

The University of Nairobi

Institute of Diplomacy and International Studies

M.A DEGREE IN INTERNATIONAL STUDIES

**"The Impact of the World Trade Organization's Agreement on
Agriculture on Kenya's Agricultural Trade Sector: 1995-2003"**

**Project Thesis submitted to the Institute of Diplomacy and
International Studies in partial fulfilment of the requirements for
the award of Master of Arts Degree in International Studies**

**By
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DECLARATION

I declare that this project thesis is my original work and has not been submitted anywhere for any academic purposes.

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This project thesis has been submitted with my approval as the University supervisor.

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Dedication

I would like to dedicate this project to all my family members namely my Dad Eng H M Mokaya, my Mum, Mrs A Momanyi, my sisters Amanda and Alma and my brother, Levi

Acknowledgment

For their belief and trust in me as well as encouragement and support, I would like to whole-heartedly acknowledge my family members namely, My Dad, Eng H M Mokay, My Mum, Mrs Alice Momanyi, My Sisters, Amanda and Alma and My Brother, Levi

My sincere gratitude goes out to my supervisor, Mr Mudida R, for his tireless effort, advice, patience and guidance in ensuring that the project was successfully completed.

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ABBREVIATIONS AND ACRONYMS

AMS - Aggregate Measure of Support

AoA - Agreement on Agriculture

EU - European Union

FAO - Food and Agriculture Organization

GATS - General Agreement on Trade in Services

GATT - General Agreement on Tariffs and Trade

GOK - Government of Kenya

IFAD- International Fund for Agricultural Development

IMF - International Monetary Fund

ITO - International Trade Organization

LDCs - Least Developing Countries

SPS - Sanitary and Phytosanitary measures

TRIPS - Trade-Related Aspects of Intellectual Property Rights

UNCTAD - United Nations Conference on Trade and Development

WB - World Bank

WFP - World Food Programme

WTO - World Trade Organization

ABSTRACT

The study set out to identify what benefits or losses the Kenyan agricultural sector had accrued as a result of implementing the WTO's Agreement on Agriculture. The study entailed the collection of primary data through administering of questions that were formulated following the operationalization of independent and dependent variables of the study. Secondary data was collected through consultation of relevant books, journals, websites, magazines as well as newspapers. The targeted population consisted of a number of officials from the Ministry of Trade as well as the Ministry of Agriculture. Interviews were conducted in order to obtain pertinent primary data. The data obtained illustrated that implementation of the WTO's Agreement on Agriculture was more detrimental to the Kenyan agricultural sector and various provisions of the agreement need to be revised in order for a developing country such as Kenya to play an equal role as a signatory to the WTO's Agreement on Agriculture.

Chapter One

The Proposal of the Research Project

The World Trade Organization is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts binding governments to keep their trade policies within agreed limits.¹

1.1 Functions of The World Trade Organization

The main purpose of the system is to help trade flow as freely as possible so long as there are no undesirable side effects. This partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be transparent and predictable².

The World Trade Organization serves as a forum for negotiations amongst the community of trading nations and more often than not, there is a lot of controversy and debate hence the need for a forum for negotiations, which the multilateral trading body provides.³

A third purpose of the World Trade Organization is dispute settlement. Trade relations often involve conflicting interests. Contracts and agreements, including

¹ World Trade Organization. 2001. Trading Into the Future. Geneva, WTO Publications. P4

² World Trade Organization. 2001. Why It Matters. Geneva. WTO Publications P6

³ Ibid

those painstakingly negotiated in the WTO system often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation⁴

The Headquarters of this multilateral trading system is located in Geneva, Switzerland. The World Trade Organization was established on 1st January 1995, having replaced GATT, General Agreement on Tariffs and Trade. It consists of 145 member countries. This was as of 1st January 2002. A Director General heads it. Kenya became a member of the WTO on 1st January, 1995.⁵

Principles of the World Trade Organization

The WTO agreements deal with a wide range of activities such as agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards, food sanitation and regulations, intellectual property and much more.

Amongst all these agreements are fundamental principles, which are:

Trade Without Discrimination. (Most Favoured Nation)

Under the WTO agreements, countries cannot normally discriminate between their trading partners. If a country, for example, decides to lower custom duty for one of the trading partners, it will have to do the same for all WTO members. This principle is known as Most-Favoured Nation (MFN) treatment. There are however certain exceptions. For example countries within a region can set up a free trade agreement that does not apply to goods from outside the region. Alternatively, a country can raise barriers against products from specific countries that are considered to be traded

⁴ World Trade Organization. 2001. Trading Into the Future. Geneva, WTO Publications. P.7

⁵ Ibid.

unfairly. The WTO agreements however permit these exceptions under strict conditions.⁶

National Treatment - Treating Foreigners and Locals Equally

Propagates for imported and locally produced goods to be treated equally - at least after the foreign goods have entered the domestic market. This also applies to domestic and foreign services, foreign and local trademarks, copyrights and patent.⁷

Free Trade: gradually through negotiations

Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively. Other issues such as red tape and exchange rate policies have also been discussed.⁸

Predictability through binding

In the WTO, when countries agree to open their markets for goods or services, they "bind" their commitments. For goods, these bindings amount to ceilings on custom tariff rates. A country can change its bindings but only after negotiating with its trading partners which would mean compensating them for loss of trade. In agriculture, 100 percent of products now have bound tariffs. This results to a substantially higher degree of market security for traders and investors.⁹

⁶ ibid

⁷ The World Trade Organization. "Purposes." www.wto.org/publications/whatisthewto/purposes

⁸ ibid

⁹ ibid

The system also tries to improve predictability and stability through discouraging the use of quotas and other measures used to limit quantities of imports. Predictability and stability is also ensured through making countries' trade rules as clear and public ("transparent") as possible. The WTO agreements require governments to disclose their policies and practices publicly within the country or by notifying the WTO.¹⁰

Promoting Fair Competition

The WTO does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair and undistorted competition. The rules on non-discrimination - MFN and National Treatment are designed to secure fair conditions of trade.¹¹

About two-thirds of the WTO's 145 member countries are developing economies. The WTO agreements do have provisions dealing with Developing and Least-Developed Countries. The General Agreement on Tariffs and Trade, which deals with goods has a special section - Part 4 on Trade and Development which includes provisions on the concept of non-reciprocity in trade negotiations between developing and developed countries. When developed countries grant trade concessions, they do not expect the developing countries to make matching offers in return.¹²

GATT also enables countries to grant special concessions to developing countries without having to do so for the entire membership known as "special and differential

¹⁰ *ibid*

¹¹ *ibid*

¹² *ibid*

treatment". Other measures concerning developing countries in the WTO agreements include:

- Extra time for developing countries to fulfil their commitments
- Provisions requiring WTO members to safe-guard the interests of developing countries when adopting some domestic or international measures for example anti-dumping, safeguards, technical barriers to trade
- Provisions designed to increase developing countries' trading opportunities through greater market access for example in textiles, services, technical barriers to trade.

The WTO also has special legal advisers for assisting developing countries in any WTO dispute and for giving them legal counsel. The service is offered by the WTO's Technical Co-Operation Division.¹³

1.2 Statement of the Problem

Impact of the Agreement on Agriculture on Kenya's Agricultural Trade Sector.

The Agricultural sector plays an important role in Kenya's economy. It employs over 80 percent of the rural population, contributes to 60 percent of export earnings and contributes up to 45 percent of annual government revenue.¹⁴

It is therefore obligatory to analyse what effects agricultural policies such as the WTO's Agreement on Agriculture will have on agricultural production and trade in Kenya given the importance of the sector to the economy as a whole.

¹³ The World Trade Organization. "Purposes"www.wto.org/whatisthewto/purposes

¹⁴ Government of Kenya. 2003. Economic Survey. Prepared by Central Bureau of Statistics and Ministry of Planning.

Kenya is a WTO member and has implemented the WTO's Agreement on Agriculture. This agreement consists of three sub-sections namely Market Access, Domestic Support and Export Measures. A number of issues however have arisen among member states regarding the agreement. According to the United Nations Commission on Trade and Development, UNCTAD, the share of the world's exports and imports has fallen sharply in the Developing and Least Developed Countries since the Uruguay Round.¹⁵

UNCTAD further states that Developing Countries and Least Developed Countries continue to be marginalized in world trade not because of any resistance to openness but because of their inability to expand productive capacity for instance the removal of tariff barriers to manufactured goods in poor countries forces nascent industries to compete with vastly more productive foreign manufacturers thus stunting industrial development.¹⁶

Uruguay Round tariff schedules provide for the escalation of tariff rates as value is added to a product. Thus the lowest rate is for a raw commodity; the tariff rate increases with processing and manufacturing. This Uruguay Round feature is one of the reasons developed countries WTO critics say the Uruguay Round promotes economic recolonization of developing countries that only recently gained political independence. Tariff escalation creates an incentive for "rip and ship" natural resource exploitation in poor countries. In addition, tariff escalation strongly favours countries with developed manufacturing sectors by increasing access to cheap raw

¹⁵The United Nations Conference on Trade and Development. "Trade Liberalization Under the Uruguay Round." www.unctad.org/publications/papers/tradeliberalizationundertheUruguayRound

¹⁶ ibid

natural resources and discouraging developing countries from further industrialization because tariff rates increase as its value is added to products through manufacturing.¹⁷

Under the Uruguay Round, tariffs are to be eliminated or reduced in many product categories that currently represent a substantial export income for the world's poorest countries. These include coffee, tea, cocoa beans, metal ores, cotton, gold, diamonds and fresh vegetables. This would lower world prices for the commodities and further lower exports earnings of countries that specialise in them.¹⁸

The Uruguay Round Agriculture Agreement prohibited numerous internal support programs and import controls that developing countries typically use to protect small producers and encourage self-sufficiency. Small local producers are no longer shielded from the subsidized agricultural commodities of the United States and particularly the European Union; the Uruguay Round creates increased dependency on staples like wheat and corn.¹⁹

Despite the WTO having special provisions in its agreements for developing countries and least developed countries, these very same countries are yet to reap benefits from implementing the multilateral trading body's policies.

Following this discussion therefore, it is imperative to examine how implementation of these aspects of the agreement on agriculture have affected Kenya's agricultural trade sector between the years 1995 to 2003. Thus the purpose of the study is to

¹⁷ L Wallach and M Sforza. 1999. Whose Trade Organization? Corporate Globalization and the Erosion of Democracy. Washington D.C. p.5

¹⁸ Op cit

examine the impact of the Agreement on Agriculture on Kenya's agricultural trade sector.

1.3 Objectives of the Study

1. To examine the benefits and costs accrued by Kenya's agricultural trade sector as a result of implementing of the Agreement on Agriculture
2. Identify any challenges faced during the process of implementation of the Agreement on Agriculture.

1.4 Justification of Study

The importance of this study is that it seeks to find out how the World Trade Organization's Agreement on Agriculture has affected the Kenyan agricultural trade sector; have there been any significant changes in Kenya's agricultural support programmes, are there any changes in production volumes, are these changes attributed to implementation of the WTO's Agreement on Agriculture, what challenges if any has the agricultural trade sector had to face during implementation of the agreement. If there are any costs accrued, what measures have been put in place by the multilateral organization in order to have minimal effects on the agricultural sector.

The study is of great significance as the outcome would be able to illustrate to what extent Kenya's agricultural sector has benefited or has incurred losses as a result of implementing the Agreement on Agriculture.

¹⁹ L Wallach and M Sforza. 1999. Whose Trade Organization? Corporate Globalisation and Erosion of Democracy. Washington D. Public Citizen P.137

The results of this study would greatly benefit the Kenyan agricultural trade sector and the country as a whole as the country depends extensively on agriculture and failure to address any issues that would impact negatively on the agricultural sector would lead to the country's economy deteriorating further and hence, in effect, affecting the citizens. Thus, all in all, the results of the study would not only be important to the agricultural sector but to the citizens of the country and hence the country as a whole.

The expected end-product of the study is to illustrate how the World Trade Organization's Agreement on Agriculture has impacted Kenya's agricultural trade since she became a member of the multilateral trading system. Indeed there is need to carry out the study specifically because Kenya is an agricultural exporter and depends extensively on agricultural trade. Thus there is need to critically evaluate any agricultural policies introduced to the sector in order to examine what significant impact they have had on the sector.

1.5 LITERATURE REVIEW

In this sub-section literature will be analysed in various categories. The first of these categories will examine various studies that entail countries that have carried out the trade liberalization. The countries being studied are Developing and Least Developed Countries. The studies will examine which specific sub-sectors under the agricultural sector have been affected in these very countries and whether the impact of trade liberalization has been beneficial or detrimental to their agricultural sectors.

The second section examines Kenya's implementation of liberalization policies under the Structural Adjustment Programmes that were introduced into the country by the International Monetary Fund and the World Bank.

The final section of the literature review provides an outline of the WTO's Agreement on Agriculture and its main components and what it basically campaigns for.

The purpose of analysing literature for the study is in order to establish a lacuna, which will be the main focus of the study.

Various studies have been carried out in order to investigate the impact of liberalization, more so with regard to developing countries. It should be noted that in many of these countries, liberalization was introduced through Structural Adjustment Programmes, propagated by the World Bank and International Monetary Fund in order to minimise government expenditure.

A study carried out by the Food and Agricultural Organization in Ecuador and presented at a symposium in Geneva, 1999, indicated that trade liberalization policies under the Structural Adjustment Programmes, have severely affected production and employment. Both the agricultural sector and industrial sector have been unable to compete with cheap imports.²⁰

In Ghana, the removal of subsidies has had an impact on women, who produce 60 percent of food. The drying up of credit and surge of food imports as a result of trade liberalisation has contributed to the women's suffering. The flood of cheap imports along with higher input prices resulting from removal of subsidies have harmed local food producers. These measures together with high interest rates and changes in lending policies of the agricultural development bank have contributed to a substantial reduction in agricultural investment leading to declining productivity among food producers.²¹

On a different note, in Uganda, a report carried out by the Food and Agriculture Organization, FAO, titled "The State of Food Insecurity in the World", noted that the liberalization policy package - which included the elimination of price controls, the abolition of marketing boards, the reduction of export taxes, elimination of import controls, and the liberalization of the interest rates - have led to a steady growth in production as well as crop diversification and increased food security.²²

²⁰The Food and Agriculture Organization. "Food Security In the Third World" www.fao.org/publications/foodsecurityinthirdworld

²¹ ibid

²²ibid

However, this report does not fail to point out some of the negative issues that farmers have had to face due to liberalization policies. It states that with the elimination of government extension programmes, farmers have been left ignorant of current world trends and prices of crops and are therefore vulnerable to exploitation by the middlemen. Liberalisation policies, the study adds, has contributed to agriculture and rural production being heavily taxed through high transport prices due in part, to impassable roads. Reduced profitability for agricultural producers contributes in a large proportion to the very high poverty levels in villages.²³

A study carried out by Chisvo titled "Trade Liberalization and Household Food Security In Zimbabwe" indicates that liberalization policies were instigated by the Breton Woods Institutions in the form of Economic Structural Adjustment Programme, ESAP. The programme, launched in 1990, aimed to liberalize trade and the domestic market for goods, services and finance and to promote investment. Liberalization of the agricultural sector provided farmers with a greater choice of buyers and traders for their produce.²⁴

Liberalization of the public transport system improved the mobility of farmers and consumers benefited in that liberalization increased consumer choice. However, there have been negative effects of liberalization on farmers, with the removal of subsidies bring about decreased crop production. Farmers' access to credit was limited owing to the privatisation of the Agricultural Finance Corporation. Closure of the Grain Marketing Board depots in remote areas affected market access and information.

²³ *ibid*

²⁴ M Chisvo. 2000. Trade Liberalization and Household Food Security. A Study from Zimbabwe. CIIR Report

Retrenchment of government civil servants reduced farmers access to extension advise.²⁵

V Seshamani in his study, "Globalization and Its Impact on Zambia" states that policy reforms were implemented in 1991 by the new government and this was under the aegis of the Structural Adjustment Programme. The policies included the removal of subsidies on food and agricultural inputs, market determination of prices, liberalization of interest rates, trade and foreign exchange market. This attempt at rapidly dismantling the erstwhile socialistic, public sector dominated and state-controlled regime in order to fall in line with the evolving global typology of a capitalistic, liberalized, competition-oriented, private sector dominated and market-regulated system, resulted in immediate adverse economic and social consequences.²⁶

The abandonment of the then existing state distribution and marketing system and reliance on the private sector to take its place led to a virtual collapse of agriculture and further impoverished the small-scale farmers, who already constituted the single largest poverty group in the country.²⁷

A study carried out in India by D. Sharma to illustrate the cost of Free Trade for India's food security states that agricultural policies are more focussed on agro-processing, foreign investment and exports whereas the critical connection between agricultural production and access to food has been ignored.²⁸

²⁵ ibid

²⁶ V.Seshamani. 1999. Globalization and Its Impact on Zambia. University of Zambia, Lusaka, World Peace Academy Publishers

²⁷ ibid

Although India is the world's largest milk producer, cheap foreign imports are threatening the livelihoods of millions of small milk producers. With the removal of quantitative restrictions on imports of skimmed milk powder, the European Union, United States, Australia and New Zealand are now preparing to flood the Indian market with cheap milk and milk product.²⁹

While India embraces free trade, foreign companies are taking control of its land, seeds and agricultural research - the vital tools which farmers have depended on to produce the nation's food stock. As farming becomes the target of big business, the fields of India are being switched from food production to flowers and other cash crops.³⁰

A research study conducted by the Philippine Peasant Institute in the Philippines states that the effects of ratification of the General Agreement on Tariffs and Trade did not augur well with the country's farmers. Far from the promised trade surplus that would be reaped by the agricultural sector under the World Trade Organization liberalization regime, the opposite has been the case under which the new tariff scheme was implemented.³¹

Filipino farmers' share over the local markets was being eroded by the entry of cheaper, often subsidised goods. Even bigger players in the sector - big sugar millers and planters, livestock and poultry integrators among other, were starting to hurt from

²⁸ D Sharma . 1999. Selling Out: The Cost of Free Trade for India's Food Security. UK FOOD GROUP

²⁹ ibid

³⁰ ibid

³¹ Philippine Peasant Institute. 1998. When Tariffs Rule: Philippine Smallholder Agriculture Under the GATT/WTO and trade Liberalization Regime. Forumsyd Publications

the liberalization, often resulting in policy demands from their end that tended to undermine the interest of small farmers and peasants.³²

In Kenya, agricultural reforms, that is the implementation of liberalized market policies, begun in 1981. However, the implementation record was unimpressive and was characterised by considerable official ambiguity and covert and overt resistance. While the government gave the impression that it was not opposed to agricultural and other economic reforms, it made only half-hearted efforts to implement them.³³

Although there was a modest growth in agricultural production averaging about 3.5 percent per annum during the first period of implementation, there was a decline in the second phase ranging from minus 0.4 percent in 1990-1991 to the lowest level of minus 4.1 percent in 1992 to 1993. The reasons for the decline included poor implementation of policies, bad weather, population growth and shortage of land, and a decline in public investments in agriculture. The withholding of external aid on the advice of the International Monetary Fund and World Bank denied the country foreign exchange resources for financing imports of agricultural inputs and agricultural investment.³⁴

The policy reforms in Kenya have also led to a decrease in the volumes of marketed output through formal market channels for the main food commodities - maize, wheat, sugar, rice and milk - but the reforms have bolstered participation by private firms and

³² *ibid*

³³ G K, Ikiara, M A Juma and J O Amadi. 1993. *Agricultural Decline, Politics and Structural Adjustment in Kenya*. Nairobi. Institute of Policy Analysis and Research

individuals in the trade of food commodities unlike in the past when public institutions dominated trade. The liberalized trade of these commodities has also led to an increase in imports of foodstuffs mainly rice, wheat and sugar. Cheap imports however dampen the producer prices and create competition for domestic supplies thereby resulting in disincentives for increased domestic production.

