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Contents

ACP FTAs

Ethiopia, Uganda and DRC commit to COMESA FTA

In March 2014, Ethiopia and Uganda both announced that they were committed to depositing their instruments of access to the COMESA FTA with the COMESA Secretariat by December 2014. This followed a similar commitment from the DRC. Analysts believe that Ethiopian accession may reduce the level of protection in place against imports from COMESA FTA members.

Currently, the COMESA FTA includes: Burundi; Comoros; Djibouti; Egypt; Kenya; Madagascar; Malawi; Mauritius, Rwanda; Seychelles; Sudan (North); Zambia; and Zimbabwe. COMESA members that are not a party to the FTA include: DRC; Eritrea; Ethiopia; South Sudan; Swaziland; and Uganda.

According to press reports, the government of Ethiopia recently "introduced price curbs to tame runaway inflation, triggering protest among COMESA partners such as Kenya who favour free market policy". This is seen in Kenya as symptomatic of long-running trade restrictions introduced on Kenyan exports to Ethiopia, despite a commitment to establishing a COMESA Simplified Trade Regime (STR) arrangement between the two countries. This has resulted in the Kenyan government calling on the COMESA Secretariat to arbitrate, in order to ensure that the Ethiopian government increasingly abides by COMESA-based trade arrangements.

Meanwhile, reports at the beginning of 2014 indicated that progress towards the establishment of the tripartite FTA was on track, and that considerable progress had. The initial stages of negotiations, related to exchanging information and establishing the trade data basis for tariff reductions, have been completed. The process of negotiation of tariff liberalisation commitments, rules of origin, customs procedures, simplification of customs documents, transit procedures, non-tariff measures, technical barriers to trade, trade remedies and dispute settlement is now underway. Negotiations on trade in services and trade-related areas have yet to be initiated. The aim is to establish a single COMESA–EAC–SADC FTA by 2016, building on the FTAs that are already in place.

The press analysis recognises that "less prepared nations are at risk of being swallowed economically by more powerful nations, as their local industries would suffer from the stiff competition from more rival firms in an open market." This will require companies in countries potentially adversely affected to set in place measures to enhance their competitiveness before the entry into force of any tripartite FTA.

Sources

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Comment

The difficulties facing Kenyan exporters in exporting to Ethiopia under the COMESA Simplified Trade Regime highlight the difficulties that will be faced in carrying through regional trade liberalisation commitments, given the wide divergence of agricultural policy frameworks and associated trade measures implemented by COMESA members. In some instances, domestic policy framework effectively insulates national producers from regional market trends and influences (see *Agritrade* article 'Strengthening supply chains could boost cereals production in Ethiopia', 26 May 2013).

This is not solely a problem between Kenya and Ethiopia. Divergent 'on–off' use of trade policy measures, such as import and export bans, highlight the extent of the difficulties that will be faced in moving forward with the implementation of intra-regional trade policy commitments in the highly sensitive agro-food sector (see *Agritrade* article 'The intra-regional trade consequences of import and export restrictions', 4 August 2014).

Concrete sustainable benefits may well be most easily attained if, at the sector level, private sector associations are brought into discussions on the specific modalities for liberalising trade in particular product areas (e.g. the Eastern Africa Grain Council for trade in cereals and cereal products). This, alongside improved regional market information systems, would allow national sensitivities to be accommodated, while at the same time establishing a more transparent framework for the promotion of intra-regional trade.

Such initiatives may offer a pragmatic way forward, in view of the discrepancies between commitments and operational practice within existing trade arrangements and the extent to which the tripartite FTA process seeks to build on FTAs that are already in place.

AGOA access for Swaziland and Madagascar reviewed

In June 2014 the US government announced the reinstatement of Madagascar on the list of beneficiaries of the US African Growth and Opportunity Act (AGOA). Madagascar was suspended from the AGOA scheme following the *coup d'état* in March 2009. Madagascar had previously been seen as an "AGOA success story", with exports of up to US$300 million per annum stimulated under the initiative. Exports to the US fell by 70% following the withdrawal of eligibility for AGOA trade preferences. Access to AGOA trade preferences has been reinstated after the nation's "return to democratic rule".

In contrast, on 26 June 2014, President Obama announced the suspension of Swaziland from eligibility for AGOA trade preferences. According to US government representatives, "the decision to withdraw Swaziland's AGOA eligibility comes after years of engaging with the government of the Kingdom of Swaziland on concerns about its implementation of the AGOA eligibility criteria related to worker rights." A White House statement maintained that Swaziland had not "demonstrated progress on the protection of internationally recognized worker rights".

The prospect of losing AGOA access has already resulted in the closure of one major garment manufacturer. In all, some 17,000 jobs in Swaziland are reported to be directly linked to the production of garments for export under AGOA preferences.

Sources

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IRIN, 'Swaziland braces itself for AGOA exit', 17 June 2014
http://www.irinnews.org/report/100227/swaziland-braces-itself-for-agoa-exit

Comment

While AGOA trade preferences primarily benefit the garment sector, a 2012 report from the Brookings Institution called for more support to be provided to help countries meet US sanitary and phytosanitary (SPS) requirements, and for Congress to "amend AGOA to mandate that the activities of the US Department of Agriculture support the implementation of AGOA".

The US-based Institution's report indicated that 30% of sub-Saharan Africa's exports to the US do not receive duty-free access under AGOA, including some agricultural goods. Indeed, with agricultural products accounting for less than 1% of AGOA exports, there is considered to be scope for improving the scheme to better benefit agricultural producers in eligible countries.

Swaziland's loss of AGOA benefits will restrict possibilities for diversifying agro-food sector exports, even if the pending 2015 review of the AGOA scheme introduces some of the changes suggested in the Brookings Institution report (see *Agritrade* article 'US African Growth and Opportunity Act needs to do more for agriculture', 27 August 2012).

ACP regional trade

The intra-regional trade consequences of import and export restrictions

In April 2014, the Grain Traders Association of Zambia (GTAZ) warned the government that delays in lifting the country's ban on maize exports would "result in Zambia missing out on current regional demand". The comments were made amid expectations of major increase in Zambian maize production. In early May, the *Times of Zambia* reported a projected harvest of 3,350,671 tonnes, up 32% from 2,532,800 tonnes last season. Fully 93% of this production came from small and medium-sized farmers who had benefited from an expansion of the farmer Input Support Programme and expanded fertiliser distribution.

In addition to the bumper harvest, Zambia has a maize carry-over stock of 597,192 tonnes. With an estimated national maize consumption of 1,887,824 tonnes, a theoretical maize surplus of 1,152,505 tonnes is likely to be available.

At the beginning of May 2014, the Zambian government announced the lifting of its ban on maize exports, but retained in place an export permit system. However, this took place against the background of the suspension of all import permits for food products by the government of Zimbabwe and calls from the Grain Millers Association of Zimbabwe for a suspension of all maize meal imports "to allow millers to mop up as much maize as possible from local farmers".

The President of the Commercial Farmers Union argued that such a ban would "counterproductive, because the country was still producing below national consumption".

While Zimbabwe has a potential to produce 2.2 million tonnes of maize per year (pre land reform levels), the *Times of Zambia* noted that the country "is currently producing between 900,000 and one million tonnes per annum". This situation is further compounded by the financial constraints hindering the operations of the Zimbabwean Grain Marketing Board.

The good Zambian harvest, combined with the Zimbabwean ban, has left Zambian maize exporters looking for markets. Zambia's Agriculture Minister announced that the country would be exploring other foreign markets "beyond the existing Southern African regional markets for the export of maize".

Market opportunities could arise from the Kenyan government's initiation of government-to-government discussions on the procurement of 2 million bags of GMO-free maize before August and the issuing of permits to the registered millers to import 1 million bags of duty-free maize before the end of July.

Meanwhile, the Lusaka-based Centre for Trade Policy and Development (CTPD), in partnership with Indaba Agriculture Policy Research Institute (IAPRI), is looking at ways for Zambia to improve its maize trade regime. It argues that the government should develop "a regulatory mechanism for maize exports that is transparent and accountable", noting "the need for guidelines that are more predictable, based on agreed parameters between government and the private sector".

Sources

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Zambia Daily Mail, 'Maize export ban lifted', 5 May 2014
http://foodbusinessafrica.com/index.php/component/content/article/14-sample-data-articles/1779-maize-export-ban-lifted

Times of Zambia, 'Zambia to record a bumper harvest', 5 May 2014
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http://www.nation.co.ke/business/Gvt-says-there-is-enough-food-for-al/-/996/2348700/-/omuelrz/-/index.html

Zambia Daily Mail, 'Experts ponder maize export issue', 9 June 2014
http://www.daily-mail.co.zm/index.php/business/item/4636-experts-ponder-maize-export-issue

Comment

The on–off nature of Zambia's export policies, alongside restrictive trade policies in neighbouring Zimbabwe, suggests that Zambian maize exporters could lose out on regional market opportunities unless swift action is taken. There is unmet demand in Kenya for commercial imports, government-to-government negotiated supply arrangements, and for food aid for a growing refugee population. This will require both direct private sector initiative and government-facilitated supply negotiations.

More generally, the uncertainty generated by the current Zambian policy hinders the development of reliable intra-regional supply chains. This is likely to become a more significant issue as government policies on genetically modified organisms (GMOs) in East Africa come under review. The introduction of less restrictive GMO-related trade regulation could make East African markets more commercially attractive to South African maize exporters, in a context where South African maize production is dominated by the use of GM seeds.

While Zambia would still enjoy tariff advantages as a result of its membership of COMESA, a policy review aimed at establishing a more transparent and predictable maize trade regime would appear to be necessary, in order to encourage the establishment of long-term supply arrangements. Such a review would appear to be timely, given analysis suggesting that global grain markets have found a new equilibrium, characterised by less dramatic price volatility (see *Agritrade* article 'Strong developing country producer response to the 2008 food price crisis eases global cereal price pressures', 4 August 2014).

The general uncertainty regarding intra-regional trade for maize across Southern and Eastern Africa suggests a need for the establishment of a Southern Africa Grain Association, similar to the Eastern Africa Grain Council (EAGA), to work in close coordination and dialogue with governments and regional structures. A meeting to discuss this was organised by EAGC, the Southern African Confederation of Agricultural Unions and CTA in Johannesburg in January 2014 (see CTA, http://www.cta.int/en/article/2014-02-25/southern-african-grain-sector-moves-towards-establishing-a-regional-association.html', 25 February 2014).

EPAs

Côte d'Ivoire trade policy dilemma highlighted

According to analysis published by the International Centre for Trade and Sustainable Development (ICTSD), if Côte d'Ivoire does not complete its EPA process by 1 October 2014 and thereby loses its duty-free, quota-free access to the EU market, this would impact on a number of its main export products, which collectively account for "one third of Côte d'Ivoire's total exports to Europe and generate millions of jobs, especially in vulnerable rural communities". Potentially affected agricultural products include cocoa and bananas – as well as tuna exports.

