Analysis of the Economic and Social Effects of Botswana's Loss of Preferential Market Access for Beef Exports to the European Union

Final study

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List of Abbreviations

ACP	African, Caribbean, Pacific
AMI	Allied Meat Importers
AoA	Agreement on Agriculture
AVE	Ad Valorem Equivalent
BCPA	Botswana Cattle Producers Association
BIDPA	Botswana Institute for Development Policy Analysis
BLNS	Botswana, Lesotho, Namibia, Swaziland
BMC	Botswana Meat Commission
BNS	Botswana, Namibia, Swaziland
CAP	Common Agricultural Policy (of the EU)
CET	Common External Tariff
DFQF	Duty free/quota free
EBA	Everything But Arms
EC	European Commission
EDF	European Development Fund
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FMD	Foot-and-Mouth Disease
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GoB	Government of Botswana
GSP	General System of Preferences
LDC	Least Developed Country
LITS	Livestock Identification Trace-back System
MFN	Most Favoured Nation
OIE	Office International des Epizooties (World Organisation for Animal Health)
SACU	Southern African Customs Union
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitary Standards
TDCA	Trade, Development and Co-operation Agreement
TIPS	Trade and Industrial Policy Strategies
VCF	Veterinary Cordon Fence
WTO	World Trade Organization

Executive Summary

This report provides ‘empirical evidence on the economic and socio-economic relevance of EU preferences for Botswana’ (see Appendix 3 for the full terms of reference). It finds that the effect of losing preferences would be disproportionately large.

Exports to the EU may cease in 2008

Exports outside SACU will be at increasing risk from the end of September (i.e. in 2 months time). Unless positive action is taken (by the European Commission) to prevent this from happening, the present Cotonou tariffs will disappear from the EU customs computers on 1 January 2008 and imports from Botswana will pay the full MFN tariff – which is equivalent 80 percent of the revenue obtained from sales to the EU. Since exporters must apply for a CAP license from September for deliveries in 2008 they need to know by then whether or not they will have to pay this punitive tax.

Since it is inconceivable that the sector could absorb such high taxes the only realistic assumption must be that exports would cease. Although beef accounts for only 1.3 percent of Botswana’s exports, and the EU is not the only possible market, the cessation of this trade in under six months is not something that the Government can view with equanimity – which explains its active role in the EPA negotiations.

Which will adversely affect the rural economy

Despite the fact that agriculture accounts for only 2.5 percent of GDP, the rural sector is important for employment. Livestock rearing is the central agricultural activity in Botswana and the main employment and income source for the rural population. Livestock rearing and sales are the main commercial activity and source of cash in the rural economy. Moreover, the livestock sector is the only export industry that shows strong linkages to domestic sectors, ranging from rural supply of cattle, over urban demand for cattle to transport and finance.

The linkages between beef exports and the rural economy and the guidance of the export price for the domestic price level imply that any price shock negatively impacts on rural households. A drop in prices might result either in a switch to higher-income activities (like game farming for commercial farmers) or, in case of small communal farmers, in the cessation of cattle sales and the return to subsistence farming. Evidence from Botswana sources is mixed on the price elasticity of supply from small beef producers, but one has to assume either zero elasticity or an equally remunerative market (domestic, regional or international) before one can conclude that there would be no impact. Any impact would be in the direction of excluding small-scale livestock farmers from the cash economy and adversely affect their livelihood security.

As alternative markets might not be found

Botswana’s beef exports to the EU are crucial for the country’s economic diversification attempts. The only alternative markets that BMC has been able to tap regularly in the recent past are Norway, Réunion and South Africa. As part of France, it must be assumed that access to Réunion will be affected in the same way as the EU. Preferences in the Norwegian market will not disappear, but SPS standards are even more stringent as those in the EU and the market appears unlikely to absorb a volume sufficient to maintain BMC’s fixed capacity. The commercial feasibility of continuing to export to Norway is therefore questionable if sales to the EU cease (and are not replaced by another stringent, high priced market). The preferential access to the EU market for premium cuts has enabled the Botswana Meat Commission (BMC) to upgrade production facilities and to meet international standards. In this way, the quota given under the EU Beef and Veal Protocol has contributed significantly to the marketability of Botswana beef.

In the short-term, therefore, the only demonstrated alternative market is South Africa. The issue is whether the diversion of all Botswana's exports to this market will push down prices and whether it could lead to South Africa imposing import curbs. Losing the EU market might also impact Botswana's ability to supply premium segments in the South African market.

It might be possible that alternative new markets that offer remunerative prices could be found – but could this really be done by January 2008? There is a tendency for many markets outside the FMD endemic zones to regard a country's ability to meet EU SPS standards as a 'health passport' - a 'seal of approval' - without which they may impose their own requirements. This applies even in countries where import prices are set by the world's lowest cost producers. Each market will need to be studied in detail to determine both the likely price and the costs of supply (including SPS and specialist transport). But as the consultants found no evidence that realistic alternatives have yet been identified, it would be very optimistic to assume that this could be done by year end.

If preferences do continue the sector must adjust

If an acceptable EPA can be concluded by the end of 2007 (and appears likely before the end of September) Botswana will have 'bought time' to allow the sector to adjust. If this does not happen, a possible way out is floated in the conclusions: this would be propose a 'framework EPA', sufficient to obtain WTO backing under Article XXIV but with key details remaining to be negotiated during 2008 and, possibly, beyond.

What form would be taken by the 'adjustment' during the time 'bought' in this way? One option would be to explore more fully alternative markets (including a future for beef that is focussed largely if not exclusively on the SACU market). An alternative would be to reverse the decline in the volume of exports through one or more of various schemes that have been proposed. The key objective must be to prepare Botswana for the time which will come in due course when it faces more direct competition with the most competitive producers in the world. This may not now happen in the EU until after 2013. It will happen in SACU if and when the current 40 percent tariff is reduced to non-constraining levels (assuming that South Africa might give more weight to the views of beef consuming urban voters than to rural producers).

Scope of the report

The justification for the subject is that SADC EPA negotiations might not be finalised by the end of this year so that Botswana's current access to its major export market is in danger. Indeed, there are growing concerns to lose existing preference to the EU market. The European Commission (EC) does nothing to destroy these concerns – on the contrary, it emphasises that EPA negotiations have to be finalised before the end of this year. Otherwise, the General System of Preferences (GSP) would automatically be applied. Since the GSP does not cover beef, Botswana's only export product that benefits from EU preferences, Botswana would face MFN duties from January 2008 on.

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

1. What would be **the immediate costs** (in terms of higher import duties) if Botswana exported beef to the EU on MFN terms (since no GSP exists)?

2. What is the current **competition situation** for Botswana's beef exports in the EU market and how will it looking when Botswana's access to the EU market is downgraded?

3. What are the **implications for rural development and economic diversification** when losing Cotonou preferences for beef exports?

4. What will be the immediate monetary gains and the likely economic effects of receiving **duty and quota free market access** to the EU and how would it influence Botswana's competitive situation in the EU market?

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

The other two questions, which are dealt with in the sections 3 and 4, are more tentative and can only be answered definitively *ex post*, after the preferences have been taken away/have been expanded. However, the report is able to provide a broad indication based upon information on the state of the beef export industry. The research question regarding the social implications of the loss of preferences and the effects on Botswana's economic diversification attempts are addressed by discussing the linkages between beef exports to the EU and domestic industries.

1 Introduction

1.1 Background and scope of the report

The study was commissioned by the Botswana Institute for Development Policy (BIDPA) under the DFID Trade and Poverty Programme. The Terms of Reference (ToR) indicate that it is the objective of the study 'to bring empirical evidence to the economic and socio-economic relevance of EU preferences for Botswana and to quantify and qualify the possible loss of these preferences.' Specific tasks are: to **identify** the importance of EU preferences for employment, diversification, Government Policies and poverty alleviation; to **estimate** the impact of reduced preferences on key variables; to **analyse** alternative regional and international market options; and to formulate policy recommendations for the Government of Botswana (GoB). Each of these tasks is addressed directly in the conclusions in section 6.

This study takes place at a critical period in the negotiation of new trade arrangements between the EU and the ACP. In less than six months the trade component of the Cotonou Agreement expires and a reciprocal trade regime should be established between the EU and its former colonies.

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

Botswana negotiates in the SADC EPA configuration comprising its Southern African Customs Union (SACU) members Lesotho, Namibia and Swaziland and the SADC members Angola, Mozambique and Tanzania.[1] South Africa, which already has an FTA with the EU since 2000,[2] was originally supposed to act as observer in EPA negotiations. However, since the SADC EPA configuration infringes with the provisions of Art. 31 of the SACU Agreement, according to which customs union members have to enter jointly into external trade relations, South Africa has become part of the SADC EPA on 12 February 2007.

As a result of the uncertainty of South Africa's inclusion into the SADC EPA for almost one year, negotiations are significantly delayed. Though the meeting between the SADC EPA group and the EC in March 2007 has given new impetus into negotiations and both sides emphasises their willingness to present a draft agreement

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1 The SADC EPA configuration is not consistent with the Southern African Development Community (SADC) but excludes the SADC members Madagascar, Malawi, Mauritius, Zambia and Zimbabwe who negotiate in the Eastern Southern Africa (ESA) configuration. DR Congo joined the Central African EPA. There are signs that Tanzania will leave the SADC EPA configuration and negotiates together with its customs union partners Kenya and Uganda. However, Tanzania's final decision is still outstanding.

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

in September, there is the risk that SADC EPA negotiations will not be finalised by the end of this year. The South African Deputy Minister of Trade and Industry, Rob Davies, said in a meeting at the UK Houses of Parliament on 18 April that, on the precedent of the TDCA timetable, it would take another three years of negotiation to agree all the EPA details. The perception of limited progress in negotiations and the need for more time were also confirmed by Paul Kalenga, a trade advisor of the SADC Secretariat, at a meeting in Brussels in June 2007.

Botswana's dilemma

Botswana, together with its customs union members Lesotho, Namibia and Swaziland, is in a unique situation: The countries receive Cotonou preferences for their exports but have to apply *de facto* the TDCA for their imports.[3] In recognition of this situation Botswana decided in 2002 to apply the TDCA import regime also *de jure*.[4]

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

Contradictory to Namibia, which has always emphasised the need to accommodate its interests in the TDCA, Botswana had only little extra protective interests.[5] However, in its contribution to the BLNS sensitive list, which was submitted to South Africa and discussed with the EC, Botswana emphasised the need to keep the 40 percent external tariff for SACU's beef imports.

How Botswana's interests will be accommodated within the SADC EPA is still not clear. Less than six months before the official deadline expires, the following questions that are of central interest for Botswana have not been clarified.

a. What will future market access for the members of the SADC EPA look like?
b. How can the lesser developed SADC EPA members protect their specific interests when being in a customs union with South Africa?
c. Who will finally join the SADC EPA?
d. To what extent will service and trade-related issues be covered in the SADC EPA?

Nothing in this report should be taken to imply that Botswana is not fully committed to finalise the SADC EPA by the end of December. However, since central issues of

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

[4] It criticised that this action infringes against both, the new SACU Agreement (Art. 31) and the WTO Agreement (most-favourite nation principle). As a result there is the risk that any other WTO member requests the same access to Botswana as granted to the EU.

[5] Botswana's protective interests concern mainly textiles, clothing and basic apparels.

the SADC EPA have not been clarified yet,[6] **there is an anticipated risk that the EPA will not be concluded in good time and that Botswana's beef exports will be disrupted as a result of preference loss.**

1.2 Methodology and contents

Since Botswana is part of SACU and exports and imports the vast majority of its goods via South African ports, there is the risk that trade is underreported. To 'solve' the problem and to obtain consistent time period data of the volume and value of Botswana's beef exports to the EU the Eurostat COMEXT database that reports at a detailed commodity level (CN8) was used. This was also necessary to identify the tariff barriers applying to EU imports from Botswana and its competitors and the tariffs that would apply under the MFN regime.

By the means of the Eurostat COMEXT data a detailed economic analysis was established and the value of present preferential market access and the abolition of these preferences for beef exports were quantified. For the tariff analysis, the Taric Consultation website was used, giving information on UK Tariffs 2007. The data was used to analyse what are Botswana's monetary saving when exporting under the Cotonou Agreement compared to exporting under MFN conditions and what Botswana's competition situation looks like under Cotonou and MFN conditions.

For Botswana's beef exports to the Rest of the World the TIPS database that covers exports at a 6-digit level was used. The TIPS data was balanced by sector specific data provided by BMC that gives information about total export volumes and values and existing alternative markets.

