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MULTILATERAL TRADING SYSTEM IMPACT ON NATIONAL ECONOMY AND EXTERNAL TRADE POLICY ADAPTATION

UGANDA

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UGANDA

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BACKGROUND PAPERS

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

ACP	Africa, Caribbean, and the Pacific Group
ASEAN	Association of South East Asian Nations
CBI	Cross Border Initiative
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CTL	Commercial Transaction Levy
DFID	Department for International Development (UK)
EAC	East African Co-operation
ECA	Economic Commission for Africa
EDF	European Development Fund
FDI	Foreign Direct Investment
FISCU	Finance and Investment Sector Co-ordination Unit (SADC)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GSP	General System of Preferences
ICO	International Coffee Organisation
IFEM	Inter-bank Foreign Exchange Market
IGAD	Inter-Governmental Authority on Development.
ILO	International Labour Organisation
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ITC	International Trade Centre
LDC	Least Developed Country
MFA	Multi Fibre Arrangement
MFN	Most Favoured Nation Treatment
MTS	Multilateral Trading System
NAFTA	North American Free Trade Agreement
NTBs	Non-Tariff Barriers
OAU	Organisation of African Unity
OECD	Organisation for Economic Co-operation and Development
PSF	Private Sector Foundation
PTA	Preferential Trade Area
SACU	Southern Africa Customs Union
SADCC	Southern African Development Co-ordinating Conference
SADC	Southern African Development Community
Tanzania	United Republic of Tanzania
TNF	Trade Negotiation Forum (SADC)
TPR	Trade Policy Review
TRIM	Trade Related Investment Measure
TRIP	Trade Related Intellectual Property
UCOT	Uganda Chamber of Commerce and Trade
UEB	Uganda Electricity Board
UMA	Uganda Manufactures Association
USAID	United States Agency For International Development
WIPO	World Intellectual Property Organization
WTO	World Trade Organisation

INTRODUCTION

The broad objective of the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries (JITAP) is to facilitate the participating countries' full integration into the multilateral trading system within the framework or rules provided for in the WTO Agreements. The emphasis of the programme is on the enhancement of the participating countries' ability to take advantage of trade opportunities arising from improved market access conditions while adjusting their respective trade policy regimes to the WTO disciplines.

This country specific impact study is aimed at assisting the Government of Uganda, the private sector and civil society to better understand the overall impact of the country's development prospects in relation to the Uruguay Round Agreements (URAs). A better understanding of new Multilateral Trading System (MTS) issues would in turn facilitate adaptation to the URAs by way of elaborating trade policies and export strategies to take maximum advantage of the emerging trading opportunities and cope with the challenges. In addition, the study provides an analytical base to enable Uganda to identify a positive trade negotiating agenda consistent with its development objectives and to enable its trade negotiators to become more effective participants in defending and promoting the country's interests in international trade negotiations.

The study focuses on the impact of the URAs in several areas. First, it reviews import conditions in target markets in the light of market access conditions created by the URAs. Second, it reviews the current macro-economic and trade policy framework in Uganda and identifies internal policies and reforms required for promoting the development of competitive export-oriented sectors as well as regulatory changes related to the adaptation of legislation to selected URAs. Third, it undertakes a careful analysis of the country's strategic export options from the sub-regional and regional perspectives to derive and establish where the best long-term sustainable export opportunities lie, taking into account potential competition from sub-regional and regional producers of the same products.

Drawing from the impact analysis, the study recommends policies which, on the one hand, are required to meet the obligations assumed under the WTO and on the other hand, to overcome constraints in order to benefit from the liberalisation of the global market. These include, in particular, competitiveness enhancing polices, strategic options for the development of exports and policies and measures to be pursued in sub-regional, regional and multilateral trade negotiations. These measures would address three main areas of concern namely, the competitiveness of the country's products, the internal economic and trade environment and the external trade environment.

Within these broad areas of focus the following specific subjects are addressed:

- Background, outcome and impact of the Uruguay Round on Uganda. (Chapters 1 and 5);
- Review of national economic environment and competitiveness (Chapter 2);
- Review of the international trade environment and market access opportunities (Chapter 3);

- Analysis of the challenges to export competitiveness (Chapter 4);

- Recommended actions for Uganda to address issues and obligations raised by the Uruguay Round (Chapters 5 and 6); and

- Recommended negotiating agenda for the MTS and options to improve competitiveness (Chapter 6).

The study draws upon a wide range of literature that has been written on the Uruguay Round, as well as national economic reports, studies on Uganda and East African trade issues, and extensive field work. In a number of areas, it provides recommendations and options requiring further extensive debate and discussion at the national level in order to arrive at a consensus on the way forward. It highlights actions that are required by Uganda to meet its multilateral trade agreement obligations. The study also highlights down-to-earth market opportunities and constraints to competitiveness that need to be addressed by Ugandan stakeholders concerned with increasing the country's export performance. There are also a series of Annexes which provide supporting evidence or elaborate specific issues covered in the main report.

It is anticipated that the study will be accessible to and usable by a number of audiences. Policy makers and trade development agencies can find examples of the impact of the URAs as well as constraints to exporting that need to be addressed. Enterprises can find explanations of the trade agreements that affect their operations as well as market access conditions and opportunities for them to consider in their marketing plans. Academics can find teaching and reference material on the MTS that is specific to Uganda.

EXECUTIVE SUMMARY

1. Background

As a general conclusion, Uganda is likely to continue to rely on a narrow range of traditional agricultural export products in the medium-term. These products are mostly targeted at the European markets. The URAs will assist to some degree in levelling the playing field, but conversely will also increase competition faced by Uganda and other ACP States, as tariff barriers to other developing countries outside of the ACP Group are reduced into the key European Union market. Enhanced competitiveness will centre on achieving improved transport routes including lower transport costs, as well as increased efficiency of output. The ongoing rehabilitation of the main cash crops has enhanced the country's export performance. There are also positive signs of product diversification witnessed by productive investment in gold mining, hides and skins, floriculture and fish processing sectors. Increased levels of foreign direct investment (FDI) are beginning to unleash the country's supply potential.

In the context of regional groupings in which Uganda is a member such as EAC (East African Co-operation) and COMESA (Common Market for Eastern and Southern Africa), Uganda shows only limited export opportunities for beans, maize, beer and electric power. Increased output and price competitiveness will be essential.

At the national level, a number of significant export constraints still need to be overcomed including utility costs, poor infrastructure, administrative bottlenecks, cost of finance, low technology and a shortage of technical skills. A suitable market information system is also required. With the reduction of tariff and non-tariff barriers due to the regional trade agreements (EAC and COMESA), Uganda will be faced with increased competition from regional suppliers, especially, its east African neighbours. There is medium-term potential for developing value-added manufacturing based on agricultural products to supply consumer foods competitively into regional markets.

It is recommended that Uganda focus on its supply capacity in order to meet the opportunities offered by a liberalising regional and international trade regime. Targeting sector specific strategies and promoting products of competitive advantage need to be implemented. Uganda should continue to seek product and market diversification, based where possible on value added competitiveness. The development of new supply capacity in both goods and services, in particular those products with dynamic export potential, is essential. It is also recommended that economic policies that enhance domestic and foreign private sector investment, support infrastructure development, remove export bias and increase productivity should be strongly supported by all stakeholders.

Uganda should continue to be actively involved in regional trade agreements as they provide the means to improving regional market access for Uganda's exports of goods (and eventually of services). These agreements also provide the means for Uganda to pool regional resources with other participants in addressing such common development problems as regional transport and communication infrastructure building as well as adopting common positions in international trade negotiations.

Uganda needs to continue taking advantage of technical assistance programmes to enhance its administrative capabilities in monitoring and complying with the results of multilateral trade negotiations as well as sub-regional and regional trade negotiations. This should include on-going impact analysis and evaluation of commitments and opportunities for the benefit of both the public and private sectors and civil society, including Uganda's participation in new multilateral and regional trade negotiations.

2. SUMMARY EFFECTS OF URUGUAY ROUND

To summarise the effects of the Uruguay Round on developing countries in general and Uganda in particular is difficult. The quantifiable effects on goods under the Multilateral Agreements on Trade in Goods were positive for the world, but insignificant in size and for some sectors and groups (especially among developing countries like Uganda) uncertain in result. The services liberalisation under the General Agreement on Trade in Services (GATS) is probably positive for developing countries as a group, in view of its development-friendly structure. Those on trade-related investment measures (TRIMS) and trade-related aspects of intellectual property rights (TRIPS) are small and uncertain.

Developing countries gain from the stronger dispute settlement mechanism, from new market openings in agriculture and textiles and clothing, as well as from increased information from the country trade policy reviews and notifications of trade measures. However, they may lose from the new rules on safeguards, anti-dumping, and pre-shipment inspection. A stronger, more prominent WTO should be a gain for economically weak countries such as Uganda. The gains come mainly from the reforms, extension, and reinforcement of an orderly rule-based system of international trade relations. The significance for Uganda and other developing countries derives from their growing exposure to that system, and their relative weakness in a less orderly system.

Statements by Uganda and other developing country members of the WTO, and their ratification of the Uruguay Round agreements, suggest that most of them see the results as positive, even the poorest for whom the quantifiable effects are insignificant or uncertain at present. Their expectations were premised on the flexibility given to developing countries and the least-developed among them, like Uganda, in terms of adjusting to their WTO obligations in a manner consistent with their trade, financial and development needs. However, the design and content of these special and differential provisions in WTO Agreements have not provided the expected impact. Thus, developing countries' are demanding an improvement in the WTO including in consolidating and strengthening the principle of special and differential treatment. This includes more market access for their products, greater flexibility to pursue policies that will enhance development, such as participation in regional trading arrangements and greater assistance with the costs of their reforms, with emphasis on technical and administrative costs.

At the conclusion of the Uruguay Round in Marrakesh (Morocco) in 1994 some unfinished business remained, with formal provision for re-opening negotiations in some sectors and for further review of the provision of some agreements within a few years. The two most important areas in the 'built-in agenda' were agriculture and services.

<u>World Trade Organization</u>

Although the idea of the WTO was not foreseen in the Punta de Este Declaration launching the Uruguay Round in 1986, it was presented and finally accepted as a necessary instrument for implementing the results of the round and imposing stronger discipline on unilateral trade measures. The WTO Agreement entered into force on 1 January 1995 and with it came the creation of the WTO. This provided a common institutional framework for both the conduct of trade relations among members guided by the Uruguay Round Agreements, and for new trade negotiations.

Tariffs on Industrial Products

On average, the developed countries lowered their Most-Favoured-Nation (MFN) tariffs on industrial products in the Uruguay Round by about 2 percentage points, from 6% to 4%. The changes were greater for some of the most protected products. However, what is important to Uganda and other developing countries is that in most cases the effect of this was insignificant (small changes in products of little export interest to them) or negative. As they received Generalised System of Preferences (GSP) treatment and in many cases additional preferences (Lomé Convention) for their exports in their main markets, reductions in the MFN rate do not improve their access, but may reduce their effective level of preference by improving the access of other developing countries.

Non-Tariff Measures

The Uruguay Round came after a decade in which the developed countries had increasingly used non-traditional non-tariff measures such as ‘voluntary’ export restraints, temporary import controls etc. The introduction of a ‘standstill’ on these during the Uruguay Round, followed by the increased strength of WTO disciplines, effectively curtailed these new protectionist measures and there has been a slow reduction in the existing measures. However, in recent years there has been a resurgence in developed countries of the abuse of legitimate trade rules as non-tariff barriers, against exports of developing countries where market penetration has grown. Such measures pertain to standards and anti-dumping actions.

Agriculture and Textiles and Clothing

The effects of the reform of trade in agriculture under the Agreement on Agriculture and the progressive dismantling of the Multi-Fibre Arrangement (MFA) under the integration programme of the Agreement on Textiles and Clothing were potentially positive for the most efficient producers, including many developing country exporters of these products. The MFA will be phased out over 10 years.

In agriculture, issues of concern to Uganda and many other developing countries includes the erosion of the margin of preferences enjoyed under the Lomé Convention in the EU market and loss of GSP preferences in major developed country markets. Uganda’s agricultural exports are likely to be affected by preference erosion particularly coffee, tea and cut flowers. The potential negative effect also includes the existence of peak tariffs (exceeding 12% and in some cases reaching or exceeding 300%) resulting from the tariffication of non-tariff measures and tariff escalation. Many agricultural items will be affected, thus limiting the scope for expansion of production into value-added and higher priced finished coffee products. Another major concern is the expected increase in food prices, as developed countries reduce their subsidisation of this sector under their WTO commitments. This would affect food security in net-food importing countries and least-developed countries (LDCs) like Uganda. This concern for food security was to be addressed by the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries. However, the lack of effective implementation of this ministerial decision has raised concern among LDCs and other developing countries. Other non-trade concerns such as rural employment also figure importantly for developing countries with respect to the impact of agriculture liberalisation.

Progressive liberalisation of these two key sectors for developing countries, which were once heavily protected by developed countries, ensures that the international markets in the medium term will be market forces driven. However, there may be a short-term cost, possibly in agriculture and probably in clothing, for those countries that have benefited from the barriers.

Trade in Services

The Uruguay Round broadened the coverage of the GATT to include services under the framework of the General Agreement on Trade in Services (GATS). The GATS result was important for two reasons. First, it made obtaining information about controls or access easier including by defining modes of supply in services and secondly, it offered a platform from which future rounds could negotiate improved access. The GATS could possibly enable even LDCs such as Uganda to strengthen their services sectors and increase the exports of services.

Special and Differential Treatment

In general, notwithstanding the ‘single undertaking’ principle of the WTO, the Uruguay Round agreements provided for differential and more favourable treatment for developing countries with the treatment being even more favourable for LDCs such as Uganda. The Uruguay Round brought explicit special provisions for developing countries, with two classes, Least Developed Countries and Other Developing Countries. The provisions made for differential and more favourable treatment in multilateral agreements on trade in goods, include longer periods for implementing obligations; higher or lower thresholds for undertaking certain commitments, depending on the specific agreement; flexibility in obligations and procedures; ‘best endeavour clauses’ and technical assistance and advice. In general, for example, the developing countries were allowed to offer only two-thirds of the concessions (for example on agricultural support) or were permitted 50% longer to implement measures (for example on intellectual property). LDCs like Uganda were given even longer transition periods or were totally exempted in some cases.

As regards services, the GATS in general recognises the needs of the developing countries and in particular the least-developed among them, and endeavours to facilitate their increasing participation in international trade in services and the expansion of their services exports. The provisions however are in the nature of “best endeavour clauses” without any obligations on the part Members to implement them.

The differential and more favourable treatment provisions in the URAs was accomplished in a somewhat *ad hoc* manner, not as a result of an underlying consensus as to how the trade and development needs of developing countries should be reflected in trade principles and rules. The special treatment for developing countries was thus considerably eroded because it was addressed separately in each negotiating group in the Uruguay Round without an underlying conceptual framework. There was no overall consensus as to the trade measures required by developing countries as essential elements of their development programmes. At the same time however, the special treatment being an integral part of the Uruguay Round agreements meant that these were placed on firmer legal grounds.

Rules

An important effect of the Uruguay Round negotiations was to reinforce the increasing degree of regulation in international trade and to enforce acceptance of all these rules under the principle of 'single undertaking.' Also, the increasing complexity of the goods traded (due to the increase in the share of manufactures and of the sophistication within manufactures) has been an important force for the imposition of minimum quality or other standards. Some of the key outcomes were as follows:

- Concerns about the health of human, plants and animals have increased regulation of foods. The new WTO rules reinforce and add to these via the Agreement on the Application of Sanitary and Phytosanitary Measures. Similar concerns underpinned the Agreement on Technical Barriers to Trade, mainly to encourage the development of standards and at the same time ensure that they do not create unnecessary obstacles to international trade. The agreement establishes rules over the use of technical regulation and standards including packaging, marking and labelling requirements and procedures for assessment of conformity with these regulations and standards;

- More national subsidies on industrial products are subject to regulation under the Agreement on Subsidies and Countervailing Measures;

- The regulations for anti-dumping measures were made more formal by the Agreement on Implementation of Article VI of the GATT 1994;

- The TRIMS Agreement prohibits trade-related investment measures that have been judged inconsistent with GATT obligations regarding national treatment (GATT Article III) and the general elimination of quantitative restrictions (GATT Article XI);

- The GATS, although only a framework agreement in terms of what may be liberalised, sets out definitions of the type of services which can be negotiated;

- The protection of intellectual property rights in international trade was regulated, with requirements for reform of national legislation, while at the same time ensuring that such measures do not become disguised barriers to legitimate trade. The rules were instituted under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); and

- The dispute settlement system was made more formal, reducing the scope for indefinite delay or failure to apply the results and increasing accessibility of developing countries initiating disputes within the WTO. The strengthened rules were established under the Understanding on Rules and Procedures Governing the Settlement of Disputes.

Built-in Agenda

At the conclusion of the Uruguay Round in Marrakesh (Morocco) in 1994 some unfinished business remained, with formal provision for re-opening negotiations in some sectors and for further review of the provision of some agreements within a few years. The two most important areas in the 'built-in agenda' were agriculture and services. WTO members were required to open new negotiations in both areas by 2000. There have also been new sectoral agreements since the completion of the Uruguay Round on telecommunications and on financial services, in which East African countries have participated.

Lomé Convention

The current proposals from the EC for the successor agreement to the Lomé Convention offer ACP countries several choices. One choice is to continue the Lomé Convention for a 5-year period during which time measures would be designed to move to a 'free trade' arrangement with the EU, with each region of the ACP Group signing a separate agreement. The EC believes that such free trade areas would be sufficient to meet the WTO's requirement under GATT Article XXIV and the Understanding of this Article, that, *inter alia*, they cover 'substantially all trade.' This would need to be tested by the WTO examination procedure for free trade areas and customs unions. In this case, Uganda, as a member of the EAC and COMESA agreement with the EU, would assume regional reciprocal trade liberalisation commitments.

Another choice for those ACP countries remaining outside the first choice is to revert to an enhanced GSP status. In this case no reciprocity in concessions is provided. However the ACP participants no longer participate in the determination of the preferences. That will be the sole responsibility of the EU. This choice is not likely to be of interest to Uganda. Another choice for the LDCs like Uganda is to simply continue benefiting from existing preferences enjoyed under the Lomé Convention which were basically replicated for all LDCs by the EU in 1998 in its WTO commitments to increasing market access for LDCs. Under this arrangement the LDCs are intended to have the equivalent of full Lomé access except for rules of origin. They do not have this yet because the EU has not completed the adaptation of agricultural access, although it has promised to do so.

In response to the EC proposals, the ACP Group proposes the continuation of the Lomé Convention for a 10-year period, following which an alternative trade arrangement would be instituted. The alternative trade arrangement, which may include any of the options proposed by the EC as well as others, would be drafted during the 10-year transition period. In general however, the potential and actual loss of preferences, and progression into reciprocal trade agreements does encourage product and market diversification and competitiveness, which will render Uganda less vulnerable to changes in policy or economic crises in the future.

Trade with the USA

Discussions are currently underway within the USA administrative and legislative branches with respect to developing a preferential trading arrangement between the USA and qualifying African countries. This 'African Growth and Opportunity Act' arrangement is still at a preliminary stage and has not yet been finally approved within USA. At this stage, the arrangement is expected to provide a framework for new trade and investment relationships between USA and Sub-Saharan Africa. It will be open to those SSA countries that demonstrate an adequate level of trade liberalisation and democracy. The ultimate objective is to move towards a Free Trade Area by 2025 for the countries that conform best to these criteria. The most immediate benefit it would provide to sub-Saharan African countries is expanded product coverage under the GSP scheme, as well as tariff and quota-free exports of textiles and apparel products to the USA, subject to meeting certain rules of origin criteria.

The USA has shown particular interest in developing an arrangement (possibly a FTA) with the SADC region. It therefore appears to be a plan to develop a relationship somewhat similar to the current Lomé Convention relationship.

Effects of overlapping regional trade agreements

Uganda is a member of both EAC and COMESA. The EAC is not in conflict with COMESA since the COMESA Treaty allows the formation of smaller sub-regional groups as long as they operate on the basis of subsidiarity with COMESA.

COMESA is notified under the 1979 Enabling Clause to the WTO as a regional trade agreement among developing countries. It permits COMESA members to accord each other preferential market access without extending the same preferences to other WTO members in line with the MFN rule. The EAC should be notified to the WTO to as and when the free trade agreement between members is signed and takes effect.

The chart presented in this section shows the multi-membership of many Sub-Saharan African countries.

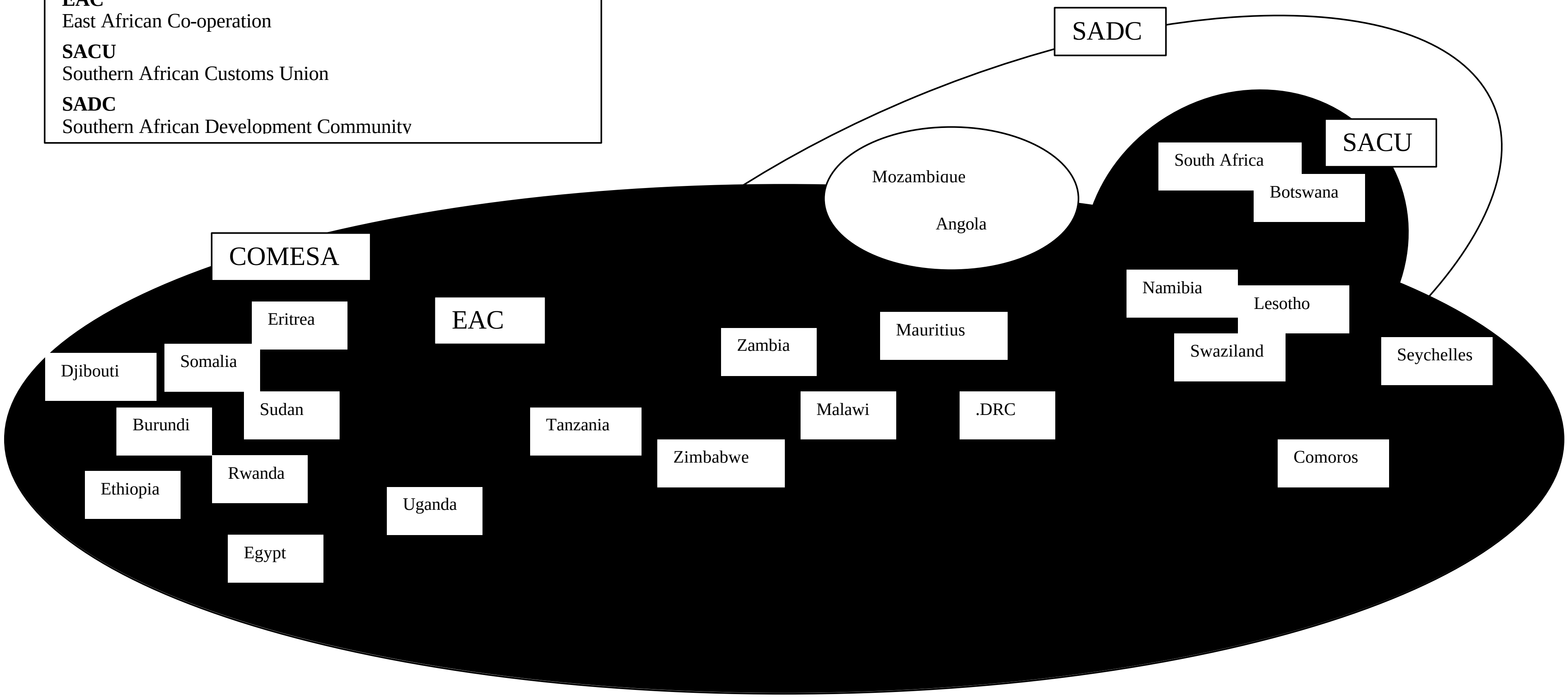
Regional Integration in Southern and Eastern Africa

COMESA
Common Market for Eastern and Southern Africa

EAC
East African Co-operation

SACU
Southern African Customs Union

SADC
Southern African Development Community



3. UGANDA'S OBLIGATIONS AND ACTIONS UNDER WTO

General conformity to WTO rules

Uganda needs good and timely information about WTO decisions (and their interpretation) and the capacity to influence the new agenda of the WTO at an early stage. The WTO is 'member-driven' and reacts only to member initiatives. Financial assistance could be sought, but technical or other direct participation would be inappropriate in a negotiating organisation.

Tariffs, import licensing and other interventions on imports

Uganda has complied with most of the Uruguay Round requirements on its import licensing and tariff regimes although it may need to reformulate its legislation to fit the authorised exceptions more precisely. This should be a matter for simple technical assistance. Uganda may be under other pressure to reduce the level or the differentiation of its tariffs

Agriculture

Uganda is in compliance on agricultural support. The country needs to watch the forthcoming negotiations on agriculture as the requirements could be tightened, and they may face pressure outside WTO requirements.

Non-tariff Barriers

Only well-informed local trade experts with a legal rather than an economic training and familiar with all their own country's economic measures, can make a reasonable assessment of whether any non-tariff barriers are in conflict with WTO rules. Familiarity with complaints made and sustained about other countries' measures may help, so there is a role for training in trade policy. However, the judgements will need to be made by those already trained as outside experts are unlikely to have the necessary detailed familiarity with local policies. This is an ongoing process, as the case law about what a barrier is evolves (particularly in areas like services), and there is therefore an ongoing requirement for following WTO disputes decisions.

Subsidies

As with NTBs, Uganda needs to re-examine all government measures to see if they are in conflict with the new provisions on subsidies, using the training they can obtain from international organisations.

