East Africa's Agricultural Interests

A Defensive and Offensive Strategy with regard to EU CAP Reform

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1. Foreword

The East African countries of Kenya, Uganda and Tanzania all have agriculture-based economies. Their agricultural sector is not only the largest employer but also a major contributor to foreign exchange earnings for the countries. In terms of exports, the agricultural sector produces coffee, tea and horticultural products whose destination is largely the European Union.

Recognizing the significance of the EU as a destination for East African exports and the EU Common Agricultural Policy (CAP) Reforms, the Friedrich Ebert Stiftung (FES) in cooperation with the Ministry of Agriculture, Kenya, in November 2002 facilitated a workshop amongst policy makers in the agricultural sector of the East African Countries. During the workshop, it was resolved that the three East African countries (1) prepare a list of agricultural products they export to the EU and a list of products imported from the EU; (2) prepare a list of potential agricultural products that could originate from the EU and enter the East African market; (3) determine the sectoral linkage effect that these products have within the agricultural sector and their national economies and (4) prepare a sector-by-sector and product-by-product analysis on the impact of the EU CAP on the products identified.

This booklet is an effort towards implementing the resolutions of the November 2002 workshop. In the book, the agricultural interests of the East African countries are identified. The book also lays out the offensive and defensive strategy that Kenya, Uganda and Tanzania should adopt in view of the EU Common Agricultural Policy Reforms and in light of the ongoing Cotonou negotiations.The book highlights the importance of the sanitary and phytosanitary barriers to trade that the East African countries must encounter in trading with the European Union.

The book concludes by observing that despite the fact that Uganda and Tanzania are classified as Less Developed Countries while Kenya is classified as a Developing

Country by the UN, there is a strong commonality of interest among the East African States in approaching Cotonou Agreement issues as a single entity. However, it is very sad to realize that although Tanzania, Uganda and Kenya have these common agricultural interests, they are likely to defend them in different Economic Partnership Agreements (EPA).

In preparing this booklet, the Friedrich Ebert Stiftung wishes to acknowledge the essential contributions of Dr. Paul Goodison, Ms. Angela Wauye, Professor Jasper Okello, our colleague Collins Odote and the outstanding effort of the editor, Dr. Otieno-Odek. It is the hope of FES that this booklet will assist policy makers and Cotonou negotiators in the three East African countries to safeguard the region´s sensitive agricultural interests as they negotiate their respective EPAs with the European Union.

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2. List of Abbreviations

ACP Countries	African Caribbean Pacific Countries.
CAP	Common Agricultural Policy.
COMESA	Common Market for East and Southern Africa.
EAC	East African Community.
EBA	Everything But Arms.
EPA	Economic Partnership Agreement.
EU	European Union.
GSP	Generalised Scheme of Preferences.
MFN	Most Favoured Nation.
SPS	Sanitary and Phytosanitary Standards.
UN	United Nations.
TBT	Technical Barriers to Trade.
WTO	World Trade Organization.

3. Introduction

The economies of Kenya, Uganda and Tanzania are dependent on agriculture. Agriculture as practised in these countries is both subsistence and cash crop farming. Cash crop farming can be small, medium or large scale, and is geared mainly for export to the European market. The leading cash crops are coffee, tea and horticultural products, which all end up in Europe. Access to the European market is therefore a critical determinant of the success or failure of the agricultural export sector of the countries of East Africa.

The European Union is presently reforming its agricultural sector as embodied in the Common Agricultural Policy (CAP). To continue benefiting and competitively accessing this European market, the East African states must come up with an offensive and defensive strategy.

This booklet provides an insight on how each of the three East African states can design offensive and defensive interests and the factors to be considered in formulating these interests.

4. Kenya's Defensive and Offensive Agricultural Strategy on trade relations with the EU

Kenya, like many developing countries, has an agriculture-based economy. The agricultural sector plays a significant role in the economy in four key respects:

(i) It provides a basis for subsistence of the majority of the population;

(ii) It provides, directly and indirectly, the primary source of foreign exchange earnings, with horticultural products, tea and coffee being leading earners;

(ii) It is the largest employer;

(iv) It is central to food security.

In terms of export earnings, the major destination for Kenyan agricultural exports is the European Union (EU), which is the world's largest trading bloc and donor. Indeed, agricultural products are central to Kenya's trade relationship with the EU (in contrast to Kenya's trade relationship with the COMESA region where value-added products play a far greater role). Potentially, the development of the EU's internal policies and the external trade arrangements established for agricultural products can have important direct and indirect consequences for the Kenyan agricultural sector.

In view of the importance of the EU as an export destination for Kenyan agricultural products and the role the EU plays as an exporter of basic agricultural and value-added food products (for example, the EU accounts for 70% of all dairy products imported into Africa), policy changes in the EU agricultural sector need to be keenly followed, particularly in a context where the EU is seeking to introduce free trade areas as the basis for its trade relations with ACP countries. Traditionally, Kenya has enjoyed non-reciprocal preferential access to the EU market under successive Lomé Conventions and now the Cotonou Agreement, which will continue until January 1st 2008. The move over to free trade area arrangements with the EU will mean countries like Kenya will have to extend trade preferences to EU exporters by progressively eliminating tariff and non-tariff barriers to imports from the EU on substantially all goods currently imported from the EU.

5. Factors Reinforcing the Importance of Agriculture in Kenya

Factors Reinforcing the Importance of Agriculture in Kenya

* The absolute size of the manufacturing sector in Kenya is small compared to the agricultural sector.

* The local value added in foreign exchange terms tends to be much higher for agricultural than industrial products.

* The employment opportunities and income distribution benefits of a growth led by agriculture are much greater than an industry- led strategy, since agricultural activities are spread across the country and have wide-ranging effects[1].

* Manufacturing in Kenya is capital- and technology-intensive making entry by African businessmen difficult. The agricultural sector, on the other hand, offers more opportunities for the participation of African businessmen.

Presently, the EU is intensifying the on-going process of reforming its Common Agricultural Policy (CAP), which has been underway since 1992. One of the main aims of this reform process is to make EU agriculture and value-added food products more price-competitive on domestic and international markets. In the longer term, it is also aimed at improving the average efficiency of EU agricultural production. The main trajectory for CAP reform is thus changing the orientation of EU agriculture from on internal focus on food security to an external focus aimed at **competitively supplying value-added food products to markets across the globe**.

This potentially has major consequences for the development of both Kenyan agriculture and value-added food product industries serving national, regional and EU markets. It is essential that these developments be taken into account in the negotiation of any future trade arrangements with the EU, particularly as this will affect competition faced by Kenyan producers on national and regional markets. This could lead to loss of profitability, job losses and even factory closures. It is therefore important for Kenya to analyse the potential impacts of the EU CAP reform on its agricultural sector, and develop a strategy for the Kenyan agricultural and food processing industries based on the analysis.

[1] See "Kenya's Food and Beverage Exports, Occasional Paper No. 43, 1984 p. 12"

6. "Defensive" and "Offensive" Approach

In order for Kenya to develop an effective strategy for dealing with the EU around agricultural trade questions in the forthcoming negotiations, it is important for national "defensive" and "offensive" interests to be clearly identified.

