

Analysis of the Economic and Social Effects of Namibia's Potential Loss of Current Preference to the European Union



May 2007

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List of Abbreviations

ACP	African, Caribbean, Pacific
AoA	Agreement on Agriculture
ATF	Agricultural Trade Forum
BLNS	Botswana, Lesotho, Namibia, Swaziland
BNS	Botswana, Namibia, Swaziland
BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy (of the EU)
GDP	Gross Domestic Product
EC	European Commission
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
ESA	Eastern and Southern Africa
FAN	Farm Assured Namibian
FMD	Food-and-Mouth Disease
FTA	Free Trade Agreement
GSP	General System of Preferences
LDC	Least Developed Country
MDG	Millennium Development Goals
MFN	Most Favoured Nation
NCA	Northern Communal Area
SACU	Southern African Customs Union
SADC	Southern African Development Community
TDCA	Trade, Development and Co-operation Agreement
ToR	Terms of Reference
VCF	Veterinary Cordon Fence
WTO	World Trade Organization

Executive Summary

Main conclusions

This report provides a technical analysis of the costs that would be incurred by Namibia if its exports to the EU were subject to the tariffs applicable under the Generalised System of Preferences (GSP) and the Most Favoured Nation (MFN) tariff rather than those that apply at the present time. The report does not imply that this will happen, that it should happen, or that the GSP/MFN are alternatives to the *status quo* for those countries that do not join Economic Partnership Agreements (EPAs).

However, since the European Commission (EC) announced that GSP is the only alternative to EPAs there is the need to analyse what are the economic and social implications of GSP compared to Cotonou.

The report concludes that application of the Standard GSP regime (and MFN for meat exports) does not fulfil the commitment made by the EU in Article 37.6 of the Cotonou Agreement. It would result in the EU taxing Namibian exports, generating revenue that compares unfavourably with aspects of Union-level aid, and is likely to result in the complete cessation of Namibia's meat exports to the EU with significant adverse economic and social effects.

Another conclusion is that application of the Standard GSP (and MFN for meat) would not put Namibia on a level playing field with other suppliers to the EU. In many cases competitors receive more favourable access than would Namibia. This is not only the case for those countries that entered into a free trade agreement (FTA) with the EU but also for those that receive non-reciprocal preferences under the GSP+ and in case of meat even for countries that benefit from EU tariff quotas under the WTO Agreement on Agriculture (AoA). Namibia's agricultural exports would therefore not only be disadvantaged compared to some other developing countries, but, in case of meat, also compared to some industrialised countries (such as Australia and New Zealand).

The inclusion of Namibia into the GSP+ would guarantee equivalent market access for fish exports and even improve current market access for grape exporters. However, GSP+ does not apply for meat exports which would face the MFN tariff if losing their current preference level.

Namibia is as part of the SADC EPA not only fully committed to finalise negotiations in time but has de facto already a reciprocal trade agreement with the EC. As a member of SACU, Namibia is locked into the EU-South Africa FTA since 2000.

If the EC continues to threaten imposing GSP/MFN duties on Namibian imports from January 2008 on, Namibia should, together with Botswana and Swaziland, think about threatening the EC. Together with EU importers of BNS agricultural products a campaign could be launched announcing to challenge the European Commission (eventually in the European Court of Justice) for illegal taxation if it imposes import duties from 01 January 2008 - violating its own provisions. EU importers have on several occasions challenged the legality of Commission trade actions with successful results.

Scope of the report

The justification for the subject is that SADC EPA negotiations might not be finalised by the end of this year so that Namibia's current access to its major export market is in danger. Indeed, there are growing concerns among private sector stakeholders in Namibia to lose existing preference to the EU market. The European Commission (EC) does nothing to destroy these concerns – on the contrary, it emphasises that EPA negotiations have to be finalised before the end of this year. Otherwise, the General System of Preferences (GSP) would automatically be applied.

The report aims to quantify and qualify the loss of current EU preferences for Namibia by addressing the following research questions. They are:

1. What would be **the immediate costs** (in terms of higher import duties) if Namibia exported its major agricultural products to the EU on GSP terms; and in case of meat in MFN terms (since no GSP exists)?
2. What is the current **competition situation** for Namibia's agricultural exports in the EU market and how will it look when Namibia's access to the EU market is downgraded?
3. Will the **GSP+**, which the EU claims to be WTO compatible and from which currently 15 Latin American states benefit, be an alternative for Namibia's agricultural exports to the EU?

These questions are answered in section 2 of this report by analysing the Eurostat COMEXT database that reports imports from Namibia at a detailed commodity level (CN8) and the Taric Consultation website that gives information on UK Tariffs 2007.

4. How do current EU preferences contribute to domestic value added and **economic diversification**?
5. What will be the immediate monetary gains and the long-term economic effects of receiving **duty and quota free market access** to the EU and how would it influence Namibia's competitive situation in the EU market for fish, meat and grapes?
6. What are the **social implications** of the current loss of preferences for meat and grapes?

Questions 4-6, which are dealt with in Sections 3 and 4, are more speculative and can only be answered definitively through specific studies of product markets (questions 4 and 5) and ex post, after the preferences have been taken away (question 6). However, for the research questions 4 and 5 the report is able to provide a broad indication based upon the scale of the increased import tax that would be applicable if the GSP/MFN were applied and known information on the state of the export industries concerned. Research question 6 is addressed by showing the socio-economic importance of the meat and grape industry for Namibia and to what extent industries' costs and investments are directly linked to the EU market and benefits from current preferences.

The economic costs of the loss of preference

Three products, fish, meat and grapes, account for 100 percent for Namibia's agricultural exports to the EU. All products depend on the EU as the major export market and benefit from Cotonou preference. Losing the current level of preferences by the end of this year would cost Namibia immediately € 45.15 million p.a., which is more than four times what Namibia receives annually under the 9th EDF.

Most of this amount would have to be borne by meat exporters, which would face tariff increases of 63 to 132 percent and would have to pay additional duties of € 30.76 million p.a. This amount is equivalent to 65 percent of the 2005 revenue obtained in the EU market.

The amount of € 45.15 million p.a. will be the minimum cost of losing current preferences, assuming stable export quantities. In the case of meat, however, the high tariff increases are most likely to result in the immediate cessation of all exports to the EU. For fish, where the downgrading to GSP would equal 6.4% of total EU export revenue the increased tariff might be partly passed on to EU importers. For grapes, the tariff increase would only equal 0.55% of total EU export revenue and would not immediately affect the business.

The downgrading from Cotonou preferences to GSP/MFN would put Namibia in a less favourable position than its major competitors. For more than 90 percent of its grape exports to the EU, Namibia faces already today less favourable market access than South Africa or Chile. If downgraded to GSP, Namibian fish exports would face inferior market access than its competitors from Latin America – of which some do not have an FTA with the EU but benefit from unilateral preferences under the GSP+. In the case of Namibian meat exports, even industrialised countries, benefiting from a global quota tariff quota under the WTO Agreement of Agriculture, would have better access to the EU market than Namibia under the MFN.

The medium- to long-term economic costs of losing the current preference level are therefore much higher than indicated by the immediate monetary costs.

The social costs of the loss of preferences

The EU is the major market for Namibian fish, meat and grapes receiving 40 to 70 percent of Namibia's agricultural exports.

The preferential access to the EU market for premium cuts has enabled the Namibian meat industry to upgrade production facilities and to meet international standards. In this way, the quota given under the Beef and Veal Protocol has contributed significantly to the marketability of Namibian meat products, not only in the EU but also in other markets. Compliance with EU standards gives Namibia a competitive advantage confirming the lowest BSE risk and a food-and-mouth disease (FMD) free status. This has enabled the industry to gain a competitive advantage over South African producers and to supply South African retail chains and restaurants.

Secured access to the EU premium price market enabled the industry to pay premium prices to farmers and to invest heavily into the development of the northern communal areas (NCA) abattoirs with the final objective of including communal farmers into commercial farming activities. The EU price has been the reference price on which the domestic price structure orientates. Taking into account that the formal market sets the price and the incentive for farmers to market their cattle, the prices Meatco is able to offer contributes significantly to the marketability of meat. If the formal price drops as a result of the loss of EU preferences, this will have negative implications for the whole Namibian livestock sector.

The loss of the EU market is also likely to influence the FMD status of the country negatively, which in turn endangers the export ability of the industry. To date, the sole exporter to the EU market, Meatco, manages the northern communal areas (NCA) abattoirs and has a keen interest to improve the cattle status north of the veterinary cordon fence (VCF). The lucrative EU market is Meatco's main motivation to fully cover NCA abattoirs' losses of N\$ 10 million p.a. and to invest heavily into the training of farmers and the

upgrading of production. Today, around 3,000 farmers market 7-8 cattle p.a. to Meatco, benefiting from a stable price that is the same as south of the VCF. If however the profitable EU market is lost, the private sector would hardly be willing to fully finance the NCA abattoirs. This again, bears the risk that the VCF fence moves southwards further limiting the number of marketable cattle, not only to the EU but also to the South African market where Namibia would lose its competitive advantage of fulfilling international health and veterinary standards. In this way the whole industry depends on the EU market enabling it to export.

The positive contribution of exporting to the EU for the economic and social development of Namibia cannot be overemphasised. This is not only the case for the Namibian meat industry but also for grapes. The successful exploitation of a niche market – the supply of high-quality grapes during European winter time – has provided an income for around 16,000 people.

Moreover, both industries have provided infrastructure to rural areas, from access to water for households and cattle to roads and electricity. This private investment and the creation of jobs have been complemented by public investments and have had the effect of accelerating growth. Increased income has attracted investments from retail shops, warehouses and other services. Informal settlements develop into towns which brings benefits to whole communities. In this way Meatco's investments in the NCA and the creation of the grape industry in the Karas region have brought structural change to remote rural areas.

1 Introduction

1.1 Background and scope of the report

This study responds to the Terms of Reference prepared by the ATF in February 2007 (see Annex 3).¹ Its aim is to inform decision makers at a critical period in the negotiation of new trade arrangements between the EU and the ACP. This is the final year before the deadline established in the Cotonou Agreement for the creation of this new regime.

Namibia is classified as a developing country within the African, Caribbean and Pacific (ACP) group enjoying preferential market access to the European Union (EU) under the Cotonou Agreement. However, by offering preferences to a selected group of developing countries (ACP) the EU is discriminating against other developing countries (non-ACP) which infringes with basic WTO provisions. The WTO waiver that legalises this practise expires by the end of this year so the trade component of the Cotonou Agreement needs to be replaced. EU and ACP agreed to negotiate Economic Partnership Agreements which foresee that regional blocks of ACP countries enter into asymmetrical free trade agreements (FTAs) with the EU from 2008 onwards.

Namibia negotiates in the SADC EPA configuration comprising its Southern African Customs Union (SACU) members Botswana, Lesotho and Swaziland and the SADC members Angola, Mozambique and Tanzania.² South Africa, which already has an FTA with the EU since 2000,³ was originally supposed to act as observer in EPA negotiations. However, since the SADC EPA configuration infringes with the provisions of Art. 31 of the SACU Agreement, according to which customs union members have to enter jointly into external trade relations, South Africa has become part of the SADC EPA on 12 February 2007.

As a result of the uncertainty of South Africa's inclusion into the SADC EPA for almost one year, negotiations are significantly delayed. Though the meeting between the SADC EPA group and the European Commission in March has given new impetus into negotiations and both sides emphasises their willingness to present a draft agreement in September, there is the risk that SADC EPA negotiations will not be finalised by the end of this year. The South African Deputy Minister of Trade and Industry, Rob Davies, said in a meeting at the UK Houses of Parliament on 18 April that, on the precedent of the TDCA timetable, it would take another three years of negotiation to agree all the EPA details.

¹ The report has been prepared by a team led by Dr Christopher Stevens and including Dr Mareike Meyn and Jane Kennan. Comments and questions should be directed to Dr Meyn at m.meyn@odi.org.uk.

² The SADC EPA configuration is not consistent with the Southern African Development Community (SADC) but excludes the SADC members Madagascar, Malawi, Mauritius, Zambia and Zimbabwe who negotiate in the Eastern Southern Africa (ESA) configuration. DR Congo joined the Central African EPA. There are signs that Tanzania will leave the SADC EPA configuration and negotiates together with its customs union partners Kenya and Uganda. However, this has not been yet officially confirmed.

³ The Trade, Development and Co-operation Agreement (TDCA).

1.1.1 Namibia's dilemma

Namibia, together with its customs union members Botswana, Lesotho and Swaziland, is in a unique situation: The countries receive Cotonou preferences for their exports but have to apply de facto the TDCA for their imports.⁴

As members of SACU, Botswana, Lesotho, Namibia and Swaziland (BLNS) receive the vast majority of their imports from South Africa. South Africa manages the SACU common revenue pool (CRP) and collects and distributes customs and excise duties. All BLNS imports coming from South Africa are therefore treated as if they were South African goods. Though they might have different priorities for the sectors they wish to protect, they have not had the chance yet to accommodate their needs but will open their market for 86 percent of South Africa's imports from the EU by 2012.

To accommodate Namibia's interests in the trade relations with the EU has been the country's major objective in the ongoing EPA negotiations. However, less than eight months before the formal EPA deadline expires, central questions on the future arrangements have not been clarified:

- a. What will future market access for the members of the SADC EPA look like?
- b. Will the TDCA liberalisation schedule apply to all SADC EPA members or will the lesser developed SADC EPA members have options to protect their specific interests?
- c. Who will finally join the SADC EPA?
- d. To what extent will trade-related issues be covered in the SADC EPA?

Nothing in this report should be taken to imply that Namibia is not fully committed to finalise the SADC EPA by the end of December. However, due to the time constraints there is an anticipated risk that the EPA will not be concluded in good time and that Namibia's agricultural exports will be disrupted as a result of preference loss.

1.1.2 What are the alternatives?

As stipulated in Art. 37.6 of the Cotonou Agreement, the European Commission (EC) committed itself to "*...assess the situation of the non-LDC which ... are not in a position to enter into economic partnership agreements and will examine all alternative possibilities, in order to provide these countries with a new framework for trade which is equivalent to their existing situation and in conformity with WTO rules.*"

To date, however, the EC failed to come up with an 'equivalent' alternative to Cotonou.

Indeed, there are growing concerns among private sector stakeholders in Namibia to lose existing preference to the EU market. The European Commission (EC) does nothing to destroy these concerns – on the contrary, it emphasises that EPA

⁴ Botswana applies the TDCA import regime de jure. The SACU member Lesotho is classified as a Least Developed Country and can enjoy duty and quota free market access to the EU under the Everything But Arms (EBA) initiative. Therefore, its free market access to the EU is ensured beyond December 2007. However, it needs to be considered that EBA is a non-contractual agreement that can be withdrawn at any time.

negotiations have to be finalised before the end of this year. Otherwise, the General System of Preferences (GSP) would automatically be applied.

There are three tranches of the GSP:

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

For Namibia, which is classified as lower-income developing country, the GSP or GSP+ would be the alternatives. However, it is far from clear that GSP+ would be available immediately after any cessation of Cotonou treatment. The list of beneficiaries appears to be closed until the new GSP is launched after 2008. Thus, GSP would be the only 'secured alternative' treating Namibia equally to other developing countries like Brazil or India, thus deteriorating existing market access considerably.

This study analyse the financial and socio-economic implications of a possible downgrading from Cotonou to GSP for Namibia's main agricultural exports to the EU.⁵ Fish, meat and grape exports accounted for 100 percent of Namibia's agricultural exports to the EU and made up 30 percent (€ 285.2 million) of total exports to the EU in 2005.⁶ All three products benefit from current preferences under the Cotonou Agreement.

1.2 Research questions

The study aims to bring empirical evidence to the economic and socio-economic relevance of EU preferences for Namibia. As stipulated in the Terms of References (included in Annex 3), the major task of the study is to qualify and quantify the effects of the possible loss of preferential market access to the EU on the economic and social developments of the rural sector of Namibia and the eventual loss of income and revenue to the Government.

More specifically, the research questions focus on:

⁵ An analysis of the implications of the loss of preferences for the Namibian fishing industry will be limited to a quantification of monetary losses. Since the policy instruments in the Namibian fishing industry (including socio-economic regulation policies) are very complex, an extensive analysis would go beyond the scope of the study.

⁶ EC DG Trade, 2006

- Monetary loss of Cotonou preferences for Namibia's fish, meat and grape exports;
- Economic implications of preference loss;
- Options to shift exports to existing alternative markets;
- Outline of the relevance of existing EU preferences for;
 - Production capacities and export performance;
 - Agro-based value-adding initiatives;
 - Direct and indirect employment;
 - Investment and diversification attempts;
 - Subsistence farming, development activities in rural areas including resettlement policy and poverty alleviation.

Moreover, the study investigates to what extent the GSP+ would be an alternative for Namibia's agricultural exports and what would be the monetary benefits for Namibia of receiving full duty and quota free market access to the EU as recently offered to all countries finalising EPA negotiations by the end of this year.

