, SPS measures are supposed to be based on scientific facts. Stricter rules than those set by the international standards should be justified and based on a credible and transparent risk assessment. Wolfe (2003), in fact, hints that such policies are self-interested, as the scientific bases are built on the questions the interested country wants to ask. The case of the precautionary principle is a case where the interpretation of risk and uncertainty becomes increasingly subjective. The precautionary principle, which now is reflected also in Article 5.7 of the SPS agreement of the WTO, is a very contestable approach to food safety. It opens the door to scientifically unfounded import bans.

Article 18

Precautionary principle

1. In specific circumstances where following an assessment of available information, the possibility of harmful effects on health is identified but scientific uncertainty persists, provisional risk management measures necessary to ensure the high level of health protection chosen in the Community may be adopted, pending further scientific information for a more comprehensive risk assessment.

2. Measures adopted on the basis of paragraph 1 shall be proportionate and no more restrictive that it is required to achieve the high level of health protection chosen in the Community, regard being had to technical and economic feasibility and other factors regarded as legitimate in the matter under consideration. The measures shall be reviewed within a reasonable period of time, depending on the nature of the risk to life or health identified and the type of scientific information needed to clarify the scientific uncertainty and conduct a more comprehensive risk assessment.

Majone (2002) severely criticises the approach to safety of the EU. The precautionary principle originating from environmental policy has now been extended to every possible area. This principle is not based on a risk analysis weighting the risks with their attached probabilities to find the best outcome, but it is based only on the minimax approach to risk, in which the worst case scenario is weighted against the maximum benefit regardless of the probability that it actually occurs. As 100 per cent safety in food can never be achieved, this approach leaves a potentially large discretion on what to allow and what to ban. It can be misused to justify protectionist measures and the costs that have to be borne to eliminate the unlikely risks are in disproportion to the scientifically sound risk assessment. An example of the disproportionate relationship of risk versus the costs was the attempt by the EU to impose a standard on Aflatoxins[16] superior to the one required by the Codex. The World Bank estimated that the number of deaths avoided by the new rule was of 1.4 for every billion people as compared to the Codex standards, but would eliminate 64 per cent or 670 million US$ worth of African imports, with clearly more devastating effects on the livelihood of the African populations.

[16] toxin found in improperly stored cereals fruit and nuts.

The precautionary principle rule allows for additional tests for a reasonable period of time, depending on the nature of the risk. However, this allows any length of time as the type of scientific information, uncertainty, and the level of risk are open to interpretation. The consequences of using the minimax approach, as described by Majone, are clear. One example is the EU's ban on US beef containing growth hormones. This ban is based on the precautionary principle (although this is contested by the EU) and has been imposed for many years despite the fact that further studies have been performed in the EU itself as required by Article 18, which did not find any evidence of human safety risks. However, as the precautionary principle allows for protective action if uncertainty persists (and for any substance there will always be a possibility of unknown risks regardless of the improbability of it occurring), the ban could become permanent in practice. It is the WTO that will have to ensure that "reasonable time" reflects this notion, and the affected WTO members should ensure that this is applied.

Wolfe (2003) considers that SPS rules are embedded in Western ideas on food safety. "Farm to fork" regulations require an advanced public administration and a highly educated farm and production sector. These are developed by countries which have a certain food production structure and the administration set up accordingly; they are not designed for poorer countries. These SPS rules are thus moving beyond the reasonable period of time, causing a large waste of resources that could be better used for developing the country. It is in fact questionable that EU standards of food safety transmitted through the WTO are the best and most appropriate means to assure food safety in Bangladesh or other developing countries.

Thus it is important that developing countries develop a strong negotiation capacity on food safety measures since with these new rules the burden of food safety falls increasingly on the exporter. Requesting technical assistance to implement excessively expensive rules drafted by developed countries is not a response. Developing countries have to proactively challenge the foundation of increasingly strict rules. Have the HACCP rules failed to provide a sufficient level of protection? Are the costs of compliance disproportionate to the costs associated with the risks based on a scientific analysis?

