Tariffs and Rules of origin Options for Kenya Horticulture in EPA Negotiations

Study done for Kenya horticulture Sector (FPEAK)

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Presentation Overview

1. Brief Introduction

2. An analysis of the current tariff structures for Kenya an non ACP competing countries for horticultural products

3. A SWOT analysis of horticultural trade from Kenya

4. Analysis of the possibility of trade deflection and effect of preference erosion in horticultural trade under GSP regime.

5. Analysis of the impact of various EPA outcome scenarios on the current Doha Round of Negotiations at the WTO.

6. Compare neighbouring countries trade under EBA with Kenyan horticulture trade under GSP.

7. Analyse GSP+ arguments under the current EPA process.

8. Provide a recommendation on options for Kenya horticultural sub-sector possible positions under the EPA negotiations.

Introduction

- East African Community member countries of Burundi, Kenya, Rwanda, Tanzania and Uganda signed a EAC- EU interim agreement (Framework agreement in Dec 2007).

- Covers mostly the market access provisions, rules of origin and the general provisions relating to development.

- Little progress in the services sector

- Objectives of the study: To contribute to the articulation of the horticulture private sector position on the ongoing EPA negotiations positions.

Introduction

- Ex-ante partial equilibrium model embedded in World Integrated Trade Solution (WITS) data retrieval system (The SMART model).

-The model allows estimation of the impact of tariff reductions on trade flows, tariff revenue, and consumer surplus for a single market at a time.

- Data obtained from UNCTAD's TRAINS

Introduction

- EU is the main destination market for Kenya horticultural products. Kenya has the largest market share of live tree & other plant; bulb, root; and cut flowers (24%).

- Kenya exports under preferential arrangements, with some products facing zero rates (average applied rate of 2.59%).

- Other key competitors for Kenya in this market especially Latin American countries face similar or lower tariffs than Kenya faces.

- If Kenya is not a part of an EPAs, the next possible preferential trading option is the GSP scheme.

Current tariff structures for Kenya and non ACP competing countries for horticultural products in EU

-Top 10 exporters: live tree & other plant; bulb, root; cut flowers (HS 06)

SN	Country	Applied tariff (Simple Average) %	Nbr of Total Lines	Imports Value ($ '000)	Market share (%)
1	Kenya	0.00	48	370,013.567	23.9
2	Israel	2.49	48	171,481.872	11.1
3	Colombia	0.00	37	126,919.801	8.2
4	Costa Rica	0.00	42	107,291.633	6.9
5	Ecuador	0.00	46	106,625.765	6.9
6	United States	5.95	50	94,824.556	6.1
7	China	3.14	50	60,360.199	3.9
8	South Africa	1.11	45	54,142.089	3.5
9	Guatemala	0.00	39	49,864.557	3.2
10	Thailand	2.81	44	31,049.572	2.0

- Key competitors: Tariffs

Current tariff structures for Kenya and non ACP competing countries for horticultural products in EU

-Duty rates for cut flowers

Partner Name	Weighted Average	Nbr of Total Lines	Imports Value ($ '000)	Market share (%)
Kenya	0.00	11	330,584.431	38.0
Colombia	0.00	11	126,026.943	14.5
Ecuador	0.00	11	106,254.234	12.2
Israel	8.52	11	101,422.606	11.6
Zimbabwe	0.00	9	39,271.924	4.5
Uganda	0.00	11	27,810.023	3.2
Thailand	5.01	11	22,517.303	2.6
South Africa	4.82	11	21,952.710	2.5
Zambia	0.00	9	16,625.444	1.9
Turkey	0.00	11	14,179.576	1.6
Ethiopia (excludes Eritrea)	0.00	9	11,918.683	1.4

Duty rates of edible vegetables and certain roots and tubers (HS 07)

