

Leveraging the Agriculture Sector Through Trade: Opportunities and Challenges in the EC-EAC EPA

Introduction

The agriculture sector plays an important role in the East African Community (EAC), where 80 percent of the population lives in rural areas and depends on agriculture for their livelihood. It is also one of the region's major sectors, the others being services, manufacturing, and mining¹.

The Economic Partnership Agreement (EPA) between the European Commission (EC) and EAC (herein in after referred to as EC-EAC EPA), may present an opportunity for the EAC to fully explore and enhance the agriculture sector's potential through trade.

Indeed among the EC-EAC EPA's objectives is to contribute to economic development through the establishment of a strengthened and strategic trade and development partnership consistent with the objective of sustainable development and promote the gradual integration of the EAC economies, and their diversification and competitiveness by enhancing production; supply and trading capacity².

The EAC's comparative advantage lies in the agriculture sector and this coupled with the ever expanding domestic and global agricultural markets as well as the revolution in biotechnology and information technology present an opportunity for the region to use the sector in promoting development and the livelihood of its people.

State of Play of the Agriculture Sector in the EAC

Agricultural products in the EAC contribute substantially to the total merchandise exports from the region, with a higher dependence on tropical products, such as sugar, bananas, coffee, tea and tobacco. The sector, therefore, requires more attention in the EPA setting in order to fully exploit its potential. Table 1 shows the contribution of tropical products to the total merchandise exports of the EAC in the period 1995 and 2004.

In the last decade the producer prices for agricultural commodities have risen by 30 to 50 percent³. If the EAC

Table 1: EAC Tropical Products' Exports

| Country | Tropical Products as percent of total merchandise | | Composition of Tropical Products Exports 2004 (in percent) |
|----------|---|------|--|
| | 1995 | 2004 | |
| Burundi | 88 | 47 | Coffee 80 |
| Kenya | 44 | 31 | Tea 56 |
| Rwanda | 46 | 31 | Coffee 93 |
| Tanzania | 51 | 20 | Tobacco 25, Cotton 20, Coffee 20 |
| Uganda | 74 | 21 | Coffee 51 |

Source: Adopted from the ICTSD FAO Information note number 5, March 2008, Trade Barriers Faced by Developing Countries' Exporters of Tropical and Diversification Products. Pg. 6

region is supported in the acquisition and access to the necessary farm inputs that are often unaffordable by the ordinary farmers, the agricultural sector would contribute more dividends from the trade preferences enjoyed.

Some of the partner states in the EAC region have well developed and privately owned agro-processing industries. This coupled with the development of export processing zones (EPZs) and manufacturing-under-bond that are fast expanding, will lead to value addition and hence better terms of trade for the agricultural products⁴. The market preferences under the EAC-EC EPA would encourage increased supply to the developing industries of raw materials leading to overall development through trade. Installation of better infrastructure in terms of reliable power supply, well maintained feeder roads and storage facilities would further expand these industries across the region and thereby fully exploit the potential in the agricultural sector.

The EAC region has seen the introduction of rural saving, credit cooperatives and micro-finance institutions,

which channel funds to be invested in agriculture. Such initiatives if well developed, would go a long way in enabling the community to better utilise the market access opportunities presented by the EAC-EC EPA.

Opportunities in the EC for the EAC Agriculture Sector

The EC market presents an opportunity for the EAC to benefit from the huge demand for “fair trade goods” most of which are agricultural commodities. EC consumers currently purchase fair trade products worth €1.5bn (US\$2.1bn) per year and the market represents between 60 and 70 percent of the global sales for fair trade products⁵.

The fair trade concept refers to a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade⁶. By accessing this market through the preferences availed in the EPA, the agriculture sector which has the most potential for growth and development in the EAC would go a long way in contributing to development in the region.

The EC also constitutes a big market for organic products, a niche that could be exploited by the EAC through promoting trade of organic agricultural products under the preferences presented in the EC-EAC EPA. Encouragingly the EAC has already adopted a regional organic standard, which *inter alia* advocates for more education and sensitisation of farmers on the economic advantages of organic farming⁷. Organic production is well suited for resource-poor farmers in the region who are less dependant on external resources.

