The end of current EU preferences for Namibia: What would be the economic and social impact?

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Background of the study

- EU trade regime towards ACP was found incompatible with WTO regulations
  - Cotonou waiver expires by end of the year
  - EC is not willing/able to extend the waiver
  - Parties agreed to negotiate EPAs

- Since 2004 Namibia negotiates as part of the SADC EPA
  - BLNS
  - Mozambique, Angola, (Tanzania)
  - South Africa (since Feb 2007)

- The inclusion of South Africa was necessary (SACU Art. 31)

Background of the study

- BLNS are de facto locked into the EU-South Africa FTA but trade de jure under Cotonou
  - Import side: BLNS will open their markets for 86 percent of South Africa's imports from the EU by 2012
  - Export side: Cotonou expires, new trade regime (EPAs) need to be concluded

- Problems to finalise SADC EPA
  - Many unresolved issues (members, market access, scope…)
  - Divergent interests between EU and SA
  - South Africa does not need to finalise negotiations by the end of this year

- However…
  - If BLNS enter into an EPA not approved by South Africa they risk to be excluded from SACU (violation of Art. 31)

What are the alternatives?

- Cotonou: no ACP country will be worse off (Art. 37.6)
- But: GSP, GSP+, and EBA are to date the only alternatives
  - Except EBA no equivalent market access is provided

	General System of Preferences (GSP)	GSP+	Everything But Arms (EBA)
What is it?	EU preference scheme for developing countries	Expanded GSP	Expanded GSP
Who is eligible?	All developing countries (DCs)	"Vulnerable" DCs that sign and implement 27 international conventions on human + labour rights	All Least Developed Countries (LDCs)
What does it mean?	Non-LDC ACP will be treated the same as some DCs + worse than others	Non-LDC ACP might be able to join the 15 GSP+ countries	Duty and quota free market access (sugar 2009)

Namibia's agricultural exports to the EU

- Fish, meat and grapes
  - 30 percent of total export value to EU
  - 100 percent of Namibia's agricultural exports to EU
  - Beneficiaries of current EU preferences; no equivalent market access under GSP provided
  - All industries depend highly on the EU market
    - Fish: > 60 %of total exports and 62.5% of export value
    - Meat: > 40 % of total export volumes and 22.3 % of export value
    - Grapes: around 70 percent of total export volumes and value

The economic costs of switching from Cotonou to GSP

- Taking the 2005 volumes and values of EU imports, the costs of the loss of EU preferences would be **€ 45.15 million p.a.**
  - € 14.25 million for fish (tariff increase of 4-11.5 percent under GSP)
  - € 30.76 million for meat (tariff increase of 63-129 percent under MFN)
  - € 139,000 for grapes (loss of 900 tons duty free quota, all exports under 8% GSP)
- This amount is more than four times of what Namibia receives annually under the 09th EDF!
- € 45.15 million p.a is the minimum cost for the loss of Cotonou preferences which assumes stable export quantities and revenues.

The economic costs of switching from Cotonou to GSP

- **For meat**, the tariff increase would equal 65% of total EU export revenue and most probably result in the immediate cessation of exports.

- **For fish**, the tariff increase would equal 6.4% of total EU export revenue. Price increases might be feasible due to general low price elasticity of demand for fish products and the worldwide depletion of fish stocks.

- **For grapes**, the tariff increase would equal 0.55% of total EU export revenue.

How is the competition situation for fish?