The concept of **"offensive"** interests relates to those areas where Kenya needs to negotiate modifications to EU policies (tariff and non-tariff policies) in order to preserve and enhance the real value to Kenyan producers of trade arrangements for access to the EU market.

The concept of **"defensive"** interests relates to those areas where Kenya will need to preserve the national and regional economic policy space for the promotion of national and regional strategies for economic transformation in the light of the trade arrangements the EU is seeking for its exports to East African markets, in the interests of EU economic operators.

In terms of identifying **"defensive"** interests, the Kenyan government (in association with private sector interests and other civil society players) will need to identify the product areas where the elimination of import duties on goods from the EU could lead to unfair increases in competition for local Kenyan producers (arising form the massive levels of public support to the agricultural sector which the EU provides) and identify how to deal with these products under moves towards free trade with the EU[2]. This may involve excluding such products from moves towards free trade, subjecting them to special arrangements including some forms of import controls (perhaps through various forms of tariff rate quotas) or establishing simple and swift safeguard arrangements.

In identifying **"offensive"** interests, the Kenyan government (in association with private sector interests and other civil society players) will need to identify the product areas where tariff reductions still need to be negotiated and develop strategies for overcoming the various non-tariff barriers which are inhibiting or constraining Kenyan exports to the EU market. This will need to be undertaken against the background of

[2] Looking beyond agriculture, the Kenyan government will also need to identify those trade related areas and trade in services areas where the EU is pushing for liberalisation but where premature liberalisation could undermine the process of structural transformation which the Kenyan and other East African governments are seeking to bring about.

an analysis of the changing value of preferential access to the EU market (arising from price reductions driven by CAP reform) and the erosion of preferences underway as a consequence of multilateral trade liberalisation and the EU's conclusion of a multiplicity of new preferential arrangements with third countries (e.g. Mexico and the Mercusor Group of countries in Latin America.)

This paper seeks to identify the **"defensive"** interests and sets out the criteria for selection of such products.

The paper also seeks to identify the various **"offensive"** interests which Kenya has in the forthcoming ACP-EU negotiations and the criteria for prioritising these various **"offensive"** interests.

In order to comprehensively undertake this task, a number of preliminary steps should be undertaken:

i) compilation of a list of agricultural products that Kenya exports to the EU;
ii) compilation of a list of agricultural products imported from the EU;
iii) compilation of a list of potential EU agricultural and value-added food product exports to Kenya where Kenya has an existing or potential production interest;
iv) compilation of an analysis of the sectoral and linkage effects within the national economy for the products identified.
v) compilation of a sector-by-sector and product-by-product analysis of the issues ("defensive" and/or "offensive") faced in future trade relations with the EU;
vi) compilation of the tariff rate applicable to the product under any extension of the Cotonou Agreement compared to the tariff rate likely to be applied under EU's standard GSP scheme after 2007.

7. Criteria for Designating Products as Sensitive for the Identification of "Defensive" Interests

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Various factors have been considered as critical in identifying products that should be protected and subjected to a defensive strategy. The factors are:

i) the product's contribution to employment creation and sustainable livelihood;
ii) the number of persons employed in the transport, distribution and value-added

processing of the product;

iii) the contribution of the product to the Gross Domestic Product (GDP);

iv) the threat posed by EU exports in the context of CAP reform under moves towards free trade with the EU.

v) the importance of the product to gender relations;

vi) food security concerns;

vii) ability of the product to support poverty alleviation;

viii) ability of the product to assist in rural development;

ix) degree of sensitivity of the product to market signals and disturbance;

x) the importance of the product to a given geographical region.

Having identified sensitive products the Kenyan authorities need to identify how best to deal with each product.

8. Kenyan Sensitive Products ("Defensive" Interests)

During the years 1992 - 2001, the following agricultural products were imported into Kenya:

- Dry milk and milk powder;
- Malt;
- Refined sugar;
- Sugar confectionery;
- Sugar and molasses;
- Chocolate and cocoa products;
- Flavoured tea;
- Unmilled wheat, wheat flour;
- Rice;
- Maize;
- Honey;
- Animal and vegetable fats and oils;
- Fruits and vegetables;
- Poultry and eggs;
- Textile fibres and their waste;
- Second-hand clothing;

- Distilled alcoholic beverages;
- Cotton and cotton fabrics;
- Leather footwear;
- Unmanufactured tobacco.

Against this background, using the criteria enumerated above, an initial consideration suggests that the following products can be seen as sensitive to the introduction of free trade with the EU under a reformed CAP[3]:

(i) Sugar;
(ii) Wheat (durum) and wheat flour;
(iii) Pasta;
(iv) Tapioca;
(v) Bread, cakes and pastries;
(vi) Rice;
(vii) Meat and meat preparations;
(viii) Poultry;
(ix) Bacon;
(x) Tomato juice and tomato paste;
(xi) Jams;
(xii) Dried milk;
(xiii) Butter;
(xiv) Cheese.

For certain other products enumerated below, detailed analysis is required to ascertain the extent to which the introduction of free trade with the EU under the conditions created by a reformed CAP will have adverse effects on production in Kenya for local and regional markets.

(i) Maize;
(ii) Barley;
(iii) Eggs;
(iv) Value-added flavoured tea;
(v) Value-added coffee;
(vi) Other dairy products.

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[3] A justification for categorising each product as sensitive can be found in Annex 1.

It should be noted that the price competitiveness of EU exports of dairy products, cereals and cereal products, rice, poultry and livestock products will all be affected by the ongoing process of CAP reform. The price competitiveness of the EU exports of sugar and sugar-based products will also be affected before 2008 by the Sugar Sector Reform currently under discussion on the basis of a European Commission Staff Working Paper.

There is a need to asses on a product-by-product basis how the process of reform and enhanced price competitiveness of EU exports of these products will impact on Kenyan trading and production activities (a preliminary attempt can be found for the sugar sector in Annex 2).

The Government of Kenya will then need to come up with a well-informed strategy on how to deal with each product within any EPA negotiations. There are four basic ways of dealing with sensitive products:

1) Excluding the product from the coverage of the free trade;

2) Subjecting the product to “special arrangements” under the free trade area agreement;

3) Establishing simple and swift safeguard measures linked to effective monitoring and surveillance mechanisms so as to allow a swift and effective response to any import surges;

4) Only phasing in tariff reductions at the end of the transitional period after sectoral restructuring programmes have been implemented.

Given the sectoral linkage effects and the number of people directly employed, it is clear that the **sugar** (1.3 million people employed) and **dairy** (over 1 million people employed) sectors will require a defensive strategy with either exclusions, special arrangements or swift, simple and effective safeguards. Depending on the outcome of a more detailed assessment, **maize** (4.3 million people employed), **wheat** and **other cereal products** may also need to be subjected to special arrangements depending on the substitutability between local production and EU exports for these various products. With respect to the other sensitive products, the Kenyan government will need to determine how best to treat each product within this framework.

