

## **The impact of Economic Partnership Agreements on the development of African value chains**

Case studies of the Kenyan dairy value chain and  
Namibian fisheries and horticulture value chains

**By Sean Woolfrey and San Bilal**

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**Federal Ministry  
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### Key messages

The Economic Partnership Agreements (EPAs) negotiated between the EU and regional blocs of African countries are meant to promote the gradual integration of African economies into global markets, including by supporting African businesses to increase their participation in regional and global value chains.

However, these EPAs do not significantly alter market access conditions relevant to many African producers and services providers, and are thus unlikely to have major *direct impacts*, either positive or negative, on their prospects for participating in regional and global value chains.

EPAs could have beneficial *indirect impacts* on African producers and services providers by encouraging investment and by facilitating support to interventions and initiatives that boost the capacity of African businesses to participate in regional and global trade, but such support will not automatically materialise through the conclusion of EPAs.

There is thus need for development partners and other actors to complement EPA implementation with support for value chain development initiatives and awareness-raising and capacity building to ensure African business can take advantage of EPA-related opportunities, and for the establishment and use of effective mechanisms to monitor EPA impacts.

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## Acronyms

ACP	African, Caribbean and Pacific States
AfT	Aid for Trade
CET	Common external tariff
COMESA	Common Market for Eastern and Southern Africa
DFQF	Duty-free, quota-free
EAC	East African Community
EADRAC	East Africa Dairy Regulatory Authorities Council
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GSP	Generalised Scheme of Preferences
LDC	Least developed country
MFN	Most-favoured nation
PMDT	Processing, marketing, distribution and transportation
RoO	Rules of origin
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SMEs	Small and medium sized enterprises
SPS	Sanitary and phytosanitary
TAC	Total allowable catch
TBT	Technical barriers to trade
TDCA	Trade, Development and Cooperation Agreement
WTO	World Trade Organization

## Executive Summary

The Economic Partnership Agreements (EPAs) concluded by the European Union (EU) with regional blocs of African countries (and certain individual African countries) are supposed to do more than just boost trade between the EU and African countries. They are meant to promote sustainable development and poverty reduction, including through supporting regional integration processes in Africa, promoting the gradual integration of African economies into global markets and enhancing African countries' ability to leverage trade opportunities for economic growth. Given the internationalisation of production processes, with 70% of global trade involving intermediate goods or services, increased participation in regional and global value chains has become a crucial part of African countries' economic transformation and sustainable development strategies. It is therefore relevant to consider how EPAs might affect the ability of African producers and services providers to integrate into such value chains.

In theory, there are three main channels through which EPAs are likely to impact on the ability of African producers and services providers to increase their participation in regional and global value chains. First, EPAs could have *direct impacts* on their trade prospects by altering market access conditions directly relevant to their activities. While EPAs do not provide significantly increased access to the EU market for African exporters, as African exports already benefited from preferential access to the EU market, lower tariffs on the African side could result in cheaper inputs for African producers. On the other hand, such market opening could also lead to increased competition from European producers. EPAs might therefore contribute towards strengthening the competitiveness of some African value chains, but could also lead to less competitive African value chain actors being driven out of the market, or even prevent the development of nascent domestic and regional value chains not yet ready for exposure to international (EU) competition. Trade defence instruments and other flexibilities contained in the EPAs may be able to address some of the negative impacts of increased competition on value chain development.

Where intra-regional tariffs have not already been liberalised, 'regional preference' clauses contained in EPAs, according to which African EPA signatories should grant each other preferences at least equivalent to those they grant to the EU, could lead to lower tariffs between African countries, potentially facilitating the development of regional value chains. Similarly, flexible EPA rules of origin (RoO) that allow African producers using inputs from other African countries to benefit from duty-free, quota-free (DFQF) access to the European market could also encourage the development of regional value chains in Africa.

Second, EPAs could have *indirect impacts* on the trade prospects of actors in a particular domestic African value chain by stimulating local and/or foreign direct investment (FDI) in that value chain, or facilitating aid for trade (AfT) or other forms of development cooperation support (as foreseen in the economic and development cooperation provisions contained in the EPAs and mandated by European Commission policy positions) to that value chain or to initiatives that are particularly relevant for that value chain. Such investment or support could be key to boosting the capacity of African actors to take advantage of trade-related opportunities.

Finally, broader *economy-wide impacts* of EPAs could affect African actors by altering the economic environments in which they operate. EPAs could affect growth, investment and employment patterns in a particular economy, influencing the reallocation of labour and capital between sectors. They could 'lock in' and lend credibility to reform programmes. However, they could also limit the ability of African governments to use industrial policy tools such as export taxes to promote domestic production. EPAs may also lead to decreased government revenue from import duties in certain African countries. If governments in these countries are unable to mobilise alternative sources of revenue, such as through other forms of taxation,

this loss of import duty-derived revenue could have a negative impact on the provision of relevant public services, such as agricultural extension services. Furthermore, EPAs that are implemented by some members of an African bloc, but not others, could undermine the development of coherent regional markets and common external tariffs, potentially inhibiting the development of regional value chains.

This paper examines the EU's EPAs with the East African Community (EAC) and with the Southern African Development Community (SADC) to assess the likely *direct* and *indirect impacts* of these EPAs on three domestic African value chains: the Kenyan dairy value chain and the Namibian fisheries and horticulture value chains. This analysis shows that the two EPAs will not have significant direct impacts on the Kenyan dairy and Namibian horticulture value chains, while the likely direct impacts on the Namibian fisheries value are mostly positive, but could also include some negative impacts in terms of increased competition.

For the Kenyan dairy value chain, the EU-EAC EPA will not lead to greater imports of EU dairy products into Kenya (or the EAC), as dairy products are excluded from tariff liberalisation by the EAC. Neither will the EPA have a direct impact on market access conditions within the EAC, as tariffs on intra-EAC trade have already been eliminated through the establishment of the EAC Customs Union. Furthermore, while the EPA will preserve DFQF access to the EU market for Kenyan dairy producers, numerous constraints in the Kenyan dairy value chain mean that it lacks the capacity to take advantage of such market access.

For the Namibian horticulture value chain, the EU-SADC EPA does not significantly alter market access conditions between Namibia and the EU or between the SADC EPA Group states themselves. The EU has had *de facto* preferential access to the Namibian market, and to the markets of the other four SADC EPA Group states that are members of the Southern African Customs Union (SACU), since the conclusion of the Trade, Development and Cooperation Agreement (TDCA) between the EU and South Africa. This is because under the SACU Agreement, goods are meant to circulate freely between South Africa and its fellow SACU members. Tariffs on trade between the SACU members and the one non-SACU SADC EPA Group state, Mozambique, have also been liberalised through the SADC Protocol on Trade, and hence will not be significantly affected by the EPA and its regional preference clause. In addition, while the preservation of DFQF access to the EU market is important to the Namibian table grape industry, the rest of the Namibian horticulture value chain is largely oriented towards supplying the domestic market.

A similar logic with regard to market access conditions applies for the Namibian fisheries value chain, but with two additional considerations. The first is that the EU-SADC EPA will lead to a slight erosion of Namibia's preferential access to the EU market *vis-à-vis* its biggest competitor in the supply of certain fisheries products to the EU, as existing tariffs on South Africa's fisheries exports to the EU will be removed under the EPA. The second is that the EPA slightly relaxes the RoO for Namibian fisheries exports to the EU. This could make it easier for Namibian fishing companies to export to the EU, reduce their dependence on joint ventures with EU companies and promote deeper linkages with fisheries value chain actors in other SADC EPA Group states.

The analysis also shows that the two EPAs might be relevant to the selected value chains through their *indirect impacts*, especially as both agreements include provisions on cooperation and support in areas relevant to the selected value chains. For example, the EU-EAC EPA contains provisions related to the management, support and strengthening of (agricultural) value chains. It identifies livestock as a priority for cooperation, commits the parties to developing a regional strategy for enhancing supply capacities in agriculture and provides for cooperation in market development strategies, the development of agro-processing infrastructure and capacity building for meeting standards. Similarly, the EU-SADC EPA



provides for the establishment of an agricultural partnership between the EU and SADC EPA Group states and for capacity building on sanitary and phytosanitary standards.

However, unlike the Economic Community of West African States (ECOWAS) EPA, neither EPA examined here commits the parties to providing specific levels of financial support, nor do they contain sanctions for not providing support or engaging in cooperation. The specific provisions contained in the EPAs are therefore largely of the 'best endeavour' variety. Furthermore, given that there are a number of factors that are likely to determine whether and how development cooperation support provisions contained in the EPAs lead to actual support and cooperation relevant for these value chains and whether or not such support and cooperation leads to beneficial outcomes for the actors in these value chains, it is difficult to assess how much of an indirect impact the EPAs are likely to have on these value chains.

Overall, this analysis suggests that while EPAs provide some opportunities and pose some challenges, their direct impacts, both positive and negative, on many African value chains are likely to be limited and should not be overstated. It also suggests that although EPAs are meant to support the development of African value chains, their implementation alone (i.e. in the absence of accompanying support, for example capacity building) will not be sufficient to ensure such development occurs. If EU development partners and other actors are serious in their desire to support the development of African value chains, they should complement efforts to implement the EPAs with: a) support for capacity building for African EPA state governments and national and regional public institutions in African EPA states to ensure effective EPA implementation; b) support for the establishment of mechanisms to monitor the impact of EPAs, and in particular, their impact on potentially vulnerable groups of African value chain actors, such as small and medium enterprises and smallholder farmers; c) support for efforts to promote value chain development, including, where relevant, by using EPA implementation processes as a focal point around which to better coordinate such support; and d) support for awareness-raising and capacity building to ensure that African value chain actors are able to take advantage of trade-related opportunities provided under the EPAs.

## 1. Introduction

Since the mid-1970s, most exports from African countries have enjoyed duty-free, quota-free (DFQF) access to European markets under a succession of non-reciprocal preferential trade agreements between the European Union (and its predecessor the European Economic Community) and the African, Caribbean and Pacific (ACP) group of countries.<sup>1</sup> However, this arrangement violated World Trade Organization (WTO) rules as the preferential treatment granted to ACP countries was not granted to other developing country members of the WTO. In 1996, the European Union (EU) received a waiver at the WTO that allowed the regime to continue until 2000. In 2001, this waiver was extended under the condition that the EU would replace its unilateral discriminatory trade regime with WTO-compatible trade arrangements, either in the form of reciprocal free trade agreements (FTAs) or a non-discriminatory preferential regime for all developing countries, or through trade on a non-preferential 'most-favoured nation' (MFN) basis.<sup>2</sup>

Consequently, since 2002, the EU has been negotiating Economic Partnership Agreements (EPAs) with five regional blocs of African countries (as well as one regional bloc of Caribbean countries and one of Pacific countries), as foreseen in the EU-ACP Cotonou Partnership Agreement, signed in 2000. These EPAs are reciprocal FTAs that are meant to go beyond simply boosting trade between the EU and African countries. Indeed, the EPAs are supposed to promote sustainable development and poverty reduction in African countries, including through supporting regional integration processes between African countries, promoting the gradual integration of African economies into global markets and enhancing African countries' ability to leverage trade opportunities for economic development. For example, the EPA with the member states of the East African Community (EAC) includes among its objectives, to:

- a) contribute to economic growth and development through the establishment of a strengthened and strategic trade and development partnership consistent with the objective of sustainable development;
- b) promote regional integration, economic cooperation and good governance in the EAC;
- c) promote the gradual integration of the EAC into the world economy, in conformity with its political choices and development priorities;
- d) foster the structural transformation of EAC economies, and their diversification and competitiveness by enhancing their production, supply and trading capacity;
- e) improve EAC capacity in trade policy and trade-related issues.<sup>3</sup>

The EU has emphasised the developmental nature of the EPAs, noting the asymmetric nature of trade liberalisation under these instruments - while the EU commits to keeping its market fully open to African exports, African countries are allowed long transition periods to open up to EU imports, and to maintain protection for sensitive sectors - and the fact that the EPAs provide for cooperation in a number of areas to support African countries' trade prospects. The EU has also claimed that the EPAs will support and enhance regional integration in Africa. Despite this rhetoric, many observers from civil society, and even

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<sup>1</sup> The first of these, the first Lomé Convention, was signed between the European Economic Community and 71 ACP countries in 1975.