Anti-dumping rules, countervailing actions and safeguards

For formal compliance with the WTO, Uganda must see that the COMESA rules and procedures on anti-dumping, countervailing, and safeguards are reformed to fit the WTO rules, and this appears to be under way. It is important to ensure that it is co-ordinated across all COMESA. There are, however, no immediate national interests in such legislation, as either plaintiff or defendant, so it is not a priority for implementation in policy terms. From a negotiating point of view, however, reforming the system may be a priority if rules are included in the next Round, especially as the number of anti-dumping cases continues to rise.

Customs valuation and other customs rules

Uganda is approaching the end of the permitted delays in conforming to the WTO rules on customs valuation. On a technical level, this will not be difficult, and the information and training are being made available. On the revenue side, Uganda needs to give more priority to reforming the tariff or tax system to keep the level of revenue up. It is probable that Uganda has sufficient margin below their bound tariff rates to make any necessary adjustments, but it may choose alternative taxes as part of a more general fiscal reform.

Pre-shipment inspection

The PSI provisions of the Uruguay Round were confusingly drafted and designed to meet a problem that was diminishing as the Round progressed. Formally, Uganda may be able to meet the requirements on transparency, although some of the points raised by Kenya suggest that there may be serious difficulties on 'non-discrimination'. In the long run, higher income and better-trained customs officials will obviate the need for PSI. It is not clear that this is an efficient use of scarce training and other resources in the short run as this is an area (unlike most of those discussed here) where a substitute is available to purchase. Uganda will need to consider how to divide its resources between compliance and negotiating clarification or amendment of the provisions.

Trade Related Investment Measures (TRIMS)

Under GATT 1947, investment law has not been central to its rules, and countries have been able to ignore the rules. Now, under the WTO with its strengthened disputes settlement procedure, the agreement on TRIMS limits the use of certain important trade-related investment measures such as local content requirements. This agreement and the discussion of a more extensive regulation of investment, all against the backdrop of increased interest in attracting foreign investment, mean that Uganda and other African countries need at least to be aware of the rules, and their vulnerability if they do not adapt to them. They also need to be aware of the options/measures remaining to be used in attracting quality investment. The wide variety of types of investment regime, which are used by developing (and developed) countries, could be analysed for this purpose. The analysis must be combined with awareness of other countries' regimes and national judgement.

Standards

International standards are becoming more common, and for countries which have not yet set their own, adopting these at an early stage may be a particularly efficient step. It is also important that Uganda and other African countries participate in international standard setting bodies to present their interests. An alternative for Uganda, in a region like the EAC or COMESA, is to move to regional standards, provided that these are compatible with existing international standards. This may be a saving in costs on national standards. Notifications of regional standards have been made for the EAC. These need to be made by Uganda because EAC is not yet a notified region in the WTO.

Services

There were effectively no minimum requirements for services offers in the Uruguay Round, so Uganda has formally complied. But there will be much more pressure in the next round to make substantive offers. There has, as yet, been no clear indication of the type of assistance to be made available, that Uganda will need for a major exercise in both economic strategy and regulatory legislation. The country will certainly need to find models. The WTO may offer one, but it may not be suitable for least developed countries, or for countries with a high dependence on services income, or for countries in particular economic or political situations. Analysing its suitability would be itself a major task. Services should be a priority for attention by policy makers in Uganda and under the JITAP.

Trade Related Intellectual Property (TRIPS)

Uganda must comply with the TRIPS rules within the next six years. The country has legal systems, which are likely to be adaptable to the standard form of laws.

Government Procurement

There is no obligation to join the Agreement on Government Procurement, and few developing countries have. Unlike other WTO agreements, access depends on reciprocity, and there might be little cost because the countries may be heavily dependent on foreign suppliers for most tradable goods.

Whether Uganda should join depends on whether it wants to export to government purchasers who have joined the agreement, and whether it wants to give preference to any local suppliers who would be in competition with potential foreign suppliers. If a substantial proportion of a country's government expenditure is financed by aid, there may be other constraints on its purchasing (and a commitment to open tendering could offer a counterweight to preferences for donors' suppliers). This is a question where Uganda must take its own view; international agency advice is unlikely to be sufficiently informed about the country situation to be useful, but the experience of other developing countries could be useful, although it will be difficult to find any that have signed.

Interactions between Regional Trade Agreements and the MTS

The new regulations for regional trade agreements do not affect the EAC countries' arrangements on goods trade directly as they are affected by the 1979 Enabling Clause, which were not changed by the Uruguay Round, but could affect the rigour with which they are examined. If they move into further integration on services, they would need to balance this with any offers they make multilaterally because of the way the services agreement is structured under GATS. Other customs unions offer examples, and may offer advice or a common position.

Labour and the environment

There is no need for immediate action on labour or environmental issues to meet international standards (except for the existing environmental protocols and any obligations under ILO Conventions). But there will be opportunities for Uganda to use environmental arguments in trade negotiations, and therefore it may be useful to examine products for which liberalisation is sought from this point of view.

4. POLICIES TO IMPROVE COMPETITIVENESS

Trade Liberalisation

In the medium term, there is a growing need to co-ordinate macroeconomic policy, industrial product export drive and trade policy. This will assist in solving problems related to technology status, manufacturing capacity utilisation and efficiency. There are problems with costs, cost structure and competitiveness, which include the issues related to the current high production and capital financing costs. More fundamental is the need to solve the problem of high duties, cost of utilities, high interest rates and the unavailability of long-term investment funds. The above problems and constraints combine to perpetuate corporate indebtedness and low profitability.

In Uganda, the issues of human resource development and institutional capacity building for trade policy formulation and implementation, remain important constraints. The public institutions dealing with trade issues need to be strengthened to be able to participate effectively in the multilateral trading system as well as to be in a position to implement the Uruguay Round Agreements. Public awareness, through dissemination of basic information on the World Trade Organisation framework through the local press, radio and television, needs to be enhanced. In particular, seminars for private and public sector officials in understanding the multilateral framework for international trade in goods and services as embodied in the WTO should be regularised

In the search for policy options, there is need for further strengthening of the partnership between government and the private sector in policy formulation. At the moment, private sector organs/institutions have been developed such as the Uganda Manufacturers' Association (UMA), Uganda Chamber of Commerce and Trade (UCOT) and the Private Sector Foundation (PSF) These organs have, at times, participated in policy formulation and evaluation especially in the area or trade policy. There is a need to build on this process to jointly address issues regarding:

- New market opportunities and market diversification;
- Product upgrading;
- Means of market penetration; and
- Trade flows analysis and forecasting.

The design of appropriate mechanisms to access information on foreign markets by exporters and on international supply conditions by importers needs to be addressed. On the more specific issue of compliance with WTO, the involvement of representatives of local business associations, as well as technical professionals and lawyers in the private and public sector agencies is necessary. This will help to ensure that the implications on specific agreements such as on textiles and clothing, technical barriers to trade, application of sanitary and phytosanitary measures, trade remedies, Trade Related Intellectual Property Rights and Trade Related Investments Measures are broadly internalised

Uganda's existing comparative advantage is heavily concentrated on agriculture, forestry and mineral resources, and on their primary processing. This implies that there is scope for further development and secondary processing of these resources. As Uganda enjoys good climatic conditions and fertile soils, it should diversify its agricultural production with the introduction of new crops and farming technologies for high value products.

Uganda has a wide range of potential areas of comparative advantage, which give potential for both intra-industry and inter-industry diversification. A number of opportunities for domestic market-oriented activities were identified. These included simple manufacturing and assembly industries, particularly those with high transport costs. There is also a possibility for extending the effective domestic market across the borders to neighbouring countries.

The review of export market potential showed that both the composition and direction of Uganda's exports have changed over recent years. Uganda’s main potential export markets may be grouped into: COMESA, Europe, USA, and the Middle East. Uganda currently has an unbalanced trade relationship with COMESA markets. Its major trading partners are Kenya and Tanzania, with the value of imports exceeding the value of exports by a sizeable magnitude. There is therefore scope for expanding exports to COMESA member states. The regional market for food also presents opportunities for agricultural production for export.

Uganda's major export markets are Europe and the USA. Uganda competes with sub-Saharan Africa in its traditional commodity exports, particularly in tea, coffee, cotton, tobacco and cocoa. Both market areas offer preferential trade opportunities, which should be exploited to the full; however both possess stringent market entry conditions. Health and quality standards are demanding while transport costs can be high. Uganda should specialise in high value, low transport cost goods for export to these distant markets.

Uganda's exports have penetrated the Middle East, mainly through the Gulf entrepots, for example Dubai. The region offers good market opportunities for a wide range of agricultural produce. Market entry regulations are less demanding and the region is closer than Europe or the USA.

Manufactured exports are mainly sold in the COMESA area of Tanzania, Sudan, Rwanda and DRC. This market penetration has mainly been a result of several factors:

(i) donors and relief agencies have tended to buy most of their products for supply to these areas from Uganda;

(ii) there has been an inability of enterprises within the importing countries to satisfy domestic demand at competitive prices; and

(iii) these frontier markets also offer a cost advantage in the form of relatively low transport and delivery charges from producers in neighbouring Uganda. These areas include Southern Sudan, Northern Tanzania and Eastern DRC.

In the area of trade policy, the key instrument has been tariff changes. Trade taxes in Uganda have continued to be adjusted, lowered or eliminated as in the case of exports, while the variance in tax structure as well as tax bands have been streamlined. Quantitative restrictions have been largely eliminated and replaced with more transparent taxes. As a result, Uganda's trade policy is increasingly being focused on tariffs on imported goods. A vital goal for trade liberalisation has been to reduce the anti-export bias and ensure that no excessive protection results from the tariff system. Again, despite these positive steps, the business community complains about the tax burden. Part of the problem is rent seeking, part is that those that were avoiding tax are now being brought into the net, and part is due to indirect tax increasing product costs.

It has been recommended that the achievement of a simple harmonised external tariff (HET) is a priority objective that could be accomplished by the EAC by July 2000. Given the current tariff structures in the region this is a realistic objective that could be accomplished without adverse impact on revenue collections. Analysts have concluded that the current Ugandan structure of (0, 7 and 15%) has a number of merits that recommend it as a desirable common tariff structure for EAC. The current Ugandan tariffs incorporate all of the objectives governments should seek in a tariff harmonisation exercise, in that they improve welfare, lower the landed prices of imports and also simplify the customs classification of imported goods.

However there is a real risk to successful integration which could arise from a hasty approach to the creation of a free trade area when both revenue and protection concerns have not been adequately incorporated into the decision. The application and gradual deepening of the COMESA preference over the past decade, in the context of large intra-regional trade imbalances, has already provoked a number of countervailing reactions that are inimical to economic integration. In this context, a longer phase-in period for the elimination of internal tariffs is required.

Positive Factors for Competitiveness

- Climate, land and water for agricultural production;
- Improved power supply in medium term;
- Increasing sophistication of the private sector;
- Open economy with low barriers to entry;
- Dynamic tariff regime;
- Reasonable access routes to East African markets; and
- Duty-free access to major international markets.

Negative Factors against Competitiveness

- Low level of skills in general workforce;
- Small domestic capital base for investment;

- Expensive transport routes to international markets;
- Limited direct air access to international markets;
- Domination of imported manufactured products affecting local production capability High utility costs;
- Bureaucracy still prevalent in administration of international business transactions Lack of credit for working capital needs;
- Limited diversification of exportable products;
- Limited knowledge of regional and international markets;
- Poor market information flow;
- Limited knowledge of pros and cons on trade agreements; and
- Limited technology transfer to increase value added production Weak linkages between various sectors of the economy.

The key constraints restricting the ability for Ugandan enterprises to be internationally competitive were as follows, according to recent surveys of the business community:

- Lack of trade finance;
- Inadequate government policies;
- Poor infrastructure and transport constraints;
- High taxes;
- High cost of production;
- Corruption;
- Inadequate human resources;
- Poor access to international markets;
- Tariff and NTBs in target markets;
- Inadequate international marketing management skills; and
- Low technology and product development.

Key priorities for the future

For the medium term Uganda will continue to rely on its traditional crops to earn the substantial part of its exports. Certain non-traditional resource-based products such as fish, maize and floriculture show growth potential. Key target markets will continue to be in the developed world, with small volumes of manufactured products penetrating neighbouring markets. Market potential for Uganda’s exports in the EU could be affected by the outcome of the negotiations over the successor agreement to the Lomé Convention. Also the market potential in the USA could become important if the USA Congress and Senate approve the African Initiative.

In order to advance competitiveness it will be necessary for Uganda to address its infrastructure limitations including the availability and cost of utilities. It will need to improve its administrative structures to increase efficiency and reduce corruption. It will need to development a comprehensive trade development programme that addresses the technical, entrepreneurial and information shortcomings, if productivity is to increase. In addition there will be a need for product development in order to overcome NTBs in key target markets. A partial solution to the problem will be to enhance policies that will attract FDI into productive enterprises. This will increase the financial and technical resources flowing into the country. Policies to remove any residual anti-export biases and to provide incentives for export activities need to be entrenched in the economic structure of the country.

Exports will receive a boost through better and cheaper transportation methods, the elimination of power shortages affecting industrial production and the use of cold storage for perishables at key distribution points like airports. As was pointed out by UNCTAD (1997) and Kol et al (1998) more market access for Uganda is likely to arise from:

- Making the necessary adjustment to production structures involves;
- The overcoming of supply side constraints particularly in terms of products which are largely agro based and can enter the EU through specialised preferences;
- Continuing to implement outward-oriented policies, and;
- Continued provision of financial and technical assistance to the country in support of further policy reforms.

It is within this context that Uganda can develop its future trade policy. At present, there is no formal national trade policy, although there are a number of policies and directions taken by the country that constitute the main elements of a trade policy. These are usually built into overall economic policy that is based upon macroeconomic and market reform, trade liberalisation, exchange control liberalisation, privatisation and the like.

A number of key issues need to be debated further by the stakeholders. These include:

- The roles of the public and private sectors;
- Revenue implications of tariff reduction programmes;
- National competitiveness in the context of production and supply constraints, infrastructure and the graduation of subsistence producers into the commercial arena;

- Capacity building of institutions involved in trade policy formulation and those facilitating competitiveness. These would include the Ministry of Industry and Trade, Customs, Export Promotion Council, Chambers of Commerce and the like;

- Review of the legal framework to ensure compatibility with the MTS agreements;

- Review of the domestic taxation system and incentives to promote investment; and

- Review of bureaucracy and hidden costs affecting businesses operations.

Summary of trade policies requiring action by Uganda

SECTOR/AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME
TRADE				
Foreign Trade Liberalisation				
	Abolish other NTBs	2	Most NTBs have been removed	
	Eliminate tariffs on intra-regional trade	2	Reductions have reached 90%	100% reductions to be achieved by end of 1999.
Trade Facilitation				
	Introduce bond guarantee scheme	3	Arrangements for implementation in preparation	
PAYMENTS				
Domestic Payments and Settlements	Complete Financial Sector Reform Programme.	2	Programme now completed and Phase II begins soon.	
INVESTMENT				
Investment Regime	Simplify investment approval procedures.	2	Investment procedures are liberal but are hampered by unnecessary bureaucracy	
	Harmonise investment regimes.	3	Being considered in context of EAC.	
Other Institutions	Conclude Double Tax Agreements.	2	A few are already in place with S. Africa, Zambia etc.	Negotiations continue with other countries.
	Develop Cross-Listings on Regional Stock Exchanges.	2	Kampala Stock Exchange has begun her operations.	Plans should be made to link KSE with other stock exchanges in the East African region.
INSTITUTIONS				
	Continue with TWG activities	2	Activities have slowed down this year	
PROJECT DEVELOPMENT				
	Agree terms on follow-up to LCBIP	2	Government working within the LCBIP framework.	Consultations to continue.

Source: CBI, 1999

Codes: 1. Fully implemented.
2. Partially implemented.
3. Arrangements for implementation in preparation
4. Arrangements for implementation not yet identified

5. STRATEGIC OPTIONS FOR EXPANDING EXPORTS

Uganda is generally self-sufficient in food and is regarded as a potential net food exporter of substance, but requires extensive imports of machinery, fertiliser and other inputs to raise yields and output. Manufacturing output contributes only 7% of GDP, but has been growing as a result of increased productivity and newly-invested capacity. However, manufacturing output is still heavily dependent on imported inputs.

The limited size of domestic market and import dependence limits the export capacity of Uganda. For Uganda, food items remain the principal export. These are mainly tea and coffee. Manufactures are a small share. Fibres, yarn, and clothing are significant for Uganda as well. For Uganda, this means mainly cotton. The other products important for Uganda are hides, fish, tobacco, and vegetables; other non-traditional exports which it is trying to promote include nuts, fruits, spices, essential oils, flowers, and silk (WTO, Uganda, 1997). Uganda is developing a horticultural export sector with the first signs of success.

Uganda recorded a reduction of its traditional coffee and tea exports to developed countries after the Uruguay Round. But there is still potential market in developed countries: in Japan and other Asian countries there is a significant increase in coffee consumption. Therefore, Uganda should increase its exploitation of these markets. In the EU, there is also a slight growth of coffee products such as iced coffee, espresso coffee and soluble coffees with different flavours. Consumption of this product is confined to northern member states of the EU, the most important being Germany, Italy and France.

Access to information is one of the crucial factors that promote exports. Normally, this information can be obtained from the Chambers of Commerce, international databases, export promotion organisations and the internet. In fact, the internet is the fastest, biggest and easiest way of marketing the country’s products. Information about countries, markets, potential clients and competitors is easily accessible from this source.

Exporters in Uganda are seriously constrained in terms of the amount, quality and usefulness of the trade information available within the country from traditional sources. Access to information should be improved even to the internet or other multimedia sources and private or public databases. In addition, the availability of traditional information sources should be made more accessible to exporters. Information is the key issue in the trading world.

Another increasingly important factor is the environmental approach to trade. The growing concern for the sustainability of the environment in many developed countries has increased consumer demands for goods which are produced in a more ‘environmentally friendly’ way in developing countries than in developed ones. Some of these products have been identified by the WTO’s Committee on Trade and the Environment, and many of them face significant barriers. Thus, the argument is that removing the barriers on these environmentally friendly products could produce benefits to both development and the environment, and that this could increase the strength of the case for liberalisation. The products which have been identified include several which are important to Uganda such as horticultural products, non-timber forest products (such as essential oils, gums, cardamom and honey), timber products, fish, and natural fibres like sisal, which could replace artificial fibres.

Leather products are also discussed in this context, although the argument is usually that the polluting processes are less damaging in the developing countries. This is given that there is a greater preference for increasing income over conserving the environment, and there would therefore be a net increase in welfare, if not an improvement in the environment in their move to developing countries.

If the arguments for the environment are translated into liberalisation, leather products, fruits, cut flowers, non-timber forest products, wood and wood products, fish, natural fibres, leather and leather products, could all see increases in markets outside the EU, although some could face reduced preferences in US markets as well. Almost all would suffer a reduction in preference in the EU. The exceptions would be fish and natural fibres: there the proposed reforms are reductions in subsidies to their substitutes in developed countries, so that there could be a gain in access if reforms were undertaken. All these industries might also attract support from donor agencies.

6. THE EXTERNAL NEGOTIATION TASKS AND TIMEFRAME

THE INTERNAL NEGOTIATIONS TASKS AND STAKEHOLDERS

Before Uganda and other East African countries can successfully take their place at the international negotiation fora it is important that they have reached internal domestic agreement on the priorities, strategies and way forward. Some of the outstanding issues at the national level are as follows:

Tasks	**Stakeholders**	**Inputs**	**Outputs**
Tariff measures	Finance, Trade, Customs, CB, PS	Economic and revenue impact analysis	Tariff reduction/ stabilisation programme
Infant industry issues	Trade, PS, Finance	ERP analysis, incentive options, time frames	Programme of support to infant industries
Rules of origin and Customs issues	Finance, Customs, Public Service Board, Justice, PS	Resource requirements, legal amendments	Improved trade facilitation and transparency
Export incentives	Finance, Trade, CB, PS	Economic analysis, revenue impact	WTO compatible programmes to boost exports
Standards, technology and quality issues	Industry, Standards Bureau, Justice, PS	Technical and financial resources, legislation amendments	Enhanced value added production meeting international requirements
Trade Facilitation	Trade, Customs, Transport, Finance, CB, Justice, PS	Technical review of trade processes, documentary and legislative changes	Transparent, non-bureaucratic trade processes
Utility costs and infrastructure	Finance, Utility Operators, Transport, PS	Prioritisation of projects and processes affecting utility and transport provision	Competitive, efficient provision of utilities and transport

Key: Finance includes any National Revenue Authority,
Trade, Industry, Transport, Finance means any Ministries responsible for these issues
Customs means the National Customs Authority
CB means the Central Bank
PS means the private sector representatives

The Regional and International Negotiation Tasks

The following is a compilation of the issues that need to debated, agreed upon and implemented within the context of the different agreements to which Uganda is a signatory.

***EAC*:** Tariff reduction, tariff harmonisation, common external tariff, infant industry protection, cross border investments, rules of origin compliance, customs administration, export incentives and export processing zones, labour regulations, utility costs, business licenses, services.

***COMESA*:** Common external tariff, rules of origin compliance, cross border investment, customs administration, labour movement, services, exchange controls and trade facilitation.

***EU*:** Tariff preferences, stabilisation funds, reciprocity, trade development assistance, SPS, inward investment, trade facilitation and services.

WTO: Tariff bindings, safeguard measures, countervailing and anti-dumping requirements, customs administration, legislative change, SPS, NTBs, competition policy, export incentives and subsidies, ATC, services, technical assistance and technology transfer.

MTS	**Task**					**Probable Timeframe**
EAC	Tariff reduction	HET	NTBs	Standards	Legislation	1999-2002
COMESA	Tariff reduction	CET	NTBs	Safeguard measures	Cross-border Investment	1999-2004
EU	Re-negotiation of Lome	SPSs	NTBs	Market stability	Inward Investment	1999-2005
WTO	Notifications, Legislation	ATC	TRIMS	TRIPS	Services	1999-2005

The table below summarises the action needed and where Uganda could seek assistance for furthering their involvement and commitments to the MTS. There are a few areas where all that is needed is direct legal or other short-term technical assistance to meet a clear requirement, including checks of existing rules for compliance in import policy, agriculture, anti-dumping and safeguards, the rules on customs valuation, and TRIPs. There are some areas where medium-term assistance will be necessary, financial (for support in Geneva) or support amounting to development assistance to meet new requirements from an appropriate technically specialising agency. JITAP offers the possibility of this support, but countries may need to take the lead in identifying their specific requirements.

Areas appropriate to Uganda include:

- legal training in trade law and its interpretation to make national assessments of the status of assistance to industry in the context of rules on non-tariff barriers and subsidies;
- assistance in designing fiscal reform to meet the cost of changes in customs valuation or any import requirements found not to be in compliance;
- assistance in developing national and regional standards, and
- trade development assistance to enhance performance of potential exports products.

There are also areas where the best form of assistance may be information from or co-ordination with other developing countries, which need to make the same strategic decisions about domestic policies and international negotiating positions. These include how to manage the integration of services into the international system, the use of PSI, regulation and promotion of investment, regional co-ordination of standards and lobbying for international standards, and the interaction between customs unions and the WTO.

Summary of Actions for Uganda

	UGANDA
WTO participation	
Action	Strong representation in Geneva
Assistance	Ask for financial assistance
Least Developed Programme	
Action	Check that all commitments made in 1997 are met
Assistance	Ask for assistance from specialist organisations as well as WTO/ UNCTAD
Import policy	
Action	Need final legal check that comply with rules
Assistance	Ask for short-term legal assistance from WTO
Agriculture	
Action	No action required at present In next negotiation, watch for increased regulation
Services	
Action	Have met minimum requirements for Uruguay Round. In next Round, there may be pressure to increase the number of services covered
Assistance	National policy makers must formulate national priorities, as background for new offers Information from other developing countries
Non-tariff barriers	
Action	Check all local policies against current interpretation of WTO rules Continue to check as WTO law evolves
Assistance	Legal training for local experts
Subsidies	
Action	Notify subsidies for import-replacement, and abolish by 2003 (or ask for extension) Check all local assistance against definition of ‘subsidy’
Assistance	Legal training for local experts
Anti-dumping, countervailing, safeguards	
Action	Reform COMESA rules to comply with WTO Ensure a regional approach
Assistance	Short-term technical assistance from WTO
Customs valuation	
Action	Reform rules for valuation and notify compliance to WTO
Assistance	Find alternative revenue sources

	UGANDA
Pre-Shipment Inspection	
Action	Train customs officers to meet requirements on transparency and non-discrimination Consider how agreement can be clarified in the next Round
Assistance	Co-ordination with other users of PSI
TRIPS	
Action	Meet WTO rules by 2005
Assistance	Legal short-term assistance, (already offered)
TRIMS	
Action	No immediate action required Watch discussions for potential negotiations
Assistance	Study other countries' rules and experience
Standards	
Action	Establish standards and enforcement mechanism Co-ordinate regionally Look at possibility of new international standards
Assistance	Long-term technical assistance from specialist agencies Co-ordination with EAC, COMESA and other developing countries
Government procurement	
Action	No action required by WTO Consider long-term advantages and disadvantages
Regional obligations	
Action	No immediate action required Examine EAC and COMESA commitments in context with how WTO Regional Committee interprets understanding on Article XXIV Examine interaction between services in WTO and in region Develop regional negotiating machinery
Assistance	Exchange experience with other customs unions
Labour and environment	
Action	No immediate action required Examine potential environmental arguments for individual exports
Assistance	Assistance with analysis and production by sector from sectoral experts

CHAPTER 1

CONTEXT FOR MULTILATERAL AND REGIONAL TRADE AGREEMENTS

1.1 Pre-Uruguay Round

From the formation in 1947 of the GATT (General Agreement on Tariffs and Trade) up to the Tokyo Round of GATT multilateral trade negotiations of the late 1970s, and until the Uruguay Round negotiations which began in 1986, the GATT's scope, in most areas, was of limited interest to developing countries. The concentration of GATT negotiations on the industrial products of primary interest to the developed countries, combined with a widely-accepted development strategy in developing countries, placing most weight on inward-looking development and industrialisation instead of international trade, meant that it was not viewed as the essential arena for developing countries. During the 1950's up to the 1980's, most developing countries were following a strategy of import-substitution industrialisation that meant controlling their own imports and not promoting exports, hence the losses from participating in GATT were potentially large, while the gains seemed small.