It is also questionable that "farm to fork" traceability should be imposed on importers. In fact, traceability is a useful tool to pinpoint the origin of a health risk, without the need to introduce market restrictions to more producers than necessary. It has the potential to reduce the reaction time from the moment a health risk has been identified to its successful isolation and elimination. However, it should be for the exporters to decide whether to introduce such a mechanism under the understanding that without it any food

health problem could cause a ban of its entire exports and a lengthy period of quarantine. In cases where the origin of an identified health risk cannot be traced, the importer can always ban the produce from the exporting country. The exporter should be able to weight the costs and benefits of the traceability system. Of course, one could argue that traceability should be imposed as the spread of diseases can have cross-border implications, as shown for example, by the avian flu case.

In the end, traceability linked to the high HACCP standards shifts the liability of a health risk entering the importing country almost entirely to the exporter. The costs of ensuring that imports are save to the level of "ones own national preference" are not borne any longer by the importer.

Finally, it is interesting to remark that non-health concerns of the developed countries could indirectly be creeping into the SPS rules. While the Doha round modalities agreed in 2003 do not mention such issues as animal welfare standards, these can be indirectly transmitted through SPS rules. One example could be to justify the introduction of larger individual cages for chickens under the argument that the number of chickens in a given space increases the transmission speed of diseases. Furthermore, this does not need to be an established fact: the existence of uncertainty is sufficient for the EU to impose such standards. The EU could introduce many of its limitations on stocking densities for animals and other production methods, only basing its decision on the uncertainty of risks associated with not doing so.

For this reason, Bangladesh together with other developing countries has to acquire the capacity to monitor the development of food safety standards of their export markets and to participate in the development of the rules at WTO. Political or protectionist interests of the developed countries, which introduce prohibitive phytosanitary costs under the pretext of protecting human health from highly improbable diseases, should be avoided. Moreover, one has to note that the traceability requirement is not based on the need to control a particular disease present in specific countries. It is imposed regardless of the level of risk that a disease actually occurs.

7. DEVELOPING MARKET OPPORTUNITIES AND INCREASING VALUE ADDED

Bangladesh should not count on trade agreements like EBA to develop its export market. It should start analysing further actions to expand imports into the EU, given the characteristics of market demand rather than only on competitors' prices.

The EU market is characterised by brand products and retail chains with strict rules on the marketing standards of products. Exporters in Bangladesh should aim to establish a marketing relationship with the food chains. However, the rules of these chains are severe and production methods have to be adapted to meet their product specifications.

A clear assessment of the export sectors of the country should be performed to be able to draw effective and sustainable strategies. Understanding clearly the strengths and needs of each sector is important. The study by Khatun (2004) on the shrimp sector gives an example of the problems associated with the lack of a clear strategy and structure.

Bangladesh should have an active promotion strategy to change the perception of the country in Europe. Improving the image of the country can help exports. European consumers are attracted by products of Asia and Southeast Asia and are ready to pay for products which are well marketed and represent quality "exotic" attributes. Marketing, packaging and good labelling can improve the value and sales of products and also stabilise demand. Product differentiation and branding can protect the exporters from future market fluctuations.

Specific market analysis in the EU and studies for opening opportunities should be undertaken. This should also include opportunities to enter markets in which EU, US or other developed countries lose their competitive advantage when their capacity to, subsidise directly exports or indirectly falls.

7.1 Technical Assistance by the EU

Under the EBA agreement and in line with the Commitments by the WTO Doha round, the EU has offered trade related assistance (TRA). The EU will provide assistance to help to ensure that standards are applied that fulfil SPS and other technical requirements. This is an important aspect of the question and Bangladesh should request assistance to clarify how to implement the latest requirements and to build the necessary capacity.