<sup>2</sup> The EU offers duty-free, quota-free market access for LDCs under the 'Everything but Arms' scheme and a 'non-discriminatory' preferential regime for developing countries, the Generalised Scheme of Preferences (GSP), but this is less attractive to non-LDC ACP states as it offers less preferential access than has historically been offered to these states. In particular, it excludes major agricultural export products of ACP countries (e.g., sugar and bananas) and often provides only a small preference margin, rather than full duty-free, quota-free access. Also, several ACP countries, for example Botswana, Mauritius, Namibia and South Africa, do not have access to GSP due to their status as upper-middle income countries.

<sup>3</sup> Article 2 'Objectives'.

some African government officials, have challenged the supposed developmental merits of the EPAs, arguing that these agreements are unsuitable for economic and reform dynamics in African countries. Questions also remain about the degree to which the conclusion and implementation of EPAs will promote sustainable development in African countries and strengthen regional integration processes on the African continent.

There is little doubt that trade is important for stimulating economic growth, and that for most African countries, greater participation in international trade, especially of higher value added goods and services, is key to increasing domestic prosperity and sustainable development. Moreover, in today's world of global production networks, the importance for developing countries of integrating into the global economy by participating in regional and global value chains is widely recognised.<sup>4</sup> It is important, therefore, to understand how the conclusion and implementation of EPAs might impact on the ability of African producers and services providers to increase their participation in regional and global value chains. This study aims to shed light on this matter by assessing the opportunities and challenges that EPAs entail for domestic African value chain actors to integrate into regional and global value chains.

## Methodology

Predicting the precise impact of an FTA such as an EPA is a complex task. For example, the effects an EPA has on a particular African economy - or a particular economic sector or value chain in that country - will depend on a number of factors including: the capacity and political will of the government and public institutions to implement necessary reforms to promote trade and investment; the state of the broader economic environment in the country; the capacity of economic actors in that country to take advantage of opportunities created by the EPA; the breadth and depth of the provisions contained in the EPA; how quickly and comprehensively the EPA is implemented; and whether or not it is accompanied by policies to support domestic actors that are negatively affected by the EPA.<sup>5</sup>

At a very aggregated level, an EPA will be welfare-enhancing for an African economy if the benefits of trade creation through the EPA outweigh the welfare-reducing effects of trade diversion. At a more disaggregated level, however, EPAs are likely to create winners and losers and to have different impacts (on e.g. investment, jobs and trade) across different sectors and value chains.<sup>6</sup> Furthermore, any given value chain in an African country will be characterised by economic actors fulfilling different roles in the value chain and who could potentially be affected in very different ways by the various provisions contained in the EPA. Similarly, not all actors in a given value chain will possess the same capacity to exploit the opportunities (e.g. new export markets) provided through the EPA, or to cope with the challenges (e.g. increased competition from imports) that the agreement might entail.

Given this complexity and the sheer range of actors that could be affected by an EPA, this paper does not attempt to predict or quantify the precise impacts of particular EPAs on particular African value chains or value chain actors. Instead, the paper examines whether or not EPAs are likely to bring about specific challenges or opportunities for value chain actors in African countries and especially for their attempts to integrate into regional and global value chains.

To do this, the paper briefly identifies the key channels through which EPAs could, in principle, affect the growth and export prospects of value chain actors in African countries, and thus the ability of these actors

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<sup>4</sup> See for instance AfDB et al (2014), Foster-McGregor et al (2015) and UNCTAD (2013).

<sup>5</sup> Stevens et al (2015).

<sup>6</sup> For recent discussions, see Bouët et al (2016), Boysen and Matthews (2016), EC (2016a, 2016b), Mbithi et al (2015), SocialAction (2016) and von Uexkull et al (2014).

to integrate into regional and global value chains. These channels are categorised as involving *direct impacts*, *indirect impacts* or *economy-wide impacts* (see following section). The paper then examines three domestic African value chains that might be impacted by the conclusion of EPAs: the dairy value chain in Kenya and the fisheries and horticulture value chains in Namibia. Taking these value chains in turn, the paper provides a short description of the value chain, before analysing how the value chain might be affected by the conclusion and implementation of the EAC EPA (in the case of the Kenyan dairy value chain), or the Southern African Development Community (SADC) EPA (in the case of the Namibian fisheries and horticulture value chains).

The paper adopts a qualitative approach. It reviews economic data and relevant literature to provide a brief overview of the selected value chains, describing their structures and key production and trade characteristics, and highlighting existing trade-related opportunities and constraints in these value chains. The paper then examines the texts of the EAC and SADC EPAs to identify which provisions contained in these EPAs are likely to affect, positively or negatively, the production and trade potential of the selected value chains. In doing so, the paper focuses in particular on those provisions that are likely to have either a *direct impact* (e.g. provisions on tariff liberalisation and relevant rules of origin) or an *indirect impact* (e.g. provisions on providing support to building supply-side or trade-related capacity) on these value chains. The broader, *economy-wide impacts* of the EPAs are not discussed in this paper, although these could also affect the prospects of the selected value chains.

The focus of this paper is on the economic, trade-related impacts of these EPAs on the selected value chains.<sup>7</sup> In analysing these impacts, the paper explores whether these EPAs, and the tools and instruments provided through the agreements, are likely to contribute to the development (or not) of the selected value chains and the actors participating in them (e.g. through promoting enhanced competitiveness and/or greater export potential, or through promoting the regionalisation of the value chain), and whether or not these EPAs are consistent with regional dynamics around the selected value chains. Based on the findings of this analysis, the paper concludes with recommendations for relevant African and EU policymakers, EU development partners and civil society organisations.

## 2. How EPAs might affect value chains in African countries

In theory, there are three main channels through which EPAs could affect the ability of African producers and services providers to increase their participation in regional and global value chains. First, EPAs could have *direct impacts* on their trade prospects by altering market access conditions (especially tariffs and rules of origin) directly relevant to their activities. In reality, EPAs do not provide significantly increased access to the EU market for African exporters compared to the status quo, as most of these exporters already benefit from DFQF access to the EU market either as least developed countries (LDCs), or under the temporarily applied Market Access Regulation.<sup>8</sup> EPAs do, however, guarantee that such access will be

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<sup>7</sup> For a discussion of EPA impacts on other, non-economic aspects of sustainable development, see Bilal and Ramdoo, 2016.

<sup>8</sup> African countries benefitted from preferential access to the EU market under the Cotonou Agreement until the end of 2007. Since 2008, those African countries that initialled interim EPAs have continued to benefit from such access under the EU's Market Access Regulations. Furthermore, all least-developed countries (LDCs) benefit from DFQF market access to the EU under the Everything-But-Arms pillar of the EU's generalised system of preferences (GSP).

maintained in the future. This is particularly important for non-LDC African countries, which would lose DFQF access to the EU market if they did not conclude an EPA.

Tariff liberalisation by African countries under an EPA could result in cheaper inputs for African producers that procure goods (and services, if services were covered by the EPA) from the EU, but could also lead to increased competition from European producers in some African domestic and regional markets. EPAs could therefore contribute towards strengthening the competitiveness of some African value chains, but could also lead to weaker African value chain actors being driven out of the market, or even prevent the development of nascent domestic and regional industries that are not yet able to compete with more developed EU industries. Trade defence instruments contained in the EPAs, such as bilateral safeguards, may be able to address some of the potentially negative impacts of increased competition on value chain development in African countries. In addition, EPAs do provide scope for African countries to maintain tariff protection for at least some domestic industries.

Where intra-regional tariffs have not already been liberalised, 'regional preference' clauses contained in some of the EPAs, according to which African EPA signatories should grant each other preferences at least equivalent to those they grant to the EU, could lead to lower tariffs between African countries, potentially facilitating the development of regional value chains. Similarly, flexible EPA rules of origin (RoO) that allow African producers using inputs from other African countries to benefit from DFQF access to the European market could also encourage the development of regional value chains in Africa.

Second, EPAs could have *indirect impacts* on the growth and trade prospects of actors in a particular domestic African value chain by stimulating local and/or foreign direct investment (FDI) in that value chain and facilitating aid for trade (AfT) or other forms of development cooperation support (as foreseen in the economic and development cooperation provisions contained in the EPAs). Indeed, the European Commission's Proposal for a new European Consensus on Development states that "the EU and its Member States will coordinate development cooperation programmes with trade policy tools in support of the implementation of the provisions in trade agreements relating to trade and sustainable development". Similarly, the European Commission's 2015 Communication on "Trade for All: Towards a more responsible trade and investment policy" states that "As FTAs enter into force, the EU will have to make sure that the provisions on trade and development are implemented and used effectively, including by offering appropriate support through development cooperation."

For these reasons, the conclusion and implementation of EPAs could serve to facilitate and focus development cooperation support in areas relevant for value chain development in African EPA states and regions. Such support could include support efforts to build the capacity of African producers and services providers to take advantage of trade-related opportunities by, for example, improving their competitiveness as businesses or by addressing technical barriers to trade (TBTs), sanitary and phytosanitary (SPS) measures and other barriers that may limit their effective access to the EU market or to regional markets.

Finally, broader *economy-wide impacts* of EPAs could affect African actors by altering the economic environments in which they operate. EPAs could affect growth, investment and employment patterns, influencing the allocation of labour and capital between sectors. They could 'lock in' and lend credibility to reforms (which might otherwise be withdrawn or modified) and could create new domestic, regional and bilateral channels of communication on trade-related issues. On the other hand, they could also prevent African governments from using industrial policies such as export taxes to promote domestic production. EPAs are also likely to lead to decreased government revenue from import duties in certain African countries. If governments in these countries are unable to mobilise alternative sources of revenue, such as

through other forms of taxation, this loss of import duty-derived revenue could have a negative impact on the provision of relevant public services, such as agricultural extension services.<sup>9</sup> Furthermore, EPAs that are concluded by some members of an African regional bloc, but not others, could undermine existing regional integration processes involving those countries and the development of effective and coherent regional markets, thereby inhibiting the development of regional value chains.

