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Can trade preferences stimulate sectoral development?

The case of Namibian and Botswanan beef exports to Norway

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Take-home messages

- While market access quotas have generated high levels of rents for traders and exporters in Namibia, Botswana, Norway, and offshore entities in the UK, their developmental benefits are diffuse, unclear, and difficult to unpack;
- The consolidation of trade between small supply (Namibia, Botswana) and demand markets (Norway) provides some unique advantages for trading parties, given the former's efficiency and scale disadvantages in international trade, and the latter's desire to actively manage its food imports;
- However, such a strategy is not necessarily replicable or scalable, as it entails both high entry costs for access and high risks from the over-reliance on a limited number of markets and the specter of animal disease incursions.

Case overview/summary

Namibia and Botswana each hold over two million head of cattle, and where small-scale, communal production is an important livelihood for the majority of farmers engaged in livestock. An important tension in each country has been balancing the livelihood demands of predominately smallholder-oriented systems on the one hand with the regulations and investments needed to facilitate and preserve market access for exports on the other. While both countries have made many significant investments in biosecurity to access lucrative markets in the European Union and Norway, the preferential trade arrangements that facilitate exports are controversial. In particular, the use of quotas has politicized the beef trade in both supplying and end markets. This has led to questions in various quarters as to whether such quotas sufficiently regulate and manage trade to meet both developmental objectives on the one hand and Norwegian desire to limit certain imports on the other.

Organization of trade

Market access for beef exports to high-value developed country markets (USA, EU) requires freedom from foot-and-mouth disease (FMD) as a precondition for trade, with countries from Southern Africa requiring disease freedom without vaccination (Rich & Winter-Nelson 2007). This necessitates strict biosecurity controls through physical zonation of FMD-free and FMD-endemic regions in country. In Namibia, the veterinary cordon fence (VCF) splits the northern part of the country (with predominately smallholder communal production) from the southern part of the country with large-scale, export-oriented commercial production; approximately one-half of Namibia's livestock are on either side of the fence. Only the southern part of the country has access to the European market. This divergence in market access is important to the Namibian government, which seeks to improve the ability of smallholder farmers and the emerging Namibian middle classes with larger herds, to access higher-value international markets. The export of both live animals and meat from northern communal areas to South Africa is restricted by strict quarantine rules and since the FMD outbreak in 2015, exports of both animals and meat from areas north of the VCF were banned and expensive remedial measures put in place (The Namibian, 2015 and New Era, 2016). Likewise, Botswana maintains different production zones that are certified as FMD-free without vaccination by the World Animal Health Organization (OIE) that are physically separated by a double-ringed fence and combined with strict livestock identification and traceability protocols. Lapses in this system during 2011 forced Botswana to shut down exports for six months (Moreki et al, 2012).

Exports from both countries primarily target markets in South Africa, the European Union, and Norway, with the latter two facilitated by preferences under the General Schedule of Preferences (GSP) and, in the case of Norway, a variety of market access quotas. A free trade agreement between SACU and Norway allows for a 500-ton duty-free quota from exports from SACU countries (Botswana, Namibia, Lesotho, South Africa, Swaziland) to Norway and is administered by an

auction. In addition, Botswana and Namibia co-administer a duty-free quota of 2,700 tons that was grandfathered from the previous General System of Preferences (GSP) preferential trade regime Norway maintained with developing countries, with each country receiving one-half of the quota based on negotiations between Meatco and BMC (Rich et al. 2012; Aurdal & Omhalt 2013).

The GSP quota is allocated through a licensing mechanism administered in each country. In Botswana, only the BMC has quota rights, whereas in Namibia, the government allocates the quota to export-oriented abattoirs. Licensing of the GSP quota replaced the previous first-come, first-serve (FCFS) means of quota allocation in 2011, which had been problematic in that the quota would literally fill within minutes of its opening on the 1st of January each year (Rich et al. 2012). As the GSP quota has come under scrutiny as to its WTO legality (Rich et al. 2012), discussions are underway to subsume it under a free-trade agreement with SACU. However, it is not yet clear whether the new SACU quota (that would incorporate the GSP quota) will be administered as an auction or under license, with industry favouring the status quo of licensing.