SN	**Exporter**	**Applied Tariffs (Simple Average) %**	**Nbr of Total Lines**	**Imports Value ($ '000)**	**Market share (%)**
1	Morocco	4.20	220	506,844.790	14.4
2	China	5.97	151	375,408.373	10.7
3	Israel	8.58	205	323,007.453	9.2
4	Canada	6.77	142	291,187.702	8.3
5	Turkey	0.40	240	284,726.828	8.1
6	Egypt, Arab Rep.	4.89	228	210,179.270	6.0
7	Kenya	2.59	155	188,893.172	5.4
8	United States	8.51	185	168,517.014	4.8
9	Peru	0.32	123	109,845.090	3.1
10	Thailand	6.10	230	97,424.742	2.8

Duty rates of edible fruit and nuts (Hs 08)

SN	**Exporter**	**Applied tariff (Simple Average) %**	**Nbr of Total Lines**	**Imports Value ($ '000)**	**Market share (%)**
1	United States	6.91	370	1,746,131.326	12.8
2	Turkey	0.41	361	1,460,159.971	10.7
3	South Africa	3.48	348	1,091,690.486	8.0
4	Costa Rica	0.38	116	944,263.937	6.9
5	Ecuador	0.11	112	868,720.050	6.4
6	Chile	1.88	345	784,627.604	5.8
7	Colombia	1.42	268	766,730.071	5.6
8	Argentina	5.60	332	577,451.829	4.2
9	Brazil	4.30	341	566,552.684	4.2
10	New Zealand	10.14	183	488,959.282	3.6
39	Kenya	00	64	25,374.130	0.2

Trade deflection and effect of preference erosion in horticultural trade under GSP regime
-Preference erosion

HS	Description	MFN %	PFR	Preference margin (%)	GSP (%)	GSP Preference margin (%)	Preference erosion (%)
0602	Other live plants (including their roots), cutting	2.61	0	2.61	2.52	0.09	96.5
0603	Cut flowers and flower buds	8.50	0	8.50	8.20	0.30	96.5
0703	Onions, shallots, garlic, leeks	9.97	7.03	2.94	9.62	0.35	88.1
0708	Leguminous vegetables,	8.02	0.00	8.02	7.74	0.28	96.5
0804	Dates, figs, pineapples, avocados, guavas, mangoes	3.27	0	3.27	3.16	0.11	96.5
0807	Melons and papaws	4.40	0	4.40	4.25	0.15	96.5