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

The study is structured as follows: After this introduction, the relevance of the EU market for Botswana beef exports is outlined and the monetary implications when losing EU preferences will be quantified taking the export volumes and values of the most recent year (2006) as a basis. In case this year presents an unrealistic picture, the conclusions drawn are placed in the wider context of past trends and of possibilities for the future. To get to know what happens to Botswana's beef exports if losing Cotonou preferences, its position in the EU market is compared with its major competitors under current market access conditions and in the case of the loss of Cotonou Preferences. The implications of losing preferential market access for its beef exports are discussed in section 3 which analyses a) whether Botswana could wholly or partly continue exporting to the EU under MFN conditions; b) if not,

[6] There is an ongoing dispute between the EC and South Africa to what extent services and trade-related issues (such as government procurement, investment, competition and intellectual property rights) are included into an EPA.

whether alternative markets can be found; and c) what would be relative net return to exports on alternative markets compared to the EU. The social implications of the loss of preferences are discussed in section 4. Since Botswana's economy is greatly dependent on the export of diamonds, the country suffers from effects similar to those associated with 'Dutch disease' even though the country's astute policies have largely avoided the 'classic' disease.[7] Because of the demand pressures built up by its economic success it struggles to diversify its economy. Beef production, highly stimulated by EU preferences, has played an important role for economic diversification. Moreover, the beef industry shows strong linkages to different domestic industries, thus providing important exchange stimuli between the export sector and local businesses. To what extent economic diversification would be endangered by the loss of EU preferences and what are possible implications for employment, rural development and poverty alleviation forms part of the discussion in section 4. A longer term outlook is given in section 5 which establishes different scenarios to analyse the value of EU preferences and the EU offer of duty and quota free market access for Botswana beef exports. The final section of this study summarise the main findings and formulates policy options to provoke discussion and to provide guidance on how to proceed.

2 The relevance of the EU market and Cotonou preferences

In terms purely of value and export share, beef is relatively small – but as explained in Section 4 it has a disproportionate importance in terms of its social and employment impact – and for a 'post-diamonds' economy. The EU is the principal export market and, whilst alternatives exist, as explained in Section 3 the impact on the sector of the loss of this market is likely to be severe. Key data are scarce, which allows many views to flourish and makes it hard to make categorical statements about the importance of the current negotiations for future rural employment in Botswana. But the evidence that does exist suggests that the options available to the beef sector without a continuation of favourable EU access are limited. It is also clear that, whilst a great deal must be done on the supply-side to allow Botswana to take advantage of any improved market opportunities, the decisions that will be taken over the next five months will determine whether or not the country is allowed the opportunity to take such action.

2.1 Botswana's beef exports to the EU

Botswana's economy is highly dependent on diamond production which accounts for about 36 percent of GDP and 90 percent of export revenues (OECD, 2006:140). The agricultural sector is small (about 2.5 percent of GDP) but is still relied upon by most

7 'Dutch disease' is an economic phenomenon in which the exploitation of natural resources de-industrialises a nation's economy. The term was used to describe a problem experienced by the Netherlands, where the discovery of new natural gas fields led to a decline in the production of manufactured goods due to the appreciation of the exchange rate and a focus on the exploitation of the natural resource. Similar effects can occur even if the exchange rate is carefully managed if domestic supply of non-tradeables increases relative to tradeables.

people living in rural areas and dependent on agricultural activities for their livelihoods. Livestock production is with a share of 80 percent the major income earner of the agricultural GDP (WTO, 2003:A1-88).

Botswana has a long-established trade relationship with the EU under the preferential Lomé and Cotonou Conventions. Its exports to the EU comprise basically two commodities: diamonds and beef; whereas diamonds accounted for 97.7 percent of total export value in 2005 and beef for 1.3 percent (EC DG Trade, 2005).[8]

The parastatal Botswana Meat Commission (BMC) is the state trading agency for beef from Botswana and has a statutory export monopoly on meat, canned meat and live cattle. About 80 percent of BMC's total production is exported. The EU is Botswana's main export market receiving about 55 percent of total exports. In the highly protected EU market, Botswana benefits from an annual quota for boneless beef and veal of 18,916 tons. This volume can be exported at a preferential rate of zero tariff plus a duty (0%+24.2 €/100kg/net). Compared with the regular MFN tariff for boneless meat, which is 12.8% plus a duty of 303.4 €/100kg/net, this implies a 92 percent tariff reduction, i.e. Botswana can export boneless beef and veal at 8 percent of the applied MFN tariff. Botswana is entitled to serve its quota throughout the year without undue restrictions. In case that Botswana is not able to fulfil the quota, e.g. due to droughts, it is also allowed to expand its quota in the following years.[9]

As can be obtained from figure 1, no southern African country that is entitled to benefit from the Beef and Veal Protocol of the Cotonou Agreement has been able to fulfil its quota. For the period 1994-2006 Botswana fulfilled on average 55 percent of its quota while Namibia and Swaziland fulfilled their quota to 71 percent and 10 percent respectively.[10]

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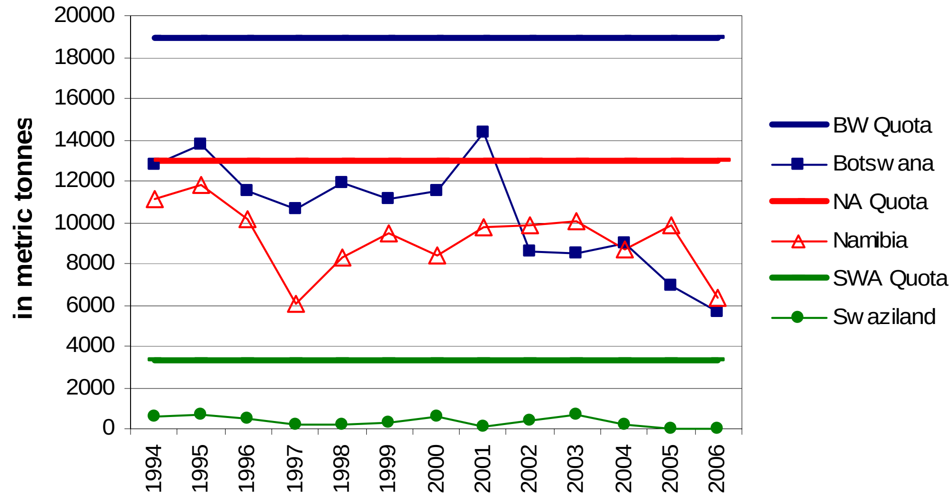
8 Further export products were mineral products (0.3 percent of total exports to the EU in 2005), machinery (0.3 percent), textiles (0.2 percent) and hides and skins (0.1 percent) (EC DG Trade, 2005).

9 Protocol 4, Art. 3, Cotonou Agreement. Moreover, Botswana would be allowed to use the quota of African beef exporters that stopped exports due to their incapability to meet EU standards (Protocol 4, Art. 4 Cotonou Agreement).

10 Kenya, Madagascar and Zimbabwe, which were also allocated a quota, had to stop exporting to the EU since they did not comply with the sanitary and veterinary standards imposed to all meat products entering the EU market. The last time Swaziland exported beef to the EU was in 2004. Thus, Botswana and Namibia are currently the only ACP countries that are capable to export beef to the EU.

Figure 1: Southern African countries' beef and veal quota utilisation (in 000 kg)

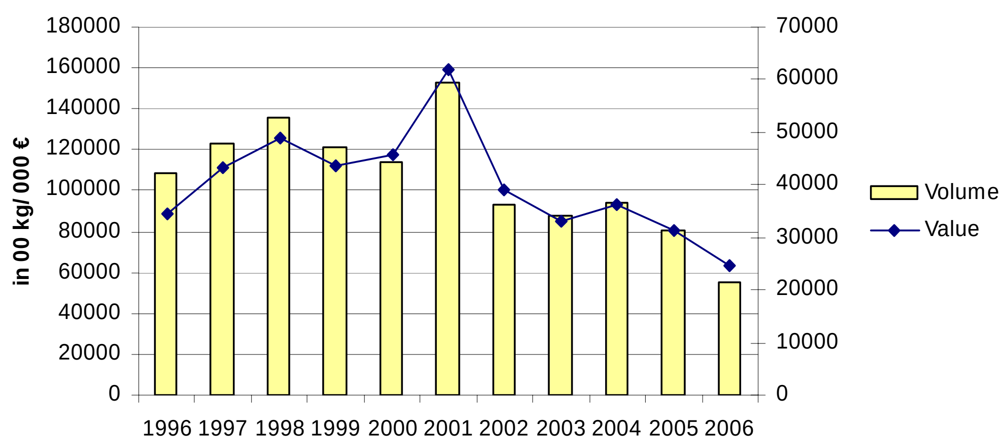


Source: Meatco (2007).

As the discussion in section 4 shows, there are several reasons why Botswana had not been able to fulfil its quota. In general, the number of premium cuts, which is the only marketable product under the Beef and Veal Protocol, was limited due to environmental constraints and the limited number of high quality cattle.

Botswana beef exports to the EU have fallen. Figure 2 and table 1 show the last 11 years. There are significant annual variations, one very good year (2001) and one especially bad year (2006). But during the period as a whole there were two clear sub-periods: 1996 to 2000 when the volume of exports was in the range of around 10,000 to 13,000 tons; and 2002 to 2005 when the range was around 8,000 – 9,000 tons. The year 2006 was particularly bad at 5,500 tons which was 38 percent below the average for 2002-2005.

Figure 2: Volume and value of EU beef imports from Botswana



Source: Downloaded from Eurostat COMEXT database (http://fd.comext.eurostat.cec.eu.int/xtweb/) 07 June 2007.

Table 1: Botswana meat exports to EU, 1996-2006

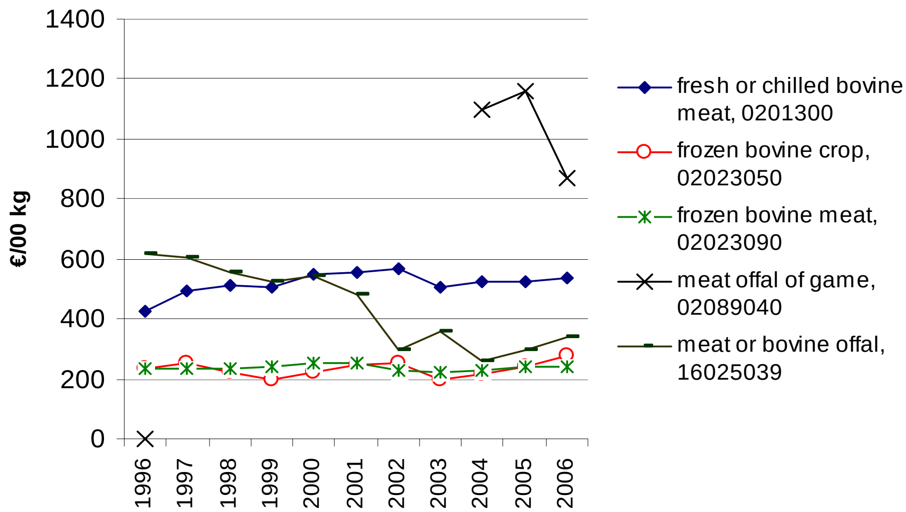
CN8	Description	1996	1997	1998	1999	2000	2001	2002	2003	2004	2
Value (Euros 000)											
02013000	fresh or chilled bovine meat, boneless	19,524	25,877	30,506	27,862	31,288	42,431	28,585	24,210	26,184	21
02023050	frozen bovine boneless crop, chuck and blade and brisket cuts	2,628	2,546	2,961	2,345	3,102	5,167	4,157	3,966	4,474	3
02023090	frozen bovine boneless meat (excl. forequarters)	11,040	13,322	13,524	11,545	10,294	13,504	4,591	4,207	4,641	5
02050090	fresh, chilled or frozen meat of asses, mules or hinnies						1				
02089040	fresh, chilled or frozen meat and edible meat offal of game									72	
02089080	fresh, chilled or frozen meat and edible offal n.e.s.			16							
16025031	corned beef, in airtight containers	872	934	988	1,164	428	51				
16025039	meat or offal of bovine animals, prepared or preserved <= 250 g	318	524	616	408	382	787	1,709	462	742	
16030080	extracts and juices of meat, fish, crustaceans... packings of > 1 kg or put up otherwise						10	102	72	31	
16030090	extracts and juices of meat, fish, crustaceans... packings of >= 20 kg	89	-	161	389	105					
	Sum	**34,471**	**43,203**	**48,772**	**43,713**	**45,599**	**61,953**	**39,144**	**32,916**	**36,144**	**31**
Quantity (100kg)											
02013000	fresh or chilled bovine meat, boneless	45,868	52,123	59,854	55,087	57,131	76,141	50,493	47,697	50,039	41
02023050	frozen bovine boneless crop, chuck and blade and brisket cuts	11,143	10,159	13,231	11,920	13,818	21,009	16,358	20,094	20,875	15
02023090	frozen bovine boneless meat (excl. forequarters)	46,674	56,244	57,030	48,182	40,759	53,445	20,022	18,909	20,558	20
02050090	fresh, chilled or frozen meat of asses, mules or hinnies						3				
02089040	fresh, chilled or frozen meat and edible meat offal of game									66	
02089080	fresh, chilled or frozen meat and edible offal n.e.s.			22							
16025031	corned beef, in airtight containers	3,677	3,652	3,655	5,165	1,587	181				
16025039	meat or offal of bovine animals, prepared or preserved <= 250 g	515	870	1,112	780	704	1,641	5,830	1,301	2,846	2
16030080	extracts and juices of meat, fish, crustaceans... packings of > 1 kg or put up otherwise						10	85	98	46	
16030090	extracts and juices of meat, fish, crustaceans... packings of >= 20 kg	240	-	360	196	69					
	Sum	**108,117**	**123,048**	**135,264**	**121,330**	**114,068**	**152,430**	**92,788**	**88,099**	**94,430**	**80**

Source: COMEXT mirror data (i.e. EU imports from Botswana). Downloaded 7 June 2007.