Description	Main EU suppliers 2005	Share of EU market 2005	Current tariff	
			%	*Regime*
fresh or chilled cape hake	***Namibia***	***29.3%***	*0*	*Cotonou*
	South Africa	70.6%	11.5	Std GSP
frozen cape hake	***Namibia***	***42.1%***	*0*	*Cotonou*
	South Africa	56.6%	11.5	Std GSP
	New Zealand	1.0%	15	MFN
frozen monkfish	***Namibia***	***38.9%***	*0*	*Cotonou*
	China	26.9%	11.5	Std GSP
	South Africa	20.9%	11.5	Std GSP
	Brazil	5.2%	11.5	Std GSP
	Panama	**2.9%**	**0**	**GSP+**
	United States	2.5%	15	MFN
	Faroe Islands	**0.8%**	**0**	**FTA**
frozen fillets of cape hake	***Namibia***	***69.1%***	*0*	*Cotonou*
	South Africa	30.1%	4	Std GSP
frozen meat of hake	***Namibia***	***44.2%***	*0*	*Cotonou*
	South Africa	17.9%	4	Std GSP
	Argentina	15.2%	4	Std GSP
	Chile	**8.4%**	**1.5**	**FTA**
	United States	5.5%	7.5	MFN
	Uruguay	5.1%	4	Std GSP
	Peru	**1.5%**	**0**	**GSP+**
	Russia	1.2%	4	Std GSP
	New Zealand	0.8%	7.5	MFN

How is the competition situation for meat?

Description	Main EU suppliers 2005	Share of EU market 2005	Estimated ad valorem equivalent		
			Current		*ACP post-Cotonou*
			in quota	*out quota*	
fresh or chilled bovine meat, boneless	***Namibia***	***4.5%***	**4%**	**54%**	**67% (MFN)**
	Argentina	39.5%	20%	67%	
	Brazil	39.3%	n/a	86%	
	Uruguay	7.6%	20%	70%	
	Australia	4.4%	20%	66%	
	Botswana	2.6%	5%	58%	71% (MFN)
	Chile	0.7%	0%	80%	
	Canada	**0.6%**	**0%**	**48%**	
frozen bovine boneless crop, chuck and blade and brisket cuts	***Namibia***	***35.2%***	**7%**	**85%**	**98% (MFN)**
	Brazil	43.9%	20%	144%	
	Botswana	18.4%	7%	92%	105% (MFN)
	Argentina	2.5%	20%	130%	
frozen bovine boneless meat	***Namibia***	***0.3%***	**10%**	**129%**	**142% (MFN)**
	Brazil	79.1%	20%	123%	
	Uruguay	8.9%	20%	92%	
	Argentina	7.5%	20%	123%	
	New Zealand	**2.0%**	**20%**	**48%**	
	Botswana	1.6%	10%	126%	139% (MFN)

How is the competition situation for grapes?

Month (2006)	Main EU suppliers		Tariff 'Emperor'		Tariff 'Other'	
		Share	*Rate*	*Regime*	*Rate*	*Regime*
December	***Namibia***	***12%***	***8.0%***	***MFN***	***8%***	***Std GSP***
	South Africa	**59%**	**5.3%**	**TDCA**	**6.4%**	**TDCA**
	Brazil	17%	8.0%	MFN	8%	Std GSP
	Peru	**4%**	**8.0%**	**MFN**	**0%**	**GSP+**
	Turkey	**3%**	**0.0%**	**FTA**	**0%**	**FTA**
	Argentina	2%	8.0%	MFN	8%	Std GSP
	United States	1%	8.0%	MFN	11.5%	MFN
	Chile	**1%**	**8.0%**	**MFN**	**0%**	**FTA**
January	***Namibia***	***11%***	***4.5%***	***Std GSP***	***8%***	***Std GSP***
	South Africa	**72%**	**4.6%**	**TDCA**	**3.8%**	**TDCA**
	Argentina	11%	4.5%	Std GSP	8%	Std GSP
	Peru	3%	0.0%	GSP+	0%	GSP+
	Chile	2%	4.5%	Std GSP	0%	FTA
	Brazil	1%	4.5%	Std GSP	8%	Std GSP
February	***Namibia***	***2%***			***0% (seedless); 8% (other)***	***Cotonou/Std GSP***
	South Africa	**57%**			**3.8%**	**TDCA**
	Chile	**23%**			**0%**	**FTA**
	Argentina	15%			8%	Std GSP
	Peru	**3%**			**0%**	**GSP+**

The relevance of agriculture for Namibia's development

- Agricultural activities contribute to 6 % of GDP (2001-2005) but 70 % of the population is wholly or partly dependent on agriculture
- Livestock production is the backbone of Namibia's agricultural sector and drives, together with fish processing and beverages, value addition of agricultural processing.
- Farming livestock and animal product sales are the biggest contributor to agriculture, accounting for around 70 percent of total agricultural output
  - Around 159,500 communal farming households own in average 7 cattle. Assuming that each household covers 6 people, livestock rearing provide income for almost one million people – half of Namibia's population.

