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Contents

Product differentiation

Making the most of GI protection under the SADC–EU EPA agreement

As part of the SADC–EU EPA negotiations, agreement has been reached on the mutual recognition of a range of Geographical Indications (GIs) covering some 251 EU products and 105 South African products. A commitment has been made to extending this list through cooperation with other parties to the EPA. While extending GI protection to some 356 products, the agreement also allows "coexistence of already registered trademarks". This, for example, will allow existing local South African producers of feta cheese to continue to use the name, but will bar new entrants from using the designation. This compromise reflects the provisions of Chapter 22 Article 7.6 of the recently concluded Canada–EU FTA.

Honeybush and rooibos tea are among the South African products to which the EU has extended GI recognition. According to the South African Ministry of Trade and Industry, South Africa's rooibos tea manufacturers "will have ownership of that particular name and that term will be applicable only to products that come from and are approved" by the Rooibos Council of South Africa (and the South African Honeybush Tea Association) (see *Agritrade* article 'Legal and regulatory constraints on GI protection illustrated', 3 June 2013).

This is a significant development, for in 2012 a French company sought to register 'Rooibos' as a trademark in the EU (see *Agritrade* article 'French company seeks trademark rights for rooibos tea, as EU use of GIs expands', 12 May 2013), with potentially serious commercial consequences for the development of the South Africa rooibos tea industry.

Additional products to which GI protection has been extended include Karoo lamb and some regional designations for South African wines.

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Comment

According to an October 2012 EC review of the value of GI protection for agricultural products and foodstuffs, the "average value premium rate in the EU27" is 1.55. This means that, on average, GI-protected "agricultural products and foodstuffs" attract over one and a half times the price as the same volume of non-GI-protected products in the same category (e.g. hams).

However, securing GI recognition is only the first step in realising the full commercial value of GI protection. A range of enforcement issues need to be addressed in terms of both the basic product and value-added packaged versions of the product.

In this regard, the example of the May 2003 European Court of Justice ruling in a case launched by the Parma ham producers' association against the UK supermarket Asda would appear to be pertinent. The ruling stipulated that "maintaining the quality and reputation of Grana Padano cheese and Parma ham justifies the rule that the product must be grated or sliced and packaged in the region of production." The ruling effectively meant that "Parma ham cannot be sliced and packaged for sale outside the Italian region where it is produced," unless the origin can be clearly verified by the consumer. While the ruling fell short of requiring that "all grating, slicing and packaging…take place in a product's region of origin", "the restrictions would apply… if expressly specified in the PDO [Protected Designation of Origin]." This potentially allows for the considerable benefits that can be derived from value addition to be retained by the producer association concerned.

In the case of rooibos tea, this would require further action by the Rooibos Council to ensure that, in order to prevent adulteration and any diminution of the quality of the rooibos tea produced within their PDO, the processing, packaging and flavouring of rooibos tea is the exclusive preserve of the rooibos producer.

Such an extended protection has the potential to generate considerable additional employment in rooibos tea-producing areas, given the growing popularity of flavoured rooibos loose tea and tea bags on European markets.

Commodities: General

World prices to rise faster for meat, dairy and fish than for cereals – but the ACP may miss out

According to the latest annual OECD-FAO *Agricultural Outlook*, growth rates in world prices for meat, dairy and fish (together with biofuels) will outstrip those for cereals over the next decade. This is because global demand is shifting towards greater consumption of protein, fats and sugar as a result of rising incomes in newly emerging economies.

In the shorter term it is forecast that for the next 2 or 3 years, world prices for cereals and other crops will continue to fall "before stabilising at levels that remain above the pre-2008 period, but significantly below recent peaks". This "below 2008 plateau" price level represents a fall in real prices, but with less price volatility expected. The growth in global demand for meat is expected to result in a shift in production in the cereals sector from wheat and rice towards coarse grains as well as other feeds such as oilseeds.

The report does not specifically identify the Caribbean and Pacific, but it does include forecasts for continental Africa. It expects Africa to increase net imports to meet growing demand.

For the coming year, the report highlights a favourable production outlook in South Africa for coarse grains and in Madagascar for rice, but drought-related problems for rice in Tanzania. For the decade as a whole, the expected price fall for cereals translate into a lower forecast for the growth of African rice production compared to the projection in the 2013 *Outlook.* Because

African demand for rice is expected to outstrip its supply, the continent's share of world rice imports is forecast to rise from 31 to 38% by 2023.

Africa's production of meat is expected to increase – but by less than Asia, Latin America and North America. The growth in beef production in Africa will be particularly significant in least developed, pastoral states, and Africa will contribute to the growth in sheep meat output. But because of growing population, meat consumption is expected to outstrip production growth. In this context Africa is expected to account for "a significant share of additional meat imports". Poultry meat is expected to overtake beef as the main meat consumed in Africa.

Sources

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Comment

Africa's production of some cereals and meat is expected to increase over the next decade – but consumption is forecast to grow faster. This, however, does not signal a major rise in per capita consumption but rather an overall expansion of consumption based largely on population growth. According to the OECD-FAO forecast, "per capita consumption growth in the region remains marginal."