9. Identifying Kenyan "Offensive" Interests

Kenya's main exports to the EU by the importance of the product to exports in 2000 were:

Product		% Total Exports to EU 2000
0604	Flowers	19.1 %
0902	Tea	17.9 %
0901	Coffee	17.4 %
0708	Leguminous Vegetables	11.9 %
2008	Fruit and Nuts	5.6 %
0709	Vegetables	4.2 %
0602	Live Plants	2.2 %
2401	Tobacco	2.0 %
0804	Dates, Avocadoes, Pineapples	1.8 %
1604	Prepared Fish	1.7 %
2005	Preserved Vegetables	1.5 %
2101	Coffee Extracts	0.8 %
2009	Fruit Juices	0.6 %

These 13 products accounted for 86.7% of Kenyan exports to the EU in 2000, with the top four categories accounting for 66.3% of Kenyan exports to the EU in 2000.

In terms of future trade negotiations with the EU, the areas to be addressed can be divided into two categories:

- Tariff issues;
- Non-tariff issues.

In considering the tariff issues faced, the key question is the extent to which Kenya would be likely to face a re-imposition of import duties on products currently exported duty free to the EU under the trade provisions of the Cotonou Agreement, once this agreement expires on January 1st 2008. This requires an assessment to be made of the import duties which would be charged on Kenyan products under the alternative trade regime which would apply upon expiry of the Cotonou trade provisions. For Kenya, this trade regime would be the EU's standards GSP scheme[4].

[4] For other East African countries such as Tanzania, Uganda and Ethiopia, the alternative trade provisions applicable would be the "Everything But Arms" Initiative, which allows complete duty and quota free access for all originating products.

The EU's GSP system grants developing countries reductions in the standard MFN duties charged based on the degree of sensitivity of the EU market for these products to market disruptions. The 1996 EU GSP regulation set out 4 levels of sensitivity:

- For **very sensitive** products 85% of the standards MFN duty was applied;
- For **sensitive** products 70% of the standards MFN duty was applied;
- For **semi-sensitive** products 35% of the standards MFN duty was applied;
- For **non-sensitive** products duty free access is granted.

In December 2001, the European Union adopted a new GSP regulation which reduced GSP duties across the board by 3.5%. This scheme will run until December 2004, after which the EU will adopt a new GSP regulation. This situation generates a degree of uncertainty over the precise alternative trade arrangement which would be applied to Kenya in the absence of a successor agreement to the Cotonou trade arrangement (an agreement which the EU wishes to take the form of a free trade area arrangement or an economic partnership agreement as the EU chooses to call such arrangements when ACP countries are involved).

Against this background, the following section looks at the MFN duties currently[5] applied to the various products Kenya exports to the EU. It is to these duties that the GSP reductions are then made.

10. The Standard GSP Treatment Accorded Kenya's Main Exports to the EU

The following table sets out the MFN rates applied by the EU to Kenya's principal agricultural exports to the EU. It is these rates to which the reductions specified under EU GSP regulations apply. The products are organised according to their sensitivity classification.

[5] Prior to the conclusion of the Doha Development Round WTO agreement.

Very Sensitive (Subject to 80% MFN Duty, minus 3.5%)			MFN Duties Bound Rate of Duty
Cut Flowers			
	(0603 10.20)	1 June-31 October	12.0 %
	(0603 10 60)	1 November – 31 May	8.5 %
	(0603 90 00)	others	10.0 %
Leguminous Vegetables			
Peas	(0708 10 11)	1 September – 31 May	8.0 %
	(0708 10 90)	1 June – 31 August	13.6 %
Beans	(0708 20 10) 1.6 Euro/100 kg	1 October – 30 June	10.4 % + min
	(0708 20 90)	1 July – 30 September	13.6 % + min 1.6 Euro/100 kg
	(0708 90 00)	others	1.2 %
Vegetables			
Artichokes	(0709 10 00)	1 July – 31 October others	10.4 % 10.4 % + 229 Euro/tonne (SSG)
Asparagus	(0709 20 00)		10.2 %
Aubergines	(0709 30 00)		12.8 %
Celery	(0709 40 00)		12.8 %
Mushrooms	(0709 51.10) (0709 51 30) (0709 51 50) (0709 51 90) (0709 52 00)		12.8 % 3.2 % 5.6 % 6.4 % 6.4 %
Sweet Peppers	(0709 60 10)		7.2 %
Salad Vegetables	(0709 90 15)		10.4 %
Capers	(0709.90.40)		5.6 %
Fennel	(0709 90 50)		8.0 %
Sweet Corn	(0709 90 60)		94 Euro/tonne (SSG)
Courgettes	(0709 90 70)		12.8 % + 152 Euro/tonne (SSG)
Others	(0709 90 90)		12.8 %

Dates, Avocadoes, Pineapples Pineapples (0804 30 00)		5.8%
Avocadoes (0804 40 10) (0804 40 90)	1 December – 31 May 1 June – 30 November	4.0 % 5.1 %
Guavas, Mangoes Mangosteens (0804 50 00)		0.0 %

Fruit and Nuts (2008)
(Duties range from 15.2% to 25.6% with in some cases additional fixed levies of from 25 Euro per tonne to 42 Euro per tonne)
Fruit Juices (2009)
(Duties applied range from 12.2% to 15.2% depending on the nature of processing)

Preserved Vegetables (2005) Peas (200540)		19.2%
Asparagus (200560)		17.6%
Sweet Corn (200580)		5.1% + Euro 9.4/100kg
Tobacco Cured Tobacco (240110) (240120)		18.4% + Min Euro 22/100kg Max Euro 24/100kg

Sensitive[6] **(Subject to 70% MFN Duty, Rate of Duty minus 3.5%)**	**MFN Duties**
Live Plants	
(0602 10 10)	0.0 %
(0602 10 90)	4.0 %
(0602 20 10)	0.0 %
(0602 20 95)	8.3 %
(0602 30 50)	8.3 %
(0602 40 50)	8.3 %
(0602 91 00)	8.3 %
(0602 99 10)	0.0 %
(0602 99 30)	8.3 %
(0602 99 45)	6.5 %
(0602 99 46)	8.3 %
(0602 99 85)	6.5 %

[6] Depending on the specific product within this category being exported, these products may be considered sensitive/semi-sensitive or even non-sensitive. The classification used here relates to the most common form of treatment which would be accorded to the products Kenya exports.

Coffee		
(0901 12 00)		8.3 %
(0901 40 90)		11.5 %
Prepared Fish		
(1604193100)		24.0%
(1604193900)		24.0%
(1604195000)		12.5%
(1604199190)		7.5%
Coffee Extract		
(2101111110)		9.0%
(2101111190)		9.0%
(2101111910)		9.0%
(2101111990)		9.0%

Semi-Sensitive (Subject to 35% MFN Duty, minus 3.5%)	**MFN Duties** Bound Rate of Duty
Coffee	
(0901 21 00)	7.5 %
(0901 22 00)	9.0 %

Non-Sensitive		
Coffee		
(0901 11 00)		0.0 %
Tea		
(0902 10 00)		3.2 %
(0902 20 00)		0.0 %
(0902 30 00)		0.0 %
(0902 40 00)		0.0 %
Sisal		
(5304)		0.0%
Goat and Kid Leather		
(41062110)		2.0%
(41062190)		2.0%
(41062290)		2.0%
(41063110)		2.0%
(41063190)		2.0%
(41064090)		2.0%
Raw Hides		
(4101)		0.0 %

Some 46.7% of Kenya's exports to the EU in 2000 were classified as **"very sensitive"** under the EU's GSP regulation, while a further 22.1% were classified as **"sensitive".** The MFN duties charged on **"very sensitive"** products ranged from 8.5% to 13.6% plus additional special duties. Some of these products are also subject to special safeguard arrangements. The MFN duties charge on **"sensitive"** products ranged from 4% to 11.5%.