The social costs of the loss of preferences

- **Meat industry**: 44 percent of exports to the EU
  - 1,461 workers in abattoirs, thereof 203 in NCA abattoirs where unemployment rate is about 60%
  - 3000 communal farmers market their cattle to NCA abattoirs; important instrument to participate in cash economy;
  - NCA abattoirs make losses but one price structure for whole country
    - Meatco invests one third of the preferences obtained from Lomé/Cotonou into the rural development of the meat industry,
    - another third into the upgrading of existing slaughtering facilities,
    - and another third to stabilise producer prices.
  - Like this, Meatco linked its monopoly to benefit from the EU preferences directly to price support and its engagement in the NCA abattoirs.

The social costs of the loss of preferences

- Contribution to resettlement policy
  - Returns of crop production are low, livestock farming is the only activity resettled farmers can live on.
  - Objectives
    - Fully integrate resettled farmers into commercial farming
    - Increase income in very remote areas (e.g. Eiseb Block) and accelerate growth processes
- A drop in meat prices as a result of the loss of the EU market
  - will have a direct impact on these resettlement farmers who risk to lose their market and economic basis.
  - will take away marketing opportunities for NCA livestock farmers
  - further reduce the viability of NCA abattoirs with the risk of moving the VCF southwards. This would not only endanger overseas exports but also considerably limit export to South Africa.

The social costs of the loss of preferences

- **Grape industry**: 70 percent of production exported to EU
  - 3,000 permanent and 6,500 casual workers;
  - by far biggest employer in Karas region;
  - around 16,000 people depend on income from grape industry;
  - ongoing movement from Kavango and Oshakati regions;
  - industry has built up water and electricity spots, a school, a police station and a private clinic;
  - informal resettlement will become a town
    - industry donated 600 ha of land to the government
    - by the end of this year 250 plots with running water shall have been created.
  - Growth effects: additional income has created retail stores and new service providers.

Summary of findings

- The immediate costs of losing EU preferences would be € 45.15 million p.a. assuming stable export quantities
  - In fact the costs would be much higher: meat exports would cease facing tariff increases up to 130 percent equaling 65 percent of total sales revenue.
- Neither GSP nor GSP+ would offer the same market access for Namibia's agricultural exports
  - For all products the loss of Cotonou preferences would place Namibia worse than its major competitors – of which all are more developed than Namibia.
- The relevance of the EU market for economic and social development in Namibia cannot be overemphasised
  - Namibia's agricultural exports focus on EU and build-on EU preferences
  - The grapes industry was created out of nothing
  - The meat industry linked its engagement in NCA abattoirs and the inclusion of NCA farmers into commercial farming to EU market access
  - The loss of the EU market would endanger the whole Namibian meat industry

Policy recommendations

- Including BLNS de jure into the EU-SA FTA is the most logical and feasible option giving the time constraints
  - MA(T) would be left aside;
  - EPA would build on the desired 'institutionally coherent and economically integrated core group' (EC 2006)
  - To date, EC insists on the inclusion of MA(T) into SADC EPA and the inclusion of trade-related aspects which is so far rejected by South Africa.
- BNS private sector tri-member state agreement on market access for beef points out the economic and socio-economic relevance of the Beef Protocol
- Additionally, options to engage with European importers of BNS agricultural products should be explored.
  - Together, a campaign could be launched announcing to sue the EC if it will impose import duties from 01 January 2008 - violating its own provisions.

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