CRNM PRIVATE SECTOR TRADE BRIEF

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PROSPECTS FOR CARICOM'S PORK INDUSTRY

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IN THIS ISSUE: We look at the regional pork trade and simulate the impact on the applied tariff that the main tariff reduction proposal before the WTO would have on pork tariffs. The region's pork trade, though dynamic, is small. We propose that this be seen as a case study for small sectors seeking to evaluate how their industry could be affected by the current WTO discussions. However, this brief looks mainly at the impact on imports as the region has not yet developed a vibrant pork/pork products export trade. We are thankful for the various comments from the regional Pork Industry.

OVERVIEW OF GLOBAL PORK TRADE

Producing and exporting primary pork meat, defined as fresh, chilled or frozen, represents a dynamic business opportunity which CARICOM-based firms are now beginning to explore internationally. According to the COMTRADE Database of the United Nations, consumers around the world – that is, households and businesses -- spent over US$18.5 billion in 2005 on purchases of 7.4 million tonnes of primary pork meat.

Spending on pork imports increased by an annual average of 14% between 2001 and 2005. Considering that the traded volume grew by only 7% per annum over this period, it means that the price of internationally traded pork has gone up. Japan, which had a total expenditure of US$4.4 bn in 2005, is the world's largest market for pork. Next comes Germany (US$2bn), followed by Italy (US$1.97bn), the United Kingdom (US$1bn) and the United States (US$0.9bn). These countries represented the world's top five markets for imported pork in 2005.

The Japanese market is particularly lucrative. In 2005, pork fetched a price of US$5,000 per tonne in Japan, almost double the world average of US$2,517. The price difference may be reflecting a higher demand for choice cuts of pork in Japan compared to the other major markets. The fastest growing markets for pork include the United Kingdom (25% growth in pork import spending per annum between 2001 and 2005), Republic of Korea (34%), Netherlands (35%), Poland (81), Czech Republic (76%), Hungary (43%), Democratic People's Republic of Korea (133%), Belarus (77%) and the Ukraine (143%).

CARICOM PORK EXPORTS

Available data shows that CARICOM firms have not really explored the pork market beyond their domestic borders. This is obvious because in 2005, only US$92,000 worth of pork meat was exported from CARICOM. These shipments were mainly frozen swine whole carcasses and half carcasses. Furthermore, export revenue declined by an average 2% per annum over the 2000 to 2005 period, according to the COMTRADE statistics

A critical factor limiting the ability of CARICOM-based exporters to earn more revenue on the global market is the fact that no CARICOM country is currently certified as being free of diseases such as classical swine fever and swine vesicular disease. Major import markets only allow imports from countries and regions certified as disease free. CARICOM is attempting to meet this requirement. This reason, among others, possibly explains why CARICOM pork has not yet made it on to the shelves in any major markets. Trade figures indicate that CARICOM exporters were able to obtain US$4,182 per tonne of pork, a premium price compared to the global average price of US$2,517 per tonne.

Besides the effort to achieve certified ‘disease-free’ status for the regional pork industry, value added exports of products such as pork sausages should be promoted by addressing tariff and non-tariff measures in the top consumer markets. So whereas CARICOM-produced pork meat is not traded significantly beyond national borders, the region exported over US$511,000 worth of sausages made with pork meat in 2005. This trade was mainly intra-regional to St. Lucia, Grenada, St. Vincent and the Grenadines and Guyana. However, looking to the future, the top five global markets for pork sausages include Japan ($253mn in import spending in 2005), the UK ($149mn), Hong Kong ($91mn), Germany ($77mn) and France ($53mn).

To promote value added pork product exports to these markets, negotiations could seek to address the following issues:

- Eliminating the 20% duty in Japan;
- Eliminating the 71.9 EUR/100 kg specific duty on sausages into the UK, France and Germany under the Cotonou agreement between the European Union and the Caribbean.(If the successor Economic Partnership Agreement (EPA) is negotiated successfully, these products will be duty free effective January 1, 2008)

Under the Caribbean Basin Initiative (CBI) for regional countries, the US currently provides duty free treatment for CARICOM-made pork sausages provided that 35% value added is done regionally. However, it is important to note that the CBI is currently in violation of World Trade Organization (WTO) rules which require that all members approve any preference granting scheme. Therefore, in the absence of WTO approval, this preference is not on firm legal grounds and, as such, cannot form the basis of long term planning by the region’s pork producers.