The significance of the re-imposition of specific duties on specific products will vary according to the nature of the market being served. In sectors with high turnover and low profit margin, the re-imposition of duties could come to constitute a serious barrier to trade. In sectors where alternative sources of supply are limited (or in the case of seasonal sources of supply which benefit from high off season prices) and demand buoyant, the re-imposition of duties, while reducing profitability, may not undermine the overall market position of Kenyan exporters.

The precise impact any re-imposition of duties will have on the competitiveness of Kenyan exports can only be clearly ascertained after close consultation with private sector operators currently serving EU markets.

Having a clear assessment of the likely impact of any re-imposition of duties would allow the Kenyan government to evaluate those areas of greatest importance in the negotiations in light of the non-tariff barriers to trade faced and the importance of the sector to the Kenyan economy and national and regional development objectives. A clear identification of the most important areas would then allow the Kenyan government to effectively deploy its limited negotiating capacity on those areas of greatest significance to national economic and social development.

One of the areas of greatest growth in Kenyan exports where both tariff and non-tariff issues will be faced in future trade relations with the EU is the horticultural sector. MFN duties on cut flowers range from 8.5% to 12.5%, while for horticultural products they range from 8% to 19% (for certain more advanced preserved products) with additional special fixed duties also being applied. However, in the horticulture and floriculture sectors, SPS measures are of increasing significance.

11. Kenya's Horticultural Exports to EU and the Importance of SPS Issues

Kenya, South Africa and Cote d'Ivoire were among the first countries to become major suppliers in European horticultural markets. By the late 1990s, Kenya was exporting 75 horticultural products not only as raw products but also as pre-packed and pre-prepared vegetables (Dolan and Humprey, 2000). The table below shows the wide variety of Kenya horticultural products. The country is now among the world's top five exporters of horticultural products.

Table: Major horticultural commodities in Kenya

Vegetables:	Artichokes Asparagus Baby Marrow Beetroot Brinjal Brussels Sprout Cabbages Capsicums Carrots	Cauliflower Celery Chilies Cucumber Dudhi Alka Karela Kolrabi Kale	Lettuce Okra Onions Potatoes Radish Snake gourd Spinach Turia Turnips
Fruit:	Avocadoes Apples Bananas Cape Gooseberries Figs Grapes Guavas Lemons Limes	Mangoes Mulberry Oranges Papayas Passion Fruit Pears Pineapples Plums Pomelos	Strawberries Sweet Corn Sweet Melons Tangerines Tomatoes Tree Tomatoes Water Melons
Cut-flowers	Agapanthus Alliums Alstromeria Bells of Ireland Carnations	Crysanthemum Heliconia Iris Liatris Moluccella	Orchids Ornithogalum Roses Strelitzia Tuberrose

Source: Horticultural Crops Development Authority (HCDA)

Kenya accounts for about 30% of the EU market for green beans, with the most important destinations in this regard being the UK (30%), France (26%) and Belgium (7%). The country exports a substantial amount of fruit, especially avocadoes and mangoes, and is the fourth largest avocado exporter to the EU after Israel, Mexico and South Africa. With respect to cut-flowers, the country accounted for 25% of the EU market in 2000, a substantial increase over the share in 1994 (16.4%).

An important trend has been noticeable in Kenya's horticultural export sector in terms of exporters moving up the value chain by selling value-added products such as ready-to-eat salads directly to major supermarket chains like Marks and Spencer, Tesco and Sainsbury's in the UK (Mwangi 2002). One of the major changes in the fresh vegetable chain in recent years has been the transfer of processing activities (including washing, trimming, bar-coding, and labelling) from UK importers to African exporters.

The table below shows examples of the specialty and value-added vegetables that Kenya exports to four UK supermarkets.

Table: Examples of Kenyan Specialty and Value-added Vegetables Sold to UK Supermarkets, April 1999

Supermarket	Kenyan Vegetables sold there
Asda	Babycorn, mangetout, mangetout in cellophane packs and trays, fine beans, fine beans in cellophane packs and trays, and baby carrots.
Marks & Spencer	Babycorn, mangetout in cellophane packs and trays, fine beans in cellophane packs and trays, hard-shell garden peas, and brussels sprouts.
Sainsbury's	Mangetout in cellophane packs and trays, dwarf beans, fine beans in cellophane packs and trays, and runner beans.
Waitrose	Mangetout in cellophane packs and trays, and sugar snaps in cellophane packs and trays.

Source: Adapted from Dolan et al. (1999:14).

Currently, Kenya enjoys duty free access to the EU market for most of these agricultural exports. A dialogue will need to be opened with Kenyan horticultural and flower exporters to identify what the likely impact of the re-imposition of such duties

would be on the individual products currently traded into the EU market. This will then need to inform the Kenyan government's negotiating priorities.

However, the horticulture and floriculture sectors face important SPS issues which will need to be comprehensively addressed if Kenyan exporters are to enjoy the full benefits of preferred access to the EU market. Unless these issues are effectively addressed, there will be no real benefits accruing from any tariff concessions which may be negotiated.

12. Sanitary, Phytosanitary (SPS) and Technical Barriers (TBT) on products entering the EU market

In terms of future trade negotiations with the EU, there is a need to clearly understand the different trade policy issues arising from SPS measures in order to develop policy options for addressing the trade-distorting impacts of SPS measures. In doing this, SPS issues can best be divided into four distinct categories:

* standard setting;
* the costs of technical compliance;
* the costs of verification;
* transitional arrangements.

Standard Setting

Many of the EU's SPS standards in the horticulture and floriculture sector have already been set and are under implementation. It is very difficult to revise such regulations, given the length of time it takes to reach consensus in the EU on these issues. However, in a number of areas, while the framework regulations for food safety are in place, the detailed sector-by-sector and product-by-product regulations still need to be agreed.

In this process, the case can be made for the Kenyan government alongside other ACP governments, to appeal to the EU to ensure that in protecting EU human, animal and plant health regulations are **designed** and **implemented** in ways which minimise the trade obstacles placed in the way of relatively small scale least developed and developing country suppliers.

Concrete examples of forthcoming regulations will need to be identified and an assessment made of the ways in which such regulations can be designed and implemented in ways which are more developing-country friendly.

The Costs of Technical Compliance

Often there are high fixed costs associated with ensuring compliance with EU food safety standards and SPS regulations. This has been recognised in the European Union with EU member states at EU Agricultural Council meetings expressing concerns that the costs associated with the implementation of the new standards could result in a loss of price competitiveness for EU producers. Against this background, in May 2003, the European Commission announced the creation of four schemes to support EU farmers in meeting the higher costs associated with these regulations since, as Commissioner Fischler noted, these higher costs "*have not always been adequately compensated by the market*"[7]

These four schemes include:

- a scheme to help farmers introduce the new and exacting standards;
- a scheme to promote animal welfare, with those who farm better than the normal good husbandry standard receiving permanent aid to compensate for the costs and income foregone;
- a five-year scheme to support farmers' participation in certification programmes;
- a scheme for advertising of quality-labelled products by producer groups.