Impact of policy reforms are thus yet to improve the profitability of producing the commodities because the real prices received are still low while the cost of inputs are high.³⁵

In their paper Nyangito and Okello further add that with the on-set of policy reforms, the government has reduced direct provision of production services such as animal health, tractor hire but has emphasized supportive services such as research and inspection services. They further add that inappropriate timing and sequencing such as liberalization of the maize marketing during the drought years was a cause of poor implementation of policies which in turn was responsible for the poor performance of the agricultural sector during the eras of control and policy reforms.³⁶

According to the World Trade Organization, implementation of the Agreement on Agriculture propagates for trade liberalization that is removal of all obstacles that impede trade. This is carried out in order to ensure that trade is transparent and more

³⁴H.O. Nyangito, and L Kimenyi. 1996. Agricultural Development Policies in Kenya. 1963-1995. Proceedings of Workshop on "From sessional paper No. 10 to the Era of Structural Adjustments. Towards Indigenising the Policy Debate. Nairobi. Institute of Policy Research and Analysis. P.10

³⁵ H.O. Nyangito and J. Okello . 1998. Kenya's Agricultural Policy and Sector Performance. 1964-1996. Occasional Paper Number OP/04/98. Nairobi. Institute of Policy Analysis and Research. P.8

³⁶ Ibid

predictable to key stakeholders, that is, exporters as well as importers.³⁷ Hence the need to implement the WTO's Agreement on Agriculture.

Market Access, Domestic Support and Export Measures are the three main provisions of the WTO's Agreement on Agriculture. Each of these provisions has measures that require the reduction and eventual elimination of tariff and non-tariff barriers in agricultural trade. Developed and developing countries are given different time-spans with regard to implementation of the agreement as well as different measures in the various reductions to be made in tariffs, domestic support and export subsidies. As a developing country, Kenya has implemented this WTO Agreement on Agriculture.

1.6 Summary of Literature Review Section

The literature review section examined, extensively, the impact of liberalization policies in various countries and more specifically, in the developing countries.

It was observed that liberalization policies adopted by these countries under the structural adjustment policies, introduced by the International Monetary Fund and the World Bank, had different impacts. For certain countries the surge of cheap imports into their domestic markets forced many farmers' products to lose their market to these imports, eventually leading the farmer/local producer to minimise production or halt production altogether. Governments had to stop financing of inputs on behalf of farmers, as required by the liberalization policies, leading to low productivity in yield as well as lower income.

³⁷ The World Trade Organization. "Benefits Of Trade Liberalization". www.wto.org/introduc

The next section of the literature review examined Kenya's agricultural sector and its performance under the structural adjustment policies that propagated for liberalization which saw the introduction of liberalization policies into the agricultural sector. It was observed that poor implementation of the liberalization policies eventually led to poor performance of the agricultural sector.

The final section of the literature review examined the Agreement on Agriculture, providing principal details of its various aspects and affirming that Kenya as a member of the multilateral trading body has indeed implemented the agreement's policies into its agricultural sector.

Following this analysis of the literature, a lacuna was identified which is the need to study the impact of Kenya's implementation of the WTO's Agreement on Agriculture on its agricultural trade sector. Whereas studies in the literature review examined different developing countries that had implemented liberalization policies under the WTO's Agreement on Agriculture as well as liberalization policies under the Structural Adjustment Programme, studies did not illustrate what has been the impact of Kenya's implementation of the WTO's Agreement on Agriculture. What was available was the confirmation by the World Trade Organization that Kenya had indeed implemented the agreement. Therefore there is an imperative need to examine the impact of the WTO's Agreement on Agriculture on Kenya's agricultural trade sector and hence the study.

1.7 Theoretical Framework

Stiglitz Model on Trade Liberalization

Stiglitz defines liberalization as the removal of government interference in financial markets, capital markets and of barriers to trade³⁸. Of concern to this study is trade liberalization and hence the study will focus on this part of the model.

Stiglitz forwards the argument that the implementation of trade liberalization in both developed and developing countries creates room for unemployment and this transpires as a result of the closing down of industries, which cannot compete under the pressure of international competition.³⁹

He further argues that Western countries push for trade liberalization for the products they have exported but continue to protect those sectors in which competition from developing countries might have threatened their economies. He provides the example of agricultural goods where developed countries have closed the market for these goods more particularly where developing countries have comparative advantage.⁴⁰

In this model, Stiglitz points out that many of the western powers, which have grown through use of protectionist policies, have benefited through closed markets and now want to utilize liberalization policies in order to benefit further from the developing countries.

³⁸ J E Stiglitz. 2002. Globalization and Its Discontents. London. Penguin Group. P59

³⁹ ibid

⁴⁰ ibid

What Stiglitz points out in his model with regard to trade liberalization is that developed countries are the key beneficiaries of the process of liberalization whereas developing countries only accrue losses as a result of liberalizing trade. His argument thus with regard to trade liberalization is that it is detrimental to the developing countries rather than beneficial.

This model is of importance to the study as it examines the impact of trade liberalization in developing countries. The study's main focus is trade liberalization and more specifically on Kenya's agricultural sector. The WTO's Agreement on Agriculture campaigns for liberalization in agricultural trade. In this light, the study is anchored on Stiglitz model of Trade Liberalization which postulates that trade liberalization is detrimental to developing countries. The study will examine the impact of the WTO's Agreement on Agriculture on Kenya's Agricultural Sector. Has the sector accrued losses as a result of implementing the agreement thus aligning the study in accordance to Stiglitz's model or has the Kenyan agricultural sector accrued benefits thus disputing Stiglitz's argument on the impact of trade liberalization in developing countries.

Following a critical analysis of the literature review and an overview of Stiglitz model on trade liberalization, the following hypotheses have been drawn:

1.8 Hypotheses

- The WTO's Agreement on Agriculture increases the influx of cheap agricultural imports into the country
- The WTO's Agreement on Agriculture affects domestic production in Kenya's agricultural sector

- The WTO's Agreement on Agriculture decreases domestic support/subsidies offered to Kenyan producers

1.9 Methodology

Population of Study

The target population of the study will consist of experts and officials from the Ministries of Trade and Agriculture.

Data Collection Method

The data to be collected will be both primary and secondary data. With regard to primary data, questions will be formulated in order to collect the required data from the various officials and experts in the respective Ministries of Trade and Agriculture through conducting of interviews.

Secondary data will also be collected from relevant books, websites, journals, newspapers, magazines and various other forms of secondary material that will contain the mandatory information.

Method of Data Analysis

The study will employ the use of tables and graphs to illustrate effectively any quantitative data collected.

Conceptualisation of variables.

1. The WTO's Agreement on Agriculture increases the influx of cheap agricultural imports into the country

Independent variable -Agreement on Agriculture- this is the agreement implemented by all WTO members who are agricultural producers.

- **Dependent variable - Imports:** goods brought from a foreign country into one's own country⁴¹

2. The WTO's Agreement on Agriculture affects domestic production in Kenya's agricultural sector

Independent variable: Agreement on Agriculture. this is the agreement implemented by all WTO members who are agricultural producers.

Dependent variable - domestic production

3. The WTO's Agreement on Agriculture decreases domestic support/subsidies offered to Kenyan producers

⑧ **Independent variable - Agreement on Agriculture**

⑧ **Dependent variable - agricultural exports:** domestic support/subsidies

Operationalization of Variables

1. The WTO's Agreement on Agriculture increases the influx of cheap agricultural imports into the country

Independent variable - Agreement on Agriculture- market access that is the rate at which Kenya has bound all her agricultural tariffs.

- **Dependent variable - Imports:** examine the key imports and what sub-sectors they have affected.

⁴¹United Nations Conference on Trade and Development. "Publications"www.unctad.org/publications

2. The WTO's Agreement on Agriculture affects domestic production in Kenya's agricultural sector

Independent variable: Agreement on Agriculture. Examine the Amber box policies and Green box policies

Dependent variable - domestic production. Examine the production trends For key sub sectors.

3. The WTO's Agreement on Agriculture decreases domestic support/subsidies offered to Kenyan producers

Independent variable - Agreement on Agriculture: examine the amber box and green box policies implemented by Kenya

Dependent variable - domestic support/subsidies: examine the percentage rate of subsidies offered by Kenyan government

- **Dependent variable - production of agricultural products** - examine the volume of agricultural produce released for the domestic market between 1995-2003

CHAPTER TWO

The Agreement on Agriculture

2.0 Introduction

The Uruguay Round of multilateral trade negotiations that concluded in 1994 marked the beginning of a process of trade reforms in agriculture. This saw the establishment of the Agreement on Agriculture, which was to provide clear, and transparent rules that would be used in agricultural trade and therefore get rid of distortions previously experienced in agricultural production and trade.⁴²

The objective of the agreement is to reform trade in the agricultural sector, that is to make policies more market-oriented. This would improve predictability and security for importing and exporting countries as well as reduce distortion.⁴³

The concept of distortion is used a lot when agricultural trade is discussed. Trade is distorted if prices are higher or lower than normal and if quantities produced, bought and sold are higher or lower than normal, that is than the levels that would usually exist in a competitive market, for example import barriers and domestic subsidies can raise crop prices on a country's internal market. The higher prices can encourage over-production and if the surplus is to be sold on the world market, where prices are lower, then export subsidies have to be paid. When some countries subsidize and others do not, the result can be that the subsidizing countries are producing considerably more than they normally would.⁴⁴

⁴² The World Trade Organization. "Introduction". www.wto.org/introduction/whatiswto?

⁴³ *ibid*

⁴⁴ *ibid*

Governments usually give three reasons for supporting and protecting their farmers even if this distorts agricultural trade. They include:

- to make sure that enough food is produced to meet the country's need.
- to shield farmers from the effects of weather and swings in world prices
- to preserve rural society.

This chapter aims at examining the World Trade Organization's Agreement on Agriculture, its provisions and what each of them entails. The chapter also examines a number of developing countries that have implemented the Agreement on Agriculture.

The Agreement on Agriculture has three sub-divisions namely Market Access, Domestic Support and Export Measures/subsidies.

2.1 Market Access

Governments, by restricting access of imported products or by changing duties on them, reduce competition from imports and allow domestic producers to obtain higher prices for their products. If the country is an importer of the product and import duties are the sole impediment to imports, the internal wholesale price will be supported at around the duty paid import parity price which will vary over time with changes in world prices. These restrictions on imports take the form of tariffs as well as non-tariff barriers. Non-tariff barriers include:

- -variable import levies that change inversely with external market prices to prevent imports from entering at below specific support prices.

- -Import licensing arrangements that can restrict the quantities that may enter, who may import them and when.
- -import quotas that limit access to specific quantities.
- Voluntary export restraints under which suppliers face penalties if they supply more than specified.⁴⁵

In general, tariffication involved converting non-tariff measures into tariffs using the price-gap method, that is, the difference between domestic and world market prices. Thus if the world price for a product was \$150 per ton and the price inside the country was \$200 per ton, then a tariff of \$50 per ton would be the result of tariffication.⁴⁶

Once import restrictions had been converted to tariffs, reductions of these very same tariffs then followed. Reduction conditions differed with regard to whether the country is a developed or a developing country. For developed countries, reductions were by an average of 36 percent and a minimum of 15 percent over 6 years. On the other hand, developing countries' reduction was by an average of 24 percent and a minimum of 10 percent over a period of 10 years.⁴⁷

⁴⁵ I Roberts, T Podbury and M Hinchy. 2001. Reforming Domestic Agricultural Support Policies Through The WTO. ABARE Research Report 01.2. RIRDC Publication no 01/07, Canberra. p12

⁴⁶ *ibid* pp13

⁴⁷ WTO.2001. Introduction to the WTO: Trading Into the Future. Geneva WTO Publications.

Table 2.1

NUMERICAL TARGETS FOR CUTTING SUBSIDIES AND PROTECTION

The Reductions in Agricultural Subsidies and Protection Agreed in the Uruguay

Round

	Developed Countries	Developing Countries
	6 years: 1995-2000	10 years: 1995 -2004

Tariffs

Average cut for all agricultural

Products	36%	24%
----------	-----	-----

Minimum cut per product	15%	10%
-------------------------	-----	-----

Domestic Support

Total AMS cuts for sector

Base period 1986-88	20%	13%
---------------------	-----	-----

Export subsidies

Value of subsidies	36%	24%
--------------------	-----	-----

Subsidized quantities

Base period: 1986-90	21%	14%
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Source: WTO.2001. Introduction to the WTO: Trading Into the Future. WTO Publications. Geneva.

Having carried out the necessary calculations for all tariff lines, countries drew up their schedules of commitments for agricultural products showing bound rates and reduction commitments. The 1994 World Trade Organization signatories' schedules of commitments are to be implemented. For tariffs for example, each member's

schedule sets out for each product, the tariff rate, that is, the bound rate – the commitment not to increase the tariff above the stated level or ceiling – at the start and end of the implementation period.⁴⁸

The draft schedules, after being checked by other countries during a final verification phase were then included in each member's schedule of concessions. An exception was laid for developing countries. They were not required to carry out tariffication in the same manner as the developed countries, that is, they were not required to convert non-tariff measures into tariffs giving the same protection as estimated by taking the difference between domestic and border prices. Instead, they had opted to bind tariffs at arbitrary levels, often quite high or through a combination of tariffication for some products while binding others.⁴⁹

2.1.1. Tariff Peaks and Tariff Escalations

These were introduced as additional measures that would discourage the influx of cheap imports that would negatively affect the domestic industries. Tariff escalation is the tendency for import tariffs to increase as the degree of processing increases. For example, the European Union applied tariff is 18 percent for fresh grapes but 215 percent for grape juice. Tariff peaks, on the other hand, are bound or applied tariffs that are substantially higher than average tariffs for imported products.⁵⁰

⁴⁸M Ingco and J Croome . 2004. Trade Agreements: Achievements and Issues Ahead. Agriculture and the WTO. Washington D.C. World Bank Publications. p 110

⁴⁹ ibid

⁵⁰F. Freeman , J Melanie, B.Roberts, and B Beutre. 2000. The Impact of Agricultural Trade Liberalization on Developing Countries. Canberra ABARE Research Report. 2000.6, p 78

Exceptions to Bound Tariffs

The General Agreement on Tariff and Trade, GATT, provides for some exceptions when import restrictions can be imposed. Prior to the Uruguay Round, these provisions applied to industrial items but with the establishment of the Agreement on Agriculture, these very same exceptions do apply in agricultural trade. Thus, import restrictions in agricultural trade are permitted under the following:

- Protection of human, animal or plant life or health
- Reasons of public morals and protection of national treasures
- National security reasons
- Balance of payment difficulties
- General safeguard action
- Anti-dumping action

The tariffication process made the tariff process more transparent. However, it did not necessarily improve market access. Prior to the Uruguay Round, member countries permitted limited imports at relatively low tariff rates but charged higher tariffs on additional imports or did not allow imports over the quota limit. Under the Agreement of Agriculture, Tariff Rate Quotas were introduced, which involved application of a reduced tariff rate for a specified quantity of imported goods. Imports above this specified quantity take a higher tariff rate.⁵¹

2.1.2 Special Safeguard Provisions

With tariffication, greater transparency in trade was achieved. However, greater market access was not guaranteed. To ensure that the current market access was

⁵¹ *ibid*

maintained as well as improved upon, special agricultural safeguard measures for specific products were introduced. With the demise of non-tariff measures, farmers were concerned that the influx of cheap commodities would affect production in their countries. Rather than implement tariffs, the special agricultural safeguards (special safeguard provisions) were introduced for specific products. It entailed countries to undertake minimum import commitments for certain products rather than adopting tariffs for them.⁵²

The Special safeguard provisions – SSG – are available only to 39 WTO members that undertook the tariffication process. These provisions may be used only on imports outside the tariff quotas with additional tariffs imposed if import prices fall if or if volume rises. Special safeguard provisions allow these 39 WTO members to increase tariffs temporarily beyond bound levels when world prices drop sharply or there is a surge in imports in order to protect their domestic industries.⁵³

2.1.3 Market Access in various Developing Countries

In South Asia, a major factor that has driven agricultural trade policies has been food security. Key considerations have been the availability of adequate supplies and the desirability of low prices especially for food for the most vulnerable. On the import side, a perception of food security as being largely synonymous with high tariffs and extensive quantitative restrictions of imports of essential food crops in an attempt to foster import substitution. With regard to exports, extensive controls were applied primarily to staple crops such as rice, wheat and coarse grains to keep domestic prices

⁵²M Ingco and J Croome . 2004. Trade Agreements: Achievements and Issues Ahead. Agriculture and the WTO. Washington D.C. World Bank Publications

⁵³ ibid

below world prices. While trade policies in South Asian countries have clearly followed a more liberal trend over recent decades, the removal of trade barriers affecting agriculture has been far less pronounced than overall trade liberalization.⁵⁴

While applied tariffs on most agricultural goods have fallen since the early 1990, these tariffs remain relatively high for commodities classified as essential such as edible oils and oil seeds. Most South Asian countries have set very high ceiling bindings ranging from 100 percent to 300 percent for most products under the Uruguay Round of commitments, which places India, Bangladesh and Pakistan with the highest bound rates among WTO members. With regard to exports, the South Asian Countries have removed controls on agricultural commodities. However, export restrictions still apply for commodities such as sugar, oilseeds and cotton in India.⁵⁵

2.1.4 South East Asian Countries

South East Asian countries are said to have moved toward more liberal policies for their agricultural sectors. Tariffs on agricultural imports are relatively low and non-tariff measures have been cut back to a significant degree. Impetus for these changes has come in part from requirements attached to International Monetary Fund funding packages. Malaysia's agricultural trade policies are overall liberal in terms of tariff

⁵⁴P Anthukorala . 1999. Agriculture and the New Trade Agenda in the WTO 2000 Negotiations: Interests and Policy Options for South Asia. Paper Presented at the 1999 Global Conference on Agriculture and the New Trade Agenda from a Development Perspective: Interests and Options in the WTO 2000 Negotiations, Geneva, 1-2 October

⁵⁵R Farquee.1995. Government's Role in Pakistan Agriculture: Major Reforms are Needed. Policy Research Working Paper 1468, World Bank, Washington D.C.

and non-tariff measures except for relatively high specific duties applying to some “sensitive” products including rice, tropical fruit and tobacco.⁵⁶

In Indonesia, agricultural trade policies have been deregulated substantially since the onset of the financial downturn in late 1997. Agricultural tariffs have been reduced significantly with an average of 4.7 percent in 1998.⁵⁷

In the Philippines, agricultural trade policies tend to be less liberal. Support to farming in the Philippines is based primarily on restrictions to imports through tariff quotas, with in-quota tariffs reaching 50 percent for sugar and above quota tariffs of up to 65 percent.

