Project Briefing

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The end of current EU preferences for Namibia: Economic and social impacts

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Key Points

- ODI research on Namibia indicates that the loss of current EU preferences is likely to have negative economic and social effects.
- Namibia's major agricultural exports to the EU would be put in a less favourable position than those of its major competitors – all of which are more advanced economies.
- The EU could avoid this situation if it has the political will.

Key issues

Europe is Namibia's most important export destination for beef, fish and grapes – its only agricultural exports. The EU market is particularly attractive because it offers preferential access to a high-priced market. Namibia's preferential access is, however, under threat because there may not be an agreed negotiated alternative to the current trade regime by the time it expires on 31 December 2007. If no equivalent is in place on 1 January 2008, Namibia could not only lose its preferences but also face discrimination compared to its competitors in the EU market.

This briefing explains what would happen after 2007 if Namibia's exports are subject to the best 'non-negotiated' regime that the EU offers to all developing countries: the Generalised System of Preferences (GSP). A recent ODI report (see back page) shows that the application of GSP tariffs to the current volume of exports would cost Namibia €45.15 million (which is over four times the aid it receives from the EU per year). As this is unsustainable, it would probably lead to the collapse of meat exports, with severe social consequences. Yet the EU could avoid this situation by taking measures that are entirely under its control – if only it has the political will to do so.

Acronyms

ACP	African, Caribbean, Pacific states
BLNS	Botswana, Lesotho, Namibia, Swaziland
EC	European Commission
EBA	Everything But Arms
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
GSP	General System of Preferences
LDC	Least Developed Country
MFN	Most Favoured Nation
SACU	Southern African Customs Union
SADC	Southern African Development Community
WTO	Word Trade Organization

1. Namibia's dilemma

Namibia is classified as a developing country within the African, Caribbean and Pacific (ACP) group enjoying preferential market access to the European Union (EU) under the Cotonou Agreement. The trade component of the Cotonou Agreement expires at the end of 2007 and the EU is currently negotiating with all the ACP countries, grouped into regional blocks, reciprocal Economic Partnership Agreements (EPAs). Namibia is negotiating in the SADC EPA configuration comprising its Southern African Customs Union (SACU) partners (Botswana, Lesotho and Swaziland) and the Southern African Development Community (SADC) members Angola, Mozambique and Tanzania. South Africa, which has had a Free Trade Agreement (FTA) with the EU since 2000, was originally just an observer in EPA negotiations. However, since the SADC EPA configuration impinges on the provisions of Art. 31 of the SACU Agreement, according to which customs union members have to enter jointly into external trade relations, South Africa has become a

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full party to the SADC EPA negotiations. This change of status has resulted in a year of uncertainty. Consequently, negotiations are significantly delayed and there is the high risk that SADC EPA negotiations will not be finalised by the end of this year.

Botswana, Lesotho, Namibia and Swaziland (BLNS) are in a unique situation. Though they trade officially with the EU under the Cotonou Agreement they have, as members of customs union SACU, de facto opened their markets for EU goods. BLNS might have different priorities for the sectors they wish to protect but have not had the chance yet to accommodate their needs. In fact, they will open their market to 86% of South Africa's imports from the EU by 2012.

Despite being locked into a reciprocal trade agreement with the EU and negotiating an EPA in a consolidated regional block with their customs union partner South Africa, Botswana, Namibia and Swaziland could find that tariffs are imposed on their exports from January 2008.[1] This is because the EU has still failed to provide the 'equivalent' alternative to EPAs promised in Cotonou (see box 2).