ICTSD reports that as a leading global producer in the cocoa sector, "Côte d'Ivoire is currently using its comparative advantage in cocoa to move up the value chain and start exporting value-added cocoa products." The analysis continues, noting that while "this process is in its infancy, it is a promising sector which could create higher paying industrial jobs and contribute to the country's development." However, if Côte d'Ivoire finds itself exporting under the Generalised System of Preferences (GSP) regime the local value-added cocoa product industry would face a serious set-back. ICTSD states that "high tariffs in the form of mixed or specific duties on finished chocolate products, as well as the 9.6 percent ad valorem rate for cocoa paste, would drive Côte d'Ivoire back down the value chain to being a mere commodities exporter (with duty-free entry for cocoa beans)."

In terms the structural development of the Ivorian cocoa sector, the stakes are high. However, there remains optimism that a regional EPA will be concluded before 1 October 2014, when the transitional regulation (MAR 1528/2007) lapses. Despite this optimism, regional actors have started to contemplate "what might happen if the regional deal falls through and various

ECOWAS [the Economic Community of West African States] countries, including Côte d'Ivoire, start to seriously consider bilateral deals with the EU".

The ICTSD analysis maintains that this could make the "West African common market unworkable", with Côte d'Ivoire losing "many of the benefits it currently enjoys under the ETLS" (ECOWAS trade liberalisation scheme). Currently Côte d'Ivoire accounts for almost a quarter of intra-regional trade in West Africa; West African rather than EU markets play a more significant role for some processed and industrial products. The regional trading of sectors that might be adversely affected includes milled flour, where some companies "harvest one fifth of their turnover from trade in West Africa". Trade in flour in West Africa is considered highly sensitive with preferential access under the ETLS being vital to continued trade.

It is in this context that Côte d'Ivoire is seen as being "between a rock and a hard place". The calculation for Côte d'Ivoire is different from that of other West African countries such as Nigeria. Nigeria's exports to the EU are dominated by oil, which attracts zero tariffs under all trade regimes, while Côte d'Ivoire has three times the value (compared to Nigeria) of trade in products that rely on tariff preferences.

Although there are concerns that a conclusion of bilateral EPAs could fragment regional trade policy, the ICTSD analysis maintains that, in terms of access to the EU, the West African region is already fragmented; least developed countries (LDCs) enjoy duty-free, quota-free access under the 'Everything But Arms' (EBA) agreement, regardless of the outcome of the EPA process. Nigeria has been trading under the GSP regime since 2008, and Cabo Verde has been trading under GSP+ since December 2011.

Sources

ECDPM/ICTSD, 'Côte d'Ivoire's EPA: Between a rock and a hard place', *Bridges Africa*, 30 May 2014
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Comment

Although Côte d'Ivoire may appear to be in a difficult position, the extent of the regional consequences of the conclusion of bilateral EPAs largely lies with the West African governments. Given the limited and product-specific coverage of the ETLS scheme, which is based on a complex system of product registration (see *Agritrade* article 'Barriers to intra-regional agricultural trade in West Africa reviewed', 3 June 2013), there is no reason why the conclusion of bilateral EPAs should automatically lead to intra-regional trade disruptions. Decisions will need to be taken on a pragmatic case-by-case basis.

However, it could complicate efforts to simplify and increase the effectiveness of the existing ETLS. By establishing a common tariff for extra-regional imports, the final agreement on the ECOWAS CET offers opportunities for greatly simplifying regional trade arrangements for value-added agro-food products, with considerable scope for enhancing the intra-regional trade benefits of the ECOWAS trade liberalisation scheme. This in turn could create greater incentives for investment in local value-added food processing for regional markets.

By generating country-specific exceptions to the application of the ECOWAS CET for certain products imported from the EU, bilaterally concluded EPAs could make it more difficult to attain the intra-regional trade benefits potentially arising from the ECOWAS CET. However, this can be managed on a product-by-product basis, in line with current ETLS implementation arrangements.

Analysis throws light on the differential impact on companies of increased costs of accessing EU markets

The Commonwealth Secretariat has published a report in its *Trade Hot Topics* series that explores the implications and subsequent costs of the possible loss of duty-free access to the EU market arising from a non-conclusion of the EPA process before 1 October 3014, examining in particular how the changes would affect Kenya's exports of cut flowers to the EU.

The analysis, by the Overseas Development Institute (ODI), notes that, without an EPA in place between Kenya and the EU, the lapsing of market access regulation (MAR) 1528/2007 would lead to an increase in import duties on cut flowers of between 5 and 6.5%, in a context where suppliers from LDCs would continue to enjoy duty-free access under the 'Everything But Arms' (EBA) agreement. It is unclear to what extent the differences in tariffs charged on imports would immediately impact on cut flower sourcing, given a range of other advantages that Kenya enjoys as a result of its long-established presence in the EU market.

The ODI report reviews the role played by different types of cut flower sector companies serving in the EU via two principal routes to market:

- sales through the Dutch auction houses; and
- direct sales to UK multiple retailers.

The report highlights how "lead firms… exert a high degree of explicit control on their suppliers" and that over time the "share of global trade of lead firms has increased." It maintains that overall "80% of global trade is now coordinated by transnational corporations, including through intra-firm trade as well as non-equity modes and under contractual relationships."

ODI also notes that while lead firms source from multiple locations and countries, there is a tendency for the lead firms to bias sourcing towards producers where they have ownership interests.

The analysis remarks that in Kenya there are many types of operational firms producing and trading in cut flowers. These firms have different ownership structures, having to meet different challenges and options in the face of trade policy changes. It maintains that any increase in tariffs arising from a failure to complete the EPA process "may not be such a challenge for large vertically integrated firms that deal directly with retailers", because tariff increases are "more likely to be a challenge for smaller and more medium sized firms", which are probably "domestic rather than foreign owned". The analysis adds that "smaller and more medium sized firms… already face particular challenges related to meeting private voluntary standards and obtaining mutual recognition within developed country markets."

The *Trade Hot Topics* report also argues that "larger firms and those more directly integrated with buyers may be better able to absorb any increase in tariffs," since "the tariff margin increase could potentially be borne by buyers rather than producers." Against this background, "should there be a failure to reach agreement on an EPA… these changes could prompt the downgrading of some firms within the cut flower GVC [global value chain] as opposed to facilitating the social and economic upgrading currently being promoted by donors."

Sources

The Commonwealth, 'EU policy changes pending the EPA deals: Implications for African global value chains', *Commonwealth Trade Hot Topics*, Issue 108, 2014
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Comment

The fact that larger firms, and those more directly integrated with buyers, are better placed to absorb increased costs through sharing the burden applies not only to potential tariff increases, but also to current increases in sanitary and phytosanitary (SPS) inspection fees, arising from moves to full cost recovery in the UK and the Netherlands.

Anecdotal evidence suggests that the financial burden along these supply chains, arising from the 236% increase in UK SPS inspection fees, is in fact being shared (see *Agritrade* article 'UK moves to full cost recovery for SPS inspections, but no agreement yet at EU level', 9 June 2014). It is unclear whether this is equally the case for smaller and medium-sized firms with less integrated supply arrangements.

In addition, the informal granting of "assured trade status" in the UK for reputable traders with a proven good record of compliance can serve to reduce inspection costs faced by established large-scale traders that operate vertically integrated supply chains.

The ODI analysis thus implicitly suggests that increased costs of accessing the EU market (whether arising from tariffs or increased inspection charges) may well fall more heavily on small and medium sized firms that are locally owned, rather than large firms that are vertically integrated, foreign owned or firms that are integrated into direct retailer supply relationships.

The fact that Kenya has a long-established track record of exporting cut flowers to the EU means Kenyan exports are currently subject to lower levels of SPS inspection than non-traditional suppliers, who have not yet built up a track record on which a risk assessment can be made. This may result in Kenyan exporters facing total inspection costs as low as approximately 5% of those levied on non-traditional exporters. This factor may play a role in short-term sourcing decisions, should GSP tariffs be imposed on Kenyan cut flower exports.

Food safety

EU food safety controls increased but fewer non-compliant products from third countries

A report on the website *Foodqualitynews.com* notes that, according to the European Commission, "the system of controls at EU borders on fruit and vegetable imports from non-EU countries is protecting consumers from potential food safety risks." The system involves routine controls, as well as higher levels of controls on products perceived to carry risks. In 2013, with "over 100,000 consignments subject to reduced controls… 11,808 were sampled for laboratory analysis", 11% more than in 2012; and 483 or 4.1% "were found in breach of EU legislation", down from 7.1% of consignments sampled for laboratory analysis in 2012.

For ACP countries, higher levels of controls were applied to products perceived to carry particular risks. In 2013, increased inspections were carried out on Kenyan exports of peas and beans and Nigerian dried beans, while the level of controls on exports of aubergines and bitter melon from the Dominican Republic was reduced. The level of border controls on particular products from particular exporting countries is subject to review every 3 months. This can lead to dramatic increases or decreases in the levels of inspections carried out on these products.

Sources

Foodqualitynews.com, 'Border controls on EU fruit and veg protecting consumers', 27 June 2014
http://www.foodqualitynews.com/Industry-news/Results-of-EU-border-checks-on-imports-of-non-animal-origin

Comment

In 2013, significantly fewer contraventions of EU legislation were found in samples of non-EU fruit and vegetable imports subject to laboratory analysis for food safety purposes than in 2012 (around 35% fewer), despite the increase in the number of consignments subjected to laboratory tests.

This suggests that exports of fruit and vegetable products to the EU are proving increasingly successful in meeting EU food safety requirements, despite the increasingly strict standards being applied (e.g. on maximum pesticide residue levels – see *Agritrade* article 'New EU maximum residue levels hit Kenyan vegetable exports', 28 April 2013).

This raises the question of whether the level of routine sampling being undertaken is justified – a particularly important question in those EU member states that are moving towards full recovery of the costs of official controls from producers whose consignments are being inspected.

EU importers' associations have for some time been calling for official controls to use sampling procedures more closely based on actual risk, In order to reduce the overall costs of the inspections. This has often been linked to calls for greater recognition of the effectiveness of private standards in ensuring compliance with the basic food safety requirements that underpin official controls (see *Agritrade* article 'UK fresh produce inspection charges increased', 23 April 2012).

This is an important commercial issue, since securing increased compliance with EU requirements often involves substantial new investments. There would appear to be a need to recognise the progress being made by third countries in reducing the necessity for inspections by improvements in quality and safety.

EU annual report on plant health interceptions from third-country suppliers

According to the 2013 annual report of the EU Food and Veterinary Office (FVO), some 6,639 consignments from third countries were intercepted for non-conformity with EU plant health requirements under the "web-based notification and rapid alert system for plant health interceptions" in the EU and Switzerland (EUROPHYT). EUROPHYT notifications are used by the EC to assess risks to plant health and establish appropriate inspection schedules for each country/commodity combination.

The report states that "about one third of the interceptions were due to the presence of harmful organisms (HO)" – although approximately 30% of each HO identified were the result of documentary problems or non-compliance with packaging requirements. The HOs were "mainly intercepted in consignments of fruit or vegetables (over 70%), followed by cut flowers and planting material." The report also notes that, since 2009, there has been a "continuous increase in the number of fruit and vegetable consignments intercepted with HO", and that many consignments are "infested with non-European fruit flies, white flies and *Thrips* species".