NB: *In-quota tariffs: the reduced tariff that applies for the specified quantities that enters within a tariff-quota. Above quota tariff: tariff rate that applies for quantities of imports other than the specified quantities that are entering within a tariff quota.*⁵⁸

Before the Uruguay Round, Thailand was characterized by a wide array of policy arrangements/measures designed to raise domestic prices above world prices for key agricultural products. While Thailand is committed to reducing average tariffs on agricultural products from a pre-Uruguay Round rate of 49 percent to 36 percent by

⁵⁶ A. Tengku A 1998. Effects of Trade Liberalization on Agriculture in Malaysia: Institutional and Structural Aspects. Working Paper No. 34. Coarse Grains, Pulses, Roots and Tubers, Centre, Bogor, Indonesia. p14

⁵⁷ The World Trade Organization. 1998. Trade Policy Review. Geneva. WTO Publications p4

⁵⁸ The World Trade Organization. 1999. Trade Review Policy Geneva. WTO Publications p3

2004, the applied tariff rates on a number of key agricultural products are well below the bound rates.⁵⁹

In Africa, liberalization efforts in took root in the early 1990s courtesy of the Structural Adjustment Programmes introduced by the World Bank. These were introduced prior to the establishment of the WTO's Agreement on Agriculture.

In the Uruguay Round, Sub-Saharan developing countries selected ceiling binding tariff levels ranging from 100 percent to 600 percent. Coillier and Gunning in their study identified tariffs in Africa were higher than in any other region in the world, reason being that there is a lack of other sources of tax revenue to fund the expansion of the public service.⁶⁰

Ng and Yeats in their study point to the high frequency of non-tariff barriers affecting agricultural commodities in low-income sub-Saharan countries with quantitative restrictions being the most widely used non-tariff measures.⁶¹

In North Africa, Egypt has implemented policy reforms since the mid 1980s that has led to a more open trading regime for agriculture. The average tariff on agricultural imports was 18.5 percent in 1998 and most import bans relating to agricultural products appear to have been removed.⁶²

⁵⁹ N Poapongaskorn and P Sntanaprasit P. 1999. Experiences with the Uruguay Round Agreement on Agriculture. A Case Study of Thailand. Thailand Development Research Institute, Bangkok p25

⁶⁰ P Collier and P B Gunning. 1999. "Why has Africa Grown so Slowly?" Journal On Economic Perspective, Vol 13, No.3 Summer pp3-22

⁶¹ F Ng and A Yeats . 1999. Good Governance and Trade Policy: Are they the Keys to Africa's Global Integration and Growth? Policy Research Working Paper 2038, World Bank, Washington D.C.p4

⁶²The World Trade Organization. 1999. Trade Policy Review. Geneva. WTO Publications, p5

In yet another study, Ng and Yeats point to the high tariffs on key inputs including agricultural raw materials and crude fertilizers that place domestic producers at a substantial lost disadvantage relative to other agricultural exporters.⁶³

2.2 Domestic Support

Domestic support as dealt with in the present WTO Agreement on Agriculture has two main components – domestic subsidies and market price support.

2.2.1 Domestic Subsidies

Domestic subsidies involve transfers from domestic taxpayers to producers and are used for a number of purposes. Some are used to raise prices to producers. Others are used to increase domestic producers' competitiveness by reducing the prices of inputs or otherwise reducing costs. Others take the form of direct payments to increase the incomes of producers.⁶⁴

The nature of the subsidies influences their effects on production, consumption and trade. If they are to provide higher prices to producers than would apply on fully open and competitive markets or if they are to reduce prices for inputs or to provide cost reductions, they increase production and are clearly market distorting. If they are not related to current production or prices of outputs or inputs, their effects on production are less direct and may be less market distorting than if they were related to these factors.⁶⁵

⁶³ Op cit

⁶⁴ The World Trade Organization. 1999. Trade Policy Review. Geneva. WTO Publications, p5

⁶⁵ The World Trade Organization. 1999. Trade Policy Review. Geneva. WTO Publications, p8

Subsidies in the WTO Agreement on Agriculture fall within the category of domestic support and they are defined as follows:

- Distorting and therefore subject to agreed limitations – these subsidies are found in the Amber box
- Minimally distorting subsidies which are exempt from agreed limitations are found in the Green Box
- Production limiting and are exempt from agreed limitations found in the Blue Box⁶⁶

Domestic support, as defined by the WTO agreement on agriculture not only encompasses domestic subsidies but also what is referred to as market price support. In its broad conceptual form, market price support represents the difference between the prices received by producers and paid by consumers within a country and the prices that they would face if the market was completely open and undistorted.⁶⁷

In the WTO Agreement on Agriculture, price support is derived from the difference between administered support prices and fixed external reference prices that applied on the base period.⁶⁸

Price Support in its broader sense does not require administered support prices at all. Anything that maintains domestic prices at levels that differ from world prices constitute price support. Prices are supported in four main ways:

- Through market access limitations

⁶⁶ *ibid*

⁶⁷ *ibid*

For a country to be able to sustain a differential between the internal prices and world prices, there must be methods of preventing additional supplies from reaching the markets. Effective market access barriers are therefore used to maintain domestic prices above prevailing world prices.⁶⁹

It is assumed that a country imports a particular good in the absence of policy measures; the amount of imports can be reduced by implementing a market access barrier. The overall level of market supplies is reduced thereby increasing internal prices

Through Export Measures

Market access barriers on their own can only raise internal prices by reducing imports. Once all imports are excluded from the market, other policy arrangements are required to further raise internal prices. Export subsidies are one of the policies that can be used to further raise internal prices.⁷⁰

An export measure can be defined as any action by a government body that only applies to exports and that alters the level of exports from a country.⁷¹ This includes measures encouraging exports and those limiting or prohibiting exports.

Export encouraging measures take a number of forms. They include explicit export subsidies, bonuses paid by government agencies for increasing exports and transport

⁶⁸I. Roberts I, T. Podbury and M. Hinchy M. 2001. Reforming Domestic Agricultural Support Policies Through WTO. ABARE Research Report. 021.2 RIRDC Publication no. 01/07, Canberra. P74

⁶⁹ ibid

⁷⁰ T Podbury, I Roberts, A Tieulu and B. Beutre B. 2001. Agricultural Export Measures in WTO Negotiations, ABARE Research Report. Canberra 01.12 RIRDC Publication no.01/134, p54

and handling or inspection services that are provided on more favourable conditions for exports on goods for sale within the country. Whereas export measures function as a tool of disposing off surplus production, the main objective of export measures is to raise and stabilize internal prices to farmers so that their incomes are higher and more stable.⁷²

All export measures operate by redirecting products from the domestic market to world markets.

This form of support is found mostly in developed countries whereby government intervention in managing markets takes the form of government set target prices and or minimum prices that are used as triggers for government purchases to take quantities off markets. In some instances, internal prices are managed within a band with upper and lower bounds. The quantities that are purchased by intervention agencies are then stored until prices rise again so that they can be released into the market, thereby maintaining stabilized prices. For example, the European Union cereal prices are partly maintained through intervention purchasing and sale along with other measures such as limits on imports and export subsidies. Intervention and target prices are determined each year with an aim of managing internal prices around the target price. The intervention price is designed to place a floor under the internal market prices. When it appears that internal prices will fall below the intervention level, intervention agencies in the member countries enter the market to purchase quantities to support the price. The resultant intervention stocks may then be held for

⁷¹ Ibid

⁷² ibid

late sale when prices rise, used for non-market purposes such as aid for charitable institutions or overseas aid or exported at a loss.⁷³

By governments supplementing prices that producers obtain from the market through payments that increase their returns. These include storage subsidies, direct subsidies linked to current production or prices and subsidies on inputs. Examples include marketing loan gains, loan deficiency payments and cotton user marketing payments (competitiveness subsidies) in the United States.⁷⁴

Different forms of domestic support have different effects on production, consumption, trade and market price. Thus the WTO Agreement on Agriculture, that aims to reduce distortions through international negotiations, treats each method of domestic support according to the degree of market distortion involved.⁷⁵

Each of the various forms of domestic support in individual countries was classified under three headings. For convenience, these classifications have been commonly referred to as “boxes” – amber, green and blue box support.⁷⁶

2.2.2 Amber Box Support

It includes forms of support that are considered market distorting and subject to the agreed reductions. It includes all forms of domestic support other than measures that

⁷³ I Roberts, T Podbury, and M. Hinchy. 2001. Reforming Domestic Agricultural Support Policies Through the WTO. ABARE Research Report 01.2. Canberra. RIRDC Publication no.01/07 p89

⁷⁴ WTO. 1999. Notification on Domestic Support Commitments: United States; G/AG/H/USA/27, Geneva. WTO Publications

⁷⁵ *ibid*

⁷⁶ *ibid*

are exempted under the green and blue boxes. Support within the amber box is quantified to provide an aggregate measurement of support (AMS).⁷⁷

This consists of price support that arises from measures that maintain domestic prices above world prices and non-exempt domestic subsidies. Levies paid by producers are subtracted from AMS.⁷⁸

The AMS for a member is determined by adding price support and product specific non-exempt support for separate commodities, to non-commodity specific support that is not exempted under the blue or green boxes. Although the AMS is calculated in this disintegrated way, the domestic support base period selected was between 1986-1988. Each country is then obliged to carry out the domestic support commitments, which entail a 20 percent cut in non-exempt domestic support for agriculture as a whole from the level in the base period in six years for developed countries (1995-2000) and ten years for developing countries (1995-2004).⁷⁹

2.2.3 Green Box Support

Green Box support is support that is deemed to be minimally distorting to trade or to production under annex two of the WTO Agreement on Agriculture. It is exempted from agreed reductions and must fall within both of the two categories namely that it is provided through a publicly funded government program in order to ensure that it does not qualify as a direct support subsidy that distorts production and secondly that

⁷⁷ *ibid*

⁷⁸ I Roberts, T Podbury and M Hinchy . 2001. Reforming Domestic Agricultural Support Policies Through WTO. ABARE Research Report 01.2. Canberra. RIRDC Publication.p100

⁷⁹ *ibid*

it does not have the effect of providing price support to producers which in turn tends to distort production and trade.⁸⁰

Blue Box Support

Blue box support is for direct payments under production limiting programs. These are exempted from agreed cuts in domestic support if:

- Such payments are based on a fixed area or yields or
- Such payments are made on 85 percent or less of the base level of production.⁸¹

2.2.5 Special exemptions

In addition to the exemptions from agreed reductions for items in the green and blue boxes, there are special exemptions applying for developing countries.⁸²

Under these exemptions, government assistance to encourage agricultural and rural development, investment subsidies that are generally available to agriculture in developing member countries and agricultural input subsidies generally available to low income or resource poor producers are excluded from AMS calculation.

Special provision is made for non-inclusion of domestic support in the AMS calculation when it represents only a small proportion of the national value of production of a member under what is termed a de minimis provision.

⁸⁰ *ibid*

⁸¹ *ibid*

⁸² *ibid*

Under this provision, a developed member country can provide product specific domestic support of up to 5 percent of the value of production of the supported item and non-product specific support of up to 5 percent of the value of the member's total agricultural production. For developing countries, the de minimis level is 10 percent for product specific support and 10 percent for non-product specific support.⁸³

2.2.6 Domestic Support in Developing Countries

Traditionally, governments in most developing countries have tended to subsidize agricultural inputs namely fertilizers irrigation, seeds, electricity and credit.

As a way of partly offsetting the bias against agriculture caused by export taxation and industry policy.⁸⁴

The role of domestic producer support policies assumed added significance to the predominantly agrarian economies in South East Asia as well as in South Asia in an attempt to counteract the rapid decline in world prices of agricultural products in the 1980s. Equally, a number of developing countries concerned about ensuring access to basic food by a growing population have typically used consumption subsidies to keep food prices down.⁸⁵

On the production side, these support arrangements are often said to be designed to provide economic, social, technical and administrative assistance to agricultural producers and include:

⁸³ *ibid*

⁸⁴ F Freeman, J Melanie, I Roberts, D Vanzetti, A Tielu and B Beutre B. 2000. *The Impact of Agricultural Trade Liberalization on Developing Countries*, ABARE Research. Canberra. Report 2000.6, p98

⁸⁵ R Bautista. 1993. *Trade and Agricultural Development in the 1980s and the Challenges for the 1990s: Asia*, *Agricultural Economics*, vol 8 p63

- market price support; measures that create a wedge between domestic prices received by producers and world market prices. These measures include tariffs, import quotas, administered prices and trade licensing arrangements.
- Income support; direct payments to producers without constraints or conditions to produce specific commodities or to use specific inputs.
- Input subsidies: explicit and implicit payments to producers that reduce the cost of specific fixed or variable inputs.
- General services; measures that reduce costs to producers in the long term but that are not directly receivable by producers (for example research and advisory services, training services and infrastructure services)
- Regional assistance programs; payments limited to producers in specific regions considered to be disadvantaged on the basis of neutral and objective criteria clearly spelt out in law or regulation.⁸⁶

Under the WTO Agreement on Agriculture, certain forms of domestic support are exempt from reduction and as earlier noted have been categorized under the green box (government services that include research, training, infrastructure services, stockholding for food security objectives and domestic aid), decoupled direct payments (such as decoupled income support, income insurance, disaster relief and regional assistance programs), support through investment aids, payments under environmental programs and payments under regional assistance programs.

⁸⁶ F Freeman, J Melanie, I Roberts, D Vanzetti, A Tielu A and B Beutre B. 2000. The Impact of Agricultural Trade Liberalization on Developing Countries. ABARE Research Report. Canberra 2000.6 p112

Measures involving direct payments under production limiting arrangements that conform to certain criteria are also exempt and are sometimes called “blue box” exemptions.

Generally, the WTO Agreement on Agriculture exempts reductions to measures/policies grouped under the Green Box and Blue Box. As members of the WTO, developing countries are beneficiaries of these exemptions. Moreover, special provisions are provided for developing countries which include additional exemptions that include additional exemptions that permit developing countries to use and they include investment subsidies, provision of agricultural input subsidies to low income and resource poor producers and support to producers in order to encourage diversification from growing illicit narcotic crops.⁸⁷

Developing countries, as earlier highlighted, are entitled to a de minimis provision of 10 percent, each for commodity specific support and non-commodity specific support. Government outlays on domestic producer support in developing countries have tended to be below the de minimis level because of budgetary pressure in many of the developing countries.⁸⁸

Developing countries tend to target their support to only a subset of commodities with adverse implication for the allocation of resources within agriculture. In countries where price support is provided, it tends to be allocated to traditional crops such as rice and sugar. In the Philippines, for example, domestic support in 1997 was provided exclusively for rice and corn. There is evidence that government

⁸⁷ *ibid*

intervention in the rice and corn industries has had a negative impact on the allocation of agricultural land and labour. In particular, agriculture in the Philippines has not diversified away from traditional crops that have relatively low returns per hectare in which the Philippines has limited comparative advantage hence constraints in the growth of agricultural output value and rural incomes.⁸⁹

With regard to non-product specific support, the main form of support provided in developing countries is input subsidies. Many developing countries subsidize certain agricultural inputs. These subsidies can apply to traded inputs such as fertilizers, electricity and seeds and non-traded inputs through irrigation systems and interest rate subsidies on credit.⁹⁰

However, from the perspective of efficient resource allocation, the provision of subsidized inputs distorts incentives by encouraging the above optimal use of inputs and in some cases, without achieving the intended outcomes. For example, in Pakistan, the provision of farm machinery at subsidized prices has been found to have greater labour displacing than output enhancing effects.⁹¹

2.3 Export Measures

Market access barriers on their own can only raise internal prices by reducing imports. Once all imports are excluded from the market, other policy arrangements are

⁸⁸ *ibid*

⁸⁹ East Asia Analytical Unit. 1998. *The Philippines: Beyond the Crisis*, Department of Foreign Affairs and Trade, Canberra. p.15

⁹⁰ The World Trade Organization. 1999. *Trade Policy Review*. Geneva. World Trade Organization Publishers. P.4

required to further raise internal prices. Export subsidies are one of the policies that can be used to further raise internal prices.⁹²

An export measure can be defined as any action by a government body that only applies to exports and that alters the level of exports from a country.⁹³ This includes measures encouraging exports and those limiting or prohibiting exports.

Export encouraging measures take a number of forms. They include explicit export subsidies, bonuses paid by government agencies for increasing exports and transport and handling or inspection services that are provided on more favourable conditions for exports on goods for sale within the country. Whereas export measures function as a tool of disposing off surplus production, the main objective of export measures is to raise and stabilize internal prices to farmers so that their incomes are higher and more stable.⁹⁴

All export measures operate by redirecting products from the domestic market to world markets. By redirecting supplies away from the domestic market, the internal price rises. This results in increased domestic production and reduced domestic consumption.⁹⁵

Because of the extent to which export subsidies distort competition, members agreed to introduce special rules for controlling their use. Export subsidy reduction

⁹¹R. Faruquee .1995. Government's Role in Pakistan Agriculture: Major Reforms are Needed, Policy Research Working Paper, 1468, World Bank, Washington D.C. p.116

⁹²T. Podbury, I. Roberts , A.Tieulu and B.Beutre. 2001. Agricultural Export Measures in WTO Negotiations, ABARE Research Report 01.12. Canberra RIRDC Publication no.01/134, p118

⁹³ Ibid

⁹⁴ ibid

⁹⁵ ibid

commitments are based on use during the years 1986-1990 but members were given the flexibility of using 1992 levels if these were higher than in the base period.

Members using export subsidies agreed to reduce them while those not using them agreed not to start using them. Twenty-five members have export subsidy commitments covering 428 product groups.⁹⁶⁹⁷

⁹⁶ *ibid*

2.4 Summary

The chapter has examined comprehensively what the WTO's Agreement on Agriculture entails, that is, its various provisions and what each requires from developing and developed countries to ensure that its provisions are adequately implemented.

The chapter also illustrated how trade barriers, certain domestic support policies and export subsidies distort trade and how the WTO's Agreement on Agriculture seeks to reduce and eventually eliminate these distortions in order to make agricultural trade more "transparent" as well as more predictable.