In the 2004 EU Agricultural Budget, some Euro 248 million has been allocated to the provision of financial assistance to farmers implementing food safety, animal, plant and human health protection programmes.

In a context in which the market does not always adequately reward higher quality, EU farmers are to be assisted in meeting these quality standards, whereas Kenyan suppliers will have to carry all these costs on their own account and will receive no such assistance. This is likely to greatly reduce the attractiveness of supplying the EU market, particularly in a context where the prices of basic commodities are falling under the impact of the on-going process of CAP reform.

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[7] See the speech by Commissioner Fischler to EU Agricultural Ministers (SPEECH/03/238-13/05/2003) available at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=SPEECH/03/238|0|RAPID&lg=EN&display=

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In this context, the question arises as to whether programmes of financial assistance in meeting the financial costs associated with complying with EU SPS standards should not be established to assist Kenyan and other East African suppliers at a regional level, on a sector basis . This could, for example, take the form of low cost-loans to producers in the horticulture and floriculture sector to meet the costs of technical compliance with stricter EU SPS standards.

In addition, it should be borne in mind that the fixed costs associated with technical compliance with EU standards are often very high indeed. In order to be economical, these fixed costs need to be carried across a large volume of production and/or exports. This can create problems for relatively small-scale exporters, who can find the costs of compliance quite uneconomical.

In this context, particularly favourable low-cost loans could be made available to small scale producers in order to ensure that higher EU food safety standards and animal and plant health measures are not implemented in ways which undermine poverty eradication efforts by systematically placing a disproportionate burden on small-scale producers.

These problems are often compounded by shortcomings in institutional capacity of publicly financed bodies to verify compliance with EU standards.

The Costs of Verification

In a presentation to a meeting in May 2003, attended by officials and ambassadors from the Eastern and Southern African region, on developing an Economic Partnership Agreement negotiating mandate for the region, the COMESA Secretariat set out the market access issues faced in EPA negotiations. The paper observed that in the agricultural sector the most important issues faced relate to SPS issues.

The paper noted how Eastern and Southern African countries (ESA)

> "*face difficulties in entering the EU food market not necessarily because their products are unsafe but often because the ESA country lacks the monitoring, testing and certification infrastructure that would make it possible for them to demonstrate compliance with import requirements*"[8].

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[8] For the full text of the COMESA Secretariat Paper (May 2003) see http://www.acp-eu-trade.org/documents/COMESA_Sec_May03_Developing%20an%20ESA%20NegPos_on_EPAs_MA_Constraints.pdf

Difficulties in securing equivalency recognition were also highlighted. In the context of the first phase of the EPA negotiations, the European Commission has expressed the view that equivalency agreements are not possible with ACP countries, given the weaknesses which exists in ACP testing and verification arrangements. Unless this Commission position can be changed, this will mean that ACP countries such as Kenya will continue to face high costs in certifying and verifying compliance to EU standards; costs which can make exporting uneconomic.

This COMESA paper also noted how ESA countries had suffered significant export earnings losses as a result of being unable to verifiably meet EU standards. Particular problems were seen to arise for small-scale producers who simply couldn't afford the costs of compliance and subsequent verification (since these processes tend to have high fixed costs which need to be spread across large volumes of production). The scope for SPS measures being used to create administrative barriers to trade was also highlighted.

The importance of developing capacities to verify compliance was stressed, particularly highlighting the scope for doing so at a regional level.

This suggests a need for the establishment of programmes of financial assistance to public institutions to establish the institutional capacity to efficiently and cost-effectively verify compliance with increasingly strict EU standards. To a certain extent the European Commission is already seeking to address this issue with the establishment of Euro 50 million *trade.com* programme.[9] There are three main components to the *trade.com* programme:

- strengthening local capacities to formulate trade policies, while encouraging the participation of all stakeholders in the process;
- assistance for on-going trade negotiations by establishing a unique network of ACP trade experts (this component is known as a "hub and spoke" programme with the secondment of senior advisors – the hub – to regional organisations and experts in national ministries – spokes;
- funding of pilot projects to address institutional and supply-side constraints with a special emphasis on enabling ACP countries to meet technical standards and sanitary and phytosanitary requirements, which the Commission acknowledged "represent a major obstacle to improving their export performance".

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[9] For the European Commission Press Release announcing the programme see (IP/03/1123-25/07/2003) which can be found at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1123|0|RAPID&lg=EN&display=

Unfortunately, the emphasis on establishing the institutional capacity to verify compliance with EU SPS standards is a relatively minor component of the programme and much more needs to be done.

Verification issues also arise at the point of import. Recently (April 2003), the EU has required Kenyan flower exports to be inspected at the point of entry into the EU and not at the point of auction. This has introduced considerable costs to the Kenyan exports, charged at the rate of 14 Euro cents for every 10,000 stems. The charge doubles when the inspection is carried out during weekends or when exporters want the inspection to be carried out within six hours. Kenyan cut flowers exporters complain that although the inspection is based on a 20% sample, the charge is levied on the whole consignment. The exercise has not only introduced additional costs but by increasing the time it takes for Kenyan flowers to get to auction, it is also reducing the value realised at the point of sale. To reduce costs and income losses, Kenyan exporters would like to see inspection facilities established at the point of export in Kenya rather than the point of entry to the EU.

Transitional Arrangements

The COMESA Secretariat paper presented in Nairobi in May 2003 also noted how particular problems were arising from the introduction of "zero" tolerance and strict minimum residue levels in the floriculture and horticulture sectors. Indeed, on July 8th 2003, the European Commission announced that it was close to completion of its pesticide review, as a consequence of which a further 110 substances used in plant protection are to be withdrawn from the market by December 2003. These 110 substances are in addition to the 320 that have been withdrawn from the market before July 2003[10]

A significant number of the products are to be withdrawn as a result of companies failing to defend the use of these products since the market for these products is not seen as commercially interesting. Unfortunately, this often corresponds with products used in tropical zones for the production of temperate products for export to EU markets. Horticulture and floriculture producers could thus face the withdrawal of authorisation to use certain products, even where these may be safer than their alternatives or even where alternatives simply don't exist.

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[10] For more details see the European Commission Press release (IP/03/957-08/07/2003), which can be found at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03 957|0|RAPID&lg=EN&display=

This could potentially pose a significant problem. This issue needs to be taken up urgently with the EU with a view to securing the type of "temporary derogations" which are to be applied in certain EU member states for some 'essential uses'. Internally within the EU, this relates to products which have not been defended by the manufacturer but for which there is no readily-available alternative for the crops in question and for which no safety concerns arise.

