



INSIDE SOUTHERN AFRICAN TRADE

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This is an important year for the ongoing negotiations of Economic Partnership Agreements (EPAs) between African, Caribbean and Pacific (ACP) countries and the EU.

EPA negotiations are intended to generate trade and development cooperation agreements between the EU and groups of ACP countries that would be WTO compatible in terms of trade in goods, and that would result in: the integration of countries into the world economy; sustainable development; and deeper

and more effective regional integration.

However, the current EPA processes have been criticized by some observers as being contrary to these aims, and the EU has been accused of bullying tactics and having a mercantilist agenda that would result in the conclusion of a standard free trade agreement between unequal partners.

Our 'INSAT Focus' article suggests that the new framework for SADC-EU EPA negotiations does not contain any guarantees for success. On the contrary, it highlights divisions within the SADC bloc and differences between SADC and the EU on the scope of the negotiations. It also raises questions related to the basis for the market access negotiations.

We talk to the chief negotiators on either side, Banny Molosiwa and Karl Falkenberg, to shed some light on what will happen in the next ten months to ensure that a development-friendly EPA is signed between SADC and the EU by the end of 2007.

In our 'Guest Perspective', Christopher Stevens looks at the possible implications of the re-imposition of Generalized System of Preferences (GSP) tariffs on non-LDC SADC countries if an EPA is not concluded in time.

We hope that you will enjoy this issue of INSAT and invite you to share your opinions and suggestions with us by writing to insat@satradehub.org.

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SADC COUNTRY	SADC EPA	ESA EPA
Angola *		
Botswana		
DRC *	Central Africa bloc	
Lesotho		
Madagascar *		
Malawi *		
Mauritius *		
Mozambique		
Namibia		
South Africa		
Swaziland *		
Tanzania		
Zambia *		
Zimbabwe *		

COMESA Member States are indicated with an asterisk */LDCs are indicated with light blue and SACU Member States are indicated with italics



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FROM THE AMERICAN PEOPLE

AROUND SOUTHERN AFRICA

BOOM IN INFRASTRUCTURE POSES CHALLENGES TO THE REGION

With investments in infrastructure in the region at an all time-high, SADC is facing a new challenge; how to coordinate the various projects that are springing up all over the region to ensure that they will enhance, rather than undermine, regional integration.

SADC officials say linking infrastructure projects across the region would boost regional trade and allow Member States to maximize their gains from the regional free trade area, which is slated to be launched by the end of next year.

"We have invested a great deal in the improvement of our road, railway, port, marine, water and sewerage infrastructure to facilitate the free movement of people and goods and to reduce the costs of moving those goods and services within the region," says SADC's Executive Secretary Tomaz Salomão. "The agenda now is how to interconnect them to quicken the benefits."

Like in most of Africa, the past few years have seen a surge in infrastructure investments across the region, mostly financed by Chinese enterprises and concentrated in the transportation, water and energy sectors. Between 1999 and 2005, private investments alone in the region in these three sectors amounted to US\$3.6 billion, which is double the investments in the previous seven years (see table below).

Private Investments in Infrastructure (US\$ millions)

	1991-1998	1999-2005
Energy	1,124	1,665
Transport	769	1,767
Total Water & Sewerage	NA	122
Total	1,893	3,556

Source: World Bank Private Participation in Infrastructure Database

But there are growing concerns that infrastructure development in the region is being carried out with very little coordination among Member States.

Salomão says the trading bloc is planning to commission a SADC Spatial Corridor Development Initiative which aims to, among other things, develop a strategy for harmonizing Member States' policies towards establishing a customs union.

But more critical, and possibly more problematic, than harmonizing infrastructure projects within SADC, is coordinating efforts between SADC and the Common Market for Eastern and Southern Africa (COMESA), to which eight SADC Members belong.

With both regions rolling out grand plans for improving their infrastructure, the need for better coordination and harmonization of development plans has become increasingly pressing. Previously limited coordination between the two regional groupings, sources say, has led to the implementation of identical projects, sparking tensions between the two sides.

A recent power project that is being implemented by COMESA, for example, would link three countries that are also members of SADC with Kenya. The North-South Power Grid, funded by the African Development Bank and the World Bank, would run from the DRC through Zambia to Tanzania and Kenya. Meanwhile, SADC is working on a power interconnector that would link Zambia, the DRC and Tanzania to the Southern African Power Pool (SAAP), with plans to extend the grid to Kenya before the turn of the decade.

SADC already holds talks with the East African Community and COMESA in an effort to enhance coordination in infrastructure development across the two regions. The two power projects, SADC officials say, were among the main reasons for the group's decision to intensify talks with COMESA.

Salomão says the SADC Secretariat realizes that "unless the two blocs urgently rationalize their programs to minimize duplication, the pace of regional integration would take longer than planned owing to double-dealing and divided loyalty."

He hopes that coordinating the various projects within SADC and with other regional groupings will accelerate the pace of regional integration, reduce costs, and boost the region's competitiveness.

MALAWI SEEKS TO IMPROVE TERMS OF REGIONAL TRADE AGREEMENTS

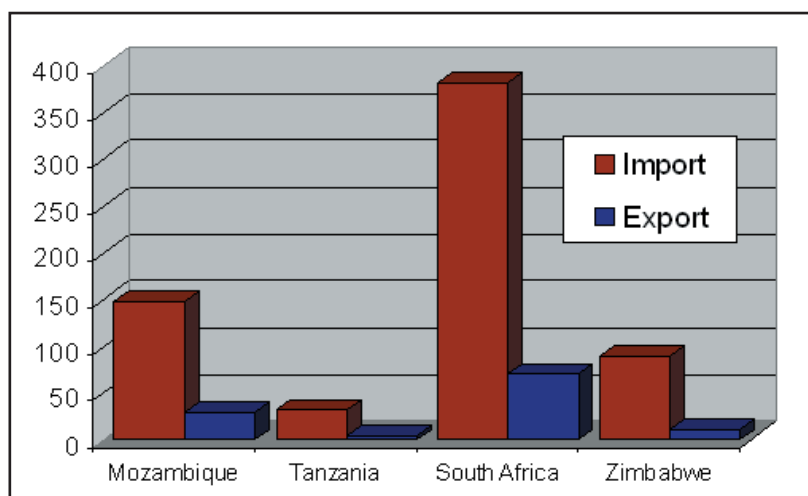
Malawi is seeking to renegotiate some terms of its bilateral trade agreements with Zimbabwe and South Africa to help boost its exports to both countries, according to Malawi's Ministry of Trade and Private Sector Development.

Harrison Mandindi, director of trade at the Ministry, says Malawi has not been able to fully benefit from these agreements and is therefore trying to get better terms that reflect its limited capacities and low development status.

Malawi and Zimbabwe signed a bilateral trade agreement in 1995 under which tariffs were eliminated on a range of products on a reciprocal basis. But more than eleven years into the agreement, Malawi has not been able to rein in its trade deficit with Zimbabwe, despite the latter's continued economic crisis. In 2004, Malawi's trade deficit with Zimbabwe stood at US\$35 million, the same level that it was in 1995 before the agreement went into force.

Mandindi argues that Malawi is less developed than Zimbabwe and is not capable of competing in some of the sectors that were liberalized under the agreement.

"[We are] looking at sectors which could be given 'adjustment competition' before they could trade with Zimbabwe," he said.

Malawi's Trade with Selected Countries in 2005 (US\$ millions)

Source: UN COMTRADE

Malawi is also trying to extract better terms for its existing trade agreement with South Africa. The agreement, which was signed in 1990, offers Malawi duty-free access to South Africa's market on non-reciprocal basis. But despite the favourable terms, Malawi's trade deficit with South Africa has grown rapidly in recent years to reach US\$309 million in 2005, up from US\$177 million five years earlier.

Malawi, like many countries in the region with free trade agreements with South Africa, complains that the agreement's provisions on rules of origin are so restrictive that only a handful of its exports can actually benefit from duty-free access into South Africa's market. The agreement requires that at least 25 percent of the value of the imported product be added or originated in Malawi in order to enjoy duty-free trade access. South Africa argues that the rules of origin provisions were included to ensure that Malawi does not turn into a transshipping hub for other countries' exports.

"Malawian producers say they can not achieve 25 percent added value to the products and South Africa says no. So we're still negotiating," Mandindi says.

Malawi is also looking to enhance its exports through new trade pacts with other countries in the region. The country has high hopes for its free trade agreement with Mozambique which went into effect in July last year. Under the agreement, which was concluded in December 2005, the two countries will have duty-free access to each other's mar-

kets on a reciprocal basis. Although the agreement excludes some of Malawi's key exports such as sugar and tobacco, Malawi is hoping to boost its exports in a range of products on the back of Mozambique's rapid economic growth. Malawi's exports to Mozambique grew from only US\$4 million in 2002 to over US\$29 million in 2005.

"[The agreement] is aimed at protecting sectors where Malawi is competitive but does not have the capacity," said Mandindi, who is also spokesperson for the Ministry. Malawi's exports to Mozambique in 2005 amounted to US\$29 million compared to US\$147 million in imports.

Malawi has also launched negotiations for a free trade agreement with Tanzania. Malawi hopes the agreement will enable it to narrow its trade deficit with Tanzania, which reached US\$27 million in 2005.

GOLD SET TO SHINE FOR TANZANIA THIS YEAR - ZIM & SA MAY MISS OUT

Despite strong demand in the gold market and forecasts for a continued price rise, only one of the region's three gold-producing countries is poised for strong export growth this year, according to market analysts.

Henk Krasenberg, chairman of the European Gold Centre, an international gold market research and mining exploration and financing consultancy, says he is projecting strong export growth for Tanzania but a slowdown for Zimbabwe and a slump for South Africa during this year.

