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ACP FTAs

ECOWAS CET will reduce many of Ghana's agricultural tariffs

A comparison in the latest WTO Trade Policy Review (TPR) of Ghana's current tariffs with the agreed ECOWAS common external tariff (CET) shows that tariffs on for many agricultural goods will fall. The Ghanaian average applied tariff for agricultural goods in 2013 was 17.3%. Under the ECOWAS CET, which comes into effect on 1 January 2015, the figure is 15.6% (Table 3.4). But there will be bigger changes for specific commodities. Tariffs will fall on cotton (from 10 to 5%), cereals and cereal preparations (from 16.2 to 13.5%), dairy products (from 20 to 16%), and coffee/tea (from 20 to 12%). Meanwhile, tariffs for meat products and sugar/confectionery will rise, leading to a modest overall increase in the average tariff for all agricultural goods.

Because the tariffs on a range of industrial products will increase when Ghana's current regime is replaced by the CET, the relative treatment of agriculture versus other areas of economic activity will deteriorate. The TPR reports that "average tariffs on non-electrical machinery and transport equipment would nearly double, with obvious consequences for user industries. Similarly, tariffs on petroleum would also nearly double."

The CET will not affect Ghana's other consumption taxes. Agricultural inputs are zero-rated for value-added tax (VAT), which is important for the government's plans to increase the application rate of fertiliser, which is "one of the lowest in the world, and lower than in neighbouring countries". The government is also promoting greater mechanisation of agriculture. In 2010, according to the TPR "Ghana had an estimated 11 tractors per 100 square kilometres of arable land, compared to 43 and 25 tractors in South Africa and Kenya, respectively." Excise duties are set at 50% for beer and 140% for tobacco products.

Although obligated to offer duty-free treatment to imports from ECOWAS partners, the TPR reports that "few tariff preferences are actually granted. Instead, there are reports that Ghana sometimes applies the panoply of tariffs" and other charges on "all imports including from ECOWAS neighbours".

This is in part attributed to ECOWAS's rules of origin. To be accepted as an ECOWAS originating product (and, hence, eligible for a preference), a good must either be classified under a different tariff heading to any imported inputs ("a change in tariff subheading") or at least 30% of its value must be provided by local content. Possibly more problematic, though, for agricultural goods (which would tend to have a high local content) are the administrative procedures which the TPR describes as "particularly cumbersome". This involves "a lengthy, two-staged approval process", which starts within a national committee, and is subsequently forwarded for approval at a regional committee level. In addition, "registration is needed for every individual product a company intends to export under the scheme."

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Comment

The primary goal of a customs union is to foster trade between member states. Because all members share the same external tariff, there should be no tariffs on the generality of goods traded between them. In theory it does not matter whether they have been produced within the region or imported from outside. If a good being imported into Ghana from, say, Togo is an extra-regional import, it will have paid the same tariff on entry into Togo as would have been the case if imported directly into Ghana. And if it has been produced in Togo, it should automatically receive duty-free access to fulfil the goal of regional integration.

But practice and theory often diverge. The TPR points out how few imports from other ECOWAS states enter Ghana duty-free. If there is no boost to intra-regional trade, this is a potential benefit foregone. A CET is the result of compromise between the members of the customs union. As the TPR details, Ghana's tariffs once the CET comes into effect will be significantly different than they are now. On the assumption that the current pattern reflects accurately the government's deliberate choices, it follows that replacing the autonomous regime with the CET has caused the government to accept changes that it might not otherwise have introduced (see *Agritrade* article '<u>Government of Ghana to review poultry and rice sector trade policies</u>', 17 May 2014).

Such "costs" should be more than compensated by the growth of intra-regional trade. But this will happen only if ECOWAS overcomes the administrative problems that seem to be hampering intra-regional trade.

EPAs

Reciprocity may be the price required to maintain South Africa's access to AGOA benefits

Press reports in May 2014 indicated that the South African government "will consider giving some US producers the same access to the local market as the EU, if that's what it takes" to save South Africa's benefits resulting from the US African Growth and Opportunity Act (AGOA). South Africa's offer was made against the background of concerns voiced by US legislators over the tariff preferences extended to some countries (notably the EU) that are not extended to US exporters. Products affected by what is seen by some in the USA as discrimination include chicken, pork and beef. The US Department of Agriculture reported in April 2014 that "conservative estimates indicate that the United States' beef, poultry and pork industries (including pet food) are currently losing out on annual trade to South Africa worth about US$175 million, which is just over half the value of existing US agricultural exports to South Africa." In contrast, South Africa imports "beef, poultry and pork products worth about US$630 million, largely from Europe, Brazil, and Canada" each year.

In November 2013, 15 US agricultural and machinery groups sent a letter to the US Congress expressing concerns over South Africa's future participation in AGOA, given South African protective trade measures that they considered unjustly targeted US exporters. These concerns were reiterated in January 2014 before the US International Trade Commission in testimony from representatives of the US National Chicken Council.

The future of AGOA will be discussed at the first Africa–US summit to be convened in August 2014. It is thought that the summit could include discussion of moves towards reciprocity. However, South Africa's Trade and Industry Minister recently expressed satisfaction with AGOA in its current form.

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Comment

South Africa and the neighbouring Southern African Customs Union (SACU) countries of Botswana, Lesotho, Namibia and Swaziland are the only ACP countries with a free trade area agreement with the European Union fully in force. The tariff advantages this gives EU exporters compared to their competitors from the US or Brazil was vividly illustrated in October 2013, when South Africa introduced higher MFN tariff duties on five poultry products, with the exception of imports from the EU (see *Agritrade* article 'South Africa selectively raises duties on five poultry items within WTO bound ceilings', 17 November 2013). As a result of the higher duties, imports from non-EU suppliers fell and imports from the EU increased. This continued a trend that saw EU poultry meat exports increase from 7,938 tonnes in 2009 to 131,970 tonnes in 2012.

The EU also enjoys tariff advantages ranging from 6.6 to 10% on exports of oilseed products to South Africa (see *Agritrade* article 'Review of South African oil crops sector', 5 July 2011). It is this type of tariff discrimination that US exporters are increasingly lobbying to have removed.

The issue has taken on added significance in 2014 as the 1st October deadline for the implementation of EU–ACP Interim EPA agreements approaches. US exporters are concerned that the type of tariff advantages enjoyed by the EU under the EU–South Africa Trade, Development and Cooperation Agreement would be extended to EU exports to other African countries once the various Interim EPA agreements begin to enter into force from 1 October 2014.

Use of agricultural trade policy tools remains contentious in EPA negotiations and intra-regional trade

In the SADC EPA context, outstanding issues have been reduced to two: agricultural safeguards and export taxes, both of which potentially impact on the agri-food sector. According to ECDPM, during a meeting on the fringes of the Africa–EU Summit the EC "submitted two revised texts to the region", in advance of a SADC region meeting in mid May to review the EC proposals.

The EC proposals reportedly included proposals for certain flexibilities on export taxes relating to "specific time, volume and value bound exemptions" and on agricultural safeguards related to the number of products that can be subject to agricultural safeguards.

The situation as regards the use of agricultural safeguards in the Namibian context was complicated in mid May when the Windhoek High Court ruled in favour of three dairy companies that had challenged the government's introduction of restrictions on imports of milk products in 2013 (see *Agritrade* article '[Namibian dairy sector measures questioned by South African dairy company](#)', 11 April 2014).

The High Court found failings in the way the quantitative restrictions were introduced relating to the legal act of Parliament used, the consultation process that preceded the regulation, and the final decision-making process. The judgement thus set aside the government notice through which the import restriction on dairy products was introduced.

However, the Namibia government appealed the ruling in the Supreme Court, and so the government restrictions remain in force until the Supreme Court has ruled on the case. Consideration of the appeal is unlikely to begin before well into 2015.

In June 2014, special safeguards involving restrictions on imports of navel, Valencia, naartjie and minneola varieties of oranges were announced by the Botswana government with a view to protecting local producers. Orange production in Botswana is estimated at 5,691 tonnes of ordinary oranges, 56 tonnes of minneola and 45.5 tonnes of naartjies. According to government officials, "local farmers are reporting low volumes of sales despite the good quality of their oranges, due to influx of imports," mainly from the giant South African citrus sector. As a result, some locally produced citrus has been destroyed.

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Comment

The use of agricultural safeguards by Namibia would appear to be increasingly questioned both through the SADC–EU EPA negotiation process and through internal legislative challenges.

Given that the legal basis for introducing import restrictions in the poultry sector may also come under challenge from importing companies, the current questioning of Namibian government actions in the dairy sector could well signal a broader and increasing willingness by private sector operators to challenge government regulatory measures that restrict trade.

This could carry important implications for the future development of regional agricultural trade policy frameworks across Southern Africa, rendering non-tariff measures increasingly subject to judicial challenges in the context of general moves towards regional tariff liberalisation.

The recent restrictions introduced by Botswana in the citrus sector may in part be linked to stricter EU citrus black spot (CBS) controls, as South African producers that have withdrawn from EU export chains search for alternative markets (see *Agritrade* article '[Pressure on EC to act pre-emptively on South African citrus exports as new season approaches](#)', 5 May 2014). These developments highlight the interconnectedness of inter- and intra-regional trade policy developments.

EU FTAs

ACP countries must position themselves with regard to the emerging Pacific and Atlantic FTAs

A review by the European Centre for International Political Economy (ECIPE) of what it calls "mega-regional" FTAs argues that ACP states will have to adapt to the regulatory harmonisation that will arise from the conclusion of transatlantic and trans-Pacific trade agreements. The current negotiating agendas of the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) are reviewed, as are the conclusions of impact assessments and possible consequences for ACP countries.

While acknowledging that the results of the negotiations are impossible to predict accurately, given the domestic sensitivity of many of the areas to be discussed, the analysis argues that there could be "measurable progress in reforming some of the most intractable… [problems affecting] a limited number of commodities… including rice, dairy, sugar and cotton".

Although the ACP group is not party to either set of negotiations, ACP member states will be affected whatever the outcome. The report sketches the potential impact under three scenarios:

- full success in the two mega-regional FTAs;
- partial success;
- failure.

The report notes a consensus among analysts that it is "the reduction of non-tariff measures and regulatory differences" between the EU and USA that "will play a much more significant role… than a reduction in traditional tariff duties".

Changes to the regulatory regimes in the EU, USA and other parties are likely to have an impact on some ACP exports to some markets. The ACP could gain if this were to happen via mutual recognition agreements so that any exports that currently meet the requirements of one market will automatically meet them in the others. However, if some countries to which ACP countries export or wish to develop exports adjust their requirements to those of a partner where ACP exporters already face regulatory problems, this could give rise to new barriers to ACP exports.