In addition, GATT negotiations have traditionally been between the major importers and exporters of each product, so that countries without significant roles in the goods included in negotiations, namely the large majority of developing countries, were often marginalised. From the point of view of the developed countries, the developing nations were not important markets or (with a few exceptions) competitors. Even in 1973, the beginning of the Tokyo Round, the developing countries' share in world trade was only 21%, and their exports were predominantly in primary goods. By 1986, however, their share in world exports was 26%, of which 60% was for manufactured goods, a share that has now risen to more than three-quarters. The dominant trade performers come from the newly industrialising economies of south-east Asia and Latin America.

Furthermore, agriculture had been effectively excluded from GATT trade disciplines at the insistence of the United States of America (and EU), while textiles and clothing had been the subject of a long-standing derogation under the MFA (Multi-Fibre Arrangement) and its predecessors. However in these two important products, some developing countries, notably in Africa, had special arrangements with their former colonial powers giving them preferred non-reciprocal access to their principal markets. For example, most primary and industrial products from African, Caribbean and Pacific States of the ACP Group entered the EU at low or zero tariffs within the framework of the Lomé Convention and its predecessor arrangements. For the ACP States with their special access to their principal trading partner, the EU governed by the Lomé Conventions, all of the multilateral trading arrangements under GATT offered poorer access, and they concentrated their trade negotiating efforts on the EU in Brussels.

Nonetheless, many developing countries were members of GATT including Tanzania, Kenya, and Uganda (from Independence in 1962). It needs also to be remembered that many of the industrialised countries were still at a middle income level at the time GATT was founded; it was never restricted to developed countries. In addition, developing countries' concerns had not been entirely neglected. Also the GATT was a component of the still-born International Trade Organisation in which developing countries are interested.

There had been the initiative in the 1960's to give differential treatment to the developing countries, including non-reciprocity in trade relations, built into the GATT as Part IV on "Trade and Development" in 1965 and the establishment of a Committee on Trade and Development. Part IV provisions permitted GATT contracting parties to give more favourable treatment only to developing country exports which would have otherwise been contrary to the GATT requirement that all members give the same treatment to all other members (Most Favoured Nation (MFN) treatment). It also gave developing countries greater freedom to restrict their own imports for development (infant industry) or balance of payments reasons. They could also avoid 'binding' their tariffs (i.e. notifying their level and structure to GATT and agreeing to make no upward adjustment).

Subsequently, in 1979, a decision on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries" (Enabling Clause) was added to GATT following the Tokyo Round negotiations. The Enabling Clause, *inter alia*, legalises the provision by essentially developed GATT contracting parties of non-reciprocal trade preference under the GSP (Generalised System of Preferences) to developing GATT contracting parties. It also set less restrictive conditions for the formation of regional trade agreements among developing countries (in comparison to the conditions set under GATT Article XXIV). The initiative and negotiations to achieve what became the GSP had come not from the GATT, but from UNCTAD, and it was there that most developing countries concentrated their attention.

The feasibility of ignoring the GATT and also the terms of the trade-off between policy freedom and trade rules were sharply altered in the 1970's and 1980's. The traditional constraints applied by developed countries, especially those on agriculture and clothing, were becoming more unpredictable and more damaging. The European countries became major exporters of subsidised agricultural goods, food and commodity prices fell, and the discretionary clauses of the MFA were used more frequently. There was a revival of protection in the industrial countries using non-tariff barriers and disciplinary trade actions like anti-dumping and other trade remedies. The growth of the importance of external trade for the developing countries led to a realisation of how tightly their independence of action was limited by the non-tariff interventions of their trading partners. As Uganda and many other African countries diversified the direction and composition of their exports, they became more vulnerable to restrictive trade actions in their main markets.

Developing countries also had a new perception of a successful growth policy. There was the example of how the south-east Asian newly industrialising countries had developed, by moving from import-substitution to highly directed export-oriented strategies. Their success led international donors and institutions to strongly encourage other developing countries to copy the Asian success strategy. This meant that obstacles to exports were seen not just as barriers to static efficiency gains or extra costs, but as constraints on the most successful strategy for development. Thus, developing countries started to lower their own barriers and embrace the export-oriented strategy, and in doing so, the freedom to impose or increase these barriers ceased to be a major reason to avoid active membership in GATT. Many countries were also undertaking economic liberalisation policies as part of package of World Bank/ IMF structural adjustment programmes. Against this background of changing development paradigm, the perceived advantages of international trade rules and their predictability in the face of increased use of non-tariff barriers became major reasons for the increased interest of developing countries in the GATT system.

More broadly, the 1980's saw a widening of development processes among developing countries and an attendant diversification of their individual trade interests. In short, the North-South model of international economic relations began to seem too simple. Some developing countries were now involved in trade disputes on a range of subjects with the developed countries, and there was no longer a perception of a unified developing country interest for them to represent. The breakdown of the Soviet Union and the East European regimes at the end of the decade reinforced the sense that the old blocs were changing, and that action now had to be multilateral and embracing the *laissez-faire* model of development. Immediately following the demise of the former Eastern block of socialist states, the EU turned its attention to re-building the Eastern European States with a view to ultimately integrating them into the EU as fully-fledged members. Moreover, the EU's own trading interests broadened, leading it to negotiate/form free trade agreements with individual countries or groupings of countries. This meant that ACP-EU negotiations were no longer sufficient for a national trade policy, neither for the African (as well as Caribbean and Pacific) countries or for the EU. This set the scene for the Uruguay Round.

1.2 The Uruguay Round: Some of the key results

1.2.1 The World Trade Organisation

Although the idea of the WTO was not foreseen in the Punta de Este Declaration launching the Uruguay Round in 1986, it was presented and finally accepted as a necessary instrument for implementing the results of the round and imposing stronger discipline on unilateral trade measures. The WTO Agreement came into force on 1 January 1995. With it, came the creation of the WTO, providing a common institutional framework for the conduct of trade relations among members guided by the Uruguay Round Agreements. The WTO facilitates the implementation, administration and operation of the agreements in the "Final Act" embodying the results of the Uruguay Round of Multilateral Trade Negotiations. It also provides a forum for negotiations among members, concerning the agreements and for further negotiations among the members. It further administers the integrated dispute settlement mechanism for the settlement of trade disputes among members.

1.2.2 Tariffs on industrial products

The developed countries lowered their tariffs on industrial products in the Uruguay Round by about an average of 38% on a trade-weighted basis from 6.3% to 3.9%. The changes were greater for some of the most protected products (discussed further in Chapter 3). However, what is important to developing countries like Uganda is that in most cases the effect on them was insignificant (involving small changes in products of little export interest to them) or negative. As they received GSP and in many cases additional preferences under the Lomé Convention, reductions in the MFN rate did not improve their access but reduced their effective level of preference.

The other change in tariffs was an increase in 'binding', i.e., notifying a ceiling rate to the WTO. Developed countries practically completed the binding of their manufactured tariffs and the percentage of tariff bindings rose from 78% to 99%. The proportion of bindings for countries in transition rose from 73% to 98%. Developing countries were also encouraged to bind their tariffs; the proportion of bound tariffs rose from 21% to 73%, although this was mainly accounted for by Latin America (100%) and Asia (70%). African countries in general did not increase bindings (or bound only at very high levels), so this mainly affected their exports and not their domestic trade policy. Nonetheless for many, the bound rate was substantially higher than the currently applied rate, giving some flexibility to raise rates; the margin of difference was often of the order of 20 points.

1.2.3 Non-Tariff Measures

The Uruguay Round came after a decade in which the developed countries had increasingly used non-traditional non-tariff measures (not only the MFA but also “Voluntary” export restraints, orderly marketing arrangements, temporary import controls etc...to restrain the entry of competitive exports. The introduction of a 'standstill' clause on these during the Uruguay Round, followed by the increased strength of WTO disciplines in particular the agreements on safeguards, anti-dumping and subsidies and countervailing measures effectively curtailed those new measures, and provided for the slow phasing out of other measures. Developing countries' use of direct controls was also restricted. Although they had had greater latitude under GATT Part IV to use these as balance-of-payments measures; they were now expected to use tariffs instead. There had already been pressure on the more advanced to avoid using them; this was now extended to all developing countries. This approach was reinforced by the pressure towards trade and economic liberalisation supported by the international financial institutions, and in some cases undertaken unilaterally by developing countries.

1.2.4 Agriculture and Textiles and Clothing

Although the Uruguay settlement on agriculture was less comprehensive than had been hoped, and its effects will be slow to come through, it was the first time agriculture had been included in GATT. The Agreement on Agriculture has three main aspects. The first is market access improvement by way of the conversion of all measures (including non-tariff barriers) affecting imports of agricultural products into tariffs (tariffication). This resulted in many cases in developed countries having very high tariffs that nevertheless could be viewed as an important technical gain for African countries because it increases the potential to continue to offer preferences to these countries on agricultural products.

These preferences would include the special market access privileges on agricultural products provided, for example, to ACP States under the Lomé Convention for most ACP agricultural exports. In addition to 'tariffication', WTO members had to bind the resultant tariffs and reduce them; in the case of developed countries the tariff rates are to be reduced by 36% over a 6 year period, and for developing countries by 24% over 10 years.

The other two important areas of liberalisation in agriculture are the commitment to bind and reduce support to domestic producers of agricultural products, and the commitment to bind and reduce export subsidies. In addition after the implementation period, the settlement opens the possibility of new negotiations to bring further liberalisation to trade in agricultural products by way of further market access improvements and further disciplining of domestic and export subsidies.

The Multi-Fibre Arrangement (MFA) which took effect in 1974 is to be progressively dismantled over 10 years under the integration programme of the Agreement on Textiles and Clothing and brought under the normal WTO trade regime. The phasing out of this agreement will involve on the one hand, the elimination over 4 stages during the 10 year period, of restrictions on products currently covered by the bilateral agreements negotiated under the MFA and on the other hand by an increase in the quotas of the products remaining under restriction during the 10 year period according to a fixed growth rate. The Agreement states clearly that all restrictions shall be terminated on the first day of the 121st month that the WTO Agreement is in effect, and there shall be no extension of the Agreement.

The effects of the reform of trade in agriculture under the Agreement on Agriculture and the progressive dismantling of the MFA under the integration programme of the Agreement on Textiles and Clothing were potentially positive for the most efficient producers, including many developing country exporters of these products. The progressive liberalisation will ensure that the international markets for these once heavily protected sectors in developed countries will be determined more by competitiveness and less by quotas. There may be a short-term cost, possibly, in agriculture and, probably, in clothing, for those countries that have benefited from the barriers.

In agriculture, which is of major concern to Uganda, the main impact issues include the erosion of the margin of preferences enjoyed under the Lomé Convention in the EU market and loss of GSP preferences in major developed country markets. It also includes the existence of peak tariffs (exceeding 12% and in some cases reaching or exceeding 300%) resulting from the tariffication of non-tariff measures and tariff escalation affecting many agricultural items which limits the scope for expansion of production into value-added and higher priced finished products. Another concern is an expected increase in food prices as developed countries reduce their subsidisation of this sector under their WTO commitments, which would undermine food security in net-food importing countries and least-developed countries (LDCs) like Uganda.

This concern for food security was to be addressed by the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries. The lack of substantive implementation of this decision however, has raised concern among LDCs and net-food importing countries. Other non-trade concerns such as rural employment also figure importantly for developing countries about the impact of agriculture liberalisation.

1.2.5 Services

The Uruguay Round broadened the coverage of the GATT to include services under the framework of the General Agreement on Trade in Services (GATS). The GATS defines trade in services to include 4 modes of supply namely supply through cross-border movement, the movement of consumers, commercial presence and the presence of natural persons. National treatment and market access commitments however are confined to those sectors, sub-sectors and modes of supply specifically included the in individual Schedules of Commitments of each member. In this respect most of the offers by the developed countries only repeated existing rules and levels of access and many developing countries, particularly the least developed, made offers in only a limited number of sectors. The GATS result however was important for two reasons. First, it increased the ease of obtaining information about controls or access and secondly, it offered a platform from which future rounds could negotiate improved access. The GATS could possibly enable even LDCs such as Uganda to strengthen their services sectors and increase the exports of services. For details see the attached Background Paper Five and Six on opportunities for LDCs in services trade.

1.2.6 Special and Differential Treatment

In general notwithstanding the “single undertaking principle”, the Uruguay Round agreements provided for differential and more favourable treatment for developing countries with the treatment being even more favourable for LDCs such as Uganda. The Uruguay Round, thus, brought the explicit special provisions for developing countries, with two classes (Least Developed Countries and other developing countries). The provisions for differential and more favourable treatment in multilateral agreements on trade in goods, include time-limited derogations from obligations and longer periods for implementing obligations; higher or lower thresholds for undertaking certain commitments depending on the specific agreement; flexibility in obligations and procedures, “best endeavour clauses” and technical assistance and advice.

In general, for example, the developing countries were allowed to offer only two-thirds of the concessions (e.g., on agricultural support) or were permitted 50% longer to implement measures (for example on intellectual property). As regards services, the GATS in general recognises the needs of the developing countries and in particular the least-developed among them, and endeavours to facilitate their increasing participation in international trade in services and the expansion of their services exports. The provisions, however, are in the nature of “best endeavour clauses” without any obligations on the part Members to implement them. The LDCs were entirely exempted from some provisions and given even longer delays on others (all these are discussed in more detail in Chapter 5).

These differential and more favourable treatment provisions resulting from the Uruguay Round were accomplished in a somewhat *ad hoc* manner, not as a result of an underlying consensus as to how the trade and development needs of developing countries should be reflected in trade principles and rules. The provisions were considerably eroded because they were addressed separately in each negotiating group in the Uruguay Round without an underlying conceptual framework. There was no overall consensus as to the trade measures required by developing countries as essential elements of their development programmes. Thus, developing countries have argued for greater specificity in the provisions on special and differential treatment and for enhanced implementation. At the same time however the fact that these provisions are integral parts of URAs meant that they were placed on firmer legal grounds.

The reasons for the 'special and differential' treatment for developing countries were mixed. It was partly the traditional view that a developing country's development strategy might require greater government intervention than should be permitted to developed countries (this could explain the allowance of greater freedom to subsidise, for example). But there was also a view that even when developing countries should follow the same disciplines as developed countries, they needed more time to adjust their legislation, because they were further from the requirement or because of lack of technical expertise. Even with the increased time, Uganda for example, with other least developed countries like Tanzania, has argued that it was insufficient: "Most least developed countries have had tremendous difficulties in the implementing of WTO Agreements notably in the areas of notifications and review requirements" (Kajura, 1996).

1.2.7 Rules

An important effect of the Uruguay Round results was to reinforce the increasing degree of regulation in international trade and enforce acceptance of all these rules under the principle of "single undertaking." Also the increasing complexity of the goods which are traded, because of the increase in the share of manufactures and of the sophistication within manufactures, has been an important force for the imposition of minimum quality or other standards. In addition, by establishing multilateral obligations in new areas and tightening disciplines in other areas and linking these to the integrated dispute settlement mechanism, the WTO reduces the freedom members had in the past to resort to unilateral approaches. WTO members are obliged to ensure the conformity of their laws, regulations and administrative procedures with their obligations under the URAs. Some of the key outcomes were as follows:

- Concerns about health of human, plants and animals have increased regulation of foods. The new WTO rules reinforce and add to these via the Agreement on the Application of Sanitary and Phytosanitary Measures;

- Similar concerns underpinned the Agreement on Technical Barriers to Trade, mainly to encourage the development of standards and at the same time ensure that they do not create unnecessary obstacles to international trade;

- The agreement establishes rules over the use of technical regulation and standards including packaging, marking and labelling requirements and procedures for assessment of conformity with these regulations and standards;

- More national subsidies on industrial products are subject to regulation under the Agreement on Subsidies and Countervailing Measures;

- The regulations for anti-dumping measures were made more formal and stringent by the Agreement on Implementation of Article VI of the GATT 1994 to supervise the use of such measures;

- The TRIMS Agreement prohibits trade related investment measures that have been judged inconsistent with GATT obligations regarding national treatment (GATT Article III) and the general elimination of quantitative restrictions (GATT Article XI);

- The GATS, although only a framework agreement in terms of what may be liberalised, sets out definitions of the type of services which can be negotiated;

- The protection of intellectual property rights in international trade was regulated, with requirements for reform of national legislation, while at the same time ensure that such measures do not become disguised barriers to legitimate trade. The rules were instituted under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); and

- The dispute settlement system was made more formal, reducing the scope for indefinite delay or failure to apply the results and increasing accessibility of developing countries initiating disputes within the WTO. The strengthened rules were established under the Understanding on Rules and Procedures Governing the Settlement of Disputes.

1.2.8 Trade Policy Review

A new direct relationship between the WTO and its members is the Trade Policy Review Mechanism. Under this almost every member's trade policy is reviewed every 2, 4, or 6 years, according to trade and economic size. The United States and EU are reviewed every 2 years for example, while LDCs like Uganda can be reviewed less often. The reviews are an interesting demonstration of the increase in the scope and the powers of the WTO. Under GATT the trade policy reviews covered only trade policy related to goods. Following the completion of the Uruguay Round, they were extended to services, intellectual property, and in practice to investment regulation and company law, going well beyond what is actually covered even now by WTO. The country reports are prepared normally by the WTO Secretariat on the basis of visits to the country and documentation from the government. Unlike OECD country reviews, the comments in the reports of the WTO Secretariat are not cleared with the concerned governments. The country concerned also provides its own report. These reports are then discussed in the Trade Policy Review Body. The reports are intended to be descriptive even when they find measures that seem to violate WTO rules, and are not on the model of the IMF country reviews. The reports also differ from the IMF reviews in that they are published (and are an excellent introduction to countries' economies).

The early reviews (up to about 1990) were purely descriptive. Since then, they have become increasingly critical albeit still descriptive, and some are important analyses of countries' policies. As the WTO does not itself have any direct role in enforcing its own rules (only a member country can bring a case in the dispute settlement procedure), they have become effectively the WTO's own enforcement mechanism. They are also potential sources for formal complaints by other countries, especially as the discussion of the reports are published with the report, and include complaints and criticisms by trading partners.

1.2.9 Built-in Agenda

Many of the URAs contained provisions on further negotiations to deepen liberalisation and provisions on regular reviews of the agreement or special reviews of work programmes to introduce further improvements or verify the implementation of the substantive provisions in the agreements. As far as negotiations are concerned the Agreement on Agriculture provides for a continuation of the reform process. The negotiations for this process is to be initiated one year before the end of the implementation period (i.e. in 1999). Also, the GATS provides that members will enter into successive rounds of negotiations, beginning not later than 5 years from the date of entry into force of the WTO Agreement (i.e. also in 1999). The special reviews or work programmes affect many URAs. **For additional details see attached Background Paper three.**

1.2.10 Summary

To summarise the effects of the Uruguay Round on developing countries in general and Uganda in particular is difficult. The quantifiable effects on goods under the Multilateral

Agreements on Trade in Goods were positive for the world, but insignificant in size and for some sectors and groups, especially among developing countries like Uganda, uncertain in result. The services liberalisation under the General Agreement on Trade in Services (GATS) is probably on balance positive for developing countries as a group in view of its development-friendly structure; those on trade-related investment measures (TRIMS) and trade-related aspects of intellectual property rights (TRIPS), small and uncertain. Developing countries gain from a stronger dispute settlement mechanism, from new market openings in agriculture and textiles and clothing, and from increased information from the country trade policy reviews and notifications; but may lose on the new rules on subsidies, safeguards, anti-dumping, and pre-shipment inspection. A stronger, more prominent WTO should be a gain for such economically weak countries as Uganda. The gains come mainly from the reforms, extension, and reinforcement of an orderly rule-based system of international trade relations. The significance for Uganda and other developing countries derives from these countries' growing exposure to that system, and their relative weakness in a less orderly system.

In almost all the sectors, quantified and un-quantified assessments indicate that it is the more advanced developing countries, especially the south-east Asian countries, which appear to have gained most, or the least to lose. The goods in which they trade included those in which there are major reforms, and they had less to lose in preferences.

The Latin American countries have already liberalised their own trade, their services are less concentrated in regulated sectors, and they are less advanced in some of the other areas. But they gain geographically, because of the reforms in temperate agriculture; on some tariffs; and, because of other developing countries' loss of preferential margin, in tropical agriculture. The Caribbean and some of the other smaller countries faced more mixed prospects, with apparent losses on present exports, but with histories of moving rapidly from one export product to another as conditions change.

The region that had none of the aforementioned advantages was Africa. Africa was still less involved in trade, especially in manufactures. It did not have increased bargaining power because of higher imports from the industrial countries. It was not attracting investment and associated technology. It did not export products affected by the highest trade barriers and had not faced as many protectionist NTBs by the industrial countries. Its preferences under special arrangements gave it access equal to or beyond what other countries gained, and as the margins of preferences were reduced by the Uruguay Round results the region effectively lost. However, Africa may benefit from the general tightening of regulation/disciplines for international trade and market opening in the future.

The effects of the Agreement on Agriculture and Agreement on Textiles and Clothing were clearly positive for the most efficient producers, and positive for all developing countries in that markets will be determined more by competitiveness and less by quotas. There may be short-term costs possibly in agriculture and, probably in clothing for those countries that have benefited from the barriers. Further reform in the agricultural sector and the abolition of the MFA through the full implementation of the textiles and clothing agreement is required to integrate these two sectors of major importance to the trade of developing countries into normal WTO rules.

Although GATT Part IV and the Enabling Clause remain valid (and were not amended) by the Uruguay Round results, specific elements of special treatment were substituted with lower obligations or longer periods of adjustment, general endeavour clauses, and with differentiation between 'developing' (such as Kenya) and 'least developed' (like Uganda). The WTO Agreement imposed restrictions on countries' policies earlier in their development than countries have accepted in the past. Bound tariffs, intellectual property and services are the obvious examples, but the regulations on subsidies and government intervention in other sectors are also worth mentioning. Tariff binding has removed the possibility of a reversion to these policies and increased predictability in market access.

1.3 Key Issues for Future WTO Negotiations

The key issues for the Uganda to raise for the future WTO negotiations related to market access and trade rules. These issues include: the nature and scope of the current URAs; the advantages and opportunities of the URAs to Uganda and the place of LDCs in the current multilateral trading and investment regime; notification procedures; dispute prevention and settlement mechanism; trade related investment measures (TRIMs); intellectual property rights (TRIPs); trade in services; subsidies; countervailing duties, dumping and anti-dumping measures, duty draw-backs and remissions or rebates; free trade zones and free processing zones and government procurement. Some of the important ones are discussed further below.

The Uruguay Round left some unfinished business (the ‘built-in agenda’ as noted previously) with formal provision for re-opening negotiations and for further review of some provisions of some WTO agreements would be needed within a few years. See attached Paper three for a summary of the built-in agenda. The two important areas in trade for further liberalisation are agriculture and services, in both of which WTO members were required to open new negotiations by 2000. There have been new agreements since the completion of the Uruguay Round on telecommunications and on financial services, in which Uganda has participated. What will be important is for Uganda to prepare to negotiate on these unresolved issues in the Uruguay Round by analysing, discussing among all stakeholders and preparing negotiation options to defend the country’s trade and development interests.

A major issue for Uganda and most other developing countries is the full implementation of what was agreed in the Uruguay Round (concessions, reduction of support, technical assistance etc.). All the agreements had provisions for staged implementation, with for both agriculture and textile and clothing, most of the effects expected to come through in the final stages. The WTO must formally review whether these are carried through or not. Uganda also must review and assess its level of compliance with the various WTO agreements so as not to be in default with its commitments. Likewise Uganda should also review the level of compliance with obligations by other WTO members in the key agreements/provisions of interest to Uganda.

Another issue is that in agriculture, the expectations of many WTO members are that tariffs could fall by a third. In particular, there may be reductions in the very high tariff peaks (following the conversion from quotas to tariffs, some reached 900%), and this will also be required of Uganda and other developing countries. Nonetheless, the differentiation in obligations between LDCs (lower level of obligations) and other developing countries is expected to be maintained.

In agriculture also, there is pressure to reduce export subsidies, considered even more distorting than high tariffs. This affects Uganda's trading partners such as the EU rather than Tanzania, which has not utilised such subsidies. There is support among some agricultural exporters for looking again at the 'Green Box', the subsidies or other assistance to agriculture which are acceptable under the Uruguay Round agreement, and moving at least some of the measures which may be particularly distorting into more controlled categories. Some of those which are most damaging to competing exporters - for example income support to producers, or payments for regional assistance - are among those which may be increased by the EU in reforming the CAP (common agricultural policy) and other developed country measures. They are, however, seen as doubly distorting, not only for their effects on protecting farmers, but because it is (in general) only the developed countries which can afford such payments. Moreover the exportation of these subsidised products into developing countries at competitive prices undermines the domestic production of like agricultural products. The expectation is that the further reform of trade in agriculture will be generally about amounts of tariffs or subsidies, etc., and not about changes in the rules. At the same time, Uganda and other developing countries are concerned about food security issues that can arise from the removal of subsides. They should, thus, emphasise the elaboration of concrete measures/provisions for the yet-to-be implemented Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net-Food Importing Developing Countries.