According to Krasenberg, high production costs will lead to a decline in South Africa's gold output while low business confidence will discourage investments in the mining sector in Zimbabwe.

"In spite of Tanzania's strong growth, the overall for Southern Africa will be a down because of the strong influence of South Africa and Zimbabwe. South Africa's production will continue to decline because of higher costs of production caused by having to go deep to extract the gold," Krasenberg said, adding that the magnitude of the decline will ultimately depend on the performance of the South African Rand.

Looking into 2007, Krasenberg expects gold to reach US\$700/oz by the end of the year. Gold is currently trading around US\$671.30/oz.

Krasenberg's predictions are in line with other forecasts for gold production in the region.

The upbeat projections for Tanzania reflect the recent surge in foreign direct investment in the country's extractive industry, which attracted an estimated US\$1.5 billion since 1998 when the current mining act liberalized the sector. Although mining still only accounts for about 3.5 percent of GDP, it is the fastest growing sector in Tanzania and many analysts believe that it will be the "dynamo" for the revival of the country's economy in the short-to-medium term. With mineral prices so high and a reputation for overall political stability, Tanzania is expected to attract increasing foreign investments in the mining sector.

The opposite is true for Zimbabwe where the economy has shrunk every year since 1998 and, despite strong metal prices, the mining sector contracted by 14 percent last year, according to some estimates. Currently, the sector accounts for about four percent of the country's Gross Domestic Product (GDP) and 16 percent of export earnings.

Zimbabwe has pinned high hopes on the mining industry, which has taken over from agriculture as the leading growth sector since the Government's controversial fast-track land reform in 2000.

But business confidence and, conse-

quently, investments remain very low due in part to long-standing take-over threats of the mining sector by the Government. Analysts say political and economic uncertainty in the country will continue to discourage investments in the mining sector (see story on investment in infrastructure below). Foreign Direct Investment (FDI) in Zimbabwe, which is the primary source of investment in the country's mining sector, totaled US\$60 million in 2004, according to World Bank data. While this is double the investments in 2003, the figure is still very low compared to other African countries with sizable mining operations. For example, Tanzania attracted US\$234 million in FDI in 2004 and Zambia received some US\$334 million during the same year.

In South Africa, the world's leading gold exporter, gold production declined by 13.1 percent to 297.3 tons in 2005, according to figures published by the South African Chamber of Mines. The Chamber said the low Rand-gold price combined with high costs and restructuring in certain mining operations affected the viability of a large proportion of the sector, especially in the first half of 2005. But some analysts argue that the whole mining industry has suffered because of recent government policies aimed at promoting black economic empowerment, nationalizing all mineral rights and proposing a new tax regime. The resulting uncertainty, they say, has been damaging to investments in the sector. If projections for a decline in output this year hold true, it would be South Africa's ninth consecutive year of falling gold production.

Elsewhere in Africa, the outlook looks positive with forecasts for strong growth for Ghana and Mali and moderate growth for Guinea, yielding a solid growth average for the continent as a whole.

ZIM'S EFFORTS TO UPGRADE INFRASTRUCTURE STUMBLE AS INVESTORS KEEP THEIR DISTANCE

At the end of 2004 the Zimbabwean Government launched an ambitious Public Private Partnership (PPP) plan to draw private investments into the country's dilapidated trade-related infrastructure.

The plan envisioned four Spatial Development Initiatives, including two transport corridors that are seen as vital to the country's efforts to boost exports.

To lure investors, the Government offered an array of incentives, including substantial tax breaks that would last for more than five years. Government officials held several workshops targeting local investors and traveled to Asia to search for partners.

But more than two years on, there is no sign that local or foreign investors are willing to take part in the Government's initiative.



Zimbabwe is struggling to attract investors to its ambitious infrastructure development plans such as this project to dualize the Beitbridge-Harare Highway up to the Nyamapanda border post between Zimbabwe and Zambia. The project is pivotal to the Trans-Zambezi-Limpopo Development corridor, one of the key Spatial Development Initiatives envisaged to promote export-led economic recovery.

Institutional constraints and lack of trust in the Government, sources say, are the main reasons for the private sector's reluctance to invest in the proposed projects.

Callisto Jokonya, president of the Confederation of Zimbabwe Industries, says the Government will have to provide the necessary institutional framework that ensures "fair play and project viability" before private investors can move in.

"Some of the sectors must be deregularized (sic). We have indicated to the Government that we can not go into the road sector if we are not going to benefit," Jokonya says. "We strongly feel that the Government must first and foremost put in place requisite institutional

instruments before we can move in. For instance, for us to move into industrial park development or road construction, there has to be a roads authority with taxing powers, and in which the private sector can buy shares."

Last year, Zimbabwe was ranked last in the world according to the World Bank's Country Policy and Institutional Assessment. Similarly, the 2007 Doing Business Report, placed the country in the 153rd place out of 175 in terms of ease of doing business.

The infrastructure projects proposed by the Government under the PPP are seen as crucial to improving customs administration and enhancing manufacturing and processing of export goods.

One project, the Trans-Zambezi-Limpopo corridor, would establish a one-stop border post and industrial park at Beitbridge between Zimbabwe and South Africa; dualize the Beitbridge-Harare-Nyamapanda road and upgrade the Beit-

bridge-Bulawayo-Victoria Falls route.

Minister of Economic Development, Rugare Gumbo, has described the PPP program as an effort to "stimulate and accelerate the rate of export earnings generation, employment creation, technology transfer and foreign market penetration through private sector-led infrastructure rehabilitation."

But investors maintain that some of the conditions set out by the Government are difficult to accept. For example, under the program, the remittance of dividends and disinvestments proceeds would be subject to exchange control regulations, a condition widely criticized as too restrictive.

But many analysts assert that lack of confidence in the Zimbabwean Government is the main reason behind investors' reluctance to invest in the country. A recent article in the Zimbabwe Independent argued that while legislative reform is "of significance" to investors, what is more important is "that investors be instilled with confidence as to the security of their investments".

"[...H]aving witnessed the widespread expropriation of rural lands without compensation, but with aggression, disregard for law, justice, equity or human rights... those who would normally contemplate investment are inevitably fearful of future similar actions against those engaged in mining, tourism, industry, and other economic sectors," the article argued.

Investors' distrust of the Government is exacerbated by the country's continued economic and political crises.

The country's economy shrank by over five percent last year according to the International Monetary Fund. Unemployment now stands at 80 percent and the inflation rate is the world's highest at 1,730 percent. And with current shortages in the foreign exchange reserves, economists say, investors are unlikely to consider some of the infrastructure development models usually used to finance infrastructure development, such as building and transferring facilities to governments upon completion.

"Given the critical foreign currency shortages the country is facing at the moment, the Government's ability to pay back the investment capital to private developers is quite doubtful. Investors might find themselves waiting forever [for Government payments]," says economist John Robertson.

Ultimately, Jokonya says, there are two elements that drive a public-private partnership, trust and profit. "In every partnership there should be an element of trust. There is also an element of benefit that has to be satisfied," he says. "As the private sector we are in business because we want to make money. Any project that we go into must be commercially viable."

Unfortunately, investors can not find either in Zimbabwe at the moment.

NEWS BRIEFS

NEW MAPUTO PORT FACILITY MAY SAVE FARMERS MILLIONS

Construction of a new fresh produce export terminal at Maputo Port will start at the end of next month. The facility which will have capacity for 70,000 tons of citrus in a six-month period and 10,000 tons of frozen juice, could save farmers millions of dollars in logistics costs, sources say.

According to the Maputo Corridor Logistics Initiative (MCLI), the increase in the capacity of the Maputo Port through-put and the fact that there is now a weekly direct sailing from Maputo to the Far East could save South African farmers about US\$2.14 million per year in inland logistics costs alone.

But the MCLI also quotes one of the promoters and investors in the project, Jacey Strauss, as saying that this increase represents only 20 percent of the potential export need of the Lowveld, Limpopo and Swaziland farmers and that, if all the produce could flow through Maputo, the annual savings to the agricultural sector could be as high as US\$11.4 million.

The facility, valued at US\$5 million, is expected to be operational by the 2008 season.

In a related development, the railway line from Gauteng to Maputo, an important part of the Maputo corridor, was launched in Nelspruit, South Africa in mid February.

Around US\$70 million is being invested in the line which is expected to be fully rehabilitated by June 2007.

ANGOLA NOT READY TO JOIN SADC FREE TRADE AREA

Angola is not yet ready to join the SADC Free Trade Area which is slated to be launched in 2008, according to the Angolan Press Agency which

was quoting Planning Minister Ana Dias Lourenço.

Angola acceded to the SADC Trade Protocol in 2003, but has yet to submit its tariff reduction offer to the Secretariat.

SHARP DROP IN COMESA-SOUTH AFRICA TRADE

Exports from the Common Market for Eastern and Southern Africa (COMESA) and South Africa in 2005 declined by 70 percent compared to 2004, according to the East African newspaper which was quoting a report delivered at the 11th COMESA Summit in Djibouti in December 2006. Exports dropped from \$2,742 million to \$844 million with South Africa's share standing at only 21 percent of total trade. COMESA's imports from South Africa also dropped to 24 percent during the same period.

In contrast, trade between COMESA and other African countries grew by 30 percent.

SADC MINISTERS TALK TRADE IN LESOTHO

The spotlight was on economic integration as SADC Ministers met in Lesotho in March.

Council considered progress on the implementation of the decisions of the Extraordinary Summit Meeting of October 2006 regarding the Free Trade Area, an audit of tariff reduction schedules by Member States, and an audit of non-tariff barriers.