1.3 Methodology and contents

Since Namibia is part of the SACU and exports and imports the vast majority of its goods via South African ports, there is the risk that trade is underreported. Indeed, there are gaps and inconsistencies in the reports of Namibia's export data which make consistent time data series difficult.⁷ To 'solve' the problem and to obtain consistent time period data of the volume and value of Namibia's agricultural and agro-processed exports to the EU the Eurostat COMEXT database that reports at a detailed commodity level (CN8) was used. The COMEXT database was also used to identify Namibia's position in the EU market and the market shares of its main competitors. For the tariff analysis, the Taric Consultation website was used giving information on UK Tariffs 2007.

These data were enriched by sector specific data provided by the Steering Committee. The sector specific data also served the purpose to balance the COMTRADE data by providing information about total export volumes and existing alternative export markets in the meat industry.

The literature reviewed for this study is listed in Annex 1. However, secondary sources fail to answer adequately many highly relevant questions regarding the socio-economic implications of the loss of preferences for Namibia. To complete the analysis, the secondary literature reviewed and the comprehensive data analyses have to be put into a context. Face-to-face interviews with selected stakeholders were undertaken to draw a comprehensive picture. The interviews aimed in particular to assess the social dimension of GSP market access for Namibia and its impact on agricultural diversification (see Annex 2 for the list of interviewees).

The study is structured as follows: After this introduction, the monetary losses for fish, meat and grapes will be quantified taking the export volumes and values of 2005

⁷ One example is that Namibia reported in 2005 the amount of € 136.4 million meat exports to South Africa but only € 2.46 million to the EU to the United Nations Statistical Division (UNSD) Commodity Trade (COMTRADE) Data Base. These figures are neither consistent with Meatco figures nor with Eurostat COMEXT figures on the EU's imports from Namibia.

as basis. By comparing Namibia's position in the EU market with the one of its main competitors under current market access conditions and in the case of the loss of Cotonou preferences it will be assessed to what extent the imposition of duties is likely to reduce or even cease Namibia's exports. Further, the section looks at Namibia's dependency on the EU as major export market and discusses to what extent a shifting of exports to existing alternative markets would be feasible.⁸

Section 3 deals with the relevance of EU preferences for domestic value added and economic diversification arguing that preferred access to the EU market has positively contributed to both, horizontal and vertical diversification attempts. For the meat industry, the loss of EU market access would also endanger its access to South African retail chains and restaurants where Namibian meat enjoys a competitive advantage over South Africa due to its ability to supply the EU.

A further question investigated in section 3 is to what extent Namibia could take advantage of the recent EU offer of duty and quota free market access. Is this offer likely to result in a boom of Namibian agricultural exports to the EU market? What would be the immediate monetary benefits accruing to Namibian exporters and producers and to what extent are these preferences likely to be eroded?

The social implications of the loss of preferences are discussed in section 4. As stipulated in the ToR, it is a major task of this study to assess the effects of the possible loss of preferential market access to the EU on social and rural developments and poverty alleviation. Special focus is given on the importance of current EU market access for agricultural employment, Government's resettlement policy and economic development in rural areas.

The final section of this study summarise the main findings and formulates policy options to provoke discussion and to provide guidance to the private sector and the Government how to proceed.

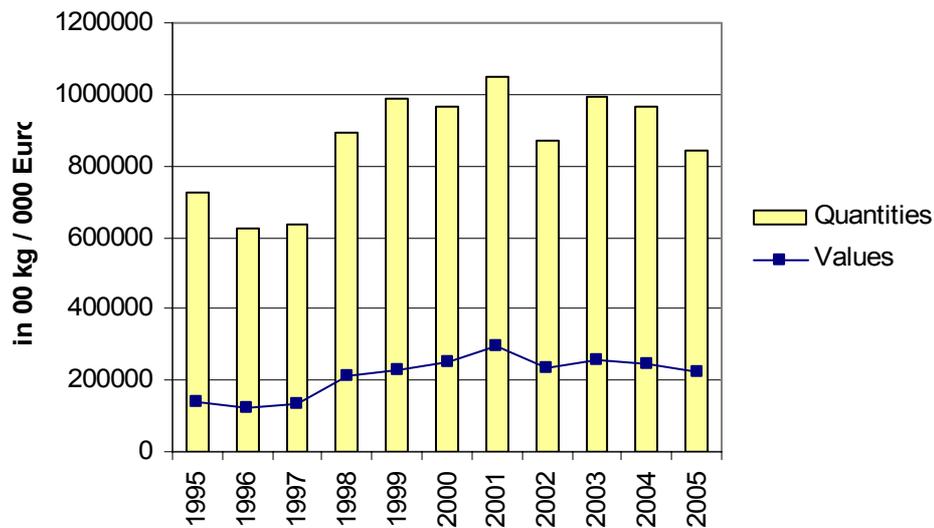
2 The economic implications of the loss of preferences

2.1 Namibia's fish exports to the EU

The fishing industry is, after food and beverages, Namibia's second largest manufacturing industry. The EU is the most important export market for Namibia receiving 63 percent of its total fish exports in 2005. As can be obtained from figure 1, the values of Namibian exports to the EU increased considerably from € 142 million in 1995 to € 222.7 million in 2005. The EU market received 62.5 percent of the industry's total export value in 2005.

⁸ It was agreed among the members of the Steering Committee that an assessment of new alternative export markets would be beyond the scope of the study.

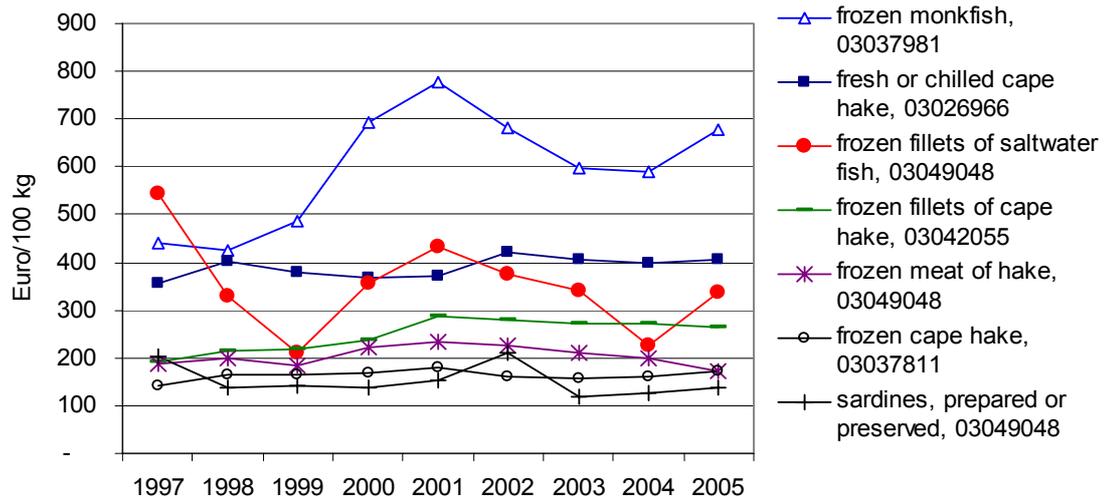
Figure 1: Volume and value of EU fish imports from Namibia



Source: Downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14 March 2007.

Though the export revenue from fisheries is highly dependant on fluctuating fish stocks, it must be noted that fish prices are generally not affected by the worsening of terms of trade (WTO, 2003:A3-188). In recent years, the price trend for most species has been positive due to the scarcity of worldwide resources. This trend is also mirrored in the unit value of Namibia's main fisheries exports to the EU (see figure 2).

Figure 2: Unit value of EU imports of Namibian fish (€/100 kg)



Source: Downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14 March 2007

In 2005, seven fish products accounted for 98 percent of export volumes and 90 percent of revenue from the EU.⁹ The three biggest revenue earners accounted for almost 70 percent of total export revenues and experienced unit value increases between 14 and 53 percent in the period 1997-2005 (see figure 2).¹⁰

2.1.1 Competition for Namibian fish in the EU market

Also for the EU, Namibia is an important source of imports for fish, mainly of hake and monk fish. As can be obtained from table 1, five of Namibia's seven most valuable fish exports have a market share of more than 29 percent in the EU.

⁹ Namely, frozen fillets of cape hake (46.5% of total export value), fresh or chilled cape hake (11.3%), frozen monkfish (10.3%), frozen cape hake (8.6%), frozen meat of hake (6.6%), frozen fillets of saltwater fish (3.9%) and sardines, prepared or preserved (2.8%).

¹⁰ The unit value for frozen fillets of cape hake, the biggest revenue earner, rose steadily in the period 1997, from € 193 to € 264 for 100 kg (which equals a plus of 37 percent). The unit value for fresh and chilled cape hake, the second most valuable fish export to the EU increased by 14 percent in the same period and unit prices for frozen monk fish increased by more than 53 percent.

Table 1: Market share and competitive situation for fish exports to the EU

CN8	Description	Main EU suppliers 2005	Share of EU market 2005	EU imports 2005		Current tariff	
				€000	100kg	%	Regime
03026966	fresh or chilled cape hake	Namibia	29.3%	25,042	61,429	0	<i>Cotonou</i>
		South Africa	70.6%	60,397	156,638	11.5	Std GSP
03037811	frozen cape hake	Namibia	42.1%	18,931	109,649	0	<i>Cotonou</i>
		South Africa	56.6%	25,472	138,285	11.5	Std GSP
		New Zealand	1.0%	432	1,312	15	MFN
03037981	frozen monkfish	Namibia	38.9%	22,820	33,725	0	<i>Cotonou</i>
		China	26.9%	15,782	101,836	11.5	Std GSP
		South Africa	20.9%	12,265	19,676	11.5	Std GSP
		Brazil	5.2%	3,065	6,174	11.5	Std GSP
		Panama	2.9%	1,678	1,879	0	GSP+
		United States	2.5%	1,493	3,408	15	MFN
		Faroe Islands	0.8%	453	536	0	FTA
03042055	frozen fillets of cape hake	Namibia	69.1%	103,660	392,841	0	<i>Cotonou</i>
		South Africa	30.1%	45,180	132,580	4	Std GSP
03049048	frozen meat of hake	Namibia	44.2%	14,664	85,137	0	<i>Cotonou</i>
		South Africa	17.9%	5,949	29,997	4	Std GSP
		Argentina	15.2%	5,030	28,331	4	Std GSP
		Chile	8.4%	2,796	19,375	1.5	FTA
		United States	5.5%	1,830	18,801	7.5	MFN
		Uruguay	5.1%	1,689	11,442	4	Std GSP
		Peru	1.5%	501	4,749	0	GSP+
		Russia	1.2%	414	5,011	4	Std GSP
New Zealand	0.8%	267	956	7.5	MFN		
16041319	sardines, prepared or preserved	Namibia	7.8%	6,330	46,015	0	<i>Cotonou</i>
		Morocco	79.0%	64,246	288,013	0	FTA
		Thailand	7.6%	6,208	45,228	9	Std GSP
		Croatia	1.6%	1,337	5,553	0TQ or 6	FTA
		South Africa	1.0%	794	5,960	9	Std GSP
		Turkey	0.8%	618	4,490	0	FTA
		Tunisia	0.7%	576	2,202	9	Std GSP
		Canada	0.7%	542	1,427	12.5	MFN
03042094	frozen fillets of saltwater fish	Namibia	4.5%	8,636	25,615	0	<i>Cotonou</i>
		China	17.6%	34,019	153,817	10.5 or 11.5	Std GSP
		Iceland	13.6%	26,261	52,324	0 or 4.5	FTA or EEA
		Argentina	9.9%	19,006	106,228	10.5 or 11.5	Std GSP
		Greenland	7.1%	13,605	36,902	10.5 or 11.5	OCT
		Thailand	6.6%	12,745	30,154	10.5 or 11.5	Std GSP
		Senegal	6.4%	12,272	31,185	10.5 or 11.5	LDC
		Viet-Nam	5.7%	11,023	38,093	10.5 or 11.5	Std GSP
		New Zealand	5.4%	10,492	27,701	10.5 or 11.5	MFN
		Chile	5.4%	10,378	53,753	10.5 or 11.5	FTA
		Indonesia	3.2%	6,116	16,716	10.5 or 11.5	Std GSP
		Mauritania	1.6%	3,064	5,104	10.5 or 11.5	LDC
		Ecuador	1.5%	2,869	10,055	10.5 or 11.5	GSP+
		Peru	1.4%	2,758	9,341	10.5 or 11.5	GSP+
		India	1.3%	2,429	9,713	10.5 or 11.5	Std GSP
		Falkland Islands	1.0%	1,977	15,138	10.5 or 11.5	OCT
		Morocco	1.0%	1,935	12,833	10.5 or 11.5	FTA
		United Arab Emirates	0.8%	1,469	1,679	10.5 or 11.5	Std GSP
Tanzania	0.6%	1,177	3,481	10.5 or 11.5	LDC		
South Africa	0.6%	1,110	2,484	10.5 or 11.5	Std GSP		

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

Currently, Namibia faces a zero tariff for all fish exports to the EU. However, the Cotonou preferences are not extensive considering the tariffs Namibia's main competitors face. Most of Namibia's competitors are developing countries that face the standard GSP tariffs of 4 to 11.5 percent. Namibia's most valuable fish export product to the EU, hake fillets, which accounted for 46.5 percent of total export revenue in 2005, only enjoys preferences of 4 percent against its main competitor South Africa (see table 1).

Considering the small tariff advantages Namibian fish exports face in the EU market, it can be stated that Namibia is an internationally competitive fish producer that is able to achieve significant shares in the EU market.

2.1.2 The monetary implications of the loss of preferences for fish

GSP market access would imply tariff increases between 4 percent (frozen fillets of hake and frozen meat of hake) and 11.5 percent (fresh, chilled and frozen cape hake, frozen fillets of saltwater fish).

What are the monetary implications of a preference loss? Taking the 2005 values of EU fish imports, the costs of GSP market access for Namibia's seven top fish exports (that account for 90 percent of total export revenue) would sum up to € 14.257 million (see table 2).

Table 2: Theoretical costs of GSP market access for Namibia's seven most valuable fish exports to the EU in 2005

CN8	Description	EU imports 2005		Current tariff		Namibian preference loss	
		€000	100kg	%	Regime	Std GSP / €000	GSP+
03026966	fresh or chilled cape hake	25,042	61,429	0	Cotonou	2,879.8	No change
03037811	frozen cape hake	18,931	109,649	0	Cotonou	2,177.0	No change
03037981	frozen monkfish	22,820	33,725	0	Cotonou	2,624.3	No change
03042055	frozen fillets of cape hake	103,660	392,841	0	Cotonou	4,146.4	No change
03049048	frozen meat of hake	14,664	85,137	0	Cotonou	586.6	No change
16041319	sardines, prepared/preserved	6,330	46,015	0	Cotonou	569.7	No change
03042094	frozen fillets of saltwater fish	8,636	25,615	0	Cotonou	993.1	No change
Total costs						14,257	

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

It is beyond the scope of this study to analyse the price elasticity of demand for single fish products in the EU market and to assess to what extent a preference loss is likely to result in reduced export prices and/or decreased export quantities. However, it should be borne in mind that the amount of € 14.25 million is the minimum cost for the loss of Cotonou preferences which assumes stable export quantities and revenues (2005 volumes/values).

For some of Namibia's fish exports to the EU the downgrading from Cotonou to GSP would put competitors in a superior position than Namibia (see table 1). This would

be the case for frozen hake, sardines and frozen saltwater fish where more advanced economies such as Chile, Morocco, Turkey or Iceland which have special agreements with the EU (fishing agreement or FTA) face better market access than the GSP. Moreover, Peru, Ecuador and Panama, which benefit from the GSP+ face zero percent duties when exporting fish to the EU market.

2.1.3 Alternatives

As can be obtained from table 2, GSP+ would be an alternative for Namibian fish exports. Namibia's seven most valuable export products would keep their current duty free market access when Namibia becomes eligible for the GSP+.

Moreover, Namibia would also have the option to enter into a fisheries agreement with the EU. Since Namibia's independence the EU has tried to negotiate a fishery agreement. The Namibian side has been reluctant to enter into any agreement that provides quota allocations since it fears the overexploitation of fishing grounds and a slowdown of its "Namibianisation" policy.¹¹ Again, to elaborate on the chances and risks of entering into a fisheries agreement with the EU goes beyond the scope of this study. However, the general low price elasticity of demand for fish products and the worldwide depletion of fish stocks add evidence to the thesis that EU demand for fish products is further increasing and that the protection level continues to decrease.

Moreover, Namibian fish exporters should continue to elaborate alternative export markets. To date, Namibia's main fish exports still focus on the EU market (table 3).

¹¹ One element of the "Namibianisation" policy in the fishing industry is the distribution of fishing quotas to formerly disadvantaged Namibian with the objective to improve their participation in the formerly foreign owned fishing industry.