Though Botswana exported in 2006 only half of the volume it exported in 1996, the 2006 export revenue only decreased by one third in Euro terms compared to the 1996 value. This is mainly because the average unit price for fresh and chilled beef in the EU market rose in the period 1996-2006 by 2.3 percent p.a.

However, considering the development of the unit value since 1998, the annual increase for fresh and chilled beef was only 0.52 percent, which is less than the average inflation rate in the Euro zone of 1.25 percent. Thus, beef prices have decreased in real terms since 1998. Figure 3 gives an overview of the development of the unit value of Botswana's meat exports to the EU.

Figure 3: Unit value of EU meat imports from Botswana (€/100kg)



Source: Downloaded from Eurostat COMEXT database (http://fd.comext.eurostat.cec.eu.int/xtweb/) 07 June 2007.

This fall in real terms was concealed by the depreciation of the Pula against the Euro (which largely followed the depreciation of the South African Rand against the Euro – see figure 4), which contributed significantly to increased earnings for Botswana meat exports to the EU. Compared to 1996, the Pula lost 66 percent of its value towards the Euro in 2006.

Figure 4: Value of EU meat imports from Botswana in 000 Euro, 000 Pula and 000 ZAR

Sources: Downloaded from Eurostat COMEXT database (http://fd.comext.eurostat.cec.eu.int/xtweb/) 14 March 2007; BoB webpage (historical financial data) and SARB Annual Reports.

As a result, the earnings from total beef exports rose in Pula terms by more than 18 percent in the period 1996 to 2006 from P 156.8 million to P 185.6 million. Thus, BMC was able to increase its export earnings from the EU in Pula terms despite decreasing quantities and falling real prices in the EU market.

2.2 Competition for Botswana beef in the EU market

The EU beef market is heavily protected from full international competition. MFN tariffs combine *ad valorem* and specific duties which, combined, make it very difficult for even the most globally competitive exporters to sell into the European market. Hence, domestic European prices are kept artificially high by a restriction on import supply. But that does not mean Botswana faces no competitors. Some imports are allowed into the EU under a range of different trade agreements. The net effect is that:

- imports are concentrated on higher quality cuts, and
- importers avoid intense price competition.

Botswana (together with Namibia and, in the past, Swaziland and Zimbabwe) fall into the second of two groups of import sources.

1. The more competitive net exporters, like Brazil or Argentina, have limited, favourable access under the WTO Agreement on Agriculture through reduced tariff quotas. Overall they lose from the EU's trade distortions since they could export far more at below EU production costs given the opportunity and also suffer from depressed world market prices as a result of artificially increased production in the EU;
2. Less competitive net exporters, like Botswana, face significantly lower tariffs than do the category 1 states and, if the EU's EPA proposals are implemented

will face no tariffs at all (and no quantitative restrictions on preferential exports). They have gained from the existing system by artificially high prices and a guaranteed quota, and by being protected from full competition from the Category 1 states.

Table 2 gives an overview of the competitive situation BMC faces in the EU market. Except frozen bovine crops (02023050) where Botswana supplied 14 percent of total European imports in 2006, Botswana's market share of EU total beef imports is very small, ranging from 0.4 percent for frozen bovine meat to 2 percent for fresh and chilled bovine meat. The biggest competitors are Brazil, Argentina and Uruguay for fresh, chilled and frozen bovine meat and Brazil and Namibia for frozen bovine crops.

Table 2: Botswana's market share in the EU for main meat exports

Partner	Share	Imports 2006	
		Value (€000)	*Volume (100kg)*
CN 02013000: fresh or chilled bovine meat, boneless			
Total from extra-EU25	**100.0%**	**971,761**	**1,550,908**
Brazil	43.2%	419,622	731,769
Argentina	35.5%	345,042	478,241
Uruguay	9.4%	90,874	138,866
Australia	4.8%	46,750	81,023
Namibia	2.4%	23,110	44,451
Botswana	***2.0%***	***19,574***	***36,668***
Chile	0.8%	7,746	14,818
New Zealand	0.8%	7,418	11,813
Canada	0.6%	5,914	6,729
United States	0.5%	4,472	4,452
CN 02023050: frozen bovine boneless crop, chuck and blade			
Total from extra-EU25	**100.0%**	**18,777**	**87,846**
Brazil	64.8%	12,172	58,806
Namibia	15.3%	2,882	14,894
Botswana	***14.0%***	***2,630***	***9,520***
Uruguay	3.2%	600	2,696
Argentina	2.3%	427	1,635
CN 02023090: frozen bovine boneless meat (excl. forequarters, whole or cut into a maximum of five pieces,			
Total from extra-EU25	**100.0%**	**370,049**	**1,027,543**
Brazil	78.1%	288,866	834,361
Uruguay	12.6%	46,555	109,898
Argentina	5.6%	20,813	55,209
New Zealand	2.5%	9,209	12,305
Botswana	***0.4%***	***1,508***	***6,310***
Namibia	0.2%	802	2,677
Bulgaria	0.2%	613	2,078

Source: Downloaded from Eurostat COMEXT database (http://fd.comext.eurostat.cec.eu.int/xtweb/) 08 June 2007.

Botswana exports almost exclusively fresh, chilled and frozen bovine meat to the EU market since these products fall under the Beef and Veal Protocol. In 2006, these three product groups accounted for 95.6 of Botswana's total EU export volume and 96.6 percent of its total export value. The quantity of beef products that do not fall under the Protocol, such as offal and corned beef, fell from 44 tons in 1996 to 24 tons in 2006. This might be explained by the general decline of Botswana beef exports to the EU.

Botswana's particularly low shares in the EU market in 2006 and its persistent difficulty to fulfil the quota under the Beef and Veal Protocol confirm that Botswana falls in category four of less competitive net exporters. Botswana relies heavily on the preferences provided by the Beef and Veal Protocol to compete successfully in the EU market. The environmental setting constrains the volumes so that the country is a comparable high-cost producer. Botswana beef exports incur also higher production costs than their South African counterparts due to compliance with EU standards.[11]

The critical issue for Botswana is whether it will have the chance to move from category 2 to category 1 and become a more competitive net exporter for beef. While group 2 countries tend to lose from liberalisation by lower prices, group 1 countries are rather able to adapt to the requirements of increased competition.

2.3 The importance of preferences

Botswana's exports to the EU depend on preferences (and the continuation of restrictions to exports from Latin America and the other globally competitive exporters). Table 3 gives an overview for the latest available year of the current duties paid by Botswana and by its competitors. The suppliers of each product exported by Botswana are shown in declining order of the value of imports. This is helpful both in showing Botswana's relative position and in understanding how far the results are biased by being based on the latest available year (2006) which was a particularly poor one for Botswana.

In fact, the use of any other year would not alter the picture painted by table 3 other than to reverse the positions of Botswana and Namibia in the hierarchy. Taking the three items in the table, Botswana's exports would have to be 4.6, 4.6 and 13.8 times higher than they were in 2006 to approach the scale of the least important Latin American source of imports. Even in 2001 – overwhelmingly the best year in the last 11 – Botswana's exports were only 2.5 times their 2006 level.

Given the scale of the Latin American producers the working assumption (in the absence of evidence to the contrary) must be that they could easily absorb the markets currently supplied by Botswana. That they do not do so is likely to be the result of preferences, which means that importers pay a lower tax when buying beef from Botswana than from Latin America (or the other non-ACP suppliers in table 3). This is most easily seen by looking at columns 8 and 9.

The EU's tariffs (columns 4 and 5) combine *ad valorem* and specific duties. To help compare the relative tax burden on importers from Botswana and from its competitors it is helpful to calculate an *ad valorem* equivalent (AVE) for the latter. For this purpose we have used the unit values relating to the year covered by Table 3, which is 2006.[12] As can be seen from Figure 3, these are fully representative of recent years;

[11] These costs are, however, largely borne by the GoB and not by producers.

[12] Calculated from the Eurostat Comext database (and partially reflected in table 2). In 2006, the EU imported from Botswana 36,668/100 kg of product 02013000 worth € 19,574,000. Botswana paid

2006 was a bad year for total exports – it was little different from other years in terms of the price per tonne paid on arrival in the EU.

Table 3 shows the combined AVE for imports from different sources within quota (column 8) and out-of-quota (column 9). What stops Botswana's competitors taking over its market share is that any imports from Latin American suppliers would incur AVE duties ranging from 55 percent to 120 percent depending on the item and the supplier. Even within quota, Botswana has an advantage (paying between 10 and 15 percentage points less tax than its non-ACP competitors – apart from Chile which has a small quota). But it is the disincentive provided by the out-of-quota tariffs to increasing Latin American exports that may be the more important factor.

This analysis underlines two points of strategic importance for the Botswana industry. This is that:

1. the current regime provides it with a tax advantage of between 10 and 15 percentage points compared to the major sources of EU imports;
2. in the longer term the viability of exports will depend on (a) how long the quota restrictions on lower tariff imports from Latin America remain in force and (b) whether the sector can become more price competitive by the time that these restrictions are lifted.

The failure of the Doha Round to reach a conclusion so far and the EU decision to defer fundamental change to the CAP until after 2013 has pushed back date on which increases in tariff quotas (or a sharp fall in the MFN tariff) are likely. They have given the sector, therefore, a breathing space to consider its longer term viability. The issue facing the EPA negotiators is whether or not the country (and the sector) will have this opportunity snatched away from them.

0%+24.2 €/100kg/net which are € 887,366. Under MFN conditions (12.8%+€303.4/100kg/net) the amount of € 13,630,847 would have had to be paid for this export quantity. In total, the duties paid under the Beef and Veal Protocol in 2006 are equivalent to a 5 percent tariff duty (€ 1,208,000 tariff / € 23,712,000 export value) and the MFN duties would be equivalent to a 77 percent tariff.

Table 3: EU market access for Botswana beef and its major competitors in 2006 and beyond

Partner	Imports 2006		EU tariff 2007		Duty payable (€000)		*Ad valorem* equiv.		
	Value (€000)	*Volume (100kg)*	*In-quota (c)*	*Out-of quota*	*Current (a)*		*Current (a)*		*ACP post-Cotonou (e)*
					in quota (d)	*out quota*	*in quota (d)*	*out quota*	
CN 02013000: fresh or chilled bovine meat, boneless									
Brazil	419,622	731,769	20%	12.8% + 303.4€(b)	83,924	275,730	20%	66%	
Argentina	345,042	478,241	20%	12.8% + 303.4€(b)	69,008	189,264	20%	55%	
Uruguay	90,874	138,866	20%	12.8% + 303.4€(b)	18,175	53,764	20%	59%	
Australia	46,750	81,023	20%	12.8% + 303.4€(b)	9,350	30,566	20%	65%	
Namibia	23,110	44,451	0%+24.2€(a)	0% + 303.4€(b)	1,076	13,486	5%	58%	71%
Botswana	**19,574**	**36,668**	**0%+24.2€(a)**	**0% + 303.4€(b)**	**887**	**11,125**	**5%**	**57%**	**70%**
Chile	7,746	14,818	0%	12.8% + 303.4€(b)	-	5,487	0%	71%	
New Zealand	7,418	11,813	20%	12.8% + 303.4€(b)	1,484	4,534	20%	61%	
Canada	5,914	6,729	20%	12.8% + 303.4€(b)	1,183	2,799	20%	47%	
CN 02023050: frozen bovine boneless crop, chuck and blade and brisket cuts									
Brazil	12,172	58,806	20%	12.8% + 221.1€(b)	2,434	14,560	20%	120%	
Namibia	2,882	14,894	0%+17.6€(a)	0% + 221.1€(b)	262	3,293	9%	114%	127%
Botswana	**2,630**	**9,520**	**0%+17.6€(a)**	**0% + 221.1€(b)**	**168**	**2,105**	**6%**	**80%**	**93%**
Uruguay	600	2,696	20%	12.8% + 221.1€(b)	120	673	20%	112%	
Argentina	427	1,635	20%	12.8% + 221.1€(b)	85	416	20%	98%	
Thailand	54	250	20%	12.8% + 221.1€(b)	11	62	20%	115%	
New Zealand	12	45	20%	12.8% + 221.1€(b)	2	11	20%	97%	
CN 02023090: frozen bovine boneless meat (excl. forequarters, whole or cut into a maximum of five pieces, each quarter being in a single block "compensated" quarters in two blocks, one of which contains the forequarter, whole or cut into									
Brazil	288,866	834,361	20%	12.8% + 304.1€(b)	57,773	290,704	20%	101%	
Uruguay	46,555	109,898	20%	12.8% + 304.1€(b)	9,311	39,379	20%	85%	
Argentina	20,813	55,209	20%	12.8% + 304.1€(b)	4,163	19,453	20%	93%	
New Zealand	9,209	12,305	20%	12.8% + 304.1€(b)	1,842	4,921	20%	53%	
Botswana	**1,508**	**6,310**	**0%+24.3€(a)**	**0%+304.1€(b)**	**153**	**1,919**	**10%**	**127%**	**140%**
Namibia	802	2,677	0%+24.3€(a)	0%+304.1€(b)	65	814	8%	101%	114%