Bangladesh should also require trade assistance on market access beyond the fulfilment of technical and official requirements. Market penetration in the EU requires trading links, attendance to trade fairs, promotion of products, etc. The EU should provide assistance to LDCs for the promotion of their products, and to help them understand not only the legal requirements of European operators, but also their market requirements.

However, Bangladesh should also consider negotiating other further support. It should request that the EU also cover some of the burden of developing the necessary infrastructures without using development aid resources. The increase in stringent SPS

rules is imposing costs on these countries that would not have existed otherwise. Given that these requirements are surpassing the international normal standards of the 'CODEX' Alimentarius of the FAO (Food and Agriculture Organisation of the United Nations), the developing countries should request that costs are borne by the developed countries. This is in line with internal EU policies that consider that producers, who are asked to provide public services beyond those legally binding should be compensated for doing so. This is the case for example of agri-environmental assistance in the EU. The demanding party should compensate for any SPS rule imposed costs exporting countries when these are superior to the general requirements, especially so with LDCs. This is not only an understandable request, but it will also ensure that countries will be less prone to impose costly restrictions on exporters that are not proportional to the risks.

Another need is the development of the necessary infrastructure to encourage FDI and develop enterprises. Development aid in this direction should also be requested.

These requests, while wide-ranging and certainly not easy to obtain, can be justified on the basis of the expected erosion of the trade concessions. A future WTO reform will damage export markets, and LDCs need to prepare for a more competitive environment and develop their infrastructures. The EU itself is highly aware of the importance of covering structural needs in the poorer regions of the EU. It should be part of any strategy to support LDCs to intervene in this area.

7.2 Handling Non-Tariff Barriers

Challenging SPS rules on the ground that these are only non-tariff barriers is counterproductive. The developed countries and the EU impose disproportionate safety rules because these are demanded by the citizens and voters of these countries. The governments are hard pressed to introduce strict safety procedures often not in line with the actual risks and their consequences. Nevertheless, domestically, for the EU, these safety rules are "correct" and are part of the domestic rules imposed on the producers in the EU.

For Bangladesh, there are three actions possible to mitigate the costs and complications of the SPS and TBTs. The first was mentioned earlier, which is the demand for actual support in the structural costs of setting up the necessary requirements. The second is to request under a similar provision of the WTO of special and differential treatment for LDCs, that some aspects of the SPS can be relaxed where these are impracticable or where risks are not proportional to the costs. Bangladesh should ask for a negotiated agreement specific for the country (maybe agreements by product group exported) to ensure that no controls beyond the necessary are introduced. This would be in line with

the Article 5.3 of SPS that "relative cost-effectiveness of alternative approaches to limiting risks should be considered". Bangladesh should engage proactively in finding effective and manageable solutions. The third action to be taken is to acquire the capacity to monitor the development of food safety standards of export markets and to participate in the development of the rules at WTO. Political or protectionist interests of the developed countries, which introduce prohibitive phytosanitary costs under the need to protect human health from highly improbable diseases, should be avoided. The WTO members should be able to present alternative systems in line with their national realities while guaranteeing an equivalent level of safety. For example, the author questions the additional safety of the traceability requirements if safety procedures at processing level are of a high standard.

7.3 The Role of FDI

The development of export markets can also be achieved by attracting foreign investors. Multinational food companies such as Unilever or Nestlé are already present in Bangladesh, but their operations are limited. FDI in food and agriculture amounts to 7 per cent of FDI. This can improve if a strategy for promoting local products emerges. As a matter of fact, Bangladesh offers very attractive terms to investors. However, the country's infrastructure, governance, legal system and labour relations need to change as well. FDI flows have been weak compared to the rest of the region's countries.

The impediments to FDI, listed and analysed in Van der Geest (2004), are also barriers for exporters to create relationships with companies and retailers in Europe. Competition between suppliers is high, and requirements on the quality appearance and delivery times by the European buyers are difficult enough to fulfil. Instability in the country creates a difficult barrier if they are not able to ensure that requirements will be met.