These trends will, however, result in increased import dependency. This can also be seen as a lost opportunity for African producers. In this context, this would appear to highlight the importance of reinforcing investment in agricultural production (through meeting Comprehensive Africa Agriculture Development Programme/CAADP targets for investment mobilisation and production expansion – 6% per annum by 2015) and strengthening policy formulation to ensure that local markets work more efficiently in terms of linking up rural production areas with urban consumption zones.

Without a shift of agricultural production onto a higher growth path, the opportunities for deficit states to satisfy consumption through intra-regional trade will remain limited.

Another lesson, therefore, is that international trade will remain vital to the efforts of many in Africa to feed themselves, at least until the fruits of CAADP-style investment in agricultural production start to feed into higher levels of output. Buoyant exports – some of them agricultural – will be required to fund increased food imports. If the forecasts turn out to be broadly accurate, the anticipated decline in real prices for cereals is good news for net cereals deficit countries, while the projected rise in meat prices should be of considerable benefit to livestock-based economies in Africa, if production, processing and marketing challenges can be successfully met.

Cereals sector

Trends in West Africa and Central African cereals production

The FAO's July 2014 edition of 'Crop prospects and food situation' notes that cereals production in West Africa for 2013 was estimated at 55.1 million tonnes, similar to the production level attained in 2012 and some "10% above the average of the previous five years". Performance was variable, however, with production in the Sahel down 12% compared to the good harvest of 2012. In contrast, cereals production in Nigeria was "estimated to have increased by 20 percent compared to the 2012 flood-affected output".

In West Africa, overall production is forecast to increase by only 0.18% over the 2012–14 period. This masks a marginally improved production performance in 2014 (+0.5%) in 2014, but also masks the 2-year decline in production that has taken place in five of the six main cereals producing countries of the region.

While coarse grain prices have stabilised in recent months in both Sahelian and coastal states, conflict-related trade disruptions have led to higher prices (+33%) in some regions (including in Nigeria, where insecurity in the northern cereals producing zones has increased price instability). Sustained low harvests in some areas have also led to localised increases in prices.

For low-income food-deficit countries in both West Africa and Central Africa, higher levels of imports are projected in 2014 (some 15,098,000 tonnes compared to 14,537,000 tonnes in 2013).

Western and Central Africa cereals production, including rice (million tonnes)

	2012	2013 (estimate)	2014 (forecast)	Percentage change 2012/14
Western Africa	**55.3**	**55.1**	**55.4**	**+0.18**
Burkina Faso	4.9	4.9	4.6	–6.1
Chad	3.2	2.6	2.9	–9.4
Ghana	2.9	2.6	2.6	–10.3
Mali	6.7	5.7	6.4	–4.5
Niger	5.3	4.3	4.9	–7.5
Nigeria	20.9	23.3	22.1	+5.7
Central Africa	**4.8**	**4.9**	**4.8**	**0**
Cameroon	3.0	3.1	3.1	+3.3
Central African Rep.	0.2	0.2	0.2	0
DRC	1.6	1.6	1.5	–6.25

Source: FAO, 'Crop prospects and food situation' (see below), Tables 8 and 9.

Production of rice, which is an increasingly important staple crop in urban areas of West Africa, is projected to have increased by 10.2% between 2012 and 2014, with the largest proportional increases in Chad (from 0.2 to 0.4 million tonnes), Burkina Faso (0.3 to 0.4 million tonnes) and Mali (1.9 to 2.3 million tonnes), but with the largest absolute increase in Nigeria (from 20.9 to 22.1 million tonnes).

In the face of continued growth in consumer demand for rice, the region remains dependent on large-scale rice imports to stabilise rice prices across the region. In this context, Thai government rice export policies have an important bearing on global price trends. The Thai government decision to suspend rice exports from government stocks in the face of the projected 5% decline in Thai production had an immediate impact on global prices. From December 2013 to May 2014, benchmark global rice prices fell by 10%, but this was halted in June, when an immediate 2.75% increase was recorded.

In Central Africa, favourable rains have improved prospects for production, but conflicts in the Central African Republic and Democratic Republic of Congo have negatively affected food availability and have increased demand for food aid across the region. There remain countries (such as Congo and Gabon) that are heavily dependent on cereals imports and where domestic commercial cereals production makes only a small contribution to food security.

Sources

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Comment

The divergent trends in cereals production in the Sahel and coastal countries of West Africa and the growing import needs of low-income, food-deficit countries in 2014 highlight the scope for increased intra-regional trade in cereals across the West African region. This could potentially contribute to lower prices and greater food security.

Conflict and insecurity constitute a growing impediment to the cereals trade and contribute to high prices in some parts of the region. This is compounding other underlying problems in the West African cereals sector, linked to the substantial number of non-tariff barriers to trade (both official and unofficial), which gives rise to a situation where informal cereals sector trade flows dominate.

However, it should be noted that in different cereals sub-sectors, West African governments pursue different trade policies in pursuit of the same underlying policy objective of boosting national production. This is most visibly illustrated in the rice sector. In the rice sector in recent years, production has been growing at a respectable rate, but within different policy frameworks. Some governments place greater emphasis on the use of trade policy tools (notably Nigeria), while other governments favour input support measures.