Notes: (a) calculated on the value/volume of 2006 imports.
(b) per 100kg net
(c) Applies to high-quality (CN 0201300010) only.
(d) ACP duties/AVEs shown are for within ACP Protocol quotas only, not any global quotas which may apply.
(e) assuming MFN rate, out-of quota

Sources: (trade) downloaded from Eurostat COMEXT database (http://fd.comext.eurostat.cec.eu.int/xtweb/) 08 June 2007 and (tariffs) from EU Taric Consultation (http://ec.europa.eu/taxation_customs/dds/cgi-bin/tarchap?Lang=EN, 8 June 2007); UK Tariff, 2007 Edition.

2.4 The alternatives to Cotonou

As agreed by the EU and ACP in 2000, the Cotonou trade regime expires on 31 December 2007. Unless steps are taken to avoid it, from 1 January 2008 all ACP exports to the EU will pay *the next highest tariff* for which they are eligible. Currently, Botswana is participating actively in the negotiations for a SADC-EU EPA that will offer enhanced beef market access in the EU, but it is not yet certain either that agreement can be reached or, even if it can be reached, whether it is possible to do so by end of December 2007. It may be possible to 'stop the clock' in December and extend the Cotonou regime into 2008 to allow the negotiations to be completed. But this may be too late for the industry. Botswana has to comply with licensing arrangements requesting the import of beef into the EU market three months in advance. Thus, the industry would need to know whether it is able to continue benefiting from the current preferences by the end of September at the latest.

It is because of this uncertainty that the present study has been commissioned to identify the known costs that would be incurred by Botswana were the Cotonou trade regime to end without either EPAs or an equivalent regime being created to take over.

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

However, the EC has failed to come up with an 'equivalent' alternative to Cotonou and there is broad agreement among analysts that an equivalent, WTO compatible alternative to an EPA does not exist.[13] This means that, for many goods, the *next highest tariff* payable by imports from the ACP will be the Generalised System of Preferences (GSP).[14]

There are three levels of the GSP:

1. the 'Standard GSP' (in this report just called 'GSP') that is available to all developing countries and which offers the least liberal of the three regimes (in terms of the number of products covered and the extent to which most-favoured-nation (MFN) tariffs are reduced);

2. the GSP+, introduced in 2005 and available to all countries that apply, that meet two criteria of 'vulnerability' and that also ratify and implement 27 international conventions on human and labour rights and on the environment and governance; all ACP states appear to meet the vulnerability criteria;

3. the Everything But Arms (EBA) initiative, which comes fully into force in 2009 when it will offer duty and quota free market access to all exports from Least Developed Countries (LDCs).

For Botswana, which is classified as middle-income developing country, the GSP or GSP+ would be the alternatives.[15] However, neither the GSP nor the GSP+ includes beef – Botswana's only agricultural export commodity to the EU. Thus**, when losing Cotonou preferences, the only 'alternative' for Botswana beef exports to the EU is the Most Favoured Nation (MFN) tariff - which, despite its name, is the least favourable treatment the EU applies to a WTO trading partner**

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[13] See for instance Stevens (2007), Bilal (2007), ComSec (2007).

[14] There is anecdotic evidence that, in the absence of an alternative trade regime, EU customs computers have already been programmed to apply the GSP for non-LDC ACP countries from 1 January 2008 on. The Commission has not denied this statement.

[15] It is far from clear that GSP+ would be available immediately after any cessation of Cotonou treatment. The list of beneficiaries appears to be closed until the new GSP is launched after 2008. Thus, GSP would be the only 'secured alternative'.

The impact on beef exports from Botswana is illustrated in the right hand column of Table 3. **Instead of paying an AVE duty of between 5 percent and 10 percent, Botswana's exports would face tariffs ranging from 70 to 140 percent!**

3. The implications of losing preferences

Assessing the *immediate* implications of losing preferences requires judgements to be made on the following.

1. Could exports to the EU continue (in whole or part);
2. If not, can alternative markets be found;
3. What would be the relative net return to exports on alternative markets compared to the EU (taking into account not only the price received but also the cost of sales)?

The longer term impact of losing preferences requires judgements to be made on two additional questions:

1. What is the longer term export supply capacity of Botswana (volumes and prices) taking account of changes both to supply and to domestic demand;
2. What are the longer-term prospects for the South African market (being the most obvious alternative to the EU for Botswana's exports)?

This section analyses the evidence collected that relates to these questions. Obviously, the evidence on the two longer term questions is more speculative.

3.1 The prospects for sustaining exports to the EU

Since tariff preferences for developing countries under the EU's General System of Preferences (GSP) do not exist for beef, Botswana would face the full MFN tariff which implies a tariff increase of between 65 and 130 percentage points from 01 January 2008. An illustrative calculation to put the scale of this increase into perspective is provided in Box 1. As can be seen from table 3, Botswana would not be on a level playing field with non-ACP sources: they will pay lower tariffs for in-quota exports. In other words the downgrading from Cotonou preferences to MFN would put Botswana in a less favourable position than Argentina, Brazil, Uruguay, Australia, New Zealand and Canada. Though these countries do not have an FTA with the EU, they benefit from a tariff quotas fixed in the WTO Agreement on Agriculture (AoA);[16] i.e. a certain percentage of their exports can enter the EU market at a 20 percent tariff compared to 70-140 percent for Botswana's exports under the MFN tariff.

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

The only reasonable assumption is that exports to the EU would cease. The imposition of MFN duties would be equivalent to 80 percent of the revenue obtained in the EU market in 2006. It is hard to imagine even niche markets sustaining a price hike of this level or of the sector finding offsetting cost savings – by January!

Box 1: Putting the tariffs in perspective

Since it is likely that Botswana's exports will cease, the sector will not pay any import taxes to the EU. But what if exports continued? Although a hypothetical question, the answer provides an opportunity to put the scale of these charges into perspective.

If Botswana exported its 2006 volumes the MFN taxes payable to the EU would total an additional € 19.8 million (P 125.3 million) (over what was actually paid in 2006). To illustrate the scale of the shock that the end of Cotonou preferences would have this is equivalent to four times of the amount annually received under the 09th European Development Fund (EDF).[17]

Yet this high figure is for 2006 – the poorest year on record for Botswana's exports! If instead one were to make the hypothetical calculations on the basis of Botswana's average exports in the period 1996-2006 the additional tariff would be a staggering € 36.3 million (P 229.8 million) p.a.

Botswana's beef exports would not necessarily cease altogether (which is one reason why the figures in Box 1 are hypothetical and do not represent the cost to the Botswana economy of the loss of preferences). The next section examines the most obvious existing alternative export markets. A short study such as this cannot assess the full costs and benefits of channelling exports from the EU to alternative markets. This is partly because any such diversion would have price (and potentially policy) effects in the new markets which require the modelling of scenarios to assess. It is also because it requires knowledge of regulatory regimes in alternative markets.

There are two questions to be asked. One is quantitative: it relates to the absorptive capacity of alternative markets and the price that Botswana can expect to receive. The other is qualitative: how important for market access is the continuation of the high (and costly) sanitary and veterinary standards that Botswana is required to maintain by the EU.

The reason why the second question is important is this: if Botswana can export to other, lower priced markets at lower SPS cost then the one may offset the other, but if access requires the same high standards the cost of supply will be unchanged *at best.* The reason for the 'at best' is that some markets may consider the existence of exports to the EU (a known, very demanding market) to be sufficient evidence that Botswana meets the necessary standards; if exports cease, they may require additional evidence of compliance (and the demands of some markets may be incompatible with the demands of others).

[17] The funds allocated to Botswana under the 09th EDF (2000-2007) accounted for € 39 million (EC DG Dev, undated).

3.2 Costs and efforts to comply with EU standards

Botswana's exports to the EU are limited to boneless meat cuts due to EU health requirements which demand a process of de-boning as a precaution against Foot-and-Mouth Disease (FMD). Currently, it is only the Lobatse abattoir that slaughters for EU exports.[18] Annual inspections by EC inspectors safeguard adherence to food safety, transport, slaughtering and processing standards.

For veterinary control purposes, Botswana is divided into 17 veterinary zones. Veterinary cordon fences (VCF), geographical barriers and a permit system control livestock movements between the FMD-free zone, the surveillance (buffer) zones and the vaccination zones (where FMD vaccination is undertaken). There are also cattle-free zones in the National Parks. This separation of livestock restricts not only the movement of cattle and wildlife but also affects the marketability of cattle. Cattle from vaccinated areas need to be quarantined for 21 days before being slaughtered. The deboned meat needs to be frozen for another 21 days before being sold in the domestic market or exported to South Africa. Exports from vaccinated areas to the EU market are prohibited.

Annex 4 shows the veterinary disease control zones in Botswana. As a result of recent FMD outbreaks, the Selebi-Phikwe region (zone 7) has become a vaccinated zone.[19] The zones 6, 8 and 9 covering the Francistown, Serowe and Palapye regions are currently buffer zones. In May 2007 the World Organisation for Animal Health (OIE) approved the FMD-free status of these zones. The GoB is currently waiting for EU approval to start exporting from these areas again.

For Botswana it becomes more and more costly to supply the EU market. The GoB does not only need to verify that BMC complies with EU food and safety regulations but also that each and every consignment meets EU standards. This does not only entail the quality of the final product but also the safety and quality throughout the food chain – from the production of animal feed, to the handling and transport of the animal until the slaughtering process and the distribution of the meat. Between 2000 and 2004, the Ministry of Agriculture introduced the "Livestock Identification Trace-back System" (LITS), a traceability system that ensures full transparency from the birth to the slaughtering and marketing of the beef. The costs for introducing LITS that covers about 80 percent of the total cattle population were about P 166 million. Since 2005, annual costs to ensure the maintenance and upgrading of the system occur, which are estimated to be about P 15 million each year. Thus, to date the total costs of the traceability system are about P 211 million. These costs of compliance grow possibly further with increasingly demanding EU standards such as binding regulations for animal welfare.

The GoB provides substantial support to the livestock industry including programmes for SPS compliance, environmental conservation, productivity increases, disease

[18] The Francistown abattoir was suspended for EU exports after the 2006 FMD outbreak in the east of the country. The GoB is expecting the proof of the EC to remove this suspension by August 2007.

[19] The meat industry has suffered from FMD outbreaks in 2002, 2003, 2005 and 2006. FMD mainly spread in the north east of the country that borders Zimbabwe. The ongoing crisis in Zimbabwe, the break-down of commercial farms and the lack of fencing has promoted informal cattle trade between the countries which helped FMD to spread. To prevent future FMD incidences Botswana is now patrolling along the fence bordering Zimbabwe.

prevention initiatives, borehole drilling subsidies, vaccines, feed subsidies, financial assistance for infrastructure development in rural areas, and subsidised loans and tax advantages (BIDPA, 2006:3-4; Makenzi et al., 2004).[20]

'Aid for trade' under an EPA might help the GoB to cover the increased costs of compliance. Compliance with EU standards is not only necessary to enter the EU market but also to target other demanding export markets which often take EU standards as a 'seal of approval'. Since Botswana has not yet benefited from the EU programme designed to assist the BLNS countries to cope with the challenges of the EU-South Africa FTA, funds under an EPA should be provided to enhance production capacities and to accelerate diversification.[21] However, so far it is uncertain to what extent additional funds will be provided under an EPA. The Commission is reluctant to add financial commitments that go beyond the EDF into EPAs.

