



# **UGANDA'S ACCESS TO THE EUROPEAN UNION AGRICULTURAL MARKET**

## **CHALLENGES AND OPPORTUNITIES**

**Onesmus Mugenyi  
Ronald Naluwairo**

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## LIST OF ACRONYMS

ACODE	Advocates Coalition for Development and Environment.
IITC	Inter-Institutional Trade Committee
EU	European Union
ACP	African Carribean and Pacific
EBA	Everything But Arms
CPA	Cotonou Partnership Agreement
UNCTAD	United Nations Conference on Trade and Development
EAC	East African Community
CAP	Common Agricultural Policy

## ACKNOWLEDGEMENTS.

This paper gives an overview of the trade links between Uganda, an ACP country and the EU. It identifies trade opportunities and challenges in accessing the European agricultural market. It summarizes the key issues and is handy for policy analysts, researchers and policy makers.

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## EXECUTIVE SUMMARY

The last three decades of trade between Uganda and European Union have not benefited Uganda. Generally the annual trade balance has been negative raising the level of Uganda's external debt to US\$ 3.68 billion as of June ,2000. The Lome' Trading arrangement (1975-2000) has not been able to change the trend due to a number of challenges. The Cotonou Partnership Agreement and the EBA initiative may not be able to change the trend unless these challenges have been addressed.

The major constraints have been internal, external and structural. The internal factors range from poor trade policies, inadequate support to private sector, narrow export base, reliance on export of raw materials and high level corruption. The external factors include non-tariff barriers, protectionist policies, subsidies, tariff peaks and escalation. The structural challenges mainly relate to poor infrastructure, poor product quality, poor and obsolete technology, poor marketing techniques and insufficient market knowledge which can be summarized as supply side constraints.

It is argued that unless these factors are addressed, the trade initiatives between Uganda like any other ACP country and the EU, will remain on paper without any tangible benefit to the poor as envisaged. Therefore, there is need for government to address these constraints. Government must take a bold decision to address supply side constraints. Establishment of a framework for analysis of issues in future trade relations that will address issues that relate to tariffs and tariff escalation, subsidies, non- tariff barriers through strategic negotiations is essential. There is need to strengthen south to south cooperation, develop offensive and defensive strategies, improve information dissemination and packaging to suit the clientele. It has apparently become crucial to move away from neo-liberal trade policies and extend reasonable support to farmers, adopt phased out liberalization strategy as opposed to the hitherto rapid liberalization that has devastated local production systems in order to address poverty concerns.

## 1. INTRODUCTION

Since 1975, European Union has been Uganda's largest trading partner with more than one third of Uganda's exports consumed in the EU markets<sup>3</sup>. This trade relationship has been based on successive Lome' Conventions which were replaced by the Cotonou Partnership Agreement concluded between the ACP states and the EU in June, 2000<sup>4</sup>. The year 2003, the European Union took yet another unprecedented step through the initiative "Everything But Arms" (EBA) when it decided to open the markets, including agricultural ones, unilaterally and totally to exports from poorest countries except arms and ammunition.

For Uganda, the EBA initiative builds upon the existing preferential treatment already granted since 1975 that was saved by the Cotonou Agreement up to the year 2007<sup>5</sup>. Despite all these trade initiatives, Uganda's trade performance has not been good. The average annual trade balance for the last two decades has been negative raising the level of Uganda's external debt to US\$3.68 billion as of June, 2000<sup>6</sup>.

This paper therefore, examines the trade links between Uganda and the EU. It identifies trade opportunities and the dynamics involved, analyses the challenges and constraints that have to be addressed if Uganda like any other ACP country is to benefit from the trade links with the EU.

## 2. EU-UGANDA TRADE RELATIONSHIP.

The trading relationship between Uganda and Europe dates far back to the time of colonialism. After the Berlin conference of 1884 – 1885, Uganda became a British colony and it is this historic link that marked the beginning of major changes in Uganda's economic and socio-cultural development process. Since the 1970s, Uganda had related with Europe through the Lome Conventions.<sup>7</sup>

The first Lome Convention was signed in February 1975. The agreement focused on co-operation on trade, financial and industrial development. There were four successive Lome Conventions between 1975 – 2000. The second and third Lome Conventions were signed in 1979 and 1985 respectively. In June 2000, a new cooperation agreement, the Cotonou Partnership Agreement (CPA) was signed, valid for 20 years.

Looking at the trade statistics of Uganda for the period between 1970-1990s the conventions seem not to have had sustainable impact in strengthening trade between Uganda and European Union. Deterioration in the external terms of trade over the last few years contributed to a decline in export earnings from 11.2% of GDP in 1994/95 to 7.9% in 1999/2000.<sup>8</sup> Looking at Africa generally, its exports to the European Union has declined by almost 50% from 1976 to 1992<sup>9</sup>.

3. EU-Uganda, A Sustainable Trade Relationship. Delegation of the European Commission in Uganda, at [http://www.delug.ces.int/en/eu\\_and\\_uganda](http://www.delug.ces.int/en/eu_and_uganda)

4. The ACP/EU Partnership Agreement is a comprehensive aid and trade agreement concluded between 77 ACP (African, Caribbean and Pacific) countries and the European Union, signed on June 23, 2000 in Cotonou (Benin) and as such is commonly called the Cotonou Agreement.

5. Under A.36.3 of the Agreement it is provided that the non-reciprocal trade preferences applied under the fourth ACP-EC convention shall be maintained during the preparatory period for all ACP countries.

6. World Trade Organisation. Uganda Trade Policy Review Report, 2001:5

7. Akiara G. K. (1996) The European Union ACP Relationship. The Case of E.Africa. (Working Papers on EU Development Policy No. 4)

8. World Trade Organisation. Trade Policy Review Report (Supra note 4)

9. EU-Uganda A Sustainable Relationship (Supra note 1)



## 2.1. Brief overview of the Lome' Trading arrangements.

The Lome trading arrangements between the EU and the ACP countries which includes Uganda, was based on non-reciprocal and preferential access of the ACP countries' products to the EU market. Most agricultural and all industrial ACP products had duty free access to European market. Most products from the E. Africa region and in particular Uganda were mainly agricultural raw-materials ; coffee, cotton tea and tobacco which constituted the bulk of the exports. Under the Lome IV the ACP products which can be exported to the EU market duty free include beverages such as cocoa , tea, spices, raw tropical wood, fresh fish , jute products sisal, copper, tin, phosphates and petrol chemical. Others under GSP are vegetable oils, coffee and meat products , rice tropical fruit juice and oil seed products.

