

Leveraging Opportunities in Multilateral and Free Trade Agreements: a Case for the East African Community

With agriculture playing an intricate role in the economies of the East African Community (EAC) Member countries, it is essential that the sector be harnessed in a way that promotes equitable agricultural development. Currently, over 80% of the EAC population lives in rural areas and depends on agriculture. The sector is dominated by smallholder farmers who make up 75% of the labor force in the EAC. For the region, it is the agriculture sector that would benefit more from trade opportunities availed through Multilateral and Free Trade Agreements. In this policy brief, the opportunities and challenges presented by the WTO Agreement on Agriculture and the EC-EAC Economic Partnership Agreement are reviewed, along with recommendations for the creation of an enabling environment towards equitable agricultural development.

Key Messages

1. There is need for EAC member countries to establish mechanisms through which all stakeholders can participate in agriculture and related policy development and implementation.
2. Stakeholders in the agriculture sector need to be equipped with the requisite capacity to effectively harness opportunities and face the challenges under the multilateral and free trade agreements.
3. The EAC should at the earliest harmonize the regional and national trade and agriculture strategies, policies and plans.
4. EAC member countries should allocate requisite resources to the agriculture sector given its potential to leverage opportunities in the multilateral and regional trade agreements such as the WTO and EPAs.

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Background

In order for the goal of creating equitable agricultural development to be realized, there needs to be cohesion between the different stakeholders in the agricultural sector. These stakeholders include among other: farmers, investors, and traders operating at the national, regional, and international level. The concept of equitable agriculture development calls for inter alia reformed national, regional, and international trade disciplines for agriculture; increased investment in the agriculture sector; redress of agriculture and related trade facilitation constraints; and capacity building of the small and medium sized stakeholders being the majority in the region. In addition, several obstacles need to be overcome in order to attain such equitable agriculture development, including limited market access, access to credit, limited or outdated technology, poor infrastructure, and volatile food and energy prices.

Through the negotiation of an Economic Partnership Agreement (EPA) between the EAC and the European Union (EU) and the prevailing agriculture market access under the WTO as well as the ongoing Doha round of negotiations seeking deeper market access, the EAC and its member countries have strived to attain more market access for their agricultural products. However, the impediments to the sector need to be redressed, for the region to harness the opportunities arising. If appropriately done, these efforts should lead to an enabling environment towards equitable agricultural development in the region. In this policy brief, the opportunities availed by the WTO Agreement on Agriculture and the EC-EAC Economic Partnership Agreement are reviewed, along with recommendations for the creation of an enabling environment towards equitable agricultural development.

Need for Reformed International Trade Disciplines in Agriculture

In 2000, the U.N. observed that several developing countries around the world lacked the ability to effectively participate in multilateral trade. As a result, a UN Millennium Declaration was drawn up which called on industrialised countries to offer Duty Free Quota Free (DFQF) market access to exports coming from LDCs. At the Hong Kong Ministerial Conference of 2005, this declaration was reaffirmed and proposed that 97% DFQF market access be granted to LDCs. However, for the proposed DFQF market access programme to be effective in integrating LDCs in the multilateral trading system, several challenges need to be overcome. For instance, even where LDCs are granted preferential market access through programs 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, utilization and benefits from these have been limited. Besides, these

programmes exclude products of interest to beneficiary countries and come with stringent rules of origin that limit their utilization. These preferences also lack the necessary certainty and predictability to attract investors in beneficiary countries, as well as ensuring that products from these countries are more attractive as sources for importing firms. Meaningful market access that would positively impact on countries such as the EAC, should take into consideration the current impediments that have limited utilization of similar preferences.

Integrating DFQF market access for LDCs in the WTO rules would ensure certainty and predictability; 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), and hence impeding the capacity to exploit its potential as a development engine in the region.