Interestingly, to grow pork exports, the answer could be right under our nose. Cuba is the largest Caribbean importer of pork, and the region could focus its energies on this market. In 2005, Cuba purchased some US$18.1mn worth of pork. This demand has been dynamic, growing by 10% per annum between 2001 and 2005. Cuba sources its pork mostly from North and Latin America.

In 2005, Canada was Cuba’s largest source of pork imports with some US$6.9mn spent, representing 38% of Cuba’s pork import bill. The USA accounted for 24%, with Brazil (21%) and Chile 17% as the other major source markets. There was a small shipment of US$67,000 worth of pork from Brazil. Chile was the cheapest source of pork into Cuba, selling fresh pork at US$1,796/tonne in 2005.

Next door to Cuba, the Dominican Republic represents another promising market for CARICOM pork producers. The DR accounted for some 2,081 tonnes of fresh pork imports in 2005, and recorded an annual import expenditure growth rate of 20% per annum between

2001 and 2005. CARICOM has negotiated trade agreements with both the Dominican Republic and Cuba that provide the basis for duty free exports of fresh pork to these countries. However, the region is yet to comprehensively enact these agreements as only some member states have passed the necessary legislation.

CARICOM PORK IMPORTS

In 2005, CARICOM importers spent some US$25.5 million on pork meat, reflecting the fact that consumers seemingly prefer pork to beef as a protein source. This trade is quite dynamic, growing by 21% in terms of spending and 16% in terms of import volume between 2000 and 2005 which indicates an increase in the import price for pork meat over the 2000 to 2005 period. It is clear that there is a strong and growing import demand for pork across the CARICOM region.

The USA and Canada are the two major source markets for regional pork imports. In 2005, CARICOM countries collectively spent some US$11.6mn on the importation of 5,236 tonnes of fresh pork from the USA, and US$10.2 mn to bring in 6,820 tonnes from Canada. However, the most dynamic import sources in terms of quantity of pork imported into CARICOM between 2001 and 2005 were the United Kingdom (80% growth per annum), Brazil (41% growth), Denmark (20% growth) and Canada (19% growth per annum). Jointly these countries met over half of the region's import needs, suggesting a strong and growing demand which is increasingly being filled by external sources.

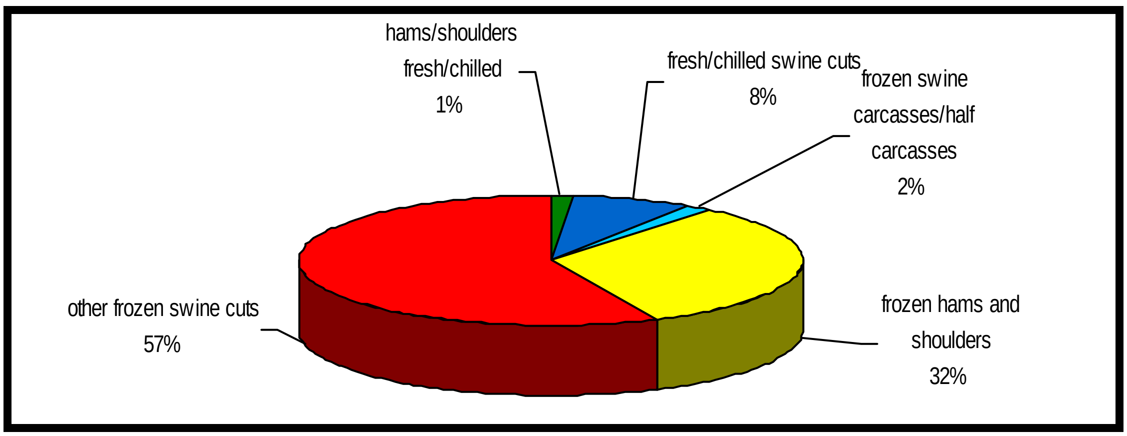

Figure 1: Share of CARICOM Imports of Pork parts/cuts in 2005 (by import expenditure). Source: TradeMAP, May 25, 2007.