Even if no mega-regional FTAs were concluded, the review maintains that the ACP could still be affected, as "there could well be a backlash from the USA and the EU, since this scenario would hasten potential Chinese leadership of the global trading system." The report argues, for example, that there is already a "growing likelihood that AGOA [the US African Growth and Opportunity Act] will be replaced in the future by the 'offer' of reciprocal FTAs".

The report's recommendations for ACP action are premised on the argument that "the pressure on the ACP to adhere to rigorous behind the border regulatory norms and to liberalize trade policies is very unlikely to disappear." It is argued that ACP states need to reform domestic regulatory regimes to prepare for this to get ahead of the game. In addition, ACP states may wish to consider taking up the behind-the-border issues that are being negotiated under the "mega-regional" FTAs in the WTO, where ACP governments could fully participate in the negotiations and make sure their views are taken on board.

Sources

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Comment

Not only is "the devil in the detail" in trade negotiation, but the most critical detail tends to be agreed only at the end. Forecasting the impact of ongoing negotiations on third parties is therefore inherently speculative, and the ECIPE report is appropriately broad-brush. But the fact that the ACP's largest trade partners are negotiating deals (with the possibility that even China might join) means that what is happening under the TTP and TTIP must be kept under review.

For the ACP, regulatory harmonisation is likely to have the greatest impact on agriculture, which is both a sensitive area (with increasingly stringent rich-country standards) and, after oil and minerals, the ACP's most substantial export. The report argues that "the 'do nothing' option does not seem to be available."

But what should ACP states do, given the extreme uncertainty of outcomes? One recommendation in the report should find favour, since it is a goal to which ACP states have already committed themselves and which will bring gains regardless of the TTP and TTIP outcomes. It is to "experiment" in regional groupings "with negotiations on 'behind the border' issues, using the forum as a testing ground for the much more exacting trials with bigger developed and developing countries that lie ahead" (see also *Agritrade* article 'EU–US trade talks reportedly on track', 24 February 2014).

Increased competitive challenges in prospect for ACP banana exporters

According to press reports, adjustments to shipping schedules between Ecuador and Europe are set to reduce banana shipment times and improve handling logistics for rapid onward transportation from the port of Antwerp. Antwerp will now be the first port of call for the Ecuadorian group Noboa, which has "decided to send its Bonita brand… by container carrier instead of traditional refrigerated ships", in order to take advantage of the new scheduling. This will allow the immediate transhipment and clearance of the bananas, cutting transportation costs.

Costa Rica, meanwhile, has established a banana geographical indication (GI) to assist in developing its market in the EU, following the conclusion of the EU–Central American agreements. At present, some 49% of Costa Rica's total banana exports are destined for the EU market. It is thought that in the coming years, the country's banana exporters will need to pay greater attention to market positioning.

In India, efforts are in progress to develop branding strategies to overcome negative retailer/consumer perceptions of Indian bananas. The Indian trading company INI Farms is working with farmers to ensure high production standards and overseas accreditation with such schemes as GlobalGap. While the company has already penetrated markets in the Gulf and Middle East, INI Farms is now "eyeing new markets in Europe". In the long term, the company is planning to "compete against rival suppliers in the leading banana growing countries of Latin America and the Philippines".

Sources

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Comment

The negotiation of new shipping schedules and clearance arrangements can all serve to reduce costs, while registration of GIs and the development of product brands can improve producer returns on banana exports to the EU market. Many non-ACP exporters have concluded, or are hoping to conclude, FTA agreements with the EU that include tariff reductions for exports of bananas to the EU market, and are actively seeking to improve their competitive position on the EU market.

This is likely to increase commercial competition on the EU market for ACP banana exporters in the coming years. In preparing for this increased competition, it would appear necessary for ACP banana exporters to develop and adopt similar marketing strategies.

While these will essentially need to be developed at the national or regional levels, led by the private sector, there would appear to be scope for joint ACP initiatives to:

- identify evolving market, logistical and policy trends (e.g. the differential application of moves to full recovery of inspection costs among EU member states) affecting ACP banana exporters;
- outline the most viable options open to ACP banana exporters in terms of improving their marketing positioning within the EU;
- establish what supportive measures governments will need to be set in place to facilitate processes of market repositioning (e.g. the establishment of an internationally recognised organic product regime and the negotiation of equivalency agreements).

Food safety

USA moves to full cost recovery for agricultural quarantine inspections

The United States Department of Agriculture Animal and Plant Health Inspection Service (APHIS) has announced changes to the fees it charges for conducting agricultural quarantine inspections at US ports of entry for the first time in a decade. The change is designed to make inspection services self-financing, with costs being "borne by those using the services". To date, "the revenue from fees charged has been insufficient to cover all costs." APHIS is currently proposing to "adjust the hourly rates charged when APHIS employees perform work associated with agricultural quarantine inspections… so APHIS can recover the true cost of providing the services".

Fees for inspections of commercial aircraft will increase "from $70.75 to $225 [and for] commercial maritime cargo vessels from $496 to $825", rises of 218% and 66% respectively.

Concerns have been expressed that the US measures will fall particularly heavily on exporters of small-scale consignments. A produce customs brokerage company argued that there would be effects on imports, as "eventually prices are going to get passed down to the ultimate consumer, which could reduce demand."

Sources

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Comment

Moves towards recovery of full costs for the provision of SPS inspection services in the US mirror similar moves in the UK. The US fee increases potentially carries important implications for Caribbean ACP exporters.

Concerns have been expressed that moves to full cost recovery for SPS inspection services in OECD countries are falling disproportionately on imported products. Often internal SPS inspections are carried out at no direct cost to domestic producers. This could potentially serve as a form of market protection for domestic producers by increasing the costs of placing imported products for sale on the domestic market (although it can be argued that domestic producers indirectly meet these costs through their domestic tax contributions).

Of particular concern is the observation that fee increases could fall particularly heavily on small-scale consignments. This highlights the importance of supporting the "bulking up" of export consignments by promoting increased collaboration between exporting companies. This may need to be taken on board in the design of national export promotion programmes.

For this to be facilitated, however, there will be a need for common standards for export-oriented production of the affected commodities so that the exports of products from one company are not undermined by being added to products of an inferior quality from a neighbouring company.

There would appear to be some scope for government-supported initiatives in this area to assist national exporters in taking steps to minimise the impact of inspection fee increase in OECD markets.

EU tightens controls on citrus imports from South Africa

In the light of ongoing concerns expressed by European citrus growers over possible contagion by citrus black spot (CBS) via imports of citrus from South Africa, with pressure from the Spanish government, on 27 May 2014 the EC announced a stricter regime of import controls. These stricter requirements include "recording pre- and post-harvest chemical treatments and mandatory registration of packing houses, as well as on-site official inspections at citrus orchards". Samples "of at least 600 of each type of citrus fruit per 30 tonnes will need to be taken by the South African authorities", and no distinction will be made between "citrus fruits for fresh consumption and citrus fruits for processing" in the application of controls. The Commission considered that these new measures should be sufficient to prevent the spread of CBS in the EU.

The Citrus Growers' Association (CGA) of Southern Africa has made a commitment to adhere to the new rules and requirements, despite the cost-increasing effect of the required measures. Indeed, existing measures introduced have already resulted in a "dramatic reduction in interceptions" to "less than 0.3% of consignments shipped to Europe", according to CGA.

CTA expressed concerns, however, that the door was left open to "additional measures", and considered that in the long term the situation is "simply not economically sustainable nor fair, as South Africa has been singled out for special treatment by the EU in this regard".

This view was implicitly endorsed by the UK Fresh Produce Consortium (FPC), which had actively lobbied to avoid more draconian measures. FPC maintained that the EC was failing to adopt "a consistent approach to applying control measures on different countries with regard to plant health exceedances". FPC described the EC approach as "a lottery, rather than a risk-based approach to plant health controls". Speaking at the beginning of May, South Africa's Minister of Trade and Industry highlighted how the "real game in international trade, particularly agricultural trade, is now becoming standards, phytosanitary and sanitary standards", and that – as in the case of CBS – these were becoming "a form of trade protection under another name".

CGA has highlighted the importance of finally resolving the underlying science of the CBS issue and has called on the South African government to prioritise "a swift and amicable resolution of the CBS dispute" with the EU.

Meanwhile, South Africa's citrus growers are exploring alternative markets in Africa, with market research studies on Angola, Ghana and Nigeria in progress. Currently about 1% of South African citrus is exported to African markets, whereas fully 40% of deciduous fruit now goes to African markets.

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Comment

While the new arrangements require controls that are within the technical capacity of the South African citrus sector, questions now arise as to the commercial implications of the new measures. Not only do the new measures require additional control measures at the company level, but they also require increased levels of official controls prior to export.

Higher costs are also incurred as a result of increased sampling requirements for imports at the point of entry and, in the case of the UK, increased charges arising from moves to recover the full costs of inspections carried out. Between 1 January 2011 and 6 April 2014, standard UK inspection fees increased by around 235% (see *Agritrade* article 'UK moves to full cost recovery for SPS inspections, but no agreement yet at EU level', 9 June 2014).

In 2013, the CGA estimated that additional costs of between R500 and R1,000 million were incurred by the industry to ensure that South African citrus exports complied with EU SPS requirements (see *Agritrade* article '[Pressure on EC to act pre-emptively on South African citrus exports as new season approaches]', 5 May 2014). This needs to be seen against the valuation of citrus exports to the EU of about R4 billion. It should come as little surprise, therefore, that any additional costs arising from new EU requirements are seen as threatening the long-term commercial viability of citrus exports to the EU.

With South Africa accounting for a third of EU citrus imports, the new measures could carry important market consequences within the EU, potentially raising citrus prices. This may account for why South Africa's Minister of Trade talks of these types of SPS requirements as "a form of trade protection under another name".

EU MRLs and retailer standards affect more than ACP exporters

A growing number of press reports are highlighting mounting concerns among horticultural exporters over the stricter application of official EU maximum residue levels (MRLs) and other food safety requirements.

Thai exporters report that increased sampling requirements (of 10 to 20% of shipments) for certain low-volume exotic vegetable exports (e.g. weekly shipments of 50-kg consignments) incur such high laboratory costs per unit of volume as to make exports commercially non-viable. This, it is argued, impacts particularly heavily on small-scale exporters. The situation is further complicated by the country-level application of the EU's "five strikes" rule, under which after five interceptions of infected products by sanitary and phytosanitary inspection (SPS) services, a country-specific import ban may be introduced. This is discouraging exporters from serving the EU market for fear that consignments in transit could be denied entry.