However, accessing the EU organic product market requires adherence to the EC regulations on organic production and labelling. These call for 95 percent of the product to be organically produced⁸; therefore the EAC must lay strategies to ensure that its agriculture sector can produce products for this market in order to fully utilise the preferences in the EAC-EC EPA and thereby contribute to development in the region.

Challenges faced by the Agriculture Sector in the EAC

For the EAC region’s agricultural sector to fully harness its potential through the EC-EAC EPA, the challenges faced by the sector need to be addressed. Some of these are discussed hereunder:

The domestic and export subsidies granted by developed countries to their agricultural products that are substitutes and/or competitors of the agricultural products from sub-Saharan countries depress international prices and result in unfair competition in the international markets.

An analysis of the US cotton subsidies in the World Trade Organisation (WTO) cotton case illustrates the extent to which these subsidies depress the market prices to the

detriment of the developing countries involved in the production of cotton. For the EAC to benefit from the EPA preferences, the issue of subsidies granted by the EC to its agriculture sector needs to be addressed.

The sanitary and phyto-sanitary (SPS) measures as well as compliance standards required to access the developed countries markets (such as the EC) are quite challenging to most agriculture producers in the EAC. There is need for capacity building coupled with the required assistance to produce and package the agriculture products in the manner required so as to make use of the preferences under the EPA⁹.

The EAC is also faced by internal constraints and challenges that need to be addressed for the region to fully benefit from the preferences extended by the EC under the EPA.

There is poor management of the farmer’s organisations in the region characterised by declining quality of services, weak financial management and misallocation of resources. This has largely deterred the agriculture sector from negotiating for better policies and allocation of resources required in overcoming the challenges faced¹⁰.

There is a need for effective policies that would encourage investment in the agriculture sector by both local and foreign investors thereby boosting the region’s trade and its people’s welfare.

The legal and regulatory framework pertaining to the agriculture sector in the region is weak and in some cases obsolete. This has led to the proliferation of poor quality agricultural inputs, such as fake seeds/fertilisers, and sub standard vaccines, counterfeit and adulterated agro-inputs that have resulted in a decline in agricultural production. These unscrupulous trading practices need to be addressed through harmonisation of laws and regulations in the region, including updating them in order to redress and deter the harmful practices.

The land tenure system in the EAC is in itself a major challenge to the full exploitation of the agriculture sector. The region has over 69 million hectares of high potential agricultural land, with suitable climatic conditions for the production of various crops and livestock¹¹. However, most land is still communally owned making it difficult to permanently improve or use as security in accessing the much needed financial services. Further, the land holdings are also fragmented making large scale undertakings in the sector unviable.

The poor state and in some cases lack of physical infrastructure in the region, such as rural roads, irrigation, storage, marketing, communication and reliable energy supply make the farm gate to market costs

very high and impede the full exploitation of the agriculture sector's potential. It is well documented that the costs of transporting goods say from Kampala (Uganda's capital city) to Mombasa (the sea port route to access the EC market), is much higher than the cost of transporting the same goods from Mombasa to the EC, a much longer distance, hence making the products less competitive.

The EAC region has a potential of about 30.35 million hectares of land suitable for irrigation, out of which only 377,000 hectares are currently under irrigation, leaving a big chunk of untapped resources¹². There is need for better technology and management of irrigation schemes in order to fully exploit the available land resources in the region and harness the benefits enshrined in the EPA preferences.

EC-EAC EPA Chapter on Agriculture

In recognition of the vital role and contribution that the agriculture sector plays to the EAC, it was agreed that a separate chapter be included in the EPA, to specifically deal with the sector. To this end negotiations are under way and a draft chapter has been tabled.