In services the agenda is expected to be broader, with attempts not only to increase the market access enshrined in the GATS, but also to extend liberalisation to some issues such as transport on which little progress was made then. Telecommunications, finance and information technology agreements may also be re-opened for further liberalisation. Although there is no proposal to go from the 'positive list', of what countries want to include, to a 'negative list' system, WTO members may require preparation of standard schedules which would make omissions more obvious. There is still no agreed way of quantifying services liberalisation or control although work in this regard is underway in WTO and UNCTAD, but the assumption must be that all countries will be expected to move in the direction of liberalisation across a wide range of services. Uganda and other developing countries should seek in these negotiations that enforceable provisions be elaborate to ensure implementation of GATS Article IV (on increasing participation of developing countries' in services trade). They should also seek that the negotiations abide by the principle of progressive liberalisation by developing countries in line with their development situation, as enunciated in GATS Article XIX (paragraph 2).

Tariffs on industrial products are likely to be on the table in even a short negotiation round, and would certainly be included in a longer one. Uganda must prepare for such negotiations by assessing its tariff levels and identifying where concessions could be offer in terms of further reduction and bindings. It must also assess the tariff protection in its major markets on its exports and seek further tariff reductions.

There will be more countries in the new negotiation rounds as more developing countries (like the Seychelles) deciding to join, as well as the entrants from the formerly centrally planned economies such as the Russian Federation and most notably China. This has different potential effects. Many are agricultural exporters, so that lobby's strength may increase. But there has been a tendency for the WTO members to insist in the accession process that new members take fewer exceptions from rules, even when they might be entitled to this by their income level i.e. developing countries or LDCs. This has created some expectations by both developed WTO members and the new entrants that existing developing country members may need to reduce their use of exceptions and concessions.

The regulatory issues introduced in the Uruguay Round in particular in respect of contingency protection rules, could be raised again, as well as new ones. The rules for regional trade agreements as contained in GATT Article XXIV were clarified somewhat in the Understanding on the Interpretation of Article XXIV of GATT 1994. These could be made more explicit as there will soon be some direct evidence of how they are working in the post-Uruguay Round period and drawing upon the work conducted by the WTO Committee on Regional Trade Agreements. Some proposals to this effect were submitted during the preparatory process for the Third WTO Ministerial Conference.

Of the potential ‘new issues’, competition policy and the regulation of restrictive business practices have traditionally been matters for research and debate at UNCTAD, and have not yet secured momentum and critical mass of acceptance by members for multilateral regulation. Nonetheless, Uganda should look into competition policy issues as part of its overall development policy efforts. Likewise efforts to regulate investment among some developed countries failed in the Multilateral Agreement on Investment negotiations at the OECD. There is a working group under the WTO to consider the relationship between investment and trade but its work has not matured to the point where multilateral negotiations on disciplines can be considered. It is thought to be unlikely to be ready in the immediate future. Uganda however needs, as with competition policy issues, to assess and develop policies on attracting new investment into productive activities. In addition, Uganda should prepare for the review mandated to take place in 2000 on the TRIMs agreement to consider issues of competition policy and investment.

WTO members have been trying to find ways of reconciling the environmental conventions (under other international agencies), some of which include provisions on trade with WTO’s trade rules, and this is likely to continue, but perhaps through *ad hoc* agreements, rather than inclusion in new negotiation(s) round. The environmental effects of particular types of production (and therefore of trade measures which encourage or discourage them) are becoming issues in conventional trade negotiations. Uganda should prepare effective for consideration of environment issues and their relation with trade, including in the context of the work by the WTO Committee on Trade and Environment.

Most countries, developed and developing like Uganda, have opposed the introduction of ‘social clauses’, i.e. conditions on human or labour rights, into preferential or multilateral trade agreements, and this is also unlikely to feature in any new negotiation round(s). At the multilateral level, developing countries like Uganda take the position that labour issues should be discussed in the ILO as agreed at the First WTO Ministerial Conference. However a few major trading nations (EU and US) have continued to advance arguments for international codes on labour, partly because of the trade-related arguments. The EU and US have introduced social clauses into their preferential trade measures such as the GSP. Globalisation, not only of production and trade, but also of culture and intellectual awareness, has contributed to a demand for common rules and to an extension of the same concerns about the treatment of others that are now largely accepted at the national level.

There are three other issues that will affect Uganda and developing country members of the WTO, outside any negotiation round(s) and thus advance preparation is needed:

- The process of continuous negotiation, which emerged after the Uruguay Round means that it, is essential, almost a *sine qua non,* for WTO members to maintain a permanent presence accredited to the WTO in Geneva. At present, countries which are rich enough (and well supplied with active diplomats) to maintain a continuing presence in Geneva and participate in the continuous negotiations in the various WTO committees and councils have even more of an advantage than in the past over the less well endowed. In the interim as Uganda and other developing countries endeavour with their limited means to monitor and participate in various negotiations, the question of transparency and manageability of negotiations in the WTO assumes critical importance for them.

- The WTO is at an important stage in its evolution because it is both acquiring a stronger regulatory role and greater self-confidence as an organisation to make its own judgements. The first is an essential element in a more complex and globalised world, in order to give certainty and predictability to decisions that affect not only countries but private business and individuals. The second has happened almost accidentally, partly because the organisation needed to take the initiative in the stalled Uruguay Round negotiations, but partly no doubt because of the example of the international financial organisations. The dispute settlement body in particular has made interpretations on provisions of WTO agreements that have become legally binding. Uganda and other developing countries thus need to be more active participants in WTO decision-making processes (as noted in point one above), cognisance of that fact that even without new negotiation round(s), changes to existing WTO rules are being realised.

- Finally, there is a view emerging among many WTO members including in some major countries, that the new negotiation round(s) will be mainly about 'development', to focus more on the trade needs of the developing countries. But against this is the fact that many of the items on the potential new agenda are more about regulation. This could help development by increasing the security and predictability of national trading regimes, or hurt it, by reducing freedom of countries to take their own actions. The support for further regulation comes from the goal of increasing the integration of all countries into the multilateral trading system. Uganda and other developing countries will need to take their own initiatives in respect of policy flexibility to keep their interests on the agenda.

1.4 Preferential and Regional Trade Agreements

There are a number of trade liberalisation initiatives underway, apart from the WTO Agreements, which will have significant implications for Uganda and other East African countries. They should help improve the region's competitiveness in the long run and make the region a more attractive environment for direct and portfolio investment. Imported inputs to industry will become cheaper, whilst finished products and domestic manufacturers will have to become internationally competitive in terms of price, quality and service in order to survive. New market opportunities will open up in the foreign markets as import barriers are reduced, thus providing new export opportunities.

1.4.1 The Lomé Convention between European Union and African, Caribbean and Pacific (ACP) States

The first agreement of the Lomé Convention was signed in 1975 and subsequent extensions have been implemented in 1979, 1984 and 1989 with the Fourth Lomé

Convention. The trade provisions provide for the industrial exports and most processed and agricultural exports of ACP States like Uganda to enter the EU duty-free and be exempted from most NTB's. These preferences provided by the EU to ACP States are non-reciprocal, stable (offered for five years in most conventions and 10 years in the fourth convention) and predictable (contractually binding). Four Protocols (sugar, beef, rum and bananas) give ACP countries preferential access, at guaranteed prices, for specific quota of these agricultural goods. Lomé IV will expire on February 29, 2000 and a successor agreement is currently being negotiated between the two parties. A major underlying principle, especially from the point of the EU as a major trading nation in the WTO, is to ensure that the trade provisions of the successor agreement to the Lomé Convention are WTO-compatible. Uganda and other ACP States thus would need to prepare for greater competition that will rise as their preferred status in the EU is gradually eroded by multilateral trade liberalisation.

The mid-term review negotiations of the Lomé IV Convention indicated that the partnership between the EU and Africa is under pressure. The reluctance of several Member States to provide appropriate resources to the European Development Fund (EDF) is the expression of a much broader shift in EU approaches towards foreign and security policy as well as security, aid and trade. Africa, in particular, fears to be at the losing end of these changes. Its position in the emerging global market economy is very fragile. It observes decreasing aid budgets, many conditionalities, diversion of trade and investment flows and absence of measures to address structural obstacles to development[1]. Uganda and other African countries are concerned that in the new competitive trading environment, they would need substantial assistance from the EU to improve their infrastructure and supply capacities to become more efficient and competitive.

The EU Commission is proposing a complete transformation of the long-standing agreement between the EU and the ACP States, following the expiry of Lomé IV. It proposes that those ACP States not classified as least developed be offered the choice of either negotiating individually or jointly as members of an integration grouping (SADC for example), a reciprocal free trade agreement with the EU or having their terms of access to the European market changed to the standard (but an improved) GSP.

This would be done through a series of Regional Economic Partnership Agreements (REPA) with the ACP States, to come into operation in 2005. This concept has however no met with much enthusiasm within the ACP States. The ACP States prefer a continuation of the Lomé Convention for another 10 years to enable them to adjust their productive systems to meet the rigours of the competitive multilateral trading system. During the 10-year 'transition' period, ACP States and EU would consider and elaborate 'alternative trading arrangements' which would be WTO-compatible to replace the Lomé Convention. It is however certain that in the long run, multilateral rules require that some measure of reciprocity will have to be established, except for the LDCs which would retain non-reciprocity.

1.4.2 Trade with the USA

Discussions are underway currently within the USA in respect of developing a preferential trading arrangement between the USA and qualifying African countries. This

[1] Bossuyt, J. 1995. The Future of EU-Africa Development Co-operation: With or Without the Lomé Convention? (ECDPM Working Paper Number 95-2). Maastricht: ECDPM.

arrangement is still at a preliminary stage and has not yet been finally approved within USA. The Africa Growth and Opportunity (Crane-McDermott) Bill which gives effect to this new arrangement has passed through the House of Representatives but was rejected by the Senate. At this stage, the arrangement is expected to provide a framework for new trade and investment relationships between USA and Sub-Saharan Africa. It will be open to those Sub-Saharan African countries that demonstrate an adequate level of trade liberalisation and democracy. Uganda could be a candidate.

The ultimate objective is to move towards a Free Trade Area by 2025 for the countries that conform best to these criteria. However, in the early stages, non-reciprocal preferential or free access would be given to the qualifying Sub-Saharan African countries in the United States market. An economic forum is expected to be created with economic ministers from the Sub-Saharan African region and the USA, as well as representation from the private sector and the NGO community. The USA has shown particular interest in developing an arrangement (possibly a FTA) with the SADC region in the early stages.

1.4.3 Sub-regional Integration Groupings[2]

1.4.3 (a) East African Co-operation

Uganda is a member of the EAC, together with Kenya and Tanzania. The EAC aims to integrate the economies of its members by setting up a common market but later culminating in the establishment of an economic union (operating with the framework of COMESA). For details on the main objectives and areas of co-operation of the EAC see Annexe XII (1). The current time frame for concrete interaction as laid down in the EAC's development co-operation strategy document (EAC 1997) has a very broad scope and a tight schedule. Unfortunately, this has not been met: of the twelve or so actions that should have been taken before the end of October 1997 (barring the commission of studies), only a few (of which the only significant one is the introduction of a common passport) have actually been taken. There is a danger that the EAC will fall behind its commitments causing donor apathy and private sector scepticism.

Adherence to proposed tariff reduction schedules and other integration measures will be of critical importance. Uganda together with Kenya and Tanzania should pay closer attention to implementing the agreed measures and in turn unlock and benefit from the potential trade, production and investment prospects. See attached Background Paper One for an assessment of the trade and investment prospects under the EAC, and Paper Two on possible co-ordination of macro-economic policies to create an enabling environment for the sub-region's business community to operate and compete.

1.4.3 (b) Common Market for Eastern and Southern Africa

Uganda is a member of COMESA, whose member States have agreed to establish a free trade area and customs union. For details on the main objectives and areas of co-operation of COMESA see Annexe XII (3). Significant progress has been achieved on intra-group tariff reductions toward the formation of the free trade area scheduled for realisation in October 2000. At the moment most COMESA members offer to each other a rate of preference of between 60 to 80 percent discount off the MFN tariffs. Non-tariff barriers to

[2] See also Annexure XII

intra-group trade also have been identified and removed. In respect of the customs union, COMESA member States have already committed themselves to the implementation of a CET (common external tariff) by the year 2004 of 0%, 5%, 15% and 30% on capital goods, raw materials, intermediate goods and final goods respectively.

Whilst it is highly unlikely that all COMESA member States will be ready to enter the Free Trade Area in 2000 and the Customs Union in 2004, it is likely that a core group of countries will be ready for each occasion. Tariff reductions are also encouraged by the Cross-Border Initiative, which acts as a fast-track component for COMESA implementation policies (see discussion below). Other measurable achievements have been made in the area of transport, finance and technical co-operation. At the Kinshasa Summit (July 1998), the Heads of State and Government decided that COMESA should be declared a Common Investment Area at the advent of the Free Trade Area in October 2000.

1.4.3 (c) Cross-Border Initiative

Uganda participates in the Cross-Border Initiative which although is not an agreement in itself, it initiates many activities in trade and investment policies. The CBI covers Southern and Eastern Africa and the Indian Ocean Islands, and it is co-sponsored by the African Development Bank, the World Bank, the IMF and the EU. It's underpinned by the notion that "given the on-going economic reform programmes in these countries, a parallel set of policy and institutional reforms could accelerate the pace of economic growth through regional integration, particularly by fostering efficient cross-border investment and trade flows"[3].

The CBI aims to facilitate increased intra-regional economic linkages, specifically concerning trade, investment and payments and thus to improve regional integration as a vehicle for economic development within Eastern and Southern Africa and the Indian Ocean region. It has involved the identification of major constraints to intra-regional trade, investment and payments and the development of measures to overcome them and agreement on a set of actions to be taken at the national level to help overcome these constraints. Uganda and other participants' involvement and realisation of the benefits from CBI depends on their effective implementation of the agreed measures and actions in a timely manner.

The CBI puts emphasis on the following areas:

- Outward orientation, particularly openness to the rest of the world to ensure greater integration of the sub-region into the world economy;
- The avoidance of new institutions;
- Direct involvement of the private sector in the formulation and implementation of a conducive policy/institutional environment, and
- The need for CBI to be driven by the participants to ensure ownership as a key to effective implementation.

[3] R. Thomas, "Trade liberalisation issues affecting SADC within the context of the forthcoming Post-Lome negotiations", SADC/EU trade liberalisation seminar report, Dar-es-Salaam, 5-7 May 1998.

1.4.4 Overlapping Effects in Regional Trade Agreements

The above section shows that Uganda is a member of several sub-regional organisations aiming at trade integration namely EAC, COMESA and CBI and through these agreements interacts with members of SACU and IGAD. Uganda also is a member of the ACP Group and benefits from the preferential trading arrangement whose future is likely to move towards greater reciprocity. Uganda could become involved in closer economic relations with the United States if the African Growth and Opportunity Act is passed by the US Congress. Uganda's multiple members in various agreements indicates on the one hand a deliberate policy action to secure economic and political benefits; and on the other hand it can have major costs including membership fees and overlapping and sometimes contradictory obligations. Relations between SADC and COMESA are those of "peaceful coexistence", and co-operation is occasionally taking place; both organisations though seem to be avoiding resolving the outstanding incompatible issues of their trade policies. The EAC is not in conflict with COMESA since the COMESA Treaty allows the formation of smaller sub-regional groups, as long as they operate on the basis of subsidiarity with COMESA.

The chart presented below shows the multi-membership of many Sub-Saharan countries.

1.4.5 Compatibility of the Regional Trade Agreements and Preferences with WTO requirements

The notification to the WTO by Uganda and other developing countries of regional trade agreements, to which they belong relating to trade in goods, has to invoke either the provisions of the Enabling Clause of the 1979 Tokyo Round, or the GATT 1994 Article XXIV and as further clarified by the Understanding on the Interpretation of that Article. Beyond these alternatives, there is also the waiver procedure under GATT Article XXV and the Marrakesh Agreement Establishing the WTO, Article IX (paragraphs 3 and 4). It can and has been invoked by parties to a regional trade agreement, which does not fully respond to the requirements of the Enabling Clause or GATT Article XXIV. The waiver requires a decision by the WTO members with a qualified majority, and it is subjected to an annual review. The waiver has been invoked to cover the Fourth Lomé Convention and other non-reciprocal preferential trade arrangements. The notification to the WTO for trade in services has to invoke GATS Article V.

Most regional trade agreements of developing countries have been notified and accepted by GATT/WTO members under the provisions of the 1979 GATT Decision of 28 November on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (Enabling Clause).

The Enabling Clause requires that members in the regional trade agreement show that the agreement:

(i) is designed to facilitate and promote trade of members and does not raise barriers or create undue difficulties for the trade of third countries;

(ii) does not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on a MFN basis;

(iii) shall in the case of such treatment accorded by a developed member to developing member be designed and, if necessary, modified to respond positively to the development, financial and trade needs of developing countries; and

(iv) is notified to the WTO Committee on Trade and Development (CID) upon its creation, modification or withdrawal.

The CTD may establish a working party upon the request of any interested member to examine the regional trade agreement and establish its conformity with the provisions of the Enabling Clause. The practice under the former GATT has been for the CTD or its working party to take note of the notification with little or no discussion. This has changed under the WTO and developing countries should be prepared for a more substantive and lengthy examination of their regional trade agreements. Endorsement by the CTD permits members of the regional trade agreement to accord each other preferential market access without extending the same preferences to other WTO members in line with the MFN Rule.

COMESA, for example, had been notified to the WTO as a regional trade agreement. It was notified on 29th June 1995 under the Enabling Clause. The EAC likewise has to notify its respective free trade/customs union agreements as and when these have been finalised, signed and entered into force.

The provisions of Article XXIV of GATT 1947, are applicable to bilateral and regional trade agreements involving developed countries and do not prevent the formation of a custom union or a free trade area between the territories of contracting parties. The provisions could become applicable to Uganda in the event that the country enters into a free trade agreement or customs union with a developed country. A Custom Union is defined by GATT Article XXIV as; "the *Substitution of a single customs territory for 2 or more customs territories, so that duties and other restrictive regulations of commerce are eliminated with respect to substantially all the trade between the constituent territories of the union, or at least with respect to substantially all the trade in products originating in such territories, and substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union".*

A Free Trade Area is defined by GATT Article XXIV as: "*Group of 2 or more customs territories in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories".*

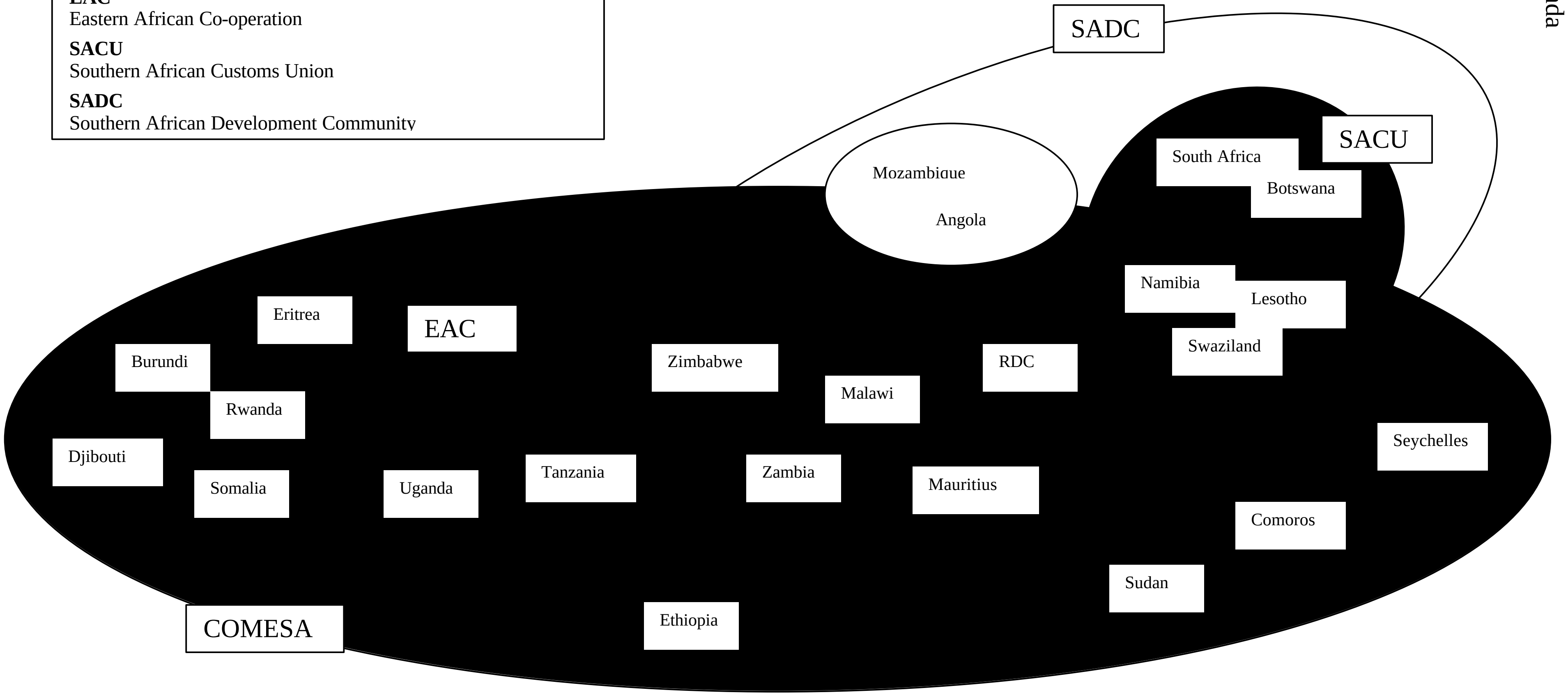
Regional Integration in Southern and Eastern Africa

COMESA
Common Market for Eastern and Southern Africa

EAC
Eastern African Co-operation

SACU
Southern African Customs Union

SADC
Southern African Development Community



1.5 Actions of the Donors in Supporting Trade and Investment in the Region

Several donors are supporting regional integration programmes and activities under COMESA and SADC and thus benefiting members States such as Uganda (see Annexe IV). Notable among these are the European Union (EU), the United States Agency for International Development (USAID), GTZ, ITC, UNCTAD, UNDP,UNIDO and increasingly the WTO. The EU has funded a number of projects over the past several years. In the context of COMESA these include the introduction and implementation, in co-operation with UNCTAD, of ASYCUDA (automated system for customs data) and Eurotrace in the region. The EU support has also encompassed institutional support including equipping the secretariat with latest computer hardware, setting up a LAN at the secretariat linking all staff members with individual e-mail addresses, setting up an Internet domain and a web site for the Secretariat. The EU has funded numerous studies undertaken by short-term experts (such as preparation of the Common External Tariff) in addition to funding technical assistance personnel based at the Secretariat providing longer term inputs to supplement COMESA's staffing levels.

USAID has recently funded a study reviewing the COMESA Rules of Origin and may soon fund another study examining the Yellow Card scheme. USAID is also financing training in WTO matters for member state personnel. UNDP through ITC has supported the TINET project for a number of years while UNIDO supports the metallurgy and industry projects.

ITC, UNCTAD and the WTO are implementing JITAP and assisting Uganda in developing human and institutional capacity to face the challenges of the MTS.

Additional assistance that could be provided by donors includes technical assistance in WTO matters, regional trade integration issues and in monetary harmonisation and convergence programmes, support in bringing COMESA programmes and activities closer to the private sector and selling the region to the international investor community as a viable and lucrative investment destination, and helping to unify the integration programmes of EAC and COMESA so as to remove the incompatibilities.