### 3. The dairy value chain in Kenya and the impact of the EAC EPA

#### 3.1. The dairy value chain in Kenya

Kenya has one of the largest and most developed dairy industries in Sub-Saharan Africa. The industry is the largest agricultural sub-sector in Kenya, contributing around 4% of GDP.<sup>10</sup> It also provides direct employment to a significant number of smallholder farmers, with estimates ranging from around 700,000 to over 1.2 million smallholder farmers (or around 4% to over 7% of Kenya's labour force, based on International Labour Organisation statistics).<sup>11</sup> These smallholder farmers include women and youth in rural areas, making the dairy sub-sector central to efforts to address rural poverty in Kenya. The sub-sector also generates jobs for more than 1 million Kenyans operating in or providing services to the dairy value chain.<sup>12</sup> The dairy industry in Kenya is also important in terms of food and nutrition security, as almost all Kenyans consume milk on a daily basis, and per capita milk consumption in the country is around 110 to 115 litres per year, well above the average for Sub-Saharan Africa.<sup>13</sup>

The Kenyan dairy industry is characterised by a relatively un-coordinated value chain comprising smallholder, medium and large scale farmers; input suppliers; services providers, transporters; traders and vendors; cooperative societies; bulkers; processors; distributors and retailers (for a stylised illustration of the value chain see Figure 1).<sup>14</sup> Although the number of medium-scale farmers/investors investing in commercial dairy production is growing rapidly, milk production in Kenya is still dominated by less productive, and less business oriented, smallholder farmers, who account for 80% of production.<sup>15</sup> The predominance of smallholder farmers creates challenges for the industry in terms of higher cost production, collection and cooling, seasonal supply fluctuations and raw milk quality. The fact that smallholder farmers lack technical and financial resources also hampers effort to up-scale productivity in the industry.<sup>16</sup>

Nonetheless, the dairy sub-sector in Kenya has experienced significant growth in recent years. Milk production has grown by 4% per year over the past decade,<sup>17</sup> with the industry currently producing around 5.2 billion litres of milk per year.<sup>18</sup> Productivity has also increased due to, among other things, improved

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<sup>9</sup> Estimates on the extent of potential revenue losses vary. For a literature survey and discussion on EPA's fiscal effects, see for instance Bilal et al (2012).

<sup>10</sup> IFAD (2015).

<sup>11</sup> Makoni et al (2014); IFAD (2015); Ettema, undated; Kenya Markets Trust (2016).

<sup>12</sup> Food Business Africa (2013).

<sup>13</sup> Kenya Markets Trust (2016); Ettema, undated.

<sup>14</sup> Other stakeholders in the value chain include public sector, parastatal institutes, civil society, donor-funded projects and nongovernmental organisations. Makoni et al (2014).

<sup>15</sup> Ettema, undated.

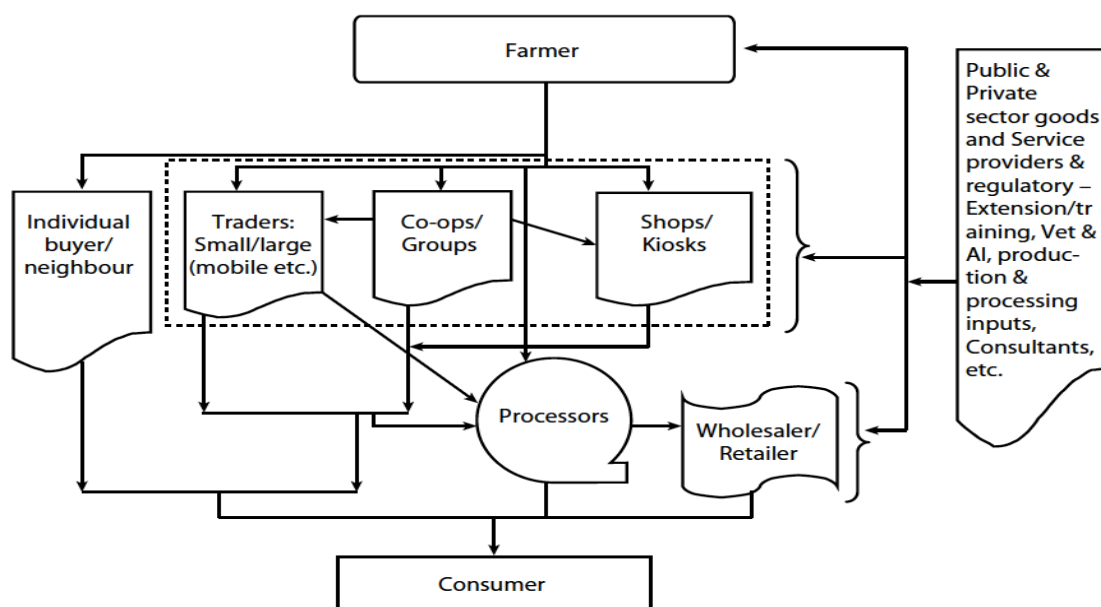
<sup>16</sup> Makoni et al (2014).

<sup>17</sup> Ibid.

<sup>18</sup> Kenya Markets Trust (2016).

breeds, improved animal husbandry practices and increased availability of animal health services.<sup>19</sup> However, production growth has been outstripped by growth in consumption of milk and processed dairy products resulting from higher incomes, a growing population and rapid urbanisation. As a result, Kenya has to import milk and powdered milk to address domestic supply shortfalls.<sup>20</sup> Given expected growth in production and consumption (by 2030, production is expected to increase to 12.6 billion litres per year,<sup>21</sup> while per capita consumption is expected to increase to 220 litres per year), the demand gap will increase unless productivity can be dramatically scaled-up to cater for increased demand from the expanding domestic and regional markets.<sup>22</sup> There is also growing demand in Kenya for higher quality milk and dairy products, especially in urban areas, and this is encouraging investment in the industry to improve productivity and diversify into higher value added products.<sup>23</sup>

**Figure 1: Actors in the Kenyan dairy value chain**



Source: Muriuki, 2011.

Of the milk produced in Kenya, 45% is retained for on-farm consumption, and 55% is marketed through various channels.<sup>24</sup> An estimated 20% of marketed milk is processed and packaged through formal channels, while 80% is traded through the informal sector. The dominance of the informal sector results from inefficiencies in the processing segment as well as consumer preference for cheaper raw milk. Informal traders pay producers higher farm-gate prices than cooperatives do, and sell to consumers at prices that are up to 40% lower than those of processed packaged milk.<sup>25</sup> While informal milk trade creates employment opportunities for the rural and urban poor, it has also generated concerns about the public

<sup>19</sup> Makoni et al (2014).

<sup>20</sup> Ngotho (2016).

<sup>21</sup> Kenya Markets Trust (2016).

<sup>22</sup> Makoni et al (2014).

<sup>23</sup> Including foreign direct investment, such as the recent purchase by French company Danone of a 40% stake in Kenya's biggest dairy processor, Brookside, and investment by local processors, such as New KCC, in new capacity.

<sup>24</sup> IFAD, 2015. About 42% of marketed milk is sold directly from farmers to consumers; another 32% is sold to milk shops, kiosks, and traders (ibid).

<sup>25</sup> Ibid.



health risks from informally marketed milk due to the potential for adulteration and the poor level of hygiene in milk handling in the informal sector.<sup>26</sup>

Kenya's processing industry is concentrated near the capital, Nairobi, and operates at between 30% and 50% of capacity.<sup>27</sup> While there are close to 30 registered processors in Kenya, the three biggest processors - New KCC, Brookside and Githunguri - dominate the market, accounting for over 90% of processed milk in Kenya. This concentrated market power puts these processors in a position to determine farm-gate prices for raw milk and reduces the bargaining power of producers, potentially constraining the latter's development, and the development of an inclusive value chain. Similarly, the market power of these processors also puts them in a position to determine consumer prices for processed milk, which partly contributes to the high price of processed milk in Kenya.<sup>28</sup>

While a rapidly growing domestic market and expanded possibilities for regional trade provide significant opportunities for the growth of the dairy industry in Kenya, the development of the domestic value chain faces a number of productivity-related challenges. As noted above, the dominance of the smallholder segment of the value chain places limits on the growth and competitiveness of the value chain and inhibits efforts to address issues such as continuity of supply and poor raw milk quality. Smallholder farmers lack entrepreneurial skills and face challenges accessing the capital and technology required to invest in animals and equipment and to improve their own productivity.<sup>29</sup> This situation is exacerbated by operational and governance challenges that farmer cooperatives have faced in Kenya, which has also contributed to the fragmentation of the value chain and a reliance on volatile spot markets.<sup>30</sup>

Other challenges inhibiting productivity (especially of smallholder farmers) and contributing to the high cost nature of the value chain include: weak and erratic extension and veterinary services (including artificial insemination services); low adoption of technology; the high cost and/or poor quality of feed and other inputs (electricity, finance, etc.); seasonal fluctuations in forage availability (which lead to fluctuations in milk supply to the market); the high cost of transport due to poor road infrastructure in rural areas and inappropriate means of transportation (bicycles, plastic jerry cans), which leads to spoilage and wastage; an inadequate policy, legal and institutional framework; ineffective producer organisations and low capacity utilisation among processors.<sup>31</sup>

### 3.2. Integrating into regional and global value chains: Opportunities and challenges

Milk and other dairy products produced in Kenya are mostly consumed locally, but Kenya does export some dairy products, especially to other EAC member states (See Table 1). In 2013, Kenya exported dairy products worth over US\$12.6 million,<sup>32</sup> mostly in the form of liquid milk (US\$8.5 million) and powdered/concentrated milk (US\$1.9 million), but also including about US\$2.3 million of processed dairy products such as butter, cheese, buttermilk, yoghurt and ghee. The main destinations for Kenya's dairy exports are

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<sup>26</sup> Ibid.

<sup>27</sup> IFAD (2015), Makoni et al (2014).

<sup>28</sup> Makoni et al (2014).

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> See Makoni et al (2014) and IFAD (2015).

<sup>32</sup> Unless otherwise specified, all trade data in this paper is sourced from the ITC Trademap database. The figures here do not capture the informal trade in raw milk that occurs between Kenya and its EAC neighbours, as this is largely unrecorded.



Tanzania (US\$7.5 million) and Uganda (US\$3 million), which together accounted for 95% of Kenya's dairy exports in 2013.

**Table 1: Kenyan exports of dairy products in 2013 (US\$ '000s)**

Heading No.	Description	Destination			
		EU	Other EAC States	Rest of World	All
	Dairy products	0	10,610	2,038	12,648
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	0	8,053	429	8,482
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter	0	723	1,149	1,872
0403	Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk ...	0	829	116	945
0404	Whey, whether or not concentrated or containing added sugar or other sweetening matter ...	0	0	1	1
0405	Butter, incl. dehydrated butter and ghee, and other fats and oils derived from milk; dairy ...	0	872	201	1 073
0406	Cheese and curd	0	133	142	275

Source: International Trade Centre (ITC) Trade Map ([www.trademap.org](http://www.trademap.org))

On the import side (see Table 2), Kenya imported US\$25.3 million in dairy products in 2013, mostly from Uganda (US\$20.2 million), which has become an important source of powdered and liquid milk for the Kenyan market - other sources of dairy imports included the EU (US\$2.3 million) and New Zealand (US\$2 million). The EAC therefore already represents both an important market for Kenyan dairy products and an important source of dairy products for the Kenyan market.

**Table 2: Kenyan imports of dairy products in 2013 (US\$ '000s)**

Heading No.	Description	Origin			
		EU	Other EAC States	Rest of World	All
	Dairy products	2,311	20,247	2,191	24,749
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	0	5,866	0	5,866
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter	1,602	14,167	1,929	17,698
0403	Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk ...	11	0	4	15
0404	Whey, whether or not concentrated or containing added sugar or other sweetening matter ...	23	0	11	34
0405	Butter, incl. dehydrated butter and ghee, and other fats and oils derived from milk; dairy ...	78	214	7	299
0406	Cheese and curd	597	0	240	837

Source: International Trade Centre (ITC) Trade Map ([www.trademap.org](http://www.trademap.org))

Many of the characteristics of the Kenyan dairy sub-sector highlighted above pertain to the dairy sub-sector in the EAC as a whole, including rapidly growing demand for milk and processed dairy products, and various supply-side challenges (fragmented domestic value chains, a preponderance of smallholder farmers, low raw milk quality, supply fluctuations, etc.) that inhibit the development of the sub-sector and its ability to keep pace with demand growth.<sup>33</sup> Nevertheless, there has been significant growth in regional trade in dairy products in the EAC in recent years, as the value of intra-EAC trade in dairy products increased from US\$1 million in 2004 to US\$32.3 million in 2013, and a regional dairy value chain has begun to develop. In particular, processors in Kenya import milk powder from Uganda to supplement local raw milk supplies during the dry season, when the latter are scarce. These same dairy producers also export some of their processed dairy products to Uganda and to other EAC countries. Other indications of an emerging regional dairy value chain, and of the recognition of the potential for developing a regional

<sup>33</sup> For an examination of recent developments in the dairy sub-sector in the region see Bingi and Tondel (2015).