The Ministers also discussed cooperation with the EU on regional economic integration, noting that the European Commission will make available €135 million (US\$ 100 million) under a joint regional indicative programme to support regional economic integration.

INSIDE THE PRIVATE SECTOR

IN THE SPOTLIGHT: MOTSWANA FURNITURE MAKER SET TO EXPAND EXPORT MARKET TO THE US

In Gaborone's prestigious International Commerce Park a Motswana entrepreneur is establishing himself as a pre-eminent furniture maker in the region. Peter Mabeo, Managing Director of Mogomotsi Enterprises, is also aspiring to be the country's first exporter of high-end contemporary office furniture to the US.

Mabeo has designed and manufactured office furnishings for over twelve years. He took his business from a one-man operation to a thriving enterprise with 40-employees and an average turnover of US\$600,000. The company's product line includes office furniture, modular components, storage components, coffee tables and boardroom furniture. Mogomotsi Enterprises boasts a wide client base of banks, government agencies and a number of private and public institutions all over Southern Africa.

Mabeo says the high quality of his products is the main reason for his success and for the growing demand for Mogomotsi Enterprises' furniture.

It all began in 1993 when Mabeo earned a diploma in design from Miami, Florida. He soon realized that there were very few opportunities for people with a design background and decided to explore jobs in different fields. He took a job in an engineering firm where he says he discovered a passion for working with wood.

In 1995, at only 24, Mabeo started his business making furniture in a one-room workshop in Gaborone's Tlhokweng residential area. A few years later, he moved his workshop to the Phakalane Industrial area where he stayed until 2000 when he established his factory in Commerce Park.

"I ventured into the furniture designing and making business. I also took advantage of funding from the phased out financial assistance policy to stay in business," Mabeo says. "Eventually, when I got a substantial loan from Botswana's Citizen Entrepreneurial Development Agency I decided to scale up the operation to a factory."

The next big step came in 2004 when Mogomotsi Enterprises participated in the International Contemporary Furniture Fair (ICFF) in New York. There, Mabeo met Patty Johnson, a Toronto-based designer who had been working on promoting collaboration between developed and developing countries in the area of design and craftsmanship. "Patty and I discovered from the outset that we shared a common interest in designing. The partnering is a natural outgrowth of my interest and pleasure in producing hand-crafted home and office furnishings of the highest quality for a discriminating clientele," Mabeo says.



Peter Mabeo with some of his high-end contemporary design office furniture destined for the U.S. market

The two later forged a partnership under the North South Project (NSP) which Johnson launched in 2005 to help designers and crafts producers in developing countries meet design and quality requirements of buyers in developed countries. Mabeo says NSP helped his company establish its own identity and brand. "[NSP] provided information about the buyers that included pricing and clear cut supply strategies in the respective markets to meet demand," he says.

Mabeo intends to launch another furniture products collection with help from Johnson at the ICFF in May this year. He expects to start exporting to the US right after the exhibit.

"The market thrust is to produce high-value-low-volume hand crafted furniture. We want to be innovative and come back into market distribution. We are in the market and we want to stay and continue to participate for years to come and showcase our crafts," Mabeo says.

AGO A THIRD COUNTRY FABRIC PROVISION EXTENTION NOT ALL GOOD NEWS

The extension of the third country fabric provision under the African Growth and Opportunity Act (AGOA), announced in December 2006, provides more time for further development of the apparel industry in benefiting countries, and a longer grace period for potential textile producers to build capacity.

According to the new dispensation: "The Preferential Treatment of Apparel Producers of Less Developed Countries...shall apply through September 30, 2012, to apparel in sub-Saharan African countries, regardless of *origin of inputs...*" (Emphasis added.)

This has been particularly good news for the eleven African apparel exporters, most of which are completely reliant on third country fabric inputs for their clothing exports to the

US under AGOA.

But it has not been all good news for the fledgling textile and apparel industries in Africa.

In a departure from the original provision, the new Act requires a set amount of denim to be sourced from Sub-Saharan Africa. This has elicited concerns from some apparel manufacturers who fear that they may be forced to source lower-quality, higher-cost denim within Africa which could cost them export contracts or reduce their profit margins substantially.

The South African Clothing Exporters Association has prepared an official position on this requirement, which is yet to be made public, and the Southern African Global Competitiveness Hub is conducting an economic analysis of the potential impact of the new denim provisions, which will be available in June 2007.

According to the not-for-profit organization DATA (Debt AIDS Trade Africa), AGOA legislation has led to the creation of more than 300,000 jobs in the African apparel sector. In communities with new apparel factories, the growth of complementary industries, such as transportation and retail services, also create more employment, further amplifying the increased opportunities for education, poverty alleviation, and improved health care.

NAMIBIA GARMENT MARKETING COMPANY SHIFTS ITS FOCUS INWARDS

Namibia's newly established Garment Marketing Company (NGMC) has launched a broad effort to promote the country's textile products in the domestic market. If successful, this could mark a turning point for the textile industry which has so far relied on export markets.

Liesl Ilse Boois, marketing administrative executive at NGMC, says the company originally aimed to market Namibia's textile products in the regional and international markets but shifted its focus to the domestic market after it realized that the industry has limited supply capacity and cannot produce large quantities.

"I feel that we aimed too high, now we want to start locally," says Boois, noting that the local garment industry still suffers from very limited support in the domestic market.

A recent survey done by the Namibian Ministry of Trade and Industry on the procurement patterns of seven government ministries found that most garments were imported. The imported garments include, among others, clothing materials for security forces and other manufactured clothes.

NGMC is also planning a survey of public, semi-public and private institutions to identify which garments they use and where they source them. Based on the survey, the company will submit to the Ministry of Trade a report including recommendations on how to "protect" the country's textile indus-

try. Boois said the company also intends to establish an outlet for local garments in the central business district (CBD) to make local textile products "more visible" to the public.

Namibia's textile and garment industry began in 2000 when Malaysian-owned Ramatex textile company started a plant in Windhoek. At least two other Asian manufacturers followed suit, each setting up a plant for manufacturing garments, mostly for the U.S. and the EU markets.

As a result, Namibia's textile and garment exports grew from less than half a million dollars in 2000 to US\$55 million in 2004.

But the industry suffered a serious setback in 2005 following the expiry of the global quota system provided under the Multi-Fiber Arrangement, which guaranteed access to developed country markets for a large number of poor countries, including Namibia. In April that year the Rhino Garments factory in Windhoek, a subsidiary of Ramatex, shut down casting doubts on the future of the whole industry.

But the Namibian Government has continued to assert its confidence in the industry's ability to compete and stay viable and, in June last year, it established NGMC in an effort to boost the industry.

NGMC's emphasis on the domestic market could offer a new path to survival, or even growth, for the industry which has so far relied on exports to the US and the EU, where they face stiff competition from giant and low-cost producers like China and India.

Namibia imports \$US86 million worth of apparel and clothing a year or 50 percent more than what the country exports, which makes it a large potential market for its own textile products. But the domestic market has been captured by South African companies through a number of retail outlets they own in Namibia.

Boois says to help textile manufactures become more competitive, NGMC is trying to identify cheaper sources for their raw material and machinery. Namibia's textile industry relies on imported raw material which pushes up the price of its end products.

The NGMC has also appointed a quality assurance person to help factories develop in-house skills especially in pattern making and costing.

The industry has over 200 formal, informal and small enterprises but fewer than 50 have so far registered with the marketing company.

Boois points out that, ultimately, NGMC will seek to promote Namibian textile products in the domestic, regional and international markets, especially the U.S. market.

But for now NGMC is taking its mission one step at a time.

INSIDE THE DONOR COMMUNITY

A TASTE OF SUCCESS FOR TANZANIA'S SPECIALTY COFFEE PRODUCERS

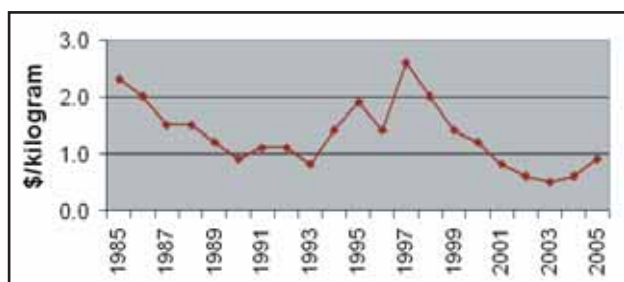
For the first time in years, Elihuruma Nko, a small coffee producer from the Arusha region in Northern Tanzania, is talking about taking her child to school and building a better house for her family. This season, she made profit on her two and a half acre farm selling specialty coffee for US\$1.8/kg. That's 30 percent higher than what she used to get for her home-processed coffee. To her, she says, that's a "miracle".

Nko is one of seven thousand Tanzanian farmers that turned to producing specialty coffee in recent years in the high-altitude regions of Kilimanjaro, Mbeya and Mbinga with support from KILICAFE, an association of specialty coffee farmers, and Technoserve, a non-profit business development organization.

Specialty coffee is a term generally used to describe premium quality coffee. The Specialty Coffee Association of America defines specialty coffee as "a coffee that has no defects and has a distinctive flavor in the cup". Although specialty coffee is ultimately defined in the cup, the quality of the coffee is primarily determined by farming practices and by the environment in which the coffee is grown, including the altitude and the soil.

As prices of conventional coffee collapsed in 2001, prices and demand for specialty coffee remained strong, offering a lucrative alternative to thousands of Tanzanian farmers and millions of coffee producers worldwide.

Price Paid in Tanzania for Conventional Coffee



Source: Prices are averages of monthly prices provided by the International Coffee Association

KILICAFE was established in 2001 to promote the production of high quality specialty coffee and improve its access to international markets. The Association, in partnership with Technoserve and funding from USAID, the Swiss State Secretariat for Economic Affairs and the Swiss Agency for International Development, has set up several processing facilities where farmers collectively sort, pulp, wash and then dry coffee cherries. The process results in a higher-quality and more consistent product than the coffee farmers process in their backyards.