In sum it can be stated that supplying the EU market is costly – in terms of the quality demanded, the cost of transport and, especially, the cost of meeting sanitary and veterinary requirements. If the cost of supply to alternative markets were lower, this might offset any lower price. There appears to be a widespread feeling that, perhaps, the days of exporting to the EU are over as falling real prices are eroded further by ever more costly SPS compliance. However, though this section confirms the high price of compliance with EU standards the discussion in the next section also raise a question mark over whether standards in all but the lowest price, FMD-infected markets would be significantly lower. Whilst it is not possible to peer into the future (and a much more substantial study than this would be needed to be more definitive) the conclusion may be that the choice facing Botswana is not between export to the EU or to other markets, but between exporting outside SACU and not exporting at all.

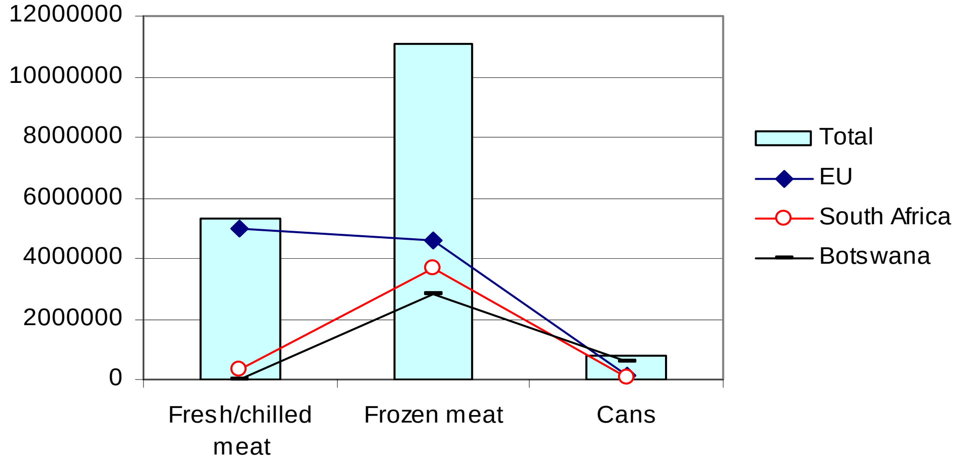
3.3 Alternative markets

What evidence exists to identify Botswana's alternative markets? It is most useful to focus on fresh and chilled meat. Although frozen beef is BMC's main output (figure 5) the unit value of fresh and chilled meat is almost twice as high (figure 3). Botswana's main export product to the EU market is therefore the most valuable item.

[20] The unit cattle subsidy is estimated to be around P 110 (BIDPA, 2006:4).

[21] The "Economic Integration Programme to the BLNS – Phase I", which contained a total funding of € 6 million, was designed to help the BLNS countries to assist companies to increase their capacities and improve their competitiveness, and to move their sanitary standards and licensing procedure in accordance to WTO rules (EC, 2002). However, the original envisaged programme had never started and the money was only released in 2005 after an almost five-year dispute regarding the "concurrence" of all BLNS countries to the TDCA. Though the original objectives of the programme, namely the management of the fiscal implications of the TDCA and the restructuring of industries to cope with increased competition, is still pertinent, the EC restructured the programme with a view to strengthening the SACU Secretariat.

Figure 5: BMC markets for single product lines (average sales volumes 1999/2000-2006)



Source: BMC data.

As can be obtained from table 4 beef exports are still highly biased towards the EU market. However, in the past five years exports have increasingly moved towards South Africa. Botswana has as part of SACU free access to the South African market which is externally protected by a 40 percent tariff.[22]

[22] Exports of fresh and chilled bovine cuts to South Africa increased rapidly in the period 2001-2005 from US$ 192,000 to US$ 10.4 million. In the same period the export value of frozen cuts to South Africa did more than double to US$ 17 million. In 2005, Botswana exported 53 percent of total frozen cuts to South Africa and 44 percent to the EU. South Africa's export share for fresh and chilled cuts increased to 25 percent in 2005 while the EU remained the most important export market for chilled beef with an export share of 60 percent.

Table 4: Botswana's meat exports to the Rest of the World

H020130: Bovine cuts boneless, fresh or chilled

Destination	Value ($000)				
	2001	*2002*	*2003*	*2004*	*2005*
World	**36,536**	**30,809**	**34,763**	**28,218**	**40,862**
European Union	31,608	28,601	32,102	24,309	24,673
Norway	1,878	740	756	-	-
Réunion	2,787	1,460	633	2,781	4,890
South Africa	192	8	863	1,116	10,418

H020230: Bovine cuts boneless, frozen

Destination	Value ($000)				
	2001	*2002*	*2003*	*2004*	*2005*
World	**25,618**	**12,647**	**22,783**	**21,424**	**32,213**
European Union	12,992	10,169	14,597	13,478	14,144
Norway	4,669	1,675	915	91	-
Réunion	150	47	-	248	995
South Africa	7,570	583	7,213	7,428	17,024

Source: TIPS (http://www.tips.org.za/sadc/tradedata, downloaded 8 June 2007)

When looking at alternative markets for Botswana one has to bear in mind that the country is a less competitive net beef exporter, currently only able to supply markets that have both, a high protection degree and a high price level. Both criteria apply to the EU market. The protection criterion also applies to South Africa – Botswana's second important export market. However, in 2006 the South African price for fresh and chilled beef was 35 percent below the price obtained in the EU market which makes exports to the EU obviously more remunerative.

Research in the Namibian beef industry has showed (and this was confirmed by the interviewees in Botswana), the price currently obtained in the South African market (Botswana's second most important export market) depends largely on the industry's ability to supply the EU market. The redirection of all Botswana's exports to this market would at best have a price effect. It can therefore be assumed that the average 2006 price for chilled beef paid in the South African market of P 24.93/kg[23] would decline if the EU market would be lost. It is also possible that the South African government would impose limits on Botswana's exports (just as Botswana has done on imports from South Africa).

In Norway, Botswana benefits from a quota of 3,500 tons which has to be shared with Namibia. Though the Norwegian market is lucrative it is even more demanding than the EU market since it applies at zero tolerance for salmonella testing. Moreover, the quota of 1,750 tons is too small to absorb Botswana's EU exports. For Réunion (an EU overseas department) it can be expected that the same conditions apply as for the EU market so that this market might also no longer be accessible from 2008 on.

Would a diversion of exports to non-EU markets reduce theses costs? The answer is that this would not be the case for exports to BMC's current markets (table 4). The requirements in Norway and Réunion are even more demanding than those in the EU. Moreover, it is known that the Gulf States use compliance with EU standards as a benchmark. In South Africa, it depends on the niches Botswana supplies. Though the legal sanitary and veterinary standards are below those in the EU, South African

[23] Price obtained from BMC.

supermarkets and restaurant chains apply additional standards. Meatco Namibia, for instance, is only able to supply 'Woolworth' and 'Spurs' in South Africa because it complies with EU standards. Botswana would therefore need to prove its compliance with EU standards in order to supply valuable niches in the South African market

The existing alternative export markets do therefore hardly offer an alternative if Botswana loses its ability to supply the EU market. Most remunerative markets with a high protection level want high-quality beef imports – which needs to be independently proved. Compliance with EU standards is therefore often regarded as prerequisite to tap into new market niches.

4. The social costs of the loss of preferences

Does it matter if beef exports cease? Apart from turning Botswana into an almost complete goods mono-export economy, would there be any major effect? In terms of foreign exchange earned, the answer is probably no – at least for the present (with the future heavily influenced by what happens to diamond exports and to the SACU revenue sharing formula, neither of which can be assumed to remain unchanged). But in social terms, it could matter – especially if the loss of the EU market leads to an unravelling of the beef sector as the incentive for high quality, disease free output declines.

Agricultural activities are an important income and employment source. The agricultural sector employs around 44 percent of the country's labour force and around two third of the population depend directly or indirectly on the agricultural sector mainly on subsistence farming (FAO, 2005:1).[24] Exporting activities in the cattle industry account for the second largest amount of foreign exchange earning after diamonds and cover the costs of importing the population's requirements of food crops.

Livestock rearing is the central agricultural activity in Botswana and an important contributor to poverty alleviation and rural development (BIDPA, 2006:62). According to the latest Household Income and Expenditure Survey (HIES, 2003) 37.5 percent of households (which are about 612,000 people) own cattle. 75 percent of these cattle owners are small-scale farmers with a herd size of 1-19 cattle.

A distinction if often made between commercial and communal cattle production in Botswana based on the form of land tenure rather than on the economic activity. This can be misleading since many communal producers are fully engaged in a commercial production and trade. Perhaps a more useful distinction would be based on the degree of commercialisation, i.e. to differentiate between small-scale and large-scale commercial producers.

The communal system covers about 80 percent of total land and accounts for about 95 percent of the cattle population while the commercial cattle heads was only 100,000

[24] Though Botswana has with US$ 5,620 the highest gross national income in Sub-Saharan Africa and falls into the World Bank category of a an upper-middle income countries, about one third of its population lives on less than 1 US$ per day. One of the highest HIV/AIDS prevalence in the world and the high dependence on diamond as major revenue earner make the economy very vulnerable (AfDB/OECD, 2006:139).

(or about 5 percent) in 2002 (BIDPA, 2006:7, 303). Communal farmers, who own on average 40 cattle per person, are excluded from lease fees and do not have exclusive rights over the use of land. Generally, the communal system is characterised by lower productivity while commercial farmers adopted more advanced livestock management and husbandry practises (BIDPA, 2006:302).

Is a price drop likely to result in the stop of cattle sales and the return to subsistence farming for small-scale farmers or would it be largely without any effect? BIDPA (2006) argues that cattle farmers supply response is inelastic. Though producers would respond positively to price increase and negatively to price decreases, the percentage change in supply that occurs in response to a percentage change in price would be lower. Jefferis (2007) contradicts this statement, arguing that most research found that cattle farmers' supply response in southern Africa is elastic. The social effects of a price shock for Botswana cattle farmers do therefore need further investigation.

What can, however, be confirmed is that livestock rearing and sales are (apart from tourism in the north of the country) the key commercial activity in the rural economy and the only source of cash. The livestock industry is the only industry that is predominantly owned by Batswana and the country's only export industry with strong linkages to domestic sectors ranging from rural supply of cattle, over urban demand for cattle to transport and finance (BIDPA, 2006:260). Since the export sector shows strong linkages with the rural economy and the export price guides the domestic price level, any shock will negatively impact rural households.

Additional to the relevance of the livestock industry for rural development it is also an important sector for the promotion of economic diversification. Meat production is a central manufacturing activity in Botswana accounting for 57 percent of total manufacturing exports in 2003 (BIDPA, 2006:278).[25] Botswana's preferential access to the EU market has enabled the industry to upgrade production facilities and to meet international standards. In this way, the quota given under the Beef and Veal Protocol has contributed significantly to the marketability of Botswana beef, not only in the EU but also in the South African market. Losing the EU market might therefore also impact Botswana's ability to supply the premium segments in other export markets.

Furthermore, the loss of the EU market is likely to put further constraints on vertical diversification attempts in the meat industry. To date, the production portfolio of the meat industry is very limited. Canned meat and blue skins are basically the only processed export products - both activities of limited value addition. To diversify into more valuable products, such as ready-to-serve meals, the industry would need the certification that it is able to supply a very demanding market in order to build-up consumer trust.

[25] Botswana's manufacturing activities relate either to the first stage of processing (meat products, other foodstuff and beverages) or the final stage of blending (clothes) (WTO, 2003:A1/93)

5. The longer term outlook

Sections 2-4 answer reasonably definitively the questions posed to ODI in the terms of reference. They have shown that EU preferences have a high socio-economic importance. They indicate that the loss of preferences in January will have a major, negative effect on export performance and is likely to have knock-on effects on agro-based value-adding initiatives, investment and diversification efforts. Its impact on employment and subsistence farming depends partly on the price elasticity of supply (over which the sources differ) but it would be foolhardy to assume that it will be neutral rather than negative – only the extent not the direction of impact is under question.

It is straightforward to show, therefore, what Botswana will lose in January 2008 if an alternative to the MFN is not found. Since it is inconceivable that the sector could adapt so quickly to such a major change, action on this front is needed. But it may only buy time during which more substantial change is introduced on the supply side. How much Botswana will gain from the duty free quota free (DFQF) access to the EU promised under an EPA is harder to judge.

To provide a firm estimate it would be necessary to forecast what will happen to the volume of Botswana's beef exports – an area that is highly controversial and falls outside the ToR. But, whilst the ToR do not require ODI to venture into this area, it is important for establishing the broader context. Assuming the Government is successful in meeting the challenge of securing the sector's extra-SACU export future beyond December 2007, what further steps might be needed to build on this, secure the medium-term future, and exploit DFQF?

