APPENDIX IV:

THE IMPACT OF AN EPA ON THE KENYAN ECONOMY

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THE PURPOSE OF THIS MEETING:

- Gather more insights into the potential impacts of an EPA by improving on the current document.
- Identify the desired outputs from the civil society workshops in order to feed into the official consultations.
- Identify the issues CSOs need to be consulted on e.g. sensitive sectors.
- Identify methods and materials required to effectively engage civil society on EPAs.

INTRODUCTION:

- The study aims at highlighting the existing EPA Impact studies on key sectors within Agriculture, Industry and Services.
- The paper gives a background on the history of past liberalisation efforts, current state of the EPA Negotiations and their potential impact on the Kenyan economy.
- In conclusion, some recommendations are made on the way forward on the EPAs negotiation process.

BACKGROUND TO EPAS:

- The CPA signed in 2000 gave a new momentum to the relationship between ACP and the EU.
- The EU proposed replacing the system of non-reciprocal trade preferences enjoyed under the Lome Conventions (I-IV) with EPAs.
- The salient feature of EPAs is reciprocity where Kenya would have to grant EU companies preferential market access in return for its continued market access to the EU.

MULTIPLE MEMBERSHIP:

- The current ESA Grouping which is now negotiating with the EU is not corresponding to any pre-existing trading bloc or legal structure.
- There is an overlap between the members of COMESA and SADC in the ESA Group.
- Kenya, Tanzania and Uganda are in EAC. Kenya and Uganda are in ESA and COMESA but Tanzania is not in both but in SADC.

STRUCTURE FOR NEGOTIATION OF EPAS:

- To facilitate the negotiation process, Kenya with the support of the EU has established its NDTPF (KEPLOTRADE).

- The role of KEPLOTRADE is the coordination of the Kenya's preparation for negotiations as well as representation at the RNF.
- To facilitate the preparation of negotiation positions, KEPLOTRADE structure has 6 clusters; Agriculture, Trade related issues, Market Access, Fisheries, Development issues and Services.

KENYA'S PAST LIBERALISATION EFFORTS:

- At independence, Kenya maintained a managed economy with controls on foreign exchange, high tariff barriers, import licensing and controls on wages, retail and producer prices.
- The manufacturing sector (pharmaceuticals, processed plastics, paper, vehicle assembly, steel rolling, textiles etc.) grew at a rapid pace fuelled by the growth in domestic incomes and expansion of exports to Tanzania and Uganda under the first EAC.

RAPID DECLINE:

- The 1970s saw the collapse of the original EAC and a number of shocks to the economy; a fall in the coffee prices and oil price increases.
- The SAPs recommended by the IMF and WB required Kenya to liberalise its trade regime in return for various loans and debt relief packages.
- These reforms were compounded by further waves of liberalisation as Kenya automatically became a WTO member and agreed to bind its tariffs.

EVERYTHING BUT ARMS:

- The EBA initiative allows access to the EU market for all products except arms.
- Uganda and Tanzania qualify to benefit by being LDCs unlike Kenya which is a DC.
- If Kenya declines an EPA, it would be forced to accept the GSP.
- The EU committed in the CPA that DCs such as Kenya who may not consider themselves in a position to sign an EPA would be offered an arrangement with no worse market access. However, no commitment has been made by the EU on this.

KENYA'S FUTURE PLANS:

- If EPAs are to contribute to Kenya's economic development, they must be designed specifically to complement the ERS and not place additional pressure on Kenya to adopt new or different approaches.
- The economic drivers identified by the ERS are the manufacturing sector, regional and international trade, micro and small enterprises.

EPAS IMPACT ON MARKET ACCESS:

- Through the ESA-EU trade arrangement, the EU manufactured goods will have access to the regional markets (COMESA, EAC) giving stiff competition to Kenyan exports in the region.
- The erosion of preferences will have a negative impact on revenue generation from exports to the EU.

- Subsidies given to EU farmers under the CAP reduce the market access of the Kenyan unprotected farmers to the EU market.

WELFARE EFFECT OF AN EPA:

- Consumption expansion
- Trade diversion
- Trade creation
- EPAs will make it difficult for Kenya to use tools such as tariffs to protect local producers and sensitive sectors.
- SPS measures are a form of technical barrier which the EU has used effectively to regulate import. The problem is that the regulations change so fast that it is difficult for Kenya to keep up.

IMPACT OF EPAS ON AGRICULTURE:

- Under EPAs, exports of horticultural products, coffee and tea are likely to either remain the same or substantially increase especially if the EU withdraws subsidies extended to its horticultural producers.
- However, EPAs are expected to pose significant challenges for Kenya's major food commodities such as wheat, sugar, maize, dairy and rice as the EU is heavily subsidising their production, processing and export.

SUPPLY SIDE CONSTRAINTS:

- Previously, Kenya did not manage to exploit the full potential of market access provided for by the EU under Lome (I-IV) due to supply side constraints.
- The supply side constraints include; poor transport infrastructure, communication, energy, technology, entrepreneurial skills and financial constraints.
- The success of EPAs will depend on the removal of these constraints by Kenya negotiating for funding under the development component.

IMPACT OF EPAS ON THE MANUFACTURING SECTOR:

- Trade liberalisation through EPAs will increase both the EU and Kenya exports. However, the net increase in EU imports will be higher than Kenya exports.
- The sectors that will experience a fall in effective protection with the coming into force of an EPA include; clothing, leather, paper, rubber, paints and detergents.
- Liberalisation would increase Kenya's competitiveness in ESA through cheaper intermediate inputs and capital equipment from the EU.

IMPACT OF EPAS ON SERVICES:

- Services are an increasingly important export sector in Kenya.
- However, lack of detailed studies makes it difficult to know which services have a comparative advantage on the various sectors and modes.

- This not withstanding, tourism is the best example of a sector with comparative advantage in Kenya that earns the country high revenue.

FINANCIAL PROVISIONS:

- The financial assistance based on the single Country Support Strategy will be closely linked to performance and needs. The need criterion is bound to be subjective.
- The issue of low absorption capacity needs to be addressed. Critical areas of support should be well identified and transparency and accountability be observed.
- The institutions implementing different programmes need to be coordinated to improve on coherence and synergy.

CONCLUSION ON THE EPA PROCESS:

- Kenya should negotiate to have a longer transition period.
- There is need for adjustment financing including support for policies to remove supply side constraints.