There would appear to be a need for a comprehensive review of the different national experiences of promoting rice sector development across West and Central Africa: this could provide the basis for a rice sector summit to map out a strategy for reconciling conflicting policy approaches, so that commitments to intra-regional trade development can be realised in the rice sector.

Bumper maize harvest in southern Africa, but with pockets of food insecurity

In Southern Africa, FAO has forecast production increases for all of the major cereals producing countries in 2014. After a slightly reduced harvest in 2013, an annual increase in production of 14.8% in 2014 will result in a production increase of 10.8% over the period 2012–14.

This trend reflects large production increases outside South Africa, with a record maize harvest in Zambia, a bumper harvest of 4.1 million tonnes forecast for Malawi and a major recovery in cereals production in Zimbabwe. These are attributed to "favourable climatic conditions and continued public support, to improve input supplies".

Similar favourable production developments are apparent among smaller producers. Production is forecast to increase by 50% in Namibia following the drought-affected production levels of 2013 (although this is still 5% below the short-term average and production losses faced in northern communal area production zones). This is allowing replenishment of the Namibian National Strategic Food Reserve (NSFR), which was drawn on from late 2012, allowing all food needs to be met from the government's own strategic reserve during the drought period. Angola is also forecast to increase production by some 20%.

Southern African cereals production, including rice (million tonnes)

	2012	2013 (estimate)	2014 (forecast)	Percentage change 2012/14
Southern Africa	**31.4**	**30.3**	**34.8**	**+10.8**
South Africa	15.2	14.9	16.4	+7.9
Zambia	3.2	2.9	3.6	+12.5
Malawi	3.8	3.9	4.1	+7.9
Zimbabwe	1.2	1.0	1.7	+41.7
Mozambique	2.2	2.2	2.5	+13.6
Madagascar	5.0	4.1	4.7	–6

Source: FAO, 'Crop prospects and food situation' (see below), Table 11.

However, production losses in contiguous areas of northern Namibia and southern Angola have been reported, due to a prolonged dry spell. Only in Lesotho is lower production foreseen, following frost damage which has depressed yields and undermined the benefits of the increased area placed under cereals.

There remain pockets of food insecurity in the region. In Zimbabwe, an "exceptional shortfall in aggregate food production/supplies" is forecast, despite a major recovery production – largely as a result of the depth of the earlier production decline. In addition, a "widespread lack of access" is projected in parts of Malawi, where localised food production losses have occurred. Severe localised food insecurity is also reported in Lesotho and in Mozambique, where localised, weather-related damage to production has occurred.

Overall production increases across the region are projected to see maize prices decline sharply, except in areas of localised production shortfalls. This will improve overall food security in Southern Africa in 2014.

In terms of trade South Africa will remain the main maize exporter, followed by Zambia, where the earlier export ban has been lifted and there is "an estimated exportable surplus of about 1 million tonnes".

The intra-regional trade position is complicated by the debate ranging in Zimbabwe over recently introduced import restrictions on maize and maize meal (see *Agritrade* article 'The intra-regional trade consequences of import and export restrictions', 4 August 2014). Consumer organisations in Zimbabwe have criticised the Zimbabwean government's decision to impose a ban on maize and maize meal imports, and some traders have commented that the move will create a food shortage, since farmers are "reluctant to deliver their crop to the Grain Marketing Board" (which is facing serious financial difficulties). Critics fear that a situation could arise where "[locally produced] maize and maize meal will only be traded outside the formal market".

According to press reports, the business lobby is split on the issue, with the Zimbabwe National Chamber of Commerce applauding the import ban, despite acknowledging possible "negative repercussions". Other business community representatives have "called on the government to reverse its decision amid reports [that] local farmers said they would not sell their produce to the formal market due to poor prices".

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Comment

Even in very good years, problems exist with the functioning of local supply chains. Shortcomings in the functioning of national supply chains can be seen as the root cause of often volatile and contested cereals sector trade policy pronouncements. So long as national supply chains malfunction, short-term policy responses that are disruptive of the development of intra-regional supply chains would appear to remain an ever-present danger.

This places real limits on the development of coherent and consistent regional cereals sector trade policies that are consistently and transparently applied. It is as yet unclear to what extent inconsistent trade policies will rebound and impact on farmers' returns and the sustainability of the longer-term trend towards expanded cereals production that has been under way in the Southern African region.

According to South Africa's trade law centre Tralac, a trade dispute settlement mechanism was part of the original design of the SADC free trade area and a special arrangement for the settlement of trade disputes was developed (Annex VI to the SADC Protocol on Trade), but the tribunal – which exercises jurisdiction over all SADC legal instruments – has never heard any trade disputes. In reality, annex IV has not been implemented, and its first-stage panel procedure has not been implemented. A new protocol for the operation of the tribunal is now under discussion, but it is unclear whether this will cover the specific needs required to resolve trade disputes.