As mentioned earlier, on the subject of infrastructure development, which is an important ingredient to attract investors and to assist the development of local export industries, Bangladesh should seek aid assistance from the EU's development aid facility.

8. CONCLUSIONS

General Findings

Bangladesh has started reaping some benefits from the EBA in the agricultural sector, but the benefits have been slow to materialise and the markets are not guaranteed. Agricultural exports concentrate heavily on a few primary products and the analysis performed indicates that these are subject to fierce competition from neighbouring

countries. There is a lack of value added, making the proportional relationship between value and quantity of exports less favourable for Bangladesh.

The reforms of the Common Agricultural Policy of the European Union will improve some market access for Bangladesh, in particular for its rice production. In the longer term, however, some of the benefits will be reduced, lost or be at risk following sugar reforms and the developments at the Doha WTO round of trade liberalisation.

A WTO reform, however, can open new opportunities. If export subsidies are abolished, the EU will lose its competitive edge in various markets, and Bangladesh should study possibilities to take over these markets, in particular for rice, e.g. in the Mediterranean region or Switzerland.

The trade liberalisation process is accompanied by an increasingly restrictive set of SPS and rules of origin requirements, which can severely damage the export market to the EU. The latest traceability rules proposals of the EU could cause major damage to LDCs including Bangladesh.

Recommendations

Bangladesh needs to develop its export strategies to increase the value added of its products. A strategy based solely on cheap export to the EU is not sufficient to guarantee success.

Specific market analysis in the EU and studies aiming at opening opportunities should be undertaken. This should also include opportunities to enter markets in which EU, US or other developed countries lose their competitive advantage when their capacity to directly or indirectly subsidise exports falls.

The EU should be requested to relax the rules of origin provisions. These run counter to the development needs of LDCs and hamper their integration in global production networks. The producers in these countries are subject to a limitation on the choice of suppliers and thus the likelihood that the product has less value added increases. Rules of origin could be negotiated country by country to agree on the needs and the guarantees necessary to avoid trade deflection; a-one-size-fits-all-rule is not cost effective and does not promote the local economy.

Bangladesh should request support to fulfil the SPS provisions, but should also demand for alternative cost effective ways to ensure food safety. It should also request financing of necessary changes which are based on requirements above the international food safety obligations.

Bangladesh should build the capacity to monitor the development and implications of SPS and other non-trade barriers in association with other countries to ensure that rules are developed with the full participation of the concerned countries and do not impose excessive costs for unlikely risks.

LDCs like Bangladesh should also request assistance to the EU in promoting their goods, assisting traders in penetrating the market, by creating links between EU traders and retailers, and exporters.

Local infrastructure is also an important key to development, demonstrated in Europe by the investment in structural needs of the poorer regions. Aid to develop the necessary infrastructures should also be requested.

The development of a successful export market requires the development of a performing internal economy. Efforts should be undertaken to reduce internal barriers to development due to weak governance, weak legal system and difficult labour relations.

On infrastructure development, which is an important ingredient to attract investors and to assist the development of local export industries, Bangladesh can seek aid from the EU's external aid facility.

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Annex A:

EU-EBA: NEW TARIFF LINES INCLUDED UNDER THE INITIATIVE OF LIBERALISATION

HS 2 Code	Description	Number of liberalised products (8-digit level)	Per cent of liberalised tariff lines
02	Meal and meal products	173	18.82
04	Dairy products	166	18.06
22	Beverage, spirits and vinegar	103	11.21
11	Milled products	77	8.38
20	Preparation of vegetables and fruits	74	8.05
10	Cereals	48	5.22
17	Sugars and sugar confectionery	45	4.90
19	Preparation of cereals	38	4.13
01	Live animals	30	3.26
23	Residues & waste from food industry	30	3.26
16	Prep of meat, fish or crustaceans	28	3.05
08	Fruits	25	2.72
07	Vegetables	19	2.07
18	Cocoa and cocoa preparations	19	2.07
21	Miscellaneous edible preparations	12	1.31
15	Fats and oils	10	1.09
38	Miscellaneous chemical products	8	0.87
35	Albumines and enzymes	6	0.65
29	Organic chemicals	5	0.54
12	Oil seeds	3	0.33
Total		919	100.00

Source: European Commission (2001a).