In 2012–13 "there was a significant increase in interceptions of certain non-regulated products" (*Luffa sp.* and *Trichosanthes sp.* gourds, peppers, *Amaranthus sp.* and *Colocasia sp.*), which probably required the extension of EU phytosanitary requirements.

In 2013 intercepted consignments were imported from 158 different third countries, with Kenya, Ghana and Dominican Republic (DR) accounting for 3.2, 2.9 and 2.8% respectively (compared to 11% for Russia, 9% for India, 7.3% for the United States, 6.4% for India and 5.6% for Thailand). The number of interceptions from Kenya declined in 2013, while those from Ghana and the DR continued to increase. The FVO report notes that the "significant increase in HO interceptions… may justify the introduction of further country-specific measures" for DR exporters, among others.

Harmful organism interceptions from ACP countries in 2013

	No. of interceptions	Commodity	No of interceptions	Main HOs intercepted
Ghana	181	*Luffa* spp. gourds Eggplants *Corchorus* spp.	120 15 12	*Thrips* spp., non-European fruit fly *Thrips* spp. *Bemis tabaci*
DR	173	*Momordica* spp. gourds Mango Eggplants Peppers	68 45 32 16	*Thrips* spp. Non-European fruit fly *Thrips* spp. *Anthonomus eugenii Spodoptera* sp.
Kenya	100	*Momordica* spp. gourds Mango *Gypsophyla* spp.	35 17 15	*Thrips* spp., non-European fruit fly Non-European fruit fly *Liriomyza* spp. leaf miners
Uganda	51	Roses	36	*Spodoptera littoralis*

Source: Europhyt 2013 Food and Veterinary Office Annual Report, 2014 (see below)

Kenya also featured in the list of third countries where interceptions took place because of the absence of or improper phytosanitary certificates.

There was a significant increase between 2009 and 2013 of UK's share in total interceptions of consignments on plant health grounds – up from 6.5% in 2009 to 20.3% of the EU total in 2013. Indeed, between 2009 and 2013, the number of the UK interceptions of imports from third countries resulting from the detection of HOs increased almost fivefold compared to a 33% increase in the EU as whole. According to the report, the UK accounted for "46.3% of the consignments with HO" intercepted in 2013.

The FVO report notes that "for some [member states] the number of notifications on imported goods does not seem to be in proportion to the volume of imports of regulated articles."

Sources

EC, 'Europhyt 2013 Food and Veterinary Office Annual Report', 2014
http://ec.europa.eu/food/plant/plant_health_biosafety/europhyt/docs/annual-report_europhyt_2013_en.pdf

Comment

The increase in the total number of UK interceptions, and particularly in detections of harmful organisms, coincides with an implementation reform of UK plant health protection measures, designed to increase the efficiency and effectiveness of plant health inspections (see *Agritrade* article 'UK moves to full cost recovery for SPS inspections, but no agreement yet at EU level', 9 June 2014).

The increased efficiency and effectiveness of UK plant health inspection services could easily account for the increased frequency of interceptions on plant health grounds of exports to the EU from Kenya and Ghana and even the DR. ACP exporters to other EU markets may face fewer interceptions on plant health grounds, simply because plant health controls are implemented less rigorously than in the UK.

This potentially carries considerable commercial implications, since the EC uses EUROPHYT notifications to assess risks to plant health and establish appropriate inspection schedules for each country/commodity combination.

The result could be that ACP countries, whose primary market in the EU is the UK, face more frequent inspections (at higher overall cost). This is not necessarily because their exports are more likely to carry harmful organisms but – due to the reforms carried out since 2010 – UK inspection services are more likely than other EU member states' services to detect such harmful organisms.

UK farmers' organisations call for a level playing field for pesticide use

Organisations representing farmers and input suppliers in the UK have expressed concerns that overregulation is excessively reducing the range of plant protection products available to EU farmers, thus undermining yields and threatening the competitiveness of EU farming.

In its report "Healthy harvest", published in June 2014, the National Farmers' Union (NFU) claims that the number of crop protection products coming on the market each year has dropped by 70% since the EU pesticide review. It argues that "insufficient evidence [has] been used to enforce bans on certain crop protection ingredients and pesticides." The NFU is now working with the European Crop Protection Association and the Agricultural Industries Confederation in collecting evidence to ascertain the actual and potential impact of fewer crop protection products on UK food production.

An anti-pesticide lobby group has claimed that the report is "scaremongering", and that the review fails to take into account investments in pesticide alternatives.

The NFU is urging members to call for "a level playing field" between the EU and producers elsewhere in the world when it comes to the use of plant protection products.

Currently, according to the latest European Food Safety Authority report, "more pesticide residues exceeding the [maximum residue levels] were found in food imported from countries outside the European Union (6.3%) than in samples originating from EU and EFTA (1.5%)."

Sources

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National Farmers' Union, 'Healthy harvest: Safeguarding the crop protection tool box', June 2014
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http://www.ecpa.eu/news-item/food/05-20-2014/1328/efsa-report-shows-continued-high-compliance-rate-pesticide-residues

Comment

Lobbying by UK farmers and crop protection product manufacturers is unlikely to lead to any change in the EU's precautionary approach to food safety (which places the burden of proof on the manufacturers to ensure the safety of products used). However, the underlying push to level the playing field between EU and third-country producers could see the introduction of increased controls on what products are used in food production outside the EU but destined for the EU market.

This could have serious consequences in terms of costs incurred in finding alternative treatments, strengthening official controls or as a result of reduced yields. If compliance is not achieved, it can also result in increased levels of import controls and an increase in the costs of placing goods on the EU market (see *Agritrade* article 'KEPHIS undertakes research to make case for easing EU import controls', 10 March 2014).

In this context, ACP governments and exporters would do well to monitor the debate launched in the 'Healthy harvest' report, in order to ensure that the production and trade interests of ACP countries are not undermined.

International dimensions of CAP reform

EU agro-food trade surplus continues to expand

According to the EC's agricultural trade report for 2013, growth in EU exports of agricultural products slowed down to 5.8% in 2013, compared to 12% in 2012 and 17% in 2011. Nevertheless, with €120 billion in exports, the EU28 remained the world's leading agro-food product exporter.

Despite the strength of the euro and modest overall growth in world trade, EU exports were "stimulated by demand for particular commodities in developing countries". In general, final products for direct consumption account for two-thirds of EU agricultural exports, however, in 2013 the value of commodity exports increased by 27% following a surge in cereal exports. In contrast, export growth in final and intermediate products was limited to a more modest 3–4%. Some 90% of the gains in EU export values were accounted for by increased volumes and 10% price increases. The report states that, for food preparations in particular, "higher quantities contributed more to the export increase than higher prices did."

In 2013 milk and cereals preparation accounted for 12.5% of EU food and agricultural exports, totalling some €8.7 billion; these followed closely behind wines (€9.1 billion) and spirits and liquors (€10 billion). Wheat and chocolate confectionery are among the EU's other specific agro-food sector exports.

Exports to China showed the largest absolute growth in the food and agricultural product category, including for certain dairy products, where growth has been very strong (whey exports have more than tripled since 2008).

In Russia, the second biggest export market for EU agro-food products, the Russian government's self-sufficiency policies have been impacting on certain EU exports, notably the poultry meat sector (a sector of considerable importance to ACP countries).

In 2013 the EU remained the largest importer of agricultural products, but import values were just below last year's level at €101.5 billion. This generated an agriculture trade surplus of €18.6 billion, an increase of €7 billion on the 2012 figures. Since the EU became a net exporter of agro-food products in 2010, the trade surplus has consistently increased. In 2013 agricultural products accounted for 7% of total EU exports.

In 2013 the unit value of imports of coffee fell by 24%, and those of cocoa beans by 8.5%, cotton by 7.5% and sugar by 5.2%, compared to 2012. Among ACP countries in 2013, South Africa recorded a high growth rate in exports to the EU (+13%), "with a particularly positive trend for various fruits and wine".

While the EU continued to be the top importer of agro-food products from developing countries, on average since 2011 only 2.8% of EU imports of agro-food products came from LDCs. However, this import volume remained larger than the combined total for Canada, the US, Australia, New Zealand and Japan. Nearly half of EU imports from LDCs are final products, 30% commodities and 20% intermediate products. In 2013 EU imports of sugar from LDCs increased by 14%.

Sources

EC, 'Agricultural trade in 2013: EU gains in commodity exports', Monitoring Agri-trade Policy, 2014-1
http://ec.europa.eu/agriculture/trade-analysis/map/2014-1_en.pdf

Comment

The EU's success in transforming itself into a net agro-food product exporter with a growing trade surplus can be attributed to the success of EU agricultural policy reforms since 1992 and the EU's trade policy focus on opening up third-country markets.

In terms of agricultural reforms, a central element has been to reduce the costs of agricultural raw materials by shifting from a system of price support to a system of producer support payments. This has enabled EU prices to fall towards world market price levels without undermining EU agricultural production. The competitiveness of EU agro-food sector exports has also been helped by rising global commodity prices, in the face of surging demand in developing countries.

Targeted promotion programmes for exports of quality-differentiated, value-added food products, alongside the extension of the geographical coverage of recognised schemes such as the EU's Geographical Indications, has also served to boost export earnings.

Since the mid 1990s, the EU's growing focus on bilaterally concluded FTA agreements has been systematically removing both tariff and non-tariff barriers to EU agro-food sector exports. South Africa provides a vivid example of the impact EU policy changes have had on the EU's trade position.

Since 2002, when tariff dismantling under the EU–South Africa Trade Development and Cooperation Agreement (TDCA) got under way, EU food and agricultural exports to South Africa grew four times as fast as exports to the ACP, and 2.5 times as fast as overall EU food and agricultural product exports. Food and agricultural products accounted for 5.5% of total EU exports to South Africa in 2011, up from 3.2% in 2002. By 2011 South Africa's food and agricultural trade surplus with the EU had fallen to €567 million, down from €1,378 million in 2002 (see *Agritrade* article 'Executive Brief Update 2013 – Southern and Eastern Africa: Agricultural trade policy debates and developments', 11 December 2013).

To date, the EU has not concluded any significant reciprocal market access deal with any country that is a producer and exporter of competing agro-food sector products. Against these trade partners the EU maintains a managed trade regime, and actively uses trade policy tools to ensure that internal reforms are first completed and fully effective in guarding EU producer interests before trade liberalisation is undertaken.

Developments in the EU's trade with Russia and China in certain key sectors (poultry meat and dairy products) could have an important bearing on trade relations between the EU and African ACP countries in the coming years.

Product differentiation

Jamaica Jerk Producers seeks GI protection

According to Jamaican press reports, “a collection of sauce makers, Jamaica Jerk Producers Association Limited (JJPA), has applied for registration of the ‘Jamaica Jerk’ as a geographical indication mark.”

Well known to the many tourists to the island, Jamaican jerk is “a style of cooking native to Jamaica in which meat is dry-rubbed or wet marinated with a very hot spice mixture called Jamaican jerk spice… Jerk seasoning principally relies upon two items: allspice (called "pimento" in Jamaica) and Scotch bonnet peppers. Other ingredients include cloves, cinnamon, scallions, nutmeg, thyme, garlic, and salt.”