Dairy sector

Danone's acquisition of 40% share in Brookside Dairy confirmed

In July 2014 the French dairy company Danone announced that it had acquired a 40% stake in the Kenyan company Brookside Dairy Ltd from the Kenyatta family (which formerly owned 90% of the company). Brookside is East Africa's leading dairy manufacturer, having recently taken over a number of smaller dairies including SpinKnit Dairy, Buzeki Dairy, Ilara and Delamere, in addition to its deal in January to control the operations of Limuru Dairy for the next 10 years.

All in all, Brookside accounts for an estimated 44% of the Kenyan dairy market, with access to the largest milk collection and distribution networks in East Africa, embracing 140,000 farmers and more than 200,000 outlets. Brookside also has production operations in Uganda and Tanzania and has export business with Rwanda, Burundi and Egypt, and with Middle Eastern and Indian Ocean countries, with total sales of around US$176 million. Brookside is also looking to develop operations in Nigeria, where it "plans to set up a milk processing plant next year".

With the Brookside share purchase, Danone now has operations in East Africa, South Africa, West Africa (via Fan Milk International – see *Agritrade* article 'Danone looking to expand in West Africa', 19 January 2014), Morocco and Egypt, effectively straddling the African continent.

Reuters maintains that the company is "seeking new opportunities amid weak growth in Europe and slowing economy in China". This reflects a broader trend, with a range of global consumer goods companies "attracted by the spending power of the growing middle class" in Africa.

According to Danone's Vice-President for Corporate Affairs, "Africa is an important new frontier for Danone", with the company looking to grow both organically and through acquisitions. Currently, Danone "generates 60% of its turnover in emerging countries" and "has invested more than a billion euros in Africa".

Press reports elsewhere indicate that in 2013 the US became "the leading global exporter of SMP [skimmed-milk powder]", and that SMP exports more than doubled between 2009 and 2013 (from 248,000 to 555,000 tonnes). This growth continued into 2014, with 10% growth in the first 4 months compared to the corresponding period in 2013.

According to USDA, despite "speculation" that Chinese demand for dairy products was set to fall, current import trends suggest that China's imports of whole-milk powder (WMP) in 2014 will grow by 54% (to a record 1 million tonnes) and imports of SMP by 10% (to 330,000 tonnes). Up to May 2014, Chinese imports of cheese were up by 67% and butterfat by 121%, compared to the same period in 2013.

Despite the continued surge in Chinese demand, increased supplies of dairy products and hence increased competition on international market have led to a sharp decline in WMP prices from around US$5,100/t in January to around US$3,700/t in early July (FOB Oceania), with SMP prices faring no better.

The US is primarily increasing its SMP exports to China. After China, the principal destinations for US SMP exports are Canada, Mexico and South Korea.

Sources

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Comment

With the abolition of EU milk production quotas, French milk production is projected to increase by 10% (see *Agritrade* article 'Developments in the global and EU dairy market', 22 August 2014), and companies such as Danone are looking for outlets for this expanded milk production, two-thirds of which will need to find markets outside the EU.

While China remains the largest growth market for dairy products, competition for the Chinese market is intensifying: New Zealand's Fonterra is constantly jockeying for competitive advantage, and the US is an increasingly important competitor in the SMP and WMP markets.

It is against this background that the development of Danone's strategic network of partnership in different African regions needs to be seen. This network is likely to provide ready outlets for milk powder exports, largely insulated from competition from exporters from the US and New Zealand.

In South Africa, however, Danone also has a history of promoting product innovation to serve health-conscious, urban middle-class consumers, which has stimulated local milk production for use in value-added dairy products.

Government policies regarding the management of import licences for milk powders could play an important role in determining the relative weight given to the development of dairy production based on local milk sourcing and to dairy production that is based on reconstituting imported milk powders.

Developments in the global and EU dairy market

The EC report on developments in the dairy market and the operation of the EU's "milk package", published in June 2014, highlighted the current "quite favourable situation" in the dairy sector, with average EU milk prices in January 2014 17% higher than in January 2013, representing "the highest average milk price for January ever recorded".

This is linked to the high prices obtained for a range of dairy products. According to the report, "in October 2013 [the] EU average butter price hit an all-time record of 423 €/100 kg. Similarly, EU average cheddar cheese prices reached an unprecedented level of €407 €/100 kg in February 2014. All the main dairy products' prices increased throughout 2013 by more than 20% (23% for butter, 22% for SMP [skimmed milk powder], 27% for WMP [whole milk powder] and 20% for cheddar cheese)." These positive price developments, in part linked to strong global demand, have meant that no intervention buying into public stocks occurred in 2012–13, and there are currently no public stocks of butter and SMP.

The EC notes that EU dairy products enjoyed a "good export performance… throughout 2012". By the end of 2012, however, further export growth was being constrained by a lack of milk production. From January to September 2013, SMP exports were down 31% while butter exports were down 5% compared to the corresponding period in 2012.

This led to calls from farmer organisations for better management of the transition to a quota-free regime.