The chapter also examined various developing countries and their experience in adopting the Agreement on Agriculture in the process of reforming the various agricultural policies in their countries in order to make them less distorting.

CHAPTER THREE

AGRICULTURAL POLICIES IN KENYA PRIOR TO IMPLEMENTATION OF THE WORLD TRADE ORGANIZATION'S AGREEMENT ON AGRICULTURE

3.0 Introduction

This chapter sets out to examine the agricultural policies that were present in Kenya before implementation of the WTO's Agreement on Agriculture. It examines the kind of policies that were adopted and how they impacted on Kenya's agricultural sector. This is carried out in order to examine what was the impact of implementation of these policies and were they similar to the WTO's Agreement on Agriculture with regard to whether the nature of the policies implemented are similar to those of the agriculture agreement.

The chapter will examine two phases under which the various policies were implemented namely the period under which the agricultural sector was governed by government controls, that is, between 1964 to 1980 and the second phase between 1980 to 1993, when government controls had to be eliminated in order to introduce liberalization policies under which market forces were to replace government controls.

3.1 Agricultural Policies Between 1964 to 1980

The first set of policies for the period 1964-1980 emphasised government intervention in nearly all aspects of agricultural production and marketing. This meant the government had control on almost all institutions involved in agricultural

development. Therefore, all agricultural policies were based on principles outlined in the Sessional Paper Number 10 on African Socialism.⁹⁸

These principles defined the state as the entity that not only maintains law and order but also outlines and implants social and economic programs and hence the government's principal role in agricultural production and marketing.⁹⁹

Government intervention was particularly prevalent in marketing although it controlled production to some degree by stating what commodities were to be grown in certain regions of the country. Government control in marketing was carried out through state institutions, which were granted a monopoly status in marketing of the commodities. These commodities were listed under scheduled crops and livestock products, and were identified by the government as being important commodities to the country's economy hence the attention they received.¹⁰⁰

These commodities had a board or an authority responsible for their production and marketing, for example milk was governed by the Kenya Dairy Board and the Kenya Co-operative Creameries, tea by the Kenya Tea Board and Kenya's Planter's Co-operative Union, sugar by the Kenya Sugar Authority and maize and other cereals by the National Cereals and Produce Board. These institutions were used by the government to exercise outright production and marketing control over various agricultural sub-sectors.¹⁰¹

⁹⁸ World Bank. 1997. *The State In A Changed World. The World Development Report*. Washington D.C. Oxford University Press. p.4

⁹⁹ *ibid*

¹⁰⁰ H Nyangito and J Okello . 1998. *Kenya's Agricultural Policy and Sector Performance: 1964-1996*. Nairobi. Institute of Policy Analysis and Research p5

In the same paper, Nyangito and Okello state that the controls the government exercised worked well in the first decade after independence. It is noted that in this particular period there was a notable increase in maize production whereas other crops experienced a steady production. This is as exemplified in the table below

Table 3.1

Production of selected crops in Kenya 1964-1980 ('000metric tonnes)

<u>YEAR</u>	<u>MAIZE</u>	<u>WHEAT</u>	<u>TEA</u>	<u>COFFEE</u>
1964	229.5	128.9	18	43.7
1965	187.7	143.0	20.2	37.2
1966	295.7	132.2	19.8	51.2
1967	403.2	179.1	25.4	52.2
1968	511.2	238.9	22.8	33.8
1969	619.2	222.6	29.8	45.6
1970	727.2	215.5	36.1	52.8
1971	835.2	176.9	40.2	54.9
1972	943.2	170.3	36.3	58.3
1973	1051.2	149.6	53.3	74.7
1974	1159.2	137.9	56.6	72
1975	1267.2	157.8	53.4	65.4
1976	1375.2	161.9	56.7	73.8
1977	1597.1	180.7	62	97.3
1979	1620	157.5	93.4	72.9
1980	1606.5	155.1	99.3	91

Source: Various Statistical Abstracts

The table above illustrates the trends in production of key agricultural commodities of paramount interest is the rapid increase in maize production experienced within the period under review, that is, between 1964 to 1980. Other major crops recorded a steady increase in production.

The marketed volumes of food crops however fluctuated while there was a steadily rising trend for export crops. This fluctuation was as a result of parallel marketing system for food crops outside the formal marketing systems despite government controls. This however did not occur for export crops.

All in all the agricultural sector performed fairly well within the period under review, that is, 1964 to 1980 with the export sub-sector outpacing the domestic sub sector.

The policies responsible for this performance include land reforms, agricultural pricing and marketing and public investment in research, extension and other agricultural services.

Land reforms took place soon after independence saw the former white settlers' farms being distributed to small-scale farmers who were now entitled to grow cash crops that they had initially been prohibited. As a result of the land reforms, the small-scale farmers contributed significantly to agricultural production. Thus by 1980, small-scale farmers contributed about 50 percent of total production up from 37 percent in 1964.¹⁰²

¹⁰² W M Senga. 1976. "Kenya's Agricultural Sector". In J K Heyer, and W. M. Senga (eds). *Agricultural Development in Kenya. An Economic Assessment*. Nairobi. Oxford University Press. p. 67

During this period, the government through the Ministry of Agriculture contributed about 10 percent of its annual budget to agricultural research. In return this saw major breakthroughs in the release of high yielding varieties of maize and wheat. Moreover, cash crops such as coffee, tea, sugarcane and cotton enjoyed special research programmes funded through their respective parastatals. To ensure that farmers adopted the finds of the research, the government expanded agricultural extension, both in quality and quantity. For example there were 5500 Front-Line extension workers in 1979 compared to 3600 in 1963.¹⁰³

Through input price subsidization and licensing of distributors, the government promoted the use of purchased inputs. Wide distribution and provision of the inputs was encouraged through farmers' co-operative societies and crop-marketing boards and authorities, both of which doubled as credit sources for farmers.¹⁰⁴

The government extended subsidized credit to farmers through the statutory Agricultural Finance Cooperation while commercial banks were required to allocate a proportion of their reserves to agricultural lending.¹⁰⁵

What significantly boosted agricultural production during this period were arrangements for marketing agricultural produce and controlled pricing. As earlier

¹⁰³ J Heyer and Waweru. 1976. "The Development of Small Farm Areas". In J Heyer, J.K. Maitha and W. M. Senga eds. *Agricultural Development in Kenya. An Economic Assessment*. Nairobi. Oxford University Press. p. 101

¹⁰⁴ Ibid.

¹⁰⁵ H Nyangito and J Okello. 1998. *Kenya's Agricultural Policy and Sector Performance, 1964-1996*. Nairobi. Institute of Policy Analysis and Research. p.13

highlighted in the chapter, commodities identified as being pertinent to the economy were marketed through a number of statutory marketing boards. The boards provided ready-market outlets for export crops.¹⁰⁶

The government controlled commodity pricing through the Ministry of Agriculture, which were implemented by the marketing boards. The official producer prices were most favourable for export crops due to deliberate government policy of promoting the production of export crops and protecting consumers through low prices of commodities.¹⁰⁷

Despite experiencing agricultural growth in the first decades after independence as a result of the success of the agricultural policies introduced, this trend was not witnessed in the mid 1970s where agricultural growth begun to decline and this was mainly due to inefficiencies experienced in marketing, limited expansion of small holder farming, limited development and use of new technologies restriction on private trade and processing of commodities and deteriorating infrastructure. These internal factors were compounded by the economic crisis caused by oil shocks of the 1970s and bad weather.¹⁰⁸

With regard to marketing, the government proved to be incompetent in carrying out functions, which would have otherwise been effectively executed by the private

¹⁰⁶ J B Wyckoff and K W Gitu K W. 1984. "Market Performance of Kenya's Commercial Dairy Industry." Working Paper. Nairobi. Development Planning Division, Ministry of Agriculture and Livestock Development.

¹⁰⁷ H Nyangito and J Okello. 1998. Kenya's Agricultural Policy and Sector Performance: 1964-1996. Nairobi. Institute of Policy Analysis and Research p12

¹⁰⁸ *ibid*

sector. The parastatals, which had a monopoly status failed to achieve their goals, which included price and income stabilization for farmers, efficient and inexpensive nationwide distribution of commodities to consumers without government subsidies and buyers of the last resort.¹⁰⁹

The pricing policy discouraged private sector investment in storage and transportation facilities for the food crops in particular. The government investment pattern also changed; more incentives were delivered towards industrial and commercial sectors compared to agriculture. The expenditure on agriculture for instance declined from 11 percent in 1965/66 to about 8 percent in 1979/80.¹¹⁰

3.2 Era of Policy Reforms

This period saw the introduction of liberalized market policies that would replace the government controls. The policies were implemented in two phases: the first phase was between 1981 to 1992 when there was mere documentation of the liberal market policies and intermittent implementation. The second phase, which was in 1993, saw the actual implementation of the policy reforms that had been introduced earlier on.

3.2.1 The Period between 1981-1992

The implementation of policy reforms in this period was viewed as unimpressive and was characterized by official ambiguity and covert and overt resistance.¹¹¹ Thus while the government gave the impression that it was not opposed to agricultural and other economic reforms, it made only half-hearted efforts to implement them. For

¹⁰⁹ G Swamy. 1994. "Kenya: Patch, Intermittent Commitment." In Hussain and Farquees (eds). *Adjustment in Africa. Lessons from Country Case Studies*. The World Bank. Washington. D.C. Oxford University Press. p 40

¹¹⁰ *ibid*

example, regarding grain marketing, the reforms emphasised restructuring of the National Cereals and Produce Board to confine its role to being the buyer and seller of the last resort but the government insisted on some central regulation for food security reasons. As a result, there was an on and off removal of controls until 1993 when the sub sector was fully liberalized.¹¹²

Although there was a modest growth in agricultural production averaging 3.5 percent per annum during the first period of implementation of the reforms 1980 to 1990 - this growth was followed by a steady decline in the second phase ranging from minus 0.4 percent in 1992-1993.

Reasons for decline in agricultural growth included poor implementation of policies, bad weather, rapid population growth and shortage of land in the high and medium potential areas of agricultural production and a decline in public investment in agriculture. The withholding of external aid on the advice of the World Bank and International Monetary Fund in 1991 and 1992 was also a factor, which denied the country foreign exchange resources and financing imports of agricultural inputs and agricultural investment.¹¹³

Substantial implementation of agriculturally policy reforms towards liberalized markets in Kenya was started in 1993. Coupled with good weather conditions, an upsurge in agricultural growth occurred and the first positive growth rate in the 1990s

¹¹¹ G K Ikiara, M A Juma and J O Amadi J. O. 1993. "Agricultural Decline, Politics and Structural Adjustment in Kenya. "In Gibbons (ed). Social Change and Economic Reform in Africa. Uppsala:Nordiska Africainstitute p101

¹¹² ibid

was recorded at 2.8 percent in 1993 to 1994 followed by 4.8 percent in 1994-1995.¹¹⁴

The impacts of the policy reforms on development of the agricultural sector are mixed. This will be examined by analysing the impact of the policies on the performance of the main sub-sectors namely food and cash. Effects are manifested in volumes of the commodities produced and marketed and prices received by producers.

3.3 Food Sub-sector

The food production, which had declined in the late 1970s and early 1980s, begun to pick up in 1984 reaching the highest in 1987 as depicted by the table below.

Production begun to decline again for most food crops in 1988 except for sugar whose decline begun in 1991. This decline has been attributed to poor pricing and marketing policies, high input costs, low levels of use of inputs and drought particularly in 1980 to 1981 and 1983-1984 seasons.¹¹⁵

Table 3.2

Total Production of Major Food Crops. (metric tonnes)

<u>YEAR</u>	<u>MAIZE</u>	<u>WHEAT</u>	<u>SUGAR-CANE</u>
1980	217.9	204.6	3972.2
1981	472.9	314.4	3822.0
1982	571.3	234.7	3107.7
1983	637.1	242.3	3188.1

¹¹³ H Nyangito and L Kimenye. 1996. "Agricultural Development Policies in Kenya. 1963-1995." Proceedings of Workshop on "From Sessional Paper No. 10 to the Era of Structural Adjustment: Towards Indigenising the Policy Debate. Nairobi. Institute of Policy Analysis and Research. P12

¹¹⁴ H O Nyangito, J Okello, and J Kimura. Provision of Agricultural Services in a Liberalized Economy: The Case of the Small-holder Tea Subsector. Nairobi. Institute of Policy Research and Analysis. P12

¹¹⁵ K W Gitu. 1992. "Agriculture Date Compendium". Ministry of Planning and National Development. Government of Kenya. Unpublished Technical Paper . pp92-110

1984	560.6	135.4	3611.2
1985	582.9	193.5	3463.0
1986	669.5	224.7	3551.6
1987	651.9	148.3	3698.0
1988	485.30	220.20	3835.20
1989	625.90	233.20	4261.20
1990	509.30	78.50	42000.00
1991	303.50	199.00	4047.90
1992	512.20	175.80	3656.60
1993	478.80	181.40	3956.60
1994	316.00	105.20	3308.20
1995	401.00	125.50	4034.90
1996	295.50	130.00	3870.50

Source: Various Statistical Abstracts

Figure3.1

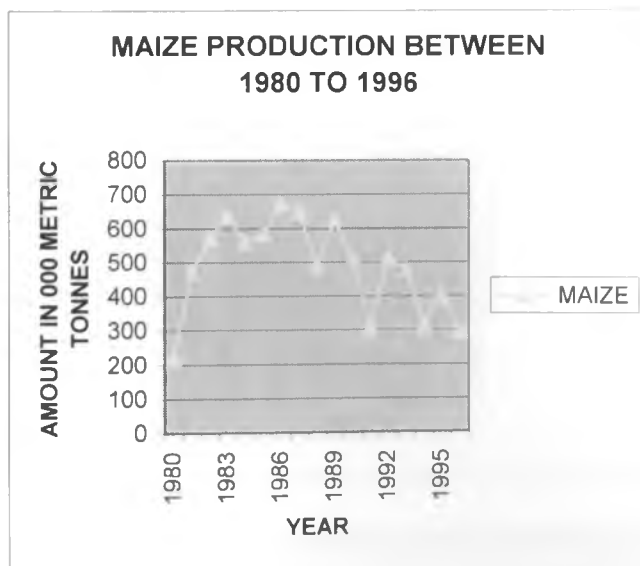


Figure 3.2

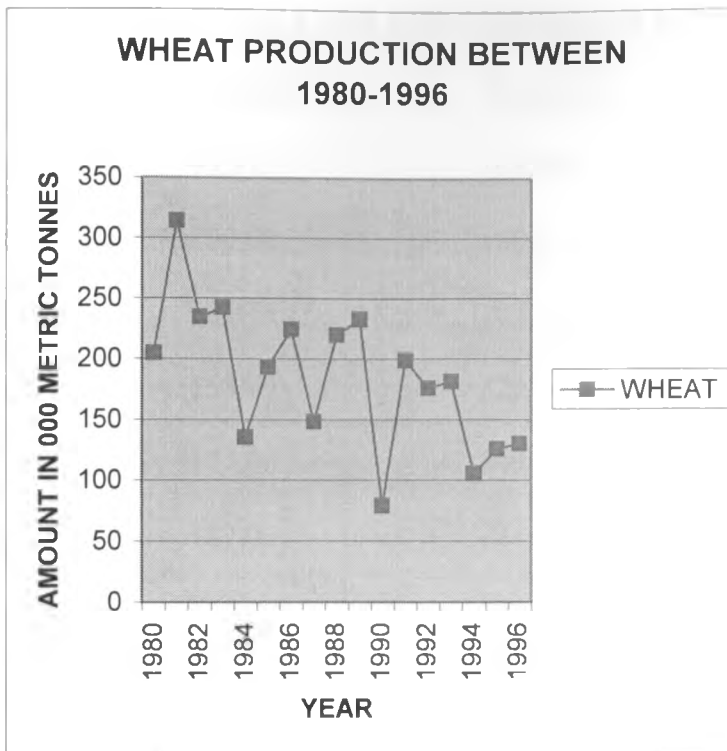
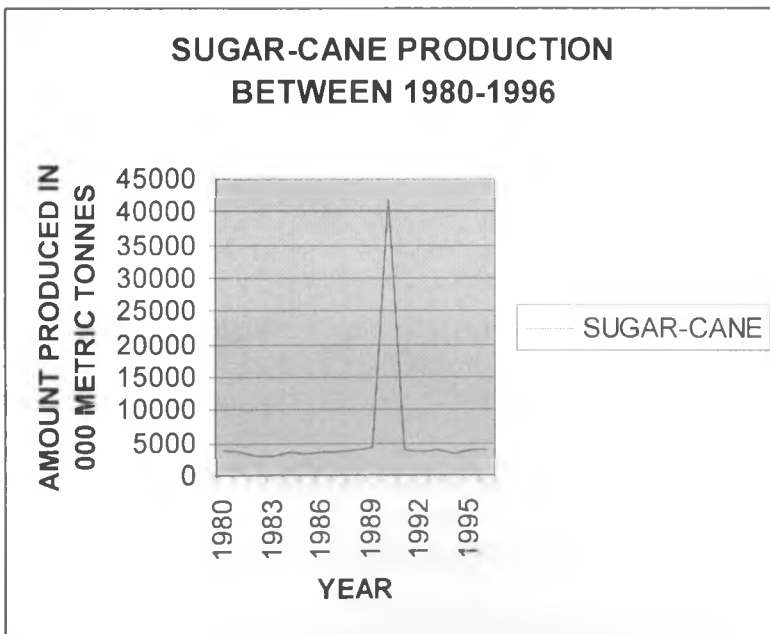


Figure 3.3



With the liberalization of pricing and marketing of the food sector in 1993, there was a dramatic producer price increase for all commodities except for rice whose prices were still under the control of the National Irrigation Board.

Table3.3**Prices of Major Food Crops 1980-1995(Ksh per 100kg)**

<u>YEAR</u>	<u>MAIZE</u>	<u>WHEAT</u>	<u>RICE</u>
1980	95.37	163.86	150.44
1981	100.00	166.67	147.96
1982	107.74	187.58	150.07
1983	153.90	222.20	178.00
1984	175.00	269.00	178.00
1985	187.00	271.00	343.00
1986	198.00	293.00	348.00
1987	208.88	295.00	338.00
1988	214.23	340.57	388.00
1989	223.32	342.80	388.00
1990	264.67	450.00	-
1991	287.01	500.00	-
1992	239.65	385.67	159.60
1993	245.78	403.81	117.12
1994	950.00	1200.00	524.50
1995	800.10	1300.00	408.57

Source: Various Statistical Abstracts

The table above clearly indicates a significant increase in prices of the mentioned food crops once liberalization policies were implemented in the year 1993. The decrease in rice prices in 1995 is explained by the presence or rather the monopoly that was still being exercised by the National Irrigation Board at the time.

