



# **Impact of EU Common Agricultural Policy reform on Uganda's food trade with EU**

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## Abbreviations

ACP	Africa, Caribbean and Pacific
AGOA	African Growth Opportunity Act
ALREP	Agricultural Livelihood Rehabilitation Programme
CAP	Common Agricultural Policy
COMESA	Common Market for Eastern and Southern Africa
CSP	Country Strategy Paper
DRC	Democratic Republic of Congo
EAC	East African Community
EBA	Everything But Arms
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
GSP	Generalized System of Preferences
KALIP	Karamoja Livelihood Programme
LDC	Least-developed Country
NDP	National Development Plan
NUREP	Northern Uganda Recovery Project
PEAP	Poverty Eradication Action Plan
PIP	Pesticide Initiative Programme
PMA	Plan for the Modernisation of Agriculture
PRDP	Peace, Recovery and Development Plan
QUSIP	Quality Infrastructure and Standards Programme
SPS	Sanitary and Phytosanitary
US	United States
VAT	Value-added Tax
WTO	World Trade Organization



# 1 Introduction

Uganda is a signatory to a number of trade-related agreements, including the East African Community (EAC) customs union, the EAC common market protocol, the Common Market for Eastern and Southern Africa (COMESA) and the multilateral World Trade Organization (WTO). The country also has a number of bilateral and unilateral trade agreements with other developed economies, including the African Growth Opportunity Act (AGOA) with the US, Everything But Arms (EBA) with the European Union (EU), the Generalized System of Preferences (GSP) with China and the EU–Africa, Caribbean and Pacific (ACP) Cotonou Partnership Agreement. All these initiatives are meant to expand market opportunities for the country's exporters.

## 2 The EU Common Agricultural Policy

The Common Agricultural Policy (CAP) originated in the Treaty of Rome, which was signed in March 1957 and established the European Economic Community. Its objectives are summarised under Article 38 and include increasing agricultural productivity, increasing individual earnings from agriculture, stabilising markets and ensuring the availability of supplies at reasonable prices. The policy provided for intervention measures, which, among other things, guaranteed farmers a minimum selling price for their agricultural products, whatever the circumstances. The entry price the CAP introduced protected the EU market from cheap imports, and the export subsidy (the refund) paid to exporters of agricultural products enabled farmers to dispose of their farm products on the world market. The net effect of these interventions was overproduction and increased dumping of agricultural products in developing countries.

## 3 EU–Uganda trade relations

Uganda has two windows through which it accesses the EU market: EBA and the Cotonou Partnership Agreement and its successor, Regulation 1528 under the EU Economic Partnership Agreement (EPA). The Council of EU Ministers launched EBA in March 2001, and this amendment to the European Community's GSP has since regulated trade relations between the EU and least-developed countries (LDCs) (including Uganda) that have chosen to use the facility. The initiative grants duty-free access to all products from LDCs without any quantitative restrictions, except on arms and ammunitions, in line with the provisions of Article 37.9 of the Cotonou Partnership Agreement. EBA was not negotiated; it is non-reciprocal and its terms were set by the EU.

It is important to note that EBA lacks predictability and transparency in terms of setting an enabling environment for private sector growth. It can be withdrawn or modified at any given time, and countries are assessed periodically to ascertain whether they remain eligible to benefit. The list of products granted duty-free/quota-free market access must originate in the exporting country and must meet certain documentation requirements, which are laid down in the rules of origin. This is to ensure that tariff preferences foster the development of beneficiary countries and not of non-targeted countries.