Table 3: Main export markets for Namibian fish

Partner	Code	Description	Exports (\$000)		
			2003	2004	2005
All --- All countries	030269	fresh or chilled freshwater and saltwater fish	10,124	30,770	26,992
EU25	030269	fresh or chilled freshwater and saltwater fish	6,709	18,729	24,558
South Africa	030269	fresh or chilled freshwater and saltwater fish	3,381	7,159	2,374
Congo, Dem. Rep.	030269	fresh or chilled freshwater and saltwater fish		2,272	2
Cameroon	030269	fresh or chilled freshwater and saltwater fish		2,540	
All --- All countries	030374	frozen mackerel	30,460	6,881	28,677
Mozambique	030374	frozen mackerel	307	2,501	15,353
South Africa	030374	frozen mackerel	1,059	1,545	3,820
Ghana	030374	frozen mackerel	174		3,565
Congo, Dem. Rep.	030374	frozen mackerel		272	1,888
Zimbabwe	030374	frozen mackerel		511	1,519
Angola	030374	frozen mackerel	14	142	1,440
Congo, Rep.	030374	frozen mackerel	28,643	1,634	832
All --- All countries	030378	frozen hake	53,721	25,397	74,002
EU25	030378	frozen hake "	47,957	10,591	57,785
South Africa	030378	frozen hake "	4,984	13,722	12,150
Australia	030378	frozen hake "	58	78	1,729
United States	030378	frozen hake "	2	28	757
Zimbabwe	030378	frozen hake "	45	171	368
All --- All countries	030379	frozen freshwater and saltwater fish	109,751	84,576	72,868
EU25	030379	frozen freshwater and saltwater fish	65,131	45,291	29,020
South Africa	030379	frozen freshwater and saltwater fish	7,873	15,692	15,537
Congo, Rep.	030379	frozen freshwater and saltwater fish	3,152	3,081	11,591
Congo, Dem. Rep.	030379	frozen freshwater and saltwater fish		7,340	6,613
Mozambique	030379	frozen freshwater and saltwater fish	1,282	5,976	2,310
Japan	030379	frozen freshwater and saltwater fish	113	155	1,647
Ghana	030379	frozen freshwater and saltwater fish	11,237	1,133	1,521
Malaysia	030379	frozen freshwater and saltwater fish	166	0	1,109
All --- All countries	030420	frozen fish fillets	65,284	80,821	74,873
EU25	030420	frozen fish fillets	54,876	67,919	66,192
South Africa	030420	frozen fish fillets	1,436	4,032	4,738
United States	030420	frozen fish fillets	4,162	3,926	2,198
All --- All countries	160413	prepared or preserved sardines	8,952	17,957	20,569
South Africa	160413	prepared or preserved sardines	6,999	13,487	15,477
EU25	160413	prepared or preserved sardines	808	3,179	4,672

Source: UN COMTRADE database, downloaded 19 March 2007.

After the EU, it is currently South Africa that absorbs Namibia's most valuable fish export products, hake and fish fillets (17 percent of total export value in 2005). South Africa also seems an interesting market for prepared fish products and might thus offer stimuli for increased value added of exports.

2.2 Namibia's meat exports to the EU

Namibia is a small country with around 2 million people and the same amount of cattle. Taking the number of cattle per head into account, Namibia falls into the same category as Brazil and Argentina.¹² With more than 85 percent of total meat production being exported, livestock is also the backbone of the country's agricultural exports. More than 90 percent of export value is obtained from the EU and South African so that the industry's performance depends highly on these two markets. Namibian meat exports operate largely in protected environments. In the highly

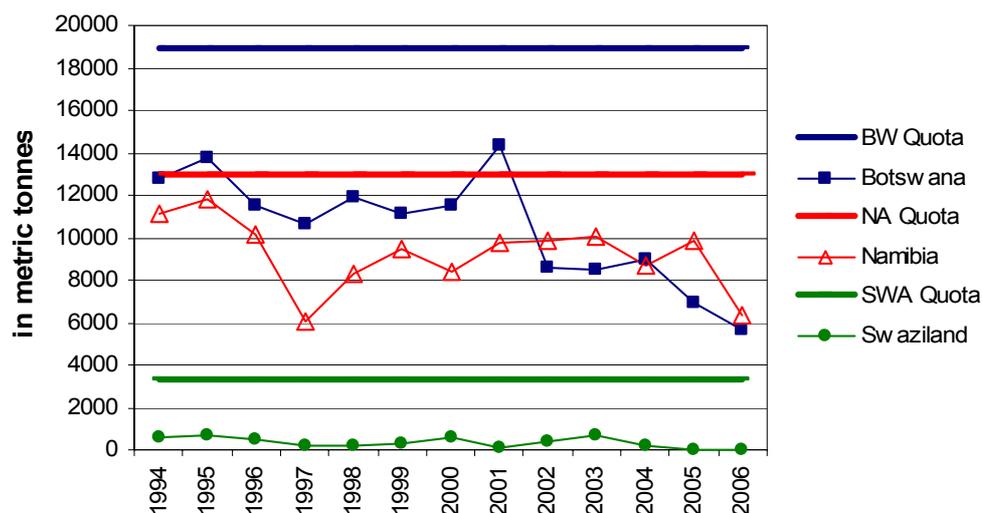
¹² Brazil has around 170 million cattle and 188 million people and Argentina has 50 million cattle and 40 million people.

protected EU market, Namibia benefits from an annual quota; in South Africa, Namibia has as part of the SACU free market access while the external tariff rate for meat is 40 percent. In Norway, the country benefits from a small but lucrative quota for beef¹³ and the Swiss market is supplied with 20 to 30 tons deboned beef p.a.¹⁴

Namibia has an annual EU quota for boneless beef and veal of 13,000 tons which can be exported at a preferential rate of 0%+24.2 €/100kg/net. Compared with the regular MFN tariff for boneless meat, which is 12.8%+303.4 €/100kg/net, this implies a 92 percent tariff reduction, i.e. Namibia can export boneless beef and veal at 8 percent of MFN tariff. This quota can be served throughout the year without undue restrictions. In case that Namibia is not able to fulfil the quota, e.g. due to droughts, it is also allowed to expand its quota in the following years.¹⁵

As can be obtained from figure 3, none of southern African country that is entitled to benefit from the Beef and Veal Protocol of the Cotonou Agreement has been able to fulfil its quota. Kenya, Madagascar and Zimbabwe which were also allocated a quota had to stop exporting to the EU since they do not comply with the sanitary and veterinary standards imposed to all meat products entering the EU market.¹⁶

Figure 3: Southern African countries' beef and veal quota utilisation (in 000 kg)



Source: Meatco (2007).

¹³ The Norwegian quota of 3,500 tons has to be shared with Botswana. However, due to zero tolerance for salmonella testing, Namibia faces problems to fulfil its share of 1,750 tons.

¹⁴ Namibia does not enjoy preferential treatment in the Swiss market but competes successfully due to the high quality of its meat. However, the Swiss price for premium cuts is not more favourable than the EU prices.

¹⁵ Protocol 4, Art. 3, Cotonou Agreement. Moreover, Namibia is entitled to use the quota of Kenya, Madagascar, Zimbabwe and Swaziland, which are constantly incapable to fulfil their EU quota due to their inability to meet EU standards (Protocol 4, Art. 4 Cotonou Agreement).

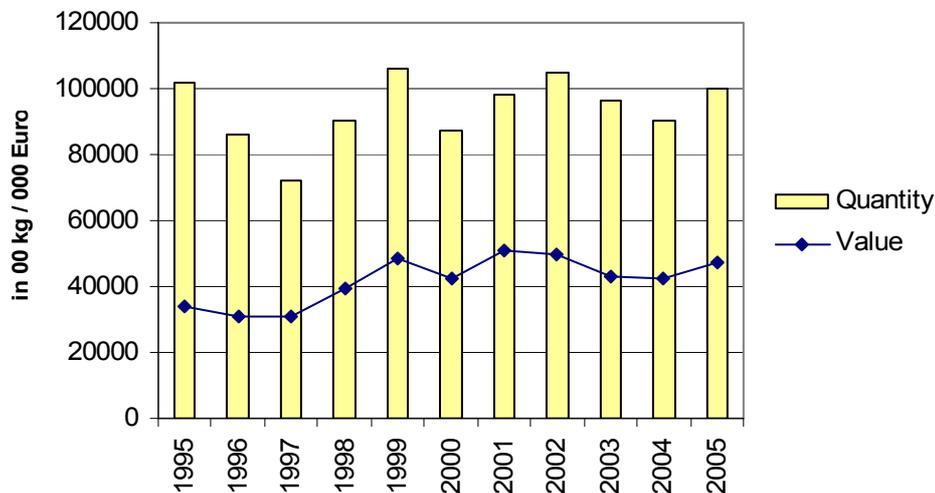
¹⁶ Kenya only exported 15 tons to the EU in 1992, Madagascar stopped exporting meat in 1999 and Zimbabwe in 2002. The last time Swaziland exported meat to the EU was in 2004 (Meatco, 2007).

For the period 1994-2006 Namibia fulfilled in average 71 percent of its quota while Botswana and Swaziland only fulfilled their quota to 55 percent and 10 percent respectively.

There are several reasons why Namibia has not been able to fulfil the quota. In general, the number of premium cuts, which is the only marketable product under the Beef and Veal Protocol, is limited due to environmental constraints and the limited number of high quality cattle.

Namibian meat exports to the EU were quite stable in the period 1995-2005 with an average volume of 9.40 tons p.a. (see figure 4). The sales price in Euro terms increased considerably in the years 1998/99 (from € 39.33 million to € 48.19 million) and was in average € 41.74 for the period 1995-2005.

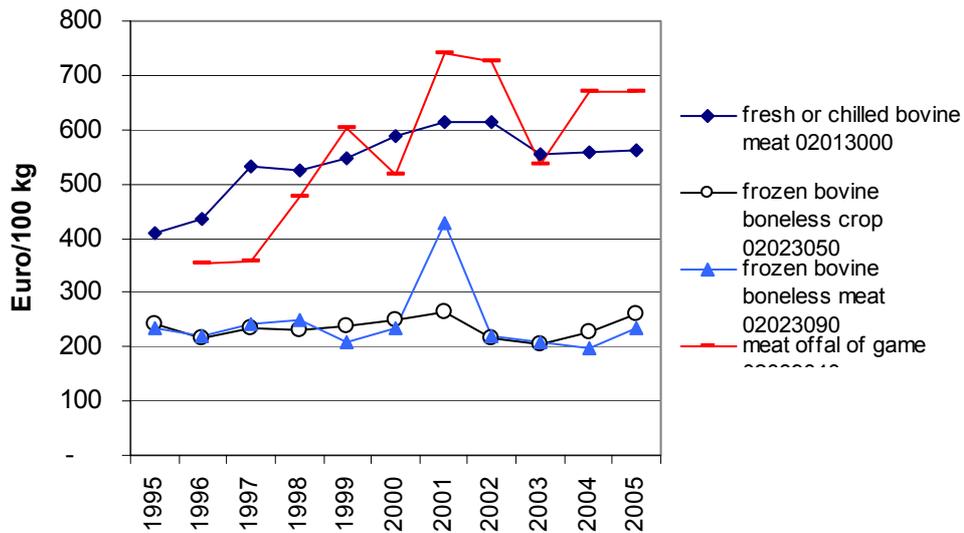
Figure 4: Volume and value of EU meat imports from Namibia



Source: Downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14 March 2007

Given the rather stable export volume it follows that all of the increase was due to a rise of the unit values. The unit values for fresh and chilled bovine meat and bovine crop rose in average 3 percent and 1 percent p.a. respectively the period 1995-2005. The price for frozen bovine meat remained stable (figure 5).

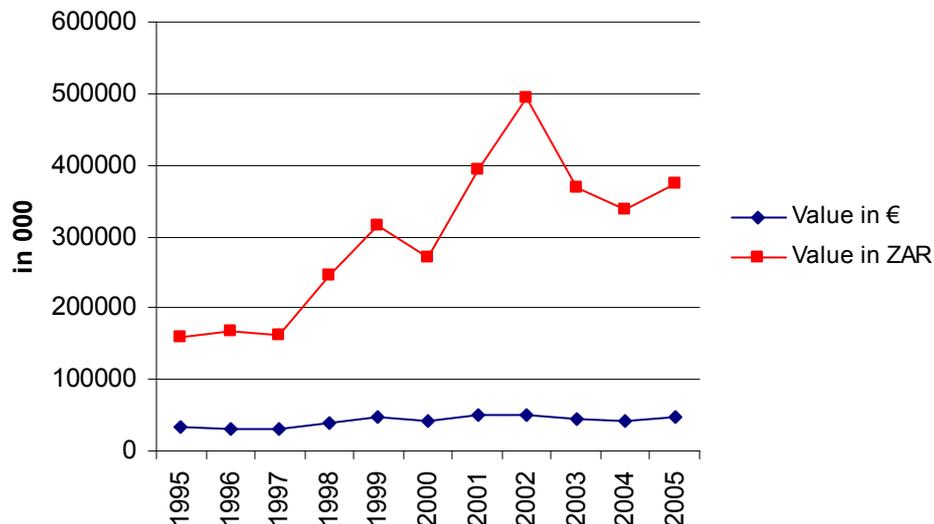
Figure 5: Unit value of EU meat imports (€/100kg)



Source: Downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14 March 2007

Moreover, the depreciation of the ZAR/N\$ towards the Euro contributed significantly to increased earnings for Namibian meat exports to the EU (see figure 6). The ZAR/N\$ lost about 68 percent of its value towards the Euro in the period 1995-2005.

Figure 6: Value of EU meat imports from Namibia in 000 Euro and ZAR



Sources: Downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14 March 2007, SARB, Annual reports.

Since the earnings from beef exports rose by more than 130 percent from 1995 to 2005 in ZAR/N\$ terms while domestic inflation was in average only 8.3 % p.a.¹⁷ one can argue that the devaluation of the ZAR has considerably contributed to the attractiveness of the EU as export destination for Namibian beef. This bears however also risks once the ZAR/N\$ gains against the Euro since the industry's profits in the EU market depend highly on the favourable exchange rate.

2.2.1 Competition for Namibian meat in the EU market

Stevens and Kennan (2005:11) differentiate between four general categories of countries in the world's beef trade.

1. Protecting states, like the EU, that experienced higher levels of domestic production and higher prices than under free market conditions. Their surplus exports have tended to depress world market prices;
2. Net beef-importing states that benefited from low-priced imports but lack incentives to develop their own beef production;
3. More competitive net exporters, like Brazil or Argentina, that have tended to lose from trade distortions since they have problems to access the protecting states and suffer from depressed world market prices;
4. Less competitive net exporters with significant preferences, like Namibia, that have gained from the existing system by artificially high prices and a guaranteed quota.

Table 4 gives an overview of the competitive situation Meatco faces in the EU market. Except frozen bovine crops (02023050) where Namibia supplied more than one third of total European imports, Namibia's market share of EU meat imports is very small, ranging from 0.3 percent for frozen bovine meat to 5.4 percent for meat and edible offal. The biggest competitors are Brazil and Argentina for fresh, chilled and frozen bovine meat and crop and New Zealand and South Africa for meat offal.

¹⁷ Change in Consumer Price Index. Data obtained from SADC Bankers and Bank of Namibia.

Table 4: Namibia's market share in the EU for main meat exports

CN8	Description	Main* EU suppliers 2005	EU imports 2005		Share of EU market 2005
			€000	100kg	
02013000	fresh or chilled bovine meat, boneless	Namibia	37,271	66,266	4.5%
		Argentina	324,560	583,275	39.5%
		Brazil	323,107	776,710	39.3%
		Uruguay	62,361	117,046	7.6%
		Australia	36,151	63,820	4.4%
		Botswana	21,660	41,439	2.6%
		Chile	5,821	12,876	0.7%
		Canada	5,005	5,842	0.6%
02023050	frozen bovine boneless crop, chuck and blade and brisket cuts	Namibia	6,884	26,615	35.2%
		Brazil	8,583	50,955	43.9%
		Botswana	3,600	15,058	18.4%
		Argentina	489	2,593	2.5%
02023090	frozen bovine boneless meat	Namibia	905	3,836	0.3%
		Brazil	255,692	927,553	79.1%
		Uruguay	28,755	74,608	8.9%
		Argentina	24,251	87,529	7.5%
		New Zealand	6,317	7,401	2.0%
		Botswana	5,031	20,903	1.6%
02081090	fresh, chilled or frozen meat and edible offal of non-domestic rabbits and hares	<i>(No imports from Namibia in 2005)</i>			
		Argentina	16,407	34,297	89.0%
		Uruguay	1,463	3,067	7.9%
		Chile	557	1,054	3.0%
02089040	fresh, chilled or frozen meat and edible meat offal of game (excl. rabbits, hares, pigs and quails)	Namibia	2,088	3,117	1.7%
		New Zealand	97,246	204,802	78.1%
		South Africa	10,569	11,291	8.5%
		Australia	8,510	22,797	6.8%
		Zimbabwe	2,770	2,903	2.2%
		Israel	1,214	1,069	1.0%
		Tunisia	659	497	0.5%
02089095	meat and edible offal, fresh, chilled or frozen (excl. bovine animals, swine, sheep, goats, horses, asses, mules, hinnies, poultry...)	Namibia	20	19	5.4%
		South Africa	193	204	52.8%
		New Zealand	52	120	14.2%
		Turkey	25	58	6.9%
		Australia	23	26	6.2%
		Greenland	7	6	1.8%

* All countries supplying 0.5% or more of EU25 imports from extra-EU in 2005

Source: 'Trade data downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14 March 2007.