Loss in Trade value if Kenya exports under GSP Scheme

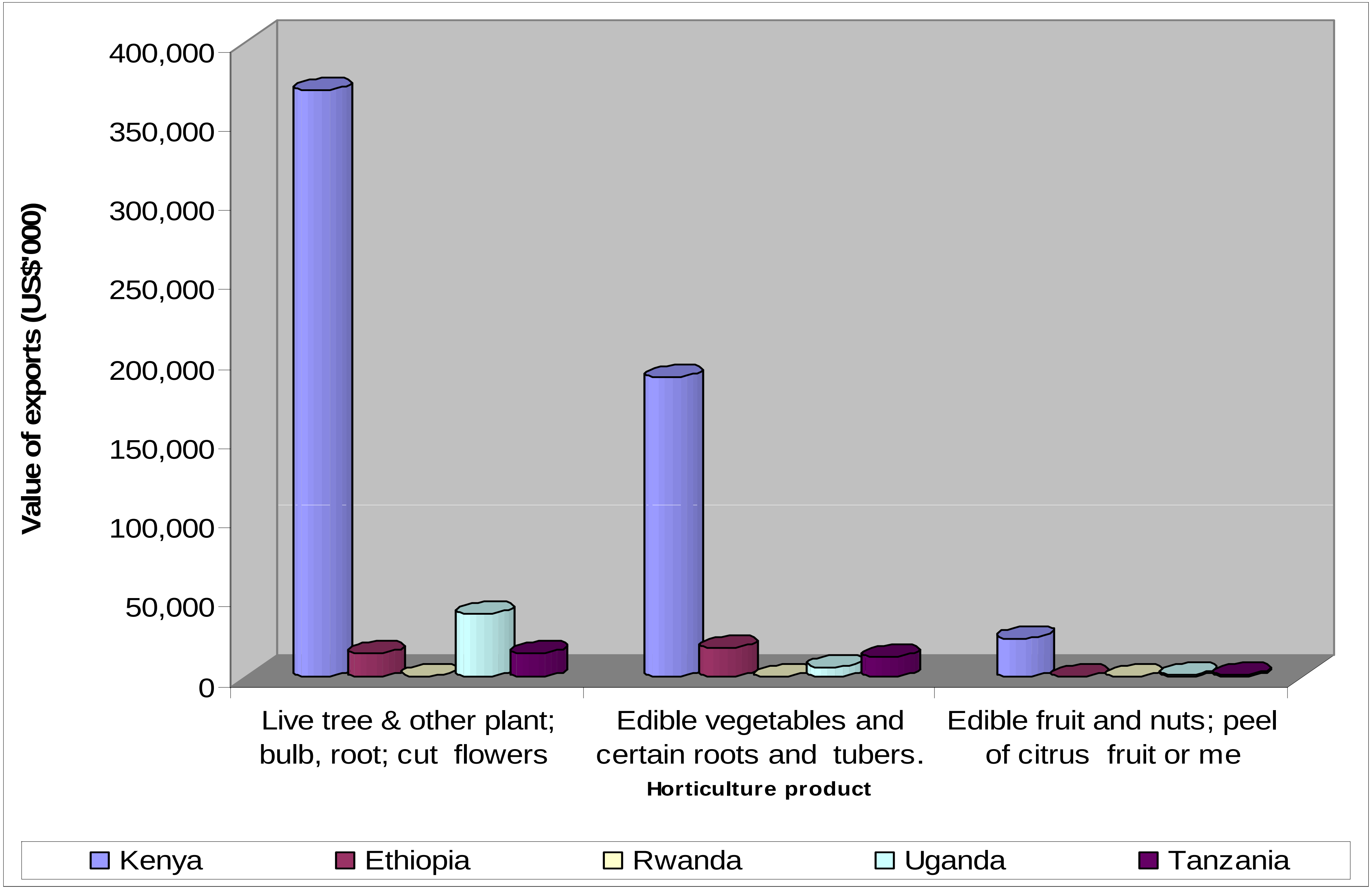
Description	Trade value PFR 'US$ '000)	Trade value GSP (US$ '000)	Change (‘000)	Proportion of change (%)
Other live plants (including their roots), cutting	38673.16	36608.94	-2064.22	-5.3
Cut flowers and flower buds of a kind suitable for	330584.43	279957.23	-50627.20	-15.3
Onions, shallots, garlic, leeks and other alliaceo	1657.02	1565.26	-91.76	-5.5
Leguminous vegetables, shelled or unshelled, fresh	151037.34	135418.89	-15618.45	-10.3
Dates, figs, pineapples, avocados, guavas, mangoes	19720.36	18148.15	-1572.21	-8.0
Melons (including watermelons) and papaws (papayas	206.74	183.60	-23.14	-11.2
All horticulture	**584275.6**	**508,329.84**	**-75945.8**	-13.0

•All trade reduces by some US$ M 75: - some 13%

Main losers

HS	**Description**	Change	Proportion of change (%)
0603	Cut flowers and flower buds of a kind suitable for	-50627.20	**66.7**
0708	Leguminous vegetables, shelled or unshelled, fresh	-15618.45	**20.6**
0709	Other vegetables, fresh or chilled.	-4255.31	**5.6**
0602	Other live plants (including their roots), cutting	-2064.22	**2.7**
0804	Dates, figs, pineapples, avocados, guavas, mangoes	-1572.21	**2.1**
0710	Vegetables (uncooked or cooked by steaming or boil	-884.86	**1.2**
0810	Other fruit, fresh.	-453.31	**0.6**
0604	Foliage, branches and other parts of plants, witho	-102.46	**0.1**
0704	Cabbages, cauliflowers, kohlrabi, kale and similar	-102.09	**0.1**
0703	Onions, shallots, garlic, leeks and other alliaceo	-91.76	**0.1**

Neighbouring countries trade under EBA and that of Kenya under GSP -recent trade levels