1.6 Impact of Regional Trade Arrangements and Economic Liberalisation on Uganda

SECTOR/AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME
TRADE				
Foreign Trade Liberalisation	Abolish import licensing	1	Restrictions removed	
	Abolish other NTBs	2	Most NTBs have been removed	
	Eliminate tariffs on intra-regional trade	2	Reductions have reached 90%	100% reductions to be achieved by end of 1999.
	Abolish export licensing procedures	1	Fully done; negative list based on environmental concerns	Discussions with National Environment Management Authority (NEMA) continue.
	Open up trade in services	1	Done	Government continues to encourage investors to join the services sector
	Harmonise external tariffs	1	External tariffs conform to CBI requirements. Maximum tariff now 15%. Study completed.	
Trade Facilitation	Implement Harmonised Transit Charges	1	Approval in 1995/96 budget and in force	
	Introduce bond guarantee scheme	3	Arrangements for implementation in preparation	
	Introduce single goods declaration document	1	Has long been in use	
PAYMENTS				
Domestic Payments and Settlements	Complete Financial Sector Reform Programme.	2	Programme now completed and Phase II begins soon.	
	Develop foreign trade financing instruments.	1	Done through the Financial sector Reform Programme.	
	Establish correspondent banking relationships.	1	Done	Commercial Banks will be encouraged to expand existing links with foreign institutions.
	Remove impediments to entry by foreign financial institutions	1	Free entry exists.	
Exchange Systems	Remove all restrictions on current accounts.	1	System fully liberalised	
	Relax certain capital account transactions.	1	No restrictions exist.	
	Establish unified, inter-bank, spot exchange markets	1	Done effective from 1996	
INVESTMENT				
Investment Regime	Simplify investment approval procedures.	2	Investment procedures are liberal but are hampered by unnecessary bureaucracy	

SECTOR/AREA	MEASURE	CODE	CURRENT STATUS	PLANNED CHANGES/TIME FRAME
	Publish investment code and regulatory instruments.	1	Done	
	Introduce 45-day statute of limitation on investment applications.	1	Done	
	Harmonise investment regimes.	3	Being considered in context of EAC.	
Immigration	Remove visa requirements at regional level	1	Done	
	Improve processing of residence and employment permits.	1	Processing takes less than a month	Labour Laws to allow movement of labour in the region.
Other Institutions	Join MIGA and similar bodies.	1	Uganda is already a member.	
	Conclude Double Tax Agreements.	2	A few are already in place with S. Africa, Zambia etc.	Negotiations continue with other countries.
	Develop Cross-Listings on Regional Stock Exchanges.	2	Kampala Stock Exchange has begun her operations.	Plans should be made to link KSE with other stock exchanges in the East African region.
INSTITUTIONS				
	Continue with TWG activities	2	Activities have slowed down this year	
	Strengthen national and regional business institutions.	1	These are being assisted by a number of donors.	Prioritise capacity building efforts.
	Give greater involvement to the private sector in regional integration activities.	1		
PROJECT DEVELOPMENT				
	Agree Letter of CBI Policy	1	Agreed	
	Agree terms on follow-up to LCBIP	2	Government working within the LCBIP framework.	Consultations to continue.

Source: CBI, 1999

Partially implemented.

Codes:

1. Fully implemented
2. Partially implemented
3. Arrangements for implementation in preparation
4. Arrangements for implementation not yet identified

CHAPTER 2

TRADE LIBERALISATION AND IMPACT

2.1 Country Profile

Uganda is a landlocked independent republic with a democratic government which lies between Democratic Republic of Congo (formerly Zaire) and Kenya and forms part of the East African Community. The capital city is Kampala. Other major towns are Jinja, Mbale, and Masaka.

The estimated population of Uganda in 1995 was 17 million people. The official language is English but Swahili is widely spoken. The country's GDP was estimated to be US$3.193 billion in 1992 and had risen to US$4.6 billion by 1995. Exports from Uganda to the rest of the world accounted for US$680 million and imports for US$1.240 million in 1996/7. The official inflation rate for the first half of 1998/1999 reached 5% by December 1998 but was expected to fall.

The Uganda oil industry is an important sector in the economy of the country since almost petroleum products have to be imported. Electricity is provided by a parastatal, the Uganda Electricity Board (UEB).

International banking transactions can be carried out through the Bank of Uganda and other commercial banks.

2.2 Performance of the Ugandan Economy

Since 1987, Uganda has recorded a respectable GDP annual growth rate, on the basis of which GDP in 1993/94 is projected to grow by at least 5%. In 1992/93, agriculture contributed 55.3% of total GDP, community services 14.8%, trade and commerce 11.3%, construction 8.9%, manufacturing 4.3%, transport and communications 4.1%, and other sectors (including electricity and water, mining and quarrying) 5.6%.

Industrial Production

There was an increase in industrial production from 196.2 in December 1992 to 233.4 in December 1993, approximately 19%. Much of this growth resulted from increased output of drinks and tobacco +25%, food processing +38%, and chemicals, paint and soap +18%. This development resulted from a number of policy reforms, including greater control of inflation, liberalisation of trade, and improved investment and exchange regimes.

Money Supply

In 1993/94, domestic money supply (M2) and total deposits, including foreign currency deposits, (M3) increased significantly. Unlike previous periods, where monetary growth was mainly the result of GOU borrowing from the banking system, the main determinant of the recent increase was the improvement in the net foreign asset position, reflecting a net inflow of capital into the country - a demonstration of increased confidence in the economy. An increase in (M2), when inflation was falling, was attributed to a stronger domestic demand for the Uganda Shilling. Between September 1993 and April 1994, there was an appreciation of the exchange rate from USh l,180 per US$ to USh l,007 per US$ using the mid market rates.

Money supply (M2) grew by 1.0 per cent to USh 741.5 billion in November 1997 from USh 734.1 billion registered in October 1997. The growth rate in money supply has remained stable over the last two months. The increase in broad money (M2) was largely attributed to the increase in net foreign assets of USh 54.4 billion which was in part offset by the decline in net circulation that changed by USh 2.6 billion to USh 222.7 billion as at end-November 1997. Time and savings deposits increased by USh 5.2 billion to USh 265.8 billion. Demand deposits however, declined slightly by USh 0.5 billion to USh 253.0 billion as at end–November 1997.

Monetary Aggregates

Base money increased by USh 24.5 billion from the end-November, 1997 level of USh 372 billion to USh 351.5 billion as at end-December, 1997. The increase in base money was partly due to the increase in commercial banks' reserves at BOU by USh 2.09 billion from the end-November, 1997 level of USh 79.75 billion, and largely due to rise in currency issued of USh 22.41 billion to USh 269.66 billion by end-December, 1997. The substantial rise in currently issued is explained by the high demand over the Christmas seasons. However, the base money remained below levels throughout the month.

Inflation

The Annual Headline Inflation rate of the year ended December 1997 was 10.0 per cent up from 8.9 percent recorded in November 1997. Similarly, the annual underlying (excluding food items) inflation rate rose slightly from negative 1.2 per cent in November 1997 to negative 1.1 per cent for the year ended December 1997. The monthly headline inflation rate however, fell from 2.2 per cent in November to 0.7 per cent in December 1997. The rise in the annual headline inflation rate in December is attributed to increases in the prices of food items, beverages and tobacco, clothing and footwear, rent, fuel and transport charges. The annual underlying inflation rate has consistently maintained a lower change since December 1996.

Interest Rates

During the month of December, 1997 total issues of treasury bills amounted to USh 35.29 billion whereas maturities amounted to USh 26.69 billion. Decreases were observed in the interest rates on the 91-day, 273-day and 364-day treasury bills respectively, from 10.18, 12.52 and 12.97 per cent as at end-November 1997 to 9.80, 12.37and 12.69 per cent respectively, as at end-December 1997 while the rate on the 182-day treasury bills increased slightly from 11.36 per cent to11.37 per cent during the same period.

In line with developments in the shilling inter-bank money market, the Rediscount Rate and the Bank Rate declined from 12.26 per cent and 15.74 per cent as at end-November to 12.24 per cent and 14.08per cent as at end-December 1997 respectively.

Foreign Exchange Regime

The management of the foreign exchange regime was reformed in October 1993 with the termination of the foreign exchange auctions, which had been introduced in 1991. This was replaced by a unified interbank market for foreign exchange. This was designed to achieve a fully market based system of foreign exchange management. The system of foreign exchange bureaux, with deposits held by the licensed banks, continued alongside the interbank market.

Exchange Rates

The monthly average mid exchange rate in the inter-bank foreign exchange market appreciated slightly by 3.0 per cent from USh1.147 per US dollar in November to USh1143 per US dollar in December 1997. This compares with the depreciation of 0.6 percent during the previous month. After five months of general shortages, condition improved in December 1997 with more surplus funds in the mark. Bank of Uganda intervened on the buying side to the tune of US$15.85 million mainly to slow down the appreciation process.

Foreign Exchange Purchases and Sales

The volume of transactions in the inter-bank foreign exchange market (IFEM) increased during the period under review. Gross foreign exchange purchases amounted to US$ 155.83 million in December, 1997 compared to US$ 98.17 million for November, while gross foreign exchange sales in the IFEM rose to US$ 138.45 million compared to US$ 100.80 million registered in November.

Balance of Payments

The balance of payments for 1998/99 projects deteriorating trade and current account balances. Coffee export growth is the main driving force behind the projected increase in exports in 1998/99. Import growth is projected to remain strong at about 12%. The overall balance for 1998/99 is expected to remain positive, due to large levels of budget support and debt relief, and higher levels of foreign direct investment. The current account projection stands at a deficit of US$ 522 million, while the overall balance is projected at a positive US$ 69 million.

Total exports fell from US$ 680 million in FYl996/97 to US$466 million in 1997/98, with a projection of US$530 million in Fiscal Year 1998/1999. Total imports were US$1.247 million in FYl996/1997 and US$1411 million in FY1997/98, with a projection of US$1.577 million in FY1998/1999.

Table 2.1: Ugandan Macro-Economic Indicators

GDP: purchasing power parity	US$ 4,6 billion (1995 est.)
GDP real growth rate:	7.1% (1995 est.)
GDP per capita:	US$ 220 (1995 est.)
GDP composition by sector: (1997)	
Agriculture:	45%
Trade & commerce, manufacturing & construction:	30%
Services:	24%

Inflation rate (consumer prices):	5% (1998)

Labour force:	8.361 million (1993 est.)
by occupation:	
Agriculture	86%,
Industry	4%,
Services	10% (1980 est.)

Budget:	
Revenues:	$574 million
Expenditures:	$1.07 billion, including capital expenditures of $328 million (1994/95 est.)

Industries:	Sugar, brewing, tobacco, cotton textiles, cement
Industrial production growth rate:	15% (1994)

Electricity:	
Capacity:	162,000 kW
Production:	603 million kWh
Consumption per capita:	30 kWh (1990)

Agriculture:	Coffee, tea, cotton, tobacco, cassava (tapioca), potatoes, corn, millet, pulses; beef, goat meat, milk, poultry
Exports:	US$680 million (f.o.b., 1996/97); US$530 mn. Projected 1998/99
Commodities:	Coffee 97%, cotton, tea
Partners:	US 25%, UK 18%, France 11%, Spain 10%

Imports:	$1246 million (c.i.f., 1996/97); US$1577 mn. Projected 1998/99
Commodities:	Petroleum products, machinery, cotton piece goods, metals, transportation equipment, food
Partners:	Kenya 25%, UK 14%, Italy 13%

External debt:	$3.5 billion (1996)

Currency:	1 Ugandan shilling (Ush) = 100 cents

Exchange rates:	Ugandan shillings (USh) per US$1 – 1,250 (1999) 1,032.6 (1995), 979.4 (1994), 1,195.0 (1993), 1,133.8 (1992), 734.0 (1991)

2.3 Uganda's Resource Endowment and Comparative Advantage

In May 1993, the Uganda Investment Authority commissioned a study of Uganda's resource endowment and comparative advantage under an assistance programme funded by the UK Overseas Development Administration. The aim of the study was to identify potential investment opportunities, particularly in traded goods, based on Uganda's current and potential comparative advantage and its resource endowment.

Uganda's existing comparative advantage is heavily concentrated on agriculture, forestry and mineral resources, and their primary processing. This implies there is scope for further development in secondary processing of these resources. In general, Uganda's export activities are traditional, which suggests that there is scope for further development for modernisation and diversification, in terms of new products, processes and markets. As Uganda enjoys good climatic conditions and fertile soils, it should diversify its agricultural production with the introduction of new crops and farming technologies for high value products.

The study showed that Uganda's source of comparative advantage lies in its natural resources and skilled labour. Uganda has a wide range of potential areas of comparative advantage, providing potential for both intra-industry and inter-industry diversification. A number of opportunities for domestic market oriented activities were identified.

These included simple manufacturing and assembly industries, particularly those with high transport costs. There is also a possibility for extending the effective domestic market across the borders to neighbouring countries.

The review of export market potential showed that both the composition and direction of Uganda's exports have changed over recent years. Uganda's main potential export markets may be grouped into ECA, COMESA, Europe, USA, and the Middle East. Uganda currently has an unbalanced trade relationship with COMESA markets. Its major trading partners are Kenya and Tanzania. In 1990, the value of total imports from COMESA countries was US$101 million, while exports to PTA countries were US$4 million. There is therefore scope for expanding exports to COMESA member states. The regional market for food also presents opportunities for agricultural production for export.

Uganda's major export markets are Europe and the USA. Uganda competes with sub-Saharan Africa in its traditional commodity exports, particularly in tea, coffee, cotton, tobacco and cocoa. The composition and direction of Uganda's export to these markets have changed recently. Both market areas offer preferential trade opportunities, which should be exploited to the full; however both possess stringent market entry conditions. Health and quality standards are demanding while transport costs can be high. Uganda should specialise in high value, low transport cost goods for export to these distant markets. (See also Annexures IX and X).

Uganda's exports have penetrated the Middle East, mainly through the Gulf entry ports in Dubai. The region offers good market opportunities for a wide range of agricultural produce. Market entry regulations are less demanding and the region is closer than Europe or the USA. Potential investment opportunities have been aggregated into 9 sub-sectors and 78 product groups, incorporating both current and new areas of comparative advantage.

The selected activities are largely agriculture, forestry and minerals based. 14 out of the 78 product groups are import based, but these have good market prospects and employment potential. This is consistent with the Government policy to encourage export oriented and import competing industries largely based on domes tic resources. The projects in general have substantial employment potential for domestic surplus labour. There are projects that have potential in both domestic and COMESA markets. Two-thirds of the identified projects are based on domestic resources and market opportunities in Europe, USA and the Middle East.

Agriculture Sector

Agriculture is the driving force of the economy and agricultural activities are based on crops, livestock, fisheries and forestry resources. Agriculture contributes 66% of Uganda's GDP and 99% of export revenue. It employs 80% of the labour force and provides the economic base for many activities in other sectors. Small holder farming dominates agriculture. Only tea and sugar cane are grown in large estates.

Coffee is the largest single earner of foreign exchange and is also a major source of income in rural areas. Other major cash crops are tea and cotton. The fishing and livestock sectors are recovering rapidly.

The agriculture sector has enormous potential for growth and investment. There is potential for an increase in agro-processing, basic consumer goods and import substitution. Agriculture in Uganda needs improved technology and in-puts.

Coffee

The provisional coffee export figure for December, 1997 from UCDA show an increase in volumes of exports compared to the previous month. The export volume increased by 34.3 per cent from 179,604 (60-Kg) bags valued at US$ 16.07 million in November, 1997 to 241,147 bags, valued at US$ 21.61 million in December, 1997. The realised export unit price in December however, remained at the November level of US$ 1.49 per kg. The export volume for December, 1997 is still low compared to 514,390 bags exported in December 1996. The low export volume has been attributed to the wet weather condition, which has adversely affected the drying of coffee.

For the first two quarters of 1997/98, the export volume totalled 1,361 million bags compared to 2,271 bags (a decline of 40.1%) during a similar period in 1996/97. The export values during the same period declined by 31.5% to US$121.7 million from US$177.6 million in the first two quarters of 1996/97.

2.4 Taxation in Uganda

Income derived in Uganda is taxed in Uganda. When a resident company derives profits from a business partly inside and outside of Uganda, all profits from such business are deemed to be derived from Uganda.

Management fees, dividends, royalties and interest paid to non-residents are subject to a 15% withholding tax which is a final tax.
There are no tax treaties in force.

Tax Rates and Payments

Resident companies and foreign branches of companies are taxed at the rate of 30% on profits made in Uganda.

A provisional return of income has to be submitted within six months of the commencement of each accounting period. The tax liability on the provisional return will be paid in two instalments, the first being six months from the beginning of the financial period and the final instalment at the end of the accounting period.

Dividends and Branch Profits

Dividends are subject to withholding tax: resident rate - 20% and non-resident rate - 15%.

Dividend income of residents is included in their taxable gross income, credit being given for the withholding tax deducted. Dividends can be remitted to non-resident shareholders with the approval of the Bank of Uganda.

Other Taxes

All companies operating in Uganda must register as an employer with the Uganda revenue department and deduct tax (PAYE) from the remuneration paid to employees. A Commercial Transaction Levy (CTL) is charged on the sale of certain goods and the provision of services.

There is no capital gains tax in Uganda. Customs and excise taxes are payable on imported goods. Value Added Tax has replaced Sales Tax and Commercial Transaction Levy (CTL) with effect from 1 July 1996. Individuals are taxed on a sliding scale. The income of married women is grossed with that of her husband.

2.5 Country Trade Development Recommendations in the Context of the MTS

2.5.1 Overview

In the medium term, there is a growing need to co-ordinate macroeconomic policy, industrial product export drive and trade policy. This will assist in solving problems related to technology status, manufacturing capacity utilisation and efficiency. Problems of costs, cost structure and competitiveness including the issues related to the current high production and capital financing costs. More fundamentally is the need to solve the problem of high duties, cost of utilities, high interest rates, the unavailability of long-term investment funds. The above problems and constraints combined to perpetuate corporate indebtedness and low profitability. It is these serious problems of corporate indebtedness and low profitability that threaten enterprise survival.

In Uganda, the issues of human resource development and institutional capacity building for trade policy formulation and implementation remains important constraints. The public institutions dealing with trade issues need to be strengthened to be able to participate effectively in the multilateral trading system as well as to be in a position to implement the Uruguay Round Agreement's. Public awareness through dissemination of basic information on the World Trade Organisation framework, through the local press, radio and television needs to be enhanced. In particular, seminars for private and public sector officials in understanding the multilateral framework for international trade in goods and services as embodied in the WTO should be regularised This should be in the areas of World Trade Organisation agreements, implementation aspects, legislation, regulations and notification requirements. It should encompass the identification of trade policy options while, emphasising mechanisms of building up efficient and competitive export sectors.

In the search for policy options, there is need for further strengthening of the partnership between government and the private sector in policy formulation. At the moment, private sector organs/institutions have been developed such as Uganda Manufacturers Association (UMA), Uganda Chamber of Commerce and Trade (UCOT) and the Private Sector Foundation (PSF) These organs have at times participated in policy formulation and evaluation especially in the area or trade policy. There is a need to build on this process to jointly address issues regarding:

- New market opportunities and market diversification;
- Product upgrading,;
- Means of market penetration as well as; and
- Trade flows analysis and forecasting

The design of appropriate mechanisms of access to information on foreign markets by exporters and international supply conditions by importers needs to be addressed. On the more specific issue of compliance with WTO, the involvement of local business associations' representatives, technical professionals and lawyers in the private and public sector agencies, it is necessary if the implications on business of specific agreements, such as that on textiles and clothing, technical barriers to trade, application of sanitary and phytosanitary measures, trade remedies, TRIPS and TRIMS, are to be broadly internalised.

2.5.2 Waivers and Time Extensions Requested

The benefits that could be reaped by the country from waivers and time extensions before full implementation of the provisions of the WTO agreements have also not been utilised to the full extent. This has mainly been due to the fast speed in which trade reforms were effected rendered some of the waivers inapplicable. The limited application of waivers could also partially be due to lack of institutional capacity in the line ministries as well as the supporting public institutions. The limited use of these facilities is seen from the fact that the extension of the transitional period has only been notified in the case of the TRIMS agreement. On the other hand, it is only waivers of the application of the customs valuation agreement to year 2000 and the application of the special and differential treatment to least developing countries that have to date been applied for.

2.5.3 Notifications Filed by Uganda

The responsibility of ensuring that Uganda complies with the requirements of the WTO is vested primarily with the Ministry of Tourism Trade and Industry. This is the Ministry that participates in bilateral, regional as well as multilateral trade negotiations with a view to defending Uganda's interests. As part of the requirement for effective participation in the WTO framework the Ministry issues notifications to the WTO secretariat. The provision of notifications is an exercise of notifying the WTO Secretariat to maximum possible Uganda’s adoption of trade measures affecting the operation of the General Agreement on Tariffs and Trade. Notifications are undertaken as a means of transparency in policies and regulations and as a result they are distributed to all member states. The main problems affecting the Ministry of Tourism, Trade and Industry with regard to notifications have been lack of technical and institutional capacity to handle stringent notification procedures and requirements involved. The Ministry of Trade has so far submitted notification under eleven agreements to the WTO secretariat and these notifications are shown in Annexe I.

2.5.4 The Services Agreement

Regarding compliance with specific commitments on services, Uganda has made commitments in the area of financial services, basic telecommunications as well as in tourism and related travel services. Commitments are yet to be made in business, communication, distribution, educational, environmental, financial, transport, construction and related engineering services, health and related social services, recreational, cultural and sporting services. (See also Annexe V).

In terms of future outlook, policy makers will need to identify specific export sectors of interest to the country and which will be targeted in order to derive benefits from Article IV of the GATS. The authorities will also need to pursue concrete measures to ensure the granting of preferential and differential treatment to the country where possible, especially in the areas of tourism, export of labour intensive services and electronic commerce.

2.5.5 Trade Related Investment Measures (TRIMS).

The agreement contains examples of measures inconsistent with GATT rules on rational treatment and the rules against the use of quantitative restrictions. Uganda is required to have phased out any of these TRIMS by the year 2000. Some of the main TRIMS identified include:

(i) local content requirements (LCR's) which impose the use of a certain amount of local inputs;

(ii) export performance requirements (EPR's) which stipulate that a certain proportion of production should be exported;

(iii) trade balancing requirements that oblige imports to be equivalent to a certain proportion of exports;

(iv) exchange restrictions that restrict access to foreign exchange and hence imports; and

(v) domestic sales requirements that require a company to sell a certain proportion of it's output locally, which amounts to a restriction on exportation.

All inconsistent measures were to have been notified within 90 days of the entry into force of the agreement. However, a special provision permits the imposition of TRIMS on new enterprises during the transition period if that is necessary in order to avoid any disadvantage against established enterprises already subject to TRIMS. Uganda was one of the countries that submitted notifications with regard to the TRIMS agreement.

Liberalisation of trade and investment regimes accompanied by the encouragement of private sector development have increased the need for Uganda to formulate appropriate competition policies. It is necessary to revamp domestic laws on competition policy so that an appropriate environment, which could be a source of increased productivity, technology transfer and discovery of new techniques of production, is established. These legal provisions should help to promote development by enhancing competitiveness, assisting in shifting the incentive structure towards export orientation and improving the level of infrastructure especially in the fields of education, training and technical support services.

2.5.6 Trade-Related Aspects of Intellectual Property Rights (TRIPS)

A TRIPS consistent system of intellectual property right protection is supposed to be in place by the turn of the century. LDCs have up to I January 2005 to bring their national legislation in conformity with the provisions of the TRIPS Agreement. Developing countries during the transitional periods, as member countries, are required not to take any measures that will result in a lower level of protection to intellectual property rights (IPRS) than that already obtaining in their countries. In spite of these provisions, it is still important to address the concerns raised by developing countries that the agreement may escalate the imbalance against developing countries by restricting access to new technology.

The requirements of a TRIPS consistent system in Uganda is going to prove a significant challenge in terms of incorporating the laws, reforming institutions and establishing the relevant procedures. This is hampered by the fact that the level of intellectual property protection in Uganda is greatly constrained by a low level of income, limited degree of skills development and the dearth of indigenous technological innovation capacity. We therefore, need measures to strengthen technology transfer and diffusion through the encouragement of local innovation and technological development. Given the complexities associated with TRIPS there is a need for technical assistance, as well as close attention paid to discussions on the implementation as they unfold in the WTO. Uganda however, will require specific assistance in the area of telecommunications and information technology development.

2.6 Suggested Areas for Future Emphasis in Trade Negotiations

Future areas of emphasis in domestic policy reform as well as in trade negotiations are likely to be in the following areas:

- Regarding the improvement of market access to industrial economies, Uganda would want to see the design of measures that will assist in offsetting any negative impact to export of manufactured or processed products that could arise in terms of the possible erosion of preferences. This s likely to manifest it self within the medium term as the country moves towards the export of manufactured goods. This issue needs to be addressed in future WTO negotiations In addition, it will be important to establish mechanisms to deal with loss of competitiveness by tackling the current supply side constraints that have stifled the capacity to produce for a wider market

- Trade Policy formulation will need to tackle all the difficulties faced by the country in complying with notification requirements of the WTO. This has been one of the critical issues affecting capacity to comply as well as defend interests.

- Policy makers will need to ensure compliance in the area of customs valuation. This will imply benefiting from the existing WTO trade facilitation functions in streamlining of documentary requirements, use of information technology, adopting more transparent procedures, implementing better risk-assessment and audit based techniques of control in the customs services.

- In the area of GATS, it is important that commitments are made in the sectors of business communication, distribution, educational, environmental, financial, transport, construction and related engineering services, health and related social services, recreational, cultural and sporting services. Specific export sectors of interest will have to be targeted in order to derive benefits from Article IV of GATS. This will imply pursuance of concrete measures to ensure the granting of preferential and differential treatment to the developing country where possible. Possibilities exist in the areas of tourism, export of labour intensive services and electronic commerce. In addition the strengthening of Uganda's telecommunications structure will also require some safe guard measures, which could still be consistent with the maintenance of the correct structure of the positive list approach provided for in the GATS.

- It is important to ensure that linkages between the country's investment and competition policies are strengthened in domestic legislation while, use is made of the flexibility in TRIMS to promote development. This of course implies the formulation of appropriate competition policies and the revamping existing weak domestic competition policy. This could generate an environment for increased domestic productivity, technology transfer and discovery of new techniques of production. These legal provisions should not only help in promoting development by promoting competitiveness, but also assist in shifting the incentive structure towards export orientation. This of course will require the improvement in the quality of infrastructure available in the fields of education, training and technical support services. Policy makers will need to identify the sectors in the economy, which are still characterised by controls and spell out a moratoria period and transitional arrangements to be effected before full liberalisation. There is also need to identify competitiveness enhancement programmes/policies and the financial and technical assistance required for implementing them. The policies could include the regime of incentives, types of restrictive business practices, as well as market concentration and competitiveness enhancing measures.