EAC dairy market, include recent examples of large-scale intra-regional investments in the subsector,<sup>34</sup> and the prioritisation of dairy as a strategic sub-sector in the EAC Industrialisation Strategy.

Despite recent growth, intraregional trade in dairy products in the EAC is much lower than it could be given the trade complementarities in the region. While the perishability of milk and dairy products and the relatively high costs of trading across borders in most of Sub-Saharan Africa limit the potential for Kenya to export further afield, the close proximity of production and consumption areas within the EAC and the relatively advanced state of integration in the region mean that there is significant potential for the development of an EAC dairy market.

Given the relative strength of the Kenyan dairy industry (not to mention its excess processing capacity), the growth of a regional dairy value chain should provide significant opportunities for actors in the Kenyan value chain to expand their operations into the regional market.<sup>35</sup> However, the Kenyan dairy industry is not yet in a position to take full advantage of the opportunities provided through EAC integration and the regional market this creates (tariffs on all goods traded between EAC countries have in principle been eliminated following the implementation of the Protocol on the Establishment of the EAC Customs Union). In order to grow its exports to the region, the Kenyan dairy industry will need to address the numerous challenges highlighted above that inhibit its own productivity and competitiveness, including inefficiencies along the domestic value chain and concerns about the quality of raw milk produced in the country. At the same time, in order to promote the development of a truly regional dairy market, a number of barriers to regional trade in dairy products still need to be addressed, including through cooperation between the EAC member states, and through support from regional organisations (EAC, the Common Market for Eastern and Southern Africa, other specialised regional organisations) and technical and development partners.

The most pressing barriers to regional dairy trade in the EAC include: insufficient harmonisation of policies and regulations within the region; poor implementation and weak enforcement of the quality and sanitary standards, regulations and procedures at the national level that also serve for the certification of goods being traded across borders; weak capacity of regional organisations and institutions that could promote dairy trade (e.g. a regional laboratory network) and a paucity of accurate, timely and consistent information on dairy markets and trade (as well as related sub-sectors such as feed) available to dairy value chain stakeholders, which contributes to a lack of awareness of regional trade opportunities.

### 3.3. Potential impacts of the EAC EPA on the dairy value chain in Kenya and its integration into regional and global value chains

#### Market access

The dairy industry in Kenya operates behind relatively high tariff protection. As a member of the EAC Customs Union, Kenya applies the EAC Common External Tariff (CET) as its MFN tariff, but trades freely with fellow EAC member states (all duties on intra-EAC trade were removed through the implementation of the EAC Customs Union Protocol). Imports from other countries party to the Common Market for Eastern and Southern Africa (COMESA) FTA also enter Kenya duty free. The EAC CET is divided into three bands: 0% tariff on imported inputs and raw materials, 10% on intermediate goods and 25% on finished products. However, certain products designated as 'sensitive items' are subject to higher tariffs. The list of EAC

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<sup>34</sup> In 2015, Kenya's Brookside purchased Sameer Agriculture and Livestock Limited (SALL), a Ugandan dairy company (Nsehe, 2015), while Uganda's Pearl Dairy announced plans to construct a dairy factory in Kenya (Ciuri, 2015).

<sup>35</sup> IFAD (2015).

sensitive items includes milk (including in powdered, concentrated and sweetened form), cream (including in powdered, concentrated and sweetened form), buttermilk and yoghurt. The tariff on these dairy products is set at 60%. All other dairy products, such as butter, whey and cheese, are subject to the 25% tariff for finished products (see Table 3 for all tariffs on dairy imports into the EAC). These relatively high tariffs might explain why the majority of Kenya's dairy imports come from Uganda (an EAC member), rather than from the EU and other globally competitive producer countries such as New Zealand.

**Table 3: EAC Common External Tariff on Dairy Imports (HS Headings 0401 to 0406)**

Heading No.	HS Code / Tariff No.	Description	Unit	Duty
<b>04.01</b>		<b>Milk and cream, not concentrated nor containing added sugar or other sweetening matter</b>		
	0401.10.00	- Of a fat content, by weight, not exceeding 1%	kg	60%
	0401.20.00	- Of a fat content, by weight, exceeding 1% but not exceeding 6%	kg	60%
	0401.40.00	- Of a fat content, by weight, exceeding 6% but not exceeding 10 %	kg	60%
	0401.50.00	- Of a fat content, by weight, exceeding 10%	kg	60%
<b>04.02</b>		<b>Milk and cream, concentrated or containing added sugar or other sweetening matter</b>		
	0402.10.00	- In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%	kg	60%
		- In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%:		
		-- Not containing added sugar or other sweetening matter:		
	0402.21.10	--- Specially prepared for infants	kg	60%
	0402.21.90	--- Other	kg	60%
		-- Other:		
	0402.29.10	--- Specially prepared for infants	kg	60%
	0402.29.90	--- Other	kg	60%
		- Other:		
		-- Not containing added sugar or other sweetening matter		
	0402.91.10	--- Specially prepared for infants	kg	60%
	0402.91.90	--- Other	kg	60%
		-- Other:		
	0402.99.10	--- Specially prepared for infants	kg	60%
	0402.99.90	--- Other	kg	60%
<b>04.03</b>		<b>Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa</b>		
	0403.10.00	- Yogurt	kg	60%
	0403.90.00	- Other	kg	60%
<b>04.04</b>		<b>Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included</b>		
	0404.10.00	- Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	kg	25%
	0404.90.00	- Other	kg	25%
<b>04.05</b>		<b>Butter and other fats and oils derived from milk; dairy spreads</b>		
	0405.10.00	- Butter	kg	25%
	0405.20.00	- Dairy spreads	kg	25%
	0405.90.00	- Other	kg	25%
<b>04.06</b>		<b>Cheese and curd</b>		
	0406.10.00	- Fresh (unripened or uncured) cheese, including whey cheese, and curd	kg	25%
	0406.20.00	- Grated or powdered cheese, of all kinds	kg	25%
	0406.30.00	- Processed cheese, not grated or powdered	kg	25%
	0406.40.00	- Blue-veined cheese	kg	25%
	0406.90.00	- Other cheese	kg	25%

Source: EAC Common External Tariff 2012 Version

The EAC EPA does not alter market access conditions for dairy trade between the EU and Kenya (or between the EU and other EAC countries) and will therefore have no direct impact on this trade. Under the EAC EPA, all dairy products (HS headings 0401 to 0406) originating in the EU are listed in Annex II(D) of the agreement. This means that EAC customs duties on all dairy products are excluded from tariff phase down under the EPA.<sup>36</sup> The EAC EPA therefore does not provide dairy exports from the EU with improved access to the Kenyan or EAC market and, consequently, will not cause a significant increase in the relatively low level of EU dairy imports on the Kenyan or EAC markets.

The EU dairy industry also operates behind high MFN tariffs, but these have not applied to imports from Kenya. The EAC EPA preserves Kenya's DFQF access to the EU market,<sup>37</sup> and given the high MFN tariffs applied by the EU on dairy products, this would seem to offer a potentially significant competitive advantage to Kenyan dairy producers. However, while it would certainly be better in theory for Kenyan dairy producers to have such access than to be locked out of the EU market due to high tariffs, the fact that Kenya does not currently export any dairy products to the EU, despite the fact that it (and other EAC countries) already enjoy DFQF access to the EU market, suggests that the EPA will not result in Kenya becoming a dairy exporter to the EU. This should not be surprising, as the EU itself is a large net exporter of dairy products to the world market, while various supply side challenges mean that the Kenyan dairy industry struggles to satisfy local demand. Furthermore, the Kenyan dairy industry is a long way from being able to compete with globally competitive dairy industries outside the protected EAC market.

The EAC EPA does not alter market access conditions between EAC member states either, and will therefore also have no direct impact on dairy trade within the EAC. This is because, as stated above, trade in goods between EAC member states has already been fully liberalised through the EAC Customs Union. This is why the EAC EPA, unlike other EPAs, does not contain a regional preference clause.

There are other ways in which tariff liberalisation under the EPA could impact the Kenyan dairy industry though. In particular, such liberalisation may provide Kenyan producers with access to cheaper inputs from the EU. Two of the main groups of products relevant in this regard - machinery and prepared animal feed (fodder) - are covered by different bands of the EAC CET. Machinery is classified as an input under the EAC CET and the tariff on non-EAC imports of milking machines, dairy machinery, refrigerators for dairying and other dairy-relevant machinery is therefore 0%. For this reason, the conclusion and implementation of the EPA would have no effect on the cost of dairy-relevant machinery imported from the EU into Kenya (or the rest of the EAC).

On the other hand, prepared animal fodder product lines<sup>38</sup> are mostly categorised as intermediate goods under the EAC CET, and almost all relevant product lines are subject to a tariff of 10%. Under the EAC EPA, EAC tariffs on all these products - with the exception of wheat bran - are listed in Annex II(B) and would therefore be progressively abolished over 15 years. Consequently, the conclusion and implementation of the EPA would result in lower EAC tariffs on prepared animal fodder products from the EU and would likely lead to Kenyan producers being able to access such products at lower prices in the future. While this is relevant given the fact that in 2013, Kenya imported almost US\$5 million worth of oilcake and other animal fodder preparations from the EU, the likely price impact of a tariff reduction from 10% to 0% might not be that significant.

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<sup>36</sup> The exclusion of EAC tariffs on dairy products under the EPA also means that these tariffs are not subject to the 'Standstill Clause' in the EPA (Article 12.1), and can therefore be raised in the future.

<sup>37</sup> Kenya is not an LDC, and as such is not eligible for the EBA arrangement under the EU's GSP. This means that in the absence of an EPA, Kenya would lose some of its preferential access to the EU market.

<sup>38</sup> Those found in Chapter 23 of the Harmonised System.

## Indirect impacts

The above analysis has shown that while Kenya is unlikely to become a global exporter of dairy products anytime soon, there is potential for value chain actors in Kenya to integrate into a growing regional value chain in the EAC. It has also shown that the EAC EPA is unlikely to have direct impacts on the dairy value chain in Kenya through significant shifts in bilateral trade in dairy products or inputs between Kenya and the EU. Where the EAC EPA could have an indirect but important impact on the dairy value chain in Kenya and its prospects for expanding into the region, is by promoting increased investment or development cooperation focused on supply-side capacity building in the value chain or regulatory reform in Kenya that supports the development of the value chain. Similarly, the EPA could have an indirect impact on the value chain's regional prospects if it promoted development cooperation focused on efforts to remove existing barriers to the development of a regional dairy market in the EAC.

Given the sheer number of factors relevant to shaping investment patterns, it is impossible to predict with any certainty the impact of the EAC EPA on investment in the Kenyan dairy value chain, except to say that if the EPA does help address some of the barriers to regional dairy trade, and thereby facilitates the creation of a larger, more attractive regional market for Kenyan dairy value chain actors, it is likely to stimulate increased investment in the Kenyan value chain. The focus here, then, is on whether or not the EPA is likely to promote development cooperation that supports the development of the Kenyan value chain and/or the development of a regional market. In this regard it is important to note that the EAC EPA does not commit parties to providing specific levels of financial support. Instead, the EPA contains a number of provisions that commit the parties to support initiatives, and cooperate on issue areas, relevant to the development of the Kenyan dairy value chain and the EAC dairy market.