It is also interesting to note that CARICOM import spending on pork products is dominated by other frozen swine cuts (i.e. cuts of swine apart from those listed in Figure 1 above). Frozen hams accounted for 32% of regional spending on imported pork in 2005. However, there was some dynamism in imports of fresh/chilled swine cuts with an average 42% increase per annum in the quantity of this pork product imported into CARICOM member states between 2001 and 2005. Frozen ham imports were also dynamic growing by 17% per annum between 2001 and 2005.

It must be mentioned that, in many cases, pork meat is imported duty free into the region as a production input and then used in the production of, for example, sausages for which there is more vibrant trade. As such, the pork meat market is in principle duty free already for manufacturing purposes, and the issue really is to protect the domestic consumer market for pork meat, and to provide support to those value added producers of sausages.

WTO TARIFF PROPOSALS FOR AGRICULTURAL PRODUCTS[1].

There are currently five main proposals on tariff reduction for agricultural products before the WTO. All of them are proposing that countries with higher tariffs make greater cuts. The focus is on four proposals in the simulation presented below, and on applied, rather than bound rates, as applied rates are of more importance for business.

Table 1: Simulation of agricultural tariff reduction proposals on pork tariffs for select CARICOM states

Country	Applied Tariff(%)	'05 Import volume(tons)	US proposal	EU proposal	ACP Proposal[2]	G 20 Proposal
Jamaica	40	1,366	18-21%	28%	30.4%	28%
Barbados	184	1,478	59-67%	112%	130%	112%
Trinidad/Tobago	40	3,666	18-21%	28%	30.4%	28%
Haiti	15	2,287	6-8%	9-14%	13%	11%
Grenada	30	218	13-15%	18-27%	26%	23%
Dominica	30	104	13-15%	18-27%	26%	23%
St. Vincent/Grenadines	5	291	2.6-2.9%	3-4.5%	3.8%	4%

Source: TradeMAP (sourced May 25, 2007)

Based on this simulation, the CARICOM country which could face the steepest tariff cut would be Barbados. If the US tariff reduction proposal prevails in the WTO, Barbados' tariff on pork products would be reduced from 184% to within a band of 59-67%. Under the US proposal, St. Vincent/Grenadines would face a tariff band of between 2.6-2.9%. However if a proposal put forward by the African Caribbean and Pacific (ACP) group of countries prevails, imports of pork into Barbados would face 130% tariffs, which would still represent a tariff peak (i.e. an extraordinarily high tariff in relation to tariffs on other imports). The EU and G-20 proposals are in between the liberalization spectrum in relation to the US and ACP proposals.

Regardless of the tariff reduction methodology, one could surmise that a reduction of tariffs on pork products may not produce a flood of imports on its own steam as other factors are also impacting on import demand. A case in point is St. Vincent and the Grenadines which has the lowest tariffs of 5% on pork products, and only imported 291 tonnes of fresh pork in 2005. It is important to note that the correlation coefficient[3] (crudely a statistical measure of the way in which two variables move together) indicates that tariffs are an ineffective way of protecting local pork producers as the economies with the higher import volume are also those with the higher tariffs, and vice versa. This in essence confirms the fact that pork imports are circumventing the paying of tariffs based largely on their use as an intermediate product in producing other value added pork products.

However, to provide some level of protection for CARICOM pig farmers, some liberalization carve-outs and trade defense measures are detailed below. It must also be noted that other duties and charges (ODCs) are not affected by the tariff reduction proposals as this only applies to the customs duty/tariff. Therefore, environmental levies, customs user fees, general

1 Negotiations are ongoing and therefore, there can be amendments to these proposals at any time.

2 The ACP proposal is for a reduction of bound rates and not applied rates where bound rates are WTO upper limits for applied tariffs.

3 A positive coefficient of correlation implies that as one variable increases the other variable will increase and vice versa. In this case, the coefficient of correlation was 0.12, which although positive, was weak, signifying that there was not much of a relationship between tariffs and the volume of pork imported.

consumption taxes, value added taxes, standards compliance fees and such charges would not be reduced

based on the WTO tariff reduction methodology, and could remain a tool for protecting the local pork industry.