The move to register Jamaica Jerk as a GI forms part of wider efforts to reposition Jamaican products and services in order to “generate significant revenue earnings through the implementation of an intellectual property Geographical Indications (GI) framework”, according to a government information service report. While the policy framework has been under formation since 2008, the JJPA application of May 2014 is the first actual application for GI protection in Jamaica (see Agritrade article ‘Focus on greater use of GIs in Caribbean’, 11 October 2013). The expectation is that the GI will be registered by 2015. At present, “jerk products made locally for the retail shelf include glazes, sauces, marinades and seasonings,” which are used in a variety of meat and vegetarian dishes.

According to a government statement, GI protection provides:

- “exclusive right to use the products in the course of trade”;
- “better legal protection for the registered products”; and
- contributes to local employment creation and rural development.

A Jamaican Jerk Code of Practice has been drawn up, and any member of the JJPA can use the GI designation ‘Jamaica Jerk’, provided they comply with the provisions of the Code of Practice.

Don Wehby, CEO of GraceKennedy Ltd (GK), a manufacturer of jerk products, hopes that GI registration will provide “a bigger bang for the buck through collective marketing, [intellectual property] protection for authentic Jamaican jerk products, and the opportunity to develop a niche market for such products”. Mr Wehby thinks that members of the JJPA are likely to see an increase in their revenues, as “owners of non-genuine Jamaican jerk products will have to remove their products from markets where the GI for Jamaica Jerk is registered.” This is seen as offering particular opportunities for revenue enhancement in overseas markets. The Jamaica Jerk GI is to be registered in the EU and will be automatically recognised and protected in Switzerland. However, once a GI is registered, it still remains for the applicant association to “police the mark, and enforce their rights against illicit users”.

Other products on which the costs and benefits of GI protection are being explored include Blue Mountain Coffee, and Jamaica Rum. To date, Blue Mountain Coffee has largely been protected through trademark registration and brand promotion.

Sources

The Gleaner, ‘Jamaica Jerk Producers first to apply for GI mark’ 4 June 2014
http://jamaica-gleaner.com/gleaner/20140604/business/business6.html

Jamaica Information Service, 'Jamaican products to be marketed under GI framework', 23 June 2014
http://jis.gov.jm/jamaican-products-marketed-gi-framework/

Wikipedia, 'Jamaican jerk spice', undated
http://en.wikipedia.org/wiki/Jamaican_jerk_spice

Comment

The issue of cost–benefit is important in determining whether to seek GI registration. Applying for GI registration can be a costly process, and still involves costs associated with enforcement, but the revenue gains can be substantial (see *Agritrade* article 'French company seeks trademark rights for rooibos tea, as EU use of GIs expands', 12 May 2013).

The experience of the JJPA of revenue enhancement through GI protection will make an important contribution to understanding better the relative costs and benefits which arise through using GI protection to enhance the value of local speciality products on both domestic and international markets.

As such, this experience will potentially carry important implications across the ACP in terms of understanding the relative costs and benefits of using GI protection as a means of increasing the net value of local producers of speciality products. The experience, combined with other experiences of GI registration elsewhere in the ACP, will assist ACP countries in evaluating the value of GI registration, compared to other product differentiation strategies (such as product branding and use of trademarks). It could also help to identify of the support policies required to effectively make use of GI protection in enhancing net revenues.

At the end of May 2014, a training course was organised in Grenada by the World Intellectual Property Organization, CTA and the Caribbean Export Development Agency. The course looked at how origin-linked products (such as Jamaica Jerk, Bahamas Cascarilla bark, Grenadan nutmeg, Trinidad and Tobago cocoa and Antiguan black pineapple) could make use of various intellectual property tools to enhance their market value. The initiative sought to assist the concerned producer associations in developing their capacity to:

- consolidate their associations to enhance product value;
- explore the various branding strategy options available;
- ascertain which IP tool was most appropriate to their needs;
- identify the obstacles and challenges faced in making use of different intellectual property tools.

Efforts under way to reduce costs of certification through harmonised audits

In June 2014, *Confectionery News* reported that UTZ Certified and Fair Trade USA are "piloting a collaborative cocoa certification scheme" designed to reduce the costs of dual certification (in this case, certifying that a product meets both organisations' standards). The organisations noted that "in the past, farmers seeking dual certification had to comply with two complete sets of requirements and undergo and pay for two different audits." Under the new arrangements, a single audit process, conducted by "an independent body, which had received training in both standards", would be sufficient. The module for the single audit process is currently being developed.

This collaboration in the cocoa sector is seen as a pilot initiative, but UTZ Certified and Fair Trade USA hope that the process of single audits can be extended to other sectors if the approach proves beneficial for producers. They also hope that collaborative audits will give farmers "better access" to differentiated product markets at little extra cost.

Sources

Confectionerynews.com, 'Fair Trade USA and UTZ Certified strike pilot cocoa certification partnership', 11 June 2014
http://www.confectionerynews.com/Commodities/Fair-Trade-USA-and-UTZ-Certified-cocoa-partnership

Comment

Promoting coordination and harmonisation of certification audits across a growing number of schemes potentially offers cost savings to producers, thereby increasing the net benefits they can derive from different forms of certification, by allowing them to access higher-priced product markets (see *Agritrade* article 'Voluntary sustainability standards covering a growing volume of trade', 16 March 2014).

In some ACP countries, sector-wide initiatives have been launched to coordinate audit requirements across a range of standards, in order to reduce the costs of audits and hence certification, under a multiplicity of standards. The Sustainability Initiative of South Africa is pioneering the way in the fruit sector, 'enabling mutual recognition of audits among international and local retailers', by replacing numerous standards and audits with a single, widely recognised audit process. (see *Agritrade* article 'South Africa establishes single ethical trade standard', 4 January 2013).

Sharing this experience across the ACP and broadening out the geographical and product coverage of such audit coordination and harmonisation schemes could prove of value. This is particularly the case in view of the escalating costs of non-tariff measures for ACP exporters. Such schemes could potentially assist in slowing down the process of marginalisation of small and medium sized-producers from high-value export supply chains.

A far bigger policy issue, however, relates to promoting public sector bodies' recognition of the audit and certification procedures carried out under internationally recognised private sector schemes within the design and conduct of official food safety and sanitary and phytosanitary (SPS) controls.

Where private schemes already require verifiable compliance with food safety and SPS requirements, a case can be made for a reduction of official controls and of the charges made for the verification of compliance.

This takes on increased significance in those markets where governments are moving towards full recovery of the costs of official controls, to reduce financial pressures on state funds.

WTO

The WTO and animal welfare-related trade restrictions

Animal welfare concerns were raised at the International Meat Secretariat Veal Committee meeting in mid June 2014 over the possible implication for the international meat sector of the WTO Appellate Body ruling on the 2009 case brought by Canada over EU trade restrictions on the import of seal products. "According to Canada, the regulation in question prohibits the importation and the placing on the EC market of all seal products."

Although the WTO panel found that the exceptions provided to allow imports of certain seal products were in violation of a number of WTO articles, the overall EU Seal Regime "does not violate Article 2.2 of the [Technical Barriers to Trade] Agreement because it fulfils the objective of addressing EU public moral concerns on seal welfare to a certain extent, and no alternative measure was demonstrated to make an equivalent or greater contribution to the fulfilment of the objective".

However, the Appellate Body found that the EU "had not demonstrated that the EU Seal Regime meets the requirements of the chapeau of Article XX. Therefore, the Appellate Body concluded that the European Union had not justified the EU Seal Regime under Article XX of the GATT 1994".

Senior scientist, Jacques Servière maintained on the INRA science news website that the WTO Appellate Body ruling means that the EU can "refuse to import products from seals because of the treatment of the animals". This, he argued, created a precedent which could lead to trade in some meat products being challenged on animal welfare grounds in the future.

The implications of the WTO ruling need to be seen against a background of growing "public awareness of animal welfare issues in the production of meat", arising from sustained public campaigning and lobbying by animal welfare campaigners. Mr Servière argued that in this context the international livestock sector needs to engage effectively on animal welfare issues.

Sources

Thepoultrysite.com, 'World Meat Congress: Animal welfare to be new moral trade barrier', 16 June 2014
http://www.thepoultrysite.com/poultrynews/32474/world-meat-congress-animal-welfare-to-be-new-moral-trade-barrier

WTO, 'European Communities: Measures prohibiting the importation and marketing of seal products', 18 June 2014
http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds400_e.htm

Comment

ACP states exporting, or hoping to export, beef products to the EU could usefully seek clarification from the WTO Secretariat on the extent to which the WTO seal case ruling (Dispute DS400) sets a precedent for the application of trade restrictive measures in the meat sector, in response to moral concerns over animal welfare.

It should be noted that, for some ACP countries, the safety of meat products (and potentially animal welfare concerns) is not simply an issue in international trade but also an issue in domestic sales to the expanding tourism-related market. In future, therefore, the ability of ACP producers to get to grips with animal welfare matters could carry implications for ACP meat exporters as well as for access to certain high-value components of the domestic market.

In response to growing animal welfare concerns in OECD markets, existing ACP meat exporters, producing under extensive farming conditions, may find it an advantage to highlight the humane conditions under which animals are raised, transported and slaughtered.

Commodities: General

More information cooperation needed to ease price volatility

Researchers at the University of Bonn have argued in a recent report that "cross-border information sharing could help stabilise global commodity food prices in the long term by reducing price 'spikes' which often lead to stockpiling and food insecurity." The report identified "financial speculation as a trigger for price spikes and fluctuating oil prices as the linchpin to price volatility in the medium term".

The report confirmed "the increasing link between financial and commodity markets". However, it was argued that restrictive trade policies "further contribute to price surges". It maintained that increasing purchases for national grain stocks to reduce volatility and import dependency "lead to increased grain scarcity and thus higher prices in the short run".

The researchers called for "a more cohesive international approach involving co-operation between government bodies and national associations to pre-empt market fluctuations and facilitate effective counter-measures". They stated that while the G20 Agricultural Market Information System (AMIS) initiative has sought to promote greater transparency on food availability, some member states are not meeting their obligations to provide current data. In this context "improving the market information base would help all market actors to form expectations based on fundamentals and to detect shortages early".

The researchers also called for a more focused approach to biofuel policy to "alleviate food supply pressures and help stabilise markets".

The research findings emerged from a consideration of empirical data on "agricultural supply and demand pressures, stock-to-use ratios and the effects of futures market trading", as well as the use of three types of model to "assess the impact of different market pressures".