Given that the GSP is the only certain alternative for Namibia's exports from January 2008 on, ODI has analysed:

Box 1: The rationale behind EPA negotiations

The Cotonou Agreement, signed in June 2000, established the basis for a new trading regime between the EU and ACP countries that responds to adverse rulings in the GATT and WTO. The preferred option is to replace the unilateral preference system applied to ACP countries for almost 35 years with reciprocal Economic Partnership Agreements (EPAs), negotiated under Art. XXIV WTO. Whilst these are being negotiated the old unilateral Cotonou regime has continued under a WTO waiver, which expires this year – hence the urgency. EPAs are not the only option: provision is made in Cotonou for alternative arrangements to be agreed for countries not wishing to join an EPA – see Box 2.

a) the immediate costs (in terms of higher import duties) that would arise if Namibia exported its major agricultural products to the EU on GSP terms or, in the case of meat, on most-favoured-nation (MFN) terms (since no GSP exists);
b) the current competitive situation for Namibia's agricultural exports in the EU market and the likely consequences if its access were downgraded;[2]
c) the contribution of current EU preferences to domestic value added and the possible social implications of losing current preferences for meat and grapes.

The analysis shows that the results of the EU applying the GSP are devastating. If, somehow, Namibia were able to maintain its current level of exports the impact would be that it would pay taxes to the EU that exceed by far Union-level aid. More probably, Namibia's beef exports to the EU would cease with significant adverse economic and social effects.

2. The economic costs of the loss of preference

The EU is the major market for Namibia's agricultural exports. Three products, fish, meat and grapes, account for 100% for Namibia's agricultural exports. All products benefit from Cotonou preferences. The taxes that the EU would impose on these exports if current level of preferences were to cease at the end of this year would total € 45.15 million (given the current volume of trade), which is more than four times the amount Namibia receives annually under the 9th European Development Fund.

Most of this amount would have to be borne by meat exporters, who would face tariff increases of 63 to 132% and would have to pay additional duties of € 30.76 million per year (see table 1). This amount is equivalent to 65% of the 2005 revenue obtained in the EU market.

Such high tariffs are most likely to result in the immediate cessation of all exports to the EU. This is the more likely because the downgrading from Cotonou preferences to

Box 2: GSP: An alternative to EPAs?

As explained in Box 1, EPAs are not the only option. Art. 37.6 of the Cotonou Agreement stipulates that the European Commission (EC) will '...provide [ACP] countries with a new framework for trade which is equivalent to their existing situation and in conformity with WTO rules.' To date, however, the EC failed to come up with an 'equivalent' alternative to Cotonou for non-LDCs for which it has named the GSP as the only alternative. There are three tranches of GSP:

- the 'Standard GSP' that is available to all developing countries and which offers the least liberal of the three regimes (in terms of the number of products covered and the extent to which tariffs are reduced);
- the GSP+, introduced in 2005 and available to all countries that apply, that meet two criteria of 'vulnerability' and that also ratify and implement 27 international conventions on human and labour rights and on the environment and governance; all ACP states appear to meet the vulnerability criteria;
- the Everything But Arms (EBA) initiative, which comes fully into force in 2009 when it will offer duty and quota free market access to all exports from Least Developed Countries (LDCs).

Whilst EBA provides an equivalent to the current regime for Lesotho and other LDCS, it is not available to Botswana, Namibia and Swaziland for which the GSP or GSP+ would be the only existing alternatives. However, GSP+ will not be available immediately after any cessation of Cotonou treatment unless the EU takes positive steps to ensure that it is.

GSP/MFN would put Namibia in a less favourable position than its major competitors – all of which are more advanced economies. Even industrialised countries benefiting from tariff quotas under the WTO Agreement of Agriculture would have better access to the EU market.

For grapes, Namibia already faces less favourable EU market access than South Africa and Chile. Hence, the end of Cotonou would involve no major change from the status quo; but it would pass over the opportunity for Namibia's access to be improved to the level of its competitors. If downgraded to GSP, Namibian fish exports would face inferior market access than its competitors from Latin America – of which some do not have an FTA with the EU but benefit from unilateral preferences under the GSP+.

Hence, the meat industry is the principal victim. Preferential access to the EU market has enabled the Namibian meat industry to upgrade production facilities and to meet international standards. In this way, the quota given under the Beef and Veal Protocol has contributed significantly to the marketability of Namibian meat products. If Namibia lost the competitive advantage of supplying the demanding EU market it might no longer be able to supply valuable niches in the South African market.