What this section of the report does, therefore, is to explain what is on offer in an EPA and why the value of this offer to Botswana depends on the country's beef export supply capacity. To provide the context, it summarises the range of possible outcomes in four 'scenarios'. But it is beyond the scope of the report to provide an assessment of the likelihood of each scenario or to assess how far the action areas that have been suggested will increase export volumes.

5.1 The monetary value of duty and quota free EU market access

On 4 April 2007 the European Commission announced that it will offer duty and quota free market access for all ACP products except sugar, rice and possibly bananas[26] if ACP countries enter into an EPA by the end of this year. This offer is potentially very attractive for Botswana. Taking the beef volumes Botswana exported in 2006 into account, the saved import duties would be € 1.27 million (P 8.04 million). Considering that the 2006 export volumes were very low and taking the average volume exported in the period 1996-2006 into account the saved import duties would be almost double as high (see table 5).

[26] Sugar and rice will be allowed to be exported duty and quota free by 2015. For bananas no agreement has been found yet.

Table 5: The value of duty free quota free EU market access for the Botswana beef industry

	Quantity	Monetary benefits of DFQF	
		Compared to MFN	Compared to Cotonou
Status quo: 2006 volumes [27]	5.25 tons	€ 18.96 million (P 120 million)	€ 1.27 million (P 8.04 million)
Average 1996-2006 volumes [27]	11.25 tons	€ 36.01 million (P 227.85million)	€ 2.47 million (P 15.63 million)

Source: Author's calculation based on the data from table 2.

South Africa is excluded from the DFQF offer. The EC also signalled that it will apply different rules of origin between South Africa and the other SADC EPA members. Thus, from the EU side, the distinction of the origin of its imports from the SACU region is going to continue.[28]

As discussed, the EU is Botswana's most lucrative export market for beef. However, it needs to be considered that the value of duty and quota free market access is likely to diminish over the next years due to the decreased exclusiveness of preferences and increasing costs of compliance.

The CAP is under continued pressure at WTO and within the EU where single member states (such as UK) would like to see a more liberalised market while others (such as France and Poland) would like to conserve the protectionist nature of the EU agricultural policy. Due to budget constraints, enlargement policy, and a shifting policy focus, it is assumed that the 2013 CAP reform will continue to result in declining protection and thus, reduced import prices. There are many uncertainties, and the speed at which this will happen and the implications for Botswana's beef exports are beyond the scope of this study. However, it is fair to say that any movement will be in one direction only – towards a decreasing price trend. The best Botswana can hope for is for decline to be slow.

In the past decade, BMC's profits depended highly on a favourable exchange rate; if the Pula appreciates the industry will be under further pressure to either cut the prices or its profit margins. Demand in other parts of the world (such as China) will increase – but prices will be determined by the cost of supply from Brazil and Argentina.

27 Product lines 02013000, 02023050 and 02023090. All other meat exports from Botswana enter the EU market already duty free.

28 If SACU applies common rules of origin it would be in countries' best interest to continue a country-specific distinction. Otherwise, countries could no longer take advantage of most preferential trade regimes that do not apply to all SACU members (e.g. Lesotho under the EBA initiative).

5.2 Internal challenges of the Botswana beef market

DFQF market access will ‘buy some time’ but will not solve the underlying problems of Botswana’s meat industry. How to do this is not the focus of the present report. But the feasibility of doing it is an input into the report: the benefits to Botswana of an EPA and, conversely, the cost of the end of preferences depend on the volume of exports which is, in turn, determined by the profitability of exporting. If exports to the EU are doomed the cost of a non-EPA is transitory; if exports could surge, the costs of a non-EPA are very high.

This section describes the range of options that are being discussed. Without being able to give a judgement on any of them (given the limited scope of the study) it briefly summarises the main arguments for and against. To facilitate this, the options are grouped into four ‘scenarios’. These are not all mutually exclusive – some elements can be combined from several. But they represent different approaches to the problem.

The nature of the problem

Currently Botswana has about 2.5 million cattle and an off-take rate of 10 percent. About 55 percent of total off-take is slaughtered by BMC. The capacities of the BMC abattoirs would be about 312,000 cattle per year[29] but only an average of 142,000 p.a. were slaughtered in the period 1996-2005 (BMC, 2005) so that the Lobatse and Francistown abattoir run on average at about 46 percent of their capacity. The low throughput results in high unit costs which in turn make it difficult to increase producer prices in order to encourage farmers to market their cattle to BMC. There are many reasons for the low throughput but diseases, droughts, and increased competition between BMC and domestic butcheries can be named as main factors.[30]

In the past two decades BMC lost market shares and the importance of domestic outlets increased. For the communal sector, the sales to other outlets than BMC have steadily increased covering more than 60 percent of total sales today. In total, domestic slaughter houses receive more than 50 percent of total slaughtered cattle (BIDPA, 2006:39-42). The increasing off-take share of domestic demand explains part of BMC’s problem of low slaughter throughput and high production costs. While the cattle stock and the total off-take rates have remained largely static in the past 30 years, BMC’s throughput has decreased due to increased competition with domestic outlets. At the same time, capacities were increased (with building the Francistown and Maun abattoirs). This resulted in high fix costs and thus, high costs per unit, which in turn led to decreased producer prices, depressing off-take further (see Annex 5).

The competition between BMC and domestic outlets for off-take can be explained by both, supply- and demand-side factors. The supply-side has been largely restricted to domestic supply since the industry is protected by a 40 percent SACU tariff and an

[29] 1200 cattle per day on 5 days per week.

[30] Other factors include a) the dominance of communal farming with low commercial orientations; b) high costs and efforts of marketing cattle to BMC (BIDPA, 2006:204).

import ban for South African beef.[31] Domestic demand for beef has been increased as a result of increasing population growth and the growing wealth of the population. According to the Botswana Cattle Producers Association (BCPA) domestic demand (driven by sub-export parity pricing) more than tripled in the past two decades to currently 160,000 cattle p.a. (see also Stevens and Kennan, 2005:4-5).

The causal relationship between the growth of domestic demand and the fall in exports is an area where controversy rages: has autonomous growth in demand taken beef away from BMC or have low BMC prices forced producers to sell onto the domestic market (or even reduced production)? The BCPA, for example, argues that it is the latter: that BMC producer prices were below world market prices, which taxed producers and subsidised consumers (the analytical effect of this price policy are demonstrated in Annex 6).[32] However, though there is controversy over the cause of the fall in beef prices, there is agreement that both, low domestic prices and increased consumer demand have contributed to low exports.[33]

Given the critical importance of the future level of exports to any calculation of the longer-term benefits of an EPA, the main options are sketched in the following four stylised scenarios. Some observers may feel that the options can be subsumed in just 2 or 3 scenarios, but for analytical purposes it is helpful to describe them in a disaggregated way. This focuses attention on the implications of different weapons in the arsenal of measures to tackle the problem.

Scenario 1: a continuation of current policies

Under this scenario the 40 percent SACU tariff and the import ban for South African beef continue to regulate any competition on the import side while BMC remains the only exporter.

Without measures either to reduce domestic demand or to increase supply, the competition for cattle between BMC and domestic outlets is likely to continue. Though this might not immediately influence BMC's ability to export it is likely to continue shifting BMC production towards the domestic and SACU markets which are easier to supply than the demanding EU market. With sales to the domestic market and exports to the region becoming increasingly attractive such a 'laissez-faire policy' might result in the collapse of exports outside the SACU region (see Stevens and Kennan, 2005).[34]

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[31] Botswana prohibited the import of cloven-hoofed animals, their products and feed from South Africa (which was declared as necessary action to control the spread of FMD). Thus, all meat imports from South Africa (except canned meat) are prohibited. Meat imports from Namibia are allowed (WTO, 2003:A1-88-89).

[32] The controversy arises partly because there is an absence of full, detailed statistics produced by neutral parties to track the correlation, if not the causality. Inferences have to be made from partial data. According to FAO (2003) figures, for example, the 2002 indicative international price for beef exports was US$ 2.13 (or P 12.79) which was below the 2002 average beef price for rump steak in the Gaborone retail market of P 17 (CSO, various issues).

[33] Since producers' export parity price had declined from 70 percent in the late 1970s to 30 percent in 2000 (BIDPA, 2006:13) it is doubtful that the monetary benefits of DFQF are passed on to producers.

[34] This is confirmed by BMC's export performance as discussed in section 2.4.

Given the assumptions of scenario 1 in respect to imports, to curb domestic demand and to reduce the competition between domestic outlets and BMC, the GoB would need to instruct further price increases for export grade meat cuts. The BCPA argues that one would simply need to increase BMC beef prices to the EU export parity price level to reduce consumers demand. This would be a decision for the government in the light of its policy priorities.

Scenario 2: partially liberalised import market

Under the second scenario the import market is partially liberalised. This could be done by allowing imports from South Africa and/or by reducing the SACU external tariff for selected product groups (which would have to be agreed by all SACU member states). One possibility, for example, might be to allow the import of forequarters to supply domestic demand while maintaining protection for hindquarters (Stevens and Kennan 2005:29). This would take pressure from the export industry to compete with domestic retailers for cattle. Increased competition in the domestic market is likely to result in price declines for non-premium cuts which would in turn provide stimuli for farmers to market high grade cattle to BMC. To ensure that BMC pays attractive prices it would either need to be ensured that EC export price parity is paid or that farmers have alternative exports markets (as it is the case for Namibian cattle farmers that can to market their live cattle in South Africa).

To what extent an import liberalisation policy results in producers losses depends largely on its definition. Allowing imports from South Africa will hardly reduce producer prices (since South Africa is a net importing country of beef products).[35] The experience from Namibia suggests that import quantities from South Africa are low and mainly compete with processed products from local butcheries. This implies, however, also that allowing imports from South Africa might not be sufficient to satisfy increased domestic demand.

Reducing the SACU CET for selected beef products in turn might result in producer losses if domestic producers are not able to compete with the price/quality of imported products. One option to reduce the competition for domestic producers when opening up would be an import quota for a limited number of selected third country beef products.

Scenario 3: increasing throughput by feedlots

The Botswana Cattle Producers Association (BCPA) argues that increasing Botswana's feedlot capacity would significantly improve BMC returns reaped in the EU market due to higher volumes, lower input costs and improved quality.[36]

[35] To date, imports from South Africa are prohibited due to FMD control. However, South Africa has a large FMD-free zone and is also exporting meat and meat products to Namibia. Considering further that Botswana allows domestic sales of its own meat products from FMD vaccinated zones the veterinary rationale behind the import ban for South African meat products is difficult to defend.

[36] The industry estimates that the switch from oxen to weaner production would increase the throughput to 23 percent which would equal annual slaughters of 575,000 (BCPA, 2006).

Moreover, the effects of seasonal droughts would be mitigated, which would benefit small-scale cattle producers.[37]

However, according to BCPA feedlots are only economically viable if BMC prices are pegged at EU export parity prices. Only the EU export parity price would provide feedlots with enough margin to pay weaner producers live weight South African export parity prices. This would be the trickle down needed to drive weaner production (indeed, the BCPA argues that feedlots would be economically viable even under scenarios 1 and 2).[38] Be that as it may, there is broad support for greater use of feedlots to improve the usage of existing slaughter capacities. The 10th National Development Plan (2008-2013) advocates supporting converting from a low off-take oxen production system to a high off-take weaner and feedlot system.[39]

Scenario 4: Niche marketing in the EU

Since 2002 the EU is a beef net importing country. Brazil and Argentina account for about 90 percent of the EU's total imports of beef and focus on the supply of premium quality. The EU is a net importer of premium priced high grade beef and a net exporter of commodity priced low grade beef.

There has been an internal change in the EU market as a result of increased consumer awareness. The trend is away from quantity production towards quality production with a strong focus on food safety and food quality (Agritrade, 2007:9). In the light of falling EU import prices it is therefore advisable to seek getting into higher price market niches with brand recognition in order to increase the revenues obtained from exporting.

Comparing Botswana's unit price with the one obtained by Namibia in the past 10 years, it becomes obvious that Namibia has performed better. This is most of all the case for fresh and chilled bovine meat (see table 6).

Table 6: Unit value of EU meat imports from Botswana and Namibia (€/100kg)

	1996		1998		2002		2005		Average 1996-2005	
	Botswana	Namibia	Botswana	Namibia	Botswana	Namibia	Botswana	Namibia	Botswana	Namibia
fresh/chilled bovine, 0201300	426	437	510	526	566	614	523	562	**516**	**553**
frozen bovine crop, 02023050	236	215	224	232	254	214	239	259	**228**	**234**
frozen bovine meat, 02023090	237	218	237	248	229	219	241	236	**237**	**244**

Source: Downloaded from Eurostat COMEXT database (http://fd.comext.eurostat.cec.eu.int/xtweb/) 14 March and 07 June 2007.