The high quality of the coffee produced by KILICAFE members allowed the Association to secure markets in the US, Europe and, more recently, in Asia. One of its major clients is the U.S.-based coffee-bar chain Starbucks.

In 2005 prices of coffee produced by KILICAFE members were some 40 to 60 percent higher than those paid to non-members. And hopes are running high for even better outcomes especially after Starbucks tripled its orders from the Association last year.

"I have only one and a half acres of coffee but I expect to add another acre this year to benefit from the lucrative market," said Wilfred Skawa, vice president of Pen-

do Specialty Coffee Growers group in Arumeru district, one of the 94 farmer groups that make up KILICAFE. Last year Skawa earned US\$2.10/kg for his specialty coffee. That's sixty cents more than what he got for his home-processed coffee beans.



Starbucks CEO James Donald (center) inspecting coffee beans at one of the pulperies in the Arusha region. Left is KILICAFE executive secretary Adolph Kumburu.

But the challenge facing KILICAFE now is securing long-term contracts with one of its major buyers.

"The main business approach is order on stock lot samples. We're yet to have long term sales contracts, which we may be able to see in the near future especially from Starbucks," says Adolph Kumburu, KILICAFE's executive director.

Still, the success that KILICAFE has experienced so far offers rays of hope to Tanzania's struggling coffee sector which has been in decline for several years. Coffee trees are up to 70 years old and, as a result, have very low yields. The quality of most Tanzanian coffee is poor and must therefore be sold to the "blended" coffee market, which is the most volatile and least profitable. The collapse of global coffee prices in 2001 forced thousands of farmers to abandon coffee production and discouraged new investment in the crop. But following the recent success of KILICAFE, thousands of farmers are reportedly turning back to coffee production and are joining the Association in hopes of tapping into the lucrative specialty coffee market.

Although specialty coffee accounts for only a tiny portion of the country's coffee production, many believe that it could be the only path for reviving the sector and ensuring survival for tens of thousands of coffee producers.

INSIDE THE WTO

PROSPECTS FOR A DOHA DEAL STILL BLEAK

Two months after global trade talks resumed in Geneva, prospects for concluding the Doha Round of negotiations appear dim as countries are still a long way from overcoming their differences on agriculture.

The talks are deadlocked with the EU and the US still divided over how far each should go in cutting farm subsidies and developing countries demanding that industrialized countries take the lead in breaking the deadlock by offering greater cuts in subsidies.

In February, the US unveiled a proposal to reduce its farm subsidies by an estimated US\$850 million per year over ten years, but the proposal was rejected by the EU and the G20 for failing to offer sufficient cuts.

A month later, during the summit of members of the G-33 bloc of developing countries, members of the group reasserted their demand for designating up to 20 percent of farm products as 'special' for more lenient tariff treatment based on food security, livelihood security and rural development concerns. The group also urged industrialized nations to make greater cuts in farm subsidies to break the stalemate in the negotiations. Indonesian Trade Minister Mari Pangestu told a press conference at the end of the summit that it should not be the responsibility of developing countries "to move faster or more than the developed countries".

Even the negotiations on Trade Facilitation, which progressed relatively smoothly in the past, have been slowed by the lack of progress in agriculture. According to one press report, during the group's meeting on March 12-13, several delegates questioned whether negotiations on a single text could start in the absence of agreements on other key issues.

Meanwhile, sources close to the negotiations say the Chairperson of the Agriculture Negotiations Committee,

Crawford Falconer, told delegates that he intends to circulate his first revised 'reference paper' on the negotiations in mid-April. He warned, however, that unless Members' own consultations produce results, the paper will focus on the negotiations as a "grindthrough" rather than a breakthrough.

Although Members seem very well aware that they are running out of time as they try to strike a deal before the U.S. negotiators' mandate expires in three months, it would appear that their differences are still too great to be resolved within this short period.

US BRINGS FRESH CHALLENGE AGAINST CHINA

In February the US filed a complaint with the WTO against a wide range of Chinese industrial subsidies.

The complaint alleged that Beijing was using Chinese government support and tax policies to bolster Chinese firms in competition against US and other foreign companies in various industries including, among others, steel, paper and computers.

A press release by the Office of the U.S. Trade Representative said the subsidy programs in question appear to grant export subsidies, which provide incentives for foreign investors in China and their Chinese partners to export to the US and other markets. "These subsidies offer significant benefits and are available for all products made in China, including, for example, steel, wood, paper, and other manufactured products. The companies targeted for many of these subsidies...accounted for nearly 60 percent of China's exports of manufactured goods in 2005" the press release said.

The complaint is based on WTO rules that generally prohibit governments from specifically directing subsidies to support exports. A U.S. victory in this case would clear the way for the U.S. Administration to impose trade sanctions against China if Beijing still refused to change its subsidy program.

NEWS BRIEFS

ETHIOPIA CONFIDENT IT WILL WIN TRADEMARK DISPUTE OVER COFFEE

During a visit to the US in mid-March, Ethiopia's President, Girma Woldegiorgis, said he was confident that his country will be granted trademarks for its coffee in the US.

The trademark applications are part of a broader effort by the Ethiopian Intellectual Property Office aimed at increasing the value of its coffee brands to enable coffee farmers to capture a greater share of the retail price of Ethiopian coffees in export markets and increase the country's overall export revenues from coffee.

Currently, coffee shops such as Starbucks sell Ethiopian 'Sidamo coffee' for approximately US\$42/kg due to its reputation as a high-end specialty coffee, while coffee farmers receive only an estimated US\$2.70/kg for their beans.

THAILAND TO LAUNCH NEW HUB TO BOOST EXPORTS

To preempt an anticipated slowing in global economic growth this year, the Thai Commerce Ministry has launched a new local-regional hub plan to help local enterprises maintain their export competitiveness and achieve export targets, according to Thai press reports. The Ministry's target is 12.5 percent export growth or a value of US\$145.9 billion (Bt5.17 trillion) this year.

The new hub would link overseas trade offices to promote local enterprises in international markets, as well as promote broader trade and investment.

"The fundamentals of our economic growth are based on local enterprises. Thus, the local-regional hubs will increase not only the potential of Thai enterprises, but create links to international markets," Commerce Minister Krirk-krai Jirapaet was quoted as saying.

INSAT FOCUS

NEW NEGOTIATING FRAMEWORK FOR SADC EPA - NO GUARANTEE FOR SUCCESS

Earlier this month, the EU accepted SADC's request to include South Africa as a full member of the SADC EPA negotiating group, but rejected its requests to contractualize non-reciprocal market access for Mozambique, Angola and Tanzania and to leave services and trade-related issues off the negotiating agenda.

The resultant framework for the negotiations implies the streamlining of the EPA process with the review of the EU-South Africa Trade and Development Cooperation Agreement (TDCA) into a single negotiating process. But rather than simplifying the SADC EPA negotiating position and giving the countries a better prospect for concluding their negotiations with the EU by the December 2007 deadline, this development highlights the differences within the SADC EPA configuration. It raises important questions as to whether the SADC EPA configuration can formulate a common negotiating agenda that reflects the di-

verse interests of all its members.

SADC Negotiating Configuration, Irreconcilable Differences?

In addition to South Africa, whose relatively high level of development implies a different negotiating agenda to the other members of the configuration, the SADC EPA contains countries with different levels of development, interests, concerns and capacities. Botswana, Namibia, Swaziland and Lesotho (also a Least Developed Country), along with South Africa, are members of SACU; Mozambique, Angola and Tanzania (a member of the East African Customs Union) are all Least Developed Countries (LDCs).

South Africa has had a bilateral TDCA with the EU since 2000. The Agreement commits South Africa to opening its market to 85 percent of EU products by 2012 in return for duty free quota free (DFQF) access to the EU market for 90 percent of its products by 2010. South

Africa maintains that aligning the EPA negotiations with the TDCA review is in the interest of regional integration. According to Xavier Carim, South Africa's chief negotiator, quoted in an article in *Engineering News*, "while the TDCA has had positive trade implications; it does continue to divide the region in its relations with the EU", and the EPA negotiations offer an opportunity to reconcile "the anomaly". While it will continue to be the case that South Africa will be expected to agree to open its market to EU products more than other countries, South Africa is arguably hoping to use the EPA process to improve its access to the EU market beyond what it would be able to negotiate on its own, gain ground for restricting the access of some EU products into its market, and keep new generation issues off the agenda for the TDCA review.

By comparison, Botswana, Namibia and Swaziland (BNS countries) enjoy preferential access to the EU under the

KEY CONCEPTS

EPA Configurations: Eight of the 14 SADC countries are negotiating as the SADC group – Angola, Botswana, Lesotho, Mozambique, Namibia, South Africa, Swaziland, Tanzania. The other six, Malawi, Zambia, Zimbabwe, Mauritius and Madagascar are negotiating along with ten other countries as the ESA (Eastern and Southern Africa) group. The DRC has joined the Central Africa group, which has seven other members. The other African negotiating group is West Africa. The Caribbean countries have formed the Caribbean Negotiating Mechanism (CARIFORUM) and Pacific countries also negotiate as a single bloc.

SACU (Southern African Customs Union): The oldest customs union in the world was established in 1910. It consists of South Africa and the so-called BLNS countries – Botswana, Lesotho, Namibia and Swaziland. Revenue from customs tariffs are pooled and distributed annually in November according to a formula that is designed to compensate the BLNS countries for revenue losses due to the Common External Tariff (CET). A new SACU Agreement entered into force in 2004.

