



The end of Botswana beef exports to the European Union?

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Key Points

- Losing current preferences is most likely to stop Botswana's only agricultural export commodity to the EU immediately
- Botswana's beef exports would be treated less favourably by the EU than those of the world's most competitive beef producers
- The EU could avoid this situation if it had the political will. However, time is running out: to avoid the disruption of exports Botswana needs to know by end September 2007 what will happen in January 2008

Key issues

Beef is Botswana's only agricultural export to the EU, and the EU is Botswana's most important market. The industry benefits greatly from Cotonou preferences which give the country significant competitive advantages over other exporters of beef to the EU. Botswana'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. In this case, Botswana would not only lose its preferences but face discrimination compared to its competitors in the EU market.

This briefing explains what will happen if Botswana beef exports are subject to the only existing 'alternative': the Most Favoured Nation (MFN) tariff – which, despite its name, is the least favourable treatment the EU applies to a WTO trading partner. According to an ODI study (see p.4) this would: imply tariff increases between 65 and 130 percentage points. Since this would be equivalent to 80% of the revenue obtained in the EU market the only reasonable assumption is that exports would collapse – in less than five months. Although only exports to the EU would be affected directly, there would be knock on effects in other markets.

1. Botswana's dilemma: caught in the middle

Botswana 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 ACP countries are negotiating

with the EU in regional blocks over reciprocal Economic Partnership Agreements (see box 1).

Botswana negotiates in the SADC EPA configuration comprising its Southern African Customs Union (SACU) partners (Lesotho, Namibia and Swaziland) and the SADC members Angola, Mozambique and Tanzania. The SADC EPA negotiations were stalled over South Africa's inclusion into the SADC EPA for almost one year, with the result that they are now significantly delayed. Major chapters of the SADC EPA have not yet been agreed 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, by 2012 they will de facto have

Acronyms

ACP	African, Caribbean, Pacific states
BLNS	Botswana, Lesotho, Namibia, Swaziland
BMC	Botswana Meat Commission
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	World Trade Organization

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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 that has 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 considered for countries not wishing to join an EPA – see Box 2.

opened their markets for 86% of South Africa's imports from the EU goods as members of SACU. However, despite already being locked into a reciprocal trade agreement with the EU and actively negotiating an EPA, Botswana, Namibia and Swaziland are threatened by the imposition of tariffs from January 2008. This is because the EU has failed so far to provide an 'equivalent' alternative to EPAs (see box 2).

Considering that the MFN tariff is the only 'certain alternative' for Botswana beef exports from January 2008 on, ODI has:

- analysed the immediate costs (in terms of higher import duties) of Botswana beef exports to the EU on MFN terms;
- looked at the current competitive situation for Botswana beef exports in the EU market and analysed how this would look were its market access to be downgraded;
- analysed to what extent existing other export markets are an alternative to the EU market;
- identified the contribution of current EU preferences to domestic value added and the possible social implications of the loss of preferences.

The analysis shows that the results of the EU applying MFN tariffs to Botswana beef exports would be disproportionately large. If exports were to continue at current levels it would result in the taxation from import duties exceeding Union-level aid by four times (see box 3) but much more likely it would result in the complete cessation of such exports to the EU with significant adverse economic and socio-economic effects.

2. What are the implications of losing EU preferences?

a) Beef exports to the EU are most likely to cease

Botswana basically exports two commodities to the EU: diamonds and beef. Though beef exports account for less than 2% of total export value to the EU, it is Botswana's only agricultural export product and is tremendously important for economic diversification. Botswana beef exports benefit highly from Cotonou preferences. The extent of the financial gain can be understood from the fact that if MFN tariffs were paid on the current level of exports it would be equivalent to 80% of the revenue obtained in the EU market in 2006 (see box 3). Such punitive taxation would be likely to stop

Botswana beef exports to the EU immediately.

b) Botswana would not be on a level playing field with non-ACP beef sources

As can be seen from table 1, Botswana would have to pay tariffs of between 70 and 140% when exporting under MFN conditions. Price hikes of this level would not only stop Botswana beef exports to the EU but also put Botswana in a less favourable market position than its major competitors – all of which are more developed economies.