PROPOSALS FOR EXCEPTIONS TO TARIFF REDUCTION

Special Products: With respect to Special Products (SP), it is proposed that developing countries which are WTO members should be able to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. The most comprehensive proposal on SP may be summarized as follows:

- self-designation of products as SP;
- on the basis of a product meeting any one indicator, the product in its natural or processed form, at national or regional level, will be designated SP in the member's schedule
- any product designated as SP shall be presumed to have met at least one of the indicators
- no *a priori* exclusion of any product from designation as SP, or any restriction or limitation of eligibility
- any product designated as SP shall not be precluded from recourse to the SSM (Special Safeguard Mechanism)
- a developing country may designate at least 20% of its agricultural tariff lines as SP
- of the total number of tariff lines designated as SP, 50% will not be subject to any tariff reduction, 25% of the lines will be subject to a 5% reduction, the remainder will be subject to a 10% reduction (all on the basis of bound rates).
- a developing country may designate any product in respect of which another member has notified product-specific AMS (trade-distorting domestic support) and which product has been exported by the notifying member during any year of the implementation period of the Uruguay Round
- no product designated SP shall be required to be subject to new tariff quota commitments or to tariff capping.

No consensus has been achieved as the matter remains highly controversial with the developing countries wanting to designate at least 20% of their tariff lines as SPs and the US only conceding five (5) tariff lines. Therefore, based on the small nature of the pork industry regionally, this sector could be hard to argue for as a SP in the WTO discussions.

Special Safeguard Mechanism (SSM): As for the Special Safeguard Mechanism (SSM), some progress was made at the WTO's Hong Kong Ministerial meeting of December 2005 by the decision to grant the right to developing country members to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers.

More precise arrangements are still to be defined and adopted as the use of the SSM remains very contentious with WTO exporters either rejecting it entirely or seeking to severely limit it to a few products. Pork producers should seek to forge a position on a specific application of the SSM to their industry. This will require some indication of the specific price and volume which will trigger the defense mechanisms (either tariffs of quotas).

THE BOTTOM LINE

Therefore, this trade brief concludes the following:

- The pork industry is big business and seemingly a viable investment prospect based on global trade dynamism;
- Globally, pork production seems to be heavily protected, and (based on the ratio of exports to imports) the region has been relatively open to trade in this product;
- Primary pork producers are important for the domestic pork market as local consumers prefer local pork and shipping lines do not provide adequate support for fresh pork trade;
- Imports of primary pork meat provide raw material for value added pork products (e.g. sausages), some of which are exported. So, some pork meat is already getting in CARICOM duty free as production inputs;
- The primary pork industry could be exposed to more competition if the WTO tariff reduction methodology is accepted which, according to industry sources, is disastrous for these producers who service the domestic market for fresh pork;
- If the EPA is negotiated, then top EU markets for value added sausage exports will be duty free come January 2008, and possibly open up a future market for pork producers;
- Opportunities for exporting to nearby countries such as Cuba and the Dominican Republic should be fully exploited as these may be easier markets to penetrate, and the industry should therefore urge the full enactment of Latin American trade agreements signed to date;
- CARICOM member states will be impacted differently by the tariff reductions with the states with higher tariffs affected more than those with lower tariffs;
- It is unlikely that, with the range of other sensitive products, that pork could make it on any list of special products which could be exempt from some, or all tariff reduction commitments in the WTO even though the EPA with Europe could be more flexible;
- The pork industry should seek to protect its investments from any unforeseen surges in imports by proactively articulating a position on the Special Safeguard Mechanism.
- The pork industry should continue to advocate that veterinary resources be allocated to make the region a disease free area for pork exports and, as a small vulnerable region, that all export markets recognize this status. A project could be submitted to the Regional Preparatory Task Force (RPTF) for funding, or another funding source, to strengthen vet services across the region.

As usual, firms are invited to send any comments to privatesector@crnm.org. We also encourage persons to read the Caribbean Pork Association's study on the regional pork trade and production which has just been released and may be made available by contacting James Paul at heshimu@caribsurf.com.