Beef exports have been traditionally controlled by parastatal-type enterprises (Botswana Meat Commission (BMC) in Botswana, MeatCo in Namibia). A key component of trade with Norway is the involvement of Nortura, an agricultural cooperative and the largest processor of meat in Norway, which has a parallel role as market regulator (Aurdal & Omhalt 2013). Nortura's interest in trade with SACU countries has been motivated by its desire to facilitate imports in a manner not disruptive to the domestic market and as a form of corporate social responsibility to improve beef production in Botswana and Namibia. Nortura began importing small amounts of beef directly in 2009, buying its way into the market through the purchase of an equity share in one of Namibian's few certified export-oriented abattoirs, Witvlei. The Witvlei abattoir was originally set up as an empowerment business by the Government of Namibia with a view to eventually breaking up the export monopoly of MeatCo.

Since 2014, when trade with Witvlei stopped, Nortura has traded directly with Global Proteins Solutions Group (GPS), a UK-based meat broker that plays a critical role in the beef trade between SACU and Norway. GPS plays an important intermediary role between MeatCo, BMC, and retailers, providing technical support in production, logistics, and marketing for the purposes of adding value to Namibian and Botswanan beef. GPS acts as a service provider on a fee-basis and not as a traditional wholesaler or trader. GPS currently sit in a network of business arrangements (through various equity investments) among the meat industries of Southern Africa, the United Kingdom and Norway. This web of ownership presents a challenge for policy makers who seek foreign investment, but who also want fair and inclusive domestic and international meat trading arrangements that engage all scales of production including the very small scale.

What are some of the main effects of market access quotas?

Our analysis points to three important impacts associated with market access quotas on trade dynamics between Namibia/Botswana, and Norway. These are detailed in turn.

Rent seeking by firms

Arrangements on the licensing of the main GSP quota in Namibia have prompted significant rent-seeking behaviour amongst local abattoirs and Norwegian interests. In 2011, when the quota was first allocated internally, it was distributed evenly between MeatCo, a government parastatal/producer-run cooperative, and Witvlei, a private abbatoir. MeatCo historically produces about 80 percent of Namibia's export-oriented meat and had strongly argued for an allocation of the quota more in line with the current and historical trends of production.

Witvlei was established in 1998 and run under a lease agreement with the Agribank, by one of Namibian's richest entrepreneurs with close ties to the Namibian government (New Era 2016a). Witvlei was 30% owned by Nortura. Previously, Witvlei was part of a partnership between two other Norwegian trading houses, but this broke down over a price dispute (Rich et al. 2012). Nortura's stated aim was development-oriented in bringing Namibian prices to near-Norwegian levels, although previous discussions suggested that this was a means to capture margins previously held by importers (Rich et al. 2012).

Namibia's Ministry of Trade and Industry (MTI) stepped in to litigate the dispute between MeatCo and Witvlei. In 2014, the quota was reallocated such that MeatCo obtained 1,200 tons, Witvlei 300 tons, and Brukarros Meat Processors (BMP) 100 tons; the BMP quota was eventually re-allocated 50:50 when it emerged it could not meet export standards (Schlechter 2014). Witvlei ceased operations later in 2014, with Nortura resigning from the board and engaged in a dispute with meat owed to it by Witvlei (Vermes 2015). As of December 2015, Witvlei was in receivership, with its abattoir owned by AgriBank, a government-owned bank (New Era 2016b). In April 2016, Witvlei won its court case against AgriBank and regained access to its abattoir.

Internal distribution of quota rents

The entry of GPS has transformed trading dynamics and the rents generated by trade between Namibia and Europe. An important difference in their approach compared to past trading efforts has been on altering the product mix from predominantly frozen cuts to fresh cuts and on marketing. This has led to strong price gains, with returns increasing 132% in Namibia and 65% in Botswana.

Since 2010, we observe a nominal doubling in the exporter surplus in Norwegian Kroner (NOK) terms during 2010-18, reflecting in large part the movement towards higher-value fresh cuts as facilitated by GPS. By contrast, surpluses at the importer level have been steady to declining since 2011. Auction rates – revenue for the Norwegian government – on a per-kg basis for the 500-ton SACU auction have been steadily rising to a high of 15.81 NOK/kg in 2016, then falling again in 2017-2018. As these are also increasing as a share of the

export price, they imply both an increase due to the import of higher-value product and higher competition for a smaller pool of available meat by traders.