Further , under the Lome trade regimes, the ACP and European Union had commodity protocols to regulate the quality, quantity and price offered. These were basically the sugar protocol, banana protocol , meat and Veal protocol the multifibre agreement, textiles and Rhum and spirits agreements.

Under the successive Lome agreements, there were also compensatory mechanisms.

(i) STABEX: This is the stabilization fund for ACP agricultural exports to cater for unforeseen decline in export stocks revenue in the face of bad harvest caused by natural calamities. It also catered for drastic fall in prices of the commodities . Under STABEX, Uganda benefited EURO 194 million from Lome IV covering stock and revenue losses in coffee , tea, hides and skins and about US\$500million between 1992 and 1994 as grants to buffer its agricultural exports against international fluctuations.

ii) SYSMIN: This was a stabilization fund for minerals. This basically benefited the mineral ACP exporters including Democratic Republic of Congo, Zambia etc.

## 2.2. Shortcomings of the Lome Trading arrangements:

There has been criticisms from European Union as well as from ACP countries that the Lome convention development model and trading arrangements have not been quite beneficial to ACP countries . Statistical figures show that in 1975, the ACP group represented between 4% - 5% of the European market share . However, by 2000 the ACP share of European Communities Market had declined to 2%.<sup>10</sup>

Uganda in particular appears not to have benefited from these trading arrangements. Over the last decade the economy has persistently suffered trade deficits<sup>11</sup>. This has been partly due to a narrow exports product base, low productivity, poor infrastructure and limited access to markets. Besides, the exported products are mainly unprocessed agricultural products that are subject to the vagaries of weather and fetch little on the market. Efforts towards processing the raw materials to add value so as to fetch high prices have been frustrated by tariff escalation.

Despite the generalized system of preference, access to European market has been and is still limited. The products that compete with temperate products have not been so

10. Nnam A (2002) . EPAs Status of Negotiations . A paper Presented at the PSF Trade Policy Capacity Building Workshop, Kampala (unpublished) June 2002.

11. Since early 90s to-date the economy of Uganda has suffered trade deficit. The worst stood at US\$ 557.0million in 2000 while the least of US\$ 152.5 million was recorded in 1996. See UBOS External Trade Statistics Bulletin, volume 1-2002:7

lucky. They have overtime faced various types of tariffs and non tariff barriers including quotas, levies, marketing calendars and reference prices which compel exporters to the market to fix prices below a given reference price, etc. It is partly out of this critic that the Lome' convention trading arrangement has not assisted ACP countries to overcome their economic problems that stimulated the conclusion of the Cotonou Partnership Agreement.

### 2.3. The Cotonou Partnership Agreement.

The Cotonou Partnership Agreement (CPA) was concluded between the ACP states and the European Union to replace the Lome Conventions. The Agreement was signed in Cotonou in June 2000 after 18months of protracted negotiations. The Agreement represents a significant shift away from the 25 years of the ACP / EU trade regime based on preferential and non reciprocal access. Various reasons have been advanced for this fundamental shift in the ACP /EU trade policy.

These reasons include:

- (i) Failure of the ACP countries to take advantage of 25 years of Lome trade preferences to significantly transform their economies<sup>12</sup>. In fact the ACP Countries share of the European market declined over the period from 5% - 2%.
- (ii) Increased difficulty by the EU and the ACP countries to jointly seek and obtain WTO waiver for preferential trade regimes to continue due to challenges by other developing countries labeling the arrangement as discriminatory<sup>13</sup>.
- (iii) International trade developments particularly the signing of the Marrakesh Agreement that established the World Trade Organization (WTO) on the 1<sup>st</sup> Jan 1995. The WTO was established to define and administer rules and regulations that make international trade free and fair for all players. The WTO Agreement supercedes all bilateral, regional and multilateral trade arrangements entered into prior to its enactment and requires all such trading regimes to be made WTO compliant<sup>14</sup>.

The Cotonou Partnership Agreement is not a trade agreement in itself but it enshrines a commitment provision for ACP and the EU to negotiate economic and trading arrangements (EPAs) that are WTO compliant . The CPA is different from its predecessor trade arrangement in a number of ways; It provides for participation of non state actors and local authorities in consultations and development of national strategy (Article 19.3). The Agreement also has a strong political dimension and it covers areas of peace and security, trade in arms, and migration among others.

The important principle of the CPA is the reduction and eventual eradication of poverty consistent with the objective of sustainable development and gradual integration of the ACP states into the Global economy<sup>15</sup> The signatories to the agreement inter alia agreed to;

- Liberalise trade in services<sup>16</sup>
- Introduce and implement competition policy<sup>17</sup>
- Protect intellectual property rights<sup>18</sup>
- Appropriately set and apply sanitary and phytosanitary standards<sup>19</sup>.

12. Most countries including Uganda were not able to satisfy their quotas due to structural problems.

13. Paragraph 3 of the Marrakesh Agreement

14. Article XVI (3) provides in part that in the event of a conflict between the provision of WTO and any Multilateral Trade Agreement, its provisions will prevail .