Kenya horticultural exports under GSP and that of LDCs under EBA

Country	Trade value under current PFR (US$ '000)	Trade value with Kenya using GSP (US$ '000)	Change in trade value (US$ '000)	% Change in trade value
Other live plants (including their roots), cutting (0602)				
Kenya	38,673.16	36,608.94	-2,064.22	-5.3
Uganda	11,953.44	12,064.22	110.776	0.9
Tanzania	8,104.50	8,179.25	74.741	0.9
Ethiopia	2,960.97	2,988.23	27.253	0.9
Rwanda	255.62	255.869	0.249	0.1
Burundi	98.793	99.15	0.357	0.4

- Increase in trade in other countries not significant

Kenya horticultural exports under GSP and that of LDCs under EBA

Country	Trade value under current PFR (US$ '000)	Trade value with Kenya using GSP (US$ '000)	Change in trade value (US$ '000)	% Change in trade value
Cut flowers and flower buds of a kind suitable for bouquets (0603)				
Kenya	330,584.43	279,957.23	-50,627.20	-15.3
Uganda	27,810.02	29,123.72	1,313.70	4.7
Tanzania	6,691.46	7,008.26	316.793	4.7
Ethiopia	11,918.68	12,482.92	564.239	4.7
Rwanda	451.9	473.321	21.421	4.7
Burundi	302.563	316.905	14.342	4.7

- Other countries trade increases

Kenya horticultural exports under GSP and that of LDCs under EBA

Country	Trade value under current PFR (US$ '000)	Trade value with Kenya using GSP (US$ '000)	Change in trade value (US$ '000)	% Change in trade value
Leguminous vegetables, shelled or unshelled, fresh				
Kenya	151,037.34	135,418.89	-15,618.45	-10.3
Uganda	41.079	42.656	1.577	3.8
Tanzania	7,619.50	7,955.74	336.239	4.4
Ethiopia	8,598.38	8,902.78	304.403	3.5

- Some increase

Kenya horticultural exports under GSP and that of LDCs under EBA

Country	Trade value under current PFR (US$ ‘000)	Trade value with Kenya using GSP (US$ ‘000)	Change in trade value (US$ ‘000)	% Change in trade value
Other nuts, fresh or dried, whether or not shelled				
Kenya	1,572.34	1,529.43	-42.911	-2.7
Uganda	0.41	0.41	0	0.0
Tanzania	29.142	29.148	0.006	0.0
Ethiopia	0.174	0.174	0	0.0

GSP+ arguments under the current EPA process

-special incentive arrangement for sustainable development and good governance

- Criteria for qualification

Criteria	Kenya qualified
Must be vulnerable economies	Yes
Poorly diversified Economy	Yes
Ratified and effectively implemented 27 conventions on human and labour rights; and good governance.	Kenya has ratified 24 of the 27 conventions.

- Interested countries should have made a request by 31 October 2005 to benefit from 2009.

GSP+ arguments under the current EPA process
-Some challenges of the GSP plus scheme

- Non reciprocal and unilaterally granted

- Reviewable,

- Products graduated from the scheme if the share of the Community market expressed as a share of exports exceeds 15%, for all products: textiles and for clothing, 12.5%.

- Kenya main horticultural export category to the EC is that of live tree & other plant; bulb, root; cut flowers live tree & other plant; bulb, root; cut flowers(06), where Kenya is currently commanding a market share of about 24%. – may not benefit from the GSP plus provisions.

Recommendations

- The horticultural sector should ensure that the final position on the EPA will provide market access conditions (import duty) which are similar to the current levels to avoid trade losses. GSP plus provisions may exclude cut flower

- Kenya horticultural sector should brace itself to increased competition in the EU market in line with the agricultural Doha Round negotiations at the WTO.

- Kenya horticultural sector should seek to diversify both her export basket and her export destination markets.

- The reduction of tariffs in agricultural sector globally will also present trade opportunities for Kenya horticultural exports to other regions of the world and therefore reduce export concentration in the EU market

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