Similarly, US deciduous fruit exporters have reported finding it increasingly difficult to maintain reliable export programmes to EU markets, given the increasingly rigorous application of EU pesticide residue controls. The reduction of tolerance levels for diphenylamine (DPA) to 0.1 part per million is a particular source of concern. US fruit industry representatives maintain that "MRLs are so low that coming in contact with even trace amounts in fruit bins or packing facilities would exceed the limit." US exporters argue that EU requirements are "not really based on sound science", since the EU adopts a "guilty until proven innocent" approach. Restrictions on the use of DPA, according to Mike Willett, vice president on scientific affairs at the US Northwest Horticultural Council, are "due to lack of evidence over its safety, rather than evidence of its risks". In this context, US exporters are seeking "more in-depth assessment of the data package" on the use of DPA as a means of addressing specific MRL issues.

In addition, US exporters are finding it increasingly difficult to deal with individual retailer requirements. Mr Willett commented that "shippers that comply with European Commission regulations may find they cannot comply with the standards established by supermarkets." In this context, he said that US exporters are deciding that "trying to meet those requirements in the market is more risky than the returns would justify," and that this is leading US exporters to seek other buyers. In 2014, the first shipment of significant volumes of US pears to China took place, "making up for some of the lost markets in Europe". Other growth markets are also being targeted by US exporters, including Russia and India.

However, there can be an upside for some ACP exporters. Press reports in May 2014 suggested the introduction of EU restrictions on imports of Indian mangos (due to fruit fly concerns) could serve to avert a planned switch away from West African mango exporters. Following the introduction of the EU restrictions, it was reported that some UK importers were intensifying cooperation with mango suppliers in Côte d'Ivoire, Mali, Senegal and the Dominican Republic to establish year-round supply relationships.

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Comment

The position of US deciduous fruit exporters regarding EU policy on DPA is indicative of the fundamental difference between the EU and the US in the approaches to food safety and SPS measures adopted by the EU and US authorities. The EU's approach is based on the precautionary principle, i.e. that the burden of proof with regard to food safety lies with those placing products on the market. This is in distinct contrast to the US approach, which allows products on the market unless proven unsafe. It is unclear how this fundamental difference in approach to food safety issues will be addressed in the EU–US TTIP negotiations.

The fact that the SPS-related difficulties faced on the EU market are encouraging US exporters to shift away from serving EU markets towards targeting markets in faster-growing advanced developing country economies provides a salutary warning that market diversification in response to increasingly strict EU SPS/food safety controls could prove extremely challenging for ACP exporters, as competition on these alternative markets intensifies.

As the Thai example illustrates, food safety/SPS controls can fall particularly heavily on small-scale exporters. This is an issue of particular concern to ACP countries, the majority of which have populations of under 2.5 million people.

Market access

Review of India's LDC scheme highlights the importance of product coverage, SPS requirements and rules of origin

The duty-free preferential import scheme announced by India in April 2008 became fully operational in October 2012. The scheme offers duty-free access to LDCs on 85% of Indian tariff lines and some form of tariff preferences on 9% of tariff lines, while excluding 6% of tariff lines from any tariff preferences. In launching the scheme, the Indian government drew attention to the products "of particular interest to Africa", including agricultural products such as cotton, cocoa, and cane sugar. However, the scheme excluded agricultural products of export interest to African LDCs, such as dairy products, fruit and vegetables, coffee, tea, maize, vanilla and tobacco products.

Analysis published by ECDPM in April 2014 notes that total African exports to India increased from US$4.6 billion in 2000 to US$23.1 billion in 2012 (increasing India's share of total African exports from 6.2 to 7.5%). Fuels made up 74% of total African exports to India and agricultural products some 12%, with Nigeria, Angola and South Africa dominating the continent's exports to India.

By 2012, LDCs accounted for only 31.7% of African exports to India, but if Angola (a major oil exporter) is excluded, this falls to only 9.2%. Excluding oil and a few other commodities, African LDC exports to India are "very limited".

Exclusions are an important factor in the value of the scheme to African LDCs, with the significance of the product coverage of the scheme varying from country to country. Thus, while virtually all of Lesotho's exports are included under the scheme, 82% of Burundi's exports are excluded. In all, six African LDCs have more than 40% of their exports excluded, while 11 African LDCs have less than 10% of their exports excluded from the Indian scheme.

While product coverage and geographical proximity have seen Asian LDCs benefit from the Indian scheme, India remains "a marginal destination for many African LDCs' exports". Some LDCs' exports – those of Zambia, Rwanda, Eritrea and Burundi – to India "actually decreased since the implementation of the scheme". The analysis noted flaws in the scheme's design, since it "excludes a number of products of key export interest to African LDCs".

The article noted that additional problems arise from the application of non-tariff measures, notably regulatory requirements such as SPS and rules of origin, as well as administrative measures specific to the scheme. It considered SPS requirements and rules of origin certification the most burdensome of the obstacles that African firms face in exporting to India. In the case of rules of origin, the origin requirements are simple (30% domestic value-added and a change of tariff heading), but the absence of cumulation provisions is a particular problem for LDCs. In addition, "obtaining certificates of origin may be a cumbersome process and not worth the hassle where the margin of preference is very small."

The authors called on India to revisit its preferential scheme for LDCs and revise it, including through:

- extending the product coverage to all products;
- addressing rules of origin shortcomings;
- facilitating SPS certification.

Sources

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Comment

The review of the experience of the Indian preferential trade scheme for LDCs highlights the potential scope for ACP-coordinated initiatives in this area. The fact that Asian LDCs are better placed to exploit preferences on the Indian market, and the flaws in the design of the scheme, suggest a need for concerted action by African LDCs to promote a revision of the Indian scheme to extend the product coverage into areas of greatest interest to African LDC exporters.

The ACP experience of negotiating rules of origin with the EU, including on the complex issue of cumulation, could also be brought to bear in the interests of African LDC exporters.

Finally, given the differential capacities of ACP LDCs to get to grips with SPS issues, a concerted ACP initiative to establish a dialogue with India on SPS compliance requirements and institutional modalities for implementation could offer a cost-effective means of getting to grips with facilitating SPS certification for exports to the Indian market. This could be particularly effective if such an initiative were sector-based and focused on those sectors where African LDC exporters have the potential to take advantage of trade preferences being extended to LDCs by India.

Product differentiation

IFOAM expresses concerns over impact of new EU organic regulation on imports

The International Federation of Organic Agricultural Movements (IFOAM) has raised concerns over EC proposals for "a complete overhaul of the EU organic regulation" (see *Agritrade* article '<u>EC tables new regulation on the organic sector</u>', 11 May 2014).

In a press release, IFOAM notes that, with regard to imports, "the proposal foresees [replacing] the approach of equivalence" – which requires imports to "comply with equally reliable organic standards" – with "requirements of absolute compliance with all details of the EU regulation". IFOAM notes that "this means that producers in many developing countries with completely different meteorological, environmental and structural conditions would have to comply with the rules made for European conditions and their ability to export to the EU will significantly decrease."

The new regulation, in IFOAM's view, "would set back organic production in many developing countries, especially as the EU-28 represents the second biggest market for organic after the USA". It would also lead to a decrease in imports, which "would exacerbate the gap between supply and demand of organic produce and products in Europe". It would further deny European organic processors "access to imported organic ingredients".

IFOAM considers that the move towards absolute compliance requirements is "a step backwards in the efforts to include developing country producers in value chains", and suggests that the change "goes against the recommendations of the International Task Force and the spirit of the international Agreement on Technical Barriers to Trade".

Rather than moving over to absolute compliance requirements, IFOAM argues that "control bodies in the regions of the world with similar conditions should be encouraged to use a common regional standard for organic products exported to the EU. This would avoid application of different standards in same regions and reduce the burden on the EU Commission which would have to evaluate them."

IFOAM notes on its website that in the EC's new European Organic Action Plan and new organic legislative proposal of March 2014, the Commission had taken on board IFOAM's concerns regarding:

- environmental performance requirements;
- scope for group certification;
- the need for clarifications on origin labelling and a range of other issues.

However, IFOAM is arguing that more improvements need to be made in order to avoid unnecessary bureaucratic burdens. It attaches considerable importance to strengthening member states' implementation controls.

Sources

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Comment

IFOAM has been actively promoting the development of Participatory Guarantee Schemes of organic certification in various regions of the ACP, mostly for the local market (see *Agritrade* article 'Report highlights expansion of organic production for local markets in the EAC',13 June 2013), but with some links to overseas territories of EU member states (see *Agritrade* article 'Cooperation with certification agencies to be deepened to consolidate Pacific organic sector', 16 November 2013). In the Pacific, any moves towards absolute compliance requirements could serve to undermine intra-regional trade in organic products to territories of EU member states in the Pacific. This may require special dispensation for organic trade between ACP members and overseas territories of EU member states, within mutually recognised schemes for organic certification.

In addition, the proposed move to absolute compliance requirements could increase the costs of serving EU organic markets for those ACP exporters which have shifted on a large scale to organic forms of production in response to processes of preference erosion (e.g. banana producers in the Dominican Republic). Indeed, concerns have already been expressed about the implications for organic imports of changes proposed under the EU new food and feed control regulation (see *Agritrade* article 'Concerns expressed over impact of revision of EU food and feed controls on organic sector', 11 August 2013).

More generally, ACP governments in regions with an interest in organic exports to the EU may wish to consider taking up IFOAM's suggestion that "a common regional standard for organic products exported to the EU" should be developed as a basis for the conclusion of mutual recognition agreements with the EU. Were such mutual recognition provisions then to be extended to the US in the context of the EU–US Transatlantic Trade and Investment Partnership negotiations, then real cost savings could emerge.

Banana sector

Central Africa–EU EPA negotiations relaunched as anxieties over future of Cameroon's banana exports increase

ECDPM reported in May 2014 that "the Central Africa region has reopened the EPA dossier after years of relative inactivity." This followed indications that Cameroon was considering signing its existing bilateral interim EPA which was concluded at the end of 2007, given the importance of duty-free access to Cameroonian banana exports to the EU.

In the 4 years from 2010 to 2013, average annual imports of Cameroonian bananas into the EU were 6% below the annual average of the preceding 4 years (2006–2009). However, by 2013 EU imports from Cameroon were 2.58% above import levels in 2010, suggesting that recovery in production was under way.

EU banana imports: from Cameroon and in total, 2006–2013 (tonnes)

	EU banana imports from Cameroon	EU total banana imports
2006	250,859	4,424,784
2007	221,821	4,749,724
2008	279,530	4,943,752
2009	249,628	4,597,889
2010	242,981	4,565,711
2011	235,216	213,868
2012	213,868	4,540,556
2013	249,239	4,826,413

Source: EC, 'Banana supply in the EU', 12 March 2014 (see below)

In February 2014, the CEMAC Council of Ministers had "expressed concerns regarding Cameroon's application of its Interim EPA" and had called on "sectoral ministers to… come up with an action plan to speed up the conclusion of a regional EPA". Cameroon is a member of the six-nation Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC). According to reports from the CEMAC Council of Ministers, "the EU has reportedly agreed to drop the Most Favoured Nation (MFN) clause from negotiations in Central Africa." While "the region is ready to open its market to the tune of 73% of tariff lines over 20 years," ministers have strongly insisted that "any tariff dismantlement" should be linked to "solid commitments on the EU's behalf to finance the region's accompanying adjustment plan, the Programme d'Accompagnement du Développement dans le cadre de l'APE (PRADA)". Central African Ministers are also reported to be keen on negotiating provisions on services.