15. Article 1, 9 and 34.3 of the Cotonou Partnership Agreement

16. Article 41.

17. Article 45.

18. Article 46.

19. Article 47.

## 2.4. Challenges for Uganda in implementing the Cotonou Partnership Agreement.

- Regional integration and co-operation. Geographical configuration still poses a big challenge because of different political agendas and difference in levels of economic development.
- Establishment of appropriate structures for negotiations which take into account the capacity constraints facing the country to manage complex trade negotiations at regional, inter-regional and multilateral levels.
- The impact of introduction of free trade on the fiscal revenues is likely to be enormous yet, impact assessment studies have not been done to arrest the fears.
- Protection of non- reciprocal trade preferences offered to Uganda as a least developed country after regional integration since after regional grouping, it will carry the same obligations as negotiated regionally by the region as a whole.
- Addressing the supply side constraints to enable the producers to exploit any new opportunities emerging as a result of introduction of free trade with the EU.
- Integrating Non –state actors. Having recognised that non-state actors as partners in the cooperation, one of the challenges is how to integrate these actors and make partnership resources available to them. The biggest challenge is how to channel resources to non state actors and how to ensure transparency, comprehensive and realistic criteria for choosing participating civil society organizations.
- Commodity stabilization mechanism. One of the immediate changes introduced by the Cotonou Partnership Agreement is the abolition of Stabex and Sysmin scheme. Given the high level dependence on particular commodities coupled with the worsening conditions of commodity markets, there is need to examine the partnership provisions on stabilization of exports.

## 2.5. EBA initiative.

Other than the CPA which sets the base for EPA negotiations, Uganda can benefit from the Everything But Arms initiative [EBA] which came into effect in March, 2001. It grants duty-free access to imports of all products from the LDCs with the exception of arms, ammunition and without quota restrictions. The initiative preserves most of the preferences for LDCs and is valid for unlimited period of time. Although it is embedded in the EU's General System of Preferences, it is not subject to periodic reviews. It is to this time considered the most realistic trade alternative that can lead to the participation of LDCs in EPA negotiations. It should be noted however that, it is not yet time for LDCs like Uganda to celebrate. Reasons;

- EBA does not address the tariff issues of market access and does not consider the more crucial barriers to market access such as Sanitary and Phyto sanitary measures and environmental regulations that have hitherto denied LDCs market access.
- EBA does not create a link between trade, development and poverty eradication as stressed in the ACP negotiating guidelines.

- EBA duty –free access to EU market is granted to all LDCs so that the margins of preferences the ACP LDCs had over non –ACP LDCs are limited. It can be said therefore, that the Initiative is an EU tailored trade arrangement that does not offer the opportunity to negotiate its provisions but rather accept the offer. It does not give the LDCs bargaining power<sup>20</sup>.

### **3. UGANDA'S CURRENT AGRICULTURAL EXPORTS TO THE EU AND IMPORTANCE TO THE ECONOMY.**

The EU is Uganda's largest trading block with more than one third of Uganda's exports consumed in the UK Markets. The major trading partners are UK, Italy, Germany, France, Denmark, Belgium and Netherlands. The major agricultural exports are still comprised of the traditional cash crops which include coffee, tobacco, tea, cotton and fish. Others considered potential exports include livestock and horticultural products. Over the thirteen years, coffee, tea, fish and tobacco have taken a substantial part of the products exported from Uganda to the EU. Whereas the share of fish and tobacco has increased respectively from US\$24,000 to US\$61 million for fish and fishery products and from \$89,000 to \$31 million for tobacco, coffee has not been that lucky.<sup>21</sup>

#### **3.1. Coffee.**

Coffee is a very key agricultural export commodity. It contributed over 50% of the entire export receipts from 1994-1999<sup>22</sup>. The highest value of US\$396.2 was realized in 1996. However, after 1996 the crop registered perpetual decline and now accounts for 30% of the total foreign export earnings due to the slump in world coffee prices.<sup>23a</sup> It provides livelihoods to a broad cross section of the rural population estimated at 3.5 million people. Uganda has a comparative advantage because of its quality, availability and lower costs of production. It attracts a high value if exported as finished products therefore it has poverty eradication potential.

It should be noted however, that within the EU, the level of coffee consumption has declined in the last several years. This has been the case for instance in Germany, France, Luxembourg and Denmark.<sup>23b</sup> This downward trend is partly influenced by change in consumption patterns. In Germany and Denmark, the young generation is now showing preference for beverages other than coffee for example cold drinks. Uganda is also losing the comparative advantage of producing at a low cost because of poor technological advancement and increased costs of transport. Exploring new markets and further crop diversification is therefore critical.

#### **3.2. Tobacco.**

Tobacco is another traditional export for Uganda. Although earnings from tobacco have risen over the years, its marketability in the EU is likely to be problematic over the next couple of years. The EU, in 1989 imposed a ban on television advertisements involving tobacco products.<sup>24</sup> Since then the proposal has been total ban on tobacco advertising. Once the advertisements disappear from newspapers, magazines, radio and on the streets, market for

20. Hangen-Riad S. (2003) Managing Process of Trade Negotiations for Structural Transformation. A paper presented at ACP-EU consultants training workshop, Dar-es-salaam, Aug, 2003.

21. Delegation of European Union in Uganda. EU-Uganda, a sustainable trade relationship. Can be found at [http://www.delug.cec.int/en/eu\\_and\\_u\\_ganda/sustainable\\_trade.htm](http://www.delug.cec.int/en/eu_and_u_ganda/sustainable_trade.htm).

22. UBOS. External Trade Bulletin, Vol.1, 2003

23a. Ibid

23b. Supra note 22

24. JITAP report (2003). Multilateral Trading System. Impact on the National Economy and External Trade Policy. Adaptation of the Republic of Uganda.

25. Ibid

cigarettes and tobacco products in the EU market will start dwindling<sup>25</sup>. Therefore, Uganda should in addition to diversifying further its export base start exploring new market opportunities in Eastern Europe, Asia etc.

### 3.3. Tea:

Tea crop is labour intensive and therefore provides income earnings to different categories of people. Production of tea is even throughout the year and therefore it offers a large degree of income security for those employed in the industry as well as generating foreign exchange. The country exports slightly over 32,000 metric tones of tea, which annually fetches close to US \$14 million. From 1996 to 1997, the value doubled to US\$ 30.5 million and it has since then continued to improve. There is need for more investment in this area

### 3.4. Cotton:

Cotton is a key agricultural export commodity. Uganda produces premium cotton with a niche market. Cotton is a major source of income for small holder farmers in 32 districts of Uganda. It has strong forward linkages and is capable of providing employment to a bigger population. The United Kingdom, Germany, Italy and France provide the biggest market share. However, the level of subsidies continue to depress the prices which has discouraged cotton production in Uganda. The alternative market in USA stands no better chance. The US Farm Bill signed into law in 2002 that extended US\$ 200 billion in agricultural subsidies over six years, will do more damage to Ugandan farmers who do not receive any government support.