[37] Though the GoB provides support schemes to manage cattle trough draughts, such as a 25 percent subsidy on feed, the risk of draughts is currently mainly borne by the farmers.

[38] According to BCPA South African feedlots operate at a lower cost base since they use hormones. This enables them to finish weaners in a shorter time. It argues, though, that competition between Botswana feedlots would then drive the prices feedlots pay producers for their weaners up to the South African weaner price and result in increased feedlot capacity and thus, increased slaughter cattle.

[39] In 2005, the GoB set-up a task-force to investigate the options for weaner production based on feedlots. The experts from the Ministry of Agriculture, BMC and BCPA agreed that the GoB should actively support the introduction of a feedlot system.

The reason for Namibia's ability to obtain higher prices in the EU market might be its better beef quality. Botswana has had problems to ensure a stable weight and quality of its cattle due to periodic droughts and diseases.[40]

EU consumers' awareness for high quality products and their environmental concerns have the potential to offer lucrative market niches. It would, however, imply the necessity to change BMC's marketing and distribution channel.

To date, Botswana's beef exports to the EU have been exclusively sold to Allied Meat Importers (AMI) Ltd., which is a subsidiary of BMC. AMI has offices in London, Bremerhaven/Germany and Duiven/Holland. AMI had also been supplied by Namibia and Swaziland. However, Swaziland stopped exporting to the EU market in 2004 (due to difficulties to comply to sanitary and veterinary regulations) and Namibia is in the process to stop marketing through AMI.[41] It is Namibia's perception that AMI failed to build-up a brand that is recognised and valued by consumers. Instead of marketing the competitive advantages of premium cuts from Botswana and Namibia (such as free-range) AMI would sell the beef mainly to the low-value 'pub market'. In the light of the current EU market trends such a strategy bears, however, the risk that the unit price value speeds up its declining trend.

It might be worthwhile evaluating the options to market beef from Botswana and Namibia together by creating a common value added brand with a broad complimentary range of products, quality and prices. It is believed by Meatco Namibia that such a differentiated brand could position Botswana beef in more valuable niche markets than this is currently the case. Moreover, the costs of such a marketing strategy would be lower than what is currently charged by AMI.

6 Summary of findings and policy options

6.1 Summary of findings

The study aimed to quantify and qualify the losses that would incur to Botswana when losing its current level of preferences for beef exports in the EU market. Since the trade component of the Cotonou Agreement expires in less than six months and SADC EPA negotiations are considerably behind schedule, there is the anticipated risk that Botswana beef will face increased tariffs in the EU market from January 2008 on.

In fact, exports to the EU will be at increasing risk from the end of September since exporters must apply for a CAP license three months in advance. Thus, **for deliveries in 2008 the industry would need to know in 2 months time whether or not they will have to pay the punitive MFN tax.**

[40] The average weight of cattle slaughtered in Botswana is with 200 kg about 45-50 kg lower than in Namibia (Stevens and Kennan, 2005:8-9).

[41] From October 2007 on, Namibia will export to the food processor Dawn Meat in London which supplies the retail giant Tesco and the restaurant chain Maredo.

The reports looked at the immediate costs (in terms of higher imports duties) and its implications (by assessing the competition situation) when taxing Botswana beef exports under MFN instead of Cotonou provisions. The report concludes that the application of the MFN tariff (to date the only existing ‘alternative’ for Botswana beef exports to the EU) fails to provide an equivalent alternative trade regime as stipulated in Art. 37.6 of the Cotonou Agreement. In contrary, imposing the MFN tariff would result in a punitive taxation that is most likely to stop Botswana’s beef exports immediately. Moreover, the application of the MFN tariff would put Botswana in a less favourable position than its competitors – including some of the most competitive beef exporters in the world.

The report finds further that it is highly unlikely that Botswana finds alternative markets that offer remunerative prices and a high protection degree within less than six months. Furthermore the loss of the EU market is likely to affect Botswana’s ability to supply other premium markets it is often taken as a ‘seal of approval’. Supplying the EU market is therefore of paramount importance for the marketability of Botswana beef.

6.1.1 The economic and socio-economic costs of the loss of preferences

The EU is Botswana’s most valuable export market. The current EU preferences imply substantial savings for meat imports from Botswana and give Botswana beef a competitive advantage compared to other beef suppliers. Losing this level of preferences by the end of the year would imply that Botswana would have to pay tariffs up to 132 percent which equals 80 percent of the 2006 revenue obtained from beef exports into the EU! **The MFN taxation of Botswana beef exports is therefore most likely to result in the immediate cessation of all exports to the EU. This is the more likely because the downgrading from Cotonou to MFN would put Botswana in a less favourable market position than its major competitors – all of which are more developed economies.** Even industrialised countries like Australia or New Zealand, which benefit from EU tariff quotas under the WTO Agreement on Agriculture (AoA), would be better off than Botswana.

Since Botswana is a less competitive beef supplier in international terms it would need a protected, high-priced market as alternative to the EU market. These markets are rare and very demanding and **Botswana has not yet defined realistic alternatives to the EU market**. Botswana’s existing alternative markets do either not have the absorptive capacity (Norway with a limited quota) or are not remunerative (South Africa which pays about one third less than the EU). Moreover, **the diversion of Botswana’s exports to South Africa (the most logical ‘alternative’ when losing the EU market) might push down prices and impact Botswana’s ability to supply premium segments in the South African market.**

Compliance with EU standards gives Botswana a competitive advantage over South African producers confirming the lowest BSE risk and an FMD-free status. In this way, the quota given under the Beef and Veal Protocol has contributed to the marketability of Botswana beef, not only in the EU but also in other premium markets. **The costs for BMC of losing current EU preferences are therefore not limited to the loss of the EU market but imply the risk that the industry loses its ability to diversify outside the region.**

6.1.2 The costs of the loss of preferences for economic diversification and rural development

Botswana is almost a mono-export economy and beef is its only agricultural export product to the EU. Though beef exports account for less than 1.5 percent of total revenue obtained in the EU market they are of crucial importance for economic diversification and rural development.

Losing the EU market might make diversification efforts even more difficult. Botswana's processed meat exports are limited to canned meat and blue skins which are rather low value products. It is argued that the industry needs to prove its ability to supply a premium market in order to move up the value chain and to diversify into higher valuable products.

In addition to economic diversification livestock production is also important for rural development. Livestock rearing and sales are very important commercial activity in the rural economy. The beef industry is the only export industry in Botswana that shows strong linkages to domestic industries ranging from rural supply of cattle to the provision of services for the livestock industry, such as transport and finance. Any export price shock on beef will therefore impact on the domestic price level which is likely to impact negatively on rural development and poverty alleviation.

6.1.3 The benefits of duty and quota free EU market access

Given the 2006 export volumes and values Botswana would have saved € 1.27 million (P 8.04 million) when exporting DFQF to the EU market. These saving would have been almost double as high if the average 1996-2006 volumes had been exported. However, though this saving of import duties is attractive (and increasingly attractive with increased export volumes) it is questionable whether the industry can take full advantage of DFQF market access.

An alternative would be to reverse the decline in the volume of exports through one or more of various schemes that have been proposed. The key objective must be to prepare Botswana for the time which will come in due course when it faces more direct competition with the most competitive producers in the world, which may happen in the EU market beyond 2013 and in the SACU market if, at some point in the future, South Africa gives more weight to the views of beef consuming urban voters than to rural producers.

6.2 Policy options

There is broad agreement among analysts that an equivalent, WTO compatible alternative to an EPA does not exist. The trade component of the Cotonou Agreement expires by the end of this year and in the absence of an EPA the 'second best' trade regime for Botswana's beef exports is likely to enter into force: the MFN tariff. As the analysis demonstrated, the application of the MFN tariff is likely to result in the immediate cessation of Botswana's beef exports to the EU.

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

Including BLNS *de jure* into the TDCA is the most logical option. It would imply that Mozambique, and Angola are left aside.[42] Also, it might imply additional protectionist needs of BLNS[43] as well as compromises on different treatments of exports into the EU market.[44] SACU has already developed a common defensive position that builds on the SACU CET and the TDCA. An EPA with SACU would therefore build on the desired 'institutionally coherent and economically integrated core group' (EC 2006) the EC intends to address with EPAs. Even more important, such an EPA would be easily feasible by the end of this year.

However, to date the EC applies a neo-mercantilist approach in negotiation with the SADC EPA. Though Botswana is as part of the SADC EPA committed to finalise EPA negotiations by the end of this year, it is out of its hands to do if South Africa and the EC do not agree on a common agenda. Since the year 2000 Botswana, Lesotho, Namibia and Swaziland pay the price of being locked into the TDCA. They have had to open their market according to the liberalisation schedule negotiated by the EU and South Africa without having received anything in return yet. From January 2008 on they might even be worse off – despite being *de facto* part of a reciprocal trade agreement with the EU.

The solution to escape this dilemma is seen in a 'framework' EPA which makes EU-SADC EPA trade relations compatible with WTO requirements while postponing the negotiation of topics that are not obligatory to continue the current preference treatment for SADC EPA countries. In this way, it could be ensured that the exports of the developing countries of the SADC EPA to the EU are not endangered.

While such a 'framework' EPA is seen to be sufficient to guarantee the WTO compatibility of EU-SADC EPA trade relations from January 2008 on, it is unknown whether all negotiation parties would agree to such a proposal. The EC would need to accept an 'interim' SADC EPA, postponing negotiations of services and trade-related issues (which are regarded as crucially important for EPAs). South Africa in turn might need to signal acceptance of including services and (some) trade-related issues into an EPA. To date, neither the EC nor South Africa has signalled willingness to compromise. The losers are Botswana, Namibia and Swaziland which are captured by the self-centred interests of its negotiation partners.

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[42] Whether Tanzania remains part of the SADC EPA or opts for an EAC/ESA EPA remains open. A final decision is expected in August 2007.

[43] Due to its more advanced development degree South Africa has different priorities than other SADC countries. Thus, the TDCA protects industrial sectors that do not exist in BLNS and opens up for agricultural products that are regarded as sensitive in Botswana, Namibia and Swaziland.

[44] The EU is not ready to grant South Africa the same preferences it gives to other ACP countries (EC, 2006). In short, the position of the EC is that it aims for improved market access to the SADC EPA market without improving the market access for South Africa while South Africa aims to improve its market access to the EU without granting further concessions.

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Botswana Meat Commission (BMC): www.bmc.bw

Central Statistics Office (CSO): www.cso.gov.bw

Annex 2: List of interviewees

Company / Institution	Interview partner	Job title	E-mail
Botswana Cattle Producers Association (BCPA)	Mr. Philip Fischer	Chairman	Philip_fischer@iafrica.com
Botswana Meat Commission (BMC)	Mr. N Chandramouli	Chief Accountant	Chandra@bmc.bw
BMC	Mr. Ernest Bagopi	Assistant Marketing Manager	ebagopi@bmc.bw
Botswana Institute for Development Policy Analysis (BIDPA)	Dr. Tebogo Seleka	Senior Research Fellow (Poverty)	tseleka@bidpa.bw
Dawn Meats (UK) Ltd. Part of Dawn Group	Mr. Brian Perkins	Sales Director	Brian.Perkins@uk.dawnmeats.com
Econsult Botswana (Pty) Ltd.	Dr. Keith Jefferis	Managing Director	keith@econsult.co.bw
Ministry of Agriculture (MoA)	Dr. T.K. Phillemon-Motsu	Deputy Director: Department of Animal Health and Production	Kphillemon-motsu@gov.bw
MoA	Mr L.L. Paya	Director of Animal Production	lpaya@gov.bw
MEATCO Namibia	Mr. Kobus Du Plessis	CEO	kduplessis@meatco.com.na
Small-scale livestock producer and member of the Kalajadi Land Board	Mr. Richard White		rhwhite@botsnet.bw