It is noticeable that Namibia exports the largest quantities and has the highest market share for those products where the preferences are largest (see table 4). Fresh, chilled and frozen bovine meat exported under the Beef and Veal Protocol make up the bulk of exports to the EU accounting for around € 45 million in 2005.

Despite its free access to the EU market, Namibia has lost already market share for fresh and chilled beef exports to Brazil (RRC, 2004:12-3). However, this loss of market share is not a problem of increased competition but of low capacities. It also confirms that Namibia falls in category four of less competitive net exporters since it relies heavily on the preferences provided by the Beef and Veal Protocol to compete successfully in the EU market. The environmental setting constraints the volumes so that Namibia is a comparable high-cost producer. Namibian livestock producers incur also higher production costs than their South African counterparts due to compliance with EU standards. Since the exports to lucrative overseas markets are still

constrained by the limitation to deboned meat, the industry argues that it has not been able to generate the highest overall economic value (PWC, 2005b:12-3).

The critical issue for Namibia is whether it will have the chance to move from category 4 to category 3 and become a more competitive net exporter for beef. While group 4 countries tend to lose from liberalisation by lower prices, group 3 countries are rather able to adapt to the requirements of increased competition.

2.2.2 The monetary implications of the loss of preferences for meat

Since tariff preferences for developing countries under the EU's General System of Preferences (GSP) do not exist, Namibia would face the full MFN tariff meaning an increase of 92 percentage points from 01 January 2008 on. Considering the volumes exported by Namibia and its competitors in 2005 (see table 4), the tables 5 and 6 give an overview of the current duties Namibia pays when exporting to the EU under the Beef and Veal Protocol and those to be paid under MFN conditions.

The results are shocking. Under Cotonou provisions Namibia faced an ad valorem equivalent tariff of 4 percent in 2005; under MFN conditions this would be 67 percent!¹⁸

Table 5: EU market access for Namibia and its competitors in 2005

CN8	Description	Cotonou tariff Protocol on Beef and Veal	MFN tariff	Main non-ACP suppliers (2005)	
				Name (share)	Tariff
02013000	fresh or chilled bovine meat, boneless	0%+24.2 €/100kg/net	12.8%+303.4 €/100kg/net	Argentina (40%) Brazil (39%) Uruguay (8%) Australia (4%) Chile (1%))) 20% (TQ) for 'high-quality',) MFN for 'other')) 0% (TQ)
02023050	frozen bovine boneless crop, chuck and blade and brisket cuts	0%+17.6€/100kg/net	12.8%+221.1€/100kg/net	Brazil (44%) Argentina (3%)) 20% (Global quota), MFN) for 'other'
02023090	frozen bovine boneless meat	0%+24.3€/100kg/net	12.8%+304.1€/100kg/net	Brazil (79%) Uruguay (9%) Argentina (8%) New Zealand (2%)) 20% (Global quota), MFN) for 'other'))

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

¹⁸ Calculated from the figures stated in the table 4 and 5. For a better understanding: In 2005, the EU imported 6,626,600 kg of product 02013000 worth € 37,271. Namibia paid 0%+24.2 €/100kg/net which are € 1,604. Under MFN conditions (12.8%+303.4) the amount of € 24,876 would have had to be paid for this export quantity. The duties paid under the Beef and Veal Protocol would be equivalent to a 4 percent tariff duty (€ 1,604 tariff / € 37,271 export value) and the MFN duties would be equivalent to a 67 percent tariff.

Table 5: EU market access for Namibian meat and main competitors beyond 2007

CN8	Description	Main EU suppliers 2005	EU imports 2005		Estimated duty, €000		Estimated ad valorem equivalent		
			€000	100kg	Current		Current		ACP post-Cotonou
					in quota	out quota	in quota	out quota	
02013000	fresh or chilled bovine meat, boneless	Namibia	37,271	66,266	1,604	20,105	4%	54%	67% (MFN)
		Argentina	324,560	583,275	64,912	218,509	20%	67%	
		Brazil	323,107	776,710	-	277,012	n/a	86%	
		Uruguay	62,361	117,046	12,472	43,494	20%	70%	
		Australia	36,151	63,820	7,230	23,990	20%	66%	
		Botswana	21,660	41,439	1,003	12,573	5%	58%	
		Chile	5,821	12,876	0	4,652	0%	80%	
Canada	5,005	5,842	0	2,413	0%	48%			
02023050	frozen bovine boneless crop, chuck, blade, brisket cuts	Namibia	6,884	26,615	468	5,885	7%	85%	98% (MFN)
		Brazil	8,583	50,955	1,717	12,365	20%	144%	
		Botswana	3,600	15,058	265	3,329	7%	92%	
		Argentina	489	2,593	98	636	20%	130%	
02023090	frozen bovine boneless meat	Namibia	905	3,836	93	1,167	10%	129%	142% (MFN)
		Brazil	255,692	927,553	51,138	314,797	20%	123%	
		Uruguay	28,755	74,608	5,751	26,369	20%	92%	
		Argentina	24,251	87,529	4,850	29,722	20%	123%	
		New Zeal.	6,317	7,401	1,263	3,059	20%	48%	
		Botswana	5,031	20,903	508	6,357	10%	126%	

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

For the other two product groups exported under the Beef and Veal Protocol the tariff jumps would even be higher. Frozen bovine crops would face a tariff jump of 91 percent (98% MFN vs. 7% Cotonou) and for frozen bovine meat the tariff increase would be 132 percent.

If Meatco would have exported under MFN conditions instead of Cotonou in 2005, it had paid an additional amount of € 30.76 million for tariffs¹⁹ – that is almost three times of the amount annually provided under the 09th EDF and around the same amount the EU spends on its top focal area in Namibia in the period 2000-2007: rural development and land reform.²⁰

Considering that the total value of EU meat imports from Namibia was € 47.17 million in 2005, the imposition of MFN duties would be equivalent to 65 percent of the revenue obtained in the EU market. Obviously, this duty would stop Namibian meat exports immediately.

How is the situation for Namibia's competitors of which most are more developed, medium-income countries? As can be obtained from table 6, the downgrading from Cotonou preferences to MFN would put Namibia in a less favourable position than Argentina, Brazil, Canada, Uruguay, New Zealand and Australia. Though these countries do not have an FTA with the EU, they benefit from a tariff quotas fixed in the WTO Agreement on Agriculture,²¹ i.e. a certain percentage of EU imports from

¹⁹ Assuming MFN tariff for the 2005 volumes/values minus duties paid under Cotonou.

²⁰ The funds allocated to Namibia under the 09th EDF (2000-2007) account for € 73 million (EC DG Dev, undated).

²¹ Some of these tariff quotas are country specific. They are the most useful to countries as no other country can take them. Other beef products face a global tariff quota, i.e. the EU agrees to import certain tons from whichever countries offer it – so the most competitive producer gets most of the quota.

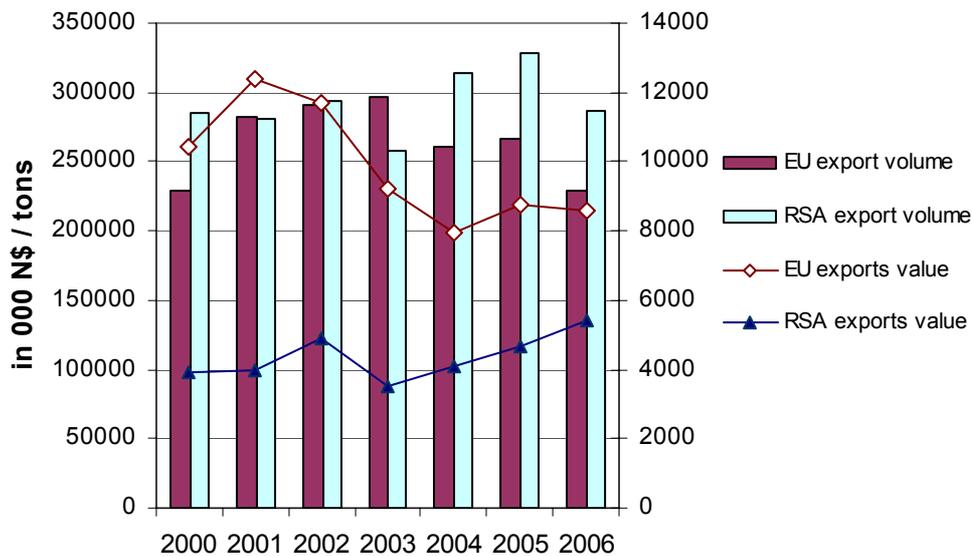
them can enter the EU market at a 20 percent tariff compared to 67-142 percent for Namibia's exports under the MFN tariff. Moreover, some countries would have even a competitive advantage over Namibia when exporting under MFN conditions. Thus, New Zealand's frozen bovine meat exports face an ad valorem equivalent of 48 percent of export value when entering the EU market under MFN conditions while Namibia would face a tariff of 142 percent.

2.2.3 Alternatives

For Namibian meat exports, the alternative to Cotonou would be the MFN tariff, implying tremendous tariff increases that would put Namibian exports worse than some of the world's most competitive meat exporters. Under these conditions Namibian meat exports to the EU market would cease immediately and most volumes are likely to be channelled to South Africa.

In 2006, 85 percent of Namibia's meat production was exported, mainly to two markets: South Africa (56 percent) and the EU (44 percent). As can be seen from figure 7, South Africa received the highest volumes in 2006 but the values obtained from exporting to the EU were almost 50 percent higher. Thus, the unit value for cuts to South Africa was N\$ 11.82 while the average unit value to the EU was N\$ 23.55.²²

Figure 7: Namibia's exports to the EU and South Africa (in 2000 prices)



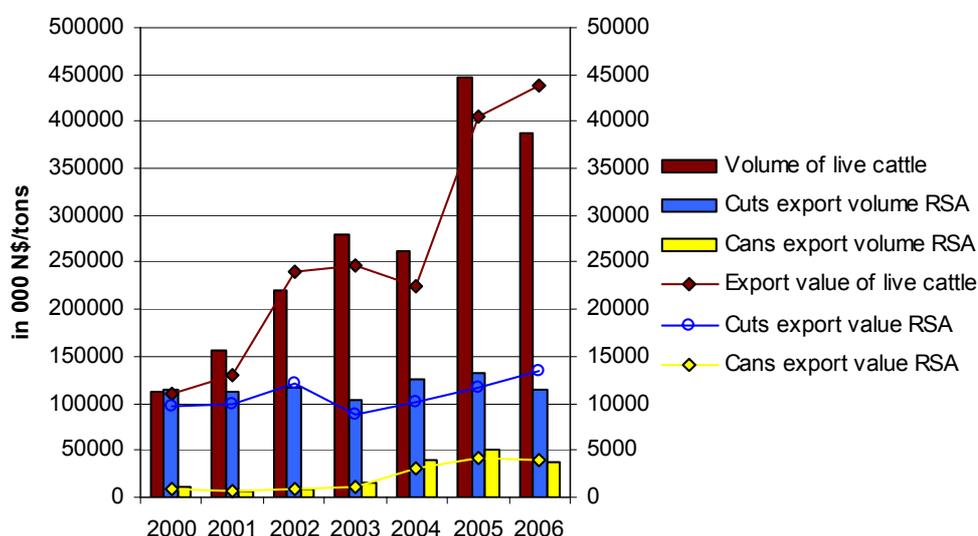
Source: Meat Board of Namibia, internal figures.

The increased return in the South African market in the period 2004-2006 can be explained by low maize prices, which resulted in increased demand for Namibian weaners and consequently in higher prices. However, in the meanwhile the South African maize price has increased considerably so that demand for Namibian weaners is expected to decline again.

²² Deflated figures, basis year 2000.

The structure of the EU and the South African meat markets is very different. While the EU receives almost exclusively premium cuts, exported under the Beef and Veal Protocol, most of the exports to South Africa are live animals (see figure 8).²³

Figure 8: Meat exports to South Africa per type (in 2000 prices)



Source: Meat Board of Namibia, internal figures.

In the South African market, Namibia has a cost advantage of low transport costs and the advantage that it enjoys as a member of SACU preferential access to the South African meat market which is protected by a 40 MFN tariff.²⁴

South Africa is also becoming an important market for cuts and canned meat. This is largely due to Namibia's ability to export to the EU, which opened up opportunities to supply retail stores and restaurants in South Africa. Because Namibian meat products fulfil international standards they have a competitive advantage over South African producers and are more likely to be marketed by South African retailers.

Indeed, the supply to the EU and the South African market are heavily interlinked. If Namibia would lose its competitive advantage of fulfilling international health and veterinary standards it would also not be able to target valuable niches in the South African market. Thus, the whole price structure in the South African market is likely to be negatively influenced.

²³ The Ministry of Agriculture, Water and Rural Development aims to curb to increase the slaughter capacities in the country and put a levy on on-hoof exports. However, weaners up to 400 kg, which are the main export to South Africa, are exempted from this levy. In fact, Namibia has to balance its economic objectives to increase domestic value addition and the existing environment of limited grazing capacities, very few feedlots and farmers need for cash flow.

²⁴ However, the protection in the SACU market might become eroded by the FTA with MERCOSUR and by other bilateral and multilateral concessions. South Africa follows up an industrialisation strategy and is less interested to protect its agricultural production than the BLNS countries. The current SACU protection rate is therefore under constant pressure though meet is likely to remain a sensitive agricultural product.

Namibia also explores options to enter the US market which is regarded to have great potential. Different to the EU market, hormone free meat attracts premium prices and most manufactured meat products can enter the market duty and quota free under AGOA. Namibia is working on its access to the US market since more than four year and was recently informed by the US authorities that the final approval of meeting the food safety standards will take another 18 months.²⁵

2.2.4 Costs and efforts to comply with EU standards

Since the EU has a heavily protected livestock and agricultural sector to which Namibia has as an ACP country preferred access, the EU is a lucrative market. However, it is also a very demanding market when it comes to sanitary requirements of livestock supply. Namibia complies with all food safety and quality control requirements imposed by the EU and established the “Farm Assured Namibian (FAN) Meat Scheme” that monitors and certifies Namibian meat with respect to EU consumer safety, biosafety, animal welfare, meat quality and traceability and labelling requirements.

Namibia’s exports to the EU are limited to boneless meat cuts due to EU health requirements which demand a process of de-boning as a precaution against Foot-and-Mouth Disease (FMD).²⁶ Currently, Meatco operates two abattoirs that are approved by the EC for beef export to EU member states (Windhoek and Okahandja) and one abattoir in Marienthal for small-stock exports.²⁷ Annual inspections by EC inspectors safeguard adherence to food safety, transport, slaughtering and processing standards.

For veterinary control purposes, Namibia is divided into two zoo-sanitary zones. The northern communal areas (NCA) of livestock raising, covering Omusati, Oshana, Ohangwena, Kunene, Oshikoto, Kavango and Caprivi, where almost 50 percent of the population live, are largely separated from the southern commercial farming areas by a veterinary cordon fence (VCF). In this way, not only the movement but also the marketability of animals and animal products is divided with negative implications for the growth of Namibia’s livestock sector.

The southern zone has been free of Foot and Mouth Disease (FMD) for over 40 years, while the northern zone (bordering Namibia’s northern neighbours) is a quarantine zone where regular veterinary inspections safeguard Namibia from diseases endemic in neighbouring countries. The NCA abattoirs in Oshakati and Katima Mulilo are owned by the Government but are managed by Meatco which also covers the costs of maintenance and veterinary compliances. Livestock and meat produced north of the fence can be exported to South Africa after having been quarantined for 21 days before slaughtered and frozen another 21 days before exporting. This implies considerable additional costs for the marketing of NCA meat.

²⁵ Other, high priced export markets, such as Japan or the Middle East, are hardly attractive for Namibia since it does not enjoy significant protection against major competitors.

²⁶ In this respect it is interesting to note that Chile, which is classified as higher risk country when it comes to FMD, is allowed to export in-boned lamb to the EU.

²⁷ The abattoir in Witvlei, which is not owned by Meatco, has recently applied to become eligible for exporting to the EU.

Meat from the NCA abattoirs is not allowed to be exported to the EU. The Namibian Government, together with Meatco and the Directorate of Veterinary Services, aim to relocate the VCF to the Angolan border and to establish a buffer zone on the Angolan side within the next 10 years. The ultimate objective is to develop communal livestock farming in northern Namibia into a modern industry and to enable northern communal farmers to export to international markets.²⁸ This needs to be managed very carefully to avoid endangering access to the EU market. However, the Government and the meat industry expect considerable improvements in Namibia's competitiveness as meat suppliers once the whole country is declared FMD-free. This would no longer require keeping detailed records and control measures for exports and is expected to boost export quantities. The FMD-free status would be of special benefit for northern communal farmers since it reduces their marketing costs and increases the returns for their cattle. Since most cattle are raised north the VCF their full inclusion into commercial farming is expected to boost abattoirs throughput and thus, the productivity of production.