- Ugandan trade policy authorities would in the interim period prefer the application of allowable TRIMS in the support of local enterprise as well as in the technology acquisition. These provisions would apply in cases where a percentage of equity investment is held by local investors (as a requirement) to promote joint ventures. In addition, such measures could enlist support in the policy circles where foreign investors are required to bring in the most up-to-date technology under the transfer requirements for local research and development. The gist of the policy debate in Uganda remains to ensure that linkages between investment and competition policies are strengthened in domestic legislation.

- Implementing the TRIPS Agreement is going to prove a significant challenge in terms of incorporating the applicable laws, reforming institutions and establishing other relevant procedures. This is hampered by the fact that the level of intellectual property protection in Uganda is greatly constrained by low levels of income, limited degree of skills and development and the dearth of indigenous technological innovation capacity. The incorporation of the TRIPS agreement in current laws and regulations also requires substantial resources both financial and physical to be successful. Priority should be placed on measurers to strengthen technology transfer and diffusion through the encouragement of local institutional participation. Given the complexities associated with TRIPS; there is a need for technical assistance, as well as close attention to discussions on the implementation of TRPS as they unfold in the WTO. There is need to incorporate the provisions of national treatment and MFN into tile national legislation. It follows that assistance in the elaboration of judicial procedures for enforcing this law is necessary. The tasks here will involve upgrading or establishing administrative arrangements for areas not currently covered in our legislation.

- For future negotiations on the Trade and Environment, Uganda would need to work with other least developing countries to chart out a common position that would ensure that the more developed countries do not use environmental measures as the new protectionist measures. It would prefer to see that the new environmental measures do not impose significant increases in domestic production costs that could render domestic firms less competitive thereby weakening further the already fragile market access.

- The Agreement on Agriculture calls for a more comprehensive and binding package of liberalisation of agricultural production and trade, especially on the Common Agricultural Policy (CAP) of the European Union via the enactment of a programme or the complete abolition of protection against imports and the complete omission of subsidies on exports.

CHAPTER 3

DEVELOPMENTS AFFECTING MARKET ACCESS CONDITIONS AND TRADING OPPORTUNITIES

3.1 Uganda's Trading Potential in the MTS[4]

Economic growth in Uganda (as in Kenya and Tanzania) declined in 1997 compared to the previous year largely due to poor agricultural performance following the drought situation in the East African sub-region (see Table 3.1). In addition, the limited size of domestic markets and import dependence (intermediate and capital goods) limits the export capacity of Uganda. International competitiveness has also affected the performance of the Ugandan export sector.

Table 3.1: Output growth (1990-1997) % change over the previous year

Country	**1990-95**	**1995**	**1996**	**1997**
Kenya	1.6	4.4	4.3	2.0
Tanzania	4.1	3.8	4.2	4.1
Uganda	7.5	9.6	9.4	4.2

Uganda has very different patterns of export destinations as compared to its neighbours (Kenya and Tanzania), so the changes in trade policy which have occurred from the Uruguay Round and since, will affect them differently. Uganda exports more than 80% of its exports to developed countries and more than 70% to the EU (Table 3.2). Unusually, its major developing partners are in Eastern Europe as compared to Kenya and Tanzania who exports are divided about evenly between developed and developing countries.

The limited domestic market size and the dependence of imported goods (intermediate and capital goods) have minimised the export capacity of Uganda. International competitiveness has also affected the performance of the export sector. To improve export competitiveness, Uganda has been developing policies that will increase its level of investments (see also Annexe III).

[4] **Sources:**(1) CBI News Bulletin (various issues, 1997, 1998, 1999)
(2) UNCTAD : The Least Developed Countries report, 1997
(3) UNCTAD : Trade and Development report, 1998

Table 3.2: Destination of Exports 1990, 1995, and 1996

	Kenya			***Tanzania***			**Uganda**		
	1990	**1995**	**1996**	**1990**	**1995**	**1996**	**1990**	**1995**	**1996**
Exports									
Total $ m	1,120	1,952	2,203	416	726	805	181	533	559
Percentages									
to Developed	42.4	47.3	46.3	53.5	43.8	39	89.5	86.8	82.1
EU	37.3	38.4	38.4	40.4	31.4	27.8	74.6	79.0	72.6
US	2.5	5.0	4.6	6.7	3.0	2.2	7.7	2.3	2.7
Japan	1.0	1.5	1.1	3.8	8.1	7.3	3.3	1.9	1.8
to Developing	50.4	47.5	48.3	43.9	48.3	52.8	10.5	13.2	17.9
Africa	37.6	31.0	32.1	8.6	14.3	14.8	5.2	2.1	2.4
Kenya	0.0	0.0	0.0	2.9	1.5	1.6	0.0	1.3	1.6
Tanzania	2.0	7.1	7.3	0.0	0.0	0.0	0.6	0.4	0.4
Uganda	17.0	8.7	9.0	1.0	1.1	1.2	0.0	0.0	0.0
Rwanda	6.7	1.7	1.9	0.0	5.0	5.3	1.7	0.2	0.2
Asia	7.8	9.9	9.0	32.0	27.3	30.4	1.2	2.7	2.8
India	0.9	0.7	0.7	16.6	8.0	9.1	0.0	0.0	0.2
Indonesia	0.0	0.2	0.2	1.0	2.3	2.4	0.0	0.2	0.2
Malaysia	0.4	0.4	0.5	0.0	0.0	0.0	0.0	0.2	0.0
Pakistan	5.4	5.7	4.5	0.7	3.0	6.0	0.0	0.6	0.4
Taiwan	0.0	0.1	0.0	4.1	3.3	2.6	0.0	0.0	0.2
Middle East	3.6	6.0	6.5	1.4	5.0	4.9	2.4	1.7	1.9
Egypt	1.3	3.7	3.8	0.5	0.3	0.2	1.7	1.1	1.3

Source: IMF, *Direction of Trade*, 1997

Food items remain the principal export in Uganda, Tanzania and Kenya, although Uganda has a much higher share (Table 3.3). These food items are mainly tea and coffee (Table 3.4). Manufactures are a small share of Uganda's total exports. Like the others, fibres, yarn, and clothing are significant for Uganda. For Tanzania and Uganda, this means mainly cotton, although Kenya has important exports of clothing and Tanzania of some textile products (refer to Table 3.4). For Uganda, hides, fish, tobacco, and vegetables are significant; other non-traditional exports which it is trying to promote include nuts, fruits, spices, essential oils, flowers, and silk (WTO, Uganda, 1997). Uganda (in terms of the analysis of chapter 1) still at the stage where most developing countries were in the 1960s or 1970s, of being outside the main area for international trade negotiations and reform, except when the agenda includes agriculture. When Kenya, Tanzania and Uganda act together, they have a potential negotiating role as a principal supplier of tea and coffee. Kenya and Tanzania have successfully developed an horticultural export sector, with first signs of success in this sector taking place in Uganda. (See also Annexes IX and X).

Table 3.3: Composition of Exports (percentages)

	Kenya		***Tanzania***	**Uganda**
	1980	**1990**	**1980**	**1980**
Major divisions				
Food	43.8	49.1	58.1	95.8
Agricultural raw materials	8.1	5.6	17.5	2.3
Fuels	33.4	13.1	4.7	0.5
Ores and metals	2.5	2.9	5.4	0.5
Manufactured goods	12.1	29.2	14.1	0.7
Chemicals	3.1	4.1	0.7	0.1
Machinery and transport	0.6	10.3	0.6	0.1
Other	8.4	14.9	12.9	0.5
Other	0.1	-	0.1	0.1
Principal sectors				
Petroleum products	33.4	13.1	4.7	-
Textiles and clothing	3.2	5.3	24.1	2.1
Metals	1.4	3.7	0.7	0.3
Machinery				
Non-electrical	0.2	2.6	-	0.1
Electrical	0.2	1.9	0.5	-
Transport	0.2	5.8	-	0.1

Source: UNCTAD, **Handbook of International Trade and Development Statistics 1995** (Geneva: 1997)

Uganda should note that generally, products exported from developing countries such as yarn, blouses and shirts, cotton fabric, bicycles, lighters, photo albums, welded tubes, finished leather and alarm clocks are affected by anti-dumping duties in the EU. Exporting companies from the East African sub-region should avoid markets that are already dominated by large multinational companies as well as selling direct to the user industry as quantities are low and costs high. Promising entry is through an agent or importer/agent.

Table 3.4: Principal exports 1993-4 (%)

	Share in country's exports	Share in developing country exports	Share in world exports	Share in exports to EU (1995)
Kenya				
All commodities	100.0	0.15	0.04	
074 Tea and mate	24.64	18.98	15.56	21.77
071 Coffee and substitutes	17.56	3.04	2.39	31.20
292 Crude veg. materials nes	7.36	3.49	0.87	15.80
334 Petroleum products, refin	4.52	0.18	0.08	
058 Fruit preserved, prepared	3.88	1.59	0.57	6.42
054 Veg etc fresh, simply prsvd	3.40	0.85	0.25	9.95
034 Fish, fresh, chilled, froz	3.22	0.84	0.27	2.84
897 Gold, silver ware, jewellery	2.99	0.68	0.24	
611 Leather	2.76	0.82	0.35	
661 Lime, cement, bldg prods	2.46	1.56	0.41	
056 Veg etc, preserved, prepared				2.46
057 fruit, nuts, fresh, dried				2.39
Tanzania				
All commodities	100.00	0.04	0.01	
071 Coffee and substitutes	20.52	0.90	0.71	42.80
263 Cotton	18.39	1.58	0.83	
057 Fruit, nuts, fresh, dried	8.44	0.34	0.14	
682 Copper exc. cement copper	4.84	0.23	0.07	
121 Tobacco unmnfctrd, refuse	4.80	0.64	0.35	
074 Tea and mate	4.16	0.81	0.66	2.11
054 Veg etc fresh, simply prsvd	2.81	0.18	0.05	3.47
667 pearl, prec-, semi-p stone	2.53	0.12	0.03	5.49
036 Shell fish fresh, frozen	2.49	0.09	0.06	2.46
657 Special textile fabric, prods	2.43	0.21	0.06	2.36
846 Undergarments, knitted				7.03
034 Fish, fresh, chilled, frozen				5.99
061 Sugar, honey				5.13
292 Crude vegetable material				3.37
nes				2.78
689 Non-ferrous base metals nes				2.77
714 Engines and motors nes				2.01
072 Cocoa				
Uganda				
All commodities	100.00	0.03	0.01	
071 Coffee and substitutes	77.33	2.71	2.13	90.44
211 Hides, skins, exc. furs, raw	5.54	2.52	0.33	
034 Fish, fresh, chilled, froz	3.71	0.20	0.06	6.21
263 Cotton	3.15	0.22	0.11	
121 Tobacco unmnfctrd, refuse	1.88	0.20	0.11	
222 Seeds for 'soft' fixed oil	1.58	0.14	0.04	
035 Fish salted, dried, smoked	0.91	0.58	0.11	
054 Veg etc fresh, simply prsvd	0.80	0.04	0.01	
074 Tea and mate	0.66	0.10	0.08	
292 Crude veg materials nes	0.55	0.05	0.01	
Remainder	3.90			

Source: UNCTAD, *Handbook of International Trade and Development Statistics 1995* (Geneva: 1997)

3.2 Opportunities arising from the Uruguay Round Agreements

The average MFN tariff duty (the rate applied to countries not receiving regional or preferential arrangements) reduction on industrial products in the Uruguay Round by developed countries was 2.4 percentage points (i.e. from an average of 6.3% to 3.9%). In the case of developing countries the average MFN tariff reduction was about 2.5 percentage points and in the case of LDCs like Uganda it was about 1.7 percentage points.

The new market access openings provided by developed countries are not directly applicable to developing country exports because on most products in most markets, both developing and least developed countries enjoyed better access conditions under preferences, such as the GSP or the Lomé Convention. Uganda and other developing countries in fact may be worse off . The reduction in the MFN rate reduces the value of the preferences, as these are normally 0 (the usual Lomé preference), a flat rate lower than the MFN (the GSP), or a percentage of the MFN rate (the current EU GSP, for example). In all cases a reduction of the MFN rates reduces the difference between preferred and 'un-preferred' suppliers and thus increases the competition that is now being faced by the preferred suppliers like Uganda in the EU. The preferences though for the time being remain significant in some sectors such as textiles and clothing and certain agriclutural products.

3.2.1 Changes in market access

In manufactures, the principal changes were in textiles and clothing, machinery, miscellaneous manufactures, chemicals and wood (see Table 3.5). Only the first is of interest to Uganda, and then only in the US market (Lomé exempts Uganda from tariffs, and Japan's GSP covers textiles and clothing, the US GSP does not include textiles and clothing). If there were any effect from the others, it would be negative from loss of preferences (see some estimates provided in Table 3.6).

Table 3.5: ***MFN tariff reductions offered by the developed countries in % (manufactures excluding petroleum)***

Product Category	**Average Tariff**		
	Pre-Uruguay Round	***Post-Uruguay Round***	***Reduction***
All excluding petroleum	6.3	3.9	2.4
Textiles and clothing	15.5	12.1	3.4
Metals	3.7	1.5	1.7
Minerals, precious stones and metals	2.3	1.1	1.2
Electric machinery	6.6	3.5	3.1
Leather, rubber, footwear, travel goods	8.9	7.3	1.6
Wood, pulp, paper and furniture	3.5	1.1	2.4
Fish and fish products	6.1	4.5	1.6
Non-electric machinery	4.8	2.0	2.9
Chemicals and photo. Supplies	6.7	3.9	3.0
Transport equipment	7.5	5.8	1.7
Manufactured goods nes	5.5	2.4	3.1

Source: Page, Davenport 1994

Table 3.6: Industrial products, changes in export value, excluding textiles and clothing (US $m)

	Metals Minerals	**Wood Paper**	**Leather footwear**	**chemicals**	**Elec. equip**	**Nonelect. mach.**	**Trnspt equip**	**Other industrial**	**OECD Imports 1992**	**Shift + creation**	**Change in value**
Share in OECD imports, %											
ACP	6.3	1.4	0.4	0.9	0.1	0.0	0.1	0.4			
Other developing	38.8	16.1	36.2	11.7	27.0	13.3	5.3	17.1			
MFN countries	54.9	82.4	63.5	87.4	72.9	86.6	94.6	82.5			
Change in:											
World price	1.7	2.3	1.5	2.6	2.9	2.7	1.6	2.3			
EU price	-0.4	-0.6	-0.4	-0.7	-1.3	-1.0	-0.4	-1.0			
Trade shift from:											
ACP (a)	-0.9	-2.0	-2.1	-4.0	-4.1	-3.5	-2.3	-3.2			
Other developing (b)	-0.0	-0.4	-0.3	-0.3	-1.3	-2.0	-0.5	-0.8			
Trade creation (c)	0.5	0.8	1.0	1.9	1.5	1.6	1.2	1.2			
Kenya	-0.2	-0.1	-0.0	-0.4	-0.3	-0.3	-0.0	-2.7	107	-3.1	-4.0
Tanzania	-0.5	-0.1	-0.0	-0.0	-0.0	-0.1	-0.0	-0.5	61	-1.0	-1.4
ACP (66)	-86.1	-42.7	-7.2	-39.4	-15.9	-5.5	-12.1	-116.3	12766	-247.8	-325.2
Africa	-1237.8	-50.5	-8.9	-41.0	-30.5	-18.2	-19.6	-219..6	20300	-399.3	-526.1
Latin America	139.2	13.7	15.8	38.5	-26.1	-63.3	47.1	0.8	46450	-335.9	165.6
South Asia	37.8	0.3	9.2	4.3	-0.4	-3.0	1.1	4.3	9207	-42.7	53.7
Other Asia	17.2	3.6	55.8	18.6	-16.7	-22.7	3.0	28.9	44739	-361.4	87.6
ASEAN	44.0	26.8	19.2	5.7	-34.5	-51.9	2.4	16.8	46506	-436.5	28.5
NIEs Asia	32.7	9.0	53.9	27.3	-68.8	-325.2	29.5	49.4	118181	-1381.3	-192.4
Developing Countries	291.4	15.0	94.7	67.1	-152.1	-473.4	81.3	-8.0	329077	-3061.0	-213.0
Least developed (d)	-51.2	-6.2	-0.1	-8.7	-2.0	-1.8	-5.9	-34.7	4277	-86.3	-110.6

(a) as % ACP exports (b) as % other developing country exports (c) as % OECD imports (d) least developed exclude Bhutan, Kiribati, Myanmar, and Samoa

In agriculture, the average cut was more than a third, on much higher tariffs, but the cuts on temperate food products tended to hurt food importing countries (because the reform of the agricultural policies led to increased prices for non-US, non-EU producers, and therefore increased costs for importers), while the MFN cuts for fruit and vegetables reduced the value of their preferences and increased the competition faced from other exporters of similar products. On tropical beverages, most developed countries had 0 tariffs, at least the unprocessed forms, before the Uruguay Round. The exception was the EU which had duties on coffee at 5% MFN and 4.5% GSP to give a margin of preference to the ACP countries which paid 0 tariffs (see Table 3.6). These were removed in the Round, eliminating the value of the preference. Uganda (as well as Kenya and Tanzania) is expected to lose export share because of this (see Table 3.7).

Table 3.7: Tropical products, changes in export revenues (US $m)

	coffee	tobacco	other tropical (d)	Fish	OECD imports 1992	volume change	Change in value
Share in EU imports %							
ACP	33.2	6.9	12.5	3.4			
Other developing	66.8	6.3	12.4	24.6			
Developed Countries	0.0	86.9	75.1	72.0			
Change in:							
World price	-1.5	-1.9	1.4	0.9			
EU price	-3.8	-2.7	-1.5	-1.6			
Trade shift							
ACP (a)	1.5	2.8	2.3	1.7			
Other developing (b)	-0.7	-0.5	-0.8	-0.1			
Trade creation (c)	0.7	2.0	1.7	1.5			
Kenya	-7.6	-0.3	-11.6	-1.0	497.4	-10.2	-20.5
Tanzania	-3.4	-1.0	-0.7	0.0	114.1	-1.9	-5.2
Uganda	-7.5	-0.3					
ACP (66)	-54.8	-37.9	-43.2	-13.8	5159.8	-83.2	-176.7
Africa	-49.6	-30.4	-48.5	-20.7	4005.4	-85.7	-177.1
Latin-America	10.8	18.1	39.4	13.3	11485.9	92.5	112.0
South Asia	0.2	2.3	1.3	0.4	306.8	1.8	4.8
Other Asia	0.1	0.8	11.7	5.5	2441.2	23.0	9.4
ASEAN	0.1	4.4	8.7	15.0	6213.6	38.1	36.5
NIEs Asia	0.0	1.7	46.5	20.7	5869.8	16.1	66.0
Developing Countries	-38.4	-3.0	60.2	34.6	30394.6	86.0	53.2
Least Developed	-28.1	-19.0	-8.8	-2.7	1367.6	-25.0	-60.9

(a) as % ACP exports
(b) as % other developing country exports
(c) as % OECD imports
(d) Excluding also cocoa and vegetable oils.

Source: Page, Davenport, 1994.

There was an offsetting factor in the form of the reductions in tariffs by the developing countries, especially the most advanced. The effect of this on some countries, normally those in the same region as the liberalising countries, could be important, but Uganda (nor Kenya and Tanzania) was not a major exporter to any of the countries making reductions. The cuts could have helped some products, however, as the major reductions were in fish and textiles (see Table 3.8). The only other offsetting factor to the loss of preferences was the possible increase in total demand (which could offset a loss of market share) because of the income increasing effect of trade liberalisation.

Table 3.8: Uruguay Round tariff cuts by developing countries

Average Tariffs			
	Old rate	*New rate*	*Reduction*
Non-grain crops, wool and other livestock	18.0	13.9	4.1
Coal, oil, gas & other minerals	11.5	9.5	2.0
Processed food, beverages & other manufactures	18.0	13.3	4.7
Trade and transport services	0	0	0
Utilities, construction, other private govt. services	0	0	0
Forestry products	0.1	0.1	0
Fishing products	35.2	8.1	27.1
Paddy rice, wheat and other grains	17.3	13.4	3.9
Textiles	30.3	20.3	10.0
Clothing	14.6	10.8	3.8
Chemicals, rubber	19.1	13.2	5.9
Primary iron and steel	8.7	6.0	2.7
Primary non-ferrous metals	2.7	2.1	0.6
Fabricated metal products	8.5	6.9	1.6
Transport equipment	27.2	17.3	9.9
Merchandise trade	13.5	9.8	3.7

Source: Page, Davenport 1994

In addition to the tariff cuts, the Uruguay Round brought the promise of an end to the Multi-Fibre Arrangement, which had imposed quotas on textiles and clothing from the most successful developing countries since 1974 (in other forms from 1962). It had been a ‘permitted derogation’ from the GATT rules, which allowed developed countries to impose quotas unilaterally on individual developing countries at a detailed product classification. Uganda (Kenya and Tanzania) was not affected by the EU’s regime (because ACP countries were exempt). Uganda (and Tanzania) as an LDC had escaped controls from other developed countries (most of these countries avoided imposing quotas on least developed countries, unless they were major exporters like Bangladesh). Kenya, however, is controlled under the US MFA. (It remains controlled, and Kenya itself has also kept the right to take safeguard measure against textile imports, although this has not been used).

The Uruguay Round produced an agreement to phase out the MFA in four stages, over a 10-year period from 1 January 1995. On that date, importing countries had to remove 16% of products covered from controls. On 1 January 1998, a further 17% was removed. On 1 January 2002, 18% will be removed, with the remaining 49% freed in 2005. The combination of a choice in the first two stages of removals which concentrated on goods which were not filling their quota (so that there was effectively no liberalisation) and the leaving of almost half of imports to be freed at the last stage means that the effects are still to come through (and has led to fears that the full liberalisation may not be accomplished). The sectors still controlled, however, did have their quotas increased, at an increasing rate, during the transition. Paradoxically, Uganda should endeavour to maximum the use of its preferred access to EU and other developed country markets during this transition period of 10 years in which the trade in textiles and clothing is integrated into normal WTO rules.

Estimates of the effect of removing the MFA have to answer two questions: how much total imports by the developed countries will increase and how the composition of suppliers will change, in favour of the previously controlled countries. As the US was the most tightly controlling country (partly because of the EU's exemptions for the ACP), its imports would certainly rise sharply (and probably change in supplier), while other developed countries are more uncertain. The estimates generally used were either an increase of 20% in demand (over the 10 years, so 2 percentage points a year, if it were not back-loaded) if only the US has a significant increase or 50% if all rise significantly. Table 3.9 gives the results of these two assumptions, if there were no switch to the previously controlled suppliers. Under any of the different assumptions about the amount that could be switched back, the African countries would lose share. For Uganda, the high shares of unprocessed cotton would limit its loss (it could gain because of the increase in demand). The net effect is likely to be insignificant, and could be negative. Table 3.10 indicates the direction of effect for each product.

Table 3.9: Exports of textiles and clothing, 1992 (%)

Country	***Share in country's exports to OECD countries***		***Share in country's total exports***		***Share of country in total OECD imports***		***Effect on total exports, if finished exports rise, for all countries***	
	Clothing	***All textile products***	***Clothing***	***All textile products***	***Clothing***	***All textile products***	***At 2%***	***At 5%***
Kenya	3.04	5.28	1.84	3.20	0.02	0.02	0.43	1.24
Tanzania	2.17	20.03	1.33	12.30	0.01	0.03	0.34	0.99
Uganda	0.26	6.85	0.25	6.52	0.00	0.00	0.05	0.15
Africa	6.10	8.05	5.15	6.80	4.13	3.14	1.15	3.29
Sub-Saharan	2.26	4.26	1.57	2.96	0.89	0.97	0.35	1.00
Asia	15.42	20.04	8.82	11.46	44.81	33.53	2.06	5.91
Latin America	4.49	6.18	3.68	5.07	4.88	3.86	0.87	2.50
Middle East	1.56	2.97	0.89	1.70	1.14	1.25	0.21	0.61
Total non-OECD excluding E. Europe	10.03	13.29	6.34	8.39	56.98	43.42	1.47	4.23

***Source*:** Page, Davenport 1994

Table 3.10: Effects of changes in the Trade regime on Access by Product

Measures Products	Share in exports	Uruguay Round tariffs		MFA	LLDC	Asian Crisis	Env. Prod	Excise	New Round	Post-Lome
		Developed	Developing							
Coffee, Tea										
Kenya	42.2	-				-				-
Tanzania	24.7	-				-				+
Uganda	78.0	-				-				+
Tobacco										
Tanzania	4.8							-		
Uganda	1.9							-		
Petroleum Products										
Kenya	4.5					-		-		
Machinery, transport, metals										
Kenya	10.3	-	+		-	-				
Tanzania	4.8	-	+		-	-				
Kenya		+	+	-		-				
Tanzania	2.4	+	+	-		-				
Uganda		+	+	-		-				
Veg oils, etc										
Kenya	7.4	-	+		-				-	-
Uganda	2.1	-	+		-				-	+
Cotton										
Tanzania	18.4	+	+	+	-	-				
Uganda	3.2	+	+	+	-	-				
Fruit, veg, flowers										
Kenya	7.3	-			-		-			-
Tanzania	2.8	-			-		-			+
Uganda	0.8	-			-		-			+
Nuts, honey, spices, essential oils										
Tanzania	10.0	-			-		-			+
Uganda		-			-		-			+
Seaweed										
Tanzania		-			-		-			
Fibres, sisal										
Tanzania		-			-		+			
Fish										
Kenya	3.2	-	+		-	-	+			-
Tanzania	5.0	-	+		-	-	+			+
Uganda	4.6	-	+		-	-	+			+
Hides, leather, footwear										
Kenya	2.8	-			-	-	+			
Uganda	5.5	-			-	-	+			
Jewellery										
Kenya	3.0	-			-	-				
Tanzania	2.5	-			-	-				
Building Materials										
Kenya	2.5	-			-					

(a) Traditional export commodities

Tropical beverages (coffee, cocoa and tea) are not import-competing products in the developed countries and their market access conditions were already relatively good before the conclusion of the Uruguay Round. But there was a fall in real world market prices largely because of a sizeable potential for increased output in major producing countries in the face of relatively inelastic import demand. This trend is likely to continue.