### 3.5. Horticulture (fruits, flowers and vegetables).

Uganda has for a long time been depending on traditional exports to earn foreign exchange. However, Uganda has potential for horticultural exports (flowers, fruits vegetables and spices) and is one of the best in East and Central Africa ranking second to Kenya. The highest market potential is the EU. The value of horticultural exports in the year 2002 increased compared to those of 2001 by 38%. However, Uganda's potential to exploit the market further is dependent on the quality, level of processing and the ability to manipulate non tariff barriers in the EU market

The table below indicates the export earnings from horticultural products in the years 2001/2002.

**Table 1: Product/Commodity value in US \$**

	2001	2002	%ir
Flowers	15,906,382	21,126,627	32.
Fruits			
Matooke	421,942	4,882,471	10.
Green Chillies	300,006	694,414	13.
Passion fruit	8,272	24,661	19.

Source: ADC/IDEA project report, 2003

### 3.6. Livestock

Livestock account for 17% of the agricultural GDP and 9% of the national GDP . This sector is capable of playing a leading role in Uganda's economy but it is faced with sectoral constraints ranging from production constraints, marketing, institutional and financial.

### 3.7. Fish:

Fish is among the highest foreign exchange earner for non traditional cash crops. In the year 2001 fish came second to coffee. Its proportional share export earnings rose from 5% to 17% from 1994 –2001. The year between 1998 –2000 experienced a fall in fish earnings due to fish ban in the EU markets due to fish poisoning (UBOS Trade Bulletin, 2003). The sector employs about 1,100,000 people and this is likely to grow by 5% - 10% with increased processing capacity and aquaculture development (All African News Agency, 2000). This is a potential export due to a big demand for fishery products in Europe. Serious investment in this area is required to improve on the quality and standards.

## 4. DIRECTION OF TRADE:

Generally the EU is the major final destination of Uganda's exports. It accounts for the largest market export share. From 1997 – 1999, the EU dominated the market share consisting over 50% of foreign exchange earnings. The European Union is the only trading block where Uganda has had favourable trade balance and marginal trade deficits<sup>26</sup>. from 1997-1999, the export revenues exceeded the expenditure on imports. The rest of the years recorded narrow trade deficits. The import value to exports from the EU was US\$ 309.9 million recorded in 1995 and the lowest US\$ 100 million in 2000. However, by 2001, the share had reduced substantially to 28.4%.<sup>27</sup>

The African continent ranks second as the final destination of the Uganda's exports with a big proportion going to COMESA region. Most of the products exported to COMESA are food stuffs. The major trading partners in COMESA region are Sudan , DRC, Rwanda and Kenya comprising about 90 percent share. The value of imports from COMESA region declined from 1995 –1996 and thereafter, steadily increased. The highest value of imports stood at US \$ 312.2 million in 2000, while the lowest stood at US \$ 207.7 million in 1996. Exports increased from 1995 –1996 and thereafter declined perpetually. The export revenue remained stagnant from 1998-2000 although it slightly regained in 2001. The trade balance has not been favourable.

The third continent is Asia . The market share for Asia rose from a marginal 4.2 percent in 1999 to 11.3 and 13.7 percent in 2000 and 2001 respectively. Uganda continued to earn meager foreign exchange earnings from the Middle East region compared to import expenditure. Both revenue and expenditure stagnated between 1995 –2001. The region absorbs less Uganda's products.

26. UBOS.Trade Statistics Bulletin (Supra note 20)

27.Ibid

**Table II:**  
The table below shows exports in US\$ Millions

Year	1995	1996	1997	1998	1999
Europe	72.5	64.6	66.1	62.8	69.0
Africa	20.8	26.2	18.3	17.6	24.4
Asia	2.4	7.5	5.0	6.8	4.2

Source: UBOS, 2002.

**Table III:**  
Uganda's main exports and market destinations.

Products	Markets
Coffee	<ul style="list-style-type: none"> <li>European Union, Switzerland, Republic, Singapore, Jordan, Algeria, Hong Kong, Israel, Slovenia, Canada</li> </ul>
Cotton	<ul style="list-style-type: none"> <li>European Union, Kenya, Middle Eastern Europe.</li> </ul>
Tea	<ul style="list-style-type: none"> <li>Kenya, Mombasa Auction, East Eastern Europe</li> </ul>
Tobacco	<ul style="list-style-type: none"> <li>European Union, Eastern Europe</li> </ul>
Fish & Fish Products	<ul style="list-style-type: none"> <li>European Union, North America, Singapore, Hong Kong, Australia</li> </ul>
Hides & Skin	<ul style="list-style-type: none"> <li>Pakistan, Hong Kong, Middle East, Spain, Italy</li> </ul>
Maize	<ul style="list-style-type: none"> <li>COMESA market, Rwanda, Kenya, World food programme</li> </ul>
Beans	<ul style="list-style-type: none"> <li>COMESA, Rwanda, Sudan, World food Programme</li> </ul>
Gold	<ul style="list-style-type: none"> <li>Middle East, European Union</li> </ul>
Flowers	<ul style="list-style-type: none"> <li>Aismeer Auction in Holland, Middle East</li> </ul>
Fruits and	<ul style="list-style-type: none"> <li>European Union, Middle East,</li> </ul>

Source : Uganda Export Promotion Board.