The country had to undertake substantial investment in FMD control and to meet the EU's increasingly stringent veterinary and sanitary standards. In the period 1992-2005 Meatco invested N\$ 134 million in infrastructure and fixed assets to ensure its compliance with EU standards (PWC, 2005a:35). Since standards are continuously moving onwards, Namibia needs to undertake continued efforts to comply, as now with the new EU traceability system. The annual costs for the registration and ear tagging of cattle are calculated to be around N\$ 2 million p.a.. Additionally, the maintenance of database and hardware as well as the training of inspectors has to be paid for.²⁹

Though only around 40 percent of total meat exports are destined for the EU market, all meat exports comply with the strict EU standards since the abattoirs have only one system in place. The costs of compliance are high and some observers argue that these costs do not bring sufficient benefits. However, one should bear in mind that the compliance with EU standards gives Namibia a competitive advantage confirming the lowest BSE risk and an FMD-free status. This has enabled the industry to gain a competitive advantage over South African producers and to supply South African retail chains and restaurants. The full compliance with EU standards is also expected to help when exploring new export markets.

Meatco manages the NCA abattoirs and fully covers their losses of around N\$ 10 million p.a. The private sector has a keen interest to improve the cattle status north of the VCF and to keep the NCA abattoirs in shape. If Meatco's investment and technical support to the NCA is reduced, there would be the risk that the VCF fence moves southwards, further limiting the number of cattle that can be exported to the EU. The lucrative EU market is however also Meatco's main motivation to invest heavily in the NCA abattoirs. If this profitable market is lost, the private sector would

²⁸ This shall be reached by increasing the capacities of the NCA, adopting new grazing, breeding, heard and financial management practises, improving rural infrastructure, providing extensive training in order to improve meat quality, and improving health control. Immediate action also includes close cooperation with Angolan authorities to improve veterinary health and FMD control and to train and sensitise small-scale farmers accordingly.

²⁹ In the medium term, the costs are expected to increase further since the EU wants full traceability, i.e. every Namibian cattle will need to be ear tagged while Namibia is currently only ear tagging those animals that move to another farm or to the abattoir.

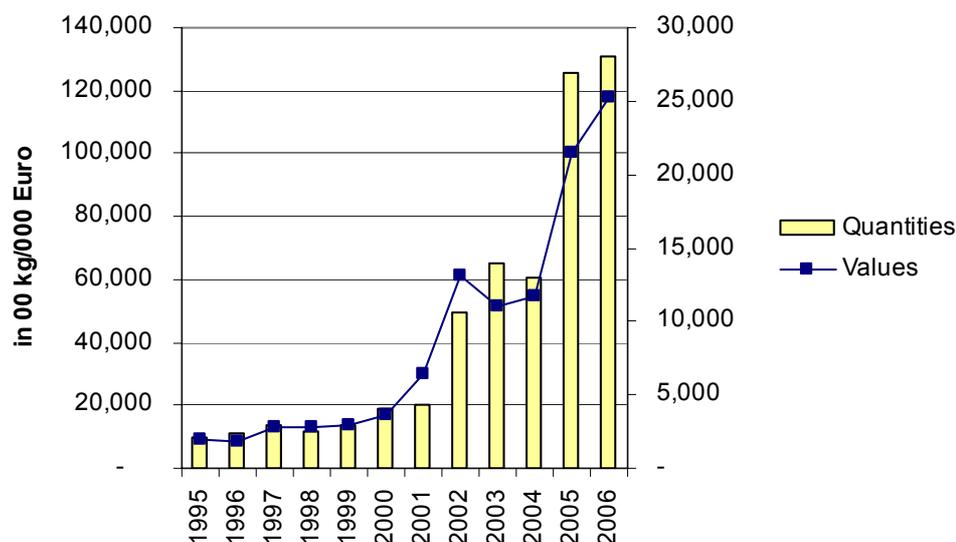
hardly be willing to cover all costs of running the NCA abattoirs. This again bears the risk that operations in the NCA abattoirs will shut down.

2.3 Namibia's grape exports to the EU

The Namibian grape industry only exists since the early 1990s when the privately owned Außenkehr farm started the grape business. Since then, grape cultivation has become an important part of Namibia's strategy to diversify crop production and is an important income source for people in the poverty stuck Karas region in southern Namibia. The Namibian grape industry is highly export-oriented with the EU as main recipient.

Under the Cotonou Agreement Namibia is allowed to export 900 tons of seedless grapes in December/January. Namibian grape exports exceed this quota by far (see figure 9). According to Eurostat, EU grape imports from Namibia rose by more than 13 times in the period 1995-2006 to 13,100 tons.³⁰ Due to the enormous expansion of export volumes, the relevance of the Namibian grape industry as revenue earner also increased significantly. The revenues from grape exports increased from € 1.9 million in 1995 to € 25.2 million in 2006.

Figure 9: Volume and value of EU grape imports from Namibia



Source: Downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14/27 March 2007.

The unit value of grape exports did not develop as advantageous as the volumes and decreased in Euro terms in the period 1998-2005 (table 7). This was however outweighed by the declining exchange rate of the N\$/ZAR which lost about 37 percent of its value against the Euro in the same period (SADC Bankers, undated).

³⁰ For 2007, the industry expects around 15,000 tons to be exported to the EU.

Table 7: Unit value of EU imports of Namibian grapes

PRODUCT	Description	Unit value of imports (€/100kg)											
		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
08061010	table grapes				242	215	193	325	266	170	194	171	193
08061021	table grapes emperor, 1 to 31 jan.	273	214										
08061029	table grapes, 1 jan. to 14 july (excl. emperor)	216	149	197									
08061050	table grapes, 1 to 20 november	255		329									
08061061	table grapes emperor, 1 to 31 dec.		203										
08061069	table grapes, 21 nov. to 31 dec. (excl. emperor)	186	190	252									
08061090	grapes (excl. table grapes)						233	285		202			
08062010	currants												30
08062092	sultanas, containers > 2 kg	130						126					
08062098	dried grapes, containers > 2 kg		134										

Source: Downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 14/27 March 2007.

2.3.1 Competition for Namibian grapes in the EU market

Around three months of the year Namibia exports grapes to the EU. As can be seen from table 8, its share in the EU market is very small. Only in December/January when the unit value of EU grape imports reaches its peak, significant market shares of more than 10 percent are reached.

Namibia's main competitor is South Africa, which meets around 50 percent of the EU's demand of table grape imports in the periods December to March. South Africa also supplies the EU market in April and May, reaching market shares of around 23 percent. In the period June to November, EU grapes are highly protected to ensure that domestic demand is mainly met by EU suppliers

Table 8: Competition for Namibian grapes in the EU market

Month (2006)	Main EU suppliers	EU imports 2006			
		Share	€000	100kg	Unit value (€/100kg)
November	Namibia	0%	20	115	172.11
	South Africa	3%	1,273	4,544	280.20
	Brazil	75%	36,086	145,867	247.39
	United States	11%	5,299	27,821	190.48
	Peru	6%	2,692	12,452	216.18
	Turkey	5%	2,634	32,838	80.22
December	Namibia	12%	11,250	44,060	255.34
	South Africa	59%	53,926	208,871	258.18
	Brazil	17%	15,300	58,817	260.12
	Peru	4%	3,289	12,464	263.91
	Turkey	3%	2,999	42,200	71.06
	Argentina	2%	2,194	10,246	214.13
	United States	1%	1,324	6,740	196.37
	Chile	1%	507	1,712	296.13
January	Namibia	11%	11,503	70,763	162.55
	South Africa	72%	73,084	417,892	174.89
	Argentina	11%	11,579	79,134	146.32
	Peru	3%	3,056	15,477	197.48
	Chile	2%	1,585	8,308	190.82
	Brazil	1%	849	4,639	182.93
February	Namibia	2%	2,152	14,024	153.48
	South Africa	57%	56,948	379,594	150.02
	Chile	23%	23,500	147,977	158.81
	Argentina	15%	14,663	122,985	119.23
	Peru	3%	2,923	19,227	152.04
March	Namibia	0%	276	1,658	166.29
	South Africa	38%	53,072	370,430	143.27
	Chile	55%	77,537	519,128	149.36
	Argentina	6%	8,359	70,046	119.33
	India	1%	1,045	7,277	143.62
	Peru	1%	784	6,069	129.22

Source: Trade data downloaded from Eurostat COMEXT database (<http://fd.comext.eurostat.cec.eu.int/xtweb/>) 27 March 2007.

Since Namibian grapes are harvested from early November to early January, they can be exported within the European winter which gives them a competitive advantage. The industry seeks to cultivate more early grapes and to shorten the time span of EU exports. The more grapes are supplied in December, the higher the unit value that can be obtained.

The EU tariff regime for grapes is highly complex. Table 9 shows the EU tariff regime for Namibia and its main competitors in the period November to March.

Table 9: EU tariff regime for grape imports, November to March

CN8	Month (2006)	Main EU suppliers	Tariff 'Emperor'			Tariff 'Other'			
			TQ	Rate	Regime	TQ	Rate	Regime	
08061010	November	Namibia				(b) (c)	1-20 11.5% or 14.4%+(a); 21-30 8%	MFN or Std GSP	
		South Africa				(c)	1-20 7.7% or 9.6%+(a); 21-30 6.4%	TDCA	
		Brazil				(c)	1-20 11.5% or 14.4%+(a); 21-30 8%	MFN or Std GSP	
		United States				(c)	1-20 11.5% or 14.4%+(a); 21-30 11.5%	MFN	
		Peru				(c)	1-20 11.5% or 14.4%+(a); 21-30 0%	MFN or GSP+	
		Turkey				(c)	1-14 11.5% or 14.4%+(a); 15-20 0% or 0%+(a); 21-30 0%	MFN or FTA	
	December	Namibia	(c)	8.0%	MFN	(b) (c)	8%	Std GSP	
		South Africa	(c)	5.3%	TDCA	(c)	6.4%	TDCA	
		Brazil	(c)	8.0%	MFN	(c)	8%	Std GSP	
		Peru	(c)	8.0%	MFN	(c)	0%	GSP+	
		Turkey	(c)	0.0%	FTA	(c)	0%	FTA	
		Argentina	(c)	8.0%	MFN	(c)	8%	Std GSP	
		United States	(c)	8.0%	MFN	(c)	11.5%	MFN	
		Chile	(e)	8.0%	MFN	(e)	0%	FTA	
	January	January	Namibia	(c)	4.5%	Std GSP	(b) (c)	8%	Std GSP
			South Africa	(c)	4.6%	TDCA	(c)	3.8%	TDCA
			Argentina	(c)	4.5%	Std GSP	(c)	8%	Std GSP
Peru			(c)	0.0%	GSP+	(c)	0%	GSP+	
Chile			(d)	4.5%	Std GSP	(d)	0%	FTA	
Brazil			(c)	4.5%	Std GSP	(c)	8%	Std GSP	
February		Namibia				(b) (c)	0% (seedless); 8% (other)	Cotonou/Std GSP	
		South Africa				(c)	3.8%	TDCA	
		Chile				(d)	0%	FTA	
		Argentina				(c)	8%	Std GSP	
		Peru				(c)	0%	GSP+	
March		Namibia				(b) (c)	0% (seedless); 8% (other)	Cotonou/Std GSP	
		South Africa				(c)	3.8%	TDCA	
		Chile				(d)	0%	FTA	
		Argentina				(c)	8%	Std GSP	
		India				(c)	8%	Std GSP	
		Peru				(c)	0%	GSP+	

Notes:

- (a) specific duty according to entry price.
- (b) ACP tariff quota for seedless grapes: 'within the limit of the quota [800 tons] 1.12-31.1 exemption; within the framework of the reference quantity [100 tons] 1.2-31.4 exemption (4) from 1.2-31.3 exemption (4).'
- (c) Global tariff quota covering all 08061010 (fresh table grapes): 9% (reduction applies to ad valorem element only, specific charges are payable; entry price regime must be complied with).
- (d) 44,974 tonnes from 1.1-14.7 2007 (37,000 tonnes increased by 5% p.a. since January 2004)
- (e) 3,647 tonnes from 1.11-31.12 2007 (3,000 tonnes increased by 5% p.a. since January 2004)

Source: UK Tariff 2007/Taric Consultation website
(http://ec.europa.eu/taxation_customs/dds/cgi-bin/tarchap?Lang=EN).

Only in December and January, Namibia is allowed to serve the EU market with its duty free annual quota of 900 tons seedless grapes. In February and March, Namibia faces the Standard GSP tariff of 8 percent for grapes others than 'Emperor'. Since Namibia exceeds its quota by far, more than 90 percent of its EU exports face the GSP tariff, which is completely born by the producers.³¹

As can be obtained from table 9, most of Namibia's competitors face a superior access to the EU market. South Africa, Turkey and Chile, which have an FTA with the EU, face a tariff of 0-6.4 percent in the period December to March. Peru, which does not have an FTA with the EU but benefits from the GSP+, can even export its grapes duty free in the for Namibia relevant time span.

2.3.2 The monetary implications of the loss of preferences for grapes

In 2006, Namibia's tariff free quota under the Cotonou Agreement covered not even 7 percent of its total grape exports to the EU. The industry's costs of losing this quota when EPA negotiations are not finalised in time is therefore comparably small. Taking the 2006 EU import volumes and values of Namibian grapes, additional duties of € 138,689 would have had to be paid if all grapes had been exported under the GSP. This amount is an equivalent of 0.55 percent of the industry's total export value in 2006. Thus, the challenge for the Namibian grape industry is most of all the high competition in the EU market and the superior market access of major developing countries competitors like South Africa and Chile.

2.3.3 Alternatives

Improved market access for Namibian grapes are either possible when entering into an EPA or when becoming eligible for the GSP+. As can be seen from table 9, GSP+ beneficiaries enjoy duty free market access for grapes exported to the EU from December to March.

Having a look at alternative export markets for Namibian grapes (table 10), it becomes obvious that they are highly geographically concentrated. In 2005, Namibia reported 62 percent of total grape exports as destined for the EU market; 29 percent

³¹ The producers only get paid once the wholesaler marketed and sold the grapes.

went to South Africa. According to the industry, the relevance of the EU as export destination for Namibian grapes is even underrepresented by these figures. Thus, around 75 percent of total grape exports would be destined for the EU. Since Namibia exports all its grapes via South Africa, exports that are officially destined for South Africa are often exported further all over the world.

Table 10: Namibia's grape exports to the World

Partner	Code	Description	Value (\$000)		
			2003	2004	2005
All --- All countries	080610	fresh grapes	8,014.6	18,544.1	25,169.2
EU25	080610	fresh grapes	439.9	9,673.6	15,658.4
South Africa	080610	fresh grapes	7,515.7	8,395.8	7,256.7
Russian Federation	080610	fresh grapes		54.8	950.9
United States	080610	fresh grapes			595.2
United Arab Emirates	080610	fresh grapes			339.4
Hong Kong, China	080610	fresh grapes			227.5
Saudi Arabia	080610	fresh grapes	47.6	84.5	52.0
Angola	080610	fresh grapes	11.1	39.4	38.3
Ukraine	080610	fresh grapes			24.4
Canada	080610	fresh grapes			19.8
Iceland	080610	fresh grapes			6.4
Norway	080610	fresh grapes			0.3
Panama	080610	fresh grapes			0.0
Norfolk Island	080610	fresh grapes			0.0
China	080610	fresh grapes		274.6	
Yemen	080610	fresh grapes		21.1	
Botswana	080610	fresh grapes		0.3	
Japan	080610	fresh grapes		0.0	
Unspecified	080610	fresh grapes	0.3		
All --- All countries	080620	dried grapes	0.2	22.3	0.1
South Africa	080620	dried grapes		21.8	0.1
EU25	080620	dried grapes		0.1	0.0
Angola	080620	dried grapes		0.3	
Unspecified	080620	dried grapes	0.2		

Source: UN COMTRADE database, downloaded 19 March 2007.

The diversification of export markets for Namibian grapes is still in its infancy. Only in 2005, Namibia reported grape exports to new markets, like Russia, USA, United Arab Emirates and Hong Kong.

Despite AGOA, the US market is difficult to tackle, even after having acquired an import permit which confirms that the industry complies with the high standards of the US Department of Agriculture.³² Due to high compliance costs and the depreciation of the US\$ vis-à-vis the €, the USA has lost attractiveness as export destination and Namibian grape exports continue to focus on the EU market.

³² The USA requires that Namibian grapes are cooled by exactly -1.5 degrees during transport which is difficult to guarantee. After having reached a US harbour, the grapes need to be fumigated which affects the quality of the fruits considerably and reduces their shelf life. Namibia and South Africa, which faces the same problem, are currently negotiating with the US how to balance consumer concerns and exporters interests. Since the USA wants to show that AGOA works, there is also an interest from the US-side to lower non-tariff barriers.