Though countries like Argentina, Brazil or New Zealand do not have an FTA with the EU, they benefit from a tariff quotas established in the WTO Agreement on Agriculture, i.e. a certain percentage of EU imports from them can enter the EU market at a 20% tariff compared to 70-140% for Botswana's exports under the MFN tariff. Some of these are 'global' (i.e. open to all suppliers – if they can match the price of the most competitive) but some are country-specific. Botswana is not one of the countries with the latter and could not compete on price with Brazil for the former.

As a result, some countries would have a tax advantage over Botswana when exporting under MFN conditions. Thus, Argentina's fresh and chilled bovine meat exports face an ad valorem equivalent of 55% of export value when entering the EU market under MFN conditions while Botswana would face a tariff of 70%.

Box 2: Do 'equivalent alternatives' to Cotonou exist?

As stipulated in Art. 37.6 of the Cotonou Agreement, the European Commission (EC) committed itself to consider '... to provide [non-LDC 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' to Cotonou but named GSP as only available 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).
- For Botswana, Namibia and Swaziland the GSP or GSP+ would be the only possible alternatives since they are not classified as Least Developed Countries (LDCs). However, neither the GSP nor the GSP+ covers beef. Thus, the only available 'alternative' for Botswana's beef exports would be the MFN trade regime.

Table 1: EU market access for beef from Botswana and its main competitors beyond 2007

Partner	Imports	Estimated duty (€000) (a)		Ad valorem equivalent (a)		
	Value (€000)	Current		Current		ACP post-Cotonou
		in quota (b)	out quota	in quota (b)	out quota	
CN 02013000: fresh or chilled bovine meat, boneless						
Botswana	19,574	887	11,125	5%	57%	70%
Brazil	419,622	83,924	275,730	20%	66%	
Argentina	345,042	69,008	189,264	20%	55%	
Uruguay	90,874	18,175	53,764	20%	59%	
Australia	46,750	9,350	30,566	20%	65%	
Namibia	23,110	1,076	13,486	5%	58%	71%
Chile	7,746	–	5,487	0%	71%	
CN 02023050: frozen bovine boneless crop, chuck and blade and brisket cuts						
Botswana	2,630	168	2,105	6%	80%	93%
Brazil	12,172	2,434	14,560	20%	120%	
Namibia	2,882	262	3,293	9%	114%	127%
Uruguay	600	120	673	20%	112%	
Argentina	427	85	416	20%	98%	
CN 02023090: frozen bovine boneless meat (excluding forequarters, whole or cut into a maximum of five pieces, each quarter being in a single block 'compensated' quarters in two blocks, one of which contains the forequarter, whole or cut into a maximum of five pieces, and the other, the hindquarter, excl. the tenderloin in one piece, crop, chuck and blade and brisket cuts)						
Botswana	1,508	153	1,919	8%	127%	140%
Brazil	288,866	57,773	290,704	20%	101%	
Uruguay	46,555	9,311	39,379	20%	85%	
Argentina	20,813	4,163	19,453	20%	93%	
New Zealand	9,209	1,842	4,921	20%	53%	
Namibia	802	65	814	8%	101%	114%

Notes:

(a) calculated on the value/volume of 2006 imports.
(b) ACP duties/Ad-valorem equivalent (AVE) are for within ACP Protocol quotas only, not any global quotas which may apply.

Sources: (trade) downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.ec.eu.int/xtweb/>) 08 June 2007 and (tariffs) from EU Taric Consultation (http://ec.europa.eu/taxation_customs/dds/cgi-bin/tarchap?Lang=EN, 8 June 2007); UK Tariff, 2007 Edition.

c) Other remunerative markets are risked to be lost

Losing the EU market for its beef exports would be a serious blow to Botswana's economic diversification. Preferential access to the EU market has enabled the 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 Botswana beef, not only in the EU but also in other valuable market niches.

When looking at alternative markets for Botswana one has to bear in mind that the country is not a globally competitive beef exporter, currently only able to supply markets that have both a high protection degree and a high price level. Both criteria apply to the EU market and the EC's recent offer of duty and quota free market access has further contributed to its attractiveness as export destination (see box 4). Botswana's other existing export markets (to which the protection and price criteria apply) either do not have the absorptive capacity (Norway where Botswana enjoys only a very small quota) or are likely to face the same restrictions as the EU market from January 2008 on (Réunion which is an EU overseas department). This leaves South Africa, to

Box 3: Putting MFN tariffs for Botswana beef exports to the EU in perspective

Since it is likely that Botswana's exports will cease, the sector will not pay any import taxes to the EU. But what if exports continued? Although a hypothetical question, the answer provides an opportunity to put the scale of these charges into perspective.

