

Sowing Multilaterally, Reaping Locally: Can the WTO Promote Equitable Agriculture Development in the East African Community?

“Given the right conditions, Africa has the potential to not only feed its own population but that of the rest of the world” – Kanayo Nwanze President International Fund for Agriculture Development (IFAD). Indeed a bold statement considering parts of the continent are often stricken by drought and famine. While Africa is endowed with about 12 per cent of the world’s arable land suitable for agriculture, 80 per cent of such land remains uncultivated and irrigation is minimal. Yet, agriculture provides livelihoods for 80 per cent of the population in the Eastern African Community (EAC), where creating an enabling environment for equitable terms of trade among stakeholders in the sector is a must for the region’s development. This brief examines the World Trade Organisation (WTO) agriculture disciplines and negotiations, their impact on the EAC domestic and international trade relations, the opportunities arising, and how equitable agriculture development can best be enhanced by the multilateral trading system.

Key Messages

1. EAC and its national governments should pursue meaningful market access for their agriculture products.
2. In facilitating trade and redressing current constraints, the EAC and its members should allocate sufficient budgetary resources that would complement Aid for Trade and Enhanced Integrated Framework initiatives in the region.
3. EAC and Member States should promote capacity building of stakeholders in the agriculture sector and prioritize the niche sectors in which the region has a comparative advantage.
4. EAC Member States should facilitate effective stakeholder participation and coordination in agriculture and related policy making/implementation.

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Background

In Africa the agriculture sector has the potential to accelerate development and poverty reduction on the continent, including in the East African Community (EAC) where more than 80 percent of the population depends on the sector for their livelihoods; however for the potential to be optimally harnessed there is need to ensure equitable agriculture development that encompasses all stakeholders and provides an enabling environment for them to fully engage in and reap the benefits therein.

Characteristics of the EAC Agriculture Sector

In the EAC region, majority of farmers are smallholders involved in subsistence farming mainly for domestic food consumption which is good for food security, but provides little advantage in terms of economies of scale. Their low engagement in commercial farming is thus an obstacle as it is through large-scale production that poverty reduction and development within the region can be achieved. Besides the need for capacity building, the lack of proper infrastructure (i.e. transportation, storage facilities, irrigation systems); inefficient marketing systems and market accessibility; poor extension and advisory services; poor access to financial services; low levels of investments in the sector; weak policies and government practices, all prove too challenging for the creation and sustenance of an enabling environment that encompasses full stakeholder participation and facilitates equitable agriculture development.

With the establishment of the WTO, the Agreement on Agriculture (AoA) came into force and aims at reforming international trade disciplines pertaining to agriculture, by deepening market access and facilitating competitiveness through the reduction of domestic support and export subsidies. But despite some achievements made through these reforms, developing countries and LDCs are still unable to optimally utilize the "opportunities" available through the Multilateral Trading System to their full advantage. As this brief suggests, lack of an enabling environment is usually the cause of this drawback.

WTO Agriculture Disciplines

Prior to the WTO, the General Agreement on Tariffs and Trade (GATT) provided for the rules governing agriculture in the multilateral trading system; however these were markedly different to the rules applied to industrial products and largely led to distortions in agricultural trade. For instance there was no restriction on the use of export subsidies on agricultural primary products, whereas these were prohibited in the case of industrial products. Import

restrictions were also allowed under the GATT rules in cases where they were required to limit domestic production, this was however conditional on maintenance of a minimum proportion of imports relative to domestic production. In addition many countries applied non-tariff measures to agricultural products such as import bans, quotas restricting the level of imports, minimum import prices and others that made effective trade in this sector difficult, all these factors hindered equitable agricultural development in developing countries.

The reluctance to strictly discipline agriculture was attributed in part to the policies adopted by many countries especially the developed ones, following the 1930's depression, whereby they provided market price support and administratively raised farm prices in their countries, while also imposing import access barriers. These policies were based on the idea at the time that countries should be self-sufficient in food production. These policies in the developed world became a norm after the Second World War. However this resulted in increased productivity and production culminating in surpluses. Ultimately export subsidies had to be applied to dump the surpluses onto the world market, with the effect of depressing the world market agricultural products prices.