## 4 Pattern of EU-Uganda food trade

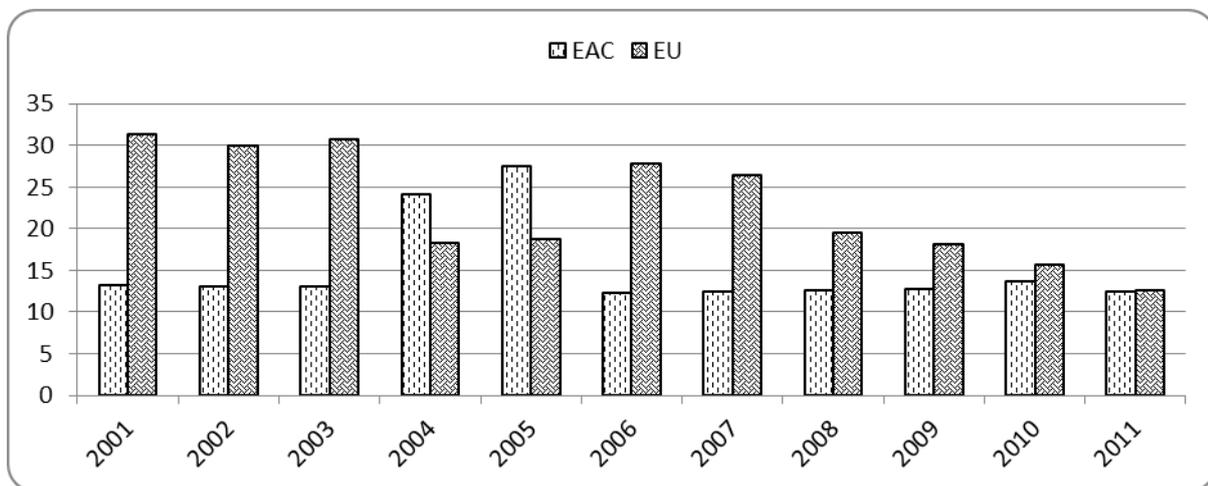
It is important to note that about 99.5% of Uganda's exports to the EU enter under the Cotonou Partnership Agreement and the EPA arrangement rather than under EBA.<sup>1</sup> Trade between Uganda and the EU (imports from the EU) is largely skewed towards a narrow range

<sup>1</sup> Republic of Uganda (2011) 'Trade Review'. Kampala: Ministry of Trade, Industry and Cooperatives.

of manufactured products, including machinery (19.5%), electrical and electronic equipment (23%), pharmaceutical products (16.7%), vehicles (5%), optical and medical apparatus (4.3%) and printed books (2.3%). Agriculture accounted for about 1.3% of EU imports to Uganda in 2009, which suggests that Uganda depends on EU exports of intermediate and high-tech products and that the CAP is unlikely to have a significant impact on Uganda's EU food imports. Products such as meat, dairy, vegetables, fruits, sugar and cereals that CAP reforms would affect account for a negligible proportion of Uganda's imports from the EU. Likewise, these particular commodities account for only about 0.83% of the EU's total imports to Uganda. Meanwhile, Uganda exports mainly agricultural commodities to the EU market.

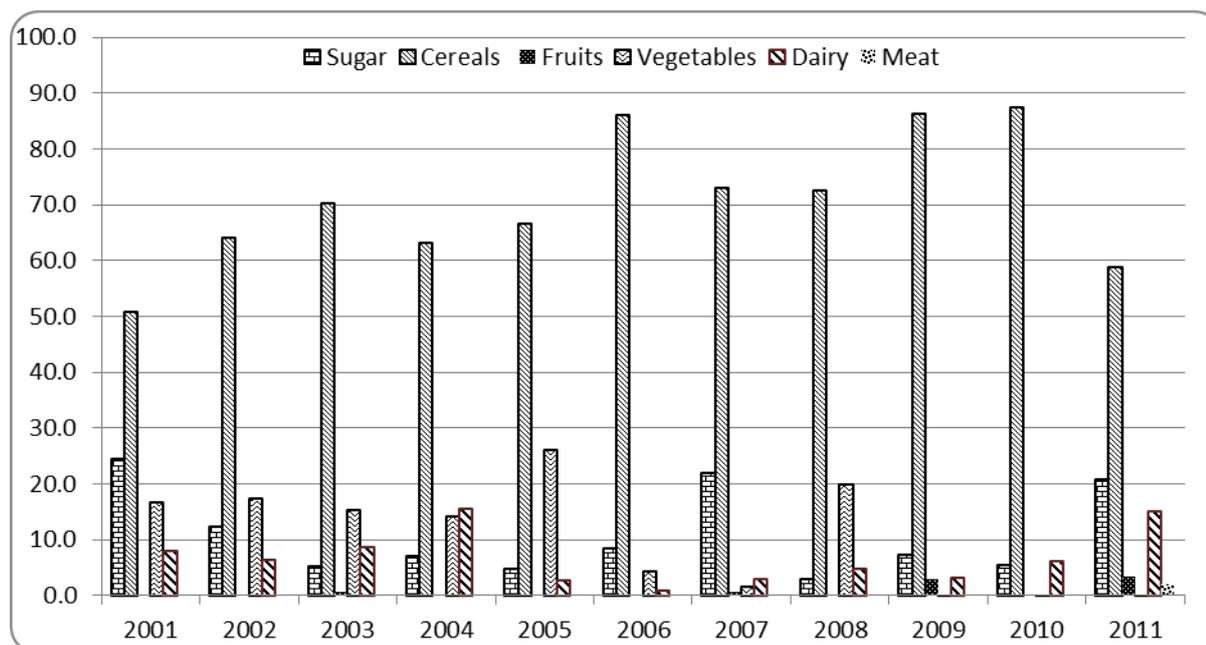
Figure 1 further shows that the EU's food share of Uganda's imports is declining, dropping by more than half from 31.1% in 2001 to about 12.7% in 2011. Conversely, the EAC share of food imports to Uganda has stagnated at around 12.5%, albeit with some substantive growth registered in 2004 and 2005.