New Generation Trade Issues: These are often also referred to as trade-related issues, or the Singapore-issues, and include services, competition, government procurement, investment, environ-

ment, intellectual property, and labor. In relation to EPA negotiations, the EU refers to these as supply-side commitments.

GATT Article XXIV: Article XXIV of the General Agreement on Tariffs and Trade (GATT) provides for the extension of trade preferences between signatories of a free trade agreement providing that such preferences cover 'substantially all goods', generally accepted to mean 80 percent of trade between signatories.

GSP: The Generalized System of Preferences (GSP) provides preferential access for eligible developing countries to the markets of developed countries on a non-reciprocal basis. The GSP scheme was introduced in 1971 but was inconsistent with GATT obligations for violating the most-favored nation (MFN) clause in GATT Article I. This problem was solved in a general way by a 1979 decision commonly known as the 'Enabling Clause' which provides a legal basis for non-reciprocal tariff preferences and certain other preferential arrangements by sanctioning departure from the MFN obligation.

EBA: The 'Everything But Arms' initiative is one of three arrangements currently available under the Generalized System of Preferences (GSP). It is a unilateral initiative by the EU which extends duty-free quota-free (DFQF) access for everything except arms (and sugar and bananas and rice until 2009) to the EU market to all countries classified as Least Developed Countries (LDCs) by the United Nations (UN). It has been criticized for its very strict rules of origin.

trade regime of the Cotonou Agreement, which expires at the end of 2007 when the WTO waiver that allows the non-reciprocal market access of the ACP to the EU market runs out. In an interview with INSAT, EU chief negotiator, Karl Falkenberg, stated that “[i]n the absence of a WTO waiver, the only legal alternative is GSP [Generalized System of Preferences],” if a new system is not in place by January 1, 2008. “[T]his will have serious consequences notably for exports of Namibia, Botswana and Swaziland and the loss of their preferential access for products like beef and sugar,” Falkenberg continued. (See interview on pp. 14-15 and article on pp. 16-17.)

In the case of Namibia, for example, applying the GSP might result in tariff increases of nearly 100 percent on beef and 25 percent on fish – both important Namibian exports to the EU, according to Jurgen Hoffmann, senior policy advisor at the Namibian Agricultural Trade Forum.

At the same time, the Cotonou Agreement promises that ACP countries will not enjoy less favorable access to the EU market under an EPA than previously. In other words, BNS countries are guaranteed a minimum level of access for the EU market that is equivalent to what they have now. Therefore, there is a significant impetus for the BNS countries to ensure that an EPA is in place by the end of 2007.

As LDCs, Mozambique, Angola and Tanzania (the MAT countries), as well as Lesotho, currently enjoy full non-reciprocal DFQF access to the EU under the Everything But Arms (EBA) arrangement. Since MAT countries are guaranteed the same market access to the EU regardless of whether an EPA is signed or not, the interests of MAT countries in EPA negotiations appear to be mainly driven by the ‘developmental’ component of EPAs without commitment to reciprocity. The question, however, is how a unilateral arrangement that benefits all LDCs can be contractualized in a regional EPA.

The EU rejected the SADC proposal to contractualize EBA preferences for the MAT countries within an EPA, insisting that reciprocal market access be negotiated with all countries in the SADC EPA group. However, it seems contradictory for the EU to seek reciprocity from the LDCs under EPAs when there is commitment in the WTO to extend non-reciprocal DFQF access to all LDCs.

KEY DATES

23 June 2000: Signing of the Cotonou Agreement.

27 September 2002: Launch of EPA negotiations at the all-ACP-EC level.

October 2003: Second ACP-EC Ministerial meeting signals start of regional level negotiations.

8 July 2004: Launch of SADC-EU negotiations of EPA in Windhoek – Joint Roadmap and Guidelines for the SADC EPA Negotiations agreed among parties. Agreed priorities for negotiations: Sanitary and Phytosanitary (SPS) issues, Technical Barriers to Trade (TBT) and Regional Integration/Regional Dimension.

7 March 2006: 4th SADC-EC Senior Officials meeting. SADC submitted ‘Framework for the EPA Negotiations between SADC and the EU’.

6-7 March 2007: SADC-EC Senior Officials meeting. EU officially responds to SADC proposal of March 2006. Both sides commit to concluding negotiations by end of 2007.

April/May 2007: EPA Review.

31 December 2007: Expiry of WTO waiver and deadline for conclusion of EPA negotiations.

1 January 2008: Deadline for implementation of market access provisions of EPAs.

Furthermore, the EU chief negotiator, Karl Falkenberg, indicated in a press conference after the senior officials meeting in Gaborone in March that trade-related development assistance may be made “conditional upon specific commitments” by ACP countries in terms of trade in services and new gen-

eration issues. To date, the SADC EPA countries want to exclude these issues from the negotiations.

Negotiating Market Access for EU Goods; Another Challenge

The SADC EPA group has proposed to use the TDCA as the basis for market access negotiations. Ideally, analysts say, provision of the same market access conditions for EU goods into the region would lead to harmonization of trade relations with the EU, in particular for SACU countries who are now required to conclude agreements with third parties collectively, and address issues of trade diversion within the region. EPA provisions on market access for EU goods should also take into account the economic interests and vulnerabilities of the various countries. But achieving such an outcome is no simple task, especially with the TDCA already in force.

The EU has expressly stated that it would be willing to allow for the protection of sensitive products and industries in less developed countries and allow transitional periods of up to 25 years. But with South Africa involved in the negotiations, and seeking the same market access as all SADC EPA countries, many fear that its interests will dominate the process and that other SADC EPA group countries will end up agreeing to the fundamental terms of a revised TDCA, without having time to ensure the inclusion of strong development provisions in the final agreement.

A recent study done for the Institute for Development Studies (IDS) by Christopher Stevens argues that, under an EPA, “[e]ach ACP country will be required to liberalize ‘substantially all’ their trade barriers with the EU, but will be able to negotiate an individual liberalization schedule to exclude some items and retain tariffs on certain goods. He says a failure to harmonize the exclusions at a regional level will damage trade between developing countries.” He cites the IDS

...continued on page 17

WE SPEAK TO...

BANNY MOLOSIWA, PERMANENT SECRETARY, MINISTRY OF TRADE AND INDUSTRY, BOTSWANA

Now that the EU has responded to the proposed SADC framework for EPA negotiations, are the negotiations back on track?

The negotiations are back on track, but the question is the time that is left. We do not know whether we will be able to actually finish what is left of the negotiations because it took [the EU] so long to come back. We have lost 12 months. We were initially supposed to finish the negotiations by June and start writing the agreement. If all of us move as fast as we intend to move we may be able to do something, and the agreement might be written in December/January. We are all committed to moving forward to a conclusion of some kind.

There are, however, still major differences on the scope of the negotiations. The European Commission feels that we need to include the trade-related issues like investment, competition, and so on, but we feel that we do not have capacity yet to negotiate that. What we are saying is that we should include the development chapter to build that capacity and the assistance that we need to move forward, so that we can handle the new generation issues.

How will the inclusion of South Africa as a full member of the SADC EPA Group affect the dynamics in the negotiations and level of ambition for the negotiations on the SADC side?

As a region, we believe that South Africa must be included in the group because that integrates the region. But we know that there are differences in the level of development. We also have the challenge of having the LDCs [Least Developed Countries] in the group. So we have three categories – we have developing countries, we have a developed country (although SA refers to itself as a

developing country) and we have other, not-so-very-well-developed, countries, like the BNS [Botswana, Namibia and Swaziland]. Within the LDCs we have Lesotho, which is also a member of SACU [Southern African Customs Union], and which complicates things further.

So bringing in South Africa is not the only complication that there is, but we think that it is a move towards regional integration and we have to see how best we can arrange and organize ourselves to take that as a positive and an advantage rather than a disadvantage.

How do you see EPAs contributing to and achieving coherence towards SADC's regional integration agenda?

The SADC EPA is actually aligning itself with the RISDP [Regional Indicative Strategic Development Plan of SADC]: whatever has been agreed in the RISDP is the program that we are going to follow. That is a Free Trade Area by 2008, a Customs Union by 2010 and so on.

A study is currently being undertaken to see how best that [Customs Union] road map would be and would move and what each Member State will have to do to align itself to that process.

We do know that we have some members in COMESA [Common Market for Eastern and Southern Africa] and they have committed to a Customs Union in 2008, but when we speak to them, they seem to be saying that, "even in COMESA, we are still starting the process – the Customs Union is not yet committed – but we have agreed, yes, to work towards it in 2008".

Now that we are aware that no country



may belong to two customs unions – it depends on which one comes first, I believe, and our SADC Members who are in ESA [Eastern and Southern Africa Negotiating Group] will probably have to decide which one they want to belong to.

So the tariff offers and so forth within an EPA will be guided by the RISDP and the road map for the Customs Union?

Absolutely.

So you do not see an EPA that differentiates between the different countries in the region in terms of tariff reduction schedules?

That is probably what we are going to end up with, but we would like to see how best we can align ourselves to one another. If it comes to a push, we know that we will have to face reality. We know that perhaps Botswana cannot get the same concessions with the LDCs and that maybe SA will have to see that reality

as well and say that maybe it cannot get the same concessions with Botswana and Namibia, and so on. So the negotiations will determine at which level each one of those groups will get concessions.

For the SADC EPA group, what does the development dimension of an EPA entail?

We want capacity building, especially to develop our supply side and we also want capacity building on the technical know-how – how to deal with issues like SPS and others. We want to develop our infrastructure to facilitate trade and we want to develop our customs and to harmonize our policies. We need some assistance to be able to do all this – that is the development that we think we need.