In addition, at the WTO, an enhanced monitoring and surveillance mechanism of domestic support is being negotiated. If successfully concluded, it will facilitate more transparency in international agricultural trade further ensuring an enabling environment for the EAC to realize equitable agriculture development.

Increased Investment towards Improved Productivity

Deeper and more meaningful market access attained through the WTO and complimented by regional agreements such as the EC-EAC Economic Partnership Agreement (EPA), may attract more investment in the agriculture sector for the EAC, given its abundant natural resources. With increased investment, the region would be able to improve overall agricultural productivity. 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.

For instance, organic agriculture for which EAC has immense potential presents a niche through which the region could reap benefits from the multilateral and regional trading systems, and thereby contribute immensely towards poverty reduction and sustainable development in the region. Increasing productivity of organic products that attract premium prices on the world market especially in developed countries, coupled with improved market access, would increase incomes of stakeholders in the East African Community, thereby facilitating an enabling environment towards equitable agriculture development.

However, despite the potential rewards from organic agriculture, the cost of conversion from conventional farming is a deterrent given the long period required (first three years) before products can be

certified as organic and therefore able to access the premium prices that come with certification. Other costs required in the conversion include increased labour, training, packaging and labelling materials, as well as an effective monitoring systems that must be paid for up front. The other challenge is that government policies tend to favour conventional agriculture, and policies along with the requisite institutional frameworks that promote organic farming are lacking in the region. Certification requirements with the associated costs are another challenge to reaping the lucrative potential of organic farming in the region, more so from the perspective of the smallholder farmers.

In the case of the EC-EAC EPA, one of its objectives is to establish and implement a regulatory framework for trade and investment aimed at increasing private sector investment. This objective is reflected in the EU offer of DFQF market access that will create incentives for increased investment leading to improved productivity in the agricultural sector, thereby contributing to diversification and development of the EAC agricultural sector. The DFQF market access will enable growth in the agricultural sector and may attract domestic as well as foreign investment, which will in turn enable importation of capital goods to boost production and spill-over of technology that would further enhance the productivity within the agricultural sector.

Agriculture Related Trade Facilitation constraints

All EAC member states are faced with trade infrastructure constraints manifested by fragmented and imperfect markets, increased costs of agricultural production and trade, exacerbating poverty in the region, given majority of the population relies on the sector. With that said, Aid for Trade (Aft) and the Enhanced Integrated Framework (EIF) were drawn up in order to address these concerns. The Aft initiative is designed to promote growth and development in developing countries and LDCs by facilitating trade. In pursuing this objective, projects are undertaken in the beneficiary countries. Likewise, four of the five EAC members are also beneficiaries of the EIF initiative that is tailored specifically for LDCs.

Inaugurated in 1997 by six multilateral institutions the EIF facility was designed to respond to the trade and trade-related infrastructure needs of LDCs. It initially commenced as the Integrated Framework whose main objective was to improve the trade capacity of beneficiaries to formulate, negotiate and implement trade policies in order to fully integrate into the multilateral trading system. Despite shortcomings that have been highlighted by beneficiaries of the Aft and EIF initiatives, such as the question of additionality in the case of Aft, and cumbersome processes in accessing EIF funding, both initiatives are playing a significant and crucial role in complementing national efforts towards redressing agriculture

related trade facilitation constraints in the region.

In the EC-EAC EPA provision for redress of the agriculture related trade facilitation constraints is anticipated under development cooperation where the EC undertakes to foster structural transformation and competitiveness of the EAC. However, there is need for a specific development fund under EPA so as to realize this objective as opposed to the European Development Fund and Aft initiatives. Binding commitments specifically aiming at improving the agricultural private sector have to be included. Thus, development funds should aim to improve customs administration, building a better infrastructure, especially roads, railways, energy, water, telecommunication, irrigation system and rural infrastructure networks, and include export marketing and promotion as well as information of small and medium sized farmers on how to use trade opportunities, compliance with environment and health standards in particular, and how to access financial and technical assistance in order to improve productivity and efficiency of their agricultural activity.