**Figure 1: Comparison of the food share of exports of EAC and EU to Uganda, 2001-2011 (%)**



Source: Based on data from Uganda Bureau of Statistics (2010).

The EU's food exports to Uganda include cereals, sugar, vegetables and dairy. Cereals account for more than 80% of the total, followed by vegetables and then sugar, over the period 2001–2011 (see Figure 2). These statistics again suggest that changes in the availability of EU food commodities are unlikely to have any effect on Uganda. The perceived increase in food prices following the CAP reforms is not likely to occur, given that the share of EU food imports to Uganda reduced substantially during the period 2006–2009 in favour of regional and other partner supplies. Likewise, this trend cancels out any perception of import surges in Uganda linked to EU export subsidies on food commodities. This is because Uganda's food exports, as well as imports to and from the EU, are very small.

**Figure 2: Commodity share of EU food exports to Uganda, 2001-2011 (%)**

Source: Uganda Bureau of Statistics (2012).

Meanwhile, although Uganda exports and imports some food products, such as vegetables, dairy, sugar, fruits, meat and cereals, to and from the EU, the similarity in these product categories does not justify a conclusion that a relationship exists between EU food imports and the pattern of Uganda's food production, especially with reference to the competition or complementarity of the commodities.

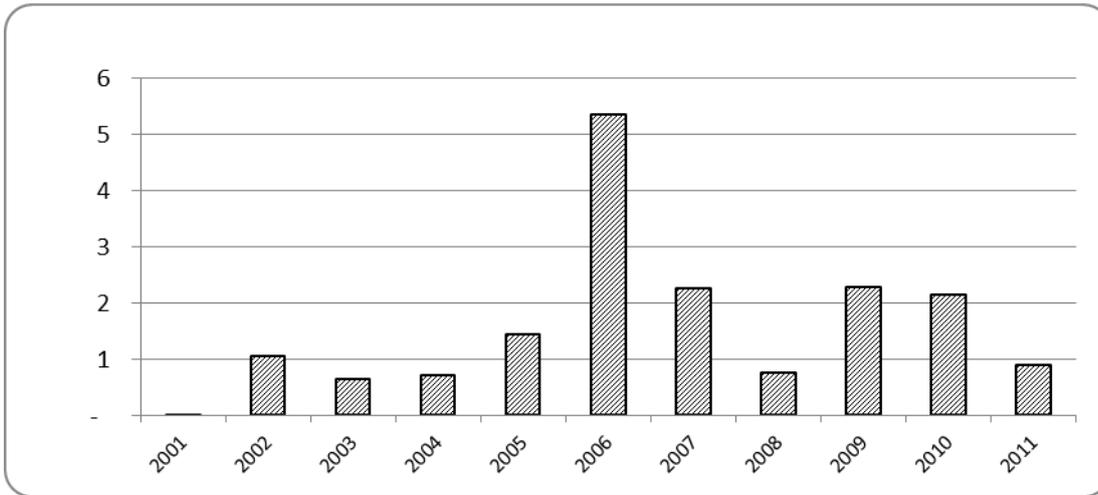
Thus, given the pattern of trade in value and volume terms between Uganda and the EU in these products, the CAP reforms will not translate into serious effects on the pattern of food trade with Uganda. It is unlikely that the intended CAP support of redistribution from old to new members and possibly to large farmers will have any difference from the old direct support system.