Annex 3: Terms of Reference

Description of activities

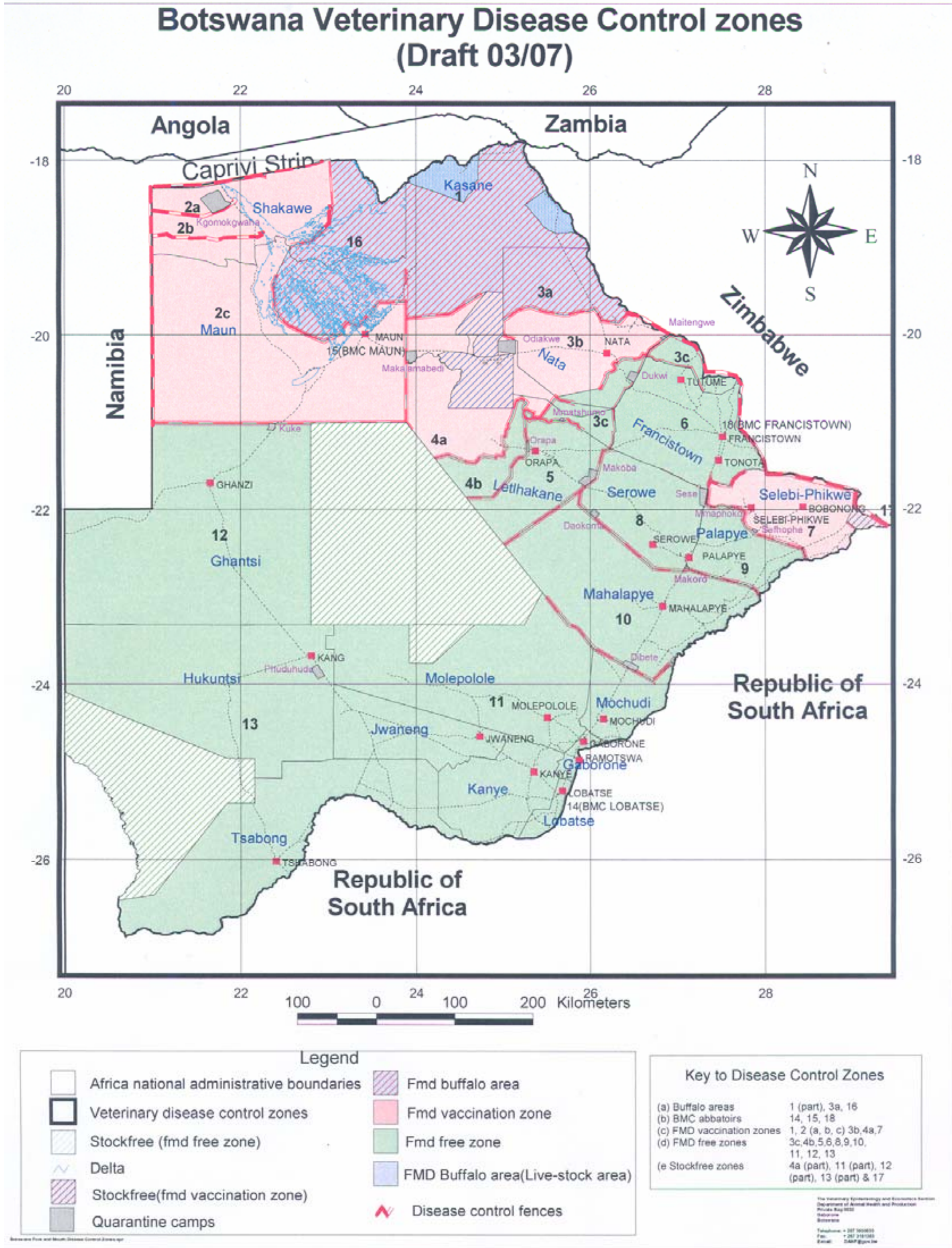
The study aims to bring empirical evidence to the economic and socio-economic relevance of EU preferences for Botswana and to quantify and qualify the possible loss of these preferences. More specific, the tasks of the study include, *inter alia:*

a) Identification of the economic and socio-economic importance of EU preferences including their relevance for employment, diversification, Government Policies and poverty alleviation.

b) Estimation of the impact of reduced preferences on.
- Production capacities and export performance;
- Agro-based value- adding initiatives;
- Direct and indirect employment;
- Investment and diversification attempts;
- Subsistence farming, development activities in rural areas and poverty alleviation.

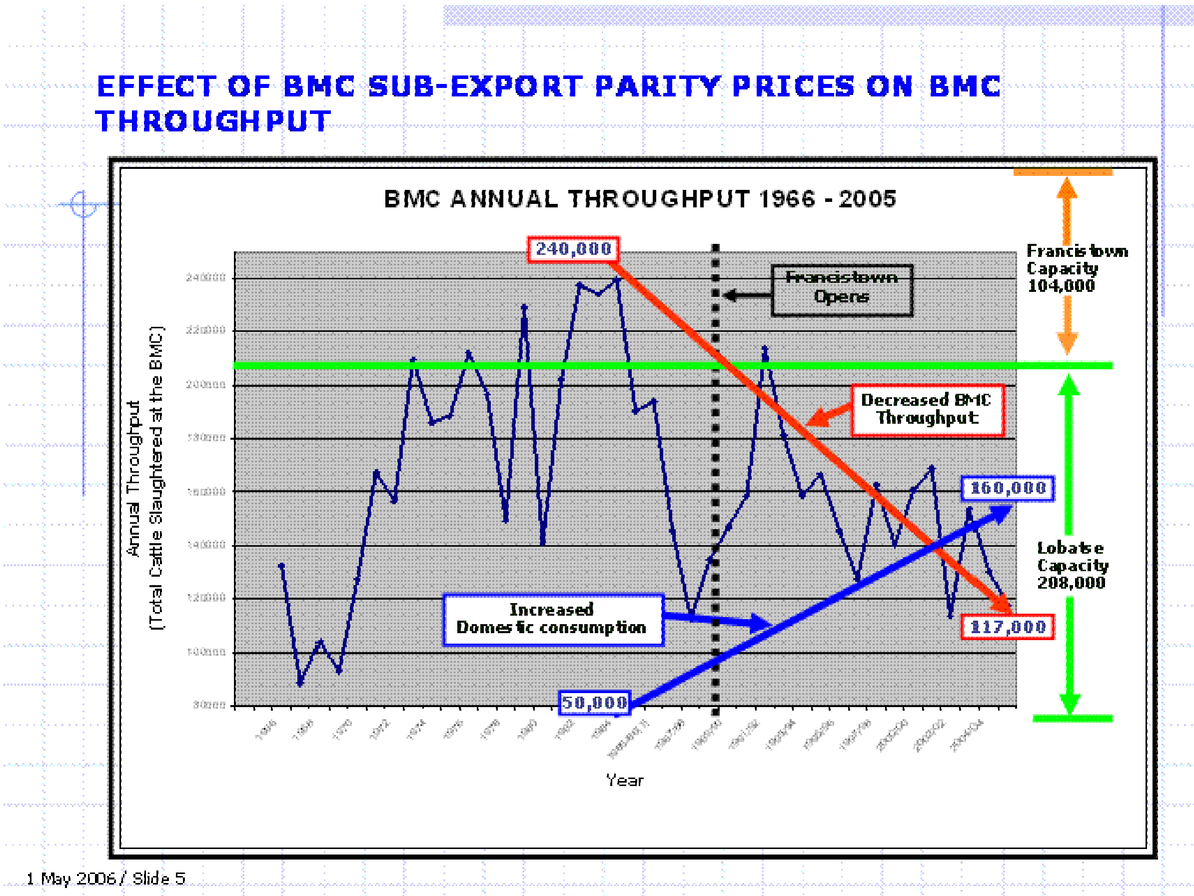
c) Analysis of alternative regional and international market options;
d) Drawing policy recommendations for the Government.

Annex 4:



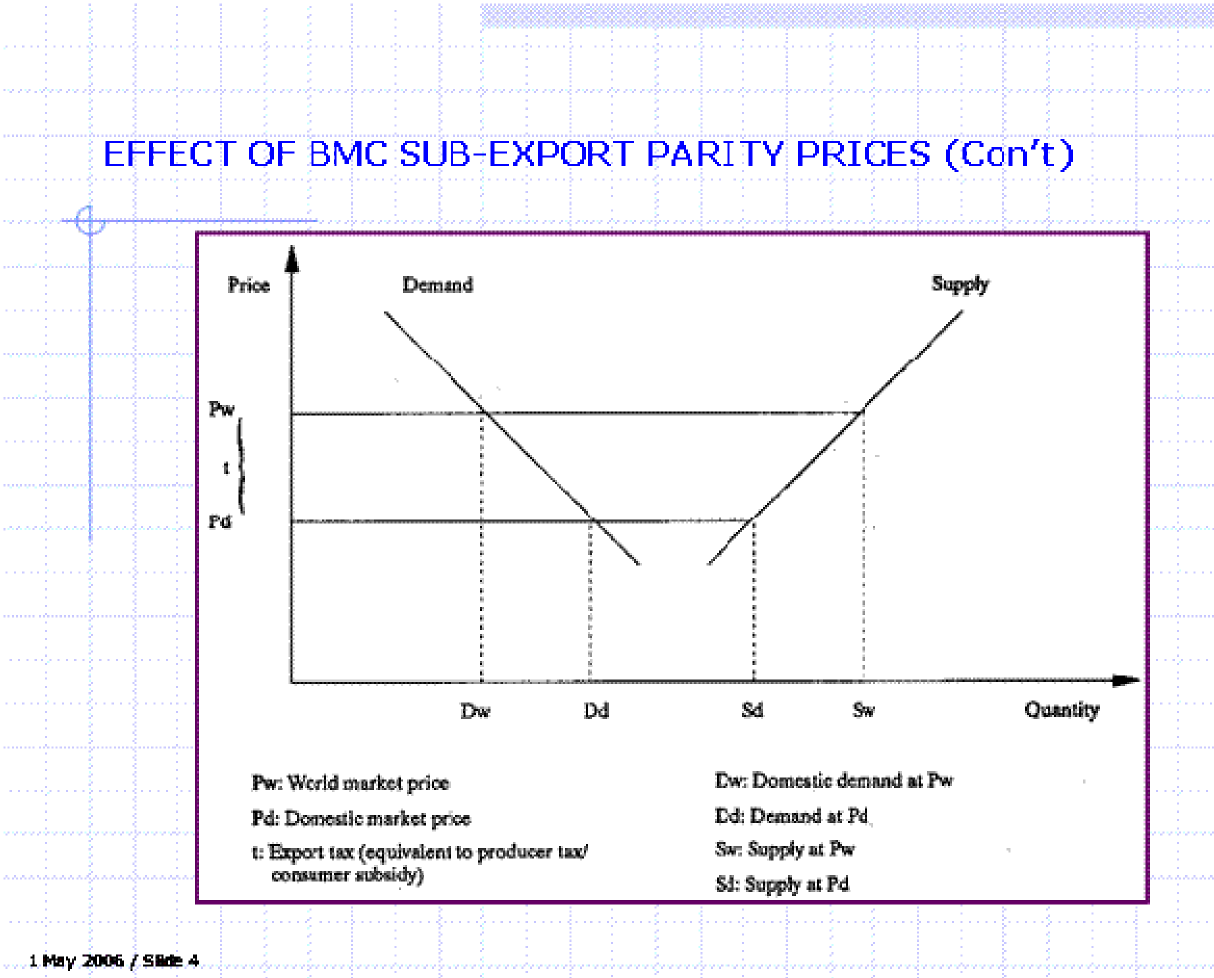
Botswana Veterinary Disease Control zones
(Draft 03/07)
Angola
Zambia
Caprivi Strip
Namibia
Zimbabwe
Republic of South Africa
Republic of South Africa
N
S
E
W
Kasane
Shakawe
Kgomokgwana
Maun
MAUN
15(BMC MAUN)
Makalamabedi
Odiakwe
NATA
Nata
Maitengwe
Dukwi
TUTUME
18(BMC FRANCISTOWN)
FRANCISTOWN
Francistown
TONOTA
Orapa
ORAPA
Letlhakane
Makoba
Serowe
Sese
Selebi-Phikwe
BOBONONG
SELEBI-PHIKWE
Mmaphoko
Sefhophe
Deokonte
SEROWE
Palapye
PALAPYE
Makoro
Mahalapye
MAHALAPYE
Dibete
GHANZI
Ghantsi
KANG
Phuduhudu
Hukuntsi
Molepolole
MOLEPOLOLE
Mochudi
MOCHUDI
Jwaneng
JWANENG
GABORONE
RAMOTSWA
Gaborone
KANYE
Kanye
LOBATSE
14(BMC LOBATSE)
Lobatse
Tsabong
TSABONG
Kuke
1
2a
2b
2c
3a
3b
3c
4a
4b
5
6
7
8
9
10
11
12
13
16
17
100 0 100 200 Kilometers
Legend
Africa national administrative boundaries
Veterinary disease control zones
Stockfree (fmd free zone)
Delta
Stockfree(fmd vaccination zone)
Quarantine camps
Fmd buffalo area
Fmd vaccination zone
Fmd free zone
FMD Buffalo area(Live-stock area)
Disease control fences
Key to Disease Control Zones
(a) Buffalo areas 1 (part), 3a, 16
(b) BMC abbatoirs 14, 15, 18
(c) FMD vaccination zones 1, 2 (a, b, c) 3b,4a,7
(d) FMD free zones 3c,4b,5,6,8,9,10, 11, 12, 13
(e Stockfree zones 4a (part), 11 (part), 12 (part), 13 (part) & 17

Annex 5:



Source: BCPA, 2006.

Annex 6:



Source: ILRI, 1995.