The policy reforms resulted to a decrease in volumes of marketed output through formal market channels for main food commodities - maize, wheat, sugar, rice and milk - and this has seen the entrance of private firms and individuals in the trade of food commodities unlike in the era of controls when the public institutions had the responsibility of marketing the products. ¹¹⁶

The domestic distribution of sugar, rice, wheat and maize also witnessed the entrance of private firms and individuals who took over public institutions such as the Kenya National Trading Corporation and the National Cereals and Produce Board which had the monopoly. The liberalization of trade in these commodities has also led to an increase in imports of food stuffs mainly rice, wheat and sugar. Cheap imports however dampen the producer prices and create competition for domestic supplies thereby resulting in disincentives for increased domestic production. ¹¹⁷

Table 3.4

Imports of Major Food Crops 1980-1994 (000"metric tonnes)

<u>YEAR</u>	<u>MAIZE</u>	<u>WHEAT</u>	<u>RICE</u>	<u>SUGAR</u>
1980	32.3	48.5	1.2	3.1
1981	77.3	49.2	4.6	2.1
1982	89	139.3	11.9	2.2
1983	0	81.9	44.8	2.4
1984	405.4	149.9	0.5	1.7
1985	125.5	14.8	0.6	39.1
1986	0.7	115.3	61.7	126.3
1987	0	217.9	39.2	49.1

¹¹⁶ Kenya. 1997. Development Plain 1997-2000. Nairobi, Government Printing Press

Table 3.4**Imports of Major Food Crops 1980-1994 (000"metric tonnes)**

<u>YEAR</u>	<u>MAIZE</u>	<u>WHEAT</u>	<u>RICE</u>	<u>SUGAR</u>
1988	0	75.6	10	42
1989	0	123.5	30	80
1990	0	322.6	28	64
1991	0	242.6	61.2	59.7
1992	414.9	100.8	58.9	153.8
1993	12.9	214.4	37.2	184.8
1994	650.4	353.1	93.5	256.1

Source: Various Statistical Abstracts

The table above illustrates key food crops and their imports carried out between 1980 up until 1994. Prior to stringent liberalization policies taking root in 1993, the importation of maize was minimal. However, the large amount of maize imported in 1984 as well as 1985 was as a result of the drought that was experienced in the year 1984.¹¹⁸ In the later years, that is 1986 to 1991, maize imports declined up until liberal policies were adopted in the agricultural sector that saw the maize sub-sector begin importation of maize and this was clearly evident in 1994 when there was a record high of 650 thousand tonnes of imported maize.

With regard to wheat, Kenya has always had to import the commodity as the country's domestic production is not sufficient to meet the demands of the whole population and hence this explains the importation trend witnessed in the table above.

¹¹⁷ H Nyangito and J Okello J. 1998. Kenya's Agricultural Policy and Sector Performance. Nairobi.

Kenya has always been sufficient in sugar production¹¹⁹ and when faced with a deficit, she has had to import. However, with liberalization, the domestic producers have had to face stiff competition from cheap imported sugar that has forced local sugar producers to incur heavy losses and has threatened destabilization in the sugar sub-sector.¹²⁰

Nyangito in his paper, Kenya's Agricultural Policy and Sector Performance 1964 to 1996, argues that the impacts of the policy reforms on the food sub-sector have yet to improve profitability of producing the commodities because the real prices received are still low while the costs of inputs are high.¹²¹

3.4 The Cash Crop Sub-sector

The impact of liberal policies on production in the cash crop sub-sector was mixed. As the table below indicates, there was an increasing trend for coffee and then a decline was experienced, there was an increasing trend for tea and a decreasing trend for cotton and sisal. The trends may be explained by the price incentive structure. There was a constant increase in producer prices for tea and coffee while producer prices remained constant for cotton and sisal until 1992 when market reforms on exchange rates led to a rapid increase in prices.

Institute of Policy Analysis and Research. p. 3

¹¹⁸ Government of Kenya. 1985. Economic Survey. Central Bureau of Statistics. Nairobi p.110

¹¹⁹ Government of Kenya. 1995. Economic Survey. . Ministry of Planning and The Central Bureau of Statistics. Nairobi. p.111

¹²⁰ Ibid

¹²¹ H Nyangito and J Okello . 1998. Kenya's Agricultural Policy and Sector Performance. 1964-1996. Nairobi. Institute of Policy Analysis and Research. p. 20

Table 3.5

Quantities of Cash Crops produced for sale between 1980 to 1995 (000 metric tonnes)

<u>YEAR</u>	COFFEE	TEA	COTTON	SISAL
1980	91.3	89.9	38.1	46.9
1981	90.7	90.9	25.5	41.3
1982	88.4	95.6	24.4	50.0
1983	95.3	119.3	25.8	49.7
1984	118.5	116.2	22.8	51.4
1985	96.6	147.1	38.0	45.0
1986	114.9	143.3	25.4	41.5
1987	104.9	155.8	23.8	37.0
1988	128.7	164.00	10.90	36.90
1989	116.90	180.60	13.80	37.40
1990	103.90	197.00	18.80	39.30
1991	86.40	203.60	8.40	38.80
1992	85.30	188.10	15.10	34.10
1993	75.10	211.10	13.40	35.10
1994	81.50	209.40	1.80	34.00
1995	95.8	244.50	0.20	27.90

Source: Various Statistical Abstracts

Table 3.6**Prices for Major Crops in Kenya 1980-1995 (Ksh/100kg)**

YEAR	COFFEE	TEA	COTTON	SISAL
1980	2634.40	1591.10	331.2	423.1
1981	2258.40	1772.34	340.9	412.00
1982	2780.00	1940.78	351.9	503.3
1983	3488.00	2184.00	380.8	625.00
1984	3844.00	5184.00	448.0	674.00
1985	3972.0	3366.00	480.0	669.00
1986	5974.00	3382.00	470.0	743.00
1987	3938.00	2500.00	480.0	705.14
1988	4465.0	2037.19	585.89	744.80
1989	4312.0	2717.00	570.50	892.00
1990	3636.00	3521.00	981.00	918.20
1991	4654.0	3848.00	998.00	944.00
1992	4146.0	2924.64	327.30	944.00
1993	4243.00	3009.57	536.36	868.00
1994	14427.80	8747.50	1913.50	1100.00
1995	15966.00	6786.80	14427.80	1915.00

Source: Various Statistical Abstracts

In real terms, the prices for cotton and sisal declined. The upward trend of producer prices since 1992 continued for coffee, sisal and cotton but begun to decline for tea from 1994 because of low world market prices.

The impact of the reforms on the agricultural sector as a whole is further illustrated by market output indices. The table below illustrates marketed output growth fluctuated over the years since 1982. Only export crops have shown on average, an increase in growth. Levels of marketed output for food and industrial crops have tended to be below what was achieved in 1982, with the steepest decline occurring between 1990-1994. These fluctuations explained by producer prices, input use, government expenditure in agricultural services and drought.

Table 3.7

Market Output Index (1982=100) for Agricultural commodities 1982-1995

<u>YEAR</u>	<u>EXPORT CROPS</u>	<u>FOOD CROPS</u>	<u>INDU CROPS</u>
1982	100	100	100
1983	118	105	95
1984	121	84	105
1985	117	97	82
1986	135	106	83
1987	121	96	90
1988	143	89	94
1989	137	97	100
1990	158	80	100
1991	143	77	97
1992	138	60	94
1993	143	40	97
1994	144	58	82
1995	164	62	97

Source: Various Statistical Abstracts

With the beginning of policy reforms, the government reduced direct provisions of production services such as animal health, clinical and tractor hire but emphasized supportive services such as research and inspection services.

Table 3.8

Government Expenditure for agriculture in million K£ 1982/83 to 1996/97

<u>YEAR</u>	Agriculture Recurrent	Agriculture Development	Total Agriculture	% share of agric.
1982/83	52400	44300	96700	8.1%
1983/84	58300	14700	72900	5.8%
1984/85	90400	39000	129400	8.5%
1985/86	60900	77600	139800	8.5%
1986/87	122700	99700	216700	10.7%
1987/88	168100	67700	135800	6.1%
1988/89	310000	91600	401600	19.9%
1989/90	82700	71100	153800	4.8%
1990/91	38600	40200	78800	2.8%
1991/92	13300	4900	18200	0.4%
1992/93	117000	177200	294200	4.8%
1994/95	184400	192200	376600	4.1%
1995/96	216100	170500	386600	4.2%
1996/97	229500	331800	561300	5.5%

source: Various Statistical Abstracts

From the table above, it can be deduced that the expenditure in the agricultural sector during the period under review declined from an average of 10 percent during the era of controls to an average of 6 percent between 1982 to 1983 and between 1996 to 1997. The highest recorded level of expenditure was recorded in 1988/89 where

K£401 million was spent out of a total government expenditure of K£2.7 billion.

1991/92 saw the lowest amount of expenditure on the agricultural sector with a total of K£18 million being spent out of the total expenditure of K£5 billion. This was attributed to the suspension of donor funding.¹²²

The money that was spent on recurrent expenditure was higher than that spent on development services until 1992/93-budget year when the budget on development expenditure became higher than that spent on recurrent expenditure. In their paper, Nyangito and Okello attribute this decrease in development expenditure due to a reduction in donor funding for agricultural development, which largely depends on these very donor funding¹²³. This coupled with a decline in public funding contributed significantly to a decline in agricultural growth for the period under review.

¹²² *ibid*

¹²³ *ibid*

Summary

The chapter examined, in depth, the various agricultural policies that were implemented after independence and the various reforms that took place thereafter. After independence the government introduced policies in various sectors of the economy that would see to it that it played a monopolistic role in each of these sectors.

In agriculture government controls were introduced that would see to production and marketing of agricultural commodities. This period of government controls impeded the private sector from developing due to the stringent government conditions that were in place. Although agricultural growth was witnessed, it was later to decline due to a number of factors including poor implementation of policies by the government and its lack of financial resources to support the monopolistic institutions that had been put in place to see to the overall production and marketing of major agricultural products.

This setback in the agricultural sector saw the introduction of policies that would revive the sector. Thus in 1982, agricultural reforms were introduced by the World Bank under the Structural Adjustment Programme. Thus all government controls were to be eliminated and market forces were therefore to play a central role.

However, there was a lack of commitment by the Kenyan government to implement these policies. In 1992, these agricultural policies were finally fully implemented by the Kenyan government and this paved way for the private sector to develop.

The results of implementation of these policy reforms was mixed. Whereas certain sub-sectors experienced growth, others recorded a decline and this is partly attributed to the liberalization policies that saw an influx of cheap imports that domestic producers would not compete with. In other sub-sectors, there was an increase in production partly due to high world market prices compared to the minimal prices that were being offered during the period of government controls.

In conclusion one would rightly argue that these two eras, that is the era of government controls and the era of liberalization, had an impact of all sorts for the agriculture sector. Due to the initial lack of commitment by the government to implement the liberalization policies as required, it becomes difficult to assess the true impact of liberalization policies. On the other hand, the mismanagement that was witnessed during the era of government controls impeded any progress in the agricultural sector despite starting off well.

Thus one would only argue that the government has a major role to play in providing a conducive environment for any agricultural policies that are introduced in the agricultural sector in order to be able to correctly assess what impact these policies have on the sector and how best they would work for the betterment of the sector. It is in this light that the next chapter examines the impact of the World Trade Organization's Agreement on Agriculture on Kenya's agricultural trade sector.

CHAPTER FOUR

Kenya's Implementation of the WTO's Agreement on Agriculture

4.0 Introduction

Kenya became a member of the World Trade Organization on 1st January 1995, following the overhaul of the General Agreement on Tariffs and Trade, which did not significantly address the impediments in agricultural production, and trade.

Agriculture being an important sector to the Kenyan economy, the country as a member of the WTO, was obliged to ratify the Agreement on Agriculture which spelt out the multilateral trading body's rules that would govern production and marketing of agricultural produce. In other words, the rules and regulations provided under the Agreement on Agriculture would ensure that distortions in agricultural production and agricultural trade would be phased out and therefore in the process creating room for transparency which eventually would facilitate agricultural production and agricultural trade.

The chapter therefore sets out to examine Kenya's experience with implementation of the various provisions of the Agreement on Agriculture namely market access, domestic support and export policies. It will also examine what challenges, if any, the agricultural sector has had to face in the light of implementation of the agreement and what proposals have been forwarded in order to overcome challenges that the sector and key players have had to encounter during the implementation of the agreement.

As earlier pointed out, Kenya extensively depends on her agricultural sector. In the year 2000, the sector constituted over 25 percent of GDP directly and 27 percent indirectly through linkages with manufacturing and service sectors. It accounted for 60 percent of the total export earnings, 45 percent of government revenue and 75 percent of industrial raw materials. The sector also employs 80 percent of the population more so in the rural areas.¹²⁴ These statistics out rightly illustrate the importance of the agricultural sector to the Kenyan economy.

The ratification of the WTO's Agreement on Agriculture by the country was expected to rid the sector of any distortions and therefore make agricultural production and marketing more transparent which eventually would make agricultural policies more market-oriented. In turn this would improve predictability and security for importing and exporting countries alike and hence Kenya's opportunity to gain both as an exporting and importing country.

There are three provisions under the WTO's Agreement on Agriculture that Kenya did implement as a member of the World Trade Organization with regard to its agricultural sector. They include Market Access, Domestic Support and Export measures.

4.1 Market Access

Under this provision tariffs are expected to be the only measures that restrict imports and even they (tariffs) are gradually being phased out in order to ensure that trade is carried out without any obstacles.

¹²⁴ Economic Surveys 2002 and 2003. Prepared by the Central Bureau of Statistics and Ministry of

Prior to the implementation of the Agreement on Agriculture, countries, including Kenya had in place non-tariff barriers such as import quotas whose objective aim was to see minimal entry of imports into a country in order to arrest any form of cheap imports that would be a threat to the domestic producers.

Under the agreement all non-tariff barriers were converted into tariffs - a process known as tariffication. Once tariffication was carried out these very same tariffs were to undergo reduction over a certain period of time.

As a developing country, Kenya is expected to comply with the tariff reduction rates. In the agricultural agreement, developing countries were given some form of leeway over developed countries by being given a lower reduction rate of 24 percent over a period of 10 years, which is from 1995 to 2004. Developed countries on the other hand were expected to make average cuts of 36 percent on all of their agricultural products over a period of 6 years, that is, between 1995-2000.

As a developing country, Kenya has had to reduce her tariffs at an average cut of 24 percent on all her agricultural products over a period of 10 years. Currently all imports face a bound rate of 100 percent. What this means is that Kenya committed herself not to increase her duties beyond 100 percent. Thus all applied tariffs are below the bound rate of 100 percent, as exemplified in the table on the next page

Table 4.1**Import Tariffs on Selected Agricultural Commodities to Kenya**

Commodity/year	1996/97	1997/98	1998/99	1999/00	2000/01
Agricultural food stuffs	15%	15%	25%	30%	30%
Processed fruits and vegetables	15%	15%	30%	35%	35%
Sugar	35%	15%	25%	35%	100%
Textiles	15%	15%	25%	30%	30%

Source: Ministry of Agriculture

The table above illustrates the import tariffs applied for specific agricultural commodities. The highest recorded tariff rate was sugar in the year 2000/01 when it reached a peak high of 100 percent, which is the bound rate. All other applied tariffs on the selected agricultural commodities are well below the required bound tariff.

As earlier noted, tariffs are the only measures permitted by the multilateral trading body to be used by member countries as a means of protecting their domestic industries. In Kenya, despite there being tariffs in place, various sub-sectors have had to bear the brunt of low applied tariffs. According to an official in the Ministry of Trade, stakeholders in sub-sectors such as maize (when it is self-sufficient), sugar and the dairy sectors have had to incur heavy losses due to the influx of cheap imports. Despite there being a bound tariff rate of 100 percent, this rate is not significant enough to curb the influx of cheap agricultural imports into the country, adds the official.¹²⁵

According to the 1996 Economic Survey it reports that due to the influx of cheap sugar imports competition between locally produced sugar and imported sugar resulted in milling companies taking a longer period of time in clearing their domestic stocks of sugar. It further states that as a result of liberalization, it has become increasingly difficult to determine domestic requirements given that a number of firms are directly involved in importation, stocking and marketing of the commodity.

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The table below illustrates the trends in sugar production, imports and consumption between 1991-2002.