Codes of Conduct and Retailer Standards

In addition to these four areas which have policy dimensions directly related to the EPA negotiations, there is the issue of the standards set by European retail chains and the various codes of practice with which they seek compliance from their suppliers. Kenya's horticultural industry has been subjected to enormous pressure to meet EU labour, social and environmental standards. European buyers are imposing stringent codes of practice (COPs), in response to major concerns (by civic bodies, environmental lobbies, and the media) on worker welfare and the environment, and require audits of exporters by internationally reputable institutions to ensure compliance. In the case of cut flowers, for example, the COPs practically outlaw cheap (and especially child) labour by requiring that long-term casual workers be given permanent employment. COPs, in addition, require that workers in the cut-flower industry be given adequate housing or housing allowances, and that pesticide use be reduced through adoption of integrated pest management (IPM) – a system which most Kenyan producers are unfamiliar with. They also recommend the use of specific inputs, some of which need to be imported. Kenyan horticultural producers face the additional problem regarding the lengthy legal process of registering new pesticides. This limits growers' access to newer and safer pesticides.

According to the outgoing chairman of the Fresh Produce Exporters Association of Kenya (FPEAK), horticultural exporters in the country are concerned that the COPs and audit requirements will affect their profits, as the audits are expensive. The 37 flower farms that are members of the Kenya Flower Council (KFC), for instance, are audited twice yearly by the international firm Bureau Veritas, on their social and environmental aspects. In addition, the KFC entered a certification agreement with the Dutch firm Mileu Project Sierteelt (MPS) in March 2003. These audits increase costs and adversely affect the competitiveness of the country's horticultural exports. Moreover, the buyers affect compliance of the growers with COPs, as do late payments, last minute changes to orders, and unclear incentives for compliance.

13. Reviewing the Challenge of SPS Issues

Overall, there are several challenges posed by these SPS issues. First, preferential treatment is not accorded in areas covered by the sanitary and phytosanitary standards (SPS), the technical barriers to trade (TBT), and the TRIPS. Second, meeting the SPS is very challenging to agro-food exporters and this has been aggravated by the multiplicity of these requirements across different markets. Considerable costs have to be borne in order to meet the health and environmental requirements. Third, the way the standards are set and the process of challenging their legality poses enormous difficulties to the country, as it lacks adequate technical and negotiating skills. The failure of one exporter within a country to meet the required standards has repercussions for all exporters from that country – a regulation that is particularly unjust.

Requirements of the supermarkets and legislation in the EU have favoured the concentration of fresh vegetable export trade in few large firms and shifted production increasingly to large farms, many of which are owned by exporters (Dolan et al. 1999). Difficulties associated with traceability and quality control, in particular, are major deterrents for dealing with small-scale producers. The pressure for suppliers to monitor pesticide use, partly as a result of the 1999 UK Government policy of 'naming and shaming' suppliers increased the need for closer monitoring of residues and even suspension of the import of tropical fruits whose volumes could not justify sophisticated monitoring procedures (UNCTAD 2000).

These trends have marginalized small and medium-sized exporters and small growers. Small growers are the most vulnerable as they have to rely on agents, middlemen and brokers who exploit them by paying them low prices or, at times, not paying them at all. Small-scale farmers require technical, marketing and general management assistance to be able to cope with demands of participating in the export market, as stricter SPS standards and other requirements make production, packaging, transportation and marketing process more management-intensive. To be sustained, small-scale production will have to be organized around strong organizations or associations, or be associated with a core business unit that has all the relevant management skills.

The increasingly stricter EU rules on minimum residue levels (MRLs) and social and environmental public pressure on horticultural exporters have had both positive and negative impact on producers. The rules have benefited workers

through access to better meals and healthcare. The rules have, in addition, created incentives for technology development. Homegrown, Kenya's largest horticultural exporter, was forced to construct wetlands to clean waste water before it gets to Lake Naivasha and also to develop a comprehensive integrated pest management programme (IPM), which it plans to convert into a separate company that can supply the environment-friendly technology to other exporters. On the negative side, the MRL requirements have proved to be a major hindrance for smallholders and have contributed to the declining role of the small-scale farmers in the industry.

Growth of small- and medium-sized horticultural exporters has also been impeded by difficulties in obtaining air cargo space, as about 93% of Kenya's horticultural exports are shipped by air and the scale of operations determines their capability to secure air cargo space through negotiations with commercial airlines (Barret et al. 1997). There is also the problem that airlines charge more for northbound trips relative to southbound ones, leading to high cost of airfreight for exports to the EU.

14. Defensive and offensive interests of Uganda and Tanzania as Less Developed Countries

The economies of Uganda and Tanzania, like Kenya, rely on the agricultural sector. *The reasons for the importance of this sector are the same for all the three East African states.*

In the United Nations system, Uganda and Tanzania are classified as Less Developed Countries (LDCs). Kenya, on the other hand, is classified as a developing country. Kenya, Uganda and Tanzania are all members of the East African Community and they rely to a large extent on the European Community market as a destination for their exports.

The classification of Uganda and Tanzania as LDCs is significant to the trade relationship of the East African Community with the European Union. This stems from the EU's Everything But Arms (EBA) initiative.

The EBA initiative was approved by the European Council on February 26th 2001. It provides for immediate tariff and quota-free access to the EU markets for all exports

from the 48 Least Developed Countries (LDCs), except for arms. In the case of sugar, rice and bananas the restrictions shall be removed in three annual tranches leading to full elimination in 2004.

> The practical effect of the EBA initiative is that Uganda and Tanzania have duty free access to the European Union market. On the other hand, Kenya being a non-LDC does not benefit from the EBA trade deal.

On the face of it, the EBA initiative appears very attractive to the recipient countries. This is not strictly so. Uganda and Tanzania still need to develop a defensive and offensive strategy in their trade relations with the EU.

It is important to state why the EBA initiative is not a silver platter trade deal for the LDCs.

i) EBA is a unilateral initiative. It can be suspended or terminated any time by the European Union. The unilateral nature of EBA makes the MFN regime more attractive, as it is negotiated and cannot unilaterally be withdrawn.

ii) The EBA regime has no enforcement mechanism. This is due to its unilateral nature. The MFN regime is enforceable within the WTO system.

iii) The EBA regime only relates to tariffs. The Non-Tariff Barriers must still be surmounted by the recipient states. Over 25 per cent of the EU's imports are affected by NTBs (See Ikiaria at page 21). Countries receiving EBA must observe the sanitary and phytosanitary standards, the technical standards and all other EU regulations. Consequently, Uganda and Tanzania must still meet the standard settings of the EU, the costs of technical compliance, the costs of verification and the transitional arrangements. The EU codes of conduct and the retailer standards must also be observed by the EBA recipient states.

iv) Despite EBA, the EU is undertaking reforms in its Common Agricultural Policy (CAP), which will affect the EBA receiving states. Although EBA guarantees duty free access, the CAP reforms will make the EU agriculture more competitive, efficient and low-cost in production. The EBA recipient states must still compete with the highly efficient EU agricultural producers. EBA itself does not prevent enhanced competition from local EU producers.

v) The EBA recipient countries must still comply with WTO minimum standards on TBT's SPS and rules on agricultural trade subsidies and dumping. EBA does not create an exception to WTO minimum standards.