Annex B. List of Closely Analysed Products (only HS 6 digits listed)

EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	
070310	FRESH OR CHILLED ONIONS AND SHALLOTS
070320	GARLIC, FRESH OR CHILLED
070390	LEEKS AND OTHER ALLIACEOUS VEGETABLES, FRESH OR CHILLED (EXCL. ONIONS, SHALLOTS AND GARLIC)
070820	FRESH OR CHILLED BEANS 'VIGNA SPP., PHASEOLUS SPP.', SHELLED OR UNSHELLED
070890	FRESH OR CHILLED LEGUMINOUS VEGETABLES, SHELLED OR UNSHELLED (EXCL. PEAS 'PISUM SATIVUM' AND BEANS 'VIGNA SPP., PHASEOLUS SPP.')
070910	FRESH OR CHILLED GLOBE ARTICHOKES
070920	FRESH OR CHILLED ASPARAGUS
070930	FRESH OR CHILLED AUBERGINES 'EGGPLANTS'
070951	FRESH OR CHILLED MUSHROOMS OF THE GENUS 'AGARICUS'
070960	FRESH OR CHILLED FRUITS OF THE GENUS CAPSICUM OR PIMENTA
070970	FRESH OR CHILLED SPINACH, NEW ZEALAND SPINACH AND ORACHE SPINACH
070990	FRESH OR CHILLED VEGETABLES (EXCL. POTATOES, TOMATOES, VEGETABLES OF THE ALLIUM SPP., CABBAGES OF THE GENUS BRASSICA, LETTUCES OF THE SPECIES LACTUCA SATIVA AND CICHORIUM, CARROTS, TURNIPS, SALAD BEETROOT, SALSIFY, CELERIAC, RADISHES AND SIMILAR EDIBLE ROOTS, CUCUMBERS AND GHERKINS, LEGUMINOUS VEGETABLES, ARTICHOKES, ASPARAGUS, AUBERGINES, MUSHROOMS, TRUFFLES, FRUITS OF THE GENUS CAPSICUM OR OF THE GENUS PIMENTA, SPINACH, NEW ZEALAND SPINACH AND ORACHE SPINACH)
071021	SHELLED OR UNSHELLED PEAS 'PISUM SATIVUM', UNCOOKED OR COOKED BY STEAMING OR BY BOILING IN WATER, FROZEN
071022	SHELLED OR UNSHELLED BEANS 'VIGNA SPP., PHASEOLUS SPP.', UNCOOKED OR COOKED BY STEAMING OR BY BOILING IN WATER, FROZEN
071029	LEGUMINOUS VEGETABLES, SHELLED OR UNSHELLED, UNCOOKED OR COOKED BY STEAMING OR BY BOILING IN WATER, FROZEN (EXCL. PEAS AND BEANS)
071030	SPINACH, NEW ZEALAND SPINACH AND ORACHE SPINACH, UNCOOKED OR COOKED BY STEAMING OR BY BOILING IN WATER, FROZEN
071080	VEGETABLES, UNCOOKED OR COOKED BY STEAMING OR BY BOILING IN WATER, FROZEN (EXCL. POTATOES, LEGUMINOUS VEGETABLES, SPINACH, NEW ZEALAND SPINACH, ORACHE SPINACH, AND SWEETCORN)