## 5. EU AGRICULTURAL EXPORTS TO THE EAST AFRICAN MARKET:

Uganda does not produce all the agricultural products it requires. Some of the value added products are imported and there is great potential that the EU can easily dominate the supply of some of these products. In the year 2000-2002, a wide range of agricultural products were imported in Uganda. These include;

Dry milk and milk powder, cereal foods ,maize, wheat flour, rice, dried beans, eggs, honey, soya bean, black tea, fruit juices, animal and vegetable fats and oils, peas, cheese, sugar confectionary, chocolate and cocoa products, cotton and cotton fabrics, alcoholic beverages etc.'(UBOS-Agricultural imports from the EU,2000). With the on going agricultural reforms in the EU and with increased competitiveness and efficiency in agricultural production, there is a great potential that the EU can replace Uganda's supplies of these imported products.

European Union is one of the largest trading blocks and through its internal and external policies, it is capable of influencing lives of millions of people including Ugandans. Being our major trading partner, we need to closely monitor changes in the EU agriculture sector and develop negotiating strategies to respond to these changes There is need to develop defensive and offensive strategies.

## 6. PREFERENTIAL TRADE AND EROSION OF PREFERENCES:

Most of Uganda's exports enter the EU market duty free, under the Lome convention. By the end of 2007, a new arrangement under the Cotonou framework is expected to be in place. Consequently, Uganda would be able to export to EU market under this arrangement and under the EBA initiative.

In addition, Uganda's exports qualify for Generalized System of Preferences (GSP) to US, Japanese and Canadian markets. The major export products are coffee, cotton, and textiles in addition to fruits, vegetables, flowers, spices, fish, honey, bee wax, hides, skins and handcrafts.

Uganda, like many other developing countries, feels that tariff reduction negotiated in the Uruguay round will erode these preferential benefits.<sup>28</sup> The impact will be great if the preferential duty rate that developed countries charge on imports is zero, and their regular rates are high. The Uruguay round tariff negotiations have led to reduction in regular rates, narrowing the gap between regular and preference rates. The impact of preference erosion are likely to be felt immediately because Uganda coffee exporters in particular will be facing competition from other low cost investors from Asia and Latin America, e.g. Indonesia and Vietnam. The products that will be particularly hit by the erosion are coffee, cotton, textiles, tea, leather, hides and skins.

It was hoped that the lowering of tariffs, import duties and quantitative restrictions would alleviate the impact of erosion. This per-se will certainly not. Since Uganda is predominantly agricultural, the international terms of trade are deteriorating and will continue to do so with the erosion of preferences.

In addition, Uganda's competitors, especially Asia, are low cost producers, with the availability of relatively cheap labour. They are also strategically located. They have a bigger market, and quick easy access to ports. Consequently, the removal of quantitative restrictions will have a negative impact on Uganda because the market for our products, for

28. Trade Development Center. Trade and Development Case Studies, Uganda  
[Http://www.itd.org/issues/ugan4.htm](http://www.itd.org/issues/ugan4.htm)



instance textiles will no longer be assured. This will affect the farmers' incomes and purchasing power.

Further, Uganda's supply capacity for some products, and value addition is still low, and is likely not to increase at the same pace with the opening up of the EU markets. This will not be overcome unless there is increased use of technology, knowledge of market dynamics, infrastructural development, e.g. roads, railway system, health and education.

Another market available for Uganda is the US under the recent initiative, AGOA. The erosion of the preferences will have similar effects. After all, the major market is still the EU.

### **6.1. Expected benefits and losses from the erosion of preference.**

The benefits expected from the erosion of preferences are basically free trade, free mobility of skilled labour, increased efficiency due to stiff competition hence better quality products on the domestic market and more products will be available to consumers possibly at lower prices.

However, the country will also be faced with far reaching negative consequences. These include reduced export market share, especially in the EU, increased risks in terms of price and reduced investment in agricultural sector because of lower returns on investment.

It is important to note that the impacts of erosion of preferences vary from country to country and from product to product, depending on the type of competition that is likely to evolve and the countries' ability to make themselves more competitive. For Africa as a whole, FAO predicts loss of US\$ 0.2 billion per year.

For Uganda, Uganda Coffee Development Authority (UCDA) maintains that erosion of preferences on coffee products will increase competition. However, lower tariffs on coffee from competing countries like Brazil has began to reduce the share of Africa's exports to major markets like the EU<sup>29</sup>. One of the challenges facing Uganda is therefore, whether it can adopt production of goods such as coffee in order to compete when the preferences are eroded.

## **7. CAUSES OF POOR TRADE PERFORMANCE BY UGANDA:**

As noted earlier the performance of the ACP countries under the previous trade arrangements has been poor without tangible benefits for ACP countries<sup>30</sup>. Uganda in particular has not been able to reap the benefits of the trade relationship because of a number of factors both endogenous and exogenous .

### **7.1. Endogenous factors.**

Endogenous factors range from poor trade policies, inadequate support to private sector, narrow export base, reliance on export of raw materials and high level corruption<sup>31</sup>.

### **7.2. Structural problems.**

These include high cost of raw materials, poor infrastructure, poor product quality, obsolete technology, poor marketing techniques (packaging and advertising etc) , high costs of

29. Ibid

30. Ibid

31. JITAP report, 2000 (Supra note 22)

transport and insurance and insufficient market knowledge.<sup>32(a)</sup>

Structural problems can be summarized as supply side constraints. UNCTAD economist Samuel Gayi has consistently argued that supply side constraints are the major problems to Uganda's agriculture export trade<sup>32(b)</sup>. Although the road network has considerably improved over the years, feeder roads have remained poor and hence a bottleneck to movement of produce.

Most Ugandan exports go overland to Mombasa or Dar-es-salaam. Delivery by trucks take three to seven days depending on the delays at the boarder or vehicle breakdown. Rail services are unreliable and the procedure is cumbersome. Storage facilities have inhibited the bulking of sufficient cargo to justify pick up by charter air freight services

As a result of little investment in agricultural reforms and new technology over the years, Uganda has lost the comparative advantage that large scale plantation and high yielding varieties offer. All this affects Uganda's ability to export.