Sources

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Comment

Cameroon is currently holding its own on the EU banana market. But with the accelerating process of tariff reductions in the banana sector for dollar banana supplied from countries that have concluded FTAs with the EU, competition for Cameroonian banana exporters can only increase in the coming years. Any loss of duty-free access for Cameroon's banana exports in this context would have severe implications for the country's banana exporters.

Concluding a regional EPA or ratifying the interim EPA before the 1 October 2014 deadline can thus be seen as essential for Cameroon.

Beef sector

Namibian beef exports down on post-drought restocking while Zimbabwe looks to resume beef exports

According to statistics from the Meat Board of Namibia, beef exports to the EU and Norwegian markets during the first quarter of 2014 fell to 1,621 tonnes of chilled and frozen deboned cuts, compared to 2,164 during the same period in 2013. This followed a decline in the number of cattle slaughtered for export from 26,008 to 16,682 head of cattle (–35.9%). The decline in the overall number of cattle marketed was even more pronounced, falling by 52.6%. This reflected more dramatic declines in slaughtering by local butchers as well as a more pronounced decline in live exports to South Africa (–58.4%).

Namibian cattle marketing (1st quarter 2013 and 1st quarter 2014, head of cattle)

	1st quarter 2013	1st quarter 2014	% change
Total cattle marketed	95,585	46,476	–52.6
Livestock slaughtered for export	26,008	16,682	–35.9
of which, exports to EU and Norway (tonnes)	2,164 tonnes	1,621 tonnes	–25.1
Live exports to South Africa	57,030	23,741	–58.4
Butchers	10,387	5,806	–44.1
Northern communal areas	2,160	247	–88.6

Sources: *The Namibian*, 'Beef exports decrease during 2014', 28 May 2014 and Meat Board of Namibia, 'Cattle marketed' (see below)

The decline in the number of cattle marketed is linked to the heightened levels of slaughter during 2013 that were linked to drought conditions (+13.7% compared to 2012) and the process of post-drought restocking that is now under way.

The stronger rand in the first quarter of 2014 is affecting overseas market export revenues, which may feed through into lower producer prices during 2014. However, this could be compensated for by the higher prices on EU markets expected for higher-value cuts during 2014.

In 2013, the Norwegian market took only 8% of the total volume of meat exported by the main Namibian beef exporting company, Meatco, but generated 23% of the Meatco's revenues. In contrast, the South African market took 40% of total exports by volume, but generated only 27% of total revenue.

This reflects Meatco's marketing strategy of marketing individual beef cuts into the highest-priced markets for each individual cut.

The relative returns on different markets have led to a recent upgrading and expansion of the deboning capacity at Meatco's Windhoek abattoir, which will increase the number of carcasses that can be deboned from 360 to 420 per day. Since beef destined for European markets has to be deboned, this will increase the volume of beef that can be processed for export to those markets.

However, Meatco notes on its website that "should Namibia not sign the EPA, Namibian beef producers could lose this free market access." The country's exports would then attract import duties, which would be "very costly for meat export businesses".

Zimbabwean press reports suggest, meanwhile, that Zimbabwe is planning to "resume beef exports to the lucrative European Union market". According to a cabinet minister, the government is looking to launch "a national strategy on livestock production in preparation for exports". Zimbabwe has not exported to the EU market since 2001, when exports were suspended due to an outbreak of foot-and-mouth disease (FMD). To resume exports to the EU, Zimbabwe will need to re-establish "the foot and mouth fence across the country" and so-called green, red and white zones for FMD status.

Sources

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http://www.meatco.com.na/update-epa

The Herald, 'Zim to resume EU beef exports', 27 May 2014
http://www.herald.co.zw/zim-to-resume-eu-beef-exports/

Comment

Despite the uncertainty surrounding future access to the EU market, Meatco continues to invest in expanding its capacity to export to these more lucrative markets. The reasons for this are clear: in the 3 years to January 2013, Meatco increased its returns on sales to the South African market by 36%, but over the same period increased its returns on sales to the Norwegian market by 130% and to the EU market by 60%. Overseas European markets remain by far the most remunerative markets for Namibia's high-quality beef production.

This explains the Zimbabwean interest in attempting to resume exports to the EU market. However, the Namibian experience also highlights the scale of the challenges that will be faced, in meeting not only increasingly strict EU sanitary and phytosanitary (SPS) and food safety requirements, but also market requirements, which have become far more demanding since Zimbabwe last exported to the EU in 2001.

Cereals sector

The GMO debate and intra-regional trade in Southern and Eastern Africa

In May 2014, it was announced that the EAC's East African biosafety policy would be ready for adoption in June. The completion of the approval process is expected to be completed in the course of 2014, laying the basis for EAC member states to incorporate the agreed policy into national law. The policy is expected to cut costs and reduce duplication in testing and approval procedures of genetically modified substances in the EAC partner states. It will also mitigate the potential impact of genetically modified organisms (GMOs) on inter and intra-regional trade and enhance information sharing and coordination on regulatory approvals of cross-border movement of GMOs.

These developments reflect a renewal of the debate on the use of GMOs across the Southern and Eastern African region. According to press reports, researchers, academics and industry players have called on the Kenyan government to lift the ban on GMOs. A food and beverage industry website notes that "Kenya has banned the importation of GM products since 2012 due to 'lack of sufficient information regarding the public health impact of GM foods'." A task force has been established by the Kenyan government to review and evaluate "scientific information on the safety of GM foods on human health" and advise on the future of GMO-related trade measures. Some submissions to the task force have, however, expressed concerns that Kenya lacks "the manpower and proper infrastructure to handle GM products" and that therefore the ban "should not be lifted". The Kenyan government is now awaiting the result of the deliberations of the task force before determining future policy.

Meanwhile, Monsanto, a major producer of GM seeds, has announced plans to introduce genetically modified, drought-resistant maize varieties to Kenya within 2 years. The International Service for the Acquisition of Agri-Biotech Applications (ISAAA), a not-for-profit organisation supported by a range of governmental, industry and other bodies, launched a report in Tanzania noting that in addition to countries already allowing the use of GM seeds, six additional sub-Saharan African countries (including Kenya, Malawi, and Uganda) "are conducting genetically modified crops field trials", prior to formal approvals.

The Tanzanian government made a commitment in 2012 to review regulations on GMOs, but has so far failed to do so, and the Tanzanian Organic Agricultural Movement continues to argue that the use of GMOs in Tanzania could complicate trade relations with the EU.

Beyond the EAC, the government of Zimbabwe is committed to maintaining a GMO-free agricultural sector as part of efforts to target "markets where there is high demand for naturally produced foods". However, an academic has pointed out that Zimbabweans have de facto been consuming food products containing GMOs for years, since "almost all food products from South Africa that contain maize, soybean [or] cotton seed oil contain GMOs". He also observed that banning the use of GMO seeds places Zimbabwean producers at a competitive disadvantage, since South African companies can procure cereals at cheaper prices, given the better yields arising from the use of GM seeds.

Sources

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New Zimbabwe, 'Zimbabweans have been eating GMOs for a decade and they are safe', 28 May 2014
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Comment

Policy positions on the use of GM seeds and trade in GMO food products carry important implications for intra-regional trade. Currently, Kenyan restrictions on GM maize imports effectively ensure that GM-free producers in Zambia and Malawi do not face competition from South African maize exporters. The complications arising from trading GM maize into the Kenyan market, along with South Africa's absence from COMESA, means that South Africa's maize export trade has a strong inter-continental focus (see *Agritrade* article 'South Africa's export profile complicates regional food security situation in Eastern and Southern Africa', 2 December 2012). The Zimbabwean government's position on GM crops gives rise to similar advantages for Zambian and Malawian exporters of wheat and maize.

However, as the Zimbabwean academic points out, food products containing GM products are on supermarket shelves in Zimbabwe. He argues that access to GM-sourced raw materials potentially provides further competitive advantages to South African manufacturers.

Against this background, if the new East African biosafety policy is to mitigate the trade consequences of GMO use, then issues reaching beyond the technical aspects of biosafety will need to be explored and addressed. This is particularly so, given the divergent policy positions and associated trade and agricultural production practices of Southern and Eastern African governments.

Cocoa sector

Nigerian cocoa sector expands in response to higher prices

In a report published in May 2014, USDA noted a 7% increase in Nigerian cocoa production forecasts to almost 300,000 tonnes for 2013/14, adding that the success of Nigerian cocoa farmers in achieving UTZ certification was "shoring up demand and prices for Nigerian cocoa at the international market". The increased compliance with internationally recognised certification schemes is important, given the compromised state of quality-control mechanisms in the sector following the dissolution of the Cocoa Board in 1986. Increased UTZ certification is closely linked in the report to intensified cooperation between leading private sector players in the Nigerian and the international cocoa supply chain.

According to USDA, "over the last five years, Nigerian grower prices increased more than 50 per cent to the current average" of US$3,000/tonne. This is supporting efforts to rehabilitate abandoned farms and extend the area under cocoa.

Under its Cocoa Transformation Action Plan, the Nigerian government is looking to expand cocoa production by 40% to 500,000 tonnes by 2015. The country has vast land resources suitable for cocoa production, but the broader innovations that government programmes have tried to promote have not yet taken off.

USDA identifies a range of factors limiting cocoa production in Nigeria including:

- the scarcity and high costs of farm labour;

- the non-availability and low utilisation of fertilisers;
- climate change;
- poor road access in major cocoa-producing areas;
- Insufficient levels of input subsidies in support of farm-level investments, due to weaknesses in delivery mechanisms.

In this context, the USDA believes the 2015 production target is unlikely to be attained.

Nigerian cocoa: Production, domestic consumption and exports (tonnes)

	2012	2013	2014*
Main production	230,000	230,000	250,000
Mid production	46,000	44,000	46,000
Total production	270,000	280,000	300,000
Bean exports	222,360	240,605	250,432
Total exports	261,600	271,300	291,097
Domestic consumption	8,400	8,700	8,903

* Forecast for 2013/14

Source: USDA, 'Nigeria hikes target on cocoa production', 8 May 2014, p. 7 (see below)

Local processing of cocoa increased between 2010 and 2012, fuelled by an export incentive rebate programme, but the suspension of this programme in 2012 "following 'sharp practices' in cocoa export reporting by certain exporters" has subsequently discouraged local processing. It is suggested that the suspension was in contradiction with the policy objective of achieving "a 25% processing rate of the national output within 4 years" (up from the current level of 10%). However, the export incentive rebate programme is now being revised prior to reinstatement.