On the other hand, a possible decline in EU food exports to Uganda resulting from the phasing-out of direct payments for environmental purposes may affect the current trade tax revenue.<sup>2</sup> Uganda's trade tax revenue from EU food exports for the period 2000–2009 averaged about Ush 2.3 billion (about \$972,105 at the current market rate). Figure 3 suggests the trade tax revenue on food products has fluctuated over the years, dropping by more than 50%, that is, from Ush 5.3 billion in 2000 to about Ush 2.2 billion in 2009. This could be attributed to the growth in local and regional trade flows, and the shift from EU exports to domestic and regional consumption, given the high level of the EAC's common external tariff, especially for food products such as sugar (100% tariff heading), dairy (60%), hard wheat (35%), maize corn (50%) and rice (75%).<sup>3</sup>

<sup>2</sup> This includes import duty, import value-added tax (VAT), excise duty and withholding tax.

<sup>3</sup> See the EAC Common External Tariff 2007 Version, Schedule 2, list of sensitive items.

**Figure 3: Trade tax revenue from EU exports to Uganda, 1995-2009 (US\$ billions)**

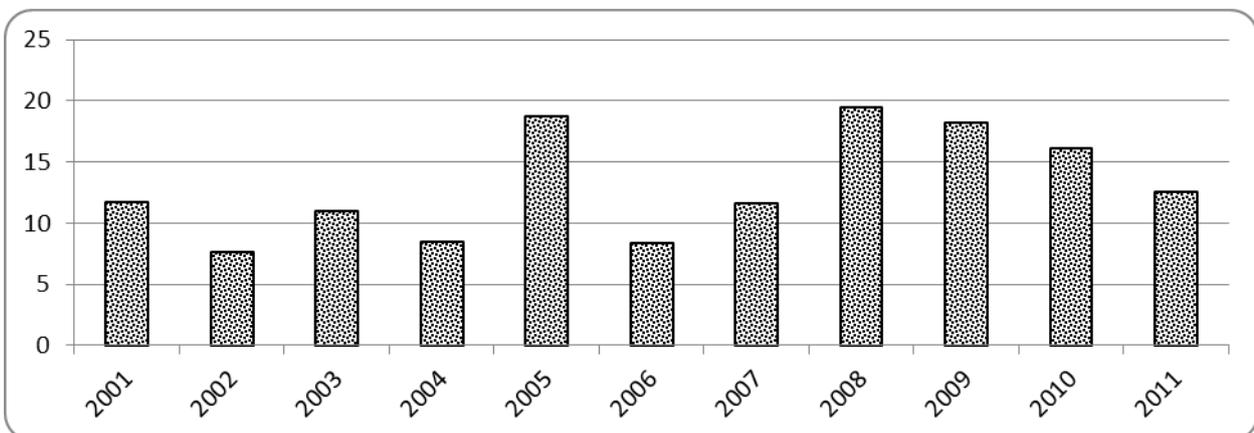


Source: Based on data from Uganda Bureau of Statistics (2010).

Figure 4 shows the share of EU imports in Uganda's total imports. This has dropped steadily, from about 19.5% in 2008 to about 12.7% by 2011. This may owe to increased trade flows with other emerging trading partner states, including those in East Asia and the Middle East, which account for more than 28.1% and 15.1% of Uganda's food imports, respectively. The redistribution of domestic support from old to new EU farmers, even if it reduces the volume of EU food exports further, prompting commodity prices to rise, is unlikely to attract more food exports from Uganda, given the structural challenges in the production and supply chains. Even if it attracts more exports, high food prices insufficiently transmit to farm-gate prices in Uganda, partly because of bad infrastructure and weak market linkages to farmers, and also because of a weak institutional environment to protect farmers from exploitation.

The prevailing view across market traders of EU imports is of a shift in market demand. Ability to pay for EU imports has dwindled substantially over the years, owing to depreciation in the domestic currency against currencies such as the euro, the US dollar and the British pound sterling. The current economic instability in Uganda, coupled with the high common external tariff on food commodities, has instigated a shift in the pattern of demand for foodstuff from EU exports towards domestic and regional commodities. EU food imports have become far more expensive than local products in Uganda's markets, and local and regional food stores with a preference for local products have emerged. However, measures of quality of EU food imports are competitive in relation to local equivalents for all products, including dairy, sugar, meat, fruits, cereals and vegetables.