On the other hand developing countries during that period introduced low food price policies in favour of urban consumers, this coupled with the distorted world prices for agricultural products was a disincentive to farmers in the developing countries, negatively affecting their productivity, and hence equitable development could not be attained in a sector with so much potential in many of these countries.

The Uruguay Round of agriculture negotiations attempted to address former GATT distortions and imbalances by improving agriculture trade disciplines and this was through capping agriculture export subsidies towards their eventual elimination; ensuring market access for agricultural products on a global basis; and through capping of trade distorting domestic support. In achieving these goals, the WTO Agreement on Agriculture (AoA) came into force in 1995 and is based on the three pillars of Market Access; Domestic Support; and Export Subsidies, as illustrated in the table below.

Pillars of the WTO Agreement on Agriculture

Market Access	Domestic Support	Export Competition
<ul style="list-style-type: none"> ■ Tariffs ■ Tariff Quotas ■ Special Safeguard 	<ul style="list-style-type: none"> ■ Green Box ■ Blue Box ■ Article 6.2 - Development Programmes ■ Amber Box 	<ul style="list-style-type: none"> ■ Export Subsidies ■ Anti-Circumvention ■ Export Prohibitions and restrictions

Market Access

Governed by the rules under the AoA, the WTO members established binding tariff commitments in an attempt to cultivate enabling conditions that allow for transparency, predictability and competitiveness through which agricultural trade can foster. Under these commitments, agriculture-specific non-tariff measures (NTMs) were prohibited and replaced with tariffs. Taking into account the different levels of development amongst members, developed countries agreed to reduce their tariffs by an average of 36 per cent, subject to a minimum reduction of 15 per cent in each tariff line over a six year period. Developing countries on their part were to make reductions averaging 24 per cent and 10 per cent in the individual tariff lines, and were given ten years to do so; while LDCs were exempted from any tariff reductions.

Domestic Support

Recognizing the effects of domestic support in destabilizing international agriculture markets, the AoA categorized domestic support into that which has minimum or no effect, and that which is trade distortive – with the latter being subjected to reduction commitments. Developed countries were committed to a 20 per cent Aggregate Measure of Support (AMS) reduction within a six year period, while developing countries were to reduce their AMS by a total of 13.3 per cent within a period of ten years.

Export Subsidies

The necessity of export subsidies is a result of substantial support given to domestic agro-producers by their governments, an act that leads to over-production of goods that surpass domestic demands. Dumping of such surpluses into world markets then becomes the solution so as to spare any losses to the producers. Such subsidies have the effect of depressing international prices of commodities. In terms of competition, developing countries and LDCs alike are often the most affected as their goods are then pinned against the excessive ones being pushed (mostly from developed countries) into their markets and find it a struggle to compete on such terms. Restraints on export subsidies were therefore introduced by the AoA in the hope of discouraging their use.

Apart from that, all member countries are also expected to report to the WTO Committee on Agriculture periodically, notifying the committee on the implementation of their commitments.

Summary of the WTO AoA commitments

	Developed	Developing
Time period	6 years	10 years
Market access		
Tariff reduction	36% average, 15% minimum	24% average, 10% minimum
Domestic support		
Total AMS reduction	20%	13.3%
De minimis	5%	10%
S&D exemption		Article 6.2 (investment, input and diversification subsidies)
Export competition		
Export subsidy reduction	36% value, 21% volume	24% value, 14% volume
S&D exemption		Article 9.4 (transport and marketing subsidies)

Reform Proposals in the Ongoing Agriculture Trade Negotiations

Like in the previous round, the negotiations on Agriculture in the Doha Round are based on the three pillars of market access, domestic support, and export competition/subsidies. The round seeks to make improvements in the Members' commitments towards more market access and stronger disciplines so as to facilitate better trade in agriculture in the MTS.