USDA maintains in its report that despite such schemes, "exporters still find it more profitable and convenient to sell cocoa beans than export cocoa in processed forms". This is linked to the high costs of local processing, which mean that "Nigerian processed cocoa products are not competitive in the international market". Currently, only 30% of installed cocoa processing capacity is being utilised.

Overall, Nigeria's cocoa production and trade are completely liberalised. Ninety per cent (90%) of exports take place in the form of cocoa beans, with Belgium, UK, Germany and the Netherlands being the largest destinations.

Sources

USDA, 'Nigeria hikes target on cocoa production', 8 May 2014
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Nigeria%20Hikes%20Target%20on%20Cocoa%20Production_Lagos_Nigeria_5-8-2014.pdf

Comment

The greater use of private schemes to ensure quality control raises the issue of the public sector recognition and accommodation of internationally recognised private sector quality-control schemes in the application of SPS and food safety import controls in OECD countries. This is an increasingly important issue, in view the rising costs of these controls in countries where moves to recover the full costs of official inspection services are under way (e.g. in the UK and the Netherlands).

The Nigerian cocoa experience highlights how in developing trade policy measures to support key policy objectives (such as expanding local value-added processing prior to export), establishing an effective, transparent and accountable implementation capacity for policy measures is essential if programmes are to be sustained and underlying objectives attained.

In the absence of such capacity, trade policy tools can prove ineffective and even counterproductive. The issue of establishing effective institutional capacities for policy delivery also affects efforts to support production expansion.

These problems are common across many ACP countries and sectors, with the application of information and communications technologies potentially offering important solutions to some of the transparency and accountability challenges faced.

The high costs of processing and low levels of capacity utilisation in the Nigerian cocoa sector highlight the importance of addressing input supply issues affecting agro-food sector value-added processing activities. Many of these issues go substantially beyond agricultural and trade policy formulation processes.

Flexible standards help Papua New Guinea develop Fairtrade-certified cocoa exports, as debate on integrity of label intensifies

In May 2014, Fairtrade International announced that "Club 3000", a group of 629 cocoa farmers in Papua New Guinea (PNG), had become "the first Fairtrade certified cocoa organization selling into a Pacific regional supply chain", with a first consignment scheduled to be shipped to Australia for use in Cadbury's Dairy Milk chocolate bars. This follows changes to the Fairtrade Standard for Contract Production, which makes it easier for cocoa farmers to organise in non-formal structures in partnership with a support organisation committed to improving farmers' business and farming skills in order to make the transition over time to being an independent producer organisation.

The farmers' partnership in PNG is with Monpi Cocoa Exports of Madang, and support for the organisation of the informal Club 3000 has been received from the New Zealand Aid Programme and Mondelez. The production target for Fairtrade-certified cocoa in 2014 is 120 tonnes.

However, a 4-year research project from the University of London's School of Oriental and African Studies has criticised the failure of Fairtrade certification in terms of improving working conditions. Analysis of figures for Fairtrade-certified coffee, tea and cut-flower farms in Uganda and Ethiopia found that, in terms of wages and education, workers at some certified farms were "significantly worse paid and treated" than at non-certified farms.

The report has given rise to some adverse publicity for the Fairtrade movement and to a debate on establishing "more relevant auditing processes to ensure decent pay and working conditions". One of the authors of the report has argued that "too much of the PR for Fairtrade has been based on evaluations they have commissioned from 'research partners' that in many cases appear to have done a rushed job rather than fully independent or properly academic research." The researchers involved called for:

- auditing processes that are more independent;
- sample audits to be carried out on all farms, including those employing less than 20 people;

- clearer labelling requirements for Fairtrade products with more of a focus on "wages and occupational health and safety".

Sources

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Comment

The costs of Fairtrade certification has long been seen as an obstacle to an expansion of Fairtrade production. By enabling farmers to gain the benefits of Fairtrade marketing and improved production practices before they incur the costs of setting up a formal organisation, the changes to the Fairtrade Standard for Contract Production would appear to address these long-standing concerns.

However, challenges are faced in growing Fairtrade markets across a range of sectors, in line with the expansion of Fairtrade-certified production. The recent academic questioning of the effectiveness of Fairtrade standards in attaining improvements in livelihoods and working conditions could exacerbate this challenge of promoting a more rapid expansion of Fairtrade sales.

In those ACP countries where the promotion of Fairtrade certification is seen as a potentially important strategy for enhancing farmer incomes and improving working conditions, it would appear important for ACP governments, NGOs and industry stakeholders to work together to:

a) improve cost-effective monitoring of compliance with underlying Fairtrade objectives (e.g. on child-labour-free production);

b) monitor debates on the changes required to maintain consumer confidence in the integrity of the Fairtrade labelling system;

c) ensure that moves to facilitate access for farmers' groups to Fairtrade markets are not undermined by changes to the standards applied, in order to ensure more rigorous control of compliance with underlying Fairtrade objectives.

While this is not an area in which ACP governments have traditionally engaged, the whole issue of the design and application of private standards is taking on a growing significance within ACP–EU trade, as product differentiation strategies are launched in ACP countries across a range of sectors in order to try to deal with growing competition on traditional markets (e.g. the focus in the Dominican Republic on dual-certified organic/Fairtrade banana exports to the EU).

New maximum levels set for cadmium in food products

In May 2014, the EC "adopted new measures to reduce consumers' maximum levels of exposure to cadmium in foods such as chocolate and infant formula". This followed a European Food Safety Authority (EFSA) opinion which recommended that current exposure should be reduced. A report on the website *Bakeryandsnacks.com* noted that "the new maximum exposure levels for… cocoa-based products, including chocolate, will come into force in… 2019", allowing a transitional period for producers to adjust. It noted that "three maximum levels have been set for chocolate", with stricter standards for products consumed by children and for cocoa powder for direct consumption.

According to EFSA, the main food groups contributing to cadmium exposure are "cereals and cereals products, vegetables, nuts and pulses, starchy roots or potatoes and meat and meat products", primarily because these products are consumed in such high volumes. However, the highest concentrations of cadmium have been detected in "seaweed, fish and seafood, chocolate and foods for special dietary uses, as well as in fungi, oilseeds and edible offal".

EFSA called for "efforts to reduce exposure levels" to be focused on "food groups where exposure is highest or where consumer groups are most vulnerable". It is this focus which has seen the establishment of "maximum exposure levels in a range of infant products and cocoa based products".

The EFSA report noted that "the Joint FAO/WHO Expert Committee on Food Additives established a provisional tolerable monthly intake of 25 µg/kg body weight, whereas the EFSA Panel on Contaminants in the Food Chain nominated a tolerable weekly intake of 2.5 µg/kg body weight to ensure sufficient protection of all consumers", a level nearly 40% below the FAO/WHO-approved tolerance level.

Overall, "the EFSA Panel concluded that although adverse effects are unlikely to occur in an individual with current dietary exposure, there is a need to reduce exposure to cadmium at the population level because of the limited safety margin."

According to Massandjé Toure-Litse, chief executive officer of le Conseil Café-Cacao of Côte d'Ivoire, there are no problems of cadmium contamination in Côte d'Ivoire, as it is considered "primarily a problem encountered by producing countries in Latin America, mostly Ecuador".

At the 70th meeting of the ACP–EU Subcommittee on Trade Cooperation held on 23 April 2013, the representative of Saint Kitts and Nevis expressed concerns "that the proposed EU legislation can stop local exporters from moving up the value chain". At the same meeting, Jamaican representatives, while expressing satisfaction that maximum cadmium levels would apply to finished products and not to cocoa beans, called for an "appropriate transition period".

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Comment

The 2019 implementation schedule for the new cadmium limits suggests that an appropriate transition period has been built in to the new regulation. However, while calls have been made for more in-depth studies to reconcile the divergent positions of the EFSA and the Joint

FAO/WHO Expert Committee on Food Additives (JECFA) on tolerable levels of intake, it needs to be borne in mind that once a consensus has been reached within the EU, securing any modification is extremely unlikely. Affected ACP exporters will therefore need to start preparing for the new limits now.

The fact that the issue of cadmium levels in cocoa is linked to the nature of the soils on which production is undertaken (with this being essentially confined to production on volcanic soils), suggests a need for the testing and certification requirements for cadmium levels to be differentiated according to production zone and soil type. This would avoid placing unnecessary inspection and certification burdens on those ACP production zones which account for nearly 90% of cocoa imports into the EU and where little danger of cadmium contamination exists.

The International Cocoa Organisation is assisting Caribbean (Grenada, St Lucia, Trinidad and Tobacco, and Jamaica) and Pacific (Papua New Guinea) producing countries to get to grips with the cadmium issue, and many in-depth studies still need to be undertaken. It would appear to be important for the EU authorities to take into account the findings of these studies in establishing specific inspection and testing requirement levels per ACP exporting country.

Coffee sector

Investment in storage reduces vulnerability of Rwandan coffee sector to global price volatility

In the first quarter of 2014, Rwanda's coffee export earnings fell by more than half (56.5%) to US$5.05 million, down from $11.6 million, according to the Kigali-based *New Times*. In the same period, export volumes fell by 40.5%. The decline was attributed to a drop in international coffee prices. According to Celestin Gatarayiha, head of Rwanda's National Agricultural Export Board (NAEB), "when the international prices are low, we export less and store the coffee until the prices improve." The impact of the market developments was diminished, as January to March is the Rwandan off-season, so exports are taking place from stocks. Between January 2013 and January 2014, coffee prices fell by 14.7%, fully 44% down from the levels of January 2012. In the face of "uncertainty over the 2014/15 crop and dry weather conditions in some coffee producing regions", international coffee prices began to improve from March 2014, and by April 2014 had reached levels not seen since February 2012.

Mr Gatarayiha noted that the NAEB was working with farmers to improve both the quality of coffee bean production and post-harvest handling and storage to prevent any deterioration of bean quality during storage. These are essential factors in enabling the coffee sector to choose when it sells its coffee.

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Comment

Investment in storage capacity for coffee would appear to enable the Rwandan coffee sector to manage price volatility, by withholding coffee from the market at times of low prices. Provided that bean quality can be maintained, this would appear to hold out prospects of higher earnings in the longer term. It would appear to contrast with the Ethiopian experience where, according to USDA analysis, the coffee sector was caught out by declining coffee prices from May 2013 (see *Agritrade* article '[Ethiopian coffee sector caught out by declining global prices in 2013/14]', 21 July 2014). With prices improving in March 2014, Rwanda may well be able to gain better returns from this deferment of exports.

It should be noted that Rwandan production is tiny in comparison to Ethiopian production, with coffee production being far less significant to the country's overall export earnings than in the case of Ethiopia. Holding back supplies during periods of price falls is thus a more viable option for smaller-scale producers than for very large-scale producers.