EU and world market dairy prices, annual (May 2013–May 2014) and monthly (April–May 2014) changes

	EU28			World			
	Monthly average €/t	Annual change %	Monthly change %	Monthly average US$/t	Monthly average €/t	Annual change %	Monthly change %
Butter	3,498	–11.6	–2.2	3,950	2,876	−7.6	−3.7
Cheese	3,932	+12.5	–1.6	4,617	3,362	+0.4	−5.3
SMP	2,874	–7.0	–6.1	3,963	2,886	−16.4	−8.0
WMP	3,371	–8.7	–5.1	4,075	2,968	−21.7	−6.3

Source: EC, 'Commodity price dashboard', No. 24, 26 June 2014 (see below)

The report noted that both EU and global dairy prices had weakened by the beginning of 2014, but that "the medium-term prospects for milk and dairy commodities are favourable."

Up to 2023 the EC is projecting a significant expansion of milk production in a number of countries: Ireland (+20%), Germany and the Netherlands (each +15%), Denmark, France, Austria, Poland, Estonia and Cyprus (each above 10%), Belgium and the UK (increase of less than 5%). In nine other countries, production is projected to contract, while being relatively stable in another six. By 2023 EU milk deliveries are projected to be 9.6 million tonnes above 2012 levels.

There remains uncertainty over these projections, with some French companies planning to limit milk supplies, while focusing on high-value products. In contrast, in Ireland, the national authorities are forecasting up to 50% expansion in milk production, and analysts suggest a higher level of production increase is likely in the UK given recent investments.

The additional milk produced will enable the EU to increase "its exports to the world market and maintain a share in world exports close to 60% for whey powder and around 30% for cheese and SMP".

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Comment

The projected 9.6 million tonne increase in EU milk production will largely be used to serve export markets. Although China is a rapidly expanding market for EU dairy sector exports (see *Agritrade* article 'EU agro-food trade surplus continues to expand', 18 August 2014), competition on the Chinese market is intensifying, with the world's leading dairy company, Fonterra, well placed to serve that market. US dairy companies are also expanding their exports to China.

Against this background, EU dairy companies are busy developing strategies to target rapidly growing markets for dairy products in Africa (see *Agritrade* articles 'Africa and European corporate responses to EU milk quota abolition', 12 May 2014 and 'Nestlé to roll out modular factory system in Africa', 18 August 2014). Key questions arise:

- How will this growing European corporate interest in African dairy markets relate to local milk production?
- What policy measures can African governments set in place to encourage increased EU investment in local value-added processing?
- What policy measures can African governments adopt to ensure that EU corporate engagement fosters local milk production?

EC reviews experience of strengthening dairy supply chains

In June 2013 the EC posted a review of its experience of implementing its 2012 "milk package", aimed at improving the functioning of milk-to-dairy supply chains. The report noted that compulsory contracts had been introduced in 12 member states, containing specific elements on: price, volume, duration, payment arrangements, milk collection and specific force majeure provisions.

France has the shortest minimum contract duration (5 months) and Spain the longest (12 months). The majority of member states favour contracts of a minimum of 6 months. Contracts have mostly been made compulsory in "member states where the cooperative structure of contractual relations between producers and processors in the dairy sector was less pronounced".

The report noted that voluntary codes of conduct were favoured in the UK and Belgium. In the UK, this provided "similar conditions [to] those specified in the milk package", covering 85% of raw milk production. In Belgium, 98% of processors and the three largest farmers' organisations are covered by a code of conduct which includes provisions on: milk quality, notice of termination, sustainability commitments and the role of producer organisations.

The importance of strengthening producer organisations to enhance their bargaining power was highlighted in the Commission report. In this context an EU-wide legal framework has been established for the creation or strengthening of producer organisations.

The European Milk Market Observatory (EMMO) has also been created, to gather and disseminate "market data and short-term analysis for the dairy market, with the involvement of producers, processors, trade and retail, as well as independent experts".

To date, the enhanced safety net provisions for the dairy sector have not been put to the test; however, doubts have been expressed over "the capacity of the EU regulatory framework to deal with episodes of extreme market volatility or with a crisis situation after the expiry of the quota regime". It is hoped that the EMMO will provide the basis for "coping better with crisis situations and market volatility" by providing an early warning of the need to invoke safety net measures.

The EU's Agriculture Commissioner, Dacian Cioloş, has highlighted the importance of continuing to work "on the best ways to tackle the challenge of price volatility in the future".

While farmers' representatives maintain that "written contracts help to give producers some stability and a fairer balance," some recognise that the implementation of the EU milk package is still in its infancy. In this context, in July 2014 the EU farmers' organisation Copa-Cogeca called for further discussions on "how to deal with the increased price volatility on dairy markets in a market-orientated way", in ways "complementary to the milk package provision".

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Comment

Managing the effects of price volatility in the global dairy sector at farm level is a major preoccupation for EU milk producers. Potentially ACP governments could learn some useful lessons from current EU efforts to strengthen the functioning of dairy supply chains, notably in:

- the contractual framework for relations between milk producers and dairy processors;
- the need for strengthening the bargaining position of milk producer organisations;
- the need to promote transparency in the functioning of milk markets.

The issue of promoting greater transparency in the functioning of milk markets is particularly pertinent in an African context when one considers the central objective of EU dairy sector policy, which is related to assisting EU dairy companies to serve expanding global markets for dairy products. This is likely to give rise to increased volumes of EU exports of milk powders, which could potentially weaken the bargaining position of milk producers within dairy supply chains.