But the EU has its own ideas of what development would be all about in the EPA. They feel that the development is for us to commit to investment negotiations, to commit to services negotiations and all the other trade-related issues. That is another difference.

The level of stakeholder participation has been varied across the SADC EPA group and in some quarters has been very limited. To what do you attribute this?

In Botswana we have the National Committee on Trade Policy and Negotiations. It is a cross-cutting committee and involves civil society, in the form of BOCONGO [Botswana Council of NGOs], which is an umbrella organization that looks after the interests of civil society. But even within this Committee, the participation has not been very good for some time now. We expect that when members of the Committee come to meetings they will have actually consulted their constituents so that they bring in the views of their constituents and then, when they leave the meeting, they will also take their views of the meeting back to their constituents. But I do not think that is happening very effectively. Even with BOCCIM [Botswana Chambers of Commerce and Industry and Manpower] participation – we have talked about this with BOCCIM: that their members are complaining that they do not hear anything that is being dis-

cussed in the Committee.

As a result of this – not having very strong participation and representation from civil society – we have a number of groups, like the women, saying that they are not represented and they are not involved. But they should be involved under BOCONGO. We have had some farmers also saying that “we need more participation and more representation – here are our issues” and so on.

We are saying that if you could manage the process through the established contacts then we may not necessarily have to have all other people standing up saying ‘but we are not in there, we are not in there’.

There has not been any obvious [regional] mechanism, but all member countries have a similar type of setup with the committees. The belief is that the consultations should be done at national level and when the representatives of the nation go to the negotiations they bring the views of the nation, not the views of government.

Some analysts argue that SADC’s EPA negotiating agenda is not well aligned with the national policy processes and objectives of Member States. Do you agree?

It depends on the processes for every Member State. In Botswana, we have had a hard time bringing everybody to the party because everybody was thinking that whatever is trade is for the Ministry of Trade and Industry. Even if it is trade in beef, it is [only a matter] for the Ministry of Trade. But we feel that now the understanding is a little bit more enhanced and that the other Ministries are now coming to the party and we are explaining to them why they should be there and how they should be involved.

The strategy of assigning responsibilities between countries (eg. Angola/Agriculture and Fisheries, Lesotho/Rules of Origin, Namibia/Trade Facilitation and Development Cooperation) has not been very successful. To what do you attribute this?

There were issues of capacity problems in the Member States. There were issues

of the participatory mechanism in the Member States. Sometimes you would find one Member State bringing different people to different meetings every time; so continuity was a problem. Sometimes you would have agreed on some subjects some three meetings past and when the PS [Permanent Secretary] of one country who has not been involved in the process comes through he will take everything back to wherever we started. So we are saying: let us all be involved and let us all bring the same faces to meetings all the time so that continuity can be realized.

To what extent have the SADC EPA countries benefited from EU resources that were committed to improve the capacity of ACP countries to negotiate trade agreements?

The EU has been giving workshops on a number of issues and studies have been undertaken and so on. They have funded some activities of the SADC EPA Unit which is in the SADC Secretariat. We believe that we need more of this – but, the workshops should be targeted to what we need and the studies should be targeted to our own demands and our own needs. Because initially – for instance, the workshops – you would get an invitation to attend a workshop on this and that, without having been asked whether this is the workshop that we require.

Generally speaking - which priority areas have the SADC EPA countries identified for the next 10 months?

The priority for SADC is market access because we are looking at the situation where Botswana, Namibia, and Swaziland are at now. If we do not come up with anything on the market access side and the waiver for these negotiations lapses by December, the Namibians, Botswana, and the Swazis may be taken back to GSP which is not what we want. GSP is less even than the current preferences we are getting from the EU and if that is the case, it means that if we can not get the Cotonou market access and we allow ourselves to go for GSP then we will be more disadvantaged. So we will be striving to get the best market access component we possibly can.

WE SPEAK TO...

KARL FALKENBERG, DEPUTY DIRECTOR GENERAL AT THE EUROPEAN COMMISSION'S DIRECTORATE GENERAL FOR TRADE

A year after SADC submitted its framework for EPA negotiations, the EU has now responded. Does that mean the EPA negotiations are back on track?

Yes, negotiations are now back on track and both sides are committed to meet the deadline. This will require a lot of effort, re-organization of procedures and political will from both sides, but I am confident that we can achieve this ambitious objective.

Why did it take the EU so long to respond to SADC's proposal?

It was a long process because the EU had to amend its negotiating mandate which, originally, did not include South Africa. South Africa negotiated a TDCA [Trade and Development Cooperation Agreement] with the EU in 1999. That defines the trade relations with South Africa, a far more developed partner than other African countries.

But now South Africa has been accepted as a full member of the EPA. This will not [only] clarify its role in the negotiations but also help to build the EPA on an institutionally coherent and economically integrated core group of countries, which could be gradually expanded to integrate more countries in the region.

Are there still major differences between the two sides? If so what are they?

Well, there are differences of view between the two sides mainly on the scope of the future agreement and the definition of tariff offers. But I believe that these divergences are bridgeable and that we will find a common ground.

In your view, how will the inclusion of South Africa as a full member of the SADC EPA configuration affect the dynamics in the

negotiations, level of ambition for the negotiations on the SADC side and the scope of areas to be negotiated with the EU?

It certainly is a major change. But then South Africa has been around as an active observer. Its new role should give a new impulse towards a simplification of existing trade regimes between the EU and countries in Southern Africa.

How can different levels of development in the SADC EPA group be accommodated in a final agreement to reflect the principle of special and differential treatment in favor of the least developed members?

The issue is not special and differential treatment. The key question is development. We are convinced that integration into a regional market will help both developing and least developed countries to diversify their economies by attracting investment. Larger open regional markets are key, far more important than differentiated trade regimes. Simple, single trading rules will help the weaker players, those that have no large legal departments to navigate between the many trade policy rocks. Let's not forget that special and differential treatment has often in fact been a distinction for development, keeping local and foreign investors at the mercy of discriminatory policies.

The EU is seeking an agreement that also covers new generation, trade-related issues such as services, investment, government procurement, Intellectual Property, and others. SADC on the other hand wants the agreement to be limited to trade in goods. What is the motivation for your position



and how can a compromise be reached on this issue?

All the issues you mention are at the core of the EPA sustainable development dimension and will contribute to deeper regional integration. Our objective is to focus primarily on those issues which will help SADC to harmonize the regulatory structures that govern trade such as services, investment, government procurement and trade facilitation and to deal with other trade-related areas at a later stage.

Competitive services reduce costs for traditional exports: if transport costs, insurance and telecommunication bills are high, the goods to be exported are expensive. If the economies are to be diversified, adding value added to the export of natural resources, investment is necessary. This requires stable transparent rules.

The development aspect of EPAs remains a central concern to ACP countries. What is the EU doing to ensure that the linkages between development assistance and negotiations remain clear?

The EU and the ACP share the objective of making EPA a tool for development. It would be reductive to identify the development content of EPA solely with development financial assistance. In fact, throughout first the Cotonou and then the EPA negotiations, the European Commission has consistently identified three components in the EPA development dimension:

- the support to the negotiating process, in particular for studies and technical assistance, to enable the ACP states to effectively negotiate pro-development EPAs, which has been provided through the EDF [European Development Fund] but also by EU Member States under their bilateral programs at national, regional and all-ACP level;
- the definition of a pro-development, non-mercantilist EPA text, which takes into account the opportunities, challenges and constraints of ACP countries. Examples of this is the EU openness to slower and asymmetric liberalization by the ACPs, the faster and wider EU liberalization to ACP exports and the inclusion of equally flexible and asymmetric coverage of trade related aspects, such as trade facilitation and investment, which are essential for addressing the current supply side constraints and lack of differentiation of ACP economies; this takes into account the lessons of the four Lomé Conventions, whose unilateral trade preferences alone have failed to achieve the economic growth they were intended to promote;
- the support to the implementation of EPA, for example for structural reforms intended to strengthen the investment environment, for budgetary support in case of temporary net decreases of customs revenues, for trade related infrastructure, etc.

The ACP has been making a case for 'additionality of resources'. Is this what is pledged over and above your traditional

development assistance under EDF?

Again, talking about "traditional" risks being misleading: the 10th EDF, which will cover the period 2008-2013, has been increased by more than 30 percent and the share for regional cooperation, that will mostly focus on EPA support, by 50 percent, thus regional funds have on average been doubled.

So the issue is mainly what reforms, what new commitments will the region support? If an EPA is simply a WTO compatible version of what exists, what additional needs would be required? If on the other hand, new commitments are made, on investment, SPS, competition, trade facilitation, then the issue of additional means to achieving these objectives may effectively occur.

This EPA negotiation is not about additional resources. It is about defining a more development supportive trade region. To the extent that new commitments would require adjustment or implementation efforts, the EU will support the region to face any such additional needs.

What can SADC realistically expect in relation to trade in agricultural products under an EPA?

Under an EPA, the EU is willing to abolish export refunds on all products that SADC is going to liberalize. However, it should be noted that export subsidies apply only to a very small number of EU agricultural exports to the SADC region. SADC, with the exception of South Africa, can realistically expect full market access (i.e. duty free, quota free), with a short transitional phasing in for sugar. Even South Africa can expect a substantial TDCA-plus outcome, if an EPA is successfully concluded.

Through the RISDP, SADC has outlined its strategy for deeper integration. How does the EU see EPAs supporting the regional integration agenda in Southern Africa in a manner that is consistent with that strategy?

We think the RISDP and its operational instrument, the business plan, are an excellent basis for EPA. We see EPA as the external projection of the regional trade

integration agenda. This is precisely why we are surprised by the lack of ambition of the 2006 proposal, limited to goods. The RISDP covers investment and services such as transport, telecommunications, banking etc that are core development contents of EPA: why should they be excluded? We receive strong indications that the SADC private sector shares this approach as it would greatly benefit their competitiveness.