Building the Capacity of Small and Medium size agriculture stakeholders in the EAC

In order for the goal of establishing equitable agriculture development to be realized in the EAC, the capacities of both small and medium size agriculture stakeholders in this region need to be increased. At the WTO, various agreements and decisions mandate capacity building in the form of technical assistance to developing countries and more so in LDCs, indeed the Doha Ministerial declaration clarified and further enhanced this mandate based on which the WTO Secretariat undertakes several trade-related technical assistance programmes at its headquarters in Geneva, and through regional courses, workshops and seminars. In addition, the WTO implements these assistance programs at the national level following requests from beneficiary countries. LDCs are entitled to 3 national events periodically. It is incumbent on the beneficiary country to identify participants; however the norm is to only nominate government officials to the capacity building courses often neglecting the other critical stakeholders such as the small and medium farmers. With that said, it is imperative that participation in capacity building programs include representatives of all stakeholders, so as to equip them with the requisite knowledge and skills and hence ability to effectively utilize opportunities arising from international and regional trade agreements such as the WTO and EPA.

In the EC-EAC EPA capacity building of small and medium sized farmers in the chapter on fisheries, which includes commitments to strengthen this economic sector by building capacity in industrial

and artisanal production, processing and product diversification that strengthen the competitiveness of the region's inland fisheries and aquaculture. Provision is also made for building capacity for managing export market chains including value addition and reduction in post-harvest losses.

Small holder farmers need to also be expressly addressed in the EPA provisions in order to enhance their participation into the global value chain by ensuring the access to production technologies, product quality enhancements and direct linkages to the market. Capacity building should also include providing information to small and medium sized farmers not only aiming at training them to acquire a more business-oriented approach to agriculture but also to understand and use the opportunities for agricultural trade, technical, scientific and financial assistance provided for under the Agreement.

Consultation and Coordination amongst Key Stakeholders

The role of functional consultative forums that bring together all stakeholders in formulating and implementing trade policies cannot be understated (CUTS: 2009a), this calls for involvement of all relevant stakeholders in the development and implementation of trade and agriculture policies and strategies. Multi-stakeholder consultations would ensure that in formulating policies and subsequent projects, the interests of all the relevant stakeholders as well as the challenges they may be faced with, are taken into account.

With regard to the EAC, a functional multi-stakeholder coordination mechanism for stakeholders in the agricultural sector would also be a vehicle through which the benefits from policy interventions and market opportunities, such as those presented through the multilateral trading system and regional trade agreements are conveyed and utilized. With respect to WTO agreements, the challenge remains on how to ensure inclusive participation of all relevant stakeholders in the negotiations and outcomes of the resulting rules that form the basis upon which national and regional trade policies are formulated.

A functional multi-stakeholder consultation mechanism in the EAC would facilitate an avenue through which stakeholders interests are relayed to officials and delegations that participate in the negotiations. Conversely outcomes, including opportunities arising from concluded agreements would be relayed through such mechanism ensuring their better dissemination.

Strengthening Regional Integration

The EAC is negotiating the EPA as a bloc which has strengthened its integration process. It contains various provisions which refer to regional integration. While some provide for the harmonisation of customs legislation and standards at the regional level, others preserve the preferential treatment among members to the regional economic community and exclude the EU from benefiting from it. Likewise, further provisions require that any better preferential treatment accorded to the EU by third parties accrues to the community. Similarly, a common regional liberalisation schedule harmonises important elements of trade policy and can strengthen regional integration. Sharing revenue, protecting sensitive industries and trade facilitation by simplifying border controls are only some of the reforms at the international and regional level in trade disciplines that can foster an enabling environment towards an equitable agriculture development in the region.