### **7.3. Exogenous causes:**

These include; non tariff barriers (Sanitary and phytosanitary conditions), protectionist policies such as the Common Agricultural Policy which guarantees subsidies to the EU farmers to the detriment of most ACP countries, poor terms of trade due to a slump in world market prices resulting from over supply, tariff peaks and tariff escalation.

#### **7.3.1. Non tariff barriers constitute a new set of problems to market access.**

**These include;**

##### **i. Standards.**

The EU requires high standard of products if a country is to access its market. These standards are set without adequately paying attention to the local circumstances prevailing in the country. The quality standards have acted as trade barriers to poor countries. Satisfying the EU regulations based on Hazard Analysis Critical Control (HACC) is a nightmare. Helga observes that investments needed to bring a fish processing plant to up to the standards of HACCP are substantial and many companies in the third world countries cannot afford them<sup>32(c)</sup>. This is in fact a serious non tariff barrier that affects processing and value addition.

##### **ii. Environmental trade barriers**

Environmental requirements of the EU are increasingly becoming a barrier to the EU market. Consumer demand in the EU is increasingly being influenced by concerns and perceptions regarding environmental and social conditions in the producing countries. In the first place, the pesticide residue levels permissible are moving to zero implying that exports in the EU must be accompanied by a phytosanitary certificate on their pest free status. Directive 2000/29 EC protects floriculture in the EU from harmful organisms present in cut flower imports and it must be taken into consideration. It should be noted that most of the banned pesticides eg DDT still find their way into Uganda. This reduces her chances of accessing the market.

<sup>32(a)</sup>. Nnam A. (Supra note 8]

<sup>32(b)</sup>. Trade and Development center, Country studies, Uganda at <http://www.itd.org/issues/ugan.htm>

<sup>32(c)</sup> Helga J (1997). Trade Opportunities For Processed Fish, UNCTAD, 1997

### iii. Effects of the SPS measures

The overall effect of SPS has been less access to the EU market which translates into loss of foreign exchange, little investment in production and impoverishment of the rural poor. For example when the EU imposed ban on fish imports, there were serious adverse effects on the economy.

- (i) Reduction of foreign exchange earnings. According to the export Bulletin (Sept 1999) Uganda lost up to US\$ 40 million in fish export earnings in the year 1999.
- (ii) Loss of employment.  
According to "All African News Agency", when the ban was enforced by the EU, it affected 75,000 Ugandans directly involved in fishing and further 700,000 who were indirectly dependent on the fishing industry which accounts for an employment figure of 3.5% of the country.
- (iii) Depreciation of the currency. Drastic reduction in foreign exchange without an immediate alternative affected the stability of the currency.

#### 7.3.2. The EU Common Agricultural Policy.

The EU Common Agricultural Policy (CAP) has its origins in the Treaty of Rome signed in March 1957. The treaty established the European Economic Community. The Objectives of CAP are summarised under Article 38 of the Rome Treaty and basically include increasing agricultural productivity, increasing individual earnings from agricultural sector, stabilize markets and ensure availability of supplies at reasonable prices.

The policy provided for intervention measures which among others guaranteed farmers minimum selling price for their agricultural products whatever the circumstances<sup>33</sup>. "The entry price" introduced, protect 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 over production and increased dumping of agricultural products in developing countries<sup>34</sup>.

With Agricultural trade liberalization and establishment of WTO, the EU found it increasingly necessary to change their agricultural policy to be WTO compatible particularly with regard to the Agreement on Agriculture. The EU seeks to bring CAP within the WTO permitted domestic support system. The CAP reform target WTO AoA Green and Blue Box Policies<sup>35</sup>

##### 7.3.2.1. Impact of CAP reforms on Uganda.

It is important to note that CAP reforms are merely changing the nature of assistance given by the EU to its farmers. From price support, CAP will now be a direct support system and a land withdrawal mechanism. The action will translate into the following effects<sup>36</sup>

1. Changes in the nature of the support given by the EU to its farmers (from price support system to direct support system) will not have any substantial effect on agricultural production in European union. Over production is still expected with its attendant consequences of dumping.

<sup>33</sup> Dr. Otieno Odek (2002) The East African Response Towards the EU Common Agricultural Policy Reforms. A paper presented at a regional workshop on the impacts of CAP reforms on E.Africa, Nakuru, Kenya.

<sup>34</sup> Ibid

<sup>35</sup> Ibid

<sup>36</sup> Ibid

2. The CAP reforms have the effect of lowering prices of agricultural products in the EU and this means that earnings for countries like Uganda will reduce. The implications are that Uganda's exports to the EU will attract less earnings and thus income loss.
3. In terms of value added [agricultural product processing] the CAP reforms will have a negative impact on Uganda's products. Withdrawal from price support allows EU prices to be brought down towards the world market price levels. Since the over all aim of the reform is to establish a firm basis for development of more price competitive export oriented European food and Beverages industry, where market is no longer the EU but the world, this is likely to close off the market opportunities for value added food processing range of products from poor countries.
4. The CAP reform are likely to reduce the margin of preferences that ACP states get from the EU since CAP is reducing prices of the EU agricultural products. Already prices in the EU have gone down affecting income gains to Switzerland and Namibia. The Kenya sugar quota prices are expected to be equally affected. The value Under Cotonou preferences will thus be negligible.

## **8. ACCESSING THE EU MARKET**

### **8.1. Issues for private sector.**

Accessibility of markets and marketing of products to different EU countries, satisfying their respective rules and regulations, overcoming technical barriers to trade, sanitary and physisanitary regulations, identifying right buyers and satisfying their terms has remained a difficult task for exporters. Some of the useful insights into the market are given below.

#### **8.1.1. Devising and adopting suitable market strategy.**

Inspite of a common market, exporters to the EU market must frame different strategies for different countries as they are culturally quite diverse. There is need to understand local market conditions that largely depend on domestic culture. Therefore, no single strategy will work through the EU. For example if you consider price, quality and design, technology and environment impact as the characteristics of a product that influence a buyer in his purchase decision, the environmental impact is that most important determinant factor in the Scandinavian countries. Quality of the product is the important determinant factor in the Germany, UK, and Ireland while design is important in France and Italy. In Netherlands Belgium and Portugal, price is the determinant factor. All these factors must be taken into consideration.