How milk powder imports are managed by the importing country governments is likely to influence whether commercial incentives for expanded local milk production emerge in response to the rising African demand for dairy products.

Horticulture sector

Increased interceptions of 'harmful organisms' overhang some ACP horticultural exports to the EU

In mid July 2014, the EC sent a warning letter to the national plant protection organisations (NPPOs) in eight countries, warning that "strict action against the import of fruit and other products from specific countries" would be taken "if they fail to improve compliance with phytosanitary regulations" by 30 September 2014. Four of the countries notified were ACP countries – "Ghana (pumpkins and aubergines), Dominican Republic (squashes, eggplant and mango), Kenya (pumpkin, mango and basil)… and Uganda (paprika)".

The EC "invited each NPPO to investigate the reasons for [their non-compliance] with the EU legislation and to take adequate corrective actions" to reduce the number of intercepted consignments containing "harmful organisms". If no appropriate remedial actions were notified and taken, the EC reserved the right to take "emergency measures" to restrict imports of the most problematical commodities.

On 31 July, the website *Fresh Plaza* reported the imposition by the EU of "a temporary ban on Ghanaian vegetable imports after consignments were identified as not meeting quality standards". This followed notification via EUROPHYT, the EU Notification System for Plant Health Interceptions, of 35 detections of harmful organisms in consignments imported from Ghana June.

The temporary ban forms part of a wider pattern of SPS-related restrictions on imports from Ghana – mango imports were banned in January 2014 due to fruit fly infestations, and a temporary ban was imposed on Ghanaian citrus imports in May 2014 following an outbreak of angular leaf spot.

The ban on vegetable and fruit imports from Ghana comes at a time when exports had been growing at 10% per annum and "great opportunities for growth" were seen, based both on exports and domestic market expansion. There is particular interest in cooperation between Ghanaian exporters and Dutch importers.

The Ghanaian government has sought to stress the routine nature of these periodic quality-related problems, emphasising that measures are being put in place at governmental level to address the problems, but has also observed that primary responsibility lies with the producing and exporting enterprises.

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Comment

It would appear important for ACP governments seeking to promote horticultural exports to the EU to establish and effectively police the minimum standards required for export to the EU. It needs to be borne in mind that non-compliance by individual operators can carry implications for the whole export sector concerned, by influencing the frequency of inspections and the charges levied for SPS-related inspections.

This is particularly important when exports are taking place to markets where the importing country is moving to recover the full cost of the official import controls. Here, failure to secure reduced fee status, particularly if combined with an increased frequency of inspections, can carry serious commercial implications for the whole of the affected sector, and not only for the enterprises that are the principal source of non-compliant exports. (For details on the structure of charges levied, see *Agritrade* special report 'Financing EU food and feed controls: Recent developments and implications for the ACP', forthcoming 2014).

An additional factor to bear in mind is the impact on EUROPHYT notifications of the strengthening of official import controls in individual member states. Since the UK introduced moves to strengthen official SPS controls on imports from 2009, it has come to account for 20.3% of total interceptions reported to the EUROPHYT system, up from 6.5% in 2009 (see *Agritrade* article 'EU annual report on plant health interceptions from third-country suppliers', 18 August 2014).

In this context, higher levels of interceptions of "harmful organisms" may be reported for ACP countries whose primary EU export market is the UK than for other destination markets, simply because of the stricter controls being applied in the UK, rather than because of an increased incidence of infestations in consignments from particular exporting countries.

This is an issue that the affected ACP countries' governments and exporters' associations may wish to explore, in order to ensure the proper application of the EU's risk-based SPS inspection framework.

Livestock sector

New South African livestock import regulation highlights challenges in establishing regionwide SPS import regimes

On 1 May 2014 the South African authorities imposed stringent veterinary requirements for the importation of live animals from Namibia. The new regulatory requirement had initially been scheduled for introduction from 31 December 2013. However, after bilateral consultations, implementation was provisionally deferred. After these consultations, the Namibian authorities believed an agreement had been reached to maintain existing requirements for imports form Namibia; however, the new requirements for all livestock imports into South Africa were introduced from 1 May.

Among a range of other measures, the requirements demand that "exporters of livestock and livestock products… provide individual identification for sheep, as well as proof of vaccination against anthrax at least 14 days, but not longer than 12 months, ahead of export". They further require "proof of treatment against all internal and external parasites and proof of animals being from areas free of foot-and-mouth disease". Major concerns arise as to the cost of the required measures, which it is considered could undermine the commercial viability of cattle farming in some sub-sectors.

Namibia's livestock sector – on which some 70% of its 2.2 million inhabitants depend – exports on average 160,000 weaner cattle, 240,000 goats and 100,000 sheep to South Africa each year. Following the introduction of the new requirements on 1 May, hardly any live animals have been exported (only 2,400 live goats had been exported to KwaZulu-Natal Province by early June 2014). This is in line with the expected immediate trade impact of the measures, foretold by both government and private sector bodies in the run-up to the imposition of the new requirements.