At a general level, Article 77 of the EPA identifies agriculture and livestock as an area of economic and development cooperation under the EPA. Potentially of more direct relevance to the development of a regional dairy market is Article 65 of the EPA, which states that the Parties “agree to have a regional strategy for enhancing supply capacities in agriculture, identifying high value agricultural sub-sectors for which the region has competitive advantage and capitalise on investments that can facilitate the shift from comparative to competitive advantages”. Similarly, Article 69 states that the parties agree to “(a) strengthen Public-Private-Partnership in investments for production, processing and marketing of agricultural commodities; (b) cooperate in developing capacities to access niche markets and facilitate compliance with commodity standards to meet such markets requirements; (c) support diversification of agricultural production and export products in EAC Partner States; and (d) improve producers' revenue by developing the marketing of value added agricultural products in the market place.”

Article 83, meanwhile, provides for cooperation in a number of relevant areas including: the development of market systems and market development strategies; building capacities in EAC Partner States to take full advantage of increased trading opportunities; promotion and strengthening of Processing, Marketing, Distribution and Transportation (PMDT) and handling of agricultural products; capacity building to comply with international standards relating to agricultural production, packaging and SPS measures; development of agricultural support infrastructure; development of agro processing infrastructure; promoting agro-based industries; enhancing value addition throughout the supply chain of agricultural products to meet the requirements of national, regional and international markets; developing capacities to access niche markets and facilitating compliance with commodity standards to meet such markets requirements; developing product packaging and labelling programmes which enable the EAC Partner States' producers to secure premium prices for commodity exports; and strengthening rural financial services for small-scale producers, processors and traders.

These and other potentially relevant provisions suggest that the conclusion and implementation of the EAC EPA could stimulate cooperation (potentially also involving financial and technical support) on a number of issues that currently constrain the development of the dairy value chain in Kenya and/or that constrain the development of the regional dairy value chain. For example, provisions in the EPA that seek to promote capacity for processing, marketing, handling and transporting agricultural products could be used to provide support for the capacity building of various dairy value chain actors in Kenya (e.g. smallholder farmers, dairy cooperatives, informal traders) in order to address challenges relating to poor raw milk quality. Such support could include, for example, among other things, training on hygienic milk handling, testing and other aspects of quality management, financing the adoption of appropriate storage and transportation equipment and investment in and training on the use of milk traceability systems.

Similarly, provisions in the EPA relating to strengthening public-private-partnerships for agricultural commodities could provide further justification for support to ongoing efforts in the region to promote enhanced public-private dialogue (at the national, but also at the regional level) to address barriers to intra-EAC trade in dairy products. Such efforts include, for example, the establishment of the Regional Dairy Platform involving public and private dairy value chain stakeholders from Kenya, Rwanda and Uganda, and the revival of the East Africa Dairy Regulatory Authorities Council (EADRAC).<sup>39</sup>

Nonetheless, while the EAC EPA contains a number of provisions that could facilitate support and cooperation in these and other related areas, it does not contain any sanctions for not providing such support or engaging in such cooperation, and hence the provision of such support and cooperation will likely be conditional on a number of factors. The onus will be on development partners and other actors seeking to support the development of the Kenyan and EAC dairy value chains to ensure that such support and cooperation is forthcoming, and on Kenyan and EAC dairy stakeholders (including governments and public institutions at the national and regional level) to provide a strong rationale and conducive environment for development partners and other actors to provide such support, such as through providing platforms for effective public-private dialogue.

## Conclusion

This section has shown that the EAC EPA will not have significant direct impacts, either positive or negative, on the dairy sub-sector in Kenya (or in the EAC as a whole). The EPA will not lead to increased trade in dairy products between the EU and Kenya (or between the EU and the EAC as a whole), as EAC tariffs on dairy products are exempt from liberalisation under the EPA, nor will it directly affect intra-EAC dairy trade, as such trade is already duty-free. EAC customs duties on machinery inputs imported from the EU would be unaffected by the EPA, although some prepared animal feed products imported from the EU could become slightly cheaper in the future due to the elimination of tariffs on these products. This impact is likely to be fairly small though, given that the EAC tariff is already relatively low (10%) for these products. The EAC EPA may, however, have indirect impacts on Kenyan dairy value chain actors and their prospects for integrating into a regional EAC value chain (as well as on the development of such a regional value chain) by facilitating development cooperation support for initiatives that build the capacity of these value chain actors and relevant institutions, and that improve the regulatory and business environment both in Kenya and in the EAC as a whole (e.g. by eliminating existing barriers to trade).

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<sup>39</sup> EADRAC was a forum involving the dairy boards of EAC countries which, among other things, sought to rationalise and harmonise dairy policies and standards in the regional dairy sub-sector and promote free trade in milk within the EAC.

## 4. The fisheries value chain in Namibia and the impact of the SADC EPA

### 4.1. The fisheries value chain in Namibia

The relatively pristine waters off the Namibian coast provide rich fishing grounds, and the fish and seafood caught in these waters are generally of a high quality and in demand both regionally and internationally.<sup>40</sup> The internationally competitive, export-oriented fisheries sector in Namibia comprises a fishing (and on-board fish processing) industry, as well as an onshore fish processing industry that processes fish for both the local and export markets. The sector as a whole contributes around 3% of GDP according to the 2015 National Accounts, and it is an important source of employment in coastal areas.<sup>41</sup> It is also an important source of foreign exchange (in 2014, exports of fresh and frozen fish earned Namibia US\$658 million, around 11% of the value of total earnings from exports) and generates significant revenue for the Namibian government through quota fees, corporate taxes, licence fees and other levies.<sup>42</sup> The sector presents opportunities for output and export growth, value addition and employment creation, as well as for the development of enhanced linkages with the broader Namibian economy.<sup>43</sup>

At independence, fishing in Namibia's waters was mostly done by foreign companies, especially South African fishing companies. The Namibian government introduced an indigenisation policy of 'Namibianisation' to increase the participation of Namibians in the fisheries sector through encouraging joint ventures.<sup>44</sup> Under this policy, the right to catch certain varieties of fish is only granted to Namibian citizens or to companies that are more than 50% owned by Namibians.<sup>45</sup> This policy has been successful in encouraging the entry of a number of Namibian-owned companies into the sector. However, many of these companies lack the capital to buy their own vessels and instead make money by selling their quota allocation to vessel owners, who are often foreigners. Others rely on hiring foreign vessels, especially from South Africa,<sup>46</sup> or on entering joint ventures with foreign fishing companies. Foreign participation in the sector therefore remains significant.

Namibia's Ministry of Fisheries and Marine Resources regulates exploitation of the country's marine resources by determining total allowable catch (TAC) levels for commercially exploitable fish and seafood varieties and administering quota allocations in order to sustainably manage these resources. TAC levels are occasionally reduced to allow fish stocks to recover, while individual quota allocations can be adjusted in line with the provisions of the Marine Resources Act.<sup>47</sup> The main varieties caught in Namibian waters are hake, monk, (horse) mackerel and pilchards (sardines). Small quantities of tuna, crab and rock lobster are also caught. Most of the fish and seafood caught in Namibian waters is exported to the EU and SADC markets, with only around 10% consumed domestically.

In addition to encouraging 'Namibianisation' of the fisheries sector and the sustainable management of fish resources, the Namibian government has sought to promote employment creation and value addition in the

<sup>40</sup> Chiripanhura and Teweldemedhin (2016).

<sup>41</sup> According to the National Planning Commission 2014/2015 Annual Report (Republic of Namibia, 2015), the sector employed 14823 people in 2013, about 2% of Namibia's labour force.

<sup>42</sup> Chiripanhura and Teweldemedhin (2016).

<sup>43</sup> Ibid.

<sup>44</sup> Amukwa (2012).

<sup>45</sup> The Namibian (2016).

<sup>46</sup> Chiripanhura & Teweldemedhin (2016).

<sup>47</sup> Ibid.



fisheries sector by putting in place a national policy framework that encourages onshore fish processing. While some of the fish exported from Namibia is processed (e.g. frozen whole or gutted and filleted) on board fishing vessels and exported directly to foreign markets without being landed in Namibia, significant onshore processing does take place. This processing currently includes the production of fillets and portion cuts (of especially hake, but also of monk, horse mackerel, pilchards and other fish varieties), canning of cooked fish (pilchards and horse mackerel) and the production of fish oil and fish meal.<sup>48</sup>

In the hake sub-sector, the most prosperous of Namibia's fishery sub-sectors, the government works with the Namibian Hake Association to ensure that the bulk of the hake catch in Namibian waters (70%) is landed in Namibia for onshore processing.<sup>49</sup> While such efforts have spurred onshore processing, value addition and employment creation, critics claim that the government's encouragement of investment in the onshore processing industry has resulted in excess capacity, and that this excess capacity is putting pressure on the government to increase TAC levels, which could compromise sustainable management of fish stocks.<sup>50</sup>

A major challenge to the development of onshore processing activities in Namibia is the fact that large fishing companies use vessels that have the capacity to freeze fish on-board, and are therefore able to export their catch without needing to land it for onshore processing. Given strong demand for frozen fish in international markets, there is little incentive for them to land their catch in Namibia. This results in less fish available for onshore processing, making it riskier for private actors to invest in processing facilities.<sup>51</sup> Smaller, locally-owned fishing companies, who would be expected to land more of their catch locally, find it hard to access finance and are unable to invest in vessels. Similarly, processing companies find it difficult to finance investment in their own capacity.<sup>52</sup> A lack of local skills also inhibits the expansion of the onshore processing subsector.<sup>53</sup> Other challenges include a lack of capacity to meet stringent hygiene conditions required by certain export markets and the lack of a strong Namibian fish brand and specialty marketing skills. These factors make it difficult for the Namibian sector to expand into foreign markets for higher value-added products.<sup>54</sup>

## 4.2. Integrating into regional and global value chains: Opportunities and challenges

The export-orientation of the fisheries sector in Namibia means that the Namibian fisheries value chain is already fairly well integrated into regional and global value chains. The prospects for further expanding the country's export markets, both regionally and internationally, are also considered to be quite good.<sup>55</sup> Internationally, the EU is the major export destination of Namibian fish, accounting for 52% of Namibia's total exports of fresh or frozen fish (see Table 4), including most of the hake and monk caught in Namibian waters (small amounts are also exported to Australia), as well as smaller amounts of tuna. Namibian hake enters the EU through Spain and is marketed under EU brands. It is mostly exported in the form of frozen fillets, but is also exported as whole fish (fresh or frozen) or in other processed forms.<sup>56</sup> Monk is exported whole or processed into skinless and skin-on monk tails. The production and exportation of hake and monk

<sup>48</sup> Russell and Wolf (2012).

<sup>49</sup> Chiripanhura and Teweldemedhin (2016).

<sup>50</sup> Ibid.

<sup>51</sup> Chiripanhura and Teweldemedhin (2016).

<sup>52</sup> Ibid.

<sup>53</sup> Russell and Wolf (2012).

<sup>54</sup> Chiripanhura and Teweldemedhin (2016).

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

involves a number of joint ventures between Namibian and European companies.<sup>57</sup> Namibia also exports much smaller volumes of frozen crab and rock lobster to Japan, prepared crab to South Korea and fish meal to China and Japan.