To what extent have rents been used to benefit Namibian and Botswanan actors? In Namibia, quotas seem to be the only alternative to the damaging dash to grab licenses that used to occur among exporters, but it is far from a precise policy instrument. Splitting the quota amongst different export actors failed to infuse more market competition, spurring instead competition for rents. Moreover, because the benefit has largely fallen in commercial farming areas, their development impact is less quantifiable. In Norway, quotas have certainly facilitated an orderly trade.

It is certainly true that there have been significant investments in brand building and differentiation that have added value in the beef sector. At the same time, it is equally important to ask whether the monopsony buyer (MeatCo/BMC), monopoly marketer (GPS) hampers competition and innovation, and reduces the potential benefits to farmers. Another consideration is whether the Norwegian meat sector itself wants more competition with its own production. Given Nortura's role in this trade arrangement, this could stymie the potential ceiling for Namibian and Botswanan value-adding efforts. An alternative view to this upgrading through product differentiation, offered by international meat traders interviewed, was that value addition was rather limited and that more could be achieved through promoting competition among traders for the Botswanan and Namibian access to the high value Norwegian market. However, we would argue that in the absence of scale efficiencies, efforts made by GPS in terms of differentiation and value addition are the only game in town, although the managed value chain highlighted here may place a ceiling on those potential gains. Indeed, even with growing supermarket and high-value branded sales, there are some questions as to the extent that Namibian or Botswanan beef can out-compete local production – recall, that Nortura is the largest producer cooperative in Norway and has an interest in managing trade and competition. Interviewed traders describe the Norwegian meat market as 'nationalistic' suggesting that branding could be counterproductive, as the market for such products may have a hard ceiling relative to locally produced meat.

Competitiveness

Earlier research detailed the negative impact that preferential quotas have had on the overall competitiveness of Botswana and Namibia in global beef markets (Rich & Perry 2011; Naziri et al. 2015). Indeed, one of Nortura's stated aims is to eventually bring beef prices in both countries to 85- 90% of Norwegian levels. Given that agricultural protection in Norway affords local Norwegian producers among the highest prices for beef in the world, this potentially has two important effects. First, it increases the reliance of Botswana and Namibia on the Norwegian market as a means of keeping farm prices high since prices beef sold regionally in Africa is less than the producer price for beef in European markets. While this indirectly benefits smallholder producers and represents a positive development impact, it exposes both countries in the event of various shocks such as an outbreak of FMD. Second, high prices for beef from Botswana and Namibia increase the difficulty that both countries could have in diversifying their markets, particularly from communal areas, as margins to markets such as China will certainly not match Norway.

Conclusions

The recent experiences of Namibian and Botswana in exporting to Norway are illustrative of a number of potential costs and benefits of using defined market access as a development policy tool. There is clear evidence that both countries have benefited financially from market access.

In both countries, market access to high value markets has resulted in investment in infrastructure and capacity to meet international food safety and animal health standards that would not have otherwise existed. Namibia and Botswana are rightly proud of their exports of beef because they demonstrate a hard-won ability to trade meeting the highest global standards. This reputational benefit should not be under-estimated.

However, the wider developmental impacts of market access are harder to measure. Market access has brought some employment and some investment in infrastructure. Efforts in both countries to use market access to redress previous imbalances in the structure of rural economies cannot be said to have yet fully achieved their aims. The converse is also true, that, without this access and investment, the contribution of livestock to these economies would be lower.

In both countries, continued competitiveness on global markets is still the defining question in this debate. Addressing costs through greater efficiency and novel compliance methods such as commodity-based trade are possible ways forward. Value-adding and branding efforts are critical to this, but reliance on the highly protected and parochial Norwegian market may stymie innovation. Clearly, sufficient quota rents in aggregate exist to find ways to add value to products sold in Norway to the benefit of producers, but possibly not consumers, but this will require greater awareness and participation of producers. In Namibia, the democratization of MeatCo's governance structure towards functioning as a producer cooperative may facilitate such an outlook.

Are there advantages in unifying behind a single trade partner and a limited number of Norwegian traders? The case study suggests the combination of scale disadvantages in trade for Namibia and Botswana, and Norway's desire to actively manage its food imports has created a unique and symbiotic trading relationship that works for all parties. However, such a strategy is not necessarily replicable or scalable, as it entails both high entry costs for access and high risks from the over-reliance on a limited number of markets and the specter of animal disease incursions.

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