Global demand for the agricultural raw materials such as natural fibres has been weak for the past two decades. The commodities are suffering from competition of synthetic substitute. However, with increasing consumer awareness of environmental issues, they have the advantage of being 'natural' products and therefore the demand for them should hold up better. With virtually no or very low import duties already in the most major markets, the direct impact on any further tariff reductions on these raw materials will be small. The demand for cotton is expected to be boosted with the lifting of the Multi-Fibre Arrangement by 2004. Several LDCs, especially those in West, Central and East Africa could benefit from this in the US market in particular as well as those LDCs that are not beneficiaries of the Lomé Convention in the EU market.

The banana market is demand-driven, with very few import barriers in major importing countries other than the EU, where imports are regulated through tariff quotas. As regards sugar, the Uruguay Round did not change much the import regimes in the EU. But world market prices are projected to rise somewhat mainly because of increased demand for sugar in developing countries.

(b) Non-traditional commodities

Trade in several non-traditional commodities such as fruits and vegetables have increased relatively in recent years. This trend is expected to continue due to trade liberalisation and the continuation of income growth over the medium term. Under GSP and Lomé Convention, Uganda and other LDCs have preferential access. For most traditional primary agricultural commodities, notably tropical beverages and agricultural raw materials, the extent of tariff preferences is low since imports in developed country markets are either free of duty or subject to very low tariffs. For these commodities, Uganda and other LDCs would have to compete for market shares in developed countries on an equal basis with non-LDC exporters. But for sugar and bananas, preferential margins for those that have market access will continue to remain high under present import arrangements.

However, there is likely to be a shift in the location of production as competition intensifies among exporters in after global trading environment. Thus, the challenge facing Uganda and other LDCs is to improve their competitive position in exports by overcoming supply-side and other related constraints. Although traditional primary commodities exported by Uganda and other LDCs suffered from slow growth in world import demand and secular declines in real world prices, non-traditional agricultural exports are becoming more important. Another potentially beneficial effect of the Uruguay Round for the development of the value-added industries in the LDCs is the reduction in tariff escalation. Tariffs that have been higher on processed agricultural products than on primary commodities have been reduced although the problems remain in many product sectors such as coffee.

3.2.2 Developments affecting market access in post-Uruguay Round (table 3.11)

The discussion in this section of factors affecting market access opportunities generated by the Uruguay Round for Uganda and other developing countries is also summarised in Table 3.11.

(a) Programme for the Least Developed Countries

In 1997, following the conclusion of the High-Level Meeting on LDCs, convened under the auspices of the WTO as a follow-up to a recommendation of the First WTO Ministerial Conference in Singapore in 1996, the EU announced an offer to grant LDCs outside the ACP Group, market access conditions that would bring them closer to the same level as that was being enjoyed by the ACP Group (thus engendering a further preference erosion for Uganda and other ACP States). The US agreed to add 1.700 products to the duty-free list of its GSP scheme for LDCs. Turkey also provided concessions for LDCs. Morocco, South Korea, Thailand, Turkey, and Egypt were among the first of the more advanced developing to offer special concessions to the LDCs, mostly within their respective regions. The most recent to offer concessions (late 1998) is Mauritius. This liberalisation of markets by countries other than the EU will help Uganda to diversify its markets.

(b) Asian Crisis 1997-1998

The effect of this on developing countries has been to lower demand from what were becoming important markets, to increase competition in third country markets, with a diversion of supply from home and neighbouring markets and an increase in competitiveness because of the devaluations, and a sharp fall in commodity prices (because of the sharp fall in demand and the devaluations). Uganda is unlikely to have been badly affected by the first of these, because its has a relatively small Asian market. Uganda is also not among the principal competing suppliers for any of the principal exports of the five worst affected countries (Indonesia, Korea, Malaysia, Philippines, Thailand), but it does export some of them. The exported products include woven fabrics (where the Asian countries pre-crisis accounted for 25% of world exports), shell fish (22%), preserved fish (18%), and footwear (16%). Jewellery demand has suffered badly from the crisis. The commodity price fall has been general, and has also affected some standard manufactures which are similar to commodities in their generic nature, including clothing, cars and car parts, and electronic components. The decline in clothing prices could affect Uganda.

(c) Environmental approach to trade

The increasing concern for the preservation of the environment in major markets (see also section 3.4) and also increased worry among developing countries that this concern will be used to justify protection against goods from developing countries has led to a movement to align these two divergent concerns. The WTO's Committee on Trade and the Environment has been discussing *inter alia* to identify goods which are produced in a more 'environmentally friendly' way in developing countries than in developed, and where there are significant barriers. The argument is that removing such barriers could produce benefits to both development and the environment, and that this could increase the strength of the case for liberalisation. The products, which have been identified, include several which are important to Uganda and other East African countries. These include horticultural products, non-timber forest products (such as essential oils, gums, cardamom and honey), timber, fish (where subsidies have led to over-fishing in developed country waters and by developed countries in distant waters), and natural fibres like sisal, which could replace artificial fibres.

Leather products are discussed also in this context, although the argument there is usually that the polluting processes are less damaging in the developing countries (given a greater preference for increasing income over conserving the environment). Hence, there would be a net increase in welfare, if not an improvement in the environment, from moving production of these products to developing countries.

While some fruits face low tariffs in the EU, most citrus fruits still face exceptionally high tariffs up to 19%, combined with special seasonal provisions. There are virtually no concessions under the GSP. The US protects many fruits by high tariffs (up to 26%) or seasonal rules, normally without preferences for those where domestic production competes. Japan also has high protection on most fruits (up to 33%, but around 19% for most), with only a few concessions under GSP. Liberalisation would reduce preferences in the EU market, increase access to the US, and have little effect in Japan. Cut flowers face tariffs of 15-17 % in Europe, and for only a few is there a GSP rate; even this is normally 15%. The US has lower tariffs of about 7%, and these are zero under GSP (except roses). Japan has zero tariffs. Most nuts pay average tariffs in the EU, but there are few GSP preferences.

Most other non-forest products face average (or slightly above average MFN tariffs, of 4-6%, but are zero for GSP. The exception is honey, which faces a tariff of 25%, with no GSP preference. The US has low or zero tariffs on most nuts, and only a few do not receive GSP preference. Japan has generally low tariffs, and preferences for the others. Any liberalisation of flowers or non-timber products would therefore greatly reduce the preferences available to the ACP countries in Europe, with little benefit in other markets.

Wood and wood products are not, in general subject to high tariffs or other restraints because tariffs were substantially cut in the Uruguay Round, but tariffs remain high in some developing country markets. On these, Uganda and other East African have little to lose, but could gain access to other developing countries.

Fish face very high tariffs in the EU, with most ranging between 12% and 22 % for MFN and 10% for GSP. For the US, there are tariffs only on tuna, and these are reduced to zero for GSP. Japan has MFN tariffs of 4%, but zero under GSP. This suggests a serious loss of preference, but in fish, it is more the subsidies within developed countries, notably the EU and other European countries, which discriminate against imports. If these were reduced, there would be an increase in the demand for fish caught by all developing countries including by Uganda.

Tariffs on natural fibres are low in most countries, except in the EU where there are tariffs of 4-6%. The barrier to increased use, however, is likely to be subsidies to the raw materials and the production of the artificial substitutes, rather than the tariffs, so again Uganda and other developing countries could gain from reform.

Leather and leather products (with clothing) remain one of the sectors of high tariffs post-Uruguay Round. EU tariffs are about 7% for untanned leather but (unusually) lower for processed products. The US, in contrast has low rates for leather, most reduced to zero under

GSP, but rates of up to 20% for some products, and only a few receiving GSP preferences. Japan has high tariffs for untanned products (up to 5% reduced to 24% for GSP) and 10-20% for most products (5-9% for GSP).

If the arguments for the environment are translated into liberalisation, all these products could see increases in markets outside the EU, although on some they could face reduced preferences in US markets as well. On almost all they would suffer a reduction in preference in the EU. The exceptions would be fish and natural fibres: there the proposed reforms are reductions in subsidies to their substitutes in developed countries, so that there could be a gain in access if reforms were undertaken. All these industries might also attract support from donor agencies.

(d) Concern over health

Increasing concern to use economic tools to deter damaging consumption has led to higher excise duties on such products as tobacco and petroleum, and is likely to continue to do so. These have the same effect as increases in tariffs. In addition, sanitary and phytosanitary standards as well as technical standards for products have been tightened and often made difficult for developing country producers to meet.

3.3 The General System of Preferences and the Lomé Convention

The General System of Preferences applies to industrial and agricultural products, and in some GSP schemes complementary tariff preferences are offered in the framework of the special encouragement ruling in the social field and the environment, and extra preferences for products originating in the LDCs like Uganda. In the case of Uganda the GSP scheme of the EU, its major market, is not particularly relevant as the preferences offered under the Lomé Convention are more attractive, and the stability and contractual nature of the Convention generates greater predictability for its exports. For a review of the import coverage of GSP schemes and rate of utilisation by LDCs, see Background Paper Nine. Uganda is eligible for preferences provided by the GSP schemes of all developed countries.

The preferences received by Uganda from the EU under the Lomé Convention are more significant than in the GSP. The Convention offers duty free access for all manufactures and most agricultural goods, with preferences over other developing and all developed countries in the remaining agricultural goods. For fruits and vegetables, some seasonal controls affect exports at some times of years. Uganda (and Kenya and Tanzania) show much larger shares for coffee in its exports to the EU than in other exports (see Table 3.2). Prior to the Uruguay Round, Uganda had enjoyed preferences in these products. They are no longer important, but preferences remain important for fruit and vegetables. Fish and honey, which are also important exports for Uganda, are also sectors enjoying high preferences in the EU.

Overall the preferences provided by the GSP and the Lomé Convention are being eroded by the liberalization, especially in the industrial sector, achieved under the Uruguay Round. The preferences remain important for some products though such as textiles and clothing and certain agricultural products, in particular those benefiting from commodity protocols.

3.4 The EU Eco-labelling Programme

Uganda as other beneficiaries of preferences provided by the EU increasingly need to consider and adhere to environmental provisions on exports imposed by the EU as these measures become increasingly important standards. Also the EU scheme provides the opportunity to make use of a single 'green' marketing instrument throughout the whole of the European Union while compliance is only needed with one set of criteria. Regarding companies in Uganda and other developing countries, therefore, the advantages of adhering to the EU Eco-labelling scheme seem to outweigh the disadvantages.

The EU published a draft version of its Ecolabel in the textiles sector which seeks to established a wide integrated product policy that focuses on product life cycle analysis, producer responsibility, take back of waste, source separation of waste, energy taxes and rules for green procurement procedures. The scheme is designed to approach the environmental impacts and improvements more holistically as well as creating a solid foundation for sustainable development. It is expected that after its revision, it will also cover services, and other interested groups such as industry, environmental groups and consumer groups from outside the EU will play a greater role in the decision-making process. The Commission is proposing to lower the fees companies have to pay in order to obtain the EU Ecolabel. See also Background Paper seven, which provides an overview of the environmental challenges in exporting to the EU.

The draft textile proposal consist of: the textile clothing which consist of at least 90% by weight of textile fibre; the interior textiles products for indoor use, consisting of at least 90% by weight of textile fibres, but excluding floor-coverings; and the yarn and fabric for use in textile clothing or interior textiles. This is aimed at promoting the reduction of water pollution related to the key process in the textile manufacturing process including fibre production, spinning, weaving, knitting, bleaching, dyeing and finishing.

Over 160 products from 20 different manufacturers now carry the EU Ecolabel scheme. However, the EU Ecolabelling scheme is presently undergoing a revision with the objective of making the system more market-oriented and more appealing to European, but also to non-European companies. The exercise will allow differences in local production methods, the lowering of tariffs for participation (especially for developing country manufacturers) and improving the clarity of the system. The different types of ecolabels including the following:

- traditional labels which are official national ecolabelling schemes operating much the same way as the EU scheme;

- fair trade labels which focus mainly on the labour and living conditions of the workers/employees who produce the product in question. However, environmental issues play a (minor) role within the scope of these labels, which focus on products, which are more or less natural/renewable. These labels affect such products as fruits, vegetables and certain textiles;

- labels of organic production which focuses mainly on agricultural produce and fruits, vegetables, flowers and plants in the widest sense; and

- product specific labels, which focus on environmental aspects of one product, group only such as the forestry products.

3.5 Access to Information

This is one of the crucial factors that promote export performance of countries. Normally, this information can be obtained from the Chambers of Commerce, International databases, export promotion organisation and the Internet. In fact, the Internet is the fastest, biggest and easiest way of marketing the country's products. One can get information about countries, markets, potential clients and competitors from this source.

Exporters in Uganda are seriously constrained in terms of the amount, quality and usefulness of the trade information available within the country from traditional sources. Technical and financial constraints have meant an under-developed trade information system. Various donor-supported projects are underway in all three countries to try and address this problem, but speedy dissemination of appropriate information has a way to go before it satisfies the needs of the exporting community. Access to information should be improved even via the internet or other multimedia sources and private or public databases. As well, the availability of traditional information sources should be easier accessible to exporters. Information is the key issue in the trading world, and particularly in respect to small and medium scale exporting enterprises from developing countries.

3.6 Possible Future Changes in International Trade Access

The prospective sources of changes in trade access include the next WTO round of negotiations expected to begin in 2000, following the ministerial conference of November 1999 or the negotiations mandated within the built-in agenda. They also include the reform of the ACP preferences (due 2000, although likely to be postponed until 2005), the proposed US initiative for Africa, and, later and to some extent dependent on these, any reforms when the GSP schemes of the US, EU, and Japan come up for renewal.

The next WTO trade negotiation round(s) should include agriculture and services, but other matters will have to be negotiated among the members. Further agricultural liberalisation is expected, and could reduce the preferences available in the EU to Uganda; if the distribution of benefits is similar to the first reduction in protection in the Uruguay Round, Uganda is likely to lose, on balance. If there are further reductions in tariffs in manufactures, again Uganda will lose preference, but the remaining preferences (except in products like clothing and shoes that attracts peak tariffs) are small, so there is little left to lose. In both agriculture and manufactures, Uganda may gain in non-EU markets because it seems likely that there will continue to be increased preference for LDCs. In all these cases of reduced preference, there is an unquantifiable advantage in encouraging countries to diversify their markets away from the high dependence on the EU. This is particularly important for Uganda.

The current proposals for reform of the Lomé convention from the EU are to offer ACP members a choice: to move to a ‘free trade’ arrangement with the EU, with each region of the ACP countries signing a separate agreement or to revert to normal GSP status. The LDCs from the ACP Group can opt for Lomé-type non-reciprocal preferences, which the EU would offer to all LDCs. In the first case, Uganda, as a member of an EAC or COMESA agreement with the EU would keep the same access to the EU. (The EC believes that the free trade arrangements would be sufficiently prepared to meet the WTO's requirement that any FTA cover 'substantially all trade': this would need to be tested by the WTO review procedure). However, Uganda and other members of the grouping would offer reciprocal preferences to the EU and open up to competition with EU producers. In the other case (shown in Table 3.10), Uganda would keep effectively the same access.

The LDCs like Uganda are intended to have the equivalent of full Lomé access, except for rules of origin; they do not have this yet, because the EU has not completed the adapting of agricultural access, but it is promised. In contrast, Kenya would lose the difference between GSP and Lomé access (subject to any reforms of GSP). This would be particularly important in horticultural products and coffee. (Although there is no tariff on unprocessed coffee, on processed it is 9-12%, even allowing for GSP preferences).Table 3.10 gives estimates of the effect by product. All ACP Group LDCs such as Uganda would gain share because of this loss (and any losses incurred by other non-least developed ACP countries, which did not sign agreements with the EU).

Any reform of GSP could counter (some of) the loss of preferences to be incurred in a new multilateral trade round of negotiations (or from the end of Lomé), but it is impossible to speculate which products would be most affected. The Africa Initiative could increase the preference margin in the US market.

3.7 Conclusion on Market Access

Table 3.10 gives the direction of change, by product, for each of the changes discussed in this section, and Table 3.11 attempts to distinguish these by destination (not including the potential effects of a new multilateral trade round or the reform of Lomé). In most products, the most prominent effect is loss of preference. Only manufactured products exported to developing markets are spared. This is particularly important in explaining the negative effects in the EU market. As all African countries including Uganda had virtually free entry to that market, they could only lose from either reduction in protection against other suppliers or changes in the regime for them. This is most important for African countries given their high share of exports to the EU.

The picture is mixed where there are reductions in tariffs, which affect them. Notably the US reductions in tariffs on clothing and other products where GSP preferences are small or absent in the Uruguay Round and reductions by other developing countries could offset the loss of EU markets faced by African countries. The clearest improvement would have been in the East Asian markets, if it were not for the reduction in their imports in the last two years; this could be important when they recover, if Uganda and other East African countries can increase the very low shares of these markets. The loss of preferences does encourage diversification, which will make Uganda less vulnerable to changes in policy or economic crises in a single market in the future.

Table 3.11: Effects of changes in the Trade regime by Destination

Measures Products	**Share in exports**	**EU**	**US**	**Japan**	**S. Asia**	**East Asia**	
						In UR	**In Crisis**
Coffee, Tea							
Kenya	42.2	-					-
Tanzania	24.7	-					-
Uganda	78	-					-
Tobacco							
Tanzania	4.8	-	-				-
Uganda	1.9	-	-				-
Petroleum Products							
Kenya	4.5	-	-				-
Machinery, transport, metals							
Kenya	10.3	-	-			+	-
Tanzania	4.8	-	+			+	-
Clothing, text							
Kenya		-				+	-
Tanzania	2.4	-	-			+	-
Uganda		-	-			+	-
Veg oils, etc							
Kenya	7.4	-	+	+		+	
Uganda	2.1	-	+	+		+	
Cotton							
Tanzania	18.4	+	+			+	-
Uganda	3.2	+	+			+	-
Fruit, veg, flowers							
Kenya	7.3	-	+	+		+	-
Tanzania	2.8	-	+	+		+	-
Uganda	0.8	-	+	+		+	-
Nuts, honey, spices, essential oils							
Tanzania	10	-					
Uganda		-					
Seaweed							
Tanzania							
Fibres, sisal							
Tanzania							
Fish							
Kenya	3.2	-				+	
Tanzania	5	-				+	
Uganda	4.6	-				+	
Hides, leather, footwear							
Kenya	2.8	-	+	+			-
Uganda	5.5	-	+	+			-
Jewellery							
Kenya	3	-	+	+		+	-
Tanzania	2.5	-	+	+		+	-
Building Materials							
Kenya	2.5	-	+	+			-

3.8 Review of Market Opportunities Review for Exportable Products from Uganda (and other East African countries)

3.8.1 Hides and Skins

There is always demand for hides and skins but the supply is limited as the quantities depend on the size of the livestock in each country. National production in almost all EU member countries is not sufficient to cover local demand for leather. There is a growing need for variety and (high) qualities in leather. Some important supplying countries such as Argentina, Brazil, Pakistan and India have export restrictions in order to build up their own leather industry.

The market for hides is therefore a highly competitive one and EU tanners are always exposed to the fluctuations in the availability of hides and skins. For instance, in 1995 the world production of raw hides and skins amounted to 5,835 thousand tonnes. The main consuming industries are upholstery of furniture, shoe and leather goods. EU is the main supplier of leather goods in the international market. Of this group, Italy accounts for half in volume and value. In 1997, Italian leather goods production was ECU 2, 275 million. Other producers include Spain, Germany, UK and France while Portugal is a fast growing country for upholstery leathers. EU is the world`s largest market for footwear, and the most important producing countries re Italy, Spain and France.

Upholstery industry is a growing market for hides and skins, especially the upholstery of automobiles. Upholstered furniture consumed 13% of the EU tanners' output. There are opportunities for hides from developing countries in the lower quality furniture segments. Leather goods industry (bags, belts, luggage, briefcases, wallets, etc.) take about 18% of the total EU tanners' output. German is the largest importer of leather goods. Like the shoe industry, production has shifted to Eastern Europe and Asia and leather goods are imported at low prices. However, EU tanning sector has lost production of over 1000 units and about 30000 employees since the 1980s, especially in the Northern countries such as Germany.

The future of EU leather industry will lie in the high quality leather segment; more investments in high technological equipment and new techniques are necessary. Tanners sometimes specialise in particular niche markets, which require good design and an ability to anticipate consumers' needs. But some markets are out of reach for EU tanners because of trade barriers to the resources as well as to market access. Export restrictions are furthermore often combined with dual pricing policy which is aimed at keeping the cost of raw hides and skins artificially low for local tanners. The EU leather industry and the WTO are currently taking political counter measures.

There are opportunities in some countries:

- Netherlands: the largest consuming industry is the upholstery of furniture which takes about 58% of the turnover, followed by the shoe industry (30%) and the leather goods industry (10%). Netherlands imports such hides as bovine, calfskin, lamb and sheepskins. Reptile skins are not allowed. However, imports from developing countries are still very low.

- Italy: There are market opportunities for exporters in Italy for leather goods and upholstery leathers, but only for the medium-low quality ranges at extremely low prices. High quality calfskin and goat suede is expected to stay in demand in this market. In the Northern EU countries, the clothing and leather goods sectors have become less important consuming sectors; these countries are expected to further specialise in the production of shoes. This is an opportunity for developing countries.

3.8.2 Textiles

There is positive growth for textile exports between EU and non-EU countries. Product analysis shows that export value increased for most textile goods. This trend is reflected in some of the items as shown below:

- silk velvets (+28%);
- yarns and continuous yarns (+18%); and
- prepared fibres, excluding carded or combed man-made fibres (+17%).

All EU member states in 1997 registered textile import increases ranging from Germany's +7% to Spain +37%. Italy, Ireland, Greece and Portugal had growth rates between 21% and 29%. France, Belgium, Netherlands, UK, Denmark and the three new members (Austria, Finland and Sweden) registered increases between 11% and 19%.

3.8.3 Horticultural products

Production of high quality produce is no longer sufficient in itself in order to maintain a place in the EU market. Food hygiene, pesticide residues, food additives and packaging waste legislation must also be addressed. However, problems may occur such as incomplete phytosanitary documentation or wrong quality-class labelling or product. The major markets are Western Europe (50%), USA (40%) and Japan (10%). Developing country suppliers hold about one third of this market. For almost all the major products, these markets are verging on oversupply, notably: bananas, citrus, orange juice and tomato paste. But prices are falling in real terms. In the highly competitive environment, the exporter must target his efforts on those products or markets with the strongest opportunities to achieve the fastest growth rates.

(a) Distribution

In the Western Europe, the supermarket sector dominates in the northern half of the continent, holding about 85% of the market in Scandinavia, 60% in Germany and about 55% in France and UK. There are about five significant chains in each country. These are the most powerful link in the production/market chain, setting the standards and have formidable buying power.

Northern Europe is the primary import market in the world for fresh and processed horticultural products. Although there has been a decline in generalised grocers, the number of delicatessen shops catering to luxury eating habits has expanded. The catering sector accounts for only about 15% of sales, but it is expanding.

The southern half of the European continent is still a relatively poor import market; supermarkets have, at present, only a limited share of the markets. Consumers prefer locally grown fresh produce sold in market stalls and via small, independent shops. In the longer term, southern Europe is expected to expand as an import market with de-seasonalising of demand and the development of the supermarket sector. Europe is largely self-sufficient in vegetables, but imports large volumes of fruits and fruit products from Africa as well as Central and Southern America.

(b) Trends in international trade

Trends in international trade of horticulture have included the following:

- consolidation of production, processing and exporting into larger and more professionally managed enterprises;
- a decline in the importance of small-farmer production;
- the continued shift to lower-cost transport modes, e.g. from airfreight to sea freight;
- vertical integration of the marketing chain, both through forward and backward linkages;
- the impact of food safety legislation on production techniques, quality assurance programmes and post-harvest handling techniques;
- continued pressure importance of value-added products;
- exploitation of higher-priced niche markets;
- development of independent quality inspection and quality assurance services;
- targeting of sales on the higher prices supermarket sector, the expanding food service sector and on the development of new markets; and
- continued development of new varieties, new products and new production technologies.

Production of cut flowers all over the world is increasing. But developing countries are focusing on the EU market. However, over supply tends to affect the market. The Netherlands is the biggest importer of cut flowers in Europe. Other main importing countries in Europe are Germany and UK. These three together account for about 85% of the total imports. In this scenario, imports from Kenya and Tanzania in 1995 rose significantly between 1991 and 1995 by 33.0 % and 1.3% respectively. In the other group, Uganda and Malawi experienced the highest growth. (Table 3.12 below).

Table 3.12: Netherlands cut flower import (' 1000kg)

Country	1991	1995	%
Kenya	13 864	17.244	33.0
Tanzania	178	683	1.3
Other (*)	3041	3670	7.0

NB * include Uganda

Opportunities exist for exporters who can supply average quality products at the lowest prices. This will necessitate innovation most especially in distribution such as counter trade to better utilise shipping, bulk transportation, etc. However, very large investments must be made in order to improve the distribution of fresh fruits for their processing.