**Figure 4: EU share of group partner exports to Uganda, 2001-2011 (%)**

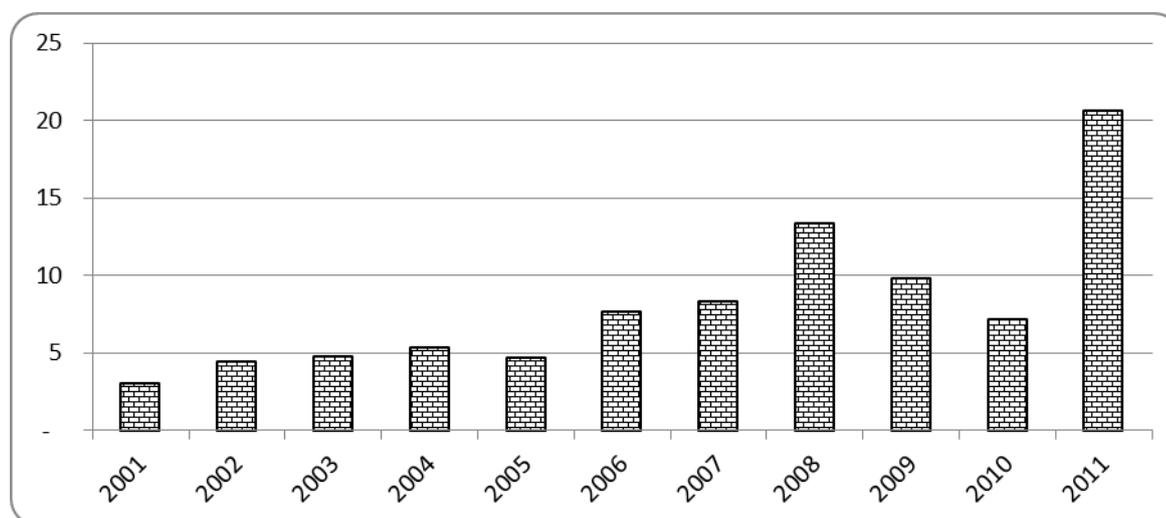


Source: Uganda Bureau of Statistics (2012).

No information is available on the framework on pricings of food commodities in Uganda, or on which commodities are marginal price setters or takers. Rather, the EAC common external tariff treats some commodities as sensitive. The tariffs are high and protective, with a goal of promoting domestic industries as well as food security. High tariff rates on sugar, dairy, cereals and other products are in place mainly to protect the interest of producers against competition from non-EAC partner states. There are no government alterations of import policies on goods imported from the EU, as this is prohibited under Article 17 of the interim EPA initialled between the EU and EAC partner countries.

The EU would provide a better market for Uganda's food exports, especially given the growing demand for organic foodstuff. If this were to be exploited, this would have an economic and social impact on Uganda's population engaged in production. However, as previously mentioned, high food prices resulting from reforms in the EU market would not trickle down to farm-gate prices. In addition, there are prevailing challenges, both external and internal, to the country exploiting this opportunity. Crop exports are highly exposed to vulnerabilities such as price fluctuations; sanitary and phytosanitary (SPS) measures; changing market patterns, including GlobalGAP private standards being implemented by some stores in the EU market, such as Tesco; and other emerging issues such as the carbon footprint on all food products. Internal challenges include issues related to post-harvest handling, quality control and packaging, especially for cereals, vegetables, meat, dairy and fruits. This perhaps explains the low value of food exports to the EU market, worth only US\$ 8.2 million between 2001 and 2007. However, there was a great rise in the export value, from US\$ 7.2 billion in 2010 to US\$ 20.7 billion in 2011 (see Figure 5).

**Figure 5: Uganda's total food exports to EU, 2001-2011 (Ush billions)**



Source: Uganda Bureau of Statistics (2010).

