

## Summary

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Global production of high-value foods, particularly processed foods, grew rapidly for much of the last two decades; however, exports of processed foods remain at the same level as they were in the mid-1990s. The lack of growth in processed food trade is partly due to the preference of many manufacturers to locate production units close to their consumer bases rather than export the finished products. Market access barriers, such as tariffs, are also a significant obstacle to trade. For processed products, in particular, the protective effect of tariffs can be magnified through “tariff escalation,” in which importing countries base tariff rates on the level of processing within a product, with primary products being levied the lowest rates.

In addition to, or in place of, tariffs, countries have at their disposal other measures that may encourage imports of relatively unprocessed agricultural commodities at the expense of more processed products, including sanitary and phytosanitary (SPS) measures as well as various forms of contingent protection measures (antidumping duties (AD), countervailing duties (CVD), and safeguards).

SPS notifications to the World Trade Organization (WTO) by member countries have steadily increased from 196 in 1995 to 855 in 2003. The animal and meat sector accounts for almost two-thirds of the total number of notifications on agriculture. These notifications may signal the imposition of a new procedure, rule, or requirement that may act as a barrier to trade, or the removal of such. Therefore, the increase in the number of notifications in itself does not indicate that SPS measures have been used to restrict trade in high-value products. However, WTO members have formally raised concerns that some of the SPS measures may have been designed to restrict trade. These concerns totaled 183 between 1995 and 2003, with the number increasing each year. Additionally, most of these complaints concerned high-value and processed food products, and only 2 percent of the complaints were for primary agricultural commodities.

The use of contingent protection is concentrated on high-value products. Fully processed products accounted for 55 percent of total AD measures and 73 percent of CVD measures in 2003. Of the total 43 agricultural safeguard measures implemented through October 2003, processed agricultural products accounted for 33, fresh fruits and vegetables accounted for 7, and primary agricultural commodities accounted for only 3. Likewise, of the 1,285 special agricultural safeguards (SSG) implemented through October 2004, processed foods and beverages accounted for two-thirds.

The use of contingent protection measures is no longer limited to developed countries. Developing countries increasingly use these measures and now account for a significant share of total AD, CVD, and safeguard measures in place. However, many developing countries did not reserve the right to use SSG, in conformity with WTO rules established at the Uruguay Round, and, therefore, lost their authority to use these instruments on products that underwent “tariffication,” the conversion of nontariff barriers into equivalent bound tariffs.

Global trade patterns for land-based high-value foods, whose production is dependent upon particular resources, are relatively stable despite changes in the overall composition of food trade, shifts in the direction of this trade, and trade-balance reversals. By contrast, the pattern of trade for manufactured high-value foods, which can be produced anywhere capital and technology are available, is less predictable. Data also show that it can be difficult, and sometimes impossible, to gauge empirically the nature of bilateral complementarity of trade in processed products, given the absence of sufficiently detailed data required to capture the fine degree of specialization taking place within the food industry.

Cutting tariffs uniformly would boost trade in processed products more than trade in raw commodities. While the growth in global processing activity would enhance wages worldwide, the benefits would accrue disproportionately to developing countries, where a high share of labor is employed in the high-value food sector.