**Table 4: Namibia's exports of fisheries products (at the HS4 level), average annual exports for 2012-2014 (US\$ '000s)**

Heading	Description	Destination			
		EU	Other SADC EPA States	Rest of World	All
	Fisheries products	359,661	147,535	186,311	693,506
0301	Live fish	0	29	9	38
0302	Fish, fresh or chilled (excluding fish fillets and other fish meat of heading 0304)	21,083	4,752	8,088	33,923
0303	Frozen fish (excluding fish fillets and other fish meat of heading 0304)	172,309	120,942	158,645	451,896
0304	Fish fillets and other fish meat, whether or not minced, fresh, chilled or frozen	152,260	16,657	8,901	177,818
0305	Fish, fit for human consumption, dried, salted or in brine; smoked fish ...	1,347	1,775	1,493	4,615
0306	Crustaceans, whether in shell or not, live, fresh, chilled, frozen, dried ...	2,678	1,653	7,496	11,827
0307	Molluscs, fit for human consumption, even smoked, whether in shell or not ...	9,984	1,728	1,621	13,333
0308	Aquatic invertebrates other than crustaceans and molluscs, live, fresh, chilled, frozen ...	0	0	55	55
1603	Extracts and juices of meat, fish or crustaceans, molluscs and other ...	0	0	2	2
1604	Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs	1	38,882	990	39,873
1605	Crustaceans, molluscs and other aquatic invertebrates, prepared or preserved ...	0	143	1,479	1,621

Source: International Trade Centre (ITC) Trade Map ([www.trademap.org](http://www.trademap.org)) and own calculations.

The regional market is also significant for the Namibian fisheries value chain, with the SADC market (including the SADC EPA States and other SADC members) accounting for about 43% of Namibia's total recorded exports of fresh and frozen fish, and almost all of its exports of canned fish. Namibian mackerel that is not locally consumed is exported to the region in whole and frozen form due to a preference for whole fish among the region's consumers.<sup>58</sup> The Democratic Republic of Congo is the largest market for Namibia's mackerel, followed by Mozambique and Zambia. Almost all of Namibia's canned pilchards are exported to South Africa, where they are marketed to the African continent under South African brands.<sup>59</sup> South Africa also imports a significant quantity of Namibia's hake exports and is the second largest market, after China, for Namibia's fish meal exports.

While there is ready and unmet demand in Namibia's traditional export markets for the fisheries products that the country already exports (e.g. for hake in the EU and for canned pilchards in South Africa), the need to sustainably manage marine resource stocks places limits on potential growth of export volumes. The focus of Namibian fisheries value chain stakeholders is therefore largely on how to add more value domestically, and how to diversify into new markets for niche and higher value-added products. Recent investment in the processing and canning of mackerel is one example of efforts to develop new value added products for export to the region.<sup>60</sup>

<sup>57</sup> Amukwa (2012).

<sup>58</sup> Chiripanura and Teweldemedhin (2016).

<sup>59</sup> Ibid.

<sup>60</sup> Namibia Economist (2014).

Efforts to diversify export markets and increase value-added exports both internationally and regionally face a number of challenges. As noted above, the development of the onshore fish processing sub-sector is hampered by insufficient supply of landed fish, which in turn is partly a result of the lack of local vessels. A lack of cold storage capacity also limits opportunities for supplementing locally-caught fish with imports so as to increase the supply of raw material available to the domestic processing sub-sector (Namibia already imports small quantities of pilchards from Morocco for this purpose).<sup>61</sup> Efforts to increase investment in the local vessel fleet or in onshore cold storage are also hampered by the difficulty that local companies face in accessing financing for such investments. The shortage of local entrepreneurial and technical skills is also a significant bottleneck to the development of the sub-sector.<sup>62</sup>

In addition, Namibian firms find it difficult to individually export and market their fish in the EU. Some smaller firms find it difficult to meet the stringent minimum hygiene and packaging requirements of the EU market. Others have relied on joint ventures with European partners to overcome their own capital shortages, to meet EU RoO for fish caught outside territorial waters and to compensate for their lack of knowledge and experience in marketing exports in the EU and the lack of a recognised Namibian fisheries brand. Local stakeholders in the Namibian fisheries value chain also claim that efforts by Namibian companies to operate more directly in the EU market (e.g. by selling their own branded products) would cause tensions with European joint venture partners.<sup>63</sup>

At the same time, attempts to exploit the fairly open regional market for fisheries exports have not been without challenges. In particular, efforts to market higher value-added Namibian fisheries products in the regional market have been hampered by the fact that, with the possible exception of South Africa, the regional market is highly price sensitive. For example, while Namibian canned mackerel has found a small market in Namibia and in South Africa, it has struggled to gain a foothold in other markets in the region, where consumers prefer to buy cheaper unprocessed fish or lower quality, lower price canned fish imported from Asia.<sup>64</sup>

### 4.3. Potential impacts of the SADC EPA on the fisheries value chain in Namibia

#### Market access

The small size of the Namibian domestic market means that the growth and continued development of the Namibian fisheries value chain depends on Namibia's ability to supply regional and international markets. Indeed, as noted above, the local market accounts for only around 10% of the fish caught in Namibian waters. In this respect, concerns about the impact of the SADC EPA on the value chain relate to how the EPA will impact on the value chain's ability to compete in European and regional markets, and not to the impact the EPA will have on the Namibian market (e.g. through possible increases in imports of fisheries products into Namibia from the EU).

The most obvious direct impact of the SADC EPA on the fisheries value chain in Namibia is that it will preserve the DFQF access to the EU market that Namibian fisheries had previously enjoyed. Prior to the signing of the SADC EPA, there was concern in Namibia that failure to conclude the EPA would mean

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<sup>61</sup> ATLAFCO (2012).

<sup>62</sup> Ibid.

<sup>63</sup> Chiripanhura and Teweldemedhin (2016).

<sup>64</sup> Ibid.

Namibia losing this access, because Namibia, as an upper-middle income country, is not eligible to benefit from preferential access under the EU's GSP scheme.

However, while the signing of the EPA has generated relief among fisheries stakeholders in Namibia, the commercial importance of these preferences is debatable given the relatively low MFN tariffs applied by the EU on imports of the products most relevant to Namibia. For example, Namibia's main fisheries export to the EU is frozen hake fillets, which accounted for almost 60% by value of Namibian fisheries exports to the EU in 2014. The EU applied MFN tariff on frozen hake fillets is only 7.5%. In addition, while exports of frozen hake fillets from South Africa (the second biggest exporter of this product to the EU, after Namibia) have faced applied tariffs of 4%,<sup>65</sup> they will eventually also become eligible for duty-free access to the EU market following the conclusion and implementation of the SADC EPA.<sup>66</sup> Thus, for Namibia's most important fisheries export to the EU, the SADC EPA may actually lead to a small erosion of Namibia's preferential access vis-à-vis its biggest competitor.

It is true, however, that for some other fisheries products that Namibia exports to the EU in significant quantities, e.g. frozen whole hake and monk, the guarantee of continued DFQF access to the EU market may be more commercially important due to the fact that the EU MFN tariffs on these products are higher at 15%. Similarly, although Namibia does not currently take advantage of its preferential market access to export prepared and/or preserved fish products (e.g. canned pilchards or mackerel) to the EU, higher EU MFN tariffs on these products (12.5% and 25% respectively) mean that such access could provide an important competitive advantage in the future. Again, it should be noted that the SADC EPA will eventually extend duty-free market access for all these products to South Africa as well, which might create more competition for Namibia in supplying the EU market.

In terms of the EPA's impact on competition in the regional market, it is unlikely that tariff liberalisation by the SADC EPA states will result in significantly increased imports from the EU into the SADC EPA states of the same fisheries products exported to the region by Namibia. This is because for most of these products (e.g. frozen whole hake and mackerel, canned pilchards), the MFN tariff applied by SACU is already zero. In the case of Mozambique, the only non-SACU member of the SADC EPA States, the reduction of tariffs on fisheries imports from the EU will not negatively affect Namibian exporters, as Mozambique's applied MFN tariff on imports of frozen mackerel, Namibia's most significant fisheries export to Mozambique, is zero. Thus, the EPA, or at least the tariff liberalisation under it, will not have a significant negative impact on Namibia's regional exports. Neither will it have a significant positive impact on the cost of inputs for the fisheries value chain in Namibia, as imports of goods inputs such as fishing vessels and machinery already enter Namibia duty-free, while services inputs are not covered by the agreement.

### Rules of origin

The rules of origin (RoO) of the SADC EPA are very relevant for the Namibian fisheries value chain. The RoO for fish and fisheries products under the EU's pre-EPA, preferential trade arrangements for ACP countries included "onerous conditions relating to vessel, crew, and the location of the fishing activity".<sup>67</sup> ACP countries that did not have a sizeable locally-owned fishing fleet were forced to engage in joint-ventures with EU operators in order to meet these conditions and thereby qualify for preferential access to

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<sup>65</sup> According to the EU's TARIC database.

<sup>66</sup> The Trade and Development Cooperation Agreement between South Africa and the EU explicitly excluded liberalisation of EU tariffs on fisheries exports from South Africa until such time as the two parties concluded a fisheries agreement. No such agreement has been signed. Nevertheless, there is no evidence that this 4% tariff has had any chilling effect on exports of frozen hake fillets from South Africa to the EU.

<sup>67</sup> Naumann (2010).

the EU market. This explains why Namibian-European joint ventures are so common in Namibia's fisheries value chain.

Under the SADC EPA, these conditions are relaxed slightly. For fish caught outside the territorial waters of a SADC EPA state to be considered 'wholly obtained' in that state, it is no longer required that the fish be caught by a vessel on which at least 50% of the crew is made up by nationals from the SADC EPA state or from EU member states. Instead, it is enough that the vessel (or the company that owns it) is majority-owned by nationals (or public entities) of a SADC EPA state or EU member state. In addition, the SADC EPA RoO allow for vessels leased by Namibian nationals (or nationals of a SADC EPA state or EU member state) for fishing in Namibia's Exclusive Economic Zone to count as 'their vessels', and, therefore, for the fish caught by such vessels to qualify as 'wholly obtained' in Namibia. While this leasing arrangement is subject to a number of conditions, including requirements relating to notification, reporting, surveillance, monitoring and compliance with EU legislation, it does not require EU member states to be given 'right-of-first-refusal' for supplying the leased fishing vessels, as was previously the case. This is notable as Namibia had lobbied hard for the removal of this 'right-of-first-refusal', claiming that it prevented Namibian companies from accessing cheaper options for leasing vessels.<sup>68</sup>

The SADC EPA RoO also introduces a 15% 'non-originating' tolerance for processed fish products. This means that, for example, a can of pilchards processed in Namibia would still qualify as originating in Namibia even if it contained pilchards or other ingredients/materials sourced from another country, provided that the foreign ingredients do not comprise more than 15% of the final product (by value). This tolerance could assist efforts to promote fish processing in Namibia by giving Namibian processors the flexibility to supplement local ingredients/materials with a small amount of foreign ingredients/materials. More generally, the cumulation provisions in the RoO allow for products containing ingredients/materials sourced from the EU, from fellow SADC EPA states (except for products originating in South Africa which do not themselves qualify for duty-free access to the EU)<sup>69</sup> or from ACP countries benefitting from duty-free access to the EU market to count as originating in Namibia provided they undergo sufficient working or processing in Namibia.<sup>70</sup>

Finally, the SADC EPA provides Namibia with a specific derogation to the RoO for an annual quota of 800 metric tons of prepared or preserved tuna. This means that Namibia can export up to 800 metric tons a year of canned tuna to the EU duty-free under the EPA, even where the tuna itself is not wholly obtained in Namibia. The EPA also provides for the possibility of the EU granting additional temporary (but renewable) derogations from the EPA RoO where "the development of existing industries or the creation of new industries in the SADC EPA States justifies them".