#### **8.1.2. Competitiveness of the market:**

EU is the most competitive Market place in the world and only exporters with well thought and sustainable marketing plan based on solid and competitive products should venture into this market. All kinds of products find themselves in the EU market and the buyers can be choosy and selective.

#### **8.1.3. Packaging waste:**

In December, 1994, the European Union issued a directive (94/62/EC) in an effort to harmonize national measures concerning management of packaging and packing waste. The directive allows member countries to set higher percentage as long as European Union

members are not affected. Exporters to the EU market must be aware and take appropriate measures. This implies that the sale packaging must be limited, re-usable or capable of being recycled. Care is required that any increased costs borne by an importer due to particular packaging supplied with the product do not reduce the competitiveness of the exporter.

#### **8.1.4. Sanitary and phyto-sanitary regulations.**

In EU market, there has been an increase in the regulations and market requirement on account of enhanced consumer awareness. The barriers are in the fields of safety, health, quality, environment, social and ethical issues. The EU has laid down the minimum standards. In addition, to (ISO 9000-2000 series) environmental standards (180 – 14001) ECO labeling, occupational, health and safety standards (OHSAS 180001) HACCP (Hazard Analysis Critical Control Point<sup>37</sup>), the EU has adopted mandatory hygiene for foods and Agricultural Practices for Horticulture. What is also rapidly gaining ground is the social accountability standards (SA 8000) in the EU market under consumer pressure. SA consists of issues like child labour, forced labour, health and safety, working hours, compensation etc. These factors command minimum prices in the EU market.

Organic food products are increasingly becoming popular as the health consciousness of the European people peaks. They command a premium value over normal food products. There is another variety of food products called bio-dynamic becoming popular. However, it is expected that organic food is likely to replace normal foods as a preferred choice of common Europeans.

Private sector must therefore, influence government to take a strategic position when it is dealing with issues of Biotechnology Policy. Allowing GM crops in the country may have serious consequences on its market in the EU.

#### **8.1.5. Export promotional tool mix**

It is important that an exporter desirous of entering EU market should choose the export promotional tool mix with care. Tools like trade magazines, advertisements, web advertisements, personal visits and trade fairs have their respective advantage and disadvantage. The most preferred choice is the trade fairs and countries trying to export must invest in participation of trade fairs.

### **9. POLICY CONCERNS FOR GOVERNMENT:**

#### **9.1. Government response to CAP reforms.**

The response for Uganda must be guided by the potential impacts as identified herein and her strategic interests. There is need to:

- a) Convince the EU to increase financial support to Uganda to support its agricultural sector and products where it has comparative advantage with the view of improving the efficiency and competitiveness of these sectors.
- b) Urge the EU to eliminate residual barriers to new and non-traditional exports of Uganda and give support for promotion and marketing of these non-traditional exports.
- c) The government should be bold and take a political decision to restructure the pattern of production, address the supply side constraints and take measures to promote competitiveness.

<sup>37</sup>The Hazard Analysis Critical Control Point System is a food safety management using the approach of controlling critical points in food handling to prevent food safety problems.

- d) Through strategic negotiations, urge the E.U to maintain preference for agriculture products where Uganda has comparative advantage and give market access to Uganda products covered by CAP.

## **9.2. Establish a framework for analysis of issues in future trade relations.**

The government must clearly define specific objectives to be pursued through any future trade arrangements with E.U. Objectives must be based on a detailed analysis of the countries strength and weaknesses. The country must take into consideration current and emerging production structures in the country, trends in regional market integration, current and future alternative trade relations with the E.U like EBA.

After identifying strategic objectives, a detailed analysis should be made of the current national exports to the E.U, the opportunities offered by the Cotonou Partnership Agreement, trade trends likely to affect exports to the E.U, options for future trade relations currently available, effects of further regional integration and the market opportunities in the E.U. This analysis should form the basis of the National Trade Policy.

## **9.3. Institutionalise the IITC and strengthen the Negotiating capacity.**

The IITC housed by Ministry of Tourism Trade and Industry which is supposed to be the governments trade policy think tank, for a couple of years now has been operating in an adhoc manner. There is urgent need to institutionalise it by enacting the relevant law that gives it mandate. In addition, the thin negotiating team at Brussels must be beefed up in order to perform effectively its noble role. This team has hitherto done a fairly good job but it is now overstretched and cannot attend effectively to all important issues of Uganda's interest at regional, inter-regional and multilateral levels.

## **9.4. Developing defensive and offensive strategies.**

### **9.4.1. Defensive strategy.**

A defensive strategy seeks to identify Uganda's products that must be defended or protected from the EU agricultural imports both actual and potential. This strategy will help the country choose whether to adopt safeguard measures or put in place special arrangements to protect its products. Given the fact that there has been a decline in both export values and volumes of the products hitherto considered strategic mainly due to the weak international markets and poor domestic agricultural and marketing policies, there is need for development and adoption of a defensive strategy. The strategy should include;

- Adopting safeguard measures to protect the products from increased imports.
- Making special arrangements for the production and marketing of products such as introducing permitted subsidies or tariff rate quotas.
- Excluding some of the products from the list of preferential trade.
- Backloading the tariff where by a high percentage of tariff reduction are done in the later years of tariff reduction or front loading where by a higher percentage of tariff reduction is done in the early or front years of tariff schedule.

### **9.4.2. Criteria for designating products as defensive, sensitive or strategic.**

Various factors must be considered as critical in identifying what should be protected. These include;

- Food security concerns and the ability of the product to assist in rural development.
- Ability of the product to support poverty alleviation and the product's contribution to sustainable livelihoods.
- Ability to absorb bigger labour force at cultivation and agro-processing stages.
- Competitive threat from the EU and other markets.
- Degree of sensitivity of the product to market signals and disturbances.
- Contribution of the product to GDP.
- Importance to gender such as women and children and the relevancy of the product to a geographical region.
- Importance of the product in earning foreign exchange.