Sources

Foodnavigator.com, 'Food crises could be avoided through greater cooperation: analysis', 9 June 2014
http://www.foodnavigator.com/Market-Trends/Food-crises-could-be-avoided-through-greater-co-operation-analysis

Sciencedirect.com, 'Drivers and triggers of international food price spikes and volatility', *Food Policy*, Vol. 47, pp. 117–128, August 2014
http://www.sciencedirect.com/science/article/pii/S0306919213001188

Comment

The link between food, financial and energy markets has been much debated. While the 2011 multi-agency report for the G20 firmly sat on the fence in terms of the nature of these linkages, the 2013 UNCTAD report concluded that financial speculation exacerbates food price fluctuations (see *Agritrade* articles 'G20 task force recommends wide-ranging action to reduce impact of world price volatility', 5 July 2011, and 'Changes to commodity markets will have lasting price effects', 18 May 2013). This report by scholars at the International Food Policy Research Institute and the Universities of Bonn and Calabria comes down in favour of there being a measurable empirical link.

One salutatory finding from the analysis is that the impact of the G20-inspired AMIS is being limited on account of what it terms "collective action failure", with some members failing to contribute sufficient information through the AMIS reporting system. Since the provision of more reliable information is the minimum step that governments might be expected to take to reduce price fluctuations that reach beyond those justified by the underlying physical supply and demand situation, this shortcoming can be seen as a serious indictment of the contribution of some governments to combating global price volatility.

Similar considerations apply at the regional level. While up-to-date market price information, including on the location and size of surpluses and deficits, greatly contributes to the goal of regional food security (see the CTA policy brief on the role of MIS), much else is needed too – such as the promotion of regional grades and standards, adequate warehouse and transport infrastructure, warehouse receipt systems and commodity exchanges. Greater transparency in government trade policies for the cereals sector, within the context of regional trading initiatives, could assist in mobilising the finance required for investment in physical infrastructure for enhanced intra-regional trade. For further information on grain structured trade, see the following two recent CTA publications:

http://publications.cta.int/en/publications/publication/1742/

http://publications.cta.int/en/publications/publication/1749/

Banana sector

Permanent low retail pricing for bananas spreads to the Netherlands

Banana Link has reported that supermarket banana price wars have spread to the Netherlands, with Albert Heijn, the country's number 1 retailer, following the supermarket Jumbo in pricing its bananas at €0.99/kg. Banana Link, a UK-based not-for-profit cooperative, suggests that other Dutch supermarket chains could follow suit.

Banana Link notes that although Jumbo "did not cut the price it paid to suppliers when it cut the retail price, the fact remains that its suppliers will not be in a position to raise the price they receive when contracts are renegotiated". According to a representative of a Dutch banana ripening company, "the fierce competition is affecting everyone in the sector," with the supermarket pricing policy of €0.99/kg meaning that "nobody is making any money."

In the report, Banana Link notes that in the UK, "the key question about the power imbalance in price negotiations" between buyers and suppliers has never been addressed. Analysis by the Fairtrade Foundation suggests that "most consumers do not buy more bananas because they are cheaper", with surveys finding that 84% of consumers said they would be willing to "pay more for bananas if they knew the extra money would benefit farmers" and that bananas would be "grown in an environmentally sustainable way".

Banana Link claims that it is time for retailers to "realise that destroying value in the banana chain makes it impossible to deliver real sustainability and customer satisfaction".

In the Dominican Republic (DR), the EU has recently awarded €12.5 million under its Banana Accompanying Measures programme to support investment in improving the competitiveness and productivity of banana producers in the DR. Some 50% of this funding will directly deployed to assist banana producers, and a further US$10. million will be mobilised from the DR government. The aim of the programme is to increase national exports by 10%, reduce chemical usage by 50%, and boost employment by 20%.

Sources

Banana Link, 'Dutch chain Jumbo joins banana price warriors', 19 May 2014
http://www.bananalink.org.uk/dutch-chain-jumbo-joins-banana-price-wars

Freshfruitportal.com, 'EU gives strong financial support to Dominican Republic banana industry', 18 June 2014
http://www.freshfruitportal.com/2014/06/18/eu-gives-strong-financial-support-dominican-republic-banana-industry/

Comment

The retailer Albert Heijn is present in not just in the Netherlands, but has 23 stores in Belgium and 6 in Germany. This means that its pricing policy for bananas could spread to other EU member states, exerting pressure on local discount retailers to introduce permanent discounts on banana prices.

It is important, therefore, to consider policy initiatives to strengthen the functioning of ACP–EU banana supply chains as a necessary complement to current EU banana accompanying measures financial assistance programmes. Without steps to halt the spread of retailer pricing policies that are stripping value out of the banana sector, it is unclear how even the most competitive ACP banana producers can attain a basis for production that is sustainable in the long term.

Since June 2012, consumer organisations and development NGOs have been campaigning for elements of the EU policy on strengthening the functioning of supply chains to be applied to international supply chains (see *Agritrade* article '[Sustainability concerns go mainstream in Dutch fruit and vegetable sector]', 29 July 2012).

More recently, NGOs have called for regulatory action to create "an ombudsman similar to the UK Groceries Code Adjudicator in order to regulate buyer power in the retail industry, starting with bananas" (see *Agritrade* article, '[Fairtrade Foundation calls for regulatory action to promote more sustainable banana production]', 2 June 2014).

ACP governments with interests in the functioning of banana, sugar and horticulture supply chains may need to consider whether this constitutes an area for collective ACP dialogue with the EU within existing institutional mechanisms for consultation on trade issues.

Beef sector

Trade challenges in the West African beef sector

According to analysis from the University of Wageningen, West African governments are looking to support private sector investment as a means of promoting more intensive forms of livestock production. The analysis highlights the role of traditional pastoralists, noting that most livestock is traded intra-regionally on the hoof.

However, the Wageningen analysis observes that in countries such as Mali, "production of meat by pastoralists does not really contribute to local food security of beef". Indeed, it argues that most West African pastoralists have only a limited interest in commercial beef sales.

The analysis highlights how, since 2005, ECOWAS has made a significant effort to "streamline regional livestock policies that hamper production and trade", with a regional plan of action to develop the livestock sector approved in 2009. The Wageningen analysis questions the economic feasibility of certain aspects of this plan of action, linked to improving fodder supplies, extending insurance cover to livestock producers and guaranteeing livestock producers' incomes.

The analysis notes that while "most countries in West Africa now have fairly effective sanitary corridors with control arrangements at border posts," much remains to be done with regard to diseases such as contagious pleuropneumonia (CPP) and foot and mouth disease (FMD). It argues that in most West African beef production systems, "the cost of veterinary treatment other than vaccinations is high compared to the market value of the animals."

A variety of ECOWAS-endorsed or supported initiatives have been launched to "ease formal border controls and informal (i.e. illegal) taxes". Transport corridor-based schemes implemented in association with livestock sector stakeholders have enjoyed some success in reducing the number of unofficial controls and levies along intra-regional supply chains.

However, lack of traceability to ensure the hygienic processing and transportation of beef traded within the region remains a problem. There is considerable scope for improving the feeds used, the processing at abattoirs and cold store chain management in order to upgrade the quality of products delivered to final consumers.

At the policy level, the analysis maintains that, compared to the EU, ECOWAS policies "are not really figuring in the public debate", with some analysts overstating the "regulatory force that ECOWAS might exert in driving greater local trade".

In terms of international trade, the University of Wageningen analysis notes that SPS requirements established by the World Organization for Animal Health (OIE) make it hard to trade West African animal products onto international markets, as these have more stringent legislation dealing with traceability, which exacerbates the problems.

A possible area for effective action identified by the Wageningen analysis relates to the provision of greater support to the development of private regional initiatives and improvements in processing animal products; also strengthening product marketing strategies. In terms of strengthening marketing, the report comments that semi-arid regions have a comparative advantage in lean meat production; in this context, there is scope for better branding and marketing, which could form part of a forward-looking vision for the development of intra-regional trade in the beef sector.

Sources

Wageningen UR Livestock Research, 'Aid and trade for livestock development and food security in West Africa', February 2014
http://www.rvo.nl/sites/default/files/2014/01/Quickscan%20veehouderij%20in%20West-Afrika.pdf

Comment

The growing demand for imported beef in West Africa is in part linked to developments in the retail sector in the urban areas of coastal states. The number of supermarkets serving higher-income consumers (although still a small component of the overall retail sector) is increasing rapidly. These supermarkets have major food safety concerns regarding the lack of traceability and quality assurance on locally sourced beef, which leads to a strong extra-regional sourcing focus.

There would appear to be scope for developing local beef supply chains linked to commercial feedlots and local processors, which have established more reliable traceability systems for guaranteeing a more hygienic and safer production of beef, in line with the demands of supermarket clientele (e.g. in Ghana).

Although the analysis suggests that there are policy tensions between on the one hand farming for local food supply and income generation purposes, and on the other industrial farming to meet urban food demand, there would appear to be scope for policy initiatives capable of addressing both concerns.

For example, developing the marketing of lean beef cuts produced from extensively raised cattle would appear to offer opportunities for this component of the West African beef sector to sidestep the competitive challenge posed by beef imports, by targeting market components concerned by the excessive consumption of fatty meat. However, this would require issues relating to the hygienic processing and transportation of such beef to be addressed. Equally, around urban areas, there would appear to be scope for expanding feedlots and processing facilities in line with supermarket buyer requirements.

Hong Kong seen as good fit for Namibian beef product exports

The suspension of live animal exports to South Africa in May 2014 has thrown into sharp focus the long-standing concerns in Namibian government circles over "the dangers of just one export market for Namibian livestock and meat products". This has led to the government urging beef sector export diversification and the opening up of alternative markets.

In this context, the Namibian Minister of Trade and Industry, Calle Schlettwein, reported in May that negotiations to establish the SPS basis for beef exports to China and Hong Kong were now at an advanced stage, and that government initiatives have been coordinated with the Meat Board. A Meat Board delegation undertook a business mission to Hong Kong in 2013, and an official visit by government officials took place in April 2014.

The Minister stated that all "animal and meat health issues have already been successfully dealt with", and that only a range of legal and administrative requirements were now outstanding (largely relating to food labelling legislation, nutrition labelling requirements and pesticide control legislation).

The Hong Kong market is being targeted since it "has a negligible agriculture sector", and eating out at restaurants, hotels and fast-food outlets is an integral "part of the Hong Kong culture and lifestyle". The potential trade with Hong Kong is therefore seen as being a good fit between the structure of the market and the nature and quality of Namibian beef product exports.

The targeting of Chinese markets for beef exports brings into focus calls made by former Botswana President Festus Mogae in April 2014 for increased cooperation between Namibia and Botswana in competing more effectively on international beef markets and defraying the costs of meeting increasingly strict market access requirements. He argued that since Namibia and Botswana both produced "excellent quality beef", they should adopt joint strategies for the combined processing and export of beef, in order to attain the volumes required to penetrate new and rapidly expanding markets.

Sources

New Era, 'Hong Kong beef export market confirmed', 8 May 2014
http://allafrica.com/stories/201405081337.html

New Era, 'Namibia, Botswana beef sectors urged to merge', 9 April 2014
http://www.newera.com.na/2014/04/09/namibia-botswana-beef-sectors-urged-merge/

Comment

Calls for greater collaboration in the marketing of beef make commercial sense in terms of laying the groundwork for securing SPS approvals and initial market identification work. Such collaboration, through sharing costs, could help reduce the high unit costs of identifying and developing new markets faced by relatively small-scale exporters. This is particularly the case if a larger number of countries are involved in a collective ACP beef market identification and access programme. (The Chinese market, for example, is potentially so huge that it makes intra-ACP competition irrelevant).