The draft chapter outlines the following as its objectives:¹³

- Achieve food security and improve the standard of nutrition in the EAC partner states by increasing output, quality, availability and accessibility.
- Improve standards of living and eradicate poverty in the rural areas through increased income generation from agriculture production, processing, storage and marketing.
- Develop modern and competitive agro-based industrial base to increase competitiveness.
- Encourage the development of new and appropriate technologies to improve the productivity of land and labour in agriculture.
- Promote sustainable use and management of natural resources in order to conserve environment.
- Promote value added and improved agricultural productivity.
- Facilitate the adjustment of the agricultural sector and the rural economy, to the progressive global changes while paying attention to small scale operators.
- Improve infrastructure for marketing and distribution of agriculture products in the region.

The chapter also addresses the issue of agricultural export subsidies, wherein the parties undertake not to introduce any new subsidy programmes contingent upon export or increase any existing subsidy on products destined for their territories.

Inclusion of a separate chapter on agriculture in the EC-EAC EPA is a positive step and the objectives outlined above, if pursued would greatly enhance the EAC's capacity to fully utilise its potential in the sector.

Be that as it may, the agricultural sector in the EAC region is most suited to trigger the much anticipated social and economic development leading to reduction in poverty, through trade partnership with the EC. It is, therefore, imperative that provisions governing the chapter on agriculture, translate into enhancing the sector, by not only providing the much needed solutions to the challenges faced but also preventing any counter effects resulting from the liberalisation process, such as dumping.

To this end, the chapter should entail specific development provisions directed at addressing the challenges faced in the region. These include but are not limited to the following:

- EC commitment to reducing or ceasing the trade distorting subsidies on agricultural products of interest to the EAC.
- Support and enhance EAC region's capacity to comply with the EC SPS measures and agricultural products' standards (including the private standards).
- Development, rehabilitation and improvement of the physical infrastructures in the EAC region.
- Development support for the improvement and widening of the irrigation in the region.
- Support for better organised and functional farmers organisations that would facilitate information flow, and better lobbying for the farmers' interests.
- Support to re-organise the land tenure system so as to make it more suitable for commercial farming. This would also encourage more investment in the sector by both local and foreign investors.
- Support to implement a legal and regulatory framework capable of deterring the proliferation of poor quality agricultural inputs and thereby enhance the region's capacity to produce and access the lucrative organic products market in the EC.
- Include a special safeguard mechanism specific to the agriculture sector, that would counter flooding

of the EAC with subsidised agriculture products, while at the same time enabling EAC to respond to the food crisis that may occur as was recently the case.

Recommendations

For the EC-EAC EPA to achieve its economic development objective agriculture specific support is required to address the challenges discussed above. Policy makers should also give the agriculture sector the attention it deserves, considering its potential to contribute substantially to the development needs of the region. The following specific action is required:

- Honouring the Maputo decision to allocate 10 percent of the national budgets to the development of the agriculture sector.

- Facilitating and improving the national agricultural research and extension facilities, including harmonising them at a regional level.
- Facilitating and improving access to financial services by the rural farmers.
- Encouraging and facilitating public private partnership in the agriculture sector, thereby creating a sense of ownership of policies and encourage cooperation in their implementation.

The above measures would complement the development assistance from the EC and thereby enable the EAC to leverage its agriculture sector through trade preferences under the EC-EAC EPA.

ENDNOTES

- 1 A guide to EAC facts and figures available at <http://invest.eac.int/> 2008 figures accessed on July 16, 2009
- 2 Agreement establishing a framework for an Economic Partnership Agreement between the EC and EAC; Article 2 (a) and (c)
- 3 See the Agriculture and Rural Development Strategy for the East African Community (2005-2030) that discusses the status of agriculture and rural economy in East Africa. P46
- 4 *Ibid* p.40
- 5 Fair Trade Communication, June 12, 2009. Available at www.internationallawoffice.com. Accessed July 01, 2009
- 6 *Ibid*
- 7 Bridges Trade BioRes, June 22, 2007 Vol. 7 No.12
- 8 *Ibid*
- 9 For further discussion on this, please see “Standards and Market Access under EPAs: Implications and Way Forward for EAC”. Available at www.cuts-grc.org
- 10 *Ibid*
- 11 Supra footnote 4 p.53
- 12 Supra footnote 4 p.55
- 13 This is per the EC-EAC EPA draft chapter on Agriculture as of March 2009, subsequent versions may vary

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