3. The social costs of the loss of preferences

Around 70% of Namibia's population is wholly or partly dependent on agriculture, mainly livestock rearing. Secure access to the EU premium price market has enabled the industry to pay premium prices to farmers and to invest heavily in the development of abattoirs in the Northern Communal Area. Today, around 3,000 communal farmers in the north of the country market 7–8 cattle per year. Because the EU price has been the reference price for the domestic price structure, EU preferences have contributed significantly to the marketability of northern communal meat. If the price drops as a result of the loss of preferences, this will have negative implications for the whole Namibian livestock sector and the livelihoods of those who depend on it.

Moreover, the loss of the attractive EU market is likely to influence Namibia's Foot-and-Mouth Disease status negatively, which in turn endangers the entire industry. To date, the sole exporter to the EU market has had a keen interest in improving the cattle status north of the veterinary cordon fence. If, however, the profitable EU market is lost, the private sector is hardly likely to be willing to fully finance the northern communal areas abattoirs which make a loss of around US$ 1.5 million p.a. This again, creates the risk that the veterinary cordon fence moves southwards further limiting the number of marketable cattle, not only to the EU but also to the South African market.[3] Indeed, Namibia's access to the EU market, the performance of its northern abattoirs and the access to the South African market are highly interlinked. Losing the EU market would therefore endanger the industry's export ability and, thus, its existence.

In case of the grape industry, the issue is the effect of continuing to export at a disadvantage to more preferred competitors. Exports to the EU have made a positive contribution to the economic and social development of Namibia (which the removal of the current discrimination would strengthen). Since the grape industry was established in the early 1990s it has become an important part of Namibia's strategy to diversify crop production. More importantly, it has attracted many migrant workers from the north and become the only income source for people in the poverty-stricken Karas region. The successful exploitation of a niche market – the

Table 1 EU market access for Namibian meat and main competitors beyond 2007

CN8	Description	Main EU suppliers 2005	EU imports 2005		Estimated duty, €000		Estimated ad valorem equivalent		
			€000	*100kg*	*Current*		*Current*		*ACP post-Cotonou*
					in quota	*out quota*	*in quota*	*out quota*	
02013000	fresh or chilled bovine meat, boneless	***Namibia***	***37.271***	***66.266***	**1.604**	**20.105**	**4%**	**54%**	**67% (MFN)**
		Argentina	324.560	583.275	64.912	218.509	20%	67%	
		Brazil	323.107	776.710	-	277.012	n/a	86%	
		Uruguay	62.361	117.046	12.472	43.494	20%	70%	
		Australia	36.151	63.820	7.230	23.990	20%	66%	
		Botswana	21.660	41.439	1.003	12.573	5%	58%	71% (MFN)
		Chile	5.821	12.876	0	4.652	0%	80%	
		Canada	5.005	5.842	0	2.413	0%	48%	
02023050	frozen bovine boneless crop, chuck, blade, brisket cuts	***Namibia***	***6.884***	***26.615***	**468**	**5.885**	**7%**	**85%**	**98% (MFN)**
		Brazil	8.583	50.955	1.717	12.365	20%	144%	
		Botswana	3.600	15.058	265	3.329	7%	92%	105% (MFN)
		Argentina	489	2,593	98	636	20%	130%	
02023090	frozen bovine boneless meat	***Namibia***	***905***	***3.836***	**93**	**1.167**	**10%**	**129%**	**142% (MFN)**
		Brazil	255.692	927.553	51.138	314.797	20%	123%	
		Uruguay	28.755	74.608	5.751	26.369	20%	92%	
		Argentina	24.251	87.529	4.850	29.722	20%	123%	
		New Zeal.	6.317	7.401	1.263	3.059	20%	48%	
		Botswana	5,031	20,903	508	6,357	10%	126%	139% (MFN)

Sources: Trade data downloaded from Eurostat COMEXT database (http://fd.comext.eurostat.cec.eu.int/xtweb/) 14 March 2007; tariffs: UK Tariff 2007/Taric Consultation website (http://ec.europa.eu/taxation_customs/dds/cgi-bin/tarchap?Lang=EN)

supply of high-quality grapes during European winter time – provides an income for around 16,000 people.