On 10 June the South African authorities announced a relaxation of requirements for "slaughtering cattle and slaughtering sheep", to be applied to "animals which will be slaughtered immediately as well as for those who are sent to feed lots". There is expected to be an agreement on import requirements reached by mid July, allowing a resumption of trade to take place.

This SPS dispute with South Africa has prompted the Namibian government to call for more investment in local abattoirs, feed lots and feed cereals production to reduce dependence on live exports. However, for small stock, finding markets for meat products as alternatives to live exports could prove particularly challenging given the specific nature of market components served in South Africa.

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Comment

A number of wider issues arise from the current Namibia–South Africa livestock dispute.

The first relates to the short lead time between the announcement of pending changes (11 December 2013) and their implementation (1 May 2014). Given the scope of the changes proposed, trade disruption was inevitable. Local auctions in communal areas to gather weaners for subsequent sale in South Africa were cancelled, having an immediate effect on communal farmers' cash incomes. While post-drought restocking is mitigating some immediate effects, more limited market opportunities are expected to result in declining cattle prices. Clearly if regional trade is not to be disrupted, other than in emergency situations, far longer lead times are required for the phased introduction of new SPS measures.

The second issue relates to the scope of new measures. In some instances this goes beyond national requirements (i.e. recognition by the World Organisation for Animal Health – OIE – as being free of Contagious Bovine Pleuropneumonia, when no part of South Africa as yet enjoys this status).

The third issue relates to setting up harmonised animal disease import requirements across the whole of the Southern African Development Community (SADC). The Namibian government expressed serious concern over such moves, in a context where "animal health conditions were not necessarily the same in the respective countries". The Namibian government maintains that its internationally recognised foot-and-mouth disease-free production zone, its excellent animal identification and traceability systems, and highly effective animal disease prevention and control measures place it in a completely different situation as regards its 'statements of position' (SOPS – which relate to accounting and reporting), compared to that of other regional livestock producers.

This suggests that major challenges are likely to be faced in establishing common regionwide SPS requirements as the basis for intra-regional trade in livestock. There is a danger that the bar is either set too high, thereby blocking trade, or too low, thereby undermining a nation's international animal disease status. Institutional capacity constraints, however, appear to limit the scope for more nuanced, risk assessment-based SPS requirements.

A final issue relates to the perceived protectionist effect of the measures. Although Namibia normally exports around 160,000 weaners to South Africa annually, in 2013 the impact of the drought led to the export of 260,765 head of cattle, compared to only 68,196 cattle in 2012. This prompted strong protest from South African livestock producers and gave rise to suspicions in Namibia that the timing of the new measures was as much a result of pressures from South African livestock producers as any underlying animal health concerns. This highlights the dangers of SPS concerns being hijacked by commercial interests.

Poultry sector

Major trends in global poultry sector reviewed

According to a United States Department of Agriculture (USDA) review of the global poultry sector, world poultry production and consumption are expected to grow by 31.6%, reaching 119.4 million tonnes by 2023 (from 90.7 million tonnes in 2012). Over the same period, world trade in poultry meat is expected to increase by 31.3%, from 10.8 million tonnes to 14.2 million tonnes.

A major increase in production is foreseen in India (+102.1%), with a 40.1% increase in Brazilian production, a 33.4% increase in Chinese production, a 24.5% increase in US production and a 7.4% increase in EU poultry meat production.

In terms of trade, in 2012 the top four poultry exporting countries accounted for 88% of poultry exports (see table), with this share projected to fall to 83% by 2023. EU exports of poultry meat are projected to fall by 6% between 2012 and 2023, according to USDA. This will see the EU's share of the global poultry meat export trade fall from 11% in 2012 to 7% in 2023. In contrast, Brazilian and US poultry meat exports are projected to increase by 32% and 17% respectively, while Argentinian and Thai poultry meat exports are projected to increase by 85% and 79% respectively.

Poultry exports by selected countries (tonnes)

Exporter	2012	2023	% change
Brazil	3,678,000	4,867,000	+32
USA	3,662,000	4,272,000	+17
EU	1,245,000	1,176,000	–6
Thailand	538,000	964,000	+79
China	411,000	560,000	+36
Argentina	291,000	538,000	+85
Turkey	285,000	618,000	+117
Total global exports	**10,790,000**	**14,163,000**	**+31.3**

Source: USDA, 29 July 2014 (see below)

China and Mexico are projected to increase their imports by 50% and 82% respectively, while Russia (–77%), the EU (–3%) and Japan (–7%) are projected to import less poultry meat.

According to analysis from the joint-agency Livestock Data Innovation in Africa Project, "demand for livestock products in Africa is anticipated not only to grow fast, but also more quickly than in other regions of the world." This has the potential to "generate major business opportunities for livestock producers". It is estimated that between the period 2005–07 and 2030, demand for poultry meat in sub-Saharan Africa will increase by 24%, with demand increasing more than fourfold by 2050. It was noted that at present, "local producers are unable to meet current demands and will find it increasingly challenging to satisfy the growing needs for animal protein." Unless a major effort is made to put production growth on a different path, Africa will become increasingly a net importer of poultry meat.