The prevailing market barriers to Uganda's exports to the EU market have a strong impact on trade flows, and especially smallholder participation in the market, but also arbitrarily act as a technical barrier to trade given the capacity constraints in the country. In addition, private industry standards undermine the legal framework provided for under the WTO and recognised international standard bodies. However, if the positive risks of exporting to the EU market can be dealt with by meeting these challenges, this remains one of the most competitive markets internationally.

It is also important to note that Uganda's food exports compete not only with EU-produced commodities but also with those of other developing countries with preferential schemes in the same market. For example, Tanzania and Malawi are able to export sugar competitively to the EU at lower costs than Uganda. Tanzania in particular has an advantage of port services and

thus reduced transportation costs. This generates price variations/differences among similar commodities in the same market. Thus, CAP reforms leading to rising food prices would not advantage Uganda's exporters of such commodities, or, rather, would not change their share in the EU market. And again, Uganda's supply chain remains a hindrance to prospective food exportation to the EU market. Supply capacity for some products, as well as value addition, remains low as a result of technological constraints and limited know-how.

## 5 EU development assistance to Uganda

The EU's current development assistance to Uganda is outlined in the 10th European Development Fund (EDF) Country Strategy Paper (CSP), which covers the period 2008–2013. The 10th EDF CSP is in line with Uganda's development agenda, as illustrated previously in Uganda's Poverty Eradication Action Plan (PEAP) and currently in the National Development Plan (NDP) (2010/11–2014/15), and its main objective is to alleviate poverty by fostering sustainable development through economic growth supported by sound governance and macroeconomic policies, improved connectivity of national and regional transport infrastructure and sustained impetus on agricultural and livelihoods betterment.

Under the 10th EDF CSP, the EU's assistance to Uganda is structured as follows:

- 1 A total of 55% of the EU assistance to Uganda is provided in the form of budget support, with 40% as general budget support and the remaining 15% as sector budget support.
- 2 Focal Sector 1 (Transport Sector) entails completing the rehabilitation and upgrading of the Northern Corridor Route linking up to Mombasa in Kenya and also serving Rwanda and the Democratic Republic of Congo (DRC). The allocation to Focal Sector 1 for the period 2008-2013 is €172 million, that is, 39% of the total of €439 million under the 10th EDF CSP A Envelope. Support to the rehabilitation of the Northern Corridor Route is greatly improving and expanding regional connections, linking landlocked countries like Uganda, Rwanda, Burundi and South Sudan plus the DRC to Mombasa port. This promotes both regional and international trade by reducing transport costs and travel time, thereby stimulating development agriculture and fisheries, etc., and improving their competitiveness.
- 3 Focal Sector 2 (Rural Development) entails supporting agricultural development and productivity, including forestry development and livelihoods recovery in Northern Uganda.
- 4 Non-focal areas support is extended to democratic governance and non-state actors, a Technical Cooperation Facility and the National Authorising Officer.

Assistance to agriculture falls under Focal Sector 2, with a budget of €60 million, that is, 14% of the total of €439 million under the 10th EDF CSP A Envelope for the period 2008-2013. Of the €60 million, €15 million will be allocated in the form of sector support to agriculture through budget support, €30 million to rural recovery and forestry and €15 million to Karamoja's peace and development in the form of project support. The EU's assistance to Uganda's agriculture and rural development has the main objective of supporting agricultural development, production and productivity enhancement and improving rural livelihoods and incomes. Under this overall objective, particular attention is dedicated to strengthening national institutions, to ensuring peace, recovery and development in Northern Uganda/Karamoja and to issues related to the environment and climate change. The EU is contributing to the Peace, Recovery and Development Plan (PRDP), which has three main projects: the Northern Uganda Recovery Project (NUREP), the Agricultural Livelihood Rehabilitation Programme (ALREP) in Acholi, Lango and Teso regions and the Karamoja Livelihood Programme (KALIP).

Specific initiatives being implemented under EU development assistance to the agriculture sector up to 2013 include:

- 5 The Sawlog Production Grant Scheme in support of commercial forestry;

- 6 KALIP and ALREP;
- 7 Sector support to agriculture that may in the near future support funding to small and medium enterprises;
- 8 Support to regional cooperation in agricultural research;
- 9 Support in adapting agriculture to climate change; and
- 10 Promotion of energy efficiency and access to renewable energy in rural areas.