Market Access

The tariffication process during the Uruguay round allowed for averaging of tariff reductions across all commodities, which resulted in tariff peaks especially for politically sensitive products on which only the minimum required reductions were made. The negotiations under market access seek to rectify this shortcoming among others. Tiered tariff cuts are proposed, with products that have the highest tariff rates receiving the biggest reduction, this would result in developed countries making an overall average reduction in tariffs of 54 percent. In the case of developing countries the tiered formula would result in about 34 percent tariff reduction; while LDCs are wholly exempted from making any tariff reductions.

In the negotiations, it is proposed that certain products categorised as "import sensitive" will be excluded or make less than formula tariff cuts, for developed countries these will constitute 4 percent of

the tariff lines, while a higher percentage is proposed in the case of developing countries.

A further 12 percent tariff lines for agriculture products of developing countries may be self designated as special products and for these no tariff cuts may be made on 5 percent of such tariff lines. The rationale for this is to ensure food and livelihood security, as well as promoting rural development.

Special safeguard measures are also proposed for developing countries. These may be applied on the basis of volume and price triggers, without having to establish that increased imports are causing injury to domestic producers, as is the case under the Agreement on Safeguards. However it is yet to be agreed as to whether additional duties applied under such measures could exceed the present bound rates, with the developed countries arguing that the additional duties should in no case exceed the bound rates made under the Uruguay round, while developing countries opine that any such restrictions would counter the very objective of the measure rendering it useless. These differences are among the reasons for the stalled negotiations.

Tariff reduction for tropical products and diversification goods is envisaged and tariff escalation with regard to these products will likely be eliminated through implementation of formulae that ensure processed products are subjected to tariff cuts as high as the raw materials they contain. This would be an important outcome for EAC given its potential in agriculture, more so with the possibility of value addition on their products that would attract higher prices in the export markets, hence ensuring higher incomes and better livelihoods for the farmers and associated stakeholders in the region.

Domestic Subsidies

The proposals in the ongoing Doha agricultural negotiations are to tighten and extend commitments on domestic support, which would drastically reduce the final bound total aggregate measure of support (FBTAMS), lower the de minimis thresholds, and put a limit on the blue box categorised subsidies.

The overall trade-distorting support (OTDS), comprising Current Total Aggregate Measure of Support (CTAMS), de minimis Aggregate Measure of Support (AMS), and blue box payments will have a ceiling and this is intended to redress the issue of "box shifting" and to ensure that commitments are met. Limits will also be made on AMS support as well as blue box payments. The proposed constraints will be more effective than in the current AoA, in restraining application of domestic support, while also giving more flexibility to developing countries.

Ultimately the objective of ensuring that countries providing the

largest support make the largest cuts in their commitments should be realised, which would be a positive step towards redressing the effects and impact made by such domestic support on international agricultural markets.

Export Subsidies

With regard to export competition, the negotiations are seeking a commitment to eliminate export subsidies. Disciplines will also be made for export credits as well as food aid. It is generally agreed that developed countries should eliminate export subsidies by end 2013, while developing countries providing such subsidies should eliminate them by end 2016.

If the above outcome is realised, it would enhance equitable agriculture development through trade at the multinational level, by ensuring that world prices for agricultural products are not artificially depressed, and thereby guaranteeing better prices for such products including those from the EAC region.

All in all, the overarching objective to improve international agriculture trade disciplines in the ongoing Doha Round of negotiations will need to be achieved in order to redress the historical imbalances and enable the multilateral trade system to facilitate development in the countries whose comparative advantage lies in the agriculture sector.