071090	MIXTURES OF VEGETABLES, UNCOOKED OR COOKED BY STEAMING OR BY BOILING IN WATER, FROZEN
071140	CUCUMBERS AND GHERKINS PROVISIONALLY PRESERVED, E.G. BY SULPHUR DIOXIDE GAS, IN BRINE, IN SULPHUR WATER OR IN OTHER PRESERVATIVE SOLUTIONS, BUT UNSUITABLE IN THAT STATE FOR IMMEDIATE CONSUMPTION
071190	VEGETABLES AND MIXTURES OF VEGETABLES PROVISIONALLY PRESERVED, E.G. BY SULPHUR DIOXIDE GAS, IN BRINE, IN SULPHUR WATER OR IN OTHER PRESERVATIVE SOLUTIONS, BUT UNSUITABLE IN THAT STATE FOR IMMEDIATE CONSUMPTION (EXCL. ONIONS, OLIVES, CAPERS, CUCUMBERS AND GHERKINS, NOT MIXED)
071220	DRIED ONIONS, WHOLE, CUT, SLICED, BROKEN OR IN POWDER, BUT NOT FURTHER PREPARED
071290	DRIED VEGETABLES AND MIXTURES OF VEGETABLES, WHOLE, CUT, SLICED, BROKEN OR IN POWDER, BUT NOT FURTHER PREPARED (EXCL. ONIONS, MUSHROOMS AND TRUFFLES, NOT MIXED)
071339	DRIED, SHELLED BEANS 'VIGNA AND PHASEOLUS', WHETHER OR NOT SKINNED OR SPLIT (EXCL. BEANS OF SPECIES 'VIGNA MUNGO [L] HEPPER OR VIGNA RADIATA [L.] WILCZEK', SMALL RED 'ADZUKI' BEANS AND KIDNEY BEANS)
071340	DRIED, SHELLED LENTILS, WHETHER OR NOT SKINNED OR SPLIT
071490	ROOTS AND TUBERS OF ARROWROOT, SALEP, JERUSALEM ARTICHOKES AND SIMILAR ROOTS AND TUBERS WITH HIGH STARCH OR INULIN CONTENT, FRESH, CHILLED, FROZEN OR DRIED, WHETHER OR NOT SLICED OR IN THE FORM OF PELLETS AND SAGO PITH (EXCL. MANIOC 'CASSAVA' AND SWEET POTATOES)
RICE	
100610	RICE IN THE HUSK, 'PADDY' OR ROUGH
100620	HUSKED OR BROWN RICE
100630	SEMI-MILLED OR WHOLLY MILLED RICE, WHETHER OR NOT POLISHED OR GLAZED
100640	BROKEN RICE
SUGAR	
170199	CANE OR BEET SUGAR AND CHEMICALLY PURE SUCROSE, IN SOLID FORM (EXCL. CANE AND BEET SUGAR CONTAINING ADDED FLAVOURING OR COLOURING AND RAW SUGAR)
170290	SUGARS IN SOLID FORM, INCL. INVERT SUGAR AND CHEMICALLY PURE MALTOSE, AND SUGAR AND SUGAR SYRUP BLENDS CONTAINING IN THE DRY STATE 50% BY WEIGHT OF FRUCTOSE, NOT FLAVOURED OR COLOURED, ARTIFICAL HONEY, WHETHER OR NOT MIXED WITH NATURAL HONEY AND CARAMEL (EXCL. CANE OR BEET SUGAR, CHEMICALLY PURE SUCROSE, LACTOSE, MAPLE SUGAR, GLUCOSE, FRUCTOSE, AND