Regional integration also improves food security by allowing the movement from surplus to deficit areas within but also outside the region. Further simplification of RoO and a wider pool of cumulation countries, including South Africa, will allow for more value addition and diversification leading to more productivity. The EAC has the potential to be a food provider for the whole eastern African region if trade disciplines will be further simplified and tailored to the regions needs with respect to food security.

The provisions on safeguards under the FEPA are part of the trade disciplines that will promote an enabling environment towards equitable agricultural development by taking specific needs of the EAC such as the necessary protection of infant industries into account. Even though safeguard provisions address most of the essential issues, they fail to do this effectively by imposing time limitations and procedures that are difficult to comply with for the EAC, thus room for improvement remains. Furthermore, The FEPA fails to discipline subsidies which is an area of great concern since the potential of the EAC's agriculture sector might be hindered due to provisions that still allow for subsidies to be granted. This can endanger the ability of small and medium sized farmers to compete with highly subsidised EU agricultural products, both on the domestic and foreign market

Way forward

In order to attain an enabling environment towards equitable agriculture development in EAC, the multilateral trading system provides opportunities. However, in order for these opportunities to be harnessed, the challenges faced by the region would have to be redressed at the national, regional and international levels. Consequently, at the international level national governments should advocate for meaningful market access in their markets of interest. At the national and regional levels there should be the implementation and promotion of measures that are geared towards promoting sectors in which the region has a niche, for instance organic agriculture

that has so much potential to provide higher incomes from markets and thereby contribute to poverty reduction. In addition, resources should be allocated 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.

Furthermore, the capacity building of small and medium farmers and stakeholders in the region should be both provided and promoted. This includes their inclusion to international capacity building programmes, and the design of fundable capacity building projects through the AfT and EIF initiatives. Finally, there should be effective facilitation of multi-stakeholder consultations and coordination in the formulation and implementation of agriculture related policies and programmes.

CUTS' FEATS Study carried out in Uganda, Kenya, Tanzania, Malawi and Zambia found that the private sector at that time had organized itself into several umbrella organisations in order to play a role in the negotiation process. However, in these countries the private sector has been found to lack technical analysis and advocacy capacities, as well as the ability to balance interests and follow trade policy developments. CSOs lack training and capacity building to understand trade policy complexities, linkages with the public sector and capacity to use consultation mechanisms.

Other challenges faced by CSOs include lack of cooperation among them and with the private sector, limited outreach to rural areas, lack of funding, lack of legal framework for non-state actors to contribute in consultations, and lack of government efforts to involve them. The EPA negotiations process has to some extent involved multi-stakeholder consultation including government agencies, private sector and CSO representatives. Outcomes have been transmitted to the regional level. However, the role of the private sector, of CSO and of farmers' organisations in particular in the negotiations has not been of great importance. There is a need to foster development of the private sector and CSOs and their possibilities to argue their case including by improving public services provision.

- National governments need to provide stakeholders with information on how they can effectively harness opportunities and face the challenges provided for under the multilateral and regional trade arrangements;

- National governments need to establish channels through which all stakeholders can participate in consultations for on-going negotiations and be informed about final outcomes;

- National governments need to harmonise regional and national agriculture and related development strategies to enhance effectiveness of implementation;

- Multilateral and EPA negotiations should facilitate the provision of full and preferential market access for EAC agricultural products, contribute to increased value-added products from these countries, and provide needs-based capacity building support.

Recommendations

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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.

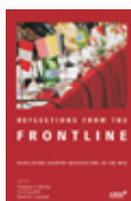
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CUTS International, Geneva is a non-governmental organization pursuing social justice and economic equity within and across borders by persuading governments and empowering people. It promotes a pro-trade pro-equity credible Southern NGO voice in the 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.



Reflections from the Frontline: Developing Country Negotiators in the WTO

This book gives a substantive account of the evolution of the WTO Doha Development Agenda (DDA) Negotiations and the role of developing country coalitions/alliances. The reflections are those of former and current developing country negotiators on their firsthand experience of WTO negotiations.



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.

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