These (slightly) more relaxed RoO may prove important to Namibia insofar as they allow Namibian fishing companies more flexibility in sourcing vessels and crews, and using foreign inputs in their processed fisheries products such as canned fish, without compromising their access to the EU market. This flexibility may also allow for the Namibian value chain to further reduce its reliance on joint ventures with European partners and, given that these European partners have tended to take responsibility for marketing in the EU market, to explore new possibilities for marketing Namibian fisheries products internationally. In addition,

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<sup>68</sup> CTA Agritrade (2013).

<sup>69</sup> Given that most South African fisheries exports will eventually qualify for DFQF access to the EU under the EPA, this exception is not likely to be particularly relevant for the Namibian fisheries value chain.

<sup>70</sup> This cumulation provision does not apply to materials of Harmonized System Headings 1604 (prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs) and 1605 (prepared or preserved crustaceans, mollusks and other aquatic invertebrates) originating in the EPA Pacific States.

this flexibility could also prompt Namibian value chain actors to explore ways to create new linkages with fisheries value chain actors in other SADC EPA states and to deepen existing linkages with South African value chain actors.

### **Indirect impacts**

The SADC EPA may also indirectly impact on the Namibian fisheries value chain through promoting increased investment in the value chain, and through facilitating increased development cooperation support in areas relevant to the development of the value chain. On investment, it is difficult to determine how much impact the EPA is likely to have, given the number of relevant factors and given that the market expansion opportunities for the Namibian fisheries value chain presented by the EPA are not that obvious. On development cooperation support, the SADC EPA does not commit the parties to providing any specific level of financial support under the EPA. It does, however, highlight the importance of such support for the realisation of the objectives of the EPA, and confirm that development finance cooperation for regional economic cooperation and integration shall be carried out to support and promote efforts of SADC EPA states to maximise the expected benefits of the EPA. In addition, the EPA commits the EU to supporting SADC EPA state efforts to establish an EPA fund for facilitating development finance and implementing EPA accompanying measures, and commits the parties to cooperate to enable the SADC EPA States to access other financial instruments.

There are also two specific areas of cooperation and support provided for under the EPA that are particularly relevant to the fisheries value chain in Namibia and to its efforts to develop and expand into regional and international markets. The first is cooperation on supply-side competitiveness. This includes addressing constraints at company level, cooperation in production, technology development and innovation, marketing, financing, distribution, transport, diversification of economic base and private sector development, as well as improving the business environment and supporting small and medium enterprises. The fisheries sector is explicitly highlighted in relation to such cooperation. The second is cooperation on SPS issues, especially in the form of capacity building. Areas of sector-specific support that could be facilitated through these provisions include initiatives to help local fishing companies access finance and invest in enhanced capacity (either in terms of vessels or factories for on-shore processing and value addition), to market their products more effectively in regional and EU markets and to comply with stringent sanitary standards required for export.

While the inclusion in the SADC EPA of provisions on development cooperation support in general and on specific areas of support relevant to the fisheries value chain in Namibia does not mean that such support will automatically be forthcoming following the conclusion of the EPA. It does, however, make a stronger case for justifying such support and hence could indeed lead to increased support focused on issues of importance to the Namibian fisheries sector. The onus will be on relevant stakeholders to ensure that the process of EPA implementation is used as an opportunity to facilitate such support.

### **Conclusion**

Taken together, the tariff liberalisation schedule and RoO contained in the SADC EPA could have positive direct impacts on the fisheries value chain in Namibia by guaranteeing continued duty-free access to the EU market while allowing for more flexibility in sourcing inputs and developing linkages with value chain actors in other SADC EPA states. At the same time, by increasing market access for South Africa, the EPA might also result in Namibia's fisheries exports facing more competition in the EU market (although there is no convincing evidence that this effect would be significant). Provisions in the EPA on promoting supply side competitiveness and cooperation on SPS issues could have a beneficial indirect impact on the

Namibian fisheries value chain by facilitating increased development cooperation support for the value chain, especially in terms of building the capacity of Namibian value chain actors in the areas of innovation (e.g. to promote product diversification and value addition), marketing (e.g. to develop a Namibian fisheries brand) and SPS compliance.

## 5. The horticulture value chain in Namibia and the SADC EPA

### 5.1. The horticulture value chain in Namibia

Namibia's potential for agriculture is severely constrained by climatic and soil factors, and the agricultural sector's contribution to GDP (around 4%) is relatively small by sub-Saharan African standards. Nevertheless, the agricultural sector employs around 30% of Namibia's labour force.<sup>71</sup> The sector is characterised by two distinct sub-sectors: a capital intensive, export-oriented commercial subsector, and a largely subsistence-based, labour intensive communal sub-sector. Livestock (especially beef) is the single biggest contributor to agricultural GDP in Namibia and beef exports are a significant foreign exchange earner for the country. Traditional crops such as millet, sorghum and maize are largely produced for the domestic market, including as an input into beer production. Among horticultural crops,<sup>72</sup> there is significant production of table grapes, largely for export to the EU. Other horticultural crops produced in Namibia include potatoes, onions, tomatoes, carrots, cabbages, lettuce, cucumbers, watermelons, peppers and sweet potatoes.

The Namibian government supports horticulture in Namibia through import substitution policies. In 2002, the government adopted a National Horticulture Development Initiative to support increased domestic production of fruit and vegetables and reduce Namibia's dependence on imported horticultural produce. The aim of the initiative is to substitute these imports with locally cultivated produce that is suited to the Namibian climate. The initiative is implemented through the Market Share Promotion (MSP) scheme, which requires all importers of horticultural produce to buy a certain minimum percentage (currently 41.5%) of Namibian-cultivated produce in order to obtain import permits. This focus on import-substitution derives from the fact that demand for horticultural produce in Namibia far exceeds supply. In recent times, the majority of horticultural products consumed in Namibia have been imported from South Africa, which supplies significant volumes of fruit (apples, bananas, citrus, dried fruit, grapes), vegetables (potatoes, onions, tomatoes, carrots, cabbage, lettuce) and processed food products (frozen and processed vegetables, fruit juices, preserved fruits, jams) to the Namibian market. Namibia's top horticultural imports are listed in Table 5 below.

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<sup>71</sup> WTO (2015).

<sup>72</sup> While the term 'horticulture' applies to all plants, the focus here is on plants grown for human consumption, and particularly fruit and vegetables.



**Table 5: Namibia's imports of fruits, vegetables and preparations of fruits and vegetables (top 25 product lines at the HS4 level), average annual imports for 2012-2014 (US\$ '000s)**

Heading No.	Description	Origin			
		EU	Other SADC EPA States	Rest of World	All
	Fruits and vegetables and preparations of fruits and vegetables	579	120,151	2,325	123,055
2009	Fruit juices	53	35,407	252	35,712
0701	Potatoes, fresh or chilled	0	12,920	1	12,921
2005	Other vegetables prepared or preserved ...	130	11,996	51	12,177
0808	Apples, pears and quinces, fresh	0	7,770	0	7,771
0710	Frozen vegetables, uncooked or cooked by steaming or boiling	118	6,777	6	6,901
2004	Vegetables prepared or preserved ...	17	4,986	1	5,004
2008	Fruits, nuts and other edible parts of plants, prepared or preserved ...	70	4,088	38	4,196
0803	Bananas, incl. plantains, fresh or dried	0	4,111	12	4,123
2007	Jams, fruit jellies, marmalades ...	65	3,387	10	3,462
0709	Other vegetables, fresh or chilled ...	1	3,363	4	3,368
0805	Citrus fruit, fresh or dried	1	3,316	0	3,317
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables	0	2,605	1	2,606
2002	Tomatoes, prepared or preserved ...	9	466	1,798	2,273
0702	Tomatoes, fresh or chilled	0	2,189	22	2,211
0813	Dried apricots, prunes, apples, peaches, pears, papaws "papayas" ...	0	2,084	1	2,085
0806	Grapes, fresh or dried	0	1,590	5	1,595
0804	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens ...	0	1,541	21	1,563
0706	Carrots, turnips, salad beetroot, salsify, celeriac, radishes ...	5	1,462	0	1,467
0809	Apricots, cherries, peaches incl. nectarines, plums and sloes, fresh	3	1,033	0	1,036
0705	Lettuce "Lactuca sativa" and chicory "Cichorium spp.", fresh or chilled	0	904	9	913
0704	Cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas ...	3	897	7	907
0810	Fresh strawberries, raspberries, blackberries, back, white or red currants ...	0	901	-1	901
0711	Vegetables provisionally preserved ...	6	814	1	822
0713	Dried leguminous vegetables, shelled, whether or not skinned or split	10	738	8	756
0708	Leguminous vegetables, shelled or unshelled, fresh or chilled	1	670	2	673

Source: International Trade Centre (ITC) Trade Map ([www.trademap.org](http://www.trademap.org)) and own calculations

Support to horticulture in Namibia is focused on increasing local producers' ability to supply the domestic market, and thereby reduce reliance on imports of horticultural products (especially from South Africa). The horticulture value chain in Namibia is constrained by weak capacity for processing, marketing and applying quality/sanitary standards for horticultural products. Namibia does export some horticultural products though. In 2014, for instance, the country exported over US\$11 million worth of vegetables, with most of this comprised of onion and potato exports to neighbouring Angola and South Africa. Given that Namibia consumes far more onions and potatoes than it produces and that onions and potatoes were also two of the biggest vegetable imports in 2014, these exports were almost certainly a result of seasonal oversupply in some parts of the country. Among fruits, table grapes dominate Namibian horticultural exports. In 2014, Namibia exported US\$35 million worth of fruit, including US\$32.7 million worth of fresh grapes. US\$28 million of these fresh grape exports went to the EU (other markets include South Africa and the United Arab Emirates). Namibia also exported just under US\$1 million worth of dates in 2014, with these exports



shared more or less evenly between the EU, South Africa and the United Arab Emirates. Namibia's top horticultural exports are listed in Table 6 below.

**Table 6: Namibia's exports of fruits, vegetables and preparations of fruits and vegetables (top 15 product lines at the HS4 level), average annual imports for 2012-2014 (US\$ '000s)**

Heading No.	Description	Destination			
		EU	Other SADC EPA States	Rest of World	All
	Fruit and Veg and Preparations	32,125	4,619	12,132	48,876
0806	Grapes, fresh or dried	29,240	723	4,150	34,113
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables ...	3	929	3,793	4,725
0712	Dried vegetables, whole, cut, sliced, broken or in powder	2,537	0	3	2,540
0701	Potatoes, fresh or chilled	2	34	1,660	1,696
0807	Melons, incl. watermelons, and papaws (papayas), fresh	1	1,035	4	1,040
0804	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens ...	306	350	211	866
2009	Fruit juices	4	22	737	764
0702	Tomatoes, fresh or chilled	3	723	8	734
0709	Other vegetables, fresh or chilled ...	10	668	21	700
0808	Apples, pears and quinces, fresh	2	2	365	369
0805	Citrus fruit, fresh or dried	1	1	262	264
2004	Vegetables prepared or preserved ...	0	1	233	234
0710	Vegetables, uncooked or cooked by steaming or boiling in water, frozen	1	6	192	199
2005	Other vegetables prepared or preserved ...	1	12	113	126
0708	Leguminous vegetables, shelled or unshelled, fresh or chilled	0	52	50	103

Source: International Trade Centre (ITC) Trade Map ([www.trademap.org](http://www.trademap.org)) and own calculations

## 5.2. Integrating into regional and global value chains: Opportunities and challenges

Namibia's largely unsuitable climate limits the country's potential as a producer and exporter of horticultural products and therefore its potential for integrating into regional and global horticulture value chains. In the case of table grapes and other niche products such as dates, where domestic producers are already integrated into global value chains, the country may be able to continue expanding production and exports, and may seek to diversify its markets, both globally (e.g. to markets in the Middle East and North America) and regionally. Other opportunities to market niche products, such as indigenous fruits (marula fruit, prickly pears, etc.), have been explored in recent years, but there is little evidence of any significant export promotion efforts in this regard. For the majority of horticultural products, Namibia appears likely to continue focusing on increasing its capacity to supply the domestic market, and on promoting value addition where possible. While Namibia may also continue to export some horticultural products to neighbouring markets when faced with seasonal oversupply in the domestic market, it is not obvious that such ad-hoc exports provide a solid basis for developing regional value chains.