Investments in improved and expanded storage capacity could nevertheless offer one mechanism for dealing with global market price volatility for smaller-scale coffee producers, provided that financial stability across the coffee sector can be ensured during periods of price decline.

Improving global prices could boost East African coffee sector development

In mid March 2014, the Tanzania Coffee Board (TCB) confirmed that prices of a 50-kg bag of clean coffee had increased at auction from US$125 to US$240 since the beginning of the year. Efforts in Tanzania to boost yields by introducing new varieties have been undermined by low coffee prices. The TCB is optimistic that improving prices should help farmers to meet the production target of 80,000 tonnes projected for 2015/16. In the coming season, Tanzania is projected to produce some 67,000 tonnes, up from 49,000 tonnes in the last season. The TCB's director-general has called on farmers to use improved returns to improve coffee quality.

The projected price increase was attributed to drought-affected production in Brazil. However, there is disagreement over the prospects for the Brazilian crop in 2014 and 2015. Producers are warning of poor harvests in both 2014 and 2015, while traders are more upbeat. But forecasters do agree that the 2016 and 2017 harvests should be much better.

Coffee: Global prices for arabica and robusta (US cents/lb)

	Arabica	Monthly % change	Robusta	Monthly % change
October 2013	128.83	-	90.01	
November 2013	122.75	–4.72	85.67	–4.82
December 2013	126.74	+3.52	95.50	+11.47
January 2014	135.03	+6.54	92.93	–2.69
February 2014	176.28	+30.55	101.14	+8.83
March 2014	216.06	+22.57	111.90	+10.64
April 2014	226.99	+5.06	110.68	–1.09

Source: *Indexmundi Commodities*, http://www.indexmundi.com/commodities/?commodity=other-mild-arabicas-coffee and http://www.indexmundi.com/commodities/?commodity=robusta-coffee

The recent price increases are welcome – while the Ugandan Coffee Development Authority (UCDA) recently reported a 25% increase in the volume of coffee exports between April 2013 and March 2014 (from 3.02 to 3.77 million bags), earnings only increased by 4.8%. This suggests a decline in the average price of 16% per bag, falling from US$131.1 to US$110.1 per bag. Robusta exports increased by 12.18% by volume and 1.37% by value, while arabica exports increased by 14.44% (by volume) and 6.59% (by value).

One bright spot for the Ugandan coffee sector has been the growth in local consumption, with a growing number of coffee shops boosting local consumption from 2% of production a decade ago to 5% in 2013. The roasting of coffee for local consumption has increased fourfold from 50,000 to 200,000 bags. Figures from the UCDA show that Uganda exported 3.5 million bags of coffee in 2012, earning US$266 million. But experts have pointed out that "if just 20 per cent of the exported coffee had undergone the full value addition process of roasting and grinding, it would earn… at least $443 million". There is thus seen to be considerable scope for local value addition.

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Comment

While the economic benefits of value addition are clear cut, the question arises: which market components should local value-added processors in East Africa seek to target?

Should the focus be on Eastern and Southern African regional markets, the wider African continent, or on new emerging markets such as China? Which market components should be targeted – the growing coffee shop culture or the home consumption market? If the latter, then for which products – instant coffee, vacuum-packed beans or ground coffee? Or the single-serve market, where the greatest vale addition lies – but which in East Africa is in its infancy?

Identifying market opportunities for value-added production, mobilising the requisite expertise and sequencing the necessary investment can be challenging for relatively small-scale producers. The experience in the Caribbean rum sector, however, suggests that real value can be added from developing common quality standards at the regional level and jointly undertaking market analysis and initial market positioning work. The Caribbean rum experience demonstrates how, by accessing larger markets, the constraint of intra-regional competition can be overcome.

There would appear to be scope for similar regional initiatives in the development of markets for East African quality-differentiated, value-added processed coffee products. Indeed, where markets such as the Chinese market for premium coffees are being targeted, a case can be made for pan-ACP market identification initiatives.

Ethiopian coffee sector caught out by declining global prices in 2013/14

USDA's annual review of the Ethiopian coffee sector, published in May 2014, highlights the importance of coffee to total Ethiopian export earnings (25.3%), and livelihoods (15 million people directly and indirectly involved), but notes how in 2013/14 Ethiopia got caught out by declining global prices. While Ethiopian export volumes increased (+8%), total export earnings actually fell.

Ninety-three per cent (93%) of all coffee exporting companies in Ethiopia are privately owned, 5% are farmers' co-operatives and 2% government enterprises. The Ethiopian coffee market is strictly regulated: USDA notes that "all coffee traders must purchase coffee through the [Ethiopian Commodity Exchange/ECX] market, with the only exceptions for co-operatives and large-scale growers". The coffee export business is also reserved for Ethiopian citizens. Given the importance of coffee to export earnings, the Ethiopian government issued a regulation in May 2011 "limiting the amount of stock that an exporter can store" (500 tonnes), and introducing strict penalties for hoarding of coffee.

Ethiopia mainly exports its coffee in the form of green bean, with little roasted locally. Most of its exports are unwashed (70–80%), thus commanding lower prices on most export markets.

Ethiopian coffee exports in value and volume by destination for 2012/13

Country	Volume '000 60kg bags	Value US$ '000	% share in volume	Unit value of exports ($/bag)
Germany	853	167,935.2	26.5	196.9
Saudi Arabia	462	104,113.9	14.3	225.4
Japan	392	78,514.4	12.2	200.3
Belgium	256	56,014.0	7.9	218.8
USA	231	64,079.1	7.2	277.4
France	162	30,061.1	5	185.5
Sudan	147	21,230.6	4.6	144.4
Italy	146	32,246.1	4.5	220.9
South Korea	80	19,392.3	2.5	242.4
Sweden	75	16,652.0	2.3	222.0
UK	67	19,369.7	2.0	289.1
Australia	51	12,933.8	1.6	253.6
Russia	35	6,675.4	1.1	190.7
Canada	27	6,901.0	0.8	255.6
Spain	27	6,762.0	0.8	250.4
Other countries	215	51,737.0	6.7	240.6
Total	**3,224**	**694,618.0**	**99.5**	**215.4**

Source: USDA (see below); columns 1 to 4 from Table 2, pages 6–7.

Ethiopia is itself a major consumer of coffee, consuming half of national production. Locally marketed coffee is generally of lower quality, consisting of coffee that fails to meet ECX quality standards. Despite these quality differences, prices of coffee on the local market are often higher than export prices. It is, however, illegal to sell export-grade coffee on the local market.

USDA observes that given the traditional production methods used, with limited use of pesticides, fertilisers and improved seeds, yields are "very low". However, given these production practices, 95% of coffee produced in Ethiopia claims to be organic. While little of this is certified organic, this could provide a basis for international marketing of Ethiopian coffee.

The government of Ethiopia is currently looking to restructure the sector "by designating a specialized institution that can provide technical support to the coffee value chain".

In 2012/13, 49% of Ethiopian coffee by volume was exported to seven identified EU countries, with this accounting for 40.1% of the value of export earnings. There are wide discrepancies in average prices paid on different EU markets – average prices paid on exports to the UK are nearly 56% higher than average prices paid on exports to France, and 47% higher than on exports to Germany.

International coffee prices have been improving since February 2014, but in April 2014 were still 25% below April 2011 peaks (302.71 US c/lb).

Coffee, other mild arabicas (ICO, US cents per pound)

	2011/12	2012/13	2013/14
June	277.78	169.79	138.86
July	269.18	190.77	138.44
August	273.54	175.97	135.63
September	275.58	179.60	132.78
October	248.49	172.37	128.83
November	249.50	160.64	122.75
December	243.14	154.22	126.74
January	240.89	158.27	135.03
February	225.49	153.00	176.28
March	201.85	153.01	216.06
April	193.35	152.96	226.99
May	186.35	151.43	215.24

Source: *Indexmundi.com* (see below)

Sources

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Comment

As the Ethiopian government looks to restructure support to the coffee sector, a critical issue is the development of strategies to reduce vulnerability to volatile global coffee prices and maximise revenues from exports to the different markets served.

Promoting internationally recognised organic certification could offer one means of reducing vulnerability to declines in general coffee prices. This, however, will require the development of local certification capacity to keep costs of certification down. For the EU market, problems could be faced in view of pending regulatory changes intended to establish stricter compliance with common EU organic standards (see *Agritrade* article 'EC tables new regulation on the organic sector', 11 May 2014). This may require the exploration of opportunities for organic coffee sales in other markets where demand is growing (e.g. China) and negotiation of recognition of local standards for organic certification (see *Agritrade* article 'Report highlights expansion of organic production for local markets in the EAC', 13 June 2013).

Scope would also appear to exist for improving marketing. For example, if prices obtained on exports to Germany and France could be raised to the EU average, this would boost total revenues by 3.2%, while if they could be raised to UK levels, total revenues would increase by

13.7% (US$95.4 million). Moving away from undifferentiated commodity exports to the targeted marketing of coffee beans, and even coffee products, would appear to represent a considerable opportunity for Ethiopia.

If marketing issues are not addressed, efforts to boost production and exports could once again fall foul of volatile global coffee prices, with increased exports generating lower export earnings.

Cotton sector

Chinese subsidy reform begins to take effect while Tanzania sets up a crop stabilisation fund

According to the commodity website *Agrimoney.com*, India is taking over from China as the top cotton grower, following a larger than expected drop in Chinese cotton production. Chinese cotton output is expected to fall by over 10% in 2013/14, down from 6.7 to 6 million tonnes. This follows changes in Chinese government support policy. China will however retain its place as the world's top consumer of cotton. Indeed, China's subsidy reforms are expected to slow down the decline in China's cotton demand (down just 1% in 2014–15 compared to a 17% decline since 2011).

In terms of trade, Chinese cotton imports are projected to fall by 30% in 2014/15 to 2.2 million tonnes, a level some "60% below the record two seasons ago". For 2015–16, USDA is forecasting Chinese import demand at 1.7 million tonnes.

Declining Chinese cotton production led the International Cotton Advisory Committee (ICAC) to increase its forecast for cotton prices next season. ICAC has reduced its projections for total world cotton production by 540,000 tonnes to 25.16 million tonnes, with its projections for stock levels falling 170,000 tonnes to 20.87 million tonnes.

USDA data on cotton prices show a maximum price variation of 14.5% in average monthly prices over the past year, with five reversals in the direction of price changes in the past year. In addition, cotton prices have remained stubbornly below the 100 US cents/lb level since April 2012, averaging around 40% of the price levels experienced at the March 2011 price peak. The average spot price on 19 June, at 78.4 cents/lb, was 11.5% below the monthly average since April 2012.

In May 2014, the Tanzanian government announced that it was to establish a Crop Price Stabilisation Fund, which would include cotton (as well as coffee, cashew nuts and tobacco). The fund is expected to "start operating during financial year 2014/15". The government considers that price stabilisation could facilitate on-farm investment, within the framework of contract farming arrangements, and is looking to promote the use of improved model contracts for cotton farming in order to address a number of identified shortcomings.