Both the Namibian meat and grape industry have provided infrastructure to rural areas, from access to water for households and cattle to roads and electricity. This private investment and the creation of jobs have been complemented by public investments and have accelerated growth. Increased income has attracted investments from retail shops, warehouses and other services. Informal settlements develop into towns which brings benefits to whole communities. In this way, preferential access to the EU market has strongly supported structural change in remote rural areas in Namibia.

4. Which way forward?

Given the beneficial social impact of the status quo the choice before the Commission is weighty. Generalised liberalisation of the European agricultural market is a desirable goal even though it will result in the erosion of preferences (and, possibly, adverse social consequences if Namibia cannot compete). But the policy issue at present does not concern the possible collateral damage for Namibia of European liberalisation; it concerns the social impact in Namibia of increased EU protectionism against the country's exports.

Neither the application of the Standard GSP regime nor the application of the GSP+ would fulfil the commitment made by the EU in Article 37.6 of the Cotonou Agreement. It would result in the EU taxing Namibian exports and is likely to result in the complete cessation of Namibia's meat exports to the EU with significant adverse economic and social effects. Moreover, it would put Namibia in a less favourable position than its major competitors including those that continue to receive non-reciprocal preferences.

It is in the hands of the EU (with the Commission holding the initiative) either to support the meat, fish and grapes industry (giving it at least the chance to adjust to preference erosion as and when this occurs) or to bring these sectors to an untimely end by imposing import controls. Whichever it decides it will be responsible for the social consequences of its actions.

The expiry of the WTO waiver for Cotonou does not require the EU to tax ACP imports. Clearly, the EU has put itself in a difficult position because of its failure to create a regime that would fulfil the obligation it freely accepted in Cotonou Art 37.6. The ideal is for the EU, at this late stage, to create a WTO compatible regime based on GSP+ that would fulfil its Cotonou obligations. Failing that, it is important to recall that the EU applied the Cotonou regime for 2 years without a WTO waiver (from the date of signature in 2000 to 2002 when the waiver was obtained) because it was acting in good faith whilst a solution was obtained. It can do so again. Competitors might challenge the EU at the WTO dispute settlement body if it continues to discriminate against their imports in favour of ACP but a ruling of the WTO dispute settlement body takes on average two years. Such a breathing space would be sufficient to complete the EPA negotiations.

What could Namibia do to safeguard its position? If the GSP were imposed in January 2008 it could, together with Botswana and Swaziland, think about taking action inside and outside the EU. Action inside the EU would need to be taken together with EU importers. The legality of the EU's new import taxes could be subject to challenge through the European court system. In addition, the WTO can be part of the 'cure' as well as the 'problem'. Namibia and its partners could challenge the EC's discriminatory policies that benefit their competitors.

Endnotes

1. Lesotho is classified as LDC and can benefit from duty and quota free market access under the EU's EBA initiative.
2. To obtain consistent time period data of the volume and value of Namibia's agricultural and agro-processed exports to the EU, the Eurostat COMEXT database that reports at a detailed commodity level (CN8) was used. The COMEXT database was also used to identify Namibia's position in the EU market and the market shares of its main competitors. For the tariff analysis, we took information from the Taric Consultation website giving information on UK Tariffs 2007.
3. For veterinary control purposes, Namibia is divided into two zoo-sanitary zones. The Northern Communal Areas of livestock raising where almost 50% of the population lives, are largely separated from the southern commercial farming areas by a veterinary cordon fence. In this way, not only the movement but also the marketability of animals and animal products is divided with negative implications for the growth of Namibia's livestock sector.

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