	SYRUPS THEREOF)
170390	BEET MOLASSES RESULTING FROM THE EXTRACTION OR REFINING OF SUGAR
PREPARATIONS OF CEREALS FLOWER STARCH OR MILK. PASTRYCOOKS' PRODUCTS	
190120	MIXES AND DOUGHS OF FLOUR, GROATS, MEAL, STARCH OR MALT EXTRACT, NOT CONTAINING COCOA OR CONTAINING < 40% BY WEIGHT OF COCOA CALCULATED ON A TOTALLY DEFATTED BASIS, N.E.S. AND OF MIXES AND DOUGHS OF MILK, CREAM, BUTTER MILK, SOUR MILK, SOUR CREAM, WHEY, YOGHOURT, KEFIR OR SIMILAR GOODS OF HEADING 0401 TO 0404, NOT CONTAINING COCOA OR CONTAINING < 5% BY WEIGHT OF COCOA CALCULATED ON A TOTALLY DEFATTED BASIS, N.E.S., FOR THE PREPARATION OF BAKERS' WARES OF HEADING 1905
190211	UNCOOKED PASTA, NOT STUFFED OR OTHERWISE PREPARED, CONTAINING EGGS
190219	UNCOOKED PASTA, NOT STUFFED OR OTHERWISE PREPARED, NOT CONTAINING EGGS
190230	PASTA, COOKED OR OTHERWISE PREPARED (EXCL. STUFFED)
190300	TAPIOCA AND SUBSTITUTES THEREFOR PREPARED FROM STARCH, IN THE FORM OF FLAKES, GRAINS, PEARLS, SIFTINGS OR SIMILAR FORMS
190410	PREPARED FOODS OBTAINED BY SWELLING OR ROASTING CEREALS OR CEREAL PRODUCTS, E.G. CORN FLAKES
190420	PREPARED FOODS OBTAINED FROM UNROASTED CEREAL FLAKES OR FROM MIXTURES OF UNROASTED CEREAL FLAKES AND ROASTED CEREAL FLAKES OR SWELLED CEREALS
190490	CEREALS (EXCL. MAIZE [CORN]) IN GRAIN OR FLAKE FORM OR OTHER WORKED GRAINS, PRE
190510	CRISPBREAD
190530	SWEET BISCUITS, WAFFLES AND WAFERS, WHETHER OR NOT CONTAINING COCOA (EXCL. WITH WATER CONTENT OF > 10 %)
190531	SWEET BISCUITS
190540	RUSKS, TOASTED BREAD AND SIMILAR TOASTED PRODUCTS
190590	BREAD, PASTRY, CAKES, BISCUITS AND OTHER BAKERS' WARES, WHETHER OR NOT CONTAINING COCOA; COMMUNION WAFERS, EMPTY CACHETS OF A KIND SUITABLE FOR PHARMACEUTICAL USE, SEALING WAFERS, RICE PAPER AND SIMILAR PRODUCTS (EXCL. CRISPBREAD, GINGERBREAD AND THE LIKE, SWEET BISCUITS, WAFFLES AND WAFERS WITH WATER CONTENT OF <= 10%, RUSKS, TOASTED BREAD AND SIMILAR TOASTED PRODUCTS)
VEGETABLE TEXTILE FABRICS - JUTE	

530310	JUTE AND OTHER TEXTILE BAST FIBRES, RAW OR RETTED (EXCL. FLAX, TRUE HEMP AND RAMIE)
530390	JUTE AND OTHER TEXTILE BAST FIBRES, PROCESSED BUT NOT SPUN; TOW AND WASTE OF SUCH FIBRES, INCL. YARN WASTE AND GARNETTED STOCK (EXCL. RETTED FIBRES OF THIS KIND, FLAX, TRUE HEMP AND RAMIE)
530710	SINGLE YARN OF JUTE OR OF OTHER TEXTILE BAST FIBRES OF HEADING 5303
530720	MULTIPLE 'FOLDED' OR CABLED YARN OF JUTE OR OF OTHER TEXTILE BAST FIBRES OF HEADING 5303
531010	WOVEN FABRICS OF JUTE OR OF OTHER TEXTILE BAST FIBRES OF HEADING 5303, UNBLEACHED
531090	WOVEN FABRICS OF JUTE OR OF OTHER TEXTILE BAST FIBRES OF HEADING 5303, BLEACHED, DYED, MADE OF YARN OF DIFFERENT COLOURS, OR PRINTED