Involving a larger number of ACP countries could also facilitate the sharing of experiences: for instance, Namibia's experience in securing SPS approval for exports to China and the initial Chinese market identification work could be 'traded' for comparable knowledge among other ACP livestock exporting countries on developing exports to Middle Eastern markets (e.g. Ethiopia and Kenya, with regard to beef products, as well as sheep and goats).

If common standards can be established and common levels of compliance attained, joint branding (similar to the 'Authentic Caribbean Rum' label) could be considered. However, given the varied animal disease status of ACP beef exporting countries and the very different track records of compliance with food safety standards, established exporters might be reluctant to cooperate in joint marketing initiatives with countries that are unable to consistently meet the basic SPS and food safety standards required.

Joint marketing is also likely to be highly problematical in markets where quantitative restrictions are in place. This is highlighted by the current dispute between two Namibian meat processing companies regarding access to import licences to serve the highly lucrative Norwegian beef market.

Cereals sector

Strong developing country producer response to the 2008 food price crisis eases global cereal price pressures

Analysis from ODI, published in its "Food prices 2013/14: Annual review" of May 2014, has highlighted how "world grain production increased more than twice as much since 2008 than in the seven years previously", with poorer countries having added more than 240 million tonnes (74%) of this increased production. This, it is argued, is "saving the world from feared prolonged periods of instability and huge price rises of… maize, wheat and rice".

According to the report, "farmers, especially in developing countries, have finally adjusted to the roller-coaster ride of instability in cereal prices." The authors of the report maintain that this will create a new norm for cereals prices above pre-2008 levels, but below the higher price levels of recent years.

The report observes that sub-Saharan Africa, where it was feared that the production response would be muted, "has increased its grain production by over 24 million tonnes since 2008, three times more than it achieved in the seven years before the spike", accounting for 7.6% of the total increase. Asia has boosted its production by 100 million tonnes (or 31.5% of the increase), while Latin America has boosted its production by 15 million tonnes (4.7% of the increase).

According to the report, "increased production comes partly from farmers reacting to higher prices, but also from successful international and national efforts to boost supply', notably the 2009 G8 pledge to provide US$22 billion for agriculture, rural development and food security in developing countries.

The authors argue that the production response of developing country farmers "calls into question some radical proposals put forward after the 2008 price spike, including creating global public cereal stocks and curbing the futures market in maize and wheat". The analysis plays down the likely impact of the Ukraine prices on the underlying global cereals supply situation, maintaining that the political uncertainty "probably does not pose a major threat" to global cereals availability.

The analysis considers that the period of high and volatile cereal prices experienced in recent years may be ending, observing that the 2008 conjuncture of short-term production shocks and long-term demand trends, coupled to panic responses, have increased the sensitivity of world cereals markets to harvest failures and supply concerns, giving rise to sharp price responses. It argues that the surge in demand growth provided by biofuel policies has now levelled off, while inputs costs are now stabilised, thus allowing producers to establish a new equilibrium. While price instability will still be a feature of cereals markets, this is now likely to be less dramatic than during the immediate post-2008 period, since stocks have been rebuilt and governments are less prone to panic responses, with improved information on supply and demand trends.

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Comment

One issue of concern in the ODI report is that the past trend of growth in food supplies exceeding growth in demand may change in the future, with global supply expansion failing to keep up with growing demand and prices consequently soaring. A second issue of concern relates to the ability of ACP countries to manage price volatility in such a way that it neither undermines domestic production nor exacerbates food insecurity. And a third issue of concern relates to the medium-term level to which prices return after each price spike, and how quickly the adjustment takes place. This is important in terms of how quickly price signals are taken up by farmers and, consequently, how quickly global production responds to any price spike.

The ODI analysis is encouraging in respect of the latter. Sub-Saharan Africa had the second best improvement in its maize production response following the 2008 price spike (after the countries that made up the former Soviet Union), and has seen the greatest improvement in rice production following the 2008 price spike. Evidently, African markets are transmitting price signals and African farmers are responding, often with the benefit of donor-supported input supply programmes.

However, it is premature to conclude that the situation in the ACP is completely satisfactory. Three issues arise in this regard:

- How in the long term are input support programmes to be sustained once donor assistance is terminated?
- What policies are needed to ensure that internal marketing structures operate efficiently in linking expanded cereals production to profitable national markets?
- What trade policies are required to allow the regular profitable export of expanded cereals production that may be surplus to current national requirements?

If these issues are not addressed, then the consequences of periodic price volatility may erode the benefits gained to date, particularly in smallholder-based farming systems.

Cocoa sector

Prospective trends in the future location of global cocoa production

With the expansion of global cocoa consumption largely driven by market developments in Asia and Latin America, the question has been raised of whether this will see the emergence of patterns of investment that will eventually lead to a decline in the current dominant role of Côte d'Ivoire and Ghana (which account for most of Africa's 70% of global cocoa production).

Laurent Pipitone, director of the International Cocoa Organization's (ICCO's) economic division, acknowledges that there is concern over the fact that just two countries play such a dominant role in supplying cocoa to the global market. The concerns are heightened by developments in both Ghana and Côte d'Ivoire. Press reports in June 2014 highlighted the impact on cocoa production resulting from the sale of illegal mining concessions by impoverished farmers in Ghana. It was estimated that this could be reducing annual production by as much as 100,000 tonnes. This trend, which is undermining government efforts to boost production through fertiliser subsidies, mass spraying of pesticides and bonus payments, is closely linked to the diminishing net returns enjoyed by Ghanaian cocoa farmers.

Representatives of Mars have argued that growing demand in the Asia-Pacific region could see this region emerge as the first major consumption zone with its own domestic cocoa production.

However, while Indonesia is the third largest cocoa producer in the world, annual production in the last 6 years has fallen from 700,000 to 410,000 tonnes as a result of "competition from other crops and pressure from tree diseases". Cargill and Mars' attempts to promote cocoa production in Vietnam have met with only limited success, producing a meagre 7,000 tonnes per annum; similar efforts in India have also yielded limited results; and the climate of China is considered unsuitable for cocoa production.

Jean-Marc Anga, Executive Director of ICCO, has argued that there is nonetheless great potential still for cocoa production in Africa. Given the size of its domestic market, Nigeria in particular is seen as having significant potential for expansion.

Reports from the website *Agrimoney.com* suggest that the imminent deficit in cocoa production (projected at 1 million tonnes by 2020) could stimulate cocoa production across the globe, as investors seek opportunities for estate-based cocoa production to capitalise on evolving market trends. According to the commodity analysis website, "some operators are talking of 'very high' operating profit margins... at up to 66% at maturity." This assumes a cocoa price of US$2,700–2,800 per tonne, a level below the June 2014 spot price of US$3,139/tonne.

Agrimoney.com identifies a range of new estate-based cocoa investment plans, including:

- investment by Agriterra in a 4,000 ha plantation in Sierra Leone;
- an expansion of production at ROIG Agro-Cacao's 3,000 ha plantation in the Dominican Republic;
- an expansion of Agro-Nica Holdings' cocoa estate in Nicaragua to 8,000–9,000 ha;
- plans for 3,000–4,000 ha of combined cocoa and hardwood production at the United Cocoa estate in Peru;
- a range of unspecified new investments in West Africa, the Philippines and Indonesia.

The move by consumers in developed country markets to chocolate with a higher cocoa content is seen as creating new opportunities for cocoa producers, with countries such as Ecuador in the forefront of efforts to "capitalise on rising demand for premium chocolate".

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Comment

The emerging situation in the cocoa sector could potentially pose serious policy challenges for ACP governments in West and Central Africa. The current system of smallholder-based production is facing serious challenges, linked to the absence of prices that can provide a sustainable basis for on-farm investment and an inter-generational renewal of the cocoa farming community. Past efforts at cooperative forms of organisation have not always proved successful, yet improving access to planting materials, and attaining economies of scale in harvesting, storage, transportation and marketing would appear essential.

It is against this background that the growing interest in investment in estate-based cocoa production needs to be seen. This could well offer a more effective framework for achieving productivity improvements, reducing logistical costs and meeting evolving demands for sustainability certification of cocoa supply chains.

Hard policy choices would appear to lie ahead for governments in ACP cocoa producing countries, with any moves to estate-based forms of production raising highly sensitive land issues.

It may well be that if West and Central Africa are to retain their current dominant role in cocoa production, then governments will have to reconsider the organisational basis for cocoa production, in order to increasingly focus on sustainable, high-quality cocoa bean production.

Elsewhere in the ACP, more consideration may need to be given to market positioning within an increasingly differentiated and quality-conscious cocoa product market.

Coffee sector

Coffee sector's important contribution to household food security potentially undermined by price volatility

A report from the Economic Policy Research Centre (EPRC) at Makerere University in Uganda, entitled "The potential of coffee to uplift people out of poverty in Northern Uganda", maintains that "Northern Ugandan coffee-producing households are relatively better off economically compared to non-coffee producing households." The report confirmed findings from a 2009/10 Uganda Bureau of Statistics (UBOS) study, which found that 56% of coffee households can afford three meals a day, compared to 48% of non-coffee producing households.

The report recommended that the government should "intensify the coffee expansion program in the sub-region to leverage the poverty-reducing effect of coffee", address constraints on production and develop "processing infrastructure for value addition", including moves into ready-to-drink coffee products, for domestic as well as export markets, given the rising import bill for instant coffee.

The current focus on raw bean exports is attributed to "the difficulties involved in accessing markets abroad for processed coffee", according to stakeholders in the sector. The EPRC report also identified "price fluctuations, drought which affects yields, marketing and knowledge gaps" as major challenges.

Joshua Nkandu, executive director of Uganda's National Union of Coffee Agribusiness and Farm Enterprises (NUCAFE), speaking at a national forum on agriculture and food security, commented that there is a need to improve the quality of Ugandan coffee as part of efforts to move into value-added processing. NUCAFE has called on the government to collaborate with the private sector in promoting local coffee consumption in order to "encourage players into processing".

Overall, the Uganda Coffee Development Authority estimates that "about 1.3 million households" in the country are coffee growers. The government is supporting a programme to "plant 300 million coffee trees by 2016", which forms part of the wider National Coffee Policy that the government is seeking to implement. Coffee "remains Uganda's main agricultural export", contributing on average 20% of total export revenues in the last decade.

Local press reports note that Uganda "currently produces 2–3 million 60-kg bags of coffee every year", compared to 6.5 million in Ethiopia, 11 million in Colombia, 15 million in Vietnam and 42 million in the world's leading producer, Brazil. Uganda, however, is the fourth largest global producer of robusta coffee beans.

In 2013/14, coffee prices fell, and Uganda's 23% expansion in export volumes yielded only a 5.4% increase in export values in the year to March 2014. Exports to the EU accounted for 71.13% of total export volumes, a decline of 5,000 bags from the preceding year. Exports to Sudan fell by 6,174 bags, (down to 11.35% of exports, compared to 12.74% in 2013), while exports to India increased by 7,361 bags, (up to 4.54% of exports, compared to 2.27% in 2013).