#### **9.4.3. Offensive Strategy**

An offensive strategy on the other hand, seeks to identify tariff rate for products which Uganda can use as a trade off or bargaining chip in order to extract trade concessions from the European Union or any other trading partner. While developing an offensive strategy, both the tariff and non tariff barriers as well as the value and margin of preferences should be analysed.

#### **9.5. Access to information.**

Access to information is one of the crucial factors that promote export performance of countries. Exporters in Uganda are seriously constrained in terms of amount, quality and usefulness of trade information available within the country from traditional sources. Technical and financial constraints have meant under- developed trade information system. Although attempts are being made under donor supported projects, speedy dissemination of appropriate trade information has a long way to go before it satisfies the needs of exporting community. Access to information must be improved through internet and or other multimedia sources and private or public data base. Traditional information sources must also be improved and made more accessible to exporters. Information is the key issue in the trading world and particularly with respect to small and medium scale exporting enterprises. The Chamber of Commerce and Export Promotion Board need to rethink their strategies for information management and dissemination. The two important bodies must understand their clientele and appropriately package the information in a more user-friendly manner. This makes rural electrification more urgent to promote the use of information technology.

#### **9.6. Tariff Peaks and Tariff Escalation:**

Tariff peaks and tariff escalation are major barriers to products of export interest to Uganda. Tariff escalation hinders diversification from commodity exports to manufactured exports. The potential export markets still retain relatively high degrees of tariff escalation to processed and semi-processed products. Uganda must therefore, negotiate for the elimination of tariff peaks and tariff escalation or the improvement of preferential schemes for products

that are still subject to tariff peaks. The negotiating position should target the reduction of tariff peaks and tariff escalation so as to promote value-added export products.

### **9.7. Elimination of Tariffs:**

Under the Doha agenda, Paragraph 16 gives the programme of work on industrial tariffs. The desired position is total elimination. Larger cuts by developing and least developed countries has a multiplicity of implications. Among them are; the removal of policy options available to these countries as tariffs are important instruments for domestic industrialization and most of these countries depend on the tariffs for generation of revenue necessary for development purposes. The argument for these negotiations is based on the assumption that liberalization and tariff reduction leads to welfare gains through increased employment. However it is true that those industrial countries attained that level of industrialization under high tariffs and there is empirical evidence that countries that liberalized their regimes very fast suffered de-industrialisations. A study by UNCTAD on the effect of the envisaged tariff cuts has shown that this will lead to the increase in imports by developing countries, which means a significant negative effect on their trade balances. It is therefore logical to disagree that competition from imports (which may be cheaper), will induce local firms to be more competitive and therefore increased welfare gains. In fact this can lead to closure of local industries and therefore job losses. Under the circumstances Uganda should be interested in negotiations whose result will support her industrialization strategy and policy.

### **9.8. Export Subsidies:**

Export subsidies have in many respects displaced exports from developing countries in both the domestic and regional markets. They have been especially damaging to small scale manufacturing enterprises that are not strong enough to compete against subsidized exporters from developed countries. Uganda therefore should continue to advocate for the total elimination of export subsidies, which will enhance her domestic and regional market opportunities currently endangered by cheap imports from subsidizing countries. Although the CAP reforms are purportedly intended to reduce on the export subsidies, the adopted direct support system is no good news for Uganda to celebrate. In addition, reform is a process that may take a couple of years to come and indeed this will be at the detriment of the developing countries.

### **9.9. Preferential Treatment.**

Since Uganda is part of the regional grouping, should the group chose to negotiate reciprocal preferential trade arrangement with the EU , she will be expected to carry the same obligations as are negotiated regionally. Consequently, she should strive to see that the preferences that it enjoys under the Cotonou Agreement, are not jeopardized. She should further seek for waivers under CAP reform process for bound duty free and quota free preferential treatment.

### **9.10. Phased out liberalization.**

Although liberalization is efficient in resource allocation, rapid liberalization can be a hindrance to export promotion and economic growth. If import liberalization proceeds without conditions for successful export growth in place, the result would be the collapse of local production systems and continued trade balance deficit. To increase market access, there is need for government to substantially support high value exports through



provision of financial and technical support to exporters. This is both physical and human investment in the areas of production, export as well as utilities. Rural electrification, provision of cold storage at main distribution points, rural road infrastructure and long term and low interest agricultural loans are essential for strengthening the private sector. It is important for future competitiveness to support efficient domestic production. This efficiency will require human and financial investment as well as trade policy reform.

#### **9.11. Sanitary and Phyto-sanitary Measures on manufactured foods:**

In an agricultural economy like Uganda, food-processing industries constitute a significant part of the manufacturing sector and so while interested in ensuring plant and animal health, we want a relaxation of the stringent phyto-sanitary measures as well as standards on processed food products. The emphasis however should not only be ensuring that the rules and regulations in the Phyto-sanitary and TBT Agreements are not a measure of protection, but rather to press for assistance so as to be able to implement measures that will make it possible to meet food safety standards in developed country markets.

#### **9.12. Strengthen south-to-south trade cooperation:**

As already noted, there is potential market in Africa which has not been exploited. At regional and inter-regional levels, south to south co-operation could contribute substantially to economic independence. Consequently, Uganda with its neighbours should encourage regional and interregional trade in basic agricultural products and technologies. There is need to take a united position in favour of modifying international trade and investment related policies and institutions in ways that would better protect the rights and livelihoods of small farmers when dealing with international reforms.

#### **9.13. Addressing supply side constraints:**

Uganda will not be able to take benefit of the various trade initiatives unless if it takes a bold and deliberate political decision to address supply side constraints. There is need to address land policy issues, soil degradation, rural electrification, rural transport and get away from neo-liberal trade policies and provide meaningful support to farmers.

### **10. CONCLUSION:**

In this paper, we have argued that there are a number of trade initiatives offered by the European Union which Uganda could take advantage of. However there are enormous challenges both for private sector and government. The benefits envisaged under the Cotonou Partnership Agreement and EBA initiative will largely depend on the country's ability to take sober and strategic decisions to address the challenges.

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