3 The relevance of EU preferences for domestic value added and economic diversification

3.1 Horizontal and vertical diversification efforts in the meat and grape industry

Though manufacturing activities have considerably expanded since independence and grew by 6.7 percent p.a. in the period 2001-04³³ they are constrained by the small domestic market and missing backward and forward linkages. Food processing (meat, fish, beverages, dairy products) is the main manufacturing activity of the Namibian economy and EU preferences have contributed significantly to this development.

a. Targeting valuable niche markets

Meatco is the only cattle abattoir that slaughters for the EU market. Meatco built up three companies in the UK, the Netherlands and Germany, which also market beef from Botswana, acting as import and sales agents in the EU market. However, in the past, Namibian beef was mainly marketed in low value market segments, e.g. in the pub market. Meatco has realised the relevance of positioning its products into higher valuable markets and is currently changing its market strategy. By October 2007, the EU marketing shall be done in joint-ventures with EU-based companies. Currently, consultations with the UK retail chain Tesco and the restaurant chain Maredo are underway how to market and brand Namibian meat in the EU.³⁴ The opportunities of entering higher valuable market niches should be explored while still continuing exporting in the traditional way. If successful, exports shall be shifted away from no-name bulk sales towards the supply of a reputable brand.

Also the expanding grape industry seeks to enter into more valuable market segments. According to the German Federal Office of Consumer and Foodstuff Protection³⁵ Namibian grapes have the lowest pesticide level in the world. All its competitors show all by far higher pesticide levels and even exceed the highest acceptable level. The industry currently explores options how to market this competitive advantage in cooperation with EU retailers.

³³ EIU, 2006:43.

³⁴ In the South African market Meatco follows a similar strategy and markets 'free range Namibian meat' through Woolworth.

³⁵ Bundesamt fuer Verbraucherschutz und Lebensmittelsicherheit.

b. Securing stable export quantities of premium quality

As discussed, Namibia faces problems to fulfil its quota of premium cuts in the EU market. The limited supply capacity also constrains diversification efforts since Namibia faces difficulties to guarantee the therefor necessary volumes.

To increase the quality and number of slaughtered cattle, the Ministry of Agriculture and Water Resources explores options to establish a feedlot system. The idea is that Meatco will be given land and water permits for the establishment of feedlots. Meatco would buy weaners from the farmers, thus competing with South African on-hoof importers, and feed-up the animals with the objective to increase the slaughtering throughput. After having slaughtered and marketed the cattle, the surplus sales would be given back to farmers in form of better prices, thus increasing the number of weaners marketed to Meatco. Thereby it is not Government's intention to increase the number of total cattle but to increase the slaughter capacity and to improve the quality of slaughtered cattle.³⁶

The grape industry seeks to further expand its production and to fully exploit its advantage of 'first come, first serve'. The harvest of early cultivars shall start in the first week of November and the final harvest shall be before Christmas so that EU exports are completed by early January. This is currently not attractive due to the high tariff Namibian exports face in November (see table 9). Since the retail giant Tesco has already signalled interest to increase its offer of Namibian grapes in November and December, the EU offer of duty and quota free market access is very promising for the industry. To reduce the time span of supplying the EU market, which takes currently around 21 days, the industry also explores options to ship via Lüderitz. This would save around 5 days and take away strains from the Cape Town harbour which runs already beyond its capacities.³⁷

c. Diversifying into new products

In addition to bovine meat, Namibia is eligible to export 500 tons of deboned lamb at preferential conditions to the EU. Though these preferences apply to all ACP countries, Namibia is the only one that fulfils the strict EU requirements and has a commercial interest in exporting lamb. However, since New Zealand has a quota of 226,000 tons p.a. in the EU market, the competition for lamb is very high. To date, Namibian cannot compete successfully since it is limited to the export of boneless lamb cuts. Therefore, Namibia explores options to export bone-in lamb to the EU. Though bone-in lamb exports to the EU also face competition from New Zealand, Australia and Chile, Namibia is confident to become a competitive supplier. First inspections from EU veterinaries took place in March 2007 to determine whether they may consider approving Namibia for bone-in export status.

Another Namibian meat export is Springbok, which is currently exported at a very low scale (around 90 tons p.a. to Norway). Since only a limited number of free-range

³⁶ This is most of all important in the NCA. Since the EU market requires bigger cattle than what is currently produced north the VCF, the Government intends to improve the quality, and over time, to move the VCF northwards.

³⁷ The upgrading of the Lüderitz harbour would also enable South African fruit exporters around the Oranje river to ship via Namibia. Investigations of the Namibian and the South African Governments are currently underway.

games can be slaughtered without endangering the species, exports are limited. However, the industry sees scope for expanding exports (by exporting also Kudu and Oryx) and for entering into more valuable niches by improved marketing ('low fat, healthy meat').³⁸ The industry is currently building a small facility to slaughter big game in Windhoek. The EU market, to which game can be exported duty and quota free, has not been explored yet.³⁹

The Namibian grape industry exports currently mainly seedless and seeded table grapes. There are, however, attempts to diversify production into raisins and to produce grape liqueur for the regional market. Also, opportunities to grow citrus fruits, hoodia,⁴⁰ pomegranate and olives are explored. The almost non-exhaustible availability of land and water along the Oranje river offers great potential to cultivate semi-desert land, to create employment and income sources for disadvantaged Namibians and to further diversify and expand Namibian fruits and vegetable production.

3.2 Duty and quota free market access – only a short-term solution

On 4 April 2007 the European Commission announced that it aims to offer duty and quota free market access for all ACP products except sugar and rice⁴¹ if ACP countries enter into an EPA by the end of this year. This offer is highly attractive for both, the Namibian meat and grapes industry.⁴² Taking the volumes Namibia exported in 2005 into account, the saved import duties would be € 2.17 million for meat exports and € 1.88 million for grapes.

The EU offer of exporting duty and quota free when EPAs will be finalised by the end of this year, might also be attractive for processed meat products, such as burgers or sausages. This depends, however, on a variety of factors currently investigated by the industry, such as compliance with standards and volumes as well as on the prices obtained in the EU market.

Obviously, the value of duty and quota free market access is diminishing over the next years. Not due to increased competition from other ACP countries⁴³ but due to the decreased exclusiveness of preferences. As the discussion showed, potential new EU member states, like the Balkan states and Turkey but also Central American GSP+ countries face already the same (or even better) market access than ACP

³⁸ So far, Namibian lamb and Springbok is labelled as 'NamLamm' and NamWilde' and mainly distributed by a wholesaler in Norway.

³⁹ Games, other than rabbits or hares (CN 02089020 and CN 02089040) enter the EU market at a zero percent MFN tariff.

⁴⁰ Unilever bought the right to market hoodia products from southern Africa. The kernels are used for the production of natural diet pills. To date, the commercial production of hoodia is still in its infancy but there are plans to plant the crop on a commercial basis in Außenkehr.

⁴¹ Sugar and rice will be allowed to be exported duty and quota free by 2015.

⁴² For the fishing industry nothing would change. Namibian fish enters the EU market already duty free.

⁴³ Namibia and Botswana are the only ACP countries that comply with EU health and safety regulations and can export meat product. Grapes could also be supplied by other ACP countries. However, taking into account the current performance of Namibian grape exporters, which compete successfully with Chile and South Africa despite facing less favourable market access, other ACP countries will hardly become serious competitors.

countries for many products. Since 2000, the EU has also started to include its agricultural markets in FTAs with developing countries, such as South Africa or Chile. Even most sensitive products, such as beef, become included on a quota basis. Though EU farmers lobby against giving further concessions to developing countries, e.g. in ongoing FTA negotiation with Mercosur, there is a clear trend of including the agricultural sector into FTAs. The EU has entered into FTA negotiations with several developing countries since it is highly interested to improve its access for industrial products and services, to secure the investment and intellectual property rights of EU companies and to fix regulations for geographical indications of EU products. To do so, it needs to offer something in return. This was the case when negotiating with South Africa and Chile and this will also be the case when entering into an FTA with Mercosur where Brazil and Argentina strongly lobby for improved access to the EU agricultural market.

Moreover, the CAP is under continued pressure at WTO and within the EU where single member states (such as UK) would like to see a more liberalised market while others (such as France and Poland) would like to conserve the protectionist nature of the EU agricultural policy. Due to budget constraints, enlargement policy, WTO pressure and a shifting policy focus, it is assumed that the 2013 CAP reform will continue to result in declining protection and thus, reduced import prices. To what extent this is happening and what are the implications for Namibian beef exports is beyond the scope of this study. However, it is fair to say that the erosion of EU preferences for Namibian beef will continue.

Therefore, market and product diversification seems to be necessary for Namibian agricultural exports in the medium term. The Namibian agricultural sector needs to avoid that current EU preferences limit its efforts to upgrade products and to explore new markets. EU preferences are no longer “secure” and Namibia is well-advised to explore alternative markets and new market niches.

The chances that this will be achieved are good. In fact, Namibia has both: high-quality products that have an advantage over major competitors and preferential access to a (still) protected market. In that sense, the meat and grapes industry might learn from the karakul industry, which successfully developed the brand name ‘Swakara’ - a synonym for high-quality karakul pelts from Namibia that set the price at auctions.

4 The social implications of the loss of preferences

4.1 In the meat and livestock industry

Agricultural activities contributed in average to 5.7 percent of Namibia's GDP in the period 2001-2005. Though the service sector is by far the biggest earner of national GDP, agriculture is the central income source for most Namibians: Around 70 percent of the population is wholly or partly dependent on agriculture with livestock rearing as major income source (EIU, 2006:26). In total, there are an estimated 159,500 communal farming households which have in average 7 cattle per household (PCW, 2005:58). Assuming that each household covers 6 people, livestock rearing provides income for almost one million people, which are half of Namibia's population. In Namibia, livestock rearing is considered to be an important factor for reaching the Millennium Development Goals (MDGs) by serving as nutrition source, enabling the poor to cover education and health expenses and performing as important social network. Moreover, livestock provides incentives to manure the soil and to harvest crops (Perry et al., 2003:3, 39).

The commercial agricultural sector in Namibia contributes to around two third of agricultural output. Farming livestock and animal product sales are the biggest contributor to agriculture accounting for around 70 percent of total agricultural output while the communal sector contributes to less than 20 percent (MoA, 2007:10). In fact, livestock production is the backbone of Namibia's agricultural sector and also drives, together with fish processing and beverages, value addition of agricultural processing (BoN, 2006:6-7).

The total employment in Namibia's abattoirs is currently 1,461 whereby the NCA abattoirs employ 203 workers. Taking into account that there are only few employment opportunities in the northern regions and unemployment rate is about 60 percent⁴⁴ the two abattoirs in Oshakati and Katima Mulilo are important employers.⁴⁵ However, the contribution of the NCA to poverty alleviation goes beyond formal employment: about 3000 communal farmers market in average 7-8 cattle to Meatco, which offers a stable sales opportunity and enables the farmers to operate in the cash economy.

In 2005, Namibia had a livestock of 2.2 million cattle, of which 35 percent were in communally owned and 65 percent were commercialised (MoA, 2007:22). Though more than 50 percent of Namibia's total livestock originates from the NCA, less than 2 percent of total production is marketed to NCA abattoirs. Currently, only around 5 percent of the cattle in the NCA are slaughtered, half by Meatco and half by informal actors. Thus, the lack of throughput is a major problem of the NCA abattoirs. The reasons for the low off-take are both, culturally and economically. Owning livestock is regarded as sign of wealth in the NCA so that mainly old cattle are marketed. The economic reasons for the low off-take rate are, however, at least as important. Quarantine requirements and transportation to and from the quarantine camp result in high costs and reduce the weight of the cattle, which results consequently in lower

⁴⁴ EIU, 2006:33-4.

⁴⁵ The industry fears that close to 800 jobs will be lost if it is no longer able to export to the EU.

returns per unit.⁴⁶ The limited marketability of offal, hides and meat cuts in the South African market compared to premium meat cut and on-hoof exports south of the VCF contribute to the lower profitability of the NCA abattoirs.

Since 1991 Meatco invests around one third of the preferences obtained from Lomé/Cotonou⁴⁷ into the rural development of the meat industry, another third into the upgrading of existing slaughtering facilities, and another third to stabilise producer prices which are well above the South African level. In this way, Meatco linked its de facto monopoly to benefit from the EU preferences directly to its engagement in the NCA abattoirs.⁴⁸ In addition to the upgrading of slaughtering activities, Meatco's investment focuses on research, extension and training facilities, veterinary controls and infrastructure development. Per annum Meatco spends around N\$ 4 million to train farmers and to promote a market-oriented culture north of the VCF.

Since 2004, the "National Livestock Marketing Scheme" has been put in place aiming to increase the number of marketed NCA cattle further. The Government and Meatco assist northern communal farmers to cover the high costs of quarantine and transport by paying an additional premium of N\$ 270 per cattle.⁴⁹ This has resulted in an increase in slaughtering of 65 percent from 2004-2005. However, with around 21,300 cattle the slaughter capacity in the NCA abattoirs is still well below the throughput in the south. In 2006, only 10.5 percent of total slaughters were done in the NCA abattoirs. Indeed, the NCA abattoirs, which operated at 21 percent (Oshakati) and 60 percent (Katima Mulilo) of their capacity in 2005, make substantial losses. For the period 1993-2006 the annual operational loss was around N\$ 10 million p.a. for both NCA abattoirs, which is about 1.5 percent of Meatco's annual turnover.

The industry is not only subsidising the losses of the NCA abattoirs but also offers one price structure for the whole country that is considerably higher than what it would be without exporting to the EU. Due to Cotonou preferences Meatco pays a premium to its farmers, which was in average R 526 per cattle in 2006.⁵⁰ Taking into account that the formal market sets the price and the incentive for farmers to market their cattle, the price Meatco is able to offer contributes significantly to the marketability of meat. If the formal price drops below a certain level, farmers will prefer to keep their livestock.

Another important socio-economic contribution of the livestock industry is its support of the land reform process, a top priority of the Government. Since independence, the Government acquired 197 farms resettling 1,616 families. However, a lack of start-up capital, poor rural infrastructure and a lack of training and farming knowledge have

⁴⁶ Though Meatco takes all healthy animals offered its offer has not been always attractive to communal farmers since prices were only paid after the cattle had been quarantined. To increase the number of cattle marketed, Meatco is now ready to pay 50 percent of the price before the cattle goes into quarantine.

⁴⁷ Defined as net profit of exports to the EU minus net profit of exports to South Africa minus capital investment required to achieve EU approved export status (PWC, 2005a:32). The investment into the rural development of the meat industry was around N\$ 35 million in the period 1994-2005 (PWC, 2005a:55).

⁴⁸ Meatco was not given the right to be the sole exporter to the EU but has become so due to volumes.

⁴⁹ The average weight of cattle north the VCF is 180 kg. The government pays N\$ 1 per kilo and Meatco N\$ 0.50. In 2006, the scheme cost the government N\$ 2.94 million and Meatco N\$ 1.47 million.

⁵⁰ Compared to the price the farmer would have achieved in South Africa minus average transportation costs from Namibia to South Africa.

jeopardised the success of resettlement policies. The Government responded to these problems by giving land south the VCF to livestock farmers who own a certain number of cattle and have already obtained a certain farming experience. The farmers are relocated to land suitable for livestock production and receive management and financial training as well as technical support to improve their productivity with the objective to become integrated into commercial farming.⁵¹

The resettlement of livestock farmers should accelerate growth processes: Commercial farming increases the number of jobs at resettlement farms, which results in increased production and positively impacts downward processing industries. Increased income and new products create demand for local service providers which in turn stimulate farming activities. In this way, the resettlement policy aims to improve the participation of formerly disadvantaged Namibian into commercial farming activities, to increase income in very remote areas and to decrease rural-urban migration.

To date, preferential access to the lucrative EU market has resulted in stable prices that are well above the South African level. When the EU market would be lost, the price set by the formal market will drop, thus affecting the general price level in the livestock industry. A drop in meat prices would also have a direct impact on the resettlement farmers who might lose their economic basis.

Moreover, it must be regarded as doubtful that Meatco continues to fully subsidise the NCA abattoirs with N\$ 10 million p.a. if it loses the EU market. If, however, the current performance of the NCA abattoirs can no longer be guaranteed, there is the risk that the VCF moves southwards which would, in the worst case, imply that the whole country will be classified as potential FMD zone. This would require the quarantine of all cattle and make overseas exports impossible. Furthermore, on-hoof exports to South Africa and exports of offal would no longer be allowed.

This scenario shows how much Namibia's access to the EU market, the performance of its NCA abattoirs and the access to the South African market are interlinked. The costs of loosing the EU market would therefore be much higher than what has been calculated as immediate monetary losses.