In 2011, contract farming initially boosted cotton production, as 351,151 tonnes of cotton was produced, the second largest crop ever produced in Tanzania. However, a shortage of finance for the following season reduced the inputs used by farmers, with production falling to 246,767 tonnes. Cotton nevertheless remains the most important export crop, with Tanzania's *Daily News* noting that "more than 2 million people directly or indirectly [depend] on the crop for their livelihoods."

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Comment

Concerns have long been expressed over the possible effect of Chinese cotton sector reforms on global cotton markets. It is far from clear how the declines in Chinese cotton production and even more dramatic declines in Chinese cotton import demand will feed through into global market prices. Much will depend on how markets react to the announcement of specific production and trade figures. However, given the level of global stocks, the decline in Chinese import demand may well have a greater impact on market prices than declines in Chinese cotton production.

Against this background, the establishment of a crop price stabilisation fund in Tanzania would appear a timely measure to try to reduce the production consequences of price volatility.

Given the growing influence of Chinese policy on global cotton market prices, ACP governments of cotton producing countries may well wish to consider a joint approach to the Chinese government for support to the establishment and management of such cotton crop price stabilisation facilities, or similar initiatives to better manage the production consequences of price volatility, in part linked to evolving Chinese policies.

Poultry sector

Review of Ghana's poultry sector trade policy under way

In May 2014, the President of Ghana made a commitment to poultry farmers that the government would use a combination of production support measures and trade measures to boost Ghanaian poultry production. He spoke of turning Ghana into "a net exporter of poultry products in the coming years".

At the same time, the current import policy is being reviewed. The Ministry of Food and Agriculture has been in dialogue with the Ghana Poultry Farmers Association since February 2013 to explore how Ghana's import permit system could be used to curb high levels of imports of poultry products.

In March 2014, following consultations with producers, financiers, marketers and processors, the government made a commitment to tighten import licensing procedures. In May, this resulted in an announcement by the Ministry of Food and Agriculture (MOFA) that importers would only be awarded an import licence to bring poultry meat into Ghana if they first procured 40% of their required amount from local producers.

Similarly, the government is also looking to promote greater use of locally sourced inputs to the poultry sector, with MOFA arguing that the issuing of permits would be used to open up markets for local companies.

Alongside these trade measures, efforts continue to improve local poultry feed supplies. These include exploring the scope to use cassava in poultry feed and the provision of financial assistance to feed-related investments, such as recent assistance to the Greater Accra Poultry Farmers Association to establish "a five-tonne integrated poultry feed mill". The government is also considering support for an initiative by the Ghana National Association of Farmers aimed at producing 70 million broilers in the fifth year of the scheme, requiring up to 350,000 tonnes of feed.

These plans need to be seen against a background of current poultry meat production levels that meet only 10% of Ghana's consumer demand.

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Comment

Ghana's recent poultry sector trade policy initiative follows the government's announcement of its willingness to more actively use trade policy tools once the institutional infrastructure for the management of international trade is in place (via the country's planned International Trade Commission) (see *Agritrade* article 'Government of Ghana to review poultry and rice sector trade policies', 17 May 2014)

The use of import licence allocations to strengthen the functioning of local supply chains has proved successful in other ACP countries in other sectors, most notably in the Namibian horticulture sector.

In Namibia, intense dialogue between stakeholders along the supply chain was required to lay the foundation for the progressive extension of local procurement requirements. A similar process of consultation has been initiated in Ghana and a poultry council formed to regulate the sector.

However, central to the success of the Namibian scheme was the establishment of realistic local procurement targets, based on current and evolving production capacities. Initially, local procurement targets were low (5% of import requests) and were only gradually expanded once investment in the required volume and quality of production came on stream. This suggests a need to carefully graduate targets for local procurement of Ghanaian poultry products in line with current and evolving production capacities. In this context, the Ghanaian government is setting up complementary supply-side initiatives to improve local supplies of poultry products.

A further important element of the Namibian horticulture scheme was the strong private sector engagement with a transparent import permit allocation process, through a statutory body in which private sector stakeholders were fully represented. Similar transparent institutional mechanisms for the allocation of import permits under the proposed scheme would appear to be necessary in Ghana to maintain stakeholder commitment to the new scheme. The Poultry Council could potentially play this role, although it would need to be legally entrenched.

Overshadowing the new approach is uncertainty as to whether it is consistent with Ghana's EPA commitments. Article 18 commits the Ghanaian government to eliminating "all prohibitions or restrictions on import or export between the Parties… whether made effective through quotas, import or export licences or other measures… upon the entry into force of this Agreement".

Rice sector

Tanzanian rice sector stakeholders call for consistent application of rice import tariffs

According to reports in the Tanzanian press, private sector representatives have urged the Tanzanian government to establish a 25% import duty on rice imports "to ensure that the domestic market is not saturated with 'cheap' commodities". The CEO of Southern Agriculture Growth Corridor of Tanzania (SAGCOT), Geoffrey Kirenga, commented that the 2013 government decision "to waive import duty on 60,000 tonnes of imported rice was wrong and the mistake… should not be repeated".

Mr Kirenga said that farmers not only faced lower prices for local rice, but also struggled to sell rice on regional markets in the face of competition from cheap Asian rice. He saw a dialogue with stakeholders on appropriate levels of rice tariffs and imports as necessary.

SAGCOT, in association with foreign investors involved in Kilombero Plantations Limited (KPL), supports smallholder rice production. KPL has reported major increases in Tanzanian smallholders' yields, after which it undertakes the milling and marketing of the expanded rice production. According to the parent company of KPL, the innovations have "doubled or trebled" smallholder yields compared to "local traditional yields".

However, the CEO of KPL, Carter Coleman, claims that his company has suffered "a whopping 4 billion shilling loss [about €1.8m] as a result of Asian rice imports". These referred in particular to "40,000 tonnes of cheap Pakistani rice that was exempt" from the EAC common external tariff (CET), as a result of which the wholesale price fell by 54%. Mr Coleman noted that KPL "still has 1,000 tonnes of rice from the 2012 season and another 5,000 tonnes from [the 2013 harvest], which cannot be sold at a profitable price due to a saturated local market".

The market difficulties remain, despite the Tanzanian government decision of March 2013 to halt imports "following complaints from local producers and donors".

For rice, the EAC CET is "a compound tariff of the 75% *ad valorem* rate or US$ 200/tonne, whichever is higher". However, under the Customs Union Protocol, flexibilities were envisaged which allowed national governments to "review the common external tariff structure and approve measures designed to remedy any adverse effects which any of the Partner States may experience by reason of the implementation". This at times has resulted in Kenya applying import tariffs on rice of 35% and Tanzania and Uganda applying import tariffs of 15%. In the case of Kenya, this was linked to tariff concessions from Pakistan for Kenyan tea exports. Attempts to enforce the higher CET rate in the past led to extensive smuggling of rice into Tanzania.

According to earlier analysis from USDA, the EAC's rice sector tariff had three main effects:

- it encouraged local production;
- it raised domestic prices; and
- it suppressed per capita rice consumption.

However, according to an FAO commodity and trade policy working paper published in 2013, there is strong stakeholder support for a tariff of around 35%, as the maintenance and development of the domestic production base are considered to justify the price increases that the tariff gives rise to.

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Comment

The situation facing smallholder farmers in the Kilombero rice project highlights the need for consistency between national agricultural development initiatives and trade policy decisions. FAO has highlighted how the setting of appropriate CET rates for staple food products such as rice is a key policy issue that needs to be addressed – and it is closely related to the issue of the effective management and implementation of regionally agreed tariff policies at the national level. The limited analysis that has taken place to date suggests that an import duty of 35% would enable both efficient and average producers remain competitive, but that the benefits would be unevenly spread – for example, Tanzanian rice producers might benefit at the expense of Kenyan consumers.

The issue of an appropriate rice sector tariff is further complicated by the growing consumer demand for rice in the EAC, which is outpacing production gains. Underlying competitiveness challenges need to be addressed. This applies along the entire value chain: from better input supply, processing technologies and storage facilities to harmonised grading and quality standards, and the elimination of non-tariff and informal barriers to intra-regional trade.

Current "flexibilities" pose challenges – for example where reduced tariffs are applied in pursuit of bilateral trade interests (e.g. the Kenya–Pakistan tariff trading concessions for rice and tea respectively).

In this context, important issues related to the harmonisation of tariff protection policies with supply-side and trade facilitation measures need to be addressed. This could potentially involve the use of seasonal import quota arrangements.

Global rice sector developments

According to the FAO's May 2014 *Food Outlook* report, "world rice production in 2014 could reach 501.1 million tonnes… 0.8% above the 2013 level", delivering a "third consecutive season of subdued growth". This has occurred despite the Chinese government's decision to maintain a rice support price that is "very high" by international standards.

The report notes that "International trade in rice in 2014 is anticipated to increase by 5.5%, to 39.3 million tonnes, in a context of "intensified competition for markets", with these trade volumes due to continue into 2015. This is projected to lead to a decline in import prices.

However, rice prices follow different trends in different markets segments. Between 2008 and 2013, prices of japonica and indica rice varieties fell between 20 and 25%, but by 2013, prices of aromatic rice had risen by 6.3% in a more stable market, while prices of Pakistani basmati rice were fully 27% higher, having recovered since 2011 from earlier falls.

In Africa, FAO sees rice production prospects as "positive", with a forecast 3% growth in production. A large part of this increase is attributable to Madagascar, where production is set to increase by 19% under better climatic and pest-control conditions. In mainland East Africa, Tanzania has had to cope with poor rainfall, which is projected to curb output by 5%, while in Mozambique production losses are likely as a result of excessive rain and associated flooding.

In West Africa, after an 8% increase in rice production in 2013, growth of a further 2% is projected, assuming normal weather conditions. The report says that "Increases are currently anticipated for Burkina Faso, Cote d'Ivoire, Ghana, Guinea, Mali and Sierra Leone, where most governments are running supportive rice policies." In contrast, late and reduced rainfall in Nigeria is projected to lead to a fall in rice production.

Selected sub-Saharan Africa rice importers and producers (million tonnes milled equivalent)

	Production			Imports		
	2010/11–12/13	**2013/2014**	**2014/15**	**2010/11–12/13**	**2013/2014**	**2014/15**
	(average)	**(estimate)**	**(forecast)**	**(average)**	**(estimate)**	**(forecast)**
Côte d'Ivoire	0.4	0.5	0.5	1.1	1.3	1.3
Nigeria	2.7	2.8	2.8	2.5	2.5	2.9
Senegal	0.3	0.3	0.4	0.9	1.0	1.0
South Africa	-	-	-	1.0	1.4	1.4
Tanzania	1.5	1.3	1.2	0.1	0.2	0.2
Madagascar	3.0	2.4	2.9	0.2	0.4	0.4
World	**482.6**	**496.9**	**501.1**	**35.3**	**37.2**	**39.3**

Source: FAO, *Food Outlook*, May 2014

According to the report, "rice imports by African countries are currently anticipated to edge higher, mainly on larger purchases by Nigeria, Mali, Senegal and Tanzania, while Madagascar and Mozambique are foreseen to curb deliveries."