In Tanzania, meanwhile, concerns have been expressed over the lack of "copyright" for Tanzanian coffee, which is seen as undermining efforts to secure price premiums through single-origin marketing of quality-assured coffee.

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Comment

If the contribution of the coffee sector is to fully contribute to household food security, then it is apparent that strategies for managing global market price volatility will need to be built into Uganda's National Coffee Policy. The different experiences of Ethiopia and Rwanda suggest that establishing high-quality storage capacity, along with improved market intelligence, could help to reduce the impact of price volatility on total coffee export earnings to the benefit of the primary producer. (See *Agritrade* articles 'Ethiopian coffee sector caught out by declining global prices in 2013/14', 21 July 2014, and 'Investment in storage reduces Rwandan coffee sector vulnerability to global price volatility', 14 July 2014.)

The development of value-added processing and the targeting of high-quality, single-origin coffee market components could also assist in reducing the effects of price volatility on total coffee sector export earnings.

Given that a number of ACP coffee exporters face similar challenges in this regard, it would appear that benefits could be gained from sharing experiences and knowledge across ACP coffee producing countries. Indeed, scope could even exist for the development of joint branding of single-origin coffee promotion programmes, particularly when targeting non-traditional markets (e.g. India and China). This could draw on the experience of programmes such as the Authentic Caribbean Rum label managed by the West Indies Rum and Spirits Producers Association (see *Agritrade* article 'Lessons from the Caribbean rum programme', 4 July 2010).

Cotton sector

Does the new US Farm Bill meet US cotton subsidy reduction commitments?

Analysts from two academic news forums, IFPRI and ICTSD, argue that it is now time to end the long-standing cotton dispute, involving the C4 group of West African countries (Benin, Burkina Faso, Chad and Mali). Traditionally, US cotton farmers have received "twice as much crop insurance subsidy… three times as much direct aid payments, five times as much marketing loan deficiency subsidies and twelve times as much countercyclical subsidies" as US producers of other crops.

However, as a result of the provisions of the new US Farm Bill, subsidy rates for cotton will be brought into line with rates for other crops. The new Farm Bill eliminates two subsidy programmes for cotton and introduces a new revenue insurance programme and additional complementary insurance programmes, which allow the purchase of "additional crop insurance at highly subsidized rates". ICTSD's analysis notes that the "six principal subsidy programs for cotton that Brazil claimed were in violation of US domestic subsidy commitments in the WTO did not include crop insurance subsidies."

The analysis maintains that through the new Farm Bill, the US has "made good its promise to reform cotton policies". In addition the analysis highlights how the US share of world cotton markets has fallen, with current cotton sector policies in China having a greater impact on world cotton market prices than US cotton sector policies.

The ICTSD report argues that the challenge now is for the C4 and Brazil to get the US to lock in these changes, by offering to drop their respective cotton disputes. This would therefore require a US commitment to limiting cotton payments to "what they were in 2010 or 2008", a move consistent with C4 group demands dating back to the 2011 WTO Ministerial Meeting (see *Agritrade* article 'C4 countries table "standstill principle" proposal in WTO', 7 January 2012).

The IFPRI analysis, while acknowledging the reductions in US farm support and the importance of WTO dispute processes in bringing about the substantive changes to US cotton support programmes, highlights the essential safety net function of new support measures, designed to ensure that declining prices do not undermine domestic production. It argues that "the shift to insurance for cotton… is intended to circumvent the WTO dispute settlement ruling against previous cotton support programs and bring the US into compliance with WTO requirements under that case."

IFPRI maintains that, from an international perspective beyond these substantive changes in the cotton sector, "there is little else to point to in the new law that moves in the policy direction implied by the idea of WTO disciplines on trade or production distorting support". It continues, "the structure of the new support programs regresses sharply toward those distortions."

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Comment

The fact that the US has "made good on its promise to reform cotton policies", and that in future subsidy rates for cotton will be brought into line with subsidy rates for other crops, can be seen as a welcomed development.

However, from the perspective of ACP cotton producers, the key concern remains the impact of ongoing US support programmes on US cotton production, trade and global cotton prices. The subsidy reforms pushed for by the C4 were intended to ease downward price pressures on global cotton markets (see *Agritrade* article 'Potential impact of WTO agreement on cotton', 5 May 2010). Given the safety net policies being put into place for US producers (in line with similar policy moves in the EU), situations may continue to occur where the production changes required to adjust to declining prices largely take place in non-OECD countries.

The fact that Chinese cotton sector policies now also have a major bearing on price developments in global cotton markets highlights the importance of broadening out the C4's cotton campaign to include dialogue with China on what can be done to reduce the adverse effects of Chinese cotton sector policy reforms on ACP cotton producers.

ACP cotton producers may wish to focus on securing duty-free, quota-free access to the Chinese market, through quota expansion, reduction of out-of-quota tariffs, or the inclusion of cotton in China's duty-free, quota-free programme (see *Agritrade* article 'Priority areas for cotton lobbying identified', 29 July 2013) – particularly given the projections of declining overall levels of Chinese cotton imports (see *Agritrade* article 'Chinese subsidy reform begins to take effect while Tanzania sets up a crop stabilisation fund', 14 July 2014).

Dairy sector

Nestlé to roll out modular factory system in Africa

Press reports indicate that Nestlé has created a modular factory that can be established in half the time of a conventional factory, and at 50 to 60% of the cost. The factory consists of easy-to-assemble component sections and is intended to offer "a flexible, simple and cost-effective solution for creating production sites in the developing world".

Africa is seen as the main target market for this factory design, where "a fast, flexible and cheaper way" of entering the market is desired. It is often considered "risky" investing in these countries, given the lack of infrastructure and reliable electricity supplies. The modular concept means that this type of factory can be established in line with evolving market requirements; or it can simply be disassembled and moved to another site.

The first countries to be targeted are all in sub-Saharan Africa and include Malawi, Mozambique, Rwanda, Tanzania and Uganda. The initial investments will be small, with careful analysis of how activities in different product categories develop. The first factories are to be established in the next 1 to 3 years. Modular factory units will focus on "setting up simple processes like repacking and mixing dry goods", rather than the manufacture of more complex products.

Nestlé representatives claim that "the modular factory concept is very flexible in terms of repacking coffee and milk powder," and that these, alongside cocoa beverages, are the most suitable product categories for this type of manufacturing facility.

Creating these factories needs to be set against a background of volatility in global dairy product prices; prices fell by 26% (from very high levels), in the 4 months up to June 2014, before beginning to recover some of the losses. It is anticipated that global dairy prices will not recover until 2015 because of Chinese stockpiles. Rabobank forecasts that the current lower dairy prices will curb milk production growth in major producing regions (down from 4.7% in the first half of the year to 1.8% in the second half of the year).

Meanwhile, Nestlé has announced a new milk supply agreement with the UK dairy cooperative, First Milk, to expand the supply of fresh milk for use in its Kit Kat and Nescafé brands (such as its Café Menu range of hot chocolate and cappuccinos). The contracted volumes and prices provide First Milk farmers with "protection against the volatility of markets". The new contracts reportedly reflect "Nestlé's commitment to a relationship built on the foundations of a short sustainable supply chain".

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Comment

Nestlé has joined Arla in developing low-cost processing solutions linked to reinforcing its presence in African markets for simple dairy, coffee and cocoa beverage products (see *Agritrade* article 'Arla launches turnkey milk powder packaging facility in Côte d'Ivoire', 27 October 2013). This needs to put in the context of the increasing volumes of EU milk powder that will be available for export following the abolition of EU milk production quotas, and the volatility in global market dairy prices.

Having ready access to related processing units, which allows the consumer-ready packaging of milk powders, serves to reduce the vulnerability of companies such as Nestlé and Arla to price volatility on global dairy markets.

These types of investments could help stimulate local production of simple dairy products to meet expanding local demand, but if linkages to local milk producers are not developed, they could undermine national efforts to expand commercially marketed milk supplies in a number of ACP countries.

This potentially raises important dairy sector trade policy challenges, as the basis of regulation of milk powder imports could have a significant bearing on the development of local milk to dairy supply chains.

At the corporate level, importing milk powders in bulk and repackaging locally to meet growing demand would appear to sit uneasily with Nestlé's stated commitment to developing relationships "built on the foundations of a short sustainable supply chain".

In this respect, lessons could potentially be learnt from the experience of FrieslandCampina's operations in Nigeria, where efforts are under way to expand local sourcing of milk over time and reduce the use of imported milk powders (see *Agritrade* article 'Expanding Dutch corporate involvement in local milk procurement in Nigeria', 15 April 2013).

Horticulture sector

Senegalese onion import regime challenged

In the face of the blocking of imports of 7,160 tonnes of onions, the Senegalese National Union of Merchants (UNACOIS–Jappo) threatened earlier this year to appeal to the West African Economic and Monetary Union (UEMOA) and the WTO over the application of import restrictions by the Senegalese government. On 23 February, the Senegalese government suspended imports for 6 months, with a view to supporting the further development of local production. This move had been signalled well in advance (see *Agritrade* article 'Senegalese government moves ahead with onion sector support measures', 24 February 2014).

According to UNACOIS secretary, Mme Bou Diop, in March the government had agreed to release only 4,000 tonnes, retaining 3,160 tonnes which were in imminent danger of spoilage.

The use of seasonal import restrictions on imports of onion by the Senegalese authorities has raised concerns in the Netherlands, given that the import ban could also affect exports to Mauritania and Côte d'Ivoire. Drawing on Eurostat data, UNCTAD has highlighted how up to 42% of Dutch onion exports outside the EU are exported to Senegal.

The government of Senegal has been supporting investment in increased preservation and storage capacity for onions, in part using EDF funding. This needs to be seen in the context of ongoing expansion of domestic onion production since 2003, with production reaching 240,000 tonnes in 2013, and forms part of wider government efforts to reduce the import bill for horticultural products.

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Comment

Competition between local and imported onions is strong in Senegal. While local are cheaper than imported onions, the price differential is relatively small; in Dakar in March 2014, local onions cost FCFA 12,750 a bag, compared to FCFA 13,500 for imported onions. However, imported retain their quality longer than locally produced onions. In the absence of improved handling and storage facilities, which result in a longer shelf life for quality onions (an area that the Senegalese government is seeking to address), an active use of trade policy measures appears necessary to sustain the production gains achieved in the onion sector since 2003.

Although the government is seeking to increase domestic production to meet national consumption, Senegal is also an important regional hub for the onion trade. Onions are one of the most consumed vegetables in West Africa, generating an annual market valued at FCFA 45 billion. According to Alioune Sarr, general manager of l'Agence sénégalaise de promotion des exportations (Asepex), in total, ECOWAS countries import some 400,000 tonnes of onions a year from European countries such as the Netherlands, Germany and Belgium.

Thus, at the policy level, the issue is not simply about the interests of Senegalese onion producers but also Senegalese onion traders, who seek to serve the huge West African regional market. Most recently policymaking in the onion sector would appear to have been complicated by the effects of the creation of an ECOWAS common external tariff, which implicitly requires the same treatments to be accorded to imports of product into the ECOWAS customs territory, regardless of the point of entry.