This is becoming more recognised. For example, in Ghana the government is looking to expand financial assistance to local poultry producers, while remaining reluctant to meet producers' demands for a ban on poultry imports so long as domestic production cannot meet growing local demand.

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Comment

In the next 10 years, the international trade in poultry meat is projected to continue to grow, but with some major changes in the direction of trade. The EU and Russia will decline in importance as export markets, while new exporters will rise to compete with the big four in serving growing global demand. African markets will increase in importance as destinations for major poultry meat exporters, while both Caribbean and Pacific island nations will face increased challenges from US and Brazilian exporters.

Across the ACP, the debate rages on the relative weight to be given to trade policy measures in promoting domestic poultry meat production to respond to rising consumer demand. Across the ACP common challenges are faced in dealing with the trade in residual frozen poultry parts – these have no economic value on OECD markets, but the trade in them can severely undermine local poultry markets throughout the ACP.

Different ACP governments have adopted widely differing policies in response to this trade challenge in their efforts to support national poultry sector development. Given the common problem they face, there would appear to be a case for facilitating greater dialogue between national poultry associations across the ACP on the experience of managing poultry trade in the interests of both national producers and consumers.

Rice sector

Nigeria further extends levy concessions to support rice sector backward linkages

According to press reports, on 26 May 2014 the Nigerian government extended its preferential import tariff policy for operators investing in new rice milling capacity and developing backward linkages "to bridge the gap between supply and demand". Since 1 January 2013 the government has lowered the levy on imports of husked brown and semi-milled or wholly milled rice for "investors with rice milling capacity and [a] verifiable backward integration programme" from 100% to 20%, with a 10% duty being levied. In contrast, those trading without such milling capacity and integration programmes are charged a levy of 60%, in addition to the 10% duty. Imports under the concessional rates are to be "limited to the national supply gap", as determined by a specially constituted committee. The new import levy arrangement will be in place for 4 years.

A special dispensation on demurrage charges (the penalty charged for exceeding normal unloading times) was also announced for cargos of rice awaiting clearance under the new arrangement.

Apart from trade measures, the Nigerian government has extended support to rice sector development under its Growth Enhancement Support scheme. Registered rice farmers receive fertiliser and seeds, while major corporate investments in rice production by Olam and the Dangote Group (30,000 ha each) are also taking place. Rice value chain leader Dr Olumuyiwa Osiname, interviewed by the News Agency of Nigeria, commented that since 2011 the number of functioning rice mills has increased from 3 to 18 and the number of rice seed companies operating has increased from 3 to 25.

However, rice farmers' representatives continue to complain about low levels of service delivery, from farm implements and functioning irrigation equipment to improved seeds and loan financing. In addition, commercial disputes have emerged between some rice sector companies and the government.

If the rice sector policy objective of self-sufficiency by 2015 is to be attained, rice sector stakeholders maintain that there needs to be consistency in the government rice sector policy as well as further tariff reductions for investors with backward linkage programmes. This is seen as essential given the level of smuggling taking place from neighbouring countries, such as Cameroon and Benin, where no import levies are imposed on rice. Press reports suggest that up to 3 million tonnes of rice are smuggled into Nigeria every year.

From May 2013 to May 2014 world market rice prices fell by 28.2% – one of the largest price declines reported over the period. In June press reports indicated that sales from Thai rice stocks accumulated since October 2011 were re-establishing Thailand as the world's leading rice exporter. Thailand is expected to export 9 million tonnes of rice in 2014, potentially exerting a downward pressure on rice prices (although the recent *coup d'état* in Thailand unsettled the markets). By June 2014 heavy sales of Thai rice to Nigeria, Cameroon, Côte d'Ivoire and Togo were being reported, with Thai rice exports to Africa increasing by 80% in the first quarter of 2014 to some 1.2 million tonnes.

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Comment

The Nigerian government has been reviewing its rice sector tariff and levy policy to foster the development of backward linkages. This more nuanced approach, alongside government support measures, would appear to be having a positive effect on rice production. However, press reports suggest that serious implementation challenges remain, including the need to contain smuggling.

The Comptroller General of Customs in Nigeria has "identified the low tariff on rice in neighbouring countries as one of the major factors contributing to smuggling of rice into the country" (see *Agritrade* article 'Benin profits from Nigeria's agricultural trade policy', 2 June 2014). This suggests that without the narrowing of the discrepancy in the tariffs and levies applied by Nigeria and its immediate neighbours, rice smuggling is likely to remain a problem.

Movements in the global rice price over the past year could serve to exacerbate the problem of smuggling, as could the current rice stock disposal programmes of the Thai government.

It should be recalled that, as part of the mini-deal reached at the WTO ministerial meeting in Bali, an agreement was reached on public stockholdings for food security purposes. This allowed developing countries to increase purchases of food security crops without breaching WTO commitments on levels of agricultural support. An important part of this agreement was a commitment from developing countries to "ensure that stocks procured under such programmes do not distort trade or adversely affect the food security of other Members" (see *Agritrade* article 'ACP aspirations and expectations and the outcome of the Ninth WTO Bali Ministerial Conference', 11 December 2013).

Current patterns of Thai rice exports from public stocks to West Africa could come to constitute an important test case of this commitment.

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