Table 4.2
Production, Imports and Exports of Sugar between 1991-2002 ('000 tonnes)

YEAR	PRODUCTION	IMPORTS	EXPORTS
1991	434.28	59.67	-
1992	371.79	153.17	-
1993	385.21	184.79	-
1994	303.87	256.13	-
1995	384.20	244.40	17.2
1996	386.0	65.8	24.5
1997	401.23	52.37	25.05
1998	449.13	186.52	0
1999	471.28	57.7	0

¹²⁵ Interview conducted at Ministry of Trade Offices. Official interviewed was Mr Mwangi. Interview conducted on 19th November 2004

¹²⁶ Government of Kenya. 1996.Economic Survey. Prepared by the Ministry of Finance and Central Bureau of Statistics. p 110

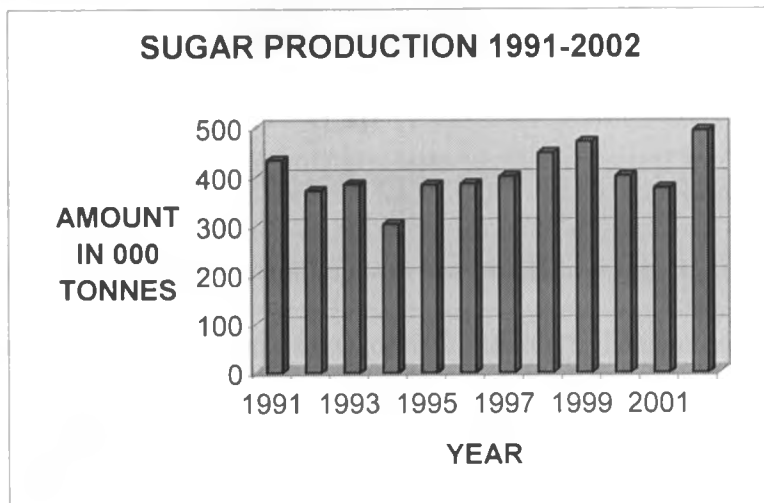
Table 4.2

Production, Imports and Exports of Sugar between 1991-2002 ('000 tonnes)

YEAR	PRODUCTION	IMPORTS	EXPORTS
2000	401.98	118.01	2.09
2001	377.44	182.46	3.6
2002	494.24	110.6	11.7

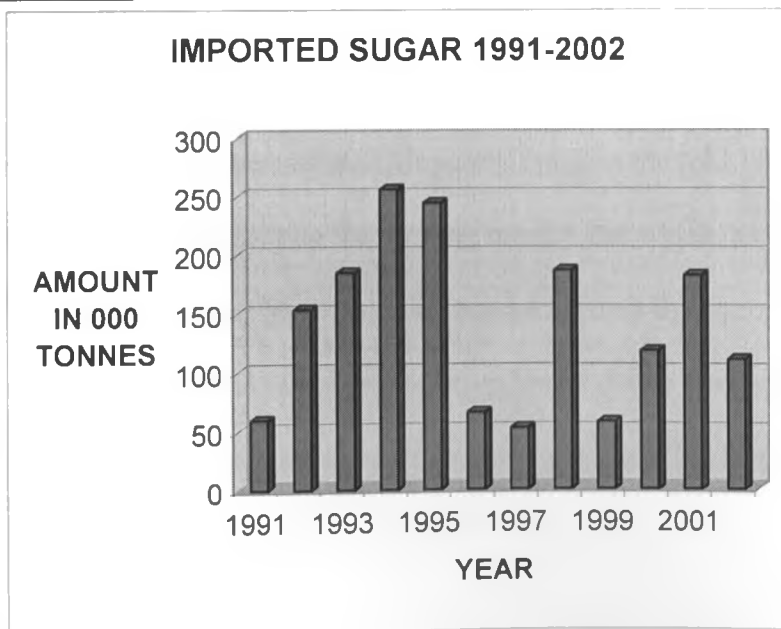
Production of Sugar between 1991-2002

Figure 4.1



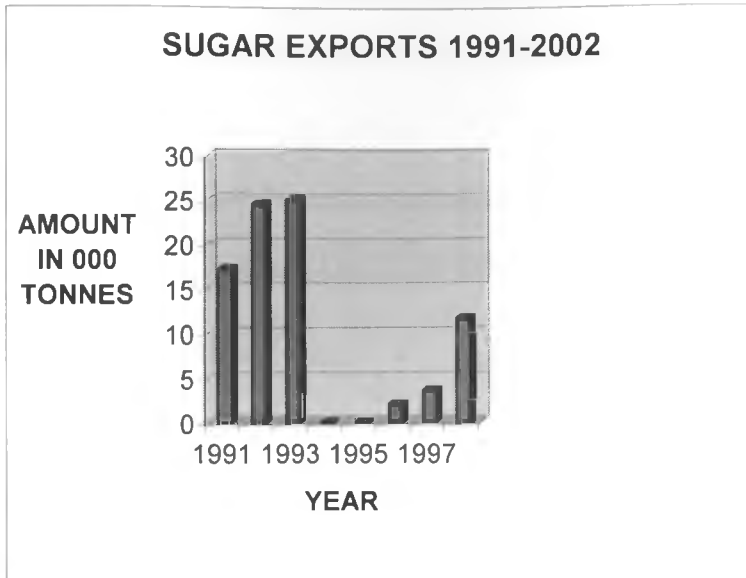
Importation of Sugar between 1991-2002

Figure 4.2



Sugar Exports 1991-2002

Figure 4.3



The table and charts above show the trends in production, importation and exportation of sugar in the country between 1991 to 2002. Production has fairly been constant in the period under examination whereas imports begin to rise, more particularly in 1994 when a record high of 244.40 metric tonnes was imported into the country. However a decrease of imported sugar occurs in 1996 when it drops to 65.8 metric tonnes. This clearly explains how the market access policy of the Agreement on Agriculture coupled with the prior introduced policies that advocated for liberalization under the World Bank and International Monetary Fund, in the mid 1990s, has encouraged the influx of cheap sugar into the Kenyan market and which, as documented in the Economic Survey 1996, would discourage farmers from producing more of the product as they run the risk of incurring losses due to poor sales of the domestic sugar as a result of cheap subsidised sugar from outside. This then threatens the sugar industry into collapsing.

Therefore despite having tariffs bound at 100 percent this has not been effective enough to arrest the cheap sugar imports that have proved to be quite a challenge for Kenyan sugar producers more so in the year 1995.

The question therefore arises as to what measures apart from tariffs, and permitted by the World Trade Organization, can be utilized in order to thwart further damage to the domestic industries.

The multilateral trading body proposes the use of Antidumping measures as well as special safeguard measures. As a result of Kenya's option to utilise ceiling binding rather than tariffication she is then entitled to utilising antidumping measures when her agricultural industries are faced with unfair competition from cheap imports.

Antidumping measures refer to special import duties imposed when a firm, following an inquiry, is assessed as having sold a product in the importing market at a price below the comparable price of the product in the home market. Under WTO rule, antidumping measures may only be imposed if the price differential causes material injury to the domestic industry producing similar products in the importing country.¹²⁷

Kenya has been incapable of making use of antidumping measures and the reason forwarded has been that the process of investigating unfair trade practices is complex, expensive, and cumbersome for a developing country such as Kenya and thus the process should be simplified and any form of assistance offered to the country

¹²⁷ The World Trade Organization. 2001. The WTO..... Why It Matters. Geneva. WTO Publications.P.96

in order to meet the expenses that would be incurred.¹²⁸

Furthermore technical assistance should be availed by developed countries in order to assist Kenya provide manpower capable of carrying out the complicated procedures that are involved in the investigation process.

So far the challenges Kenya has had to encounter as a result of implementing the Market Access provision of the WTO's Agreement on Agriculture have included low bound tariff rates of 100 percent which is a rate that has proved not to be effective enough to arrest the influx of cheap agricultural imports and more specifically with regard to the sugar sub-sector. Moreover, antidumping measures provided by the World Trade Organization as an instrument to curb influx of cheap imports has proved to be both an expensive and complex process for a developing country such as Kenya due to the lack of skilled manpower as well as lack of financial resources.

Kenya has further argued that compliance to the Market Access provision has created room for unfair competition from the developed countries. It has been argued that the bound rates deployed by developed countries are relatively high compared to that of Kenya. For example, the QUAD, that is Canada, Japan, European Union, United States of America, have set high tariff peaks reaching up to 350 percent compared to Kenya's 100 percent. This simply translates to this: developed countries have greater market access for their products in Kenya at a bound rate of 100 percent whereas Kenyan exports face high tariff peaks - as high as 350 percent - in the developed markets making Kenyan products uncompetitive in the developed markets.

¹²⁸ Mr Mwangi. Ministry of Trade Official. Interview carried out on 19th November 2004. Ministry of

Yet another challenge that befalls Kenya with regard to the Market Access provision of the agreement is Tariff Escalation. This is the tendency for import tariffs to increase as the degree of processing increases.¹²⁹

This has been identified as a major obstacle to trade for developing countries. This is because for a country such as Kenya that aims to be industrialized, processed tea will face exorbitantly high tariffs as compared to tariffs imposed on unprocessed tea. This notion of escalating tariffs due to the processed nature of the commodity hinders industrialization. In Kenya, the most affected commodities by tariff escalation include coffee, oil seeds, vegetables, fruits, nuts, hides and skins.¹³⁰

Clearly associated with market access is what is referred to Sanitary and Phytosanitary regulations - SPS regulations. These are described as government standards to protect human, animal and plant life and health, to help ensure food is safe for consumption.¹³¹ These regulations have acted more as barriers to exports from developing countries such as Kenya.

Kenyan exports face these measures more particularly in the European Union market. The European Union has put in place stringent SPS regulations for protecting the human, animal and plant health, which at times have, proved to pose serious obstacles to Kenya's fish and horticultural sub-sectors.¹³² For example, in July 2002, the

Trade Office GPO Nairobi.

¹²⁹ Op cit

¹³⁰ Kenya's Position Paper. 2001. Preparations for Comesa Position for WTO Round of Talks, Cairo, Egypt. July 27th - 29th 2001. p25

¹³¹The World Trade Organization. 2001. The WTO..... Why It Matters. p79

¹³²E Owango. 2004. Impact of Trade Liberalization on Kenya's Agriculture. Ministry of Agriculture, Nairobi. p.3.

European Union imposed strict standards that greatly reduced the acceptable level of pesticides for tea. The cost of compliance to these standards has proved to be very high for a developing country such as Kenya.¹³³

Overall, Kenya has diligently adopted the Market Access provision of the Agreement on Agriculture. It has bound all its agricultural tariffs at 100 percent and has ensured that applied tariff rates fall below the bound rate.

However, the Kenyan agricultural sector has had to face certain challenges, one of them being the influx of cheap agricultural imports. This has been attributed to the low bound tariff rates that have had little impact on impeding cheap imports.

It was further observed that measures forwarded by the World Trade Organization to curb the flow of imports cannot be implemented by Kenya due to the complex process of implementation, lack of financial resources as well as lack of skilled manpower to carry out the process.

The Sanitary and Phytosanitary regulations propagated by developed regions such as the European Union act as forms of barriers to trade as these standards have proved to be too high for developing countries to meet.

Tariff escalation also materialized as a challenge facing Kenya, a country that is embracing the industrialization process yet tariff escalation impedes the country from developing her industrial sector.

¹³³ *ibid*

4.2 Domestic Support

Domestic support as presented by the WTO's Agreement on Agriculture has two main components namely domestic subsidies and market price support. Domestic subsidies are mainly used to raise prices in favour of producer, to increase domestic producers' competitiveness by reducing the prices of inputs and thus reducing costs whereas others take the forms of direct payments to increase incomes of producers.

Domestic subsidies are considered to have an effect on production. For example if these very same subsidies provide higher prices to producers than would apply on a fully open and competitive market or if they reduce prices for inputs or provide other cost reductions, they increase production and hence are clearly market distorting.¹³⁴

Market price support entails anything that maintains domestic prices at levels that differ from world prices. The prices can be supported in three ways namely:

- Through export measures
- By government intervention in managing internal markets and prices and
- By governments supplementing prices that producers obtain from the market through payments that increase their returns.

The World Trade Organization has grouped domestic support according to the degree to which they distort production in agriculture. They include Amber box support, Green box support and Blue box support.

Amber box support includes forms of support that are considered to be distorting to trade and production and are therefore subjected to agreed reduction, that is 20 percent for developed countries over a period of 6 years, that is, between 1995-2000. Developing countries were to make cuts of 13 percent on their domestic support over a period of 10 years, that is, between 1995-2004

Table 4.3
Domestic Support Cuts and Implementation Time For Developed and Developing Countries

	<u>Developed Countries</u>	<u>Developing Countries</u>
Time Period	6 years:1999-2000	10 years:1995-2004
Total AMS cuts	20 percent	13 percent

Source: WTO. 2001. Trading Into the Future. WTO Publications, Geneva pp.17

In Kenya prior to implementation of agricultural reforms that were advocated by the Bretton Woods institutions, the government played a major role in price determination of major agricultural commodities as well as in the provision of subsidies to farmers.

This domestic support was however overhauled by the agricultural reforms that were introduced in 1992, which principally propagated for liberalization rather than government intervention, as had been the case prior to the reforms.

Thus when Kenya adopted the WTO's Agreement on Agriculture, it did so having phased out domestic support that was deemed as distorting. In this regard Kenya has declared that its domestic support is below the de minimis level, that is, a level

¹³⁴ J Podbury, I Roberts , A Tieulu and B Buetre. 2001. Agricultural Export Measures in WTO Negotiations. ABARE Research Report. Canberra 01.2, RIRDC Publication No. 01/134, p9

considered not to distort agricultural production and trade. Therefore with regard to the Amber box policies, which the multilateral trading body advocates for elimination of subsidies that fall under this category, Kenya does not provide any such support that would be deemed as distorting.

What would apply to Kenya under domestic support would be the Green Box. This category contains measures that are considered not to distort agricultural production and trade and hence are not subject to reduction as opposed to amber box policies.

For support to qualify under the Green Box, it should:

- Fully be provided through a publicly funded government program
- Not have the effect of providing price support to producers.¹³⁵

The Kenyan government provides a portion of its annual budget to the agricultural sector that goes into providing forms of support that are classified under the green box policies. The table below illustrates recurrent and development accounts as financed by the government between 1995-2003.

Table 4.4
Expenditure on Agriculture by Government Ksh Million.

YEAR	RECURRENT ACCOUNT	DEVELOPMENT ACCOUNT	TOTAL AGRICULTURAL EXPENDITURE	TOTAL GOVT EXPENDITURE
1995/96	4322.00	2410.6	7729.8	
1996/97	4403.10	2559.8	6962.8	
1997/98	4403.1	2075.9	64790	315136.9
1998/99	4895.8	4598.3	9494.2	242741.0
1999/00	5591.9	2103.8	7695.7	226115.0
2000/01	5906.6	2363.0	8269.6	268430.4
2001/02	6736.7	307.1	7043.8	307714.8
2002/03	7307.6	2060.4	9368.0	304063.3
2003/04	8260.9	4476.6	12737	388522.0

¹³⁵ *ibid*

Source: Various Economic Surveys

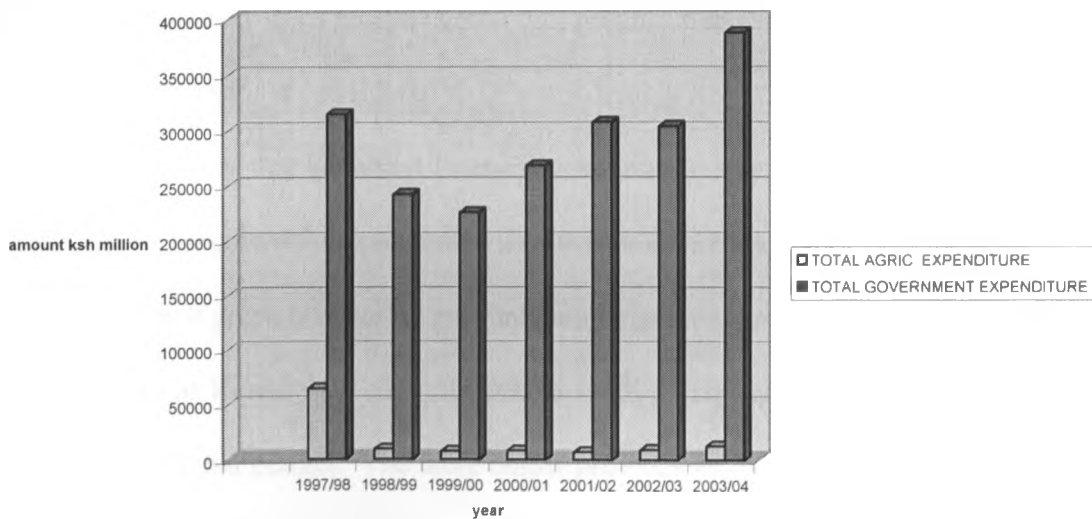
The table above illustrates the amount in Ksh million that the Central Government has allocated to the Ministry of agriculture for the period under review. What should be noted is that the money allocated constitutes a small percentage of the total expenditure of the government. This is as illustrated below:

Table 4.5
Percentage of Total Agriculture Expenditure to Total Government Expenditure

YEAR	TOTAL AGRIC. EXPENDITURE	TOTAL GOVERNMENT EXPENDITURE	% OF AGRICULTURAL EXPENDITURE
1997/98	64790	315136.9	2.2%
1998/99	9494.2	242741.0	3.9%
1999/00	7695.7	226115.0	3.4%
2000/01	8269.6	268430.4	3.8%
2001/02	7043.8	307714.8	2.3%
2002/03	9368.0	304063.3	3.0%
2003/04	12737	388522.0	3.3%

Figure 4.4

Graph illustrates comparison between Total Government Expenditure and Total Agriculture Expenditure 1995-2003



Thus it would be correct to state that a very small percentage of the total central government expenditure goes into financing the agricultural sector as clearly illustrated by the graph and table on the previous page.

This money provided by the government is what goes into the green box programmes.

In Kenya the following are the main programmes under the green box outlay:

- Agricultural education
- Agricultural extension
- Agricultural research
- Livestock development services
- Veterinary services
- Rangeland development services
- Public stockholding for food security purposes

Although the country does provide green box programmes, the amount provided to the agricultural sector is considered to be considerably low when compared to developed countries that have vast financial resources to spare for their agricultural sectors. In this regard developed countries have an advantage over developing countries as their green box outlay amounts are large compared to developing countries such as Kenya who can only avail a small percentage of the already constrained national budget. The table below provides an overall picture of the different green box outlays and the percentages that developed and developing countries utilise.

Table 4.6

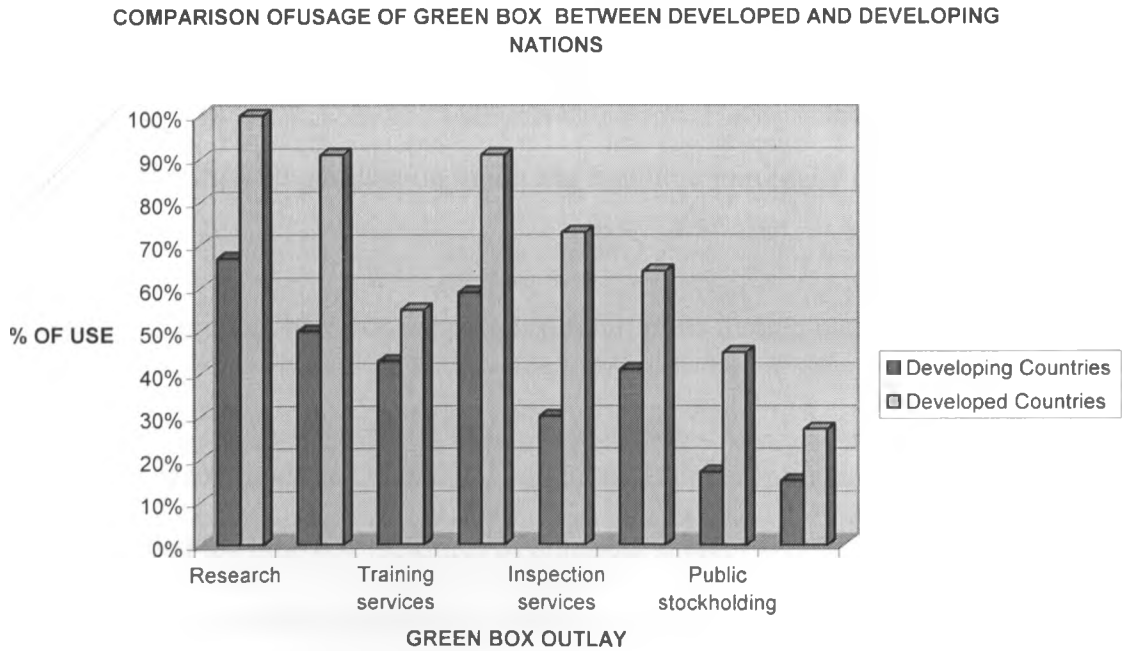
Usage of Green Box Programmes for Developed and Developing Countries

Measure	Developing Countries	Developed Countries
Research	67%	100%
Pest and disease	50%	91%
Training services	43%	55%
Extension services	59%	91%
Inspection services	30%	73%
Marketing	41%	64%
Public stockholding	17%	45%
Domestic food aid	15%	27%

Source: Kenya's Position Paper for Preparation for COMESA Position for WTO Round of Talks.