In the ACP Caribbean, FAO highlights a sizeable expansion of projected rice production in Guyana, with larger rice imports into Haiti. Increased imports are also projected for Costa Rica, Colombia, Bolivia and Peru.

In the EU, 2014 will see the last year of 'coupled' rice sector payments, with a 3% recovery in EU rice production projected, following weather-affected production levels in 2013. EU rice imports are increasingly sourced from beneficiaries of the Everything But Arms (EBA) arrangement, notably Cambodia and Myanmar.

Global rice consumption is increasing more than twice as fast as production (+5.2% compared to +2.0%), and annual consumption is projected to exceed production by 2014/15. This will see the stocks-to-use ratio fall from 35.7% in 2012/13 to 35.1% in 2014/15. FAO is uncertain whether this represents a longer-term rebalancing of global supply and demand.

Sources

FAO, *Food Outlook*, May 2014
http://www.fao.org/docrep/019/I3751E/I3751E.pdf

Comment

Current rice price trends would appear to pose challenges both for ACP rice exporters (Guyana) and ACP countries seeking to boost rice production.

Expanding Guyanese production needs to be seen in the context of:

- uncertainty over the country's future rice trade with Venezuela;
- the entry into force of a new Vietnam–Haiti rice supply agreement; and
- growing exports of rice from Cambodia and Myanmar to Guyana's traditional EU market.

Guyana is likely to face serious challenges in finding export outlets at prices capable of sustaining recent production increases (see *Agritrade* article 'Record Guyanese rice production and slight recovery in Haiti', 3 February 2014).

In West Africa, lower rice prices will intensify competition for local producers, potentially undermining government efforts to boost local production. This is a delicate issue, for while domestic rice production has grown impressively, it is outpaced by the growth in consumption, with imports continuing to increase.

In Nigeria, with weather-related setbacks to production, a projected 16% increase in official rice imports in 2014/15, and the escalating challenge arising from systematic rice smuggling, there is likely to be increased pressure for a review of the country's rice sector policy, in the light of the planned ban on rice imports scheduled for 2015 (see *Agritrade* article 'Uncertain movement on Nigeria's rice trade policy', 18 May 2014).

In the longer term, if the growth in global consumption exceeds production on a sustained basis, then a return to higher global prices may occur, changing the global context for current efforts to promote rice production in ACP countries. A key policy question would then be how to sustain ACP rice production during the current phase of declining prices.

Sugar sector

Challenges faced in Tanzania in balancing growing demand with efforts to promote local sugar production

According to regional press reports, Tanzanian sugar millers are holding more than 62,800 tonnes of sugar, while distributors hold a further 11,000 tonnes in the face of alleged "supply of cheap and illegal sugar imports". Ministry of Agriculture officials acknowledged that an excessive level of imports had occurred in 2013, hence the government decision to ban imports from January 2014. However, despite these restrictions, the Tanzanian Sugar Board (TSB) estimates that approximately 100,000 tonnes of sugar have been imported since the ban was introduced.

According to TSB, Tanzania "currently consumes 590,000 tonnes of sugar annually", while production at the four sugar companies Tanganyika Plantation Company (TPC), Kagera, Kilombero and Mtibwa have the capacity to produce 291,000 tonnes. Imports therefore are necessary to meet national sugar demand.

Press reports note that while the government had hoped that allowing some imports would ease market prices, the selling price of sugar "has remained relatively high" – TSh2,000 to 2,500 (US$1.2–1.6) per kilo as opposed to an intended target price of TSh1,600 to 1,700 (US$0.98–1.02).

New investors in the Tanzanian sugar sector (that are currently involved in developing 130,000 tonnes of production on a greenfield site) have called on the government to consistently promote greenfield sugar sector investments. It is estimated that with the current installed capacity limits of 300,000 tonnes, as much as US$3 billion of new investment in sugar production and processing capacity will be needed over the next 15 years to meet growing demand, which is projected to reach 1.5 million tonnes by 2030 as a result of population growth. If this level of investment is not found, imports are projected to increase to 1.1 million tonnes in the next 15 years.

Tanzanian government officials have called on foreign companies to invest in improving the competitiveness of local sugar production, in order to be better able to compete with imports.

EC projections of world market sugar prices 2010–2023 (US$/tonne)

2010	2011	2012	2013	2014	2015	2016
720	612	531	478	467	500	482
2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
487	516	526	526	526	522	518

EC, 'Prospects for agricultural markets and income in the EU 2013-2023', statistical tables, Table 6.15, December 2013
http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/2013/tables_en.pdf

Sources

The East African, 'Tanzania faces sugar crisis as imports flood market', 12 April 2014
http://www.theeastafrican.co.ke/news/Tanzania-faces-sugar-crisis-as-imports-flood-market-/-/2558/2277328/-/12vbvhcz/-/index.html

Comment

EC projections suggest that world market sugar prices could be between 3.2 and 12.6% higher than 2014 sugar prices in the coming period, partially easing competitive pressures. However, with EU production due to become a major new "swing factor" on global sugar market after quota abolition (with EU sugar production potentially ranging between 14 and 21 million tonnes, depending on relative prices of sugar and cereals), the scope for price volatility on world sugar markets is considerable (see *Agritrade* article 'EU to emerge as a major driver of global sugar markets', 15 June 2014). This could well complicate the sugar sector trade policy formulation context in Eastern Africa.

While the Tanzanian government has called on foreign investors to invest in improving the competitiveness and expanding the capacity of local sugar production, this needs to be seen in a context where the wider Southern and Eastern African region is a major sugar production surplus region.

Across Southern Africa, EU sugar prices are projected to fall by 28.7% from 2016/17 and EU import demand are projected to contract by 49% between 2013 and 2023 from 3.7 million tonnes to 1.9 million (see *Agritrade* article 'More limited market prospects projected for sugar imports beyond 2017', 3 March 2014). Existing Southern African sugar companies are therefore likely to be looking for new regional markets. In this context, major new investments from established sugar sector players would appear unlikely. Indeed, there is likely to be increased commercial pressure on regional governments to liberalise regional sugar trade, either in the COMESA or broader trilateral free trade area context.

Distribution of new revenue streams raised by Mauritian cane farmers

Representatives of 17,000 small-scale Mauritian sugar farmers – who contribute 28% of national sugar production – have raised concerns that they are not benefiting from the revenue diversification that has taken place from the processing of Mauritian sugar cane. According to an IPS news report, a farmer from a Mauritian cooperative commented, "we are paid for the amount of sugar produced… and some peanuts for the bagasse the use to produce electricity", but added that farmers receive no benefit from the revenues generated as a result of the sugar sector restructuring process, from the sale of electricity, ethanol and bio-plastics produced from molasses.

Farmers' representatives argue that unless farmers get a better deal, more smallholder farmers will leave the sugar sector and no younger farmers will enter the sector. The issue of revenue diversification at the level of sugar cane farmers has become a more important issue as EU policy changes have impacted on prices received on this major export market. In an effort to boost earnings, 5,000 Mauritian smallholder farmers have sought Fairtrade certification, producing some 21,000 tonnes of fair-trade sugar in 2013.

In Swaziland, meanwhile, a local press report notes that the area under sugar cane "increased by almost 12% in the past five years, as more small-scale farmers took up sugar cane cultivation and access to irrigation increased through significant investments by the Swaziland government, the EU and other donor organisations". These developments resulted in sugar cane production reaching 5.6 million tonnes in 2012/12, its highest level to date, with a further increase to 6.5 million tonnes expected by 2016/17.

Between 2012/13 and 2014/15, Swazi sugar production is projected to increase from 679,934 tonnes to 725,000 tonnes (+6.6%). Exports to the EU are projected to increase by 3% to 385,000 tonnes in 2014/15, while exports to the SACU market are projected to remain unchanged (340,286 tonnes in 2013/14). While the US "allows preferential access for Swaziland sugar under its tariff rate quota", exports are focused on the EU market because of the higher return currently enjoyed.

Sources

IPS, 'Mauritian sugar farmers squeezed by low prices as bagasse and ethanol become popular', 10 June 2014
http://www.ipsnews.net/2014/06/mauritian-sugar-farmers-squeezed-by-low-prices-as-bagasse-and-ethanol-become-popular-by-products/

Swazi Observer, '[Swaziland's] sugar exports to EU increase by 3%', 9 June 2014
http://www.observer.org.sz/business/62673-sd%E2%80%99s-sugar-exports-to-eu-to-increase-by-3.html

Comment

While the number of smallholder sugar farmers in Mauritius is falling, the number in Swaziland is growing. Smallholder farmers in both Mauritius and Swaziland are likely to face a projected fall of sugar prices in the EU of 35% between 2013 and 2017 (see *Agritrade* article '<u>More limited market prospects projected for sugar imports beyond 2017</u>', 3 March 2014). Since cane farmers' revenues are based primarily on the revenues derived from raw sugar sales, and the EU is a major market, the issue of the financial benefits derived by sugar cane farmers from the production of new products from the sugar cane they provide to the mills will take on more significance in the coming years.

This is likely to be particularly important in Swaziland, where newly established farmers have taken on extensive loans to enter sugar production. In the past, declines in revenue from sugar sales have resulted in Swazi smallholder farmers facing serious financial difficulties, with the government having to step in and take over financial responsibility for certain investment costs, initially taken on by newly established smallholder farmers.

Establishing policies as a part of sugar sector restructuring programmes, in order to address the issue of the distribution of revenues from new income streams between farmers and millers, would therefore appear to be of growing importance in ACP countries where smallholder farmers play a significant role in sugar cane production.

Launched by CTA (Technical Centre for Agricultural and Rural Cooperation ACP-EU) in 2001, the Agritrade website http://agritrade.cta.int is devoted to agricultural trade issues in the context of ACP (Africa, Caribbean, Pacific) - EU (European Union) relations. Its main objective is to better equip ACP stakeholders to deal with multilateral (World Trade Organization – WTO) and bilateral (Economic Partnership Agreement – EPA) negotiations. Thus it provides regular and updated information and analysis on technical aspects of the trade negotiations, developments in the CAP and their implications on ACP-EU trade, as well as on major commodities (banana, cereals, sugar, fisheries, etc.).

The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP—EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management. It does this by providing access to information and knowledge, facilitating policy dialogue and strengthening the capacity of agricultural and rural development institutions and communities in ACP countries.

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