### 5.3. Potential impacts of the SADC EPA on the horticulture value chain in Namibia

#### Market access

The SADC EPA does not significantly alter pre-existing market access conditions on trade in horticultural products between Namibia and the EU or between Namibia and the other SADC EPA States. Namibian horticultural exports already benefitted from DFQF access to the EU market, and EU horticultural exports were already able to enter the Namibian market duty-free because Namibia's fellow Southern African Customs Union (SACU) member, South Africa, entered into an FTA, the Trade, Development and Cooperation Agreement (TDCA), with the EU in 1999. South Africa's tariff serves as the *de facto* SACU common external tariff, and Namibia has therefore effectively been party to the TDCA as well, at least in terms of imports from the EU.<sup>73</sup> Trade between SADC EPA States is also already liberalised through SACU and through the SADC Trade Protocol.

The fact that, aside from exports of Namibian table grapes, there is insignificant trade in horticultural products between the EU and Namibia (see Tables 5 and 6) despite the lack of tariffs applied to this trade, suggests that the SADC EPA is unlikely to have a significant direct impact on Namibia's trade in horticultural products with the EU. Furthermore, given the inherent agronomic limitations of horticulture production in Namibia, the country's horticultural production is largely oriented towards the domestic market and not to the regional or global markets. This means that even if the SADC EPA led to increased exports of EU horticultural products to the other SADC EPA States, these increased exports would not represent competition for Namibian producers of horticultural products. Similarly, the SADC EPA is unlikely to lead to cheaper imported inputs for the Namibian horticulture sector, as imports of products such as farm machinery into Namibia are generally not subject to high MFN duties.

The only obvious direct relevance of the SADC EPA to the horticulture value chain in Namibia is in preserving DFQF access for Namibian table grapes to the EU market. As an upper middle-income developing country, Namibia would have lost this access to the EU had it not signed the EPA. Unlike in the case of the fisheries value chain discussed above, the SADC EPA is unlikely to create increased competition for Namibian table grape exporters in the EU market, because South African table grape exports to the EU already benefitted from duty-free access to the EU market under the TDCA.

#### Indirect impacts

Indirect impacts of the SADC EPA on the horticulture value chain in Namibia are most likely to come from initiatives undertaken through the EPA to support the Namibian horticulture sector's ability to address its capacity challenges relating to production, processing and marketing. These challenges impede the development of the horticulture value chain within Namibia and inhibit Namibian horticulture producers and processors from upgrading to higher-value adding activities and exporting beyond the domestic market. The SADC EPA contains a few articles broadly relevant in this regard, and which could serve to facilitate support to horticulture producers or processors in Namibia. For example, Article 12 stresses the continued importance of development finance cooperation for the SADC EPA States, Article 13 provides for cooperation in the priority areas of trade in goods, supply side competitiveness and business enhancing infrastructure and Article 68 underlines the importance of the agricultural sector to the SADC EPA States and provides for the establishment of an agricultural partnership between the EU and SADC EPA States.

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<sup>73</sup> The fact that goods are meant to flow freely between SACU members means that EU horticulture (and other) products imported into South Africa could then be re-exported to Namibia without attracting duties.

The SADC EPA also provides for support and cooperation in the area of SPS issues, which is potentially of more specific relevance for horticulture production. Article 15 recognises that development cooperation can involve capacity building and support on SPS issues, while Article 67 provides for cooperation, capacity building and technical assistance in the area of SPS measures, including cooperation on capacity building in the SADC EPA States. These provisions could facilitate support that improves the ability of Namibia's horticulture producers and processing firms to meet EU (and other) food safety and SPS regulations and other quality and labelling standards, thereby potentially putting these producers and processors in a better position to enter export markets and integrate into regional and global value chains. However, given the many other constraints to horticulture production in Namibia (e.g. agronomic and climatic factors, lack of sufficient scale in production of horticulture crops, the scattered nature of producers), simply enhancing the capacity of Namibian producers and processors to meet SPS and other standards required for exporting is unlikely to lead to significant increases in exports of horticulture products from Namibia.

## Conclusion

Given the limitations inherent in the production of fresh produce in Namibia, the consequent focus on producing for the domestic market and the fact that the SADC EPA does not actually change much in terms of market access between the EU, Namibia and the other SADC EPA States, the SADC EPA is unlikely to have significant impacts on the horticulture value chain in Namibia or on the integration of Namibian firms into regional and global horticulture value chains. Apart from preserving market access for Namibian table grapes, the SADC EPA might promote increased support to efforts to increase the capacity of the value chain to produce, process and market its output. However, given the focus in Namibia on promoting horticulture production (and value addition) for the domestic market, this is unlikely to lead to significantly increased participation by Namibian actors in regional and global horticulture value chains.

## 6. Conclusion and recommendations for action

The analysis presented in this paper shows that the *direct impacts* of the EAC and SADC EPAs on agricultural value chains in Eastern and Southern Africa are unlikely to be significant. In the case of the Kenyan dairy value chain and the Namibian horticulture value chain, the paper shows that the direct impacts of the EAC and SADC EPAs (i.e. the impacts of tariff liberalisation and RoO on trade in inputs and final products) are unlikely to be significant, due to the domestic/regional orientation of these value chains. In the case of the Namibian fisheries value chain, the *direct impacts* of the SADC EPA are shown to be potentially ambiguous (securing market access and more flexibility in terms of sourcing inputs, but also possibly creating more competition for Namibian producers in the EU market). This suggests that while the EPAs may be important for certain export-oriented value chains in terms of maintaining access to European markets, they are less directly relevant to the development prospects of the many African value chains producing products for domestic and regional markets. This is especially true where EPAs do not alter market access conditions between African EPA states (e.g. where there is already a deeper level of integration, such as in the EAC and SACU). Across African value chains as a whole, the direct impacts of the EPAs – both positive and negative – are likely to be minimal.

The analysis also suggests that where the EPAs may be of wider relevance to the development of domestic value chains in Africa, and the integration of these value chains into regional and global value chains, is through their *indirect impacts* on these value chains (i.e. through facilitating investment in these value chains and development cooperation support for capacity building, value chain development and improved regulatory environments at the national and regional level). As illustrated by the analysis of the EAC and SADC EPAs, various provisions in these EPAs could promote increased cooperation and support

for the development of African value chains and for increased integration of African producers and services providers into regional and global value chains. The indirect impacts of the EPAs are hard to assess ex-ante, however, due to the sheer number of factors relevant to determining whether and how development cooperation support provisions contained in the EPAs lead to actual support and cooperation and whether or not such support and cooperation leads to beneficial outcomes for African value chain actors. The extent and effectiveness of any support provided in line with these provisions will depend on the will and capacity of development partners and other actors wishing to support value chain development as well as on the capacity and readiness of value chain stakeholders to capitalise on such support.

The EPAs are meant to support development in Africa, including the development of African value chains, but, as noted in this paper, the conclusion of EPAs will not automatically generate positive impacts for value chain development in Africa. While the EPAs provide for support and cooperation in some areas that are particularly relevant to the growth prospects of African value chains (boosting supply side competitiveness, enhancing capacity to meet SPS and other standards), it will be up to the parties to the agreement and other relevant actors to decide whether or not to follow through with financial and other support for such cooperation. This analysis suggests a number of 'recommendations for action' for those, such as the governments of African EPA states, European (and other) development partners, and other relevant private sector and civil society actors in both Africa and Europe, who have a stake in the development of African value chains.

First, **stakeholders should refrain from overstating the likely impacts of the EPAs on African value chains.** The direct impacts, both positive and negative, of EPAs on many African value chains are likely to be limited, and EPAs should therefore not be uncritically championed as providing greatly improved market access opportunities for African value chain actors or vilified as facilitating the destruction of African value chains through the opening of African economies to increased competition from the EU. Instead, such rhetoric should be discarded in favour of honest and open dialogue between relevant stakeholders (including African private sector actors) about how the EPAs can be used to generate support and opportunities for addressing barriers to production and trade in the African EPA states.

Second, if the EPAs are to facilitate support for value chain development in Africa, they will need to be implemented properly (including through the introduction of necessary domestic reforms) and complemented with national and regional policies that improve the capacity of African businesses to capitalise on EPA-related opportunities and that mitigate any negative consequences of EPA implementation. Proper implementation of the EPAs and EPA-related reforms, and of accompanying policy measures, will require a fairly high degree of capacity within African EPA state governments and relevant national and regional public institutions. Given the variance in existing levels of capacity across such institutions in Africa, **there is a need for European (and other) development partners to provide support for efforts to build the capacity of relevant public institutions in African EPA states (and at the regional level), so as to ensure that the EPAs are implemented in such a way as to maximise the benefits (and minimise the harm) to African private sector actors.**

Third, while the EPAs contain a number of safeguards and exceptions that allow for the continued protection of particular industries in African signatory states, there is still a possibility that a particular EPA could have a negative impact on a particular African value chain or group of value chain actors. Given that the EPAs should serve to promote development rather than impede it, there is an onus on the parties to ensure such negative impacts are minimised. The first step towards this would be to **establish appropriate mechanisms for monitoring the impacts of the EPAs, including their impacts on specific value chains or particularly vulnerable categories of actors in specific value chains (e.g.**

**smallholder dairy farmers, SMEs in the fisheries industry in Namibia, etc.).** Options should also be explored for finding effective ways to involve private sector actors and representatives in such monitoring mechanisms and to link the results of monitoring exercises to public-private dialogues around industrialisation and trade in African EPA regions (both at the national and regional level).

Fourth, although the direct impacts of the EPAs (e.g. in terms of market access opportunities) are likely to be limited for many African value chains, there are a number of provisions in the EPAs that could facilitate increased support for initiatives that address issues relevant to value chain development in Africa, such as the relative lack of competitiveness of African private sector actors. For those wishing to promote value chain development in Africa, including, for example, European development partners, **simply supporting the implementation of the EPAs will not be enough.** Instead these actors should **use the focus and 'rationale' provided by relevant EPA provisions to increase their own support for efforts to facilitate the development of value chains in African EPA states and the integration of African producers and services providers into regional and global value chains.** Such support could include assistance to European lead firms seeking to integrate African suppliers into their supply chains, initiatives to build the productive and marketing capacity of private sector actors in African EPA states and efforts to promote more conducive regulatory environments, both at national level within African EPA states, and at the regional level encompassing African EPA regional blocs. EPA implementation should also be used to improve the coordination of support to value chain development provided by different actors.

Finally, if development partners want to ensure that market access opportunities provided for under the EPAs actually support the development of African value chains, then they should also **provide support to African EPA states for raising awareness among relevant stakeholders about EPA-related market access opportunities, and for capacity building to ensure that relevant African value chain actors are able to take advantage of these opportunities.** In particular, such capacity building could be beneficial in assisting African producers and services providers to meet required standards for entering EU (and other) markets and in improving their ability to market their products in EU (and other export) markets.

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