Figure 4.5

Usage of Green Box Programmes for Developed and Developing Countries



The table and figure above illustrate the wide margin present as regards allocation of funds to green box support by developed and developing countries. It is observed that developed countries indeed contribute a large percentage to green box programmes.

It should also be noted that these very same developed countries have large national budgets compared to those in developing countries and therefore these percentages do

not truly reflect the actual disparity between the two categories of countries. However, one should bear in mind that developed countries do have large financial resources in their national budgets and thus the amount that is provided to green box programmes in these countries is of a large amount compared to those in developing countries.

This difference can be viewed as a distortion in agricultural production in that whereas developed countries contribute large sums of money to their green box programmes hence producing more production, developing countries which cannot contribute the same amount of financial resource, produce less and hence leading to unfair competition in agricultural trade.

Apart from the Amber box and Green box categories, domestic support also contains what is known as the Blue box. Blue box support contains permitted supports lined to production, but subject to production limits and therefore minimally trade-distorting.¹³⁶

Kenya does not provide blue box support as a result of its limited national budget.

The Blue box accommodates US and EU agricultural support programmes. Kenya has proposed that the blue box measures of domestic support should be eliminated as it gives developed countries unjustified advantage over developing countries with regard to production as it clearly distorts trade in that these programmes are not available to farmers in the developing countries such as Kenya which creates more production in the developed countries as compared to developing countries.

¹³⁶ The World Trade Organization. 2001. The WTO.... Why It Matters. Geneva WTO Publications.p78

Also included in domestic support provision is the de minimis provision, which permits countries to provide:

- Product-specific domestic support of upto 5 percent of the value of production of the supported item for developed countries and 10 percent of the value of the supported item for developing countries.
- For non-product specific support, up to 5 percent of the value of the members total agricultural production is allocated to developed countries whereas developing countries are entitled to 10 percent of the same.

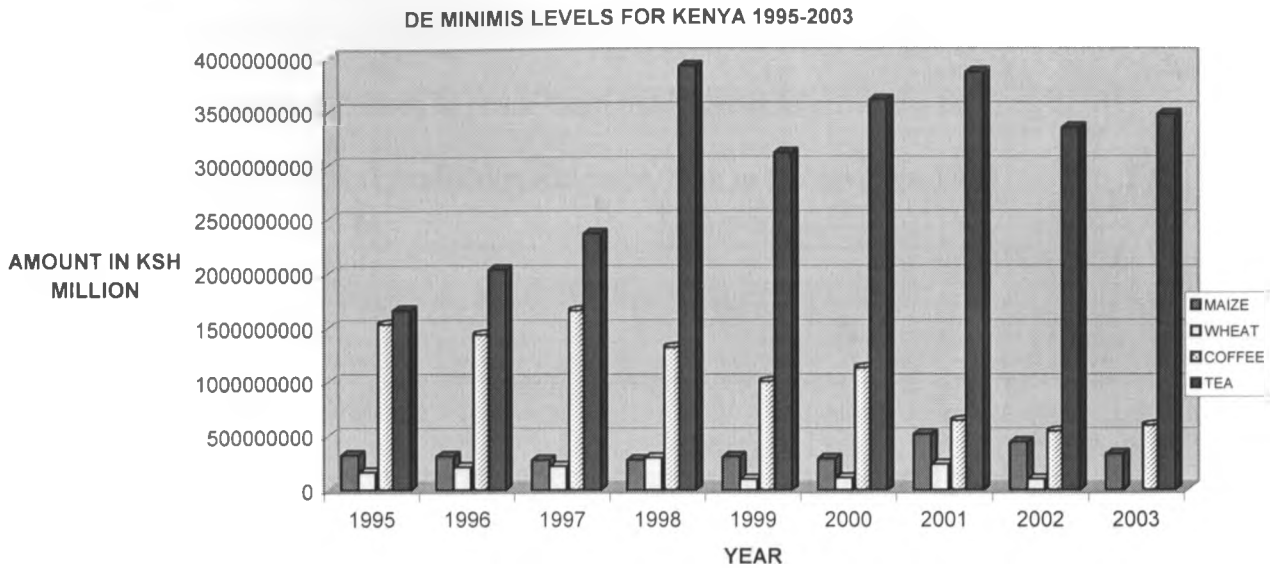
In Kenya, the product specific commodities include maize, wheat, coffee and tea.

Thus the de minimis levels for the period under review are as illustrated in the table below:

Table 4.7
De minimis amounts for Kenya for Product Specific Support

YEAR	MAIZE	WHEAT	COFFEE	TEA
1995	320800000	163200000	1529000000	1659600000
1996	311800000	211400000	1435800000	2033600000
1997	281000000	219280000	1654600000	2363600000
1998	280000000	298600000	1318000000	3912000000
1999	309800000	100600000	1005000000	3108800000
2000	291540000	113290000	1128200000	3596980000
2001	518750000	237530000	642440000	3856450000
2002	445140000	98750000	544110000	3341470000
2003	333650000		595670000	3463100000

Figure 4.6
De minimis amounts for Product Specific Support



The above table and figure illustrates the support under the de minimis provision that Kenya can provide to the various sub-sectors. It basically constitutes 10 percent of the marketed production of each item for that specific year. However, there is no documented information to illustrate that the government actually provides support amounting to the above figures.

All in all for domestic support Kenya avails the green box support. However, there is no documented information to illustrate specifically how much goes into the particular green box programmes provided by the government. There is need to re-examine the green box outlays for all World Trade Organization members - both developed and developing in order to phase out unfair production which arises as a result of a disparity in the amount allocated to the green box.

Blue box policies can only be afforded by the rich nations and hence they encourage unfair competition as these policies cannot be employed by the developing nations such as Kenya and thus need arises to phase them out in order to provide a fair competing field for agricultural production and trade, both in the developed and developing world.

4.3 Export Subsidies

Export subsidies displace exports thereby affecting small-scale farmers and producers, whose governments have no resources to compete against treasuries of developed countries. These export subsidies undermine food security by promoting price variability and uncertainty, creates artificial shortages, low prices and poor quality of imported foodstuffs.¹³⁷

It is in this light that the WTO advocates for members to cut both the amount of money they spend on export subsidies and the quantities of exports that receive these subsidies. Taking averages for 1986-90 as the base level, developed countries have agreed to cut the value of export subsidies by 36% over the six years starting in 1995 whereas developing countries have a 24 percent reduction over a period of 10 years. Developed countries have also agreed to reduce the quantities of subsidized exports by 21 percent over the six-year period while developing countries have a cut of 14 percent over a period of 10 years. This is as documented by the table on the next page

¹³⁷J Podbury, I Roberts, A Tieulu, and B Buetre. 2001. Agricultural Export Measures in WTO Negotiations. ABARE Research Report. 01.2, Canberra RIRDC Publication No. 01/134, p110

Table 4.8

Export Subsidy cuts for Developed and Developing Countries

	Developed Countries	Developing Countries
Time Span	6 years: 1995-2000	10 years: 1995-2004
Value of subsidies	36%	24%
Subsidized quantities	21%	14%

Source: WTO. 2001. Trading Into The Future. WTO Publications. Pp17

Kenya, as a member of the World Trade Organization, does not provide any subsidies on agricultural products contingent upon exports and accordingly has neither a commitment to reduce export subsidies nor the option of granting them in the future. Moreover it cannot afford to provide these subsidies due to its already constrained budget.

However, Kenya propagates for the elimination of export subsidies as they clearly promote unfair competition in agricultural production and trade thus becomes disadvantageous to the developing countries that have limited or no financial resources to provide these subsidies.

4.4 Summary/Findings on Impact of Implementation of the WTO's Agreement of

Agriculture on Kenya's Agricultural Trade Sector

The chapter focussed on examining Kenya's implementation of the WTO's Agreement on Agriculture. It looked at the three provisions that constitute the agreement namely Market Access, Domestic Support and Export Subsidies.

With regard to Market Access, Kenya has bound all her agricultural tariffs at 100 per cent. However, this rate has proved not to be effective enough in arresting the influx of cheap imports. The result has been that certain sub-sectors and more particularly sugar have been affected by these cheap imports.

The World Trade Organization has put into place mechanisms, which a developing country such as Kenya would use in preventing the destruction of its domestic industries. Antidumping measures are one of these mechanisms. However, implementing these measures has proved to be quite an uphill task for the country as it has been denoted as a complex task for the country to implement. Apart from its complexity, antidumping measures require large sums of money that the government cannot furnish. In addition to this, there is no skilled manpower to help in the implementation of the process.

The second part of the chapter examined the Domestic Support provision of the agreement. It was noted that prohibited policies under the Amber box category are not granted by the Kenya government and therefore Kenya is exempted from making cuts of Amber box policies.

The Green Box policies are availed by the Kenya government but there was no documented information to illustrate specifically how much the government channelled to each programme. It was further noted that there is need to revise green box policies more specifically with regard to developed countries, which had vast financial resources that backed their green box outlays. In the process, they - developed countries - have a great advantage as their production output increases as compared to developing countries whose green box policies are backed by a small percentage of the total budget.

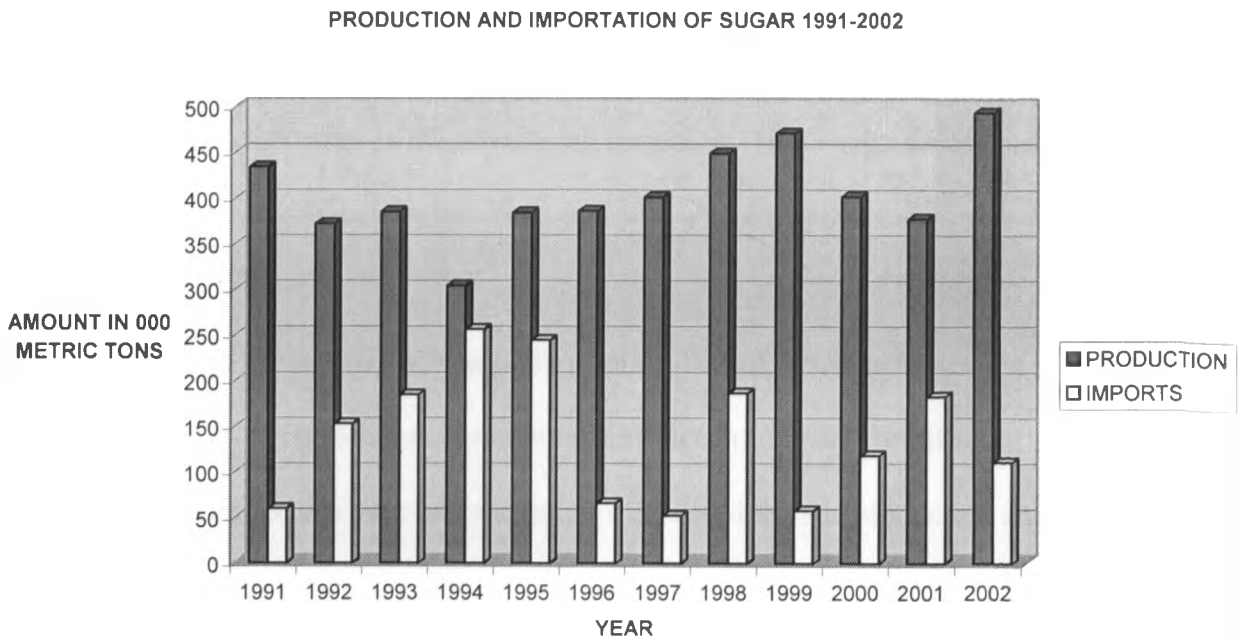
It was also observed that the country cannot provide Blue Box policies that are exclusively employed by the European Union and United States of America. These policies have been viewed as distortional mechanisms as they permit the EU and United States to produce more than their counterparts.

The de minimis provision also saw that developing countries such as Kenya are entitled to provide subsidies that amount to at least 10 percent of the marketed production of each product. However no information was available to ascertain whether the figures the study derived are indeed provided to the various sub-sectors.

The last section of the chapter looked at export subsidies. It was noted that Kenya does not provide any form of export subsidies firstly because it cannot afford to do so and secondly and more importantly because they are discouraged by the multilateral trading body.

In line with the hypotheses of the study the data collected both primary and secondary determined whether these hypotheses were true or false. The first of these hypotheses stated that the Agreement on Agriculture increases the influx of cheap agriculture imports into the Kenyan market. This hypothesis can be stated as true as was clearly exemplified in the Kenyan sugar sub-sector where production of the commodity fell as a result of producers incurring losses due to the presence of cheap sugar imports in the Kenyan market.

Figure 4.7



The figure above illustrates production and importation of sugar in Kenya between 1991 to 2002. Although production has been much higher than importation, the years 1994 and 1995 saw an influx of sugar imports amount to 256130 tonnes and 244400 tonnes respectively. Although production did not fall to record lows, it should be noted that the presence of these sugar imports in the domestic market provided a cheaper substitute for domestic sugar and hence many domestic sugar producers incurred losses as a result.

Similarly, the tariff bound rate of 100 percent, which the government utilises, was viewed as not being sufficient in arresting cheap agricultural imports, which are a threat to the domestic industries.

Following an interview with a trade official, Mr Mwangi, carried out on 19th November, 2004, it was noted that key sub-sectors such as maize- (when self-sufficient), dairy industry and sugar industry had adversely been affected since implementation of the WTO's Agreement on Agriculture. He added that Kenya and other developing countries had presented this loophole during the on-going Doha Round and suggestions had been made to introduce special safeguard measures to protect the domestic industries in the developing countries. These negotiations are still in progress.

Thus following both the primary and secondary data collected, it would be correct to state that the WTO's Agreement on Agriculture has indeed promoted the influx of cheap imports, which in turn have had a negative effect on domestic production and domestic industries.

Therefore the two hypotheses of the study:

- The WTO's Agreement on agriculture increases the influx of cheap imports
- The WTO's Agreement on agriculture affects domestic production

Can be verified as true following the collection of primary and secondary data that supports the two hypotheses.

The third hypothesis of the study states that the WTO 's Agreement on agriculture reduces the supply of subsidies. Following the collection of secondary data, it was observed that during the period of controls, that is 1982-1993, the government indeed did provide a much larger percentage of its national budget to the agricultural sector as depicted by the table below:

Table 4.9

PERCENTAGE CONTRIBUTION OF GOVERNMENT TO AGRICULTURAL EXPENDITURE 1982-1996

<u>YEAR</u>	Agriculture Recurrent	Agriculture Development	Total Agriculture	% share of agric.
1982/83	52400	44300	96700	8.1%
1983/84	58300	14700	72900	5.8%
1984/85	90400	39000	129400	8.5%
1985/86	60900	77600	139800	8.5%
1986/87	122700	99700	216700	10.7%
1987/88	168100	67700	135800	6.1%
1988/89	310000	91600	401600	19.9%
1989/90	82700	71100	153800	4.8%
1990/91	38600	40200	78800	2.8%
1991/92	13300	4900	18200	0.4%
1992/93	117000	177200	294200	4.8%
1994/95	184400	192200	376600	4.1%
1995/96	216100	170500	386600	4.2%
1996/97	229500	331800	561300	5.5%

Table 4.10

Percentage of Total Agriculture Expenditure to Total Government Expenditure

<u>YEAR</u>	TOTAL AGRIC. EXPENDITURE	TOTAL GOVERNMENT EXPENDITURE	% OF AGRICULTURAL EXPENDITURE
1997/98	64790	315136.9	2.2%
1998/99	9494.2	242741.0	3.9%
1999/00	7695.7	226115.0	3.4%
2000/01	8269.6	268430.4	3.8%
2001/02	7043.8	307714.8	2.3%
2002/03	9368.0	304063.3	3.0%
2003/04	12737	388522.0	3.3%

One observes that during the era of government controls, 1982 to 1990, the percentage contribution of the government to the agricultural sector was high,

reaching up to 10 percent but after the introduction of liberalization policies into the agricultural sector and implementation of the WTO's agreement on agriculture, we saw a reduction in provision by the government to agricultural expenditure. This clearly signifies that Kenya has indeed reduced its support to agricultural producers as clearly indicated by the low percentages and thus has abided to the domestic support policy of cutting back on domestic subsidies. This however, was carried out during the implementation of the liberalization policies in 1993. Thus the agreement on agriculture only emphasized the need for elimination of domestic support, which distorted trade, which Kenya had gotten rid of during the early 1990s. Thus it would be right to argue that the WTO's Agreement on Agriculture has ensured that Kenya as a member of the world trading body, does not revert to provision of domestic support considered to be distorting.

It was also observed that the multilateral trading body does allow a certain percentage of domestic support that is considered to be distorting to be utilised. For product specific support, it entailed obtaining 10 percent of the total of marketed production of a specific commodity.

The study examined the annual marketed production of key commodities in the Kenya market and 10 percent of the total marketed production of each year was obtained as depicted in the table below.

Table 4.11

De minimis amounts for Kenya for Product Specific Support

YEAR	MAIZE	WHEAT	COFFEE	TEA
1995	320800000	163200000	1529000000	1659600000
1996	311800000	211400000	1435800000	2033600000
1997	281000000	219280000	1654600000	2363600000
1998	280000000	298600000	1318000000	3912000000

1999	309800000	100600000	1005000000	3108800000
2000	291540000	113290000	1128200000	3596980000
2001	518750000	237530000	642440000	3856450000
2002	445140000	98750000	544110000	3341470000
2003	333650000		595670000	3463100000

However, there is no specific data to point out whether these actual amounts are provided to the key sub-sectors identified.

Thus following the primary and secondary data collected from the study, it would be correct to state that the WTO's Agreement on Agriculture has reduced subsidies provided to Kenyan producers and therefore there is a likelihood of production decreasing although this view should be examined in further studies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Summary

The study set out to examine the overall impact of the World Trade Organization's Agreement on Agriculture on Kenya's agricultural trade sector. Specifically it set out to identify what benefits or losses were accrued by Kenya's agricultural sector as a result of implementation of the agreement. It also aimed at examining what challenges if any the agricultural sector had to face during the process of implementation.

In order to achieve this objective of identifying the benefits and losses accrued by Kenya's agricultural sector as a result of implementing the World Trade Organization's Agreement on Agriculture, there was need to collect data, both primary and secondary, in order to be able to effectively carry out the study. In order to obtain the relevant primary data, questions were formulated for the study in line with the manner in which the independent and dependent variables of the study were operationalized. These questions were administered to various officials, in the Ministry of Trade. The questions were administered by way of interviews, which were conducted at the Ministry of Trade offices.

Secondary data was collected through consultation of relevant books, relevant websites on the internet, journals, magazines, newspaper articles and well as a number of Kenyan Economic Surveys and Statistical Abstracts.

The data collected, that is both primary and secondary data was analysed and presented in forms of tables and graphs in order to present the data in a diagrammatic form and hence making it easy for comparison purposes that were used in analysing the various sub-sectors of the agricultural sector.