If Botswana exported its 2006 volumes the MFN taxes payable to the EU would total an additional €19.8 million (P125.3 million) or 80% of total revenue from beef exports to the EU. To illustrate the scale of the shock that the end of Cotonou preferences would have this amount is equivalent to four times of the amount annually received under the 9th European Development Fund (EDF). Yet this high figure is for 2006 – the poorest year on record for Botswana's exports! If instead one were to make the hypothetical calculations on the basis of Botswana's average exports in the period 1996-2006 the additional tariff would be a staggering € 36.3 million (P229.8 million) p.a.

Box 4: The monetary value of duty and quota free EU market access

On 4 April 2007 the European Commission announced that it will offer duty and quota free market access for all ACP products except sugar, rice and possibly bananas if ACP countries enter into an EPA by the end of this year. This offer is potentially very attractive for Botswana. Taking the beef volumes Botswana exported in 2006 into account, the saved import duties would be €1.27 million (P8.04 million). Considering that the 2006 export volumes were very low and taking the average volume exported in the period 1996-2006 into account the saved import duties would be almost double as high. However, though this saving of import duties is attractive (and increasingly attractive with increased export volumes) it is questionable whether the industry can take full advantage of DFQF market access until substantial change is introduced on the supply-side.

which the protection criterion applies, but it is a less remunerative market than the others. In 2006 the South African price for fresh and chilled beef was 35% below the price obtained in the EU. A possible redirection of Botswana's EU exports to the South African market might further depress the South African price.

Since existing alternative export markets do not offer an acceptable alternative, what about new markets – especially ones where the high costs of compliance with stringent EU health requirements do not apply? They are unlikely to exist. Remunerative markets with a high protection level are most likely to require high-quality beef imports, and may well consider compliance with EU standards as a prerequisite. So that the loss of the EU market is most likely to impact Botswana's ability to supply other premium export markets.

The rural economy might be adversely affected

Does it matter if Botswana beef exports cease? Apart from turning Botswana into an almost complete goods mono-export economy, would there be any major effect? In terms of foreign exchange earned, the answer is probably no – at least for the present. But in social terms,

it could matter – especially if the loss of the EU market leads to an unravelling of the beef sector as the incentive for high quality, disease free output declines.

Livestock rearing is the key commercial activity in the rural economy and the only significant agricultural source of cash. It is an important contributor to poverty alleviation and rural development. Moreover, the livestock industry is the only industry that is predominantly owned by Botswana and the country's only export industry with strong linkages to domestic sectors ranging from rural supply of cattle to satisfy urban demand to transport and finance. Since the export sector shows strong linkages with the rural economy and the export price guides the domestic price level, any shock is likely to impact rural households negatively.

3. What can be done?

It is entirely in the hands of the EC to avoid the taxation of Botswana's exports from January. The expiry of the WTO waiver does not require the EU to tax ACP imports. It just implies that competitors might challenge the EU at the WTO dispute settlement if it continues to discriminate against their imports in favour of ACP. In practical terms any challenger has to demonstrate that it has suffered a loss as a result of the adjudicated practice and, significantly, none of the 'usual suspects' – countries known to be threatening to challenge Cotonou – are beef exporters to the EU. Moreover, a final ruling of the WTO dispute settlement body takes about two years to deliver which would give the parties space to complete the negotiations.

However, to date the EC refers to the end of December 2007 as the final deadline. One solution to buy-in time and to ensure that the SADC EPA is properly negotiated by all parties and not imposed in a rush would be a 'Framework' EPA. Such a 'Framework' would only provide the minimum detail required to allow it plausibly to be presented to the World Trade Organization (WTO) as in conformity with Article XXIV while postponing many specifics to subsequent negotiations. In this way, it could be ensured that the exports of the developing countries of the SADC EPA to the EU are not endangered.

The report 'Analysis of the Economic and Social Effects of Botswana's Loss of Preferential Market Access for Meat Exports to the European Union' was written by Dr Christopher Stevens, Dr Mareike Meyn and Jane Kennan (ODI). The study was commissioned by Botswana Institute for Development and Policy Analysis (BIDPA) under the Trade and Poverty Programme of the UK Department for International Development (DFID). The full study can be downloaded at www.odi.org.uk/iedg/Projects/0708004_market_access_for_meat_exports_Botswana.html

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