Further complications could arise in formulating onion sector trade policy if Senegal signs on to a regional economic partnership agreement (EPA) with the EU that includes provisions requiring the dismantling of quantitative restrictions on imports. Such provisions, requiring the abolition of quantitative restrictions on imports from the date of entry into force of signed agreements, are a common feature of existing EU trade agreements with sub-Saharan African countries.

Poultry sector

South Africa imposes preliminary anti-dumping duties on specific EU member states' frozen poultry cuts

Following an investigation by the International Trade Administration Commission (ITAC) into claims of dumping of frozen poultry parts by German, Dutch and UK exporters (see *Agritrade* article 'Continued growth projected for EU poultry-meat exports to Africa', 24 November 2013), preliminary anti-dumping duties of between 22 and 73% were announced at the beginning of July 2014.

The imposition of the anti-dumping duties was welcomed by the South African Poultry Association, which maintained that the measures were in line with WTO standards and rules. The Association of Meat Importers and Exporters argued that the measures would "raise chicken prices".

The provisional anti-dumping duties will remain in place until 2 January 2015. In the intervening period the concerned parties may make further submissions before a final ruling is made.

Meanwhile, Tralac (the South African-based Trade Law Centre) has posted a Discussion Note examining the international legal framework for the invocation of trade remedies, with specific reference to the poultry sector. The note highlights how the 2000 EU–South Africa Trade Development and Cooperation Agreement (TDCA) "contains its own trade remedy and dispute settlement provisions". Anti-dumping and countervailing measures are dealt with in Article 23, with the language of this Article essentially reiterating WTO commitments, but committing the parties to seeking constructive remedies before "definitive anti-dumping and countervailing duties are imposed".

Tralac also notes that the TDCA establishes its own dispute settlement arrangements under Article 104. This states that "any dispute relating to the application or interpretation of this Agreement" may be referred to the Cooperation Council which "may settle any dispute by means of a decision". However, the Cooperation Council is a consultative, not an adjudication body, with the parties retaining "their right to refer disputes about the correctness of anti-dumping measures to the dispute settlement mechanism of the WTO".

The Cooperation Council is established under Article 97, with a commitment to subsequently elaborating specific procedures, which should include appropriate methods of "forestalling problems which might arise in areas covered by the Agreement".

The Tralac analysis argues that the Cooperation Council was not set up as the forum to ultimately rule on the correct application of the WTO rules and commitments on which the anti-dumping and countervailing measures provisions of Article 23 are based. It notes that "the relationship between WTO law and the TDCA is not explained in the context of the application of trade remedies."

The analysis argues that should ITAC impose "anti-dumping measures on chicken imported from EU member states, a dispute is very likely to be declared". The EC will then be faced with having to choose in which forum to take up this dispute – the decision made will give a useful indication how the Cooperation Council intends to operate. Tralac says it will "provide an important reminder as to how to formulate dispute settlement clauses in FTAs."

In this context it should be noted that although the "bulk of the thorny issues" in the SADC–EU EPA have been resolved – securing improved access for SADC wine, sugar and fruit exports, and the EU having secured recognition for Geographical Indications – the final wording of the agricultural safeguard and a number of other provisions have still to be agreed.

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Comment

The problems arising from the disposal of chicken parts for which there is only a limited market in OECD countries is common to many ACP regions and is not limited to trade with the EU, so the outcome of South African efforts to invoke anti-dumping provisions in its trade with the EU under its bilateral trade agreement will be followed with great interest in other ACP regions.

Given the role of the Cooperation Council in "forestalling problems", the question arises: if the SADC–EU EPA process is completed and this new agreement takes precedence over the TDCA, what will happen to the Cooperation Council? Presumably it will need to be reconstituted to take account of the expanded membership of the underlying agreement. In this context, it is unclear what role the Cooperation Council could play in resolving the emerging poultry sector dispute.

Sugar sector

Zimbabwean sugar exports to the EU to continue while imports to be restricted

According to the United States Department of Agriculture (USDA), Zimbabwe's sugar cane production is projected to fall by 3% in MY 2014/15 to 3.8 million tonnes, due to a 12% drop in the area harvested. It notes that improved yields prevented a more dramatic fall, and that as a result overall sugar production in Zimbabwe is expected to fall by just 8,000 tonnes, to 480,000 tonnes.

Around 80% of sugar cane produced comes from the Triangle and Hippo Valley estates, in which Tongaat Hulett enjoys a 100% and 50.3% shareholding, respectively. The remaining sugar cane production comes from large-scale farmers and newly resettled farmers. The Successful Rural Sugar Cane Farming Community project aims to expand farmer-supplied cane from 800,000 to 1,400,000 tonnes, on the basis of a loan-financed revolving fund supported by the company, and a local bank and technical services (tillage cane replanting extension support), designed to improve cane yields and sucrose content.

Since 2010/11, Zimbabwean sugar production has increased by 44%, from 333,000 to 480,000 tonnes, with yields per hectare increasing by 40%, from 6.2 to 9.3 t/ha. Sucrose extraction has also grown in the last 2 years.

Total sugar consumption in Zimbabwe declined slightly in 2013/14 to 340,000 tonnes. However, sales of locally produced sugar were reduced to 180,000 tonnes in the face of increased imports from lower-priced world market suppliers, which reached 124,639 tonnes. These imports also pushed down local sugar prices (wholesale prices –18%; retail prices –11%). Imports largely originated from South Africa (64,570 tonnes of refined and 41,468 tonnes of raw sugar) with small volumes of raw sugar imported from Malawi (2,460 tonnes) and Zambia (1,796 tonnes); 7,447 tonnes of raw sugar and 6,898 tonnes of refined sugar were imported from beyond Southern Africa.

In response to this situation, from "17 January 2014 the government effectively stopped all sugar imports, except for importation of white manufacturers grade sugar for the beverage industry".

In 2014/15, Zimbabwean exports to the EU are expected to remain at about 200,000 tonnes, the same level as in 2013/14.

Zimbabwe: Sugar production, consumption, imports, exports and ending stocks (tonnes)

	MY 2012/13	MY 2013/14	MY 2014/15
Sugar production	475,000	488,000	480,000
Human consumption	389,000	340,000	350,000
Total imports	78,000	124,000	10
Raw exports	201,000	200,000	200,000
Ending stocks	70,000	142,000	82,000

Source: USDA (see below)

Sources

USDA, 'Zimbabwe Sugar Annual', 15 April 2014
http://www.thefarmsite.com/reports/contents/ZimbabweSugar28April2014.pdf

Comment

The increased competition from imports and lower sugar prices experienced in Zimbabwe in 2013 has led to the government resorting to trade restrictive measures which have effectively halted imports of 124,000 tonnes, the vast majority being sourced from the Southern African Development Community (SADC) region. This highlights the sensitivity of intra-region sugar trade to price shocks.

In this context, it would appear necessary for governments in sugar producing countries in Southern and Eastern Africa to discuss how to deal with the likely decline in sugar sector revenues which will arise from the abolition of EU sugar production quotas in 2017 (see *Agritrade* article '<u>More limited market prospects projected for sugar imports beyond 2017</u>', 3 March 2014). Such discussions could foster the development of joint strategies to manage the process of regional market adjustment which is likely to be necessary. This could then avoid the emergence of sugar sector trade disputes, resulting from the implementation of unilateral trade restrictions that violate regional trade policy commitments.

The expansion of smallholder farming taking place in Zimbabwe would also appear to raise the major issues of the distribution of revenues between millers and farmers arising from the development of new revenue streams based on sugar cane processing (see *Agritrade* article '<u>Distribution of new revenue streams raised by Mauritian cane farmers</u>', 21 July 2014). Previous pronouncements from Tongaat Hulett suggest that the company may be adopting a somewhat different strategy in Zimbabwe than other sugar companies elsewhere in the region (see *Agritrade* article '<u>Tongaat Hulett CEO highlights income gains from electricity co-generation</u>', 16 July 2012)

Tea sector

Internal tax reform and production restraint seen as key to halting Kenyan tea price declines

In the face of declining earnings at the Mombasa tea auctions (which in June 2014 reached levels 17% below those prevailing in June 2013), Kenyan tea traders have called on the government to "urgently address the issues of taxation to promote exports", while tea packers have called on the government to increase the import duty on value-added teas from 25 to 100%.

In early June 2014, following a meeting with tea industry stakeholders, the Kenyan president "directed the Treasury to look into [value-added tax] and import duty levied on tea, which he said [were] hindering the growth of the sector". Under the current regime, tea purchased outside the auction system is subject to 16% VAT. Stakeholders consider that this is discouraging local processing, and argue that abolishing VAT on purchases outside the auction arrangements could encourage local processors to invest in meeting the "growing demand for speciality teas in niche markets like Japan, Germany, US and France".

The current poor prices for tea are attributed to overproduction, with reduced demand on traditional export markets. Analysts have highlighted that in 2009, the secretary-general of the FAO Intergovernmental Group on Tea warned producers "not to overreact to the current high prices by planting more crops", as there was a risk of oversupplying the market.

Kenyan press sources reported that "although the first quarter of 2014 registered a four per cent production drop against the same period in 2013, increased rainfall in the second quarter is threatening to reduce this small deficit, and probably surpass the production of 2013." Tea farmers, meanwhile, have called on the Kenya Tea Development Agency (KTDA) to cancel contracts for bulk import of fertilisers, which would only serve to boost production and exacerbate price declines.

Sources

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http://www.businessdailyafrica.com/Tea-factories-in-dilemma-over-payment-to-farmers/-/539552/2358266/-/vkx9gw/-/index.html

The Star, 'Kenya: Tea farmers tell KTDA to defer importation of fertiliser', 9 June 2014
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Comment

While Kenya only accounts for 8% of world production, it accounts for around a quarter of exports. (East Africa as a whole supplies 11% of world production and 31% of global exports.) Kenya is thus a major player on global markets. In 2013, 2 years of declining tea production were brought to an end, with production reaching 410 million kg. Export volumes in 2013 increased by 15% compared to 2012 levels, reaching 494.4 million kg, the highest level in a decade. However, the high production coincided with reduced purchases from Egypt, as a result of the country's political unrest. Egypt in the past accounted for 20% of Kenya's exports. Average prices fell by over 13%, from US$3.09/kg in 2012 to US$2.68/kg in 2013, with total export earnings only increasing by 1.9%.

The trend of elevated export volumes continued into 2014, with export volumes in the first 5 months of 2014 reaching 207 million kg, compared to 204 million kg in 2013. This led tea auction prices to slip still further, falling to US$1.86 in June 2014, and has not only affected farmers, but has also seen major tea traders posting pre-tax profit warnings.

In addition to the VAT review that has been announced, the Kenyan government is considering setting up a price stabilisation fund in partnership with the private sector, improving the transparency of the operation of the Mombasa tea auction and the implementation of an electronic tea auction through a public–private sector partnership. However, the issue of financing will need to be addressed across the sector, given the very high and volatile bank interest rates that prevail in Kenya.

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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