Leveraging the Multilateral Trading System

From the foregoing the MTS provides an avenue through which trade can substantially contribute to growth and development, including poverty reduction. With more market access, reductions in trade distortive domestic support and eventual elimination of export subsidies, opportunities abound for equitable agriculture development. Nonetheless, challenges in harnessing these opportunities still persist and for equitable agriculture development to be realized, these would have to be redressed. (CUTS, 2011)

Whilst there is no agreed definition as to what constitutes equitable agriculture development, a recent study found that such development entails the following main elements: reformed international and regional disciplines in agriculture; increased investment to improve productivity; redress of agriculture related trade facilitation constraints; prioritizing capacity building of small and medium sized farmers and traders; and encouraging multi-stakeholder consultations and coordination.

Reformed International and Regional Disciplines

Despite the improvements in disciplining international agriculture trade, some impediments persisted, for instance, the tariffication of non-tariff measures meant to improve transparency and market access, also resulted in tariff peaks especially for politically sensitive products in developed countries, hence hindering market access for such products. The other negative aspect was tariff escalation whereby unprocessed agricultural products attracted low or no tariffs, while the processed ones attracted very high tariffs, this prevented value addition and the possibility of higher incomes for developing countries' and LDCs products.

Recognizing these shortcomings, the United Nations, in the 2000 UN Millennium Declaration called upon industrialized countries to offer meaningful market access to the weaker nations; specifically Duty Free Quota Free (DFQF) to the LDCs. The WTO Ministerial Conference of 2005, in Hong Kong reaffirmed this call by calling upon developed countries and African countries in a position to do so, to provide such access to LDCs. As a result, in the ongoing Doha round of trade negotiations, 97 percent DFQF is proposed for LDCs. It is worth noting that developing countries and LDCs specifically are beneficiaries of similar market access opportunities through preferential programmes such as the Africa Growth and Opportunity Act (AGOA) extended by the US and the Everything But Arms (EBA) extended by the EU among others, however utilization and benefits from these have been limited. Besides the capacity constraints that prevent effective utilisation of unilateral preferences, the programmes exclude products of interest to beneficiary countries and come with stringent rules of origin hence limiting their utilisation. Beyond that, these preferences lack the certainty and predictability necessary to attract investors in the region, as well as ensuring that products from the region are more attractive as sources for importing firms. For the proposed DFQF initiative to provide meaningful market access that would positively impact on countries such as the EAC, these shortcomings would need to be redressed.

The ongoing WTO negotiations that are considering extension of DFQF to LDCs present an opportunity to have such commitments bound for the countries extending them, hence making it certain and predictable; however the proposed exclusion of 3% tariff lines could have the effect of excluding products of export interest to the EAC (Bouët et al 2010), impeding the capacity to exploit its potential and the enabling environment for equitable agriculture development. Tightening of commitments on domestic support along with the eventual elimination of agricultural export subsidies as proposed in the WTO negotiations, would minimise international agricultural market distortions, creating an enabling environment towards equitable agriculture development in EAC. The special treatment of cotton would also benefit the region, as it is among the

agricultural products of their interest. An enhanced monitoring and surveillance mechanism of domestic support as negotiated in WTO will facilitate more transparency in international agriculture trade further ensuring an enabling environment for the EAC to realise equitable agriculture development.

Increased Investment

Improved market access opportunities through WTO agriculture and related agreements would create more incentives for increased investment in EAC agriculture sector and thereby improve productivity in the region. The horticulture sector in Kenya is an example of improved productivity that resulted in higher receipts from exports exceeding the previously dominant tourism industry. Implementation of supporting policy measures, along with resource allocation and a supportive business environment, would enable the region to effectively harness the new and lucrative international agriculture markets. Organic agriculture for which EAC has immense potential presents a niche through which the region could reap benefits from the multilateral trading system, and thereby contribute immensely towards poverty reduction and sustainable development in the region

Redressing Trade Facilitation Constraints

In the EAC agriculture related trade facilitation constraints are manifested by fragmented and imperfect markets, unreliable and inefficient internal transport networks, and cumbersome trans-border procedures that frustrate access to targeted markets. Similar constraints are prevalent among developing countries and LDCs, and it was in recognition of this that the Aid for Trade (Aft) and Enhanced Integrated Framework (EIF) initiatives were established to assist the weaker nations in integrating into the MTS. Since their introduction, Aft and EIF initiatives have assisted in redressing agricultural trade facilitation constraints in the EAC by aligning their work with national efforts already in play. So far, the initiatives have made various logistical improvements in the region by putting in place the needed infrastructure. In turn, trade facilitation in the region has improved, however there are still some shortcomings under both initiatives for instance the lack of additionality in the case of Aft; and cumbersome procedures and processes associated with access to EIF funding.