In order for Tanzania and Uganda to develop an effective offensive and defensive strategy, they must keep in mind the above limitations of EBA. The criteria for designating products as sensitive and for the identification of defensive interests remain the same as discussed for Kenya. The concept of offensive interests relates to those areas where Uganda and Tanzania as EBA recipient states need to negotiate

modifications to the EU non-tariff policies in order to preserve and enhance the real value of Uganda and Tanzania producers in the trade arrangement for access to the EU market. On the other hand, the defensive interest of Uganda and Tanzania is to identify the product areas where the elimination of import duties on goods from the EU could lead to unfair increases in competition for the local Uganda and Tanzania producers (arising from the levels of public support in the EU in the agricultural sector) and identify how to deal with these products under moves towards free trade with the EU.

In identifying the offensive interests, the Uganda and Tanzania governments (in association with the private sector and other stakeholders) will need to identify the product areas where non-tariff barrier elimination still needs to be negotiated with the EU. They must also come up with strategies for overcoming the various NTBs and SPSs that constrain their exports to the EU market. In this regard, *there is a strong case for a common approach and a commonality of interest, and strategy for Kenya, Uganda and Tanzania with respect to NTBs and SPSs.*

15. Uganda's Defensive Interests

Uganda's sensitive products (Defensive Interests) can be identified as follows. During the years 1996 – 2000, the following agricultural products were imported from the EU into Uganda:

- Unmanufactured tobacco and tobacco refuse;
- Rice;
- Maize or corn;
- Malt;
- Wheat or meslin flour;
- Food preparations of flour, meal;
- Paper or paper board labels of all kinds whether printed or not;
- Cane or beet sugar and chemically pure sucrose in solid form;
- Milk and cream, concentrated or containing added sugar or other sweetening matter;
- Worn clothing and other worn articles;
- Footwear with outer soles of rubber, plastics, leather or composition leather.

Using the criteria enumerated for identifying sensitive products, the following products are sensitive to Uganda not only under the EBA but also considering the

impact of CAP reform and the possibility of an Economic Partnership Agreement with the EU:

- Rice;
- Maize or corn;
- Wheat;
- Milk;
- Value-added food preparations.

The price competitiveness of the EU on these sensitive products will be enhanced by the on-going CAP reforms, particularly on sugar-based value-added food preparations and cereals.

Uganda's Offensive Interest is determined by EBA and the NTB's faced by Uganda's products in the EU market. Under EBA, Uganda does not face tariffs. However, Uganda must face the NTBs and other technical standards and regulations of the EU. It is here that Uganda's offensive strategy must be developed.

16. Uganda's Offensive Interests

Uganda's main exports to the EU by product are:

Product			% Total Exports to EU
*	0901	Coffee, whether or not roasted	69.8%
*	2401	Unmanufactured tobacco and tobacco refuse	5.6%
*	0304	Fish fillet and other fish meat	4.5%
*	0603	Cut flowers and flower buds	2.1%
*	5201	Cotton, neither carded nor combed	2.2%
*	0602	Live plants, including their roots, cuttings and slips	1.0%
*	1801	Cocoa beans, whole or broken, raw or roasted	0.9%
*	4101	Raw hides and skins of bovine or equine animals.	1.0%

Uganda should negotiate with the EU on how to reduce or eliminate the NTB faced by the above products. Transitional provisions for these products can also be negotiated. The main difficulty herein is that the sanitary and phytosanitary standards and regulations apply uniformly to all countries and it is difficult to negotiate selective NTBs applicable to some and not all countries.

17. Tanzania's Offensive Interests

Tanzania's exports to the European Union market determine the offensive position it will take in any negotiations with the EU. Between 1996 and 2000, Tanzania exported the following products to EU:

Product			Exports to EU
*	0304	Fish fillets and other fish meat	28%
*	0901	Coffee, whether or not roasted	13.9%
*	2401	Unmanufactured tobacco, tobacco refuse	8.8%
*	1701	Cane or beet sugar and chemically pure sucrose	2.1%
*	0603	Cut flowers and flower buds	2.1%
*	0902	Tea whether or not flavoured	1.4%
*	5201	Cotton, neither carded nor combed	1.3%
*	0303	Frozen fish	1.2%
*	5304	Sisal and other textile fibres	0.9%
*	0302	Fish excluding fillets	0.7%
*	5205	Cotton yarn other than sewing thread	0.7%
*	0602	Live plants including their roots, cuttings and slips	0.7%
*	0713	Dried leguminous vegetable	2.8%
*	1801	Cocoa beans, whole or broken	2.0%
*	5209	Woven fabrics of cotton	1.0%
*	4103	Raw hides and skins	1.0%
*	4407	Wood sawn or chipped lengthwise	0.0%
*	1211	Plants and parts of plants	0.0%
*	1703	Molasses resulting from the extraction or refining of sugar	0.0%
*	0708	Leguminous vegetables, shelled or unshelled, fresh or chilled	0.0%
*	0714	Manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes and similar roots and tubers with high starch or insulin content	0.0%
*	1207	Oil seeds and oleaginous fruits	0.0%

In terms of trade negotiations with the EU, since Tanzania is a recipient of EBA, her exports to the EU are duty free. However, Non-Tariff Barriers must be addressed and it is in this realm that Tanzania's offensive interest must be developed. The technical standards, internal EU market rules and negotiations as well as the SPS concerns must be negotiated. Tanzania just like Kenya and Uganda will have to contend with the standard setting issues, costs of technical compliance, costs of verification

and any transitional arrangements. The EU codes of conduct and retailer standards will have to be observed by Tanzania. The overall challenges faced by Kenya on SPS issues will impact on both Tanzania and Uganda.

18. Tanzania's Defensive Interests

In terms of defensive interests, between 1996 and 2000, Tanzania imported the following agricultural products from the EU. These imports will guide the defensive interests of Tanzania:

Product	
* 6309	Worn clothing and clothing accessories
* 2401	Unmanufactured tobacco and tobacco refuse
* 1107	Malt, whether roasted or not roasted
* 0402	Milk and milk cream concentrated or containing added sugar
* 4810	Paper and paperboard
* 2002	Tomatoes, prepared or preserved
* 2106	Food preparations
* 1106	Wheat or meslin flour
* 6403	Footwear with outer soles of rubber, plastics, leather or composition leather

As regards defensive interest, it has been indicated that the EU is undertaking reform in its agricultural sector. The CAP reforms will make EU agriculture low-cost, efficient and thus competitive. There is a potential that with CAP reform, there shall be increased low priced EU imports into Tanzania. This is bound to have a negative effect on local Tanzanian producers. The reforms in EU sugar, rice and the cereals sub-sectors are set to pose a major competition to producers in Tanzania. Tanzania needs to adopt a defensive strategy to curb her potential for increased imports.

19. Conclusions and Recommendations

The discussion and analysis made in this paper leads to the following conclusions and recommendations:

i) The East African states must develop a strategy for response to the EU agricultural reforms. It is recommended that a defensive and offensive approach be developed.

ii) A defensive approach seeks to identify the East African products that must be defended or protected from EU agricultural imports, both actual and potential. In developing a defensive strategy, the East African states will have to determine whether to invoke safeguard measures or put in place special arrangements to protect its products.

iii) For Kenya, an offensive approach seeks to identify tariff rates or products, which Kenya can use as a trade-off or bargaining chip in order to extract trade concessions from the European Union.

iv) For Uganda and Tanzania, being EBA recipient states, an offensive approach seeks to identify non-tariff barriers which they can use as a trade-off to extract concessions from the European Union.

v) The sectoral linkage effects of the sensitive products must be determined prior to recommending a defensive strategy or adopting safeguard measures for any product. The significance of the defensive products can only be appreciated by looking at the sectoral and linkage effects of these products.

vi) In designing the offensive and defensive strategy, the East African states must keep in mind the margin and value of preferences that the European Union is giving to its other trading partners.