In the absence of a policy or legal framework that allows SADC countries to assume common commitments, how do you expect to achieve that?

The agreement will be negotiated between two regions but it will need approval and ratification by the individual member countries. They will have to subscribe to any regulatory outcome and commit to implement agreed provisions.

What has been the role of the private sector and other non-state actors in the EU in setting the Commission's negotiating agenda?

Civil society and private sector in the EU and the ACP were largely consulted even before signing the Cotonou Agreement, on the basis of a Green Book published at the end of 1996. Since then, they are regularly informed of progress in EPA negotiations, both in Brussels and in the regions.

Concerning SADC, I am supportive of the newly created EU-Southern Africa Business Trade Forum (BTFES) which adopted its first declaration recently, in favor of a timely completion of an ambitious EPA.

What do you hope to negotiate in the time remaining, and what will the EU's priorities be for the next 10 months?

A comprehensive agreement which includes commitments on trade in goods, in line with Art. XXIV of GATT, and specific commitments to phasing-in transparent business supportive rules in areas such as customs, investment, services and government procurement.

The next 10 months should be used to conclude negotiations on market access, finalize joint EPA texts on all the topics mentioned above and secure the legal entry into force of the EPA by 1 January 2008.

GUEST PERSPECTIVE

AFTER COTONOU: THE EU'S GSP AND SOUTHERN AFRICAN EXPORTS

Dr. Christopher Stevens is Director of Programmes for International Economic Development at the Overseas Development Institute (ODI), London. The ODI has recently completed a study entitled 'The Costs to the ACP of Exporting to the EU under the GSP (March 2007)'. The Final Report can be found at: http://www.odi.org.uk/iedg/publications/online_papers.htm.

December 2007 is the deadline set in the Cotonou Agreement (and underpinned by a waiver in the WTO) for completion of negotiations for a successor to the trade regime under which Southern Africa (apart from South Africa) has exported to the EU for the past 30 years. Countries have known, though, that Article 37 (6) of Cotonou guarantees that from 2008 the new framework for trade will be '...equivalent to their existing situation...' regardless of whether they agree to the EU's first preference of Economic Partnership Agreements (EPAs).

Or, rather, they thought they knew; the latest statements by the European Commission have cast doubt on this commitment. The Commission has stated that from January next it will impose automatically (the customs' computers are said to be already programmed) its Generalised System of Preferences (GSP) tariffs on all imports from Southern African (and other ACP) states that have not signed an EPA (and are not close). Research by ODI demonstrates that this would be very far from 'equivalent' to the current situation. Some Southern African exports will collapse and the exporters of others will have to pay taxes to the EU. Their exports will face competition in the EU with those from other, often richer, developing countries some of which will continue to receive the non-reciprocal preferences that have been outlawed for the ACP.

The Cost of GSP Taxes

If the EU applies GSP duties, all non-

LDC states in Southern Africa (apart from South Africa) would experience a jump in the tariff applied to some of their exports. LDCs would not be affected because they have access under Everything But Arms (EBA) and South Africa has the Trade and Development Cooperation Agreement (TDCA).

How Southern Africa will be Hit

Country	Value (€ 000) ¹	Number of items >10% ²
Botswana	462	4
Namibia	9,154	26
Swaziland	231	40
Mauritius	43,177	47
Zimbabwe	4,358	38

Notes:

- 1) Based on 2005 EU import values
- 2) i.e. number of 2005 exports to the EU which will face a change in access of 10 percentage points or more, or an increase in or imposition of a specific duty.

Although some of the increases in tariff would be relatively small there are sufficient moderate or large jumps to cause problems. The ODI report has assessed potential 'cost' differently according to the scale of the tariff jump.

- For the smaller jumps of under 10 percent it is more likely that many exports will continue in the short term and that the cost to Southern Africa will be the tax its exporters pay to the EU (which may well sap trade in the medium term).
- The larger tariff jumps (Defined as *ad valorem* tariffs of 10 percentage points or

more plus cases where specific duties or complex tariffs will be increased or imposed for the first time.) may hit some exports immediately leading directly to decline (perhaps terminal).

The table (column 2) shows that the five affected countries in Southern Africa would pay €57 million a year to the EU simply from the tariffs of under 10 percent that would apply (assuming that there is no decline from 2005 levels of the goods they export). It would be interesting to compare this with the aid they receive from the EU.

The Exports that May Collapse

It appears from column 2 that Botswana and Swaziland are less affected than the others – but this is not so. Column 3 lists the number of exports where tariffs will jump by more than 10 percent; they are very badly affected, as are Namibia and Mauritius.

Sugar, beef, citrus, horticulture and fish are among the goods that will face the highest tariff barriers. If only GSP preferences were available, sugar and beef would face such a formidable barrier that it is hard to see how exports could continue. The tariffs facing the other three are lower (10-21 percent) but there exist strong competitors for all of them with more favourable access terms; competition would be very tough. Swaziland is the second most heavily affected state in the whole ACP group (in terms of the share of its exports that would face a tariff jump – 87 percent). And in most cases the hike would be substantial.

What Can be Done?

The European Commission may be attempting just to put pressure on Southern Africa and may find a way out of implementing its threat – but the region cannot bank on this. At the very least, the uncertainty created will affect the prices negotiated with European importers for exports to ship in 2008. At worst, countries may feel forced to sign EPAs with which they disagree simply to avoid export collapse. And what happens if a country's neighbours decide against an EPA, given that the EU has said it will not accept single country deals?

There is a way out – but pressure needs to be exerted on the European Commission (partly via dissenting national governments and partly through importers) to adopt it. There exists a superior tranche of the GSP (offering zero or lower tariffs on a wider range of goods) which will not 'solve' the problem but will go a long way. The main obstacles are that the list of beneficiaries is closed until 2009, and that all must accede to a raft of labour and environmental conventions. But the Commission established a precedent when the scheme was introduced in 2005 that will deal with the ACP problems. Beneficiaries in Latin America of a prior GSP scheme (struck down by the WTO) were deemed automatically to be eligible for the new one pending (eventual) checking of their labour and environmental credentials so that there would be no disruption to their exports.

The EU must declare that the same will apply to any ACP state not in an EPA by the end of this year. This will 'buy time' for many Southern African exports, allowing countries time to either to settle on EPAs or to consider the alternatives coolly. The problem of sugar (which won't be covered this way) would be solved by the EU stating that the 2007 deadline does not apply to the Sugar Protocol which is formally separate from Cotonou. Although this would still leave beef and some citrus to be dealt with through negotiation, it would greatly reduce the scale of the catastrophe that will otherwise befall the region.

continued from page 11...

research in support of this argument: "One example shows that it is likely that Tanzania will exclude flour and many dairy products from liberalization, in order to protect its domestic milling and dairy industries, but its EPA partner Mozambique will not. Traders may circumvent Tanzania's restrictions by transporting EU food across the border from Mozambique. Rigorous border controls will be required to avoid this and maintain the terms of the EPA, but will also hurt legitimate intra-regional trade."

EPA For All, Still a Possibility?

Time is running out fast and the leverage of the SADC countries will decrease as the deadline looms nearer. Market access negotiations are of utmost importance to the BNS countries who face severe disruptions. After the senior officials meeting in Gaborone, Jurgen Hoffmann stressed the point that commercial contracts for 2008 will be negotiated during the year, and unless there is some indication that BNS will not face GSP tariffs into the EU after January 1, 2008, many producers may lose their export contracts.

The diverse economic interests of various members of the SADC EPA configuration will make it very difficult for them to formulate a harmonized negotiating position that addresses the interests and concerns of all.

Special consideration should be given to the development dimension by both the EU and SADC sides. SADC countries have to clearly articulate their demands and the EU countries have to bear in mind their commitments and hold the Commission to task. It is important that the development dimension goes beyond aid for trade and that additional resources – beyond the EDF – are committed to developing the supply-side capacities of least developed countries.

Following the EU's rejection of SADC's initial proposal for overcoming some of these differences – such as non-reciprocal access for LDCs and DFQF treatment for all SADC countries – both sides now face the challenge of coming up with an agreement that accommodates the interests and concerns of all parties, meets WTO requirements, gives meaning to the development dimension of an EPA, and supports regional integration. The latter will also require close cooperation with the ESA EPA group (to which five SADC Member States belong) and serious consideration of the sequencing of the EPA and TDCA processes with the region's plans to create a Free Trade Area by 2008 and Customs Union by 2010.

One possibility is crafting an agreement that "differentiates" between different SADC EPA countries. However, this would result in a complicated and cumbersome web of different trade preferences throughout the region, which would be very difficult to implement and police.

Given the mercantilist nature of such negotiations, the concentration on market access will continue to draw attention to the different levels of development. Perhaps SADC could seek to build compromise through focusing on new issues where there is a consensus such as trade facilitation. All parties agree that reducing trade costs through improved procedures and systems will facilitate trade and advance development. Similarly, all the SADC countries are members of the WTO, yet many face challenges, including resource constraints, in effectively implementing some of the agreements – such as Technical Barriers to Trade and Sanitary and Phytosanitary Standards. Engaging in negotiations in these areas has the potential to build the much needed capacity and could provide a useful avenue for additional aid for trade funds.

RESOURCES

Navigating New Waters: A Reader on ACP-EU Trade Relations. A new book by the Commonwealth Secretariat and the European Centre for Development Policy Management offers a detailed analysis of all aspects of trade negotiations between the African, Caribbean and Pacific (ACP) group of states and the European Union.



The publication provides a broad yet in-depth overview of issues facing ACP countries by highlighting key analyses they have either conducted, disseminated or which have been carried out independently.