Building Farmers' Capacities

Majority of the farmers in the EAC are rural based and undertake smallholder farming practices; they are often faced with lack of information and knowledge on trade issues such as national, regional and international trade policies that provide lucrative market opportunities. There is need for capacity building targeted

at these small and medium farmers and traders in the region. These programmes should inter alia emphasize better farming practices to improve productivity; highlight the trading opportunities available and the requirements in harnessing/accessing them, and the potential benefits that would be reaped and thereby improve their livelihoods. Indeed the WTO does provide capacity building programmes to its members especially the LDCs who are entitled to a higher share of training provided; however the practice is for only Government officials and policy makers to attend these important courses. Other stakeholders such as farmers and traders should also be involved since they are the ultimate beneficiaries' of the opportunities in the multilateral trading system.

Multi-Stakeholder Consultations

Further the role of functional consultative forums that bring together all stakeholders in formulating and implementing trade policies cannot be understated. This entails involvement of all relevant stakeholders in the development and implementation of trade and agriculture policies and strategies. Multi-stakeholder consultations ensure that in formulating policies and subsequent programmes, the interests of all stakeholders as well as challenges are taken into account. Existence of a well-functioning multi-stakeholder coordination mechanism also provides an avenue through which benefits from policy interventions and market opportunities such as those presented in the MTS are conveyed and utilized effectively by the stakeholders.

Conclusion and Recommendations

In order for agriculture to effectively contribute towards equitable development in EAC, the multilateral trading system provides opportunities; however the challenges faced by the region would have to be redressed at the national, regional and international levels for these opportunities to be harnessed. Specifically the following are among the actions required:

- National Governments should pursue meaningful market access in their markets of interest; including the push for effective monitoring and evaluation on domestic support restrictions in respect of trade distorting subsidies and the complete elimination of export subsidies. In the on-going Doha negotiations, DFQF market access for LDCs is more or less agreed; however given the round's single undertaking principle of "nothing is agreed until everything is agreed" this opportunity in the MTS is delayed along with the round. The EAC in alliance with the other intended beneficiaries should push for the separate implementation of this market access opportunity.

- At the national and regional level implement and promote measures geared towards enhancing sectors in which the region

has a niche, for instance organic agriculture that has the potential to spur equitable agriculture development. The costs associated with this type of farming, nonetheless, are often the major setback in converting and attracting new farmers into organic agriculture. Thus, credit support to farmers (whether organic or conventional) should be made more accessible along with the requisite capacity building; certification requirements be simplified in terms of the transition period and related costs like those of inspection and monitoring systems; as well as prioritisation of the sector through promotion and encouragement by responsible bodies.

- At the national and regional level, allocate resources towards trade facilitation and redressing the constraints faced in this regard, such resources would complement the AfT and EIF initiatives and hence contribute to an enabling environment towards equitable agriculture development.

- Provide and promote capacity building of the small and medium farmers in the region, including through their participation in international capacity building programmes provided by institutions such as the WTO under its Trade Related Technical Assistance initiatives.

- Facilitate multi-stakeholder consultations and coordination in the formulation and implementation of agriculture related policies and programmes, by providing a platform for inclusive and effective participation in the whole process at the national and regional level.