4.2 In the grape industry

The Namibian grape industry is a successful example of the expansion and diversification of ACP exports in the EU market – and of how they are constraint by EU import restrictions. As the competition analysis showed, the Namibian grapes industry faces less favourable market access than that of its main competitors from

⁵¹ Namibia has around 4,500 commercial farmers, half of which are organised at the Namibian Agricultural Union (NAU). The NAU and the Namibia National Farmers Union (NFFU), which represents mainly communal, resettled and emerging commercial farmers, created the Livestock Producers Forum in 2004. Since common farming interests overlap, these two organisations built a common institution which is used to exchange contacts and to deliver producers support. The Livestock Producers Forum, which also gets support from the 9th EDF, organises for instance workshops and mentor programmes for emerging farmers. One important objective of these support programmes is that producers comply with EU standards and are fully incorporated into commercial farming activities.

South Africa and Chile. Considering the tight profit margins grape producers face in the EU market, the existing tariff of 8 percent can put them out of business.

The Namibian grape industry only exists since the early 1990s, starting its business in the semi-desert Karas region. Around the Oranje river, which has water throughout the year, irrigation systems have helped to cultivate the grapes. Today, the industry covers nine companies and three branches that have a total of 1,550 ha under production. The Namibian grape industry employs around 3,000 permanent and 6,500 casual workers (five months per year), most of them working at the Außenkehr Farm on the Oranje River. Because of the grape industry, people migrated from the Okavango and Oshakati regions to the South. Today, around 16,000 people live around Außenkehr, all of them dependent on the grape industry, which is the only employer in this remote area.⁵² In order to supply the growing informal settlements with basic needs, the industry built up water and electricity spots, a school, a police station and a private clinic. The ongoing movement of people to the Karas region and the money that has become available also resulted in the creation of retail stores and the growth of service providers. In 2004, the grape industry donated 600 ha of land to the government to develop public infrastructure for this new settlement. In the meanwhile, the creation of a new town has been approved and by the end of this year 250 plots with running water shall have been created.

5 Summary of findings and policy options

5.1 Summary of findings

5.1.1 The economic costs of the loss of preferences

Three products, fish, meat and grapes, account for 100 percent for Namibia's agricultural exports to the EU. All products depend on the EU as their major export market and on Cotonou preferences. Losing the current level of preferences by the end of this year would cost Namibia immediately more than € 45 million p.a., which is more than four times what Namibia receives annually under the 9th EDF.

The medium-term costs of losing Cotonou preferences by the end of this year will be much higher. For meat, facing tariff increases up to 130 percent, which is equivalent to 65 percent of total sales revenue, would result in the immediate cessation of all exports to the EU. For fish, where the downgrading to GSP would be an equivalent of 6.4% of total EU export revenue, the increased tariff might be absorbed by the importers. However, though the general price elasticity of demand is low for fish products this is not the case for all species. Thus, also the fish industry might be negatively affected by EU tariff increases.

For grapes, the tariff increase would only be an equivalent of 0.55% of total EU export revenue and would not immediately affect the business. What is however already affecting the Namibian grapes industry is the stiff competition in the EU market where its major competitors Chile and South Africa are granted superior market access than the ACP country Namibia.

⁵² Before the grape industry started its business about 50 people lived on the Außenkehr farm and grew vegetables.

In the case of the loss of the current preference level, all Namibian agricultural exports to the EU would face less favourable market access than their major competitors. Most important, the countries that are treated superior by the EU are not only developing countries with which the EU has FTAs but also countries that still benefit from the unilateral preference system GSP+. In the case of meat products, even countries that benefit from EU tariff quotas under the WTO Agreement on Agriculture (AoA) would be better off than Namibia.

Though Namibia faces supply problems, its beef exports would remain competitive in the absence of the re-imposition of punitive tariffs that would place Namibia in a worse position than some upper-middle and industrialised countries. By contrast, if non-preferential tariffs were applied, given the high supply capacity and competitiveness of Latin American producers, all meat exports to the EU will stop immediately. Hence transfer from Cotonou to MFN will kill Namibian beef exports to the EU.

5.1.2 EU market access and agricultural diversification

The current EU preferences imply substantial savings for meat imports from Namibia and give Namibian beef a competitive advantage compared to other beef suppliers. The protected access to the EU market for premium cuts has enabled the Namibian meat industry to upgrade production facilities and to meet international standards. In this way, the quota given under the Beef and Veal Protocol contributes significantly to the marketability of Namibian meat products, not only in the EU but also in the South African market. Secured access to the EU premium price market has moreover significantly contributed to the development of the NCA abattoirs and the final objective of including communal farmers into commercial farming activities.

The meat industry has undertaken substantial investments to comply with EU standards. Though only around 40 percent of total meat exports are destined for the EU market, all meat exports comply with the strict EU standards. The costs of compliance are high and some observers argue that these costs do not bring sufficient benefits since most meat exports go to South Africa. However, one should bear in mind that the compliance with EU standards gives Namibia a competitive advantage confirming the lowest BSE risk and an FMD-free status. This has enabled the industry to gain a competitive advantage over South African producers and to supply South African retail chains and restaurants. The full compliance with EU standards is also regarded as very helpful to diversify exports to new markets.

Both, the meat and the grape industry have realised the relevance of positioning their products into higher valuable markets; despite high costs and difficulties. Meatco is busy changing its market strategy and to build-up a reputable brand in cooperation with UK retailers. The grape industry seeks to market the world's lowest pesticide level of Namibian grapes in cooperation with European retail chains and to build on its competitive advantage of 'first come, first serve'. Moreover, both industries explore options to diversify their products. The EC proposal of duty and quota free market access if EPA negotiations are finalised in time would, if fulfilled, be promising. The meat and the grape industry would each save around € 2 million p.a.. Moreover, the grape industry would be enabled to export already in November where it currently still faces high EU import tariffs. The amount the industries save when exporting duty free to the EU could be used to explore new market niches and to

invest into the upgrading of products and production. In the case of the meat industry, the money would also serve the purpose to provide price support for farmers, to further upgrade the NCA abattoirs and to cover the costs of compliance with EU standards.⁵³

5.1.3 The social costs of the loss of preferences

The positive contribution of exporting to the EU for the economic and social development of Namibia cannot be overemphasised. Most obvious is the poverty alleviating impact in the grape industry: The successful exploitation of a niche market – the supply of high-quality grapes during European winter time – has provided an income for around 16,000 people. Indeed, the development of the Namibian grape industry has been a success story development economist dream about: built-up out of nothing, the grape industry has become an important employer and exporter within one decade.

Both, the meat and the grape industry have provided infrastructure to rural areas: from access to water to roads and electricity. This private investment and the creation of jobs have been complemented by public investments and have had the effect of accelerating growth. Increased income has attracted investments from retail shops, warehouses and other services. Informal settlements develop into towns which brings benefits to whole communities. In this way, Meatco's investments in the NCA and the creation of the grape industry in the Karas region have brought structural change to remote rural areas.

For the meat industry, the EU market is the most important export destination and its attractiveness has considerably supported the country's socio-economic development, most of all in the NCA where half of the population live. This goes far beyond creating employment opportunities in the abattoirs. Most of the people in the NCA depend heavily on livestock rearing as only income source. By offering a stable sales opportunity, Meatco gives currently 3000 communal farmers the chance to operate in the cash economy. The premium price obtained in the EU market have enabled Meatco to stabilise producer prices, to upgrade slaughtering facilities and to improve the performance of the NCA abattoirs. Meatco's engagement into the NCA abattoirs is directly linked to EU preference and has contributed significantly to the marketability of NCA meat.

By setting the formal price in the livestock industry, Namibia's meat exports to the EU have also contributed to the Government's resettlement policy. Unlike crop farming, livestock farming still provides a viable income base. A drop in meat prices as a result of the loss of the EU market will not only have negative implications for resettlement farmers who might lose their economic basis but for all livestock farmers in Namibia. Reduced prices will also take away marketing opportunities for NCA

⁵³ In this way, the saved import duties would offer the industry the chance to increase the throughput in its abattoirs and increase the volume of slaughtered cattle. However, Namibia will never become an internationally competitive net exporter like Argentina and Brazil due to capacity constraints. Like all ACP countries, Namibia is a small developing country that seeks to position itself in lucrative niche markets. The protective attitude of the French agricultural lobby and its nine EU comrades to avoid immediate duty and quota free market access for ACP countries (which export already a share of 97 percent of their exports duty free) is therefore completely non-understandable.

livestock farmers and further reduce the throughput in the NCA abattoirs. If, however, the viability of NCA abattoirs can no longer be ensured, there is the risk that the VCF moves southwards and thus, the area classified as FMD buffer zone will move southwards. This would not only make overseas exports impossible but would also considerably limit the options to target the South African market. The costs for the Namibian meat industry of losing current EU preferences are therefore not limited to the loss of the EU market but imply the high risk of losing any opportunity to export Namibian meat.

Given the beneficial social impact of the *status quo* the choice before the Commission is weighty. Generalised liberalisation of the European agricultural market is a desirable goal even though it will result in the erosion of preferences (and, possibly, adverse social consequences if Namibia cannot compete). But the policy issue at present does not concern the possible collateral damage for Namibia of European liberalisation; it concerns the social impact in Namibia of increased EU protectionism against the country's exports. It is in the hands of the Commission either to support the meat, fish and grapes industry (giving it at least the chance to adjust to preference erosion as and when this occurs) or to bring these sectors to an untimely end by imposing import controls – and to be responsible for the social consequences.

5.2 Policy options

This final section of the report is intended to provoke discussion. This shall, in turn, provide guidance to the Government's and the private sector's consideration of the issues facing the beef and grape exports to the EU.

What can be done when Namibia faces EU import tariffs despite negotiating an EPA with the EU in good faith and despite the fact that it has de facto opened its market without receiving anything in return?

Including BLNS *de jure* into the TDCA is the most logical option and also the one that would be easily feasible by the end of this year. It would imply that Mozambique, and Angola are left aside.⁵⁴ Also, it might imply compromises on different treatments of exports into the EU market⁵⁵ and on additional protectionist needs of BLNS.⁵⁶ It is not the objective of this study to discuss the likelihood and meaningfulness of the SADC EPA proposal. The merit, however, would be that such an EPA builds on the desired 'institutionally coherent and economically integrated core group' (EC 2006), harmonises EU-SACU trade relations and could be comparably easy and speedy achieved.

However, to date the EC applies a neo-mercantilist approach in negotiation with the SADC EPA. A SADC CET is regarded as starting point, implying that *all* SADC EPA countries (including the four least developed countries) make a common offer.

⁵⁴ Whether Tanzania remains part of the SADC EPA or opts for an EAC/ESA EPA remains open.

⁵⁵ The EU is not ready to grant South Africa the same preferences it gives to other ACP countries (EC, 2006).

⁵⁶ Due to its more advanced development degree South Africa has different priorities than other SADC countries. Thus, the TDCA protects industrial sectors (such as textiles or automotives) that do not exist in other SADC countries and opens up for agricultural products that are regarded as sensitive in many SADC countries. Since the EPA exclusion basket that is likely to be accepted by the EC covers only around 20 percent of bilateral trade, the options for additional protection beyond the TDCA are limited (Stevens and Kennan, 2007).

At the same time the EC refuses to offer the same to the members of the SADC EPA “due to South African competitiveness” (EC, 2006:3).⁵⁷ The alleged development-friendliness of such an approach that would hamper intra-regional trade and production networks by cumbersome rules of origin proofs seems rather hypocrite. However, since it seems unlikely that EU member states will accept immediate duty and quota free market access for South Africa, BLNS might be better off when accepting a ‘divided’ SADC EPA offer, which would guarantee all countries apart from South Africa LDC market access. Indeed, for Namibia, the EU offer is particularly attractive. Taking the export volumes of 2005 into account, producers would have saved a total of around € 4 million. Though these import tariffs are in theory covered by EU importers, they are de facto deducted from producers return.

Namibia is as part of the SADC EPA fully committed to finalise EPA negotiations by the end of this year.⁵⁸ However, it is out of its hands to do if South Africa and the Commission do not agree on a common agenda. Since seven years Namibia, Botswana, Lesotho and Swaziland pay a price of not being able to negotiate trade agreement independent from South Africa. They are locked into the TDCA and open their markets according to the liberalisation schedule negotiated by the EU and South Africa. So far, they have not received anything in return. From January 2008 on they might even be worse off – despite being de facto part of a reciprocal trade agreement with the EU.⁵⁹

If the EC continues to threaten imposing GSP/MFN duties on Namibian imports from January 2008 on, Namibia should, together with Botswana and Swaziland, think about threatening the EC. Together with EU importers of BNS agricultural products a campaign could be launched announcing to challenge the European Commission (eventually in the European Court of Justice) for illegal taxation if it imposes import duties from 01 January 2008 - violating its own provisions. EU importers have on several occasions challenged the legality of Commission trade actions with successful results.

The EC does not become tired to emphasise that EPAs are ‘development tools’ working towards the ‘development of ACP countries’. If this really is the case, it is time to prove the alleged development friendliness of EPA and to grant BNS countries immediate duty and quota free market access.

⁵⁷ In short, the position of the EC is that it aims for improved market access to the SADC EPA market without improving the market access for South Africa while South Africa aims to improve its market access to the EU without granting further concessions.

⁵⁸ Information obtained from the Ministry of Trade in Industry and the Agricultural Trade Forum.

⁵⁹ The private sector in Botswana, Namibia and Swaziland (BNS) has developed a tri-member state agreement on market access for beef that is currently discussed within the Governments. After ratification is shall be passed on to the SADC Secretariat which will use the document to point out the economic and socio-economic relevance of the Beef Protocol for BNS countries.

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Annex 2: List of interviewees

Company / Institution	Person to be interviewed	Job title	E-mails
Agra Cooperative	Mr. Peter M. Kazmaier	Chief Executive Officer	peter@agra.com.na
Agribank	Mr. Hans Stier	Chairman	stihen@iafrica.com.na
ATF - Namibian Agricultural Trade Forum	Mr. Jurgen Hoffmann Ms. Nditah Nghipondoka-Robiati	Senior Trade Advisor Counterpart to the Trade Adviser	jurgen@nammic.com.na nrobiati@nammic.com.na
Delegation of the European Commission to Namibia	Dr. Elisabeth Pape Mr. Alain Joaris Mr. Erhard Loher	Head of the Delegation Head of Economic and Social Sect. Head of Rural Development	Elisabeth.pape@europa.eu alain.joaris@ec.europa.eu erhard.loher@ec.europa.eu
FHC Brands (Pty) Ltd.	Ms. Diana Musesler	Director Corporate Affairs	dmusesler@hartlief.com.na
Grape Valley Management Company	Mr. André Vermaak	General Manager	nagrapex@africaonline.com.na
Meat Board of Namibia	Paul J. Strydom Mr. Willie Schutz	General Manager Information Manager	pjstrydom@nammic.com.na willie@nammic.com.na
Meatco	Mr. Kobus du Plessis Mr. Jannie Breytenbach Mr. André Mouton Mr. Wallie Roux	Chief Executive Officer Manager of Abattoirs Marketing Manager Market Researcher	kduplessis@meatco.com.na jbreytenbach@meatco.com.na amouton@meatco.com.na wroux@meatco.com.na
Ministry of Agriculture, Water and Forestry	Mr. Paul Smit Mr. Bernd Rothkegel Mr. Otto Hübschle	Deputy Minister Director of Planning Director Veterinary Service	smitp@mawrd.gov.na rothkelb@mawrd.gov.na huebschleo@mawrd.gov.na

Company / Institution	Person to be interviewed	Job title	E-mails
Ministry of Trade and Industry	Mr. Andrew Ndishishi	Permanent Secretary	ndishishi@mti.gov.na
Namibian Orange River Table Grapes Association (Nagrapex)	Mr. Achilles de Naeyer	Chairman	adnl@attglobal.net
Namibia Agricultural Union	Mr. Harald Marggraff	Manager: Commodities	meat@agrinamibia.com.na
	Mr. Claus Hager	Manager: Development	claus@agrinamibia.com.na
Namibian Agronomic Board	Mr. Christof Brock	Chief Executive Officer	christof@nammic.com.na
Namibia Trade and Poverty Programme (NTPP)	Dr. Ben Fuller	Executive Manager	ben@fuller.na
National Planning Commission (NPC)	Ms. Dagmar Honsbein	Deputy Director Development Co-operation Resource Management	dhonsbein@npc.gov.na
Transworld Cargo (Pty) Ltd.	Mr. Norbert Liebich	Director	nliebich@wdh.transworldcargo.net
Veterinary Council of Namibia	Dr. Alexander Toto	State Veterinarian	toto@nammic.com.na

Annex 3: TERMS OF REFERENCE

For a Consultancy:

To analyse the economic and social effects of a loss of preferential market access for Namibian agricultural products to the European Union

1. BACKGROUND

- 1.1 Namibia is classified as an arid to sub-arid country with limited production potential for staples, fruit and vegetables. However, Namibia is one of a few countries in Africa where livestock can be raised under free-range conditions on natural grazing, without any artificial means to enhance growth.
- 1.2 Namibia has a livestock population of about 3.2 million cattle, 2,5 million sheep and 1,2 million goats. Livestock rearing contributes mainly to the livelihood of the majority of Namibians.
- 1.3 For veterinary control purposes, Namibia is divided into two zoo-sanitary zones. The southern zone has been free of Foot and Mouth Disease (FMD) for over 40 years, while the other zone (bordering Namibia's northern neighbours) is a quarantine zone where regular veterinary inspections safeguard the country from diseases endemic to neighbouring countries. The former has been declared FMD-free by the International Veterinary Organisation (OIE).
- 1.4 Shortly after independence in 1990, Namibia became a signatory to the Lomé IV Convention. This membership afforded the country preferential market access to the European Union (EU) under the Lomé Beef Protocol. The preferential access is in the form of a duty-free annual export quota with an in-quota special levy.
- 1.5 Also, Namibia is exporting game meat under the same conditions as beef exports to the EU. The investigation will also address the effect of loss of market access to the game export sector of Namibia. As this sector is supportive to the small scale farming sector in the South of Namibia, it contributes on a large scale to the development of these farmers.
- 1.6 Namibia is also eligible to export deboned lamb (200 ton) and table grapes (900 ton) to the EU at preferential conditions. However, these small quotas are not exclusive to Namibia, but are available to all African, Caribbean and Pacific (ACP⁶⁰) countries.
- 1.7 Currently the volume of Namibia's table grape exports is about 25 000 ton at GSP provisions. The import duty on table grape paid by Namibia in the marketing season 2006/2007 amounted to N\$ 37 800 000.
- 1.8 Beef exports from Namibia to the EU markets are only allowed from the FMD-free zone and strict controls by the Namibian Directorate of Veterinary Services are in place to certify exports to this effect. In addition, Namibia has at a high cost yet with financial support from the EU, implemented the requirements of full traceability of all exported red meat and table grapes (farm to fork principle). Presently Namibia is the only country in Africa where such measures have been fully implemented.
- 1.9 Namibia operates four abattoirs that are registered by the European Commission (EC) for export to EU member states, of which three are presently approved for such exports. Annual inspections by EC inspectors safeguard adherence to food safety, transport, slaughtering and processing standards.