This title can be bought online at www.thecommonwealth.org/publications at the special price of £37.50 until the end of April 2007 (usual price £75.00).

The Commonwealth Secretariat also has a number of EPA-related documents available on their website at http://www.thecommonwealth.org/Internal/159692/159696/epa_documents/

EPA-RELATED WEBSITES

The most comprehensive resource on ACP-EU trade relations is www.acp-eu-trade.org managed by the European Center for Development Policy Management (ECDPM) and ECORYS Research and Consulting. The site has a substantial library of documents related to EPA negotiations and distributes two relevant bi-monthly newsletters 'The acp-eu-trade.org newsletter' and the 'EPA Negotiations Update'. The EPA Negotiations update is also published in shorter form in the 'Trade Negotiations Insights' newsletter, also available from the site.

EPA Project at the Trade Law Center of Southern Africa (tralac). This project includes analysis of key issues where there are negotiating opportunities, training of negotiators, government officials, and other stakeholders in the private sector and civil society organisations, public-private dialogue and awareness-building as well as dissemination of analytical output to support the negotiating process. <http://epa.tralac.org/>.

EpaWatch. According to the site, "EpaWatch is an ngo-initiative. It wants to contribute to making the EPA nego-

tiations open and transparent and to making EPAs contribute to sustainable development." The site contains negotiations updates, analysis, relevant documentation, information about state and non-state actors and links to other relevant sites. Some sections have not been updated recently. www.epawatch.net

The **Overseas Development Institute (ODI)**'s website contains several publications and other research outputs related to EU-ACP relations such as 'The 'Development Dimension': Matching Problems and Solutions', 'The Potential Effects of Economic Partnership Agreements: What Quantitative Models Say'. <http://www.odi.org.uk>

ACP Business Forum. In late 1998 business representatives from Africa, the Caribbean and the Pacific (ACP) created an ACP Business Forum. The Forum aims to promote cooperation among ACP private sector actors, and to articulate their interests at the global ACP-EU level. <http://www.acpbusiness.org/>

ACP Secretariat. The ACP Secretariat website has pages on the ACP Council of Ministers, the ACP Summits, the Committee of Ambassadors, the ACP-EU Joint Parliamentary Assembly, etc. <http://www.acpsec.org>

ACP EU Civil Society Information Network. This project seeks to facilitate information exchange among a wide range of ACP and EU actors of civil society and to build capacities. <http://acp-eu.euforic.org/civsoc/>

The trade sections of the **EU's website** offers information related to European Commission institutions, trade negotiations, trade data, trade related assistance. Access the ACP-EU Trade section of the website at http://ec.europa.eu/development/body/cotonou/index_en.htm.

NEW RESEARCH

FDI in Extractive Industries. A recent report by UNCTAD discusses the issue of FDI with a focus on investments in extractive industries. Extractive industries account for the bulk of FDI into Africa. The recent growth in global demand and the resulting surge in commodity prices has fueled increases in foreign investment by transnational corporations (TNCs). But in contrast to previous investment booms, the report says, many developing country TNCs are involved this time around. Increased FDI into extractive industries implies new development opportunities for mineral-rich countries.

The report sheds light on the recent FDI trends and on the institutions and policies required to ensure that investment opportunities actually materialise. http://www.unctad.org/en/docs/c2d77_en.pdf

TRADE PROFILES: SADC EPA - EU¹

EXPORTS (US\$ MILLIONS)

	Angola		Botswana		Lesotho		Mozambique		Namibia		South Africa		Swaziland		Tanzania	
	2005		2005		2005		2005		2005		2005		2005		2005	
	World	EU	World	EU	World	EU	World	EU	World	EU	World	EU	World	EU	World	EU
Total Trade	24,955	3,234	6,903	2,967	551	66	3,122	1,425	2,933	1,147	73,702	20,914	965	145	1,704	367
Food & live animals	50	22	87	39	1	1	304	111	833	380	5,052	1,948	392	134	738	242
Crude material	64	28	376	<0.5	<0.5	<0.5	161	19	89	34	7,734	2,006	76	1	372	32
Mineral fuel/lubricants	23,578	2,646	<0.5	<0.5	<0.5	<0.5	111	<0.5	29	12	8,580	3,744	32	<0.5	67	<0.5
Animal/veg oil/fat/wax	1	<0.5	<0.5	<0.5	<0.5	<0.5	4	<0.5	2	1	61	4	<0.5	<0.5	4	1
Chemicals/products	<0.5	<0.5	2.46	0.84	<0.5	<0.5	10	<0.5	273	75	3,758	621	101	4	13	<0.5
Manufacturing material ²	1,194	519	6,361	2,897	141	64	2,384	1,262	1,561	633	27,048	6,507	46	4	163	31
Machinery/transport	45	14	28	8	<0.5	<0.5	11	1	73	6	11,116	3,254	125	1	30	8
Manufactured articles ³	8	2	44	16	406	1	6	1	64	4	2,092	688	175	<0.5	35	4

IMPORTS (US\$ MILLIONS)

	Botswana		Lesotho		Mozambique		Namibia		South Africa		Swaziland		Tanzania	
	2003		2002		2005		2005		2005		2002		2005	
	World	EU	World	EU	World	EU	World	EU	World	EU	World	EU	World	EU
Total Trade	3,964	359	800	5.8	2,480	262	2,515	165	55,033	20,012	891	16	2,757	607
Food & live animals	447	<0.5	143	0.5	290	23	320	11	1,751	323	132	3	190	26
Crude material	69	<0.5	13	0.7	31	2.9	30	1	1,551	148	27	<0.5	43	6.9
Mineral fuel/lubricants	177	<0.5	62	<0.5	38	2.7	51	<0.5	7,846	255	113	<0.5	274	6.8
Animal/veg oil/fat/wax	33	<0.5	10	<0.5	34	0.7	12	<0.5	353	30	9	<0.5	99	0.9
Chemicals/products	355	17	99	0.7	149	34	270	25	5,517	2,910	104	2	484	127
Manufacturing material ²	671	13	186	<0.5	260	24	434	18	6,263	2,146	182	<0.5	493	59
Machinery/transport	1,306	121	98	3.7	622	126	944	91	21,672	10,186	201	7	961	317
Manufactured articles ³	690	81	116	<0.5	163	43	327	13	4,943	1,486	91	3	173	35

Please note the following:

- 1) Data is drawn from UN COMTRADE which is reported by importers. (e.g. Data on Botswana's exports to South Africa represents what is reported by South Africa). The table includes the most recent data available on COMTRADE database. No import data is available for Angola.
- 2) Manufacturing materials include: metal, leather, rubber, wood, metal and non-metal mineral manufactures as well as nonferrous metals, iron and steel and textile yarn and fabric.
- 3) Manufactured articles include: Apparel and clothing, footwear, articles of plastic, jewelry and other products.

INSIDE THE TRADE HUB

LIFELINE FOR LESOTHO GARMENT MANUFACTURER

An order of US\$1.9 million for the U.S. market may turn the tides for a medium-sized Lesotho garment manufacturer, allowing the company to revive some of its dormant production capacity and employ more workers.

In late September 2006, the Southern Africa Trade Hub sponsored Maseru-based Hippo Knitting to participate in the Material World Trade Show in New York. Hippo Knitting capitalized on the opportunity to showcase and network and realized success. A New York retailer has placed a US\$1.9 million order for 2007, and three additional North American companies have visited Hippo Knitting facilities since the trade show.

This new business is a welcome upswing for Lesotho's textile and garment industry. Since the expiration of global garment quotas under the Multi-Fiber Agreement (MFA) on January 1, 2005, African producers have struggled to

maintain their share in the U.S. market in garments. The United States Trade Representative reported that overall AGOA textile and apparel imports dropped by as much as 12 percent, in 2005. This changing landscape is particularly significant for Lesotho, where in just five years AGOA preferences have spurred industry growth and rendered apparel and textile manufacturing the country's largest formal sector employer.

Hippo Knitting, a 2000 upstart employing nearly 800 workers, is among those affected. Since early 2005, the facility has been forced to reduce its production capacity by 45 percent.

The US\$1.9 million order will revive capacity by 10 percent to meet the demand and will 160 jobs in the process.

The Material World Trade Show played a key role in this renewal of confidence, providing the company with a face-to-face opportunity to prove its business savvy and product quality.

Grace Lin, representing Hippo Knitting management thanked the Hub, saying

that, "[the trip to New York] has been quite amazing for our factory and Lesotho has done so well. We thank the USAID Trade Hub for their assistance; we would not have been able to do this without your support!"

HUB TO WORK WITH SADC ON TRADE

The SADC Secretariat, the U.S. Embassy in Gaborone and USAID/Southern Africa on February 27 signed a Memorandum of Understanding (MOU) that paves the way for the USAID Trade Hub to provide technical assistance and capacity building support to SADC's goals of increased trade and open borders within Southern Africa.

Under the MOU the Hub will assist SADC in addressing impediments to trade among SADC Member States identified in the mid-term review of the implementation of the SADC Trade Protocol.

According to Ambassador Katherine Canavan, the agreement confirms the US's commitment to support SADC as it works to improve trade efficiency and economic growth for the people of the SADC region.

SADC is still on track to establish a Free Trade Area in 2008 and a Customs Union by 2010, SADC Executive Secretary, Tomaz Salamão, said during the signing ceremony.

Erna Kerst, USAID/Southern Africa mission director, signed the agreement on behalf of USAID/Southern Africa.

The USAID Trade Hub is recruiting consultants to carry out the two assignments under the MOU: a trade audit of the SADC Protocol on Trade and the establishment of a monitoring unit within the SADC Secretariat to improve the Secretariat's capacity to monitor implementation of the Protocol.