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For agricultural development in Africa to substantially contribute to its overall growth, development and poverty reduction, three conditions need to be met: there should be increase in productivity and production to generate “marketable surplus”; the infrastructure should be in place, including trade facilitation measures, to transform the “marketable surplus” into “marketed surplus”; and there should be a healthy interaction between farmers, the private sector investors and traders. While the first two are getting the attention of both national governments and their development partners, the third is still neglected. Productivity-enhancing initiatives are certainly important but in order to make use of them, both “**better infrastructure for better marketing**” and “**positive terms of trade between the farmers, and investors and traders**” need to be provided. This project aims to address this third critical aspect for the development of African agriculture, focusing on countries in the East African Community (EAC).

The enabling environment is also a function of international policies and agreements, most important being the international trade agreements. The efforts on the ground may not bear fruit if the provisions in international trade agreements (e.g. under the WTO and the Economic Partnership Agreements (EPAs) with the EU) are not in harmony with these efforts and vice versa. Hence, this project also aims to **link the national and international actions** through research and analysis, advocacy and dissemination and networking. It will also strengthen the pro-trade and pro-equity credible Southern NGO voice in Geneva.

← PUBLICATIONS

» *Boosting Development in Kenya: better participation of smallholders in agri-business.* Policy Brief N°1, November 2011

» *Towards Equitable Agriculture Development in Uganda: A look at the Terms of Trade amongst Stakeholders.* Policy Brief N°2, November 2011

» *Equitable Development through Agriculture: Policy Options for Tanzania.* Policy Brief N°3, November 2011

» *Sowing Multilaterally, Reaping Locally: Can the WTO promote Equitable Agriculture Development in the East African Community?* Policy Brief N°4, November 2011

» *EAC-EU Trade Negotiations: Bringing Equitable Agriculture Development to the Forefront.* Policy Brief N°5, November 2011

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CUTS International, Geneva is a non-governmental organization pursuing social justice and economic equity within and across borders by persuading governments and empowering people. It promotes a pro-trade pro-equity credible Southern NGO voice in the policy making circles working on trade and development and other related issues in Geneva. Over the past years, it has established itself and contributed effectively in the international and national policy making process, particularly in Eastern and Southern Africa. The strength of the organisation lies in its capacity to bridge existing gaps between all actors, from the grassroots to global leaders, through a work methodology that links research, advocacy, networking.



Agriculture in Development of Select African Countries

After 15 months investigating the importance of agricultural trade for food security and poverty reduction in five countries of Eastern and Southern Africa, this research underscores limitations faced in boosting agricultural productivity and ensuring food security, due to physical, legal, economic, social and cultural factors, and outlines how the promotion of regional trade and effective trade facilitation policies can provide effective solutions.



How Can Agriculture and Trade Lead to Livelihoods, Food Security and Development?

This monograph summarises analysis around ten themes of importance to development in Eastern and Southern Africa. The themes range from the role of agriculture to that of governments, donors and CSOs, and also include international and regional trade, education and capacity building needs, and multi-stakeholder consultations and coordination. It offers comprehensive and yet concrete suggestions for action.



Taking East African Regional Integration Forward: A Civil Society Perspective

Through this research, the East African civil society offers to join hands as equal partners of policy makers, researchers and businesses in the process of regional integration and takes on some of the difficult issues of making markets work in the region. For example, it makes a case for facilitating easy movement of people, and suggests ways to attract, retain and spread skills across the region.



Towards More Inclusive Trade Policy Making

This research looks into trade policy making processes in five Eastern and Southern African countries. A number of governmental initiatives have opened up these processes to a larger group of stakeholders who are now eager to play an active role in trade policy making. This publication discusses the remaining constraints to their effective participation and ways to improve consultative mechanisms.



Improving Ownership through Inclusive Trade Policy Making Processes: Lessons from Africa

This advocacy monograph looks into trade policy making processes and role of main stakeholders in five countries of Eastern and Southern Africa. Although stakeholders are eager to play an active role in trade policy making, and despite efforts of governments to open up these processes, their effective participation requires strengthened capacity, improved and more consistently used consultative mechanisms, and promotion of a culture of dialogue.

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