The findings of the study indicated that indeed the World Trade Organization's Agreement on Agriculture had indeed impacted negatively on the Kenya's agricultural sector this being in line with the hypotheses of the study that were postulated as follows:

- The WTO's Agreement on Agriculture increases the influx of cheap agricultural imports on the Kenyan market
- The WTO's Agreement on Agriculture decrease domestic production in Kenyan domestic industries
- The WTO's Agreement on Agriculture decreases subsidies provided to Kenyan producers in the agricultural sector.

The first of these hypotheses was supported by data from the sugar sub-sector that indicated that domestic farmers had incurred losses as a result of poor sales they had incurred due to cheap sugar being present in the country and more particularly in the years 1994 and 1995.

Following the interview carried out, primary data obtained indicated that the maize sub-sector (during periods of self-sufficiency), sugar sub-sector, and dairy sub-sector were adversely affected by the influx cheap commodities, which were as a result of the implementation of the WTO's Agreement on Agriculture. Thus the study

concluded that the Agreement on Agriculture had indeed encouraged the influx of cheap imports, which in turn had negatively affected production of various commodities. In this light both the first and second hypotheses of the study were supported by the primary and secondary data collected.

The third hypothesis states that the WTO's Agreement on Agriculture decreases subsidies provided to farmers and this was supported by secondary data obtained from various Economic surveys during the period of government controls, 1982-1992 and the period of market liberalization. Data collected indicated that indeed the percentage the central government availed to the agricultural sector had decreased from an average of 10 percent during the era of government controls to an average of 3 percent during the period of liberalization. This depicted that the government had indeed reduced domestic support as had been advocated by the agricultural reforms that were implemented in 1992 and more importantly the WTO's Agreement on Agriculture would ensure that Kenya did not provide any domestic support that would be regarded as distortional to agricultural production and trade. Therefore it would be correct to state that the WTO's Agreement on Agriculture has reduced the provision of subsidies to farmers.

Other issues did crop up during the study and these included the various challenges that the sector faced in the light of implementation of the agreement. With regard to tariffs, it was observed that the bound rate - 100 percent - was too low to arrest the influx of cheap imports and therefore there was need to come up with new measures that would effectively curb the cheap imports and thus discourage injury to the domestic industries.

With regard to antidumping measures, which have been provided by the multilateral trading body to curb influx of cheap imports, it was noted that Kenya had neither the infrastructure, nor financial backing to implement the measures, which proved to be a challenge in implementing.

Of concern were the non-trade barriers that had been implemented by the developed world that hampered goods from the developing countries. Although non-trade barriers had been discouraged, new forms of non-trade barriers in the form of Sanitary and Phytosanitary -SPS- measures were identified by officials of the Ministry of Trade as hampering the entry of Kenyan commodities into the markets of the developed countries. The standards that were set by these countries have been viewed to be extremely high and unless the Kenyan products met these standards, then they would not be able to enter the developed markets. Officials in the Trade ministry noted that this was a form of non-tariff barrier that had denied Kenyan products access to the developed markets. It was also noted that the implementation of these standards was an extremely expensive affair, which the developing countries would not be able to support on the already constrained budgets.

Yet another challenge seen to face the agricultural sector what was referred to as tariff escalation. These are tariffs that are imposed on processed products. Thus raw coffee for example would face a low tariff compared to processed coffee. This was seen as a setback to developing countries that are targeting to industrialize. This is because developing countries such as Kenya can only export raw coffee, for example, that faces much lower tariffs than if it were to export processed coffee whose tariff rates

would be very much higher. Hence Kenya's option remains that of raw coffee, which can easily gain access to the developed countries markets. It therefore follows that there is need to revise the tariff peaks imposed on exports from developing countries in order to accommodate room for countries such as Kenya to develop her industries and in the process gain similar if not equal industrialization status as her counterparts, the developed nations.

5.1 Conclusions

The study's overall purpose was to examine what benefits and losses have been accrued by the agricultural sector as a result of implementing the WTO's Agreement on Agriculture.

It was noted that the agreement has created an opportunity for the influx of cheap agricultural imports which have indeed affected certain agricultural sub-sectors namely maize (when self-sufficient), sugar and dairy sub-sector. Although there are tariffs in place that are meant to keep in check these cheap imports, it was observed that the rates were not satisfactory in impeding the flow of cheap imports into the country. Therefore there is need to revise this bound rate of 100 percent and raise it higher in order to prevent the destruction of Kenya's domestic industries.

The alternative provided by the World Trade Organization to implement Antidumping measures in the face of cheap imports affecting production has proved to be an uphill task for the country. Firstly, the process of implementing the measures is complex that requires experts, which the country does not have at the moment. Secondly, the process of implementation of antidumping measures is expensive and cannot be

afforded by the developing countries such as Kenya whose national budget is already constrained. In this regard developed countries should assist through the provision of technical training in order to have local officials well versed with the antidumping measures. Alternatively, financial assistance would be offered to the country in order to facilitate the expenses the country would have to incur in implementing the antidumping measures.

The provision of subsidies has indeed been affected by the WTO's agreement on agriculture as postulated at the very beginning of the study. It was observed that during the era of government control, subsidies were provided at an average of 10 percent and once agricultural reforms were introduced to the sector along with the agreement on agriculture, provision of these subsidies fell to an average of 3 percent. This clearly indicates that subsidy provision by the government has fallen and one would postulate that production itself has fallen due to the reduction in subsidy provision. However, this is another totally different issue that should be addressed in another study.

In line with the hypotheses of the study, it would be correct to state that the WTO's Agreement on Agriculture has accrued more losses than benefits for the key stakeholders in the agricultural sector.

Furthermore it was observed that certain elements of the agreement had not been fully implemented. Take for example the Green Box outlay. Despite stating the programmes that are provided under this box, there is no mention of how much the government contributes to each of these programmes. All that was observed were the

percentages that developed and developing countries contribute to each policy within the green box. This is not sufficient information for one to draw a satisfactory conclusion on how agricultural production is affected by the policies. There is need to note how much exactly the country spends on each outlay and then compare these monetary figures with other countries' in order to conclusively state that the disparity in allocation of funds to the programmes in the Green Box does contribute to distortion of agricultural production and marketing.

Yet another loophole that was noted was the unavailability of statistics to examine how much, under the de minimis provision, Kenya provides to her key agricultural sub-sectors. The study was only able to calculate the amount of money that the country can spend on each of the commodities by obtaining 10 percent of the annual market production of each product between 1995 to 2004. However, no documented data was available to specifically illustrate how much financial assistance the government provides to each of the key agricultural sub-sectors. Thus with regard to the Amber box policies Kenya should have concrete data to illustrate that she as a member of the multilateral trading body has indeed observed the de minimis levels.

Sanitary and Phytosanitary - SPS - standards came up in the study as a non-tariff barrier to Kenyan exports. It was observed that the European Union had set very high standards with regard to SPS standards and therefore a country such as Kenya would not be able to meet these standards. The study saw an example of the horticulture and fish sub-sectors being affected by these high standards. The European Union refused entry of Kenya's fish and horticultural products because they did not meet the set standards by the European Union. The observance of these high standards by Kenya

is an expensive affair and a developing country such as Kenya lacks the financial resources to support implementation of these very high standards.

Tariff escalation has been another challenge that Kenyan exports have had to face in implementation of the agreement. It was observed that processed exports from Kenya such as coffee and tea were bound to face much higher rates than if they were exported in their primary state, that is, as unprocessed. This action of imposing high tariff peaks on processed exports from developing nations discourages the process of industrialization, which is essential for any developing country that is targeting to improve its economy. The agreement in this regard condones underdevelopment in the developing countries by discouraging their processed products from entering developed markets. There should be some form of leeway provided for developing countries' exports to compete with developed countries processed products.

Otherwise developed countries obtain a much bigger advantage as their goods can easily access the Kenyan market with the bound rate of 100 percent whereas Kenyan exports cannot easily access the developed markets.

Following the data collected and analysed, it is safe to conclude that the World Trade Organization has been more detrimental rather than beneficial to the Kenyan agricultural sector. This has been observed through the influx of cheap imports that cannot be arrested by the low bound tariff rate of 100 percent. Moreover, antidumping measures put in place to curb influx of cheap imports has proved to be expensive as well as entailing a complex process. On the same note, the country has no skilled manpower to help in implementation of the antidumping measures.

Provision of subsidies to producers in the agricultural sector has fallen and this would

lead to low production. However, this is an issue that should be explored in another study. It was also noted that the agreement has in guise, non-tariff barriers such as Sanitary and Phytosanitary measures as well as tariff escalations, which have barred Kenyan exports from accessing, developed markets.

Based on the primary and secondary data collected, it would be right to state that the World Trade Organization's Agreement on Agriculture has been more detrimental to Kenya's agricultural production and trade patterns. There is an urgent need to address the key loopholes in the agreement as the agricultural sector plays an important role in the economy of the country.

5.2 Recommendations.

Based on the above summary and conclusions of the study the following recommendations have been forwarded:

- There should be a revision of the bound tariff rate of 100 percent. Officials of trade and agriculture should identify a significant rate at which imports will be effectively curbed
- Developed countries should provide aid in the form of technical and financial assistance in order to help the country implement antidumping measures which would be an alternative to raising the bound tariff rate
- There is an urgent need to examine the green box outlays of developed countries, which pour vast amounts of financial resources, which definitely increase production. This creates some form of distortion in agricultural production and trade. Member countries should meet and identify a solution

in solving this challenge, which is detrimental to developing countries such as Kenya.

- Blue box policies should be identified as creating distortion in trade and Kenya as a WTO member should forward this complaint in the Doha round of trade talks.
- Officials from the Ministries of Agriculture and Trade should be provided with training in order to be able to tackle complex issues such as antidumping measures
- The Ministry of Agriculture and Ministry of Trade should provide up to date information more specifically with regard to amber box policy support. The de minimis rates should be calculated and provided in order to be able to have a general idea of how much less Kenya spends on de minimis rates as compared to other countries. This will enable the country to know how best to finance the key sub-sectors in order to effectively compete with other countries
- Sanitary and Phytosanitary measures and tariff escalation which act as non-tariff barriers for Kenyan exports should be revised in order to accommodate Kenyan exports in the developed markets abroad. With regard to tariff escalation, lowering of the tariffs would greatly help in enabling Kenyan exports penetrate the developed markets.
- Finally the government should be more aggressive in forwarding its grievances with regard to the WTO's Agreement on Agriculture shortfalls that it has had to encounter in the face of implementation. Failure to meet these grievances should be met by the country's refusal to implement further policies until its grievances have been fully addressed by the multilateral body.

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APPENDICES

Questions administered to Mr Mwangi, Trade Official, at the Ministry of Trade on 19th November 2004.

IMPACT OF THE WTO'S AGREEMENT ON AGRICULTURE ON KENYA'S AGRICULTURAL TRADE SECTOR 1995 – 2003

1. What measures have been put in place in order to deal with the influx of cheap agricultural imports?
2. What key agricultural sub-sectors have been adversely affected as a result of Kenya's implementation of the "Market Access" provision of the WTO's Agreement on Agriculture.
3. What percentage of the national budget is allocated to agricultural expenditure?
4. What have been the losses (if any) accrued by Kenya's agricultural trade sector as a result of implementing the WTO's agreement on agriculture.
5. What is Kenya's total aggregate measure of support – AMS for the year 2000 – 2003?
6. Have Kenyan main exports; tea, coffee and horticulture received more market access since implementation of the AoA.
7. Under the Green Box Policies, what programmes are provided by the Kenyan government.
8. What flaws in the WTO's Agreement on Agriculture have been identified by key stakeholders.
9. What measures have been taken to ensure that the flaws/shortfalls in the WTO's Agreement on Agriculture have been addressed.
10. Does the Kenya government provide input subsidies to small-scale farmers?

YES

NO

11. What is the annual rate of tariffs imposed on fertilizers and seeds between 1995 – 2003?
12. What is the amount (in Ksh) spent on importation of fertilizers and seeds between 1995 – 2003.

13. What is the annual rate of tariff imposed on the following imports in the stated years?

1995 1996 1997 1998 1999 2000 2001 2002 2003

Maize

Wheat

Sugar

14. What was the amount of imports of the following items between 1995 – 2003

1995 1996 1997 1998 1999 2000 2001 2002 2003

Maize

Wheat

Sugar

15. Does Kenya utilise the WTO – compatible anti-dumping measures and countervailing duties.

16. If answer to the above question is NO, kindly elaborate why?

17. Please indicate the Green Box measures' outlay for the years 1996 – 2003.

18. What incentives has the government introduced which aim at export promotion and which sub-sectors are the key beneficiaries

19. What are the current applied tariffs for the following commodities:

- Coffee

- Maize

- Tea

- Wheat

- Sugar

- Dairy products

20. In general, has the Agreement been beneficial or detrimental to the Kenyan agriculture trade sector?

GLOSSARY

Aggregate Measurement of Support (AMS) - The measured level of domestic support used in the WTO Agreement on Agriculture. It is determined for each commodity supported and for agriculture in aggregate. It consists of unit price support multiplied by production plus direct payments or other subsidies that are not exempted from reduction commitments, less specific agricultural levies or fees paid by producers. The unit price support for commodities is the difference between internal administered support prices and a fixed external price (import parity for importers or export parity for exporters) calculated at its 1986-88 base period level. In the WTO Agreement on Agriculture, the AMS is used for negotiated reductions on a whole agriculture basis.

Amber Box Support - Domestic support that is permitted but is acknowledged to be market distorting under the WTO Agreement on Agriculture. Amber box support is measured by the AMS and is subject to agreed limits and cuts to those limits.

Antidumping Measures - Special import duties imposed when a firm, following an inquiry, is assessed as having sold a product in the importing market at a price below the comparable price of the product in its home market. Under WTO rules, antidumping measures may only be imposed if the price differential is causing or is found likely to cause material injury to the domestic industry producing similar products in the importing country.

Applied tariff - the actual tariff that is levied on imports at a particular time

Base period - The time period(s) agreed during the negotiations as the basis on which reductions and commitments are made. For the WTO Agreement on Agriculture, the base period for export subsidies is 1986-1990

Blue Box exemption - A category of support within the WTO Agreement on Agriculture. The support is exempted from the AMS for domestic support under production limiting arrangements if certain conditions are met. These conditions are (i) such payments are based on fixed area and yields, (ii) such payments are made on 85 percent or less of base level of production or (iii) livestock payments are made on a fixed number of head

Bound tariff rate - The tariff rate that a WTO member undertakes not to exceed. The bound rate provides a ceiling that applied tariff rates cannot exceed except by negotiations, with compensation for adversely affected trading partners

Ceiling binding - For the WTO Agreement on Agriculture, developing countries had the flexibility of offering ceiling bindings on products subject to unbound ordinary customs duties. These bound tariffs would be higher than the September 1986 applied tariff (the rate at which developed countries were required to bind where products were subject to customs duties only at the time.)

De minimus - Under the WTO Agreement on Agriculture, support can be excluded from the calculation of the AMS and exempt from a set proportion of the value of the

relevant agricultural production. That proportion is 5 percent for industrialized countries for each product specific and nonproduct specific support. For developing countries, the rate is 10 percent for each of those two categories

Deficiency Payment - A payment made to farmers to cover any shortfall between an administratively determined support price and the price obtained from the market. In the case of the United States, deficiency payments were paid prior to 1996. There, the administratively set support price was termed the target price

Export measures - measures taken by a government that encourage, restrict or prohibit exports from that country

Export subsidy - Government payments or other financial contribution by governments provided to domestic producers or exporters if they export their goods or services

Food Aid - External assistance that is delivered as food either as grants or on concessional terms

Food Security - The ability of all people, to have, at all times, physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life

General Agreement on Tariffs and Trade (GATT) - A multilateral trade agreement among autonomous economic entities (not necessarily countries) with the view of reducing tariffs and other trade barriers and eliminating discriminatory treatment in trade. It was signed as an interim agreement in 1947 and entered into force on 1st January, 1948

Green Box exemption - Under the WTO Agreement on Agriculture, certain measures that meet specific criteria are exempt from domestic support commitments. These measures were agreed to be minimally distorting to trade

Market Access - The extent to which imports are allowed into a country. A country can use an array of tariff and non-tariff barriers to limit imports into their markets

Price Support - Broadly, the maintenance of internal prices at levels above those on the world market as a result of government assistance for calculating AMS. For specific commodities under the WTO Agreement on Agriculture, price support has a specific meaning. It is the gap between fixed external reference price for the base period (1986-88) and the applied administered support price multiplied by the quantity of production eligible to receive the applied administered price.

Quantitative restriction - Explicit limits or quotas on the physical amounts of particular products that can be imported or exported during a specific period of time

Special and Differential treatment - The concept that exports of developing countries should be given preferential access to markets of developed countries and that developing countries, participating in trade negotiations need not reciprocate fully the concessions they receive. Under special and differential treatment, developing

countries also enjoy longer timeframes for phasing in new rules and lower levels of obligations for adhering to the rules

Special Safeguard provisions - A provision in the WTO Agreement on Agriculture that allows importing countries to increase tariffs temporarily beyond bound levels when world prices drop sharply or there is a surge in imports

Subsidy - In agricultural production, it is an economic benefit that producers receive from their government for the production of goods. It may be direct (cash grant) or indirect (subsidised input prices or interest on credits)

Target price - An administratively set support price at or around which level a government aims to ensure prices to domestic producers. Prior to 1996, the U.S. government set target prices for farm programs (wheat, feed grains, rice and cotton). To build growers' returns up to the target price, deficiency payments were made equal to the difference between the target price and loan rates.

Tariff - A duty or tax levied at the border on goods going from one customs territory (in most cases a country) to another wither as a fixed sum per unit of the imported good (specific tariff) or as a percentage of the value of the import (ad valorem tariff). The tariff raises the price of imported goods in the importing country above world market price

Tariff escalation - The tendency for import tariffs to increase as the degree of processing increases

Tariff peaks - bound or applied tariffs that are substantially higher than average tariffs for imported products

Tariffication - Conversion to tariff equivalents of non-tariff measures applying to particular products

Tariff quota - Application of a reduced tariff rate for a specified quantity of imported goods. Imports above this specified quantity face a higher tariff rate

Trade Liberalization - A general term for the gradual or complete removal of existing barriers to trade in goods and services

Uruguay Round - The multilateral trade negotiations conducted under the auspices of GATT, that begun at Punta del Este, Uruguay in September, 1986 and concluded in Marrakesh, Morocco in April 1994

Variable Levy - A tax on imports that raises with changes in import prices in order to maintain internal prices at a specified level

WTO Agreement on Application of Sanitary and Phytosanitary measures (SPS Agreement) - The agreement on issues concerning human, animal and plant health as they affect trade that was negotiated in the Uruguay Round and that was ratified in 1994