⁶⁰ ACP countries: 79 African, Caribbean and Pacific states with former colonial ties with EU countries.

- 1.10 The EU preferential market access is of paramount importance to Namibia, because it enables the Government, through private sector intermediaries, to finance development activities in the rural areas of the country and as such, also contributes to the feasibility of the ongoing land-reform and farmer-resettlement policies in Namibia.
- 1.11 The EU beef export market was built over time under the provisions of the Lomé and Cotonou Beef Protocols to the benefit of the total livestock industry of Namibia. However, from a development perspective, the main beneficiaries are the small-scale farmers in the quarantine zone and the newly established farmers under the resettlement programmes of the Government. These developmental objectives cannot be pursued without the rents from the EU's preferential market access, where a higher realisation for prime beef cuts enables the spread of the rents to these two groups of farmers.
- 1.12 In the absence of the present-day preferential market access provisions, the developmental programmes of the Namibian Government for livestock development in rural areas will have to slow down and will lose much of its impetus.

2. THE NAMIBIAN DILEMMA

- 2.1. During the 1994 trade dispute between the United States and the EU over banana exports from the Caribbean, the World Trade Organisation (WTO) ruled that the Lomé Convention violated WTO rules because it gave ACP countries an unfair trading advantage over other WTO members.
- 2.2. This ruling prompted the negotiation of a post-Lomé dispensation, which culminated in the signing of the Cotonou Agreement in 2000. The Cotonou Agreement was devised as a bridging arrangement between the Lomé and post-Lomé dispensations, under the auspices of a WTO waiver, which will expire at the end of 2007.
- 2.3. In the Cotonou Agreement provision is therefore made to renegotiate the present preferential trading arrangements between the EU and the ACP to comply with WTO rules (which inter alia requires the inclusion of reciprocity as a prerequisite for a post-2007 trading dispensation).
- 2.4. These renegotiations between the EC and the ACP commenced in 2002 and were brought forward to the regional levels in 2003/2004. The Cotonou Agreement makes provision for individual customized trading arrangements between the EU and different ACP regional configurations, thus a termination of the present wide-ranging EU-ACP trading arrangement.
- 2.5. Namibia renegotiates a post-2007 trading arrangement with the EU as a member of the Southern African Development Community (SADC) Economic Partnership Agreement (EPA) configuration, consisting of Botswana, Lesotho, Namibia and Swaziland (BLNS⁶¹), as well as Mozambique, Angola and Tanzania. South Africa has been allocated observer status in this configuration.
- 2.6. The negotiation process between the SADC-EPA members and the EC commenced in Windhoek during July 2004, with the signing of a memorandum and the adoption of a roadmap for negotiations. However, soon it became evident that the chosen configuration was not only impractical, but would also undermine existing regional structures, while one of the declared objectives of the Cotonou Agreement is specifically the promotion and strengthening of regional integration.
- 2.7. Consequently the SADC-EPA member states adopted a Strategic Framework Agreement (SFA) for future trade negotiations with the EC. The proposals as stipulated

⁶¹ The BLNS and South Africa are members of the Southern African Customs Union (SACU).

in the SFA were agreed upon between the SADC-EPA Trade Ministers and the South African Trade Minister, on the strength of that country's observer status in the configuration.

- 2.8. These proposals were submitted to the EC in March 2006. An official response from the EC, that will possibly open the way for further negotiations, is still outstanding. Without an agreement on these configuration issues, no negotiations are possible.
- 2.9. While the SADC-EPA and the EC are still clarifying configuration issues, the time runs out for the finalisation of a "new agreement" that will pave the way for an as good as or even a better negotiated reciprocal market access for Namibian fish and agricultural products to the EU.
- 2.10. This poses a dilemma and a huge obstacle for Namibia (and also for Botswana and Swaziland) in the SADC-EPA configuration. It is anticipated that the negotiations between the SADC-EPA and the EC will take much longer to conclude than the date of expiring of the trade arrangements of the Cotonou Agreement. An estimated time table of events illustrates the consequences of this delay⁶²:
- Negotiations on configuration issues concluded: June 2007
 - Technical (market access) negotiations concluded: March 2008
 - The ratification process in both SADC-EPA and EU member countries (although it is perceived the EC will have delegated powers to ratify): March 2009
 - Full implementation of the new reciprocal trade agreement between the two parties: December 2009
- 2.11. The end of the trade provisions of the Cotonou Agreement on 31 December 2007 will also bring an end to the preferential market access for the developing countries⁶³ in the SADC-EPA configuration. However, the Least Developed Countries (LDCs⁶⁴) in the configuration will still have market access under the Everything But Arms (EBA⁶⁵) provisions. South Africa, as a possible 8th partner in the SADC-EPA configuration, has its own trade agreement⁶⁶ with the EU.
- 2.12. This leaves the three developing countries in the SADC –EPA configuration, Botswana, Namibia and Swaziland without any preferential market access for their export products to the EU; in the case of Namibia, the effects thereof will have a serious economic impact on the agricultural sector of Namibia and of the developmental policies of the country.
- 2.13. This economic effect has to be clarified and quantified as a motivation for a possible extension of preferential market access to Namibia by the EU in the period between the expiring of the Cotonou Agreement and the implementation of the "new agreement".
- 2.14. In order to facilitate the above objective, the following **Terms of Reference** for an investigative consultancy is formulated:

⁶² Although this is a personal opinion, it is based on participation of negotiations and relevant information obtained from both negotiation sides. Of course it can longer or less time – currently every one's guess is as good as this estimate

⁶³ Botswana, Namibia and Swaziland.

⁶⁴ Angola, Lesotho, Mozambique and Tanzania.

⁶⁵ LDC market access conditions to the EU under the Enabling Clause that is not subjected to reciprocity.

⁶⁶ Trade, Development and Cooperation Agreement (TDCA), in force since 01 January 2000.

3. OVERALL SCOPE OF WORK

Introductory note: The outcome of this investigation has, on the one side, support the arguments offered with hard figures. On the other hand, the social consequences of the loss of market access that are difficult to quantify in the loss of social capital and developmental efforts wasted, should be at the heart of the arguments.

- **Task 1:** Investigate and draw conclusions on the current beneficiary measures derived from preferential market access to the EU in the Namibian livestock and horticultural sectors.
- **Task 2:** Based on the findings of Task 1, qualify and quantify the effects of the possible loss of preferential market access to the EU on the economic and social developments of the rural sector of Namibia and the eventual loss of income and revenue to Government.
- **Task 3:** Investigate and quantify the effects of a loss of preferential market access on the agricultural products value chain and the value-adding initiatives of the Namibian Government.
- **Task 4:** Considering the findings of Task 1 to 3, develop recommendations to the Namibian Government and the relevant line ministries⁶⁷ on negotiation arguments for the possible extension of preferential market access until the “new agreement” is ratified and implemented.

4. SPECIFIC TASKS, taking into consideration, inter alia:

- 4.1 The agricultural development objectives of the Republic of Namibia with special reference to the marketing activities for livestock in the quarantine sector and the influence thereof on the income of subsistence farmers.
- 4.2 The possible effects of the absence of preferential market access on the value-adding activities in the red meat export sector.
- 4.3 The possible effects of the absence of preferential market access on the horticultural export sector with special reference to the production and export of table grapes.
- 4.4 The effects of loss of preferential market access on the social circumstances and migratory patterns in both the producer and processing sectors of the agricultural value chain.
- 4.5 Prepare a detailed economic analysis and quantify the results of the investigation in monetary terms for the present preferential market access dispensation and a future (no preferential market access) dispensation for both the livestock and horticultural export sectors.
- 4.6 Assess the impact of the loss of preferential market access on the recently developed support and development programmes of the 10th EDF and the Millennium Challenge account. These programs are all based on uninterrupted market access of Namibian products to the EU and the consequent benefits that the Namibian Government can derive from the proceeds of the export markets in the case of beef exports and in the horticultural sector, on the downstream effects of the labour and social conditions of job

⁶⁷ Ministry of Trade and Industry, Ministry of Finance and the Ministry of Agriculture, Water and Forestry.

- creation. This is especially true for the up to 15 000 seasonal workers, originating from two of the poorest Regions of Namibia, the Kavango and Karas Regions⁶⁸
- 4.7 The loss of market access over a prolonged time may and the uncertainties coupled to the loss of a stable marketing environment that cannot be supported any longer by private sector contributions to the marketing effects in the communal Regions of Namibia, may reduce or even undermine the anticipated development impact of these donor (and therewith public) investments.
 - 4.8 Out of this investigation, draw conclusions of the effects on the development of the Namibian small-scale livestock, game and horticultural sectors, taking into consideration the effect thereof on the resettlement policy of the Namibian Government, especially but not only on the willing buyer-willing seller initiative and its viability.
 - 4.9 Analyse the influence of preferential market access and the absence thereof on the employment sector in the rural and commercial production areas, as well as in the processing enterprises of Namibia inclusive of all downstream industries of the agricultural value chain.
 - 4.10 Investigate and report on the backward and forward multiplier effects in the preferential and loss of preferential market access scenarios. This includes a projection of loss of slaughtering capacities and capabilities in the quarantine zone and the loss of opportunities for small-scale farmers in those areas.
 - 4.11 Quantify the investments made by Namibia's four accredited abattoirs (a fifth abattoir is in the process of registration) as well as pack house for table grape exports (about 9 of them) to comply with stringent SPS, traceability and food safety regulations. Coupled to that investigate and quantify the cost of market penetration and branding of Namibian products, in both meat and table grape exports. Also project the investments to regain market share and brand recognition after the loss thereof due to the loss of preferential market access at 1.1. 2008.
 - 4.12 Analyse the competitive environment in the livestock and horticultural sectors in the context of regional production and marketing, with special reference to the SACU and SADC markets.
 - 4.13 Investigate and quantify other marketing opportunities for agricultural export commodities from Namibia in the regional and international markets, the cost of the development thereof and possible benefits to the Namibian developmental objectives as described above.
 - 4.14 Utilize all relevant historical work done on the Namibian agricultural export sector and apply the findings thereof to the current export situation and a possible loss of market preference.
 - 4.15 Especially, draw on work done by the Meat Board of Namibia, the Directorate of Planning of the Ministry of Agriculture, Water and Forestry and the Namibian Agronomic Board by liaising with these institutions and obtaining the reports of investigative work on the viability and competitiveness of the agricultural sector of Namibia and related social and economic considerations.
 - 4.16 These specific tasks are non-exhaustive and any additional work to be undertaken by the consultant(s) would be in coordination with the Consultancy Steering Committee within the ambit of the above.

⁶⁸ Source: Namibian Household Income and Expenditure Survey 2004

5. OTHER OBLIGATIONS

- 5.1. Before the commencement of the consultancy, the successful consultant(s) will submit an inception report to the Consultancy Steering Committee. During the major part of the consultancy, close coordination with the Consultancy Steering Committee would be necessary and should be facilitated by the consultant(s).
- 5.2. On completion of the draft final report the consultant(s) will be required to:
 - Deliver twenty (20) hard and five (5) digital copies to the Consultancy Steering Committee;
 - Compile and present a power point presentation (synopsis) to the relevant stakeholders, officials of the line ministries and representatives of the EU's Embassy in Windhoek, at a place and time to be determined.
- 5.3. In addition, the consultant(s) would be required to make a similar presentation to high ranking officials of the involved line ministries, including the Ministers, Deputy Ministers and Permanent Secretaries, at a place and time to be determined.

6. PRACTICAL ASPECTS REGARDING THE CONSULTANCY

- 6.1 The consultancy will be funded through the Namibia Trade and Poverty Programme (NTPP), an initiative of DFID, and co-managed between the NTPP and the Ministry of Agriculture, Water and Forestry. In this regard both parties will have stakeholder representation on the Consultancy Steering Committee.
- 6.2 The selection process for this consultancy will be managed in line with requirements by the funding agent, the Namibian Trade and Poverty Program.
- 6.3 Three short listed consultancy companies will be asked by the selection committee for an open bid for the execution of the consultancy. The selection process has to be fast – tracked to allow the results of the consultancy to feed into the larger negotiation process of the SADC – EPA configuration.
- 6.4 The consultancy is open to a sole consultant or to a team of consultants, provided that in the latter case, the team leader should be identified.
- 6.5 All tenders should include the following:
 - Number of person-days spend on this consultancy
 - A provisional work plan that includes the commencing and completion dates, the submission of progress reports, as well as the different activities to be undertaken (if more than one consultant, please specify the duties of each team member).
 - The provisional work plan should include a separate document clarifying the understanding of the terms of reference.
 - Daily rate (if more than one consultant, submit the rate for each team member).
 - Any other tangible costs, like telephone, printing etc.
 - Value-added tax status and how it will affect the total cost of this consultancy.
- 6.6 Consultants may submit more than one tender of different depth of investigation and consequent costs, provided that the differences are clearly stipulated in a transparent manner.

- 6.7 Consultants will specify the following in the form of a timetable with their offer:
- A clear schedule of deliverables; i. e.: Inception report; desk study; stakeholder consultation; any other activities such as modelling and design of questionnaires and tables; Draft Final report; Consultative Workshop; and/or Briefing of stakeholders and Final Report.
 - The consultants will not be bound by a prescriptive timetable in these ToR's, but should realise the urgency of the completion of the requested work in the light of the negotiation process that has to be lead by Namibia and also in consultation with other regional institutional and private sector bodies.
- 6.8 Bidders are required to submit one (1) original and five (5) extra copies of the full tender, which will be subjected to a tender fee.
- 6.9 A Steering Committee, also functioning as the selection panel, will be established from representatives of the funding and managing agents, relevant stakeholders and other interested parties.
- 6.10 The selection panel will have the authority to:
- Evaluate the understanding of the terms of reference (Clarification might be sought from bidder on the understanding of the terms of reference, if so required.)
 - Consider the submitted timeframes vis-à-vis the urgency of the consultancy;
 - Consider the submitted financial implications;
 - From the above, select the most competent bidder for the consultancy.
- 6.11 In allocating this consultancy, the selection panel will take into account the following:
- Track records / previous experience / Curriculum Vitae(s) of the consultant(s) in this line of work;
 - The bidder's understanding of the terms of reference;
 - Total costs tendered for the consultancy;
 - The timeframe inclusive of the commencing and completion dates.
- 6.12 There will be a no prior short-listing by the selection panel and all bidders will be informed of the selection date. This will enable bidders to be available to appear before the selection committee on short notice, if so requested by telephone. Only the successful bidders will be informed, if you are not informed by the selection committee on the day of the selection, the panel regrets that she/he was not successful in his/her bid..
- 6.13 The selection panel is not bound to award the consultancy during the first or subsequent rounds of tender invitations. The panel is also not bound to award the consultancy to the lowest bidder.
- 6.14 The decision by the selection panel will be final and the successful consultant(s) will be required to enter into a legally binding contract with the funding and managing agents.
- 6.15 Certified copies of applicable documents are not required and no documents submitted will be returned.
- 6.16 Queries regarding the nature of the study to be undertaken and/or additional information can be obtained from:
- To be inserted by the chairperson of the selection panel.*

A sincere appreciation is extended to those showing an interest in conducting this consultancy.