(vii) Despite the fact that Tanzania and Uganda are EBA receiving countries, all three East African states will have to contend with the EU non-tariff barriers, SPS and other technical standards. For this reason, the East African states will bear the cost of compliance with the technical standards, costs of verification and other retailer standards.

Annex I:

Erosion of Preferential Margins, 1990-1995*: Some Kenyan Examples

Product	1990 MFN %	1995 MFN %
Avocadoes	8.0	5.0
Pineapples	9.0	7.9
Bananas	20.0	18.7
Mangoes	4.0	4.0
Strawberries	15.0	13.6
Melons	11.0	10.3
Apples	9.3	0.0
Beans, fresh or chilled	15.0	12.7
White and red cabbages and Kales	15.0	14.0
Aubergines, fresh or chilled	16.0	14.9
Peas	13.5	10.6
Bobby beans	15.0	12.7
Roses	13.0	11.4
Unrooted cuttings & slips	4.0	3.4
Fresh cut flowers & buds	17.5	16.5
Fresh parts of plants (ornamental purposes)	10.0	6.4
Fresh or chilled fish	14.4	13.5
Live ornamental fish	7.5	5.3
Frozen fish meat, excluding fillets	13.1	10.5
Frozen rock lobster & other sea fish	25.0	17.5
Frozen shrimps & prawns	16.0	14.1
Fresh or chilled fish fillets	12.3	13.8
Frozen fish fillets	14.1	11.5
Frozen crustaceans	13.0	11.7

Source: UNCTAD, TRAINS database.

From the foregoing information, it is evident that Kenya needs to put in place a defensive and offensive strategy to respond to the EU CAP reforms.

Annex II

Sugar: The Options for Reform Under Consideration

While the June 26th 2003 EU Council agreement left the sugar sector unaffected, the decision to reduce the extent of "dynamic modulation" (which involves capping the levels of support which can be claimed by any individual farm, by progressively reducing payments to larger farms) from 20% of total transfers to farmers receiving over Euro 5,000 a year to only 5%, reduced the immediate scope for the financing of reform in the sugar sector. This has reduced the funding available for re-deployment elsewhere from Euro 4.8 billion to Euro 1.2 billion. Alongside this, it was decided to restrict the utilisation of re-deployed funds to the financing of rural development measures.

On September 23rd 2003, the European Commission released a staff paper to stimulate a debate around four options for reform:

- Status Quo Option;
- Full Liberalisation Option
- Fixed Quota Option;
- Price Fall option

The Favoured Option

In summarising the impact of the various options, the Commission staff paper sees the "price fall option" as the most advantageous. This option would ensure progress in all areas in achieving the underlying policy objectives and holds the least disadvantages for European stakeholders. It would also in the early years involve no additional budgetary costs. Significantly, the staff paper elaborated in some detail how this "price fall option" could be implemented. The scenario set out the following trajectory for reform:

Stage 1: The EU sugar price would be reduced by between 15% and 20%, reaching a price for white sugar of Euro 600/tonne. The intervention price in the sugar sector would be abolished.

As a consequence, the preferential price for ACP sugar would fall to Euro 435 per tonne of raw sugar.

EU sugar growers would not need to be compensated since the sugar levies would be abolished, "C" sugar production would be cut and extra revenue would be generated by the sale or leasing of quotas under a new quota management system.

The EU may, however, need to provide restructuring assistance to traditional ACP suppliers.

Stage 2: The community market price for white sugar would fall to Euro 450/ tonne, a 40% reduction overall.

Compensation would be paid to EU beet growers through the decoupled farm payment system. The budget required would ultimately be around Euro 1 billion per annum.

EU production quotas would be cut and eventually abolished once the EU market has reached equilibrium.

The ACP sugar price would be cut again to Euro 290/tonne.

Restructuring of production in ACP countries would also need to be financed.

Outcome: After this phased reform which would be fully in place by 2013:

- sugar production in the EU-25 would be around 14 million tonnes;
- preferential imports would total around 2.5 million tonnes;
- EU sugar exports would virtually cease.

Significantly under this reform scenario, EU manufacturers of sugar-containing products will be progressively released from the shackles of dependency on export refunds, which are constrained by WTO rules at Euro 415 million a year. This will fuel EU exports of sugar containing value-added food products, which have been constrained since 2001 by WTO ceilings on export refunds for so called Non-Annex I products (value-added food products containing CAP distorted agricultural raw materials).

Implications for Kenya

Under this scenario after the first phase of reform, **in the absence of any price reductions in Kenya**, the Kenyan market would be a more attractive market for Eastern and Southern African sugar exporters than the EU market and would begin to attract sugar imports (both official and unofficial) from neighbouring countries. This is a particularly acute problem for Kenya, being a high-cost sugar producer surrounded by low-cost sugar producers.

By the end of the second stage of reform, the Kenyan market would be vastly more attractive than the EU market. While the Government of Kenya may initially seek to protect the local market through high levels of tariff protection, this is likely to prove an extremely difficult task. It is likely to fuel sugar smuggling on a scale which will ultimately undermine the Kenyan sugar market.

The increased export price competitiveness of EU sugar-based food product exports would also begin to adversely affect Kenyan food manufactures to the extent that these manufacturers depend on high-priced Kenyan sugar for their raw materials. This could have profound implications for manufacturing value added in Kenyan and industrial demand for agricultural materials from other sectors which are combined with sugar in the food manufacturing process.

This suggests that the Kenyan government will have little option but to pursue sugar sector reform involving a **rationalisation of production** and a **substantial reduction in average production costs** linked to **a progressive reduction in the domestic price of sugar**. Only by reducing the attractiveness of the Kenyan sugar market to smugglers is the government likely to be able to establish a credible sugar sector policy which it is capable of implementing, in the interests of the long term future of the sugar industry in Kenya.

Sources:

- Commission Staff Paper, "Extended Impact Assessment: Sugar Regime":
  http://europa.eu.int/comm/agriculture/publi/reports/sugar/fullrep_en.pdf

- UK Sugar Traders report (April 14th 2003):
  http://www.sugartraders.co.uk/

- European Commission summary
  http://www.sugartraders.co.uk/eurocare.doc

- Commissioner Fischler Speech (SPEECH/03/373-28/07/2003):
  http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=SPEECH/03/373|0|RAPID&lg=EN&display=

- Full text of the EU Presidency compromise on CAP reform:
  http://register.consilium.eu.int/pdf/en/03/st10/st10961en03.pdf

- The European Commission's before-and-after summary of the CAP reform agreement:
  http://europa.eu.int/comm/agriculture/mtr/avap_en.pdf

- The European Commission's CAP reform summary:
  http://europa.eu.int/comm/agriculture/mtr/sum_en.pdf
  http://europa.eu.int/comm/development_old/stat/extrd00/import/ke.htm
  http://europa.eu.int/comm/development_old/stat/extrd99/import/ke.htm