Previous support gone towards:

- 11 Improving sustainable fisheries management on Lake Victoria;
- 12 Strengthening commercial coffee and tea production among smallholders;
- 13 National agricultural research;
- 14 National agriculture advisory services;
- 15 Livestock disease control; and
- 16 Forest resource management and conservation.

The EU has also provided support to the Plan for the Modernisation of Agriculture (PMA), a framework which sets out the strategic vision and principles alongside which interventions in the agriculture sector can be developed, to address poverty eradication through the transformation of agriculture and related sectors, to provide technical support to the Ministry of Agriculture, Animal Industry and Fisheries and to support other governmental agencies in the sector, including the National Agricultural Research Organisation, National Agricultural Advisory Services and the National Agricultural Research System.

***To what extent has the EU's development assistance policy helped to strengthen Uganda's capacity to take advantage of EU favourable policy reforms (duty-free access, labelling) or to offset or compensate Uganda for adverse policy reforms (e.g. higher food standards, preference erosion)?***

EU support to Uganda has contributed substantially towards the maintenance of macroeconomic stability and the transformation of the transport sector, which has assisted greatly with trade and agricultural development. Several EU-funded initiatives aim at promoting exports of agricultural commodities, improving the competitiveness of Uganda's private sector and promoting food safety and sanitary standards. The EU is working together with its member states, including Belgium, Denmark and Sweden, through several programmes and projects to address marketing, quality and other agricultural trade-related issues in Uganda. Some of these include:

- The U-growth Programme, and specifically the Agribusiness Initiative component led by Denmark, to address SPS and standards challenges, agricultural finance and productivity enhancement for selected value chains as well as building the capacities of relevant national institutions;
- Strengthening national and regional institutions for the sustainable management of fisheries on Lake Victoria, and infrastructure works to improve sanitary conditions in 17 fish landing sites in Uganda, Kenya and Tanzania;
- Strengthening Uganda's fish processors' association, under the Strengthening Fishery Products Health Conditions project;
- Capacity building of public and private institutions on food safety, under the Better Training for Safer Food programme;
- Support to smallholder coffee producers to improve production, agro-processing and marketing;
- A regional seminar to be organised in Kampala in December 2012 with the Technical Centre for Agricultural and Rural Cooperation on regional branding (Appellations d'Origine);
- The Quality Infrastructure and Standards Programme (QUSIP), led by Sweden to promote quality and standards infrastructure, including those specific to trade in agriculture;

- The EPA Trade and Private Sector Support Programme to support improvements in the trade and investment climate; and
- Support to the Uganda Commodity Exchange and establishment of the Warehouse Receipt System (just ended).

Overall, previous EU support has enabled Uganda's agriculture sector to develop, and several sectors have seen tangible results to date, including fisheries, tea, coffee and flowers. Uganda is also a beneficiary of several all-ACP programmes like the Pesticide Initiative Programme (PIP),<sup>4</sup> which are having an impact on the development of agricultural exports in beneficiary countries including Uganda.

***Are there valuations of what has worked and what has not?***

Regular independent evaluations are carried out at the level of individual interventions (mid-term and final evaluations) and of the overall portfolio (country evaluation). These are available.

The Commission's Directorate-general for Health and Consumer Protection carries out regular audits of quality control systems for fish products (last mission 2011) and provides all the necessary capacity building support to the Ugandan authorities when appropriate. This has enabled continued access to the EU market for Uganda products.

***Is there any awareness at the level of the EU representation in Uganda or in official policy circles of the opportunities/threats created by the CAP reform? Is this seen as a priority issue?***

As outlined above, the EU in Uganda operates within the framework of Uganda's national policies, ensuring coordination and harmonisation with other development partners within the framework of the Uganda Joint Assistance Strategy and the Paris Declaration. The government of Uganda does not see the CAP as a policy priority.

The EU Delegation staff are familiar with the CAP, including its opportunities and perceived threats. For example, all agricultural products where the EU has a significant competitive advantage (either because of CAP or not), such as dairy products, beef, etc., have been treated as sensitive products under the ongoing EPA negotiations and are not subject to any liberalisation. These are subject to complete protection by Uganda.

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<sup>4</sup> The PIP (financed by the EDF) was established by the EU at the request of the ACP group of states to prevent the negative effects of regulatory changes on the export sector and to strengthen sustainability.