(c) Market trends in Europe

The horticultural market in Europe has seen an ever-accelerating pace of change over recent years. Throughout Europe the consolidation of the industry has occurred through business mergers and take-overs, creating larger, more sophisticated produce-handling and marketing companies. A number of factors have influenced the horticultural market trends in Europe.

One factor is consumer behaviour. Consumers throughout Europe are interested in convenience, healthy eating and freshness of food as evidenced by the demand for leafy vegetables and salads in pre-packed and semi-prepared presentations sold through supermarkets. Just emerging is a re-awakening interest in flavour.

Another factor is Phytosanitary legislation and quality standards. Phytosanitary measures and quality standards may be regarded as the "traditional" legislation in relation to horticultural exports and most exporters will be very familiar with these requirements. But quality-class labelling of product. Such things result in delays at the port of destination or in destruction of the product at considerable cost to the exporter.

Yet another factor is Food safety and hygiene. EU legislation covers all forms of contamination including bacteria, chemicals, pests, glass splinters, metal pieces, etc. This legislation holds the supplier responsible for any food safety problem unless due diligence can be demonstrated. This includes the identification of the detailed procedures and checks to ensure food safety and the traceability of product and the maintenance of appropriate documentation and records.

Pesticide residues and food additives are another factor. This is covered by the food safety legislation, which has to ensure that the maximum residue level in each product is adhered to.

In addition packaging waste is a factor. There is a legislation on management of packaging and packaging waste which set the target for re-cycling and recovering (i.e. by energy recovery) of packaging waste by the year 2001. National targets and schemes vary within Europe and this is an area where exporters need to be alert. Implications for exporters include the need to use the minimum of packaging and to select re-usable (e.g. returnable plastic trays or re-usable pallets) or recycled packaging for their products. Care is required to ensure that any increased costs borne by an importer due to the particular packaging supplied with the product do not reduce the competitiveness of the exporter.

Looking ahead, in response to consumer concern on food safety and particular sensitivity to pesticide use, new initiatives are beginning to emerge, designed to maintain consumer confidence in the industry as a whole. This is being achieved through the launch of accreditation schemes open to all growers. This scheme provides independent accreditation against crop production protocols based on integrated crop management principles.

3.8.4 Edible Nuts

The cashew nut is grouped under the 'edible nuts' family which also includes almonds, Brazil nuts, desiccated coconut, macadamia nuts, groundnuts, hazelnuts, pecans, pistachios and walnuts. As an example of the demand for such products in the European market, the consumption of edible nuts on the Dutch market is steadily increasing due to their growing demand as a luxury nut mainly in supermarkets. Recent research reveals that the total market for pre-packed peanuts and other nuts in the mid-90s amounted to 238 million guilders. Luxury nuts like cashew nuts, pistachios and various mixes accounted for 71 million guilders.

The growing popularity of repacked luxury nuts is being attributed to a growing preference by the European consumer for quality products, which are healthy and taste good, but also for products, which are convenient and have an air of 'adventure'. The luxury nuts product group satisfies this demand at varying levels and demand for this category has remained strong and constant. As far as the overall range of nuts is concerned, there is a clear shift from peanuts to luxury nuts. In terms of individual nut awareness and consumer purchase the cashew nuts ranks second after peanuts. In terms of awareness, cashew nuts ranks fifth after peanuts, walnuts, hazelnuts almonds and coconuts.

3.8.5 Spices

Trade in spices amounts to between 400,000 tons and 450,000 tons annually, valued at US$1.5 billion to US$2.0 billion. In the late 1980's and early 1990's, the value of this trade tended to stagnate because of low prices for almost all spices. The level was primarily a reflection of excess supply and recession conditions in the major markets. In the mid 1990's prices improved somewhat but are still a distance from the higher figures prevalent in the mid-1980's.

North America and Western Europe continue to be the two leading importing regions for most spices. The USA is the world's largest individual market for spices. The Canadian market is relatively small compared with the United States. In 1994 countries of the European Union imported 195,801 tons valued at US$ 444.4million. Germany is the largest market in Europe for spices and the second largest in the world after the United States. It imports over a third of the total shipments of spices going into west European countries. Next in line are Spain, France and the United Kingdom The other main European spice importers are Austria, Finland, Norway, Sweden and Switzerland.

The former USSR and the former socialist countries of Eastern Europe were significant purchasers of pepper from India and pimento (allspice) from Jamaica prior to the major changes in that region. After a sharp decline, spice imports into these markets have shown some recovery albeit at present the demand picture is not clear.

Countries in North Africa and the Middle East, in particular Saudi Arabia, have accounted for a substantial and increasing share of the international spice trade in recent years. Other countries in the region are also significant importers. Saudi Arabia purchases cardamom and pepper in particular.

The major importer of spices in the Asian-Pacific region is Japan, the third largest spice market in the world. In 1994 Japan purchased 87,796 tons of spices valued at US$137.2m. Other out lets for spices in the region are Australia and New Zealand. Although Singapore and Hong Kong consume small quantities, Singapore is important in the entrepot trade.

3.8.6 Oil Seeds

Major oil seed product groups imported by the EU are groundnuts, soya beans, sunflower seeds, sesame seeds, rape seeds, palm kernels and hemp seeds. Soya beans is the predominant product group being imported followed by rape seeds sunflower seeds and groundnuts.

The major importing countries within the EU are Germany and The Netherlands. Together they account for almost half of the total volume and value of imports by the EU. Belgium, Luxembourg and Italy show stable growth, whereas the UK and Portugal lost some ground.

The major proportion of the imports by EU countries originates outside the EU. Extra-EU trade is dominated by soya bean imports (mainly originating from USA, Brazil and Argentina). Imports from developing countries mainly consist of soya beans from Brazil, Argentina and Paraguay. Developing countries lost ground on almost all product groups in the early 1990's except for sesame seeds. A new share was gained with respect to rape seeds. Almost all of these supplies came from Panama and were destined for France. Sunflower seeds and rape seeds are the only product group dominated by intra-EU trade.

3.8.7 Tobacco

Tobacco advertising ban imminent in EU, probably towards the end of 2001. This affects cigarettes and other tobacco products whose advertisement will disappear from the streets and underground stations as well as from the radio. A year later, the advertisement will vanish from newspapers and magazines. The advertising of tobacco products on TV was banned already in 1989 by the European directive. There will be a total ban on the free distribution of tobacco products.

New market opportunities are opening up in the former centralised economies of Eastern Europe, Russia and some Asian countries for tobacco products.

3.8.8 Cotton Grey Cloth

The United Kingdom, Germany, Italy and France, are reportedly the most important markets for grey cloth in the EU followed by the Netherlands and Belgian. The Netherlands market takes a share of 4 percent of total EU consumption.

Consumption of cotton grey cloth takes the lion's share of the total consumption in The Netherlands. Although the consumption of cotton cloth declined in 1993 when compared to 1990 (by more than 30 percent), it accounts for 36 percent of total consumption. Synthetic filaments are ranked second at 29 percent, followed by synthetic staple fibres at 23 percent. Unfortunately, there are no figures available for artificial filaments.

The preference for the use of cotton is still manifest. In particular, the eco-trend reinforces the demand for natural products. As such, a clear trend can be observed in The Netherlands towards more consumption of eco-cotton and other natural fibres.

The clothing industry, the home furnishings industry, the technical textiles industry and the household textiles industry process Grey cloth. The most important buyers of grey cloth are the home furnishings industry and the clothing industry. The decrease in these markets directly influences the market for grey cloth. The market for these fabrics is strongly dependent on consumer spending. Between 1990 and 1993 the sales of clothing and home furnishing textiles dropped considerably. Between 1990 and 1993 sales of fabrics to the clothing industry dropped by 15.6 percent to Dfl. 588 million. Sales of home furnishing fabrics dropped by 13.8 percent to Dfl. 401 million in the same period. The recession in the EU during the early 1990s was the major determinant. Besides that, sales dropped due to international competition, unfavourable exchange rates and unfavourable developments of labour costs.

The biggest decrease in sales occurred in the sales of household textiles. The production of household textiles, which was already relatively modest, further declined by 21 percent to Dfl. 120 million between 1990 and 1993.

Table 3.13: Fabric Sales in the Netherlands, 1990-1993 (by Dfl. million)

	1990	**1991**	**1992**	**1993**	**1990-1993%**
Total	1,795	1,840	1,724	1,566	-12.8
Clothing fabrics	697	698	649	588	15.6
Home furnishing fabrics	465	471	455	401	-13.8
Technical textiles	334	340	314	285	-14.7
Upgrading activities	147	183	165	172	+17.0
Household textiles	152	148	141	120	-21.1

Source: Textile Association (KRL)

The above reflects that cotton fabrics are the most important fabrics. The main demand for cotton fabrics comes from the clothing industry. The second most important consumers of cotton cloth are the producers of household textiles and made-up fabrics.

A great deal of unfinished fabrics is delivered to the clothing industry. Therefore, the demand for grey cloth is directly influenced by demand in the clothing industry. The import of grey cloth in the Netherlands declined in the early 1990s. Between 1990 and 1992 the import declined by almost 26 percent in value from ECU 277 million to ECU 205mn. The import volume decreased by 17% from 60,655 tonnes to 50,166 tonnes. However, more recent market trends reveal an increasing import of grey cloth.

3.8.9 Clothing

In 1996, EU clothing industry recorded the lowest production levels. But, preliminary data available for some EU members indicate a further growth for 1997 and 1998. In spite of the fall-back in German consumption of clothing, Germany remained an extremely attractive market for clothing exporters. The German consumers are the second largest spenders on clothing in the EU after neighbouring Austria. Belgium and Denmark are ranked three and four in total clothing consumption per country. Fewer consumers are Italy, France and UK.

Besides independent stores with usually one single outlet, there are clothing chains, department and variety stores, super- and hypermarkets and mail-order companies. The decreasing market share of independent stores indicates an increased concentration of organised retailers. Other trends include increasing cross-border activities; continuing pressure on retail prices; growth in market shares of specialist clothing chains and (non-specialised) super- and hypermarkets and the introduction of new technologies.

3.8.10 Fishery products

The EU made a broad decision that only fishery products issuing from a restricted list of countries can be authorised for import into the EU. EU consumption of fishery products has increased in recent years. The increased popularity can be explained by higher sales of smoked fillets (particularly of trout, mackerel and salmon) and a wider marketing of fishery products throughout Europe. Also, fish is increasingly used in ready meals, the latter being one of the fast growing food markets. The Spanish and Italian markets are the largest in Europe in terms of volume – accounting for more than one fifth of the total fish consumption. These are followed by France and Germany who account for about 15% of the volume.

(a) Market patterns and trends

To exploit the fish market in Europe, the following factors need consideration:

- fishery products are associated with healthy food and are regarded as a substitute for meat;
- consumers appreciates quality more and more, hence are willing to pay a higher price for this commodity;
- fishery products are convenient since most of them are quire easy and quick to cook;
- residents in the EU have a relatively higher income, hence they can afford fishery products; and
- portioned fishery products are gaining popularity in the catering sector and the fish-processing industry.

(b) Production

Over-fishing has resulted in Europe as a consequence of the big demand for fishery products in Europe. Meeting this demand has led to over-fishing and had a dramatic effect on many species, resulting in both environmental and economic costs. Different measures have been installed including quotas on fish catches leading to decreasing landings. As a result, the fishery industry is forced to rely on alternative production methods such as deep-sea fishing and aquaculture to cope with the strong demand.

(b) Imports of fish

These are strongly influenced by the restrictions on catches imposed on the EU fishing industry. Hardly any fishing industry in Europe even approaches satisfying the domestic demand and it is expected that Europe will become more dependent on imports due both to restrictions on landings and the rising consumption levels. For instance, the EU in 1996 (excluding the three new member states of Austria, Finland and Sweden) imported almost 5.6 million tonnes of fishery products. Spain is the largest import market in terms of volume followed by France (the largest import market in terms of value) and Germany.

Developing countries are leading exporters of fishery products. This consists mainly of warm-water species from tropical areas. This shows that products from developing countries have an easier introduction on the European market if they can serve as substitutes for local species. For easy access to EU market, quality is the key.

(d) Reference prices

This was laid down for a selected number of fishery products. However, the reference prices do not have a binding status and third countries are allowed to export below the reference prices. But if large volume of fishery products continue to be imported below reference price, the EU will set the reference price(s) as the minimum import prices. However, the possibility to use this measure (as a form of protection for the EU market) is considerably restricted by the regulations of the WTO.

3.8.11 Coffee

Since the beginning of the 1990s coffee has struggled to maintain the pace of growth in consumption that it enjoyed over the past several decades. As the international coffee market continues to experience considerable volatility, many exporters and roasters are rethinking the way in which they conduct their business. The rapid increase in consumer prices of standard quality coffee during the 1994/ 1995 coffee year has not only reduced total offtake but in some instances has resulted in a decline in the quality of coffee that is purchased. Against this background, the "gourmet and speciality" segment of the coffee trade is showing growth in a number of importing countries.

The US and Japan, the latter for canned coffee, are the leading innovators in this segment. "Speciality" coffees account for about 16% of the US. retail market, and market sources suggest that this could rise to as much as 30% by the end of the 1990’s. But it would appear that the rise in speciality sales in the United States is largely at the expense of "other" coffees, as overall US coffee consumption has not risen.

In Japan and elsewhere in Asia the picture is quite different in the sense that speciality coffee is gaining new customers and creating demand for coffee where previously coffee sales were non-existent or very low.

The realisation that well presented "quality" coffees appeal to sophisticated and often wealthy customers has opened new doors and created new opportunities virtually world-wide for coffee exporters. The innovations and successes of the sector in the United States and Asia also affected the European market scene, even if in many countries in Europe quality standards for coffee have traditionally been high.

This "gourmet and speciality" segment of the market is therefore of great importance to producers, not only because of the price incentives it offers but even more so because it improves the image of coffee at the retail level. Consumption in the United States fell over a period of years because the quality and image of the traditional product was low. The speciality sector on the other hand has introduced novel ideas and new quality products and has therefore stimulated interest and thus new demand for coffee.

By improving and diversifying the product and by giving consumers the quality and choice to satisfy their individual preferences, the sector has set a new and positive course that helps to safeguard existing coffee consumption and may, eventually, lead to increased levels of coffee intake overall.

Trends in main markets show different prospects. Overall imports of coffee into the United States reached about 17 million bags in 1995, up from 1994 but a decline compared with the early 1990s. The speciality market in the country is growing strongly, however, and some trade sources expect it to account for as much as one-third of the market by the turn of the century, roughly doubling its current share, as mentioned above. Many small roasters in the United States have commenced operations to service the expanding speciality market. The three major roasters continue to hold a sizeable portion of the combined grocery and institutional markets, possibly 70%.

The level of coffee consumption has also declined in the last several years in a number of European countries, mostly because of high retail prices. This has been the case for instance in Germany, France, Belgium, Luxembourg and Denmark.

This downward trend could be reinforced because of current consumption patterns in the youth markets in Europe. In some countries, notably Germany and Denmark, young people are showing preferences for beverages other than coffee, for example cold drinks. (Typically, coffee drinkers are first exposed to coffee at an early age, but begin to consume coffee on a regular basis when they start to work.) Some observers however regard the interest of youth in speciality coffees as an offset to beverage switching. This particular interest in coffees such as expresso, cappuccino and mocha has spread, for instance in Germany, France, Norway and Netherlands. In Germany demand by young consumers in the speciality soluble segment is quite considerable and, therefore, positive for the growth of coffee sales.

The Potential for an increase in coffee consumption is particularly strong in Japan and other Asian countries. Quality is of great importance to Japanese coffee consumers. In the Japanese market many gourmet and speciality coffees are available. The coffee house segment is also expanding rapidly. Japan ranks among the leaders in product innovation, such as canned, iced and flavoured coffees. This trend in coffee consumption is spreading to other affluent Asian markets, for instance Singapore and Hong Kong.

This is the second most important world's commodity and is a very important trade product for developing countries. Uganda is among the most important exporting countries to EU. There is also a slight growth of coffee products such as ice coffee, espresso coffee and soluble coffees with different kind of flavours. Consumption of this product is confined to northern member states of EU, the most important being Germany, Italy and France.

3.8.12 Tea

The EU is responsible for 20% of the world's tea imports. About 90% of all tea come from developing countries. Of the above, Kenya account for about 30%. There is also an upward trend in terms of exporting tea to the EU from Tanzania. Areas of growth lie in particular market segments such as the flavoured teas for young, offering enough choice and complying with the need for variety and individuality of the 1990s. Other fast growing segment is the ready-to-drink tea (ice-tea), now having a penetration in the cold drinks market of 20%. There is also a growing interest among younger adults for single origins, healthy and organic teas. Almost every EU country is a very significant consumer of tea. Most countries are dominated by the tea bag bought at supermarkets. European tea markets have a highly diverse consumption pattern, that is, black tea and green tea markets. There is room in Italy for more tea given the low overall penetration of black tea and about 90 grams consumption per capita. The growth of the EU import volume was characterised by a shift from bulk to packed tea.

Main importing countries include UK, Germany and the Netherlands. New markets are East-European countries with their large demand for packed teas, blended or flavoured. In southern European countries, there is also room for growth since the awareness of tea is low and the interest in drinking tea as a usual drink, instead of as an exclusive English afternoon drink needs to be further developed.

However, constraints on exporting packed tea to Europe are found in difficulties for producers in developing countries to make blended tea of a similar constant quality, and at the same time, being preferred by consumers in one particular EU country or in more EU countries. There is a tendency to buy more blended tea, packed in the country of origin.

3.8.13 Costume jewellery

Costume jewellery is demanded by fashionable clothing shops and boutiques. The following are the rules of producing costume jewellery that attract customers:

- design : must fit in well with current trends and life styles;
- quality: perfect finish;
- reliability: consistent quality and deliveries on time;
- exclusivity: this refers both to design and to distribution channels;
- production capacity to fill orders; and
- speedy deliveries.

However, EU regulations stipulate that all plating has to be completely free of nickel and for the colours, no azo dyes are permitted. On packaging and distribution, suppliers are required to pack the jewellery in such as a way the order can be channelled directly to the distributors/clients. Suppliers are advised not to engage child labour.

The EU represents a very large market for jewellery and a total sales in the 15 member countries are estimated to account for about 30% of the world consumption (ECU 5 billion). Within the community, Italy and UK are the largest markets followed by Spain, Germany and France. Within EU too, the most pronounced differences in consumer taste are noticeable between the warm southern European countries and the cooler northern countries. The former are more extravagant in their choice of jewellery and favour more gold and brighter colours than their counterparts in the north whose taste is more conservative and dull and favours more silver and less extrovert design and colour. However, where high fashion jewellery is concerned, the distinctions between national markets are far less obvious, and young people's preferences are influenced mainly by international trends, street fashion and the media. Precious jewellery dominates the market in value terms accounting for 85-90%.

However, the fashion jewellery segment which includes imitation, costume and some silver jewellery is today a major global industry and trade. International trade in fashion jewellery has become a world business in the following three main ways:

- the development of fashion in costume jewellery closely follows that of the clothing sector. Seasonal forecasts reflect an assimilation of high fashion with, on the one hand, trends in shoes, American street crazes, sports TV/soap series and pop world and, on the other hand underlying contemporary influences such as at present spiritualism, simplicity and nostalgia for the 1960s and 1970s;

- there has been a major shift of jewellery manufacturing from European countries where the costs of production are relatively high to countries in S. E. Asia where factories today have the capability to design and produce excellent quality modern jewellery at very competitive prices; and

- the advance of travel, tourism and telecommunications has meant that both trade and consumers buy jewellery from sources all over the world.

3.8.14 Pharmaceutical products

Pharmaceutical raw materials & ingredients and medicinal herbs are also produced largely due to favourable climatic conditions. Parts of Kenya have similar climatic conditions as in Europe where many European medicinal herbs are cultivated such as camomile, peppermint leaf, garlic, thyme and fennel. Many fatty oils are available: olive, coconut, sunflower, caster and wheat germ. Products derived from starch are liquid glucose and pre-gelatinised starch, the latter being used for the disintegration of tablets. There is increasing demand for natural remedies, essential oils and organic compounds in the developed markets. Uganda as well as Kenya and Tanzania should look into the possibilities of developing this industry.

CHAPTER 4

CHALLENGES TO EXPORT COMPETITIVENESS

4.1 Trade Overview of Uganda and other East African Countries

On the export side, industrialised countries provide 46%, 82% and 39%, respectively of the destinations for the exports of Kenya, Uganda and Tanzania. Uganda thus appears to be quantitatively different from Kenya and Tanzania in that over 80 percent of all its exports are destined for the industrialised countries, particularly the E.U.

Developing countries account for almost half of all exports for Kenya (48%) and Tanzania (53%) and a modest 18% for Uganda. Two thirds of all of Kenya's exports to the developing countries is to other countries in Africa. COMESA accounted in 1996 over 20 % of all Kenyan exports, with the bulk of this destined for Uganda and Tanzania. The composition of Kenya's exports is as follows: Food and beverages account for 53 percent of total 1996 exports, reflecting among other things the continued importance of exports of coffee and tea. However, non-food industrial supplies constitute a sizeable 26 percent of exports and consumer goods another 13 percent. The residual 8 percent export share is largely accounted for by exports of fuel and lubricants.

From the import perspective, both Uganda and Tanzania are significantly dependent on trade with Kenya although bilateral Uganda-Tanzania trade is insignificant.

In contrast, COMESA countries in 1996 accounted for 12 % of Tanzania's exports and a minor 2% of Uganda's exports. Kenya's exports destinations contrast sharply with source of imports. COMESA accounted for less than 3% of total imports between 1990 and 1994 and declined to 1.7% in 1996.

Within COMESA, the major trading partners for Kenya are its East African partners. The significance of the East African market for Kenya is illustrated by the fact that the market accounts for over 60 percent of total exports to COMESA. Kenya is a major source of both Ugandan and Tanzanian imports, contributing 30 and 10 percent of the two countries' imports, respectively. As a proportion of its exports, the two countries provide a destination for over 16 percent of Kenya's total exports. However, reflecting the broader COMESA pattern, Kenya sources a negligible proportion of its imports from the two East African countries. This situation results in a significant imbalance in the intra-regional trade flows in East Africa. Ugandan trade with Tanzania is small at the present time with Tanzania sourcing only one tenth of one percent of its imports from Uganda, while Uganda sources 1.5 percent of its imports from Tanzania.

Uganda is generally self-sufficient in food and is regarded as a potential net food exporter of substance, but requires extensive imports of machinery, fertiliser and other inputs to raise yields and output. Manufacturing output contributes only 7% of GDP, but has been growing as a result of increased productivity and newly-invested capacity. However, manufacturing output is still heavily dependent on imported inputs. Some manufacturers are now dependent on imports for up to 80% of their inputs and many of them add little value to these intermediate goods.

Traditionally Tanzanian exports were concentrated in a few commodities like coffee, cotton, sisal, tea, cashew nuts, and tobacco that required little processing. Over time efforts have been made to diversify exports, and indeed in the mid-1980's non-traditional exports like petroleum products, minerals (including gold) and some labour intensive manufactures grew, only to fall back in the 1990’s. Traditional exports provided 57% of total exports compared to 52% in 1989. Manufactured exports fell by 10 percentage points of total exports over the same period.

It is important to recognise the implication or this structure of regional trade. First, Kenya faces a quantitatively different problem from that of Uganda and Tanzania because of the low share of imports from those two countries. Second, Kenya's imports from the two countries mainly consist of foods and raw materials, which face low tariffs. For both these reasons, reduced (harmonised) tariffs on these commodities would have a minimal effect on the overall level of Kenyan government revenues.

A COMESA or EAC simple harmonised external tariff (HET) has been recommended as a priority objective that could be accomplished by July 2000. Given the current tariff structures in the region this is a realistic objective that could be accomplished without adverse impact on revenue. Analysts have concluded that the current Ugandan structure of (0, 7 and 15%) has a number of merits that recommend it as a desirable common tariff structure for East Africa. The current Ugandan tariffs incorporate all of the objectives that governments should seek in a tariff harmonisation exercise in that they improve welfare, lower the landed prices of imports and also simplify the customs classification of imported goods.

However there is a real risk to successful integration which could arise from a hasty approach to the creation of a free trade area when both revenue and protection concerns have not been adequately incorporated into the decision. The application and gradual deepening of the COMESA preference over the past decade in the context of large intra-regional trade imbalances has already provoked a number of countervailing reactions that are inimical to economic integration. In this context, a longer phase-in period for the elimination of internal tariffs is required.

4.2 Terms of Trade for Uganda and other East African Countries

Table 4.1 below shows a catastrophic fall in the terms of trade and purchasing power of exports for Uganda and Tanzania. The Kenyan situation is also poor. All of the countries are worse off than they were in 1970. There has been improved purchasing power of exports for Uganda and Kenya in recent years as they liberalised, increased their export performance and adjusted exchange rates.

Table 4.1: Terms of Trade for East Africa (1980 = 100)

Country	Kenya			Tanzania			*Uganda*		
Year	**1970**	**1990**	**1994**	**1970**	**1990**	**1994**	**1970**	**1990**	**1994**
Terms of Trade	79	66	67	94	65	56	91	42	35
PP of exports*	100	69	97	187	71	43	273	35	96

* Purchasing Power of Exports
Source: Handbook of International Trade & Development Statistics, UNCTAD, 1995

4.3 Investment in Uganda and other East African Countries

Table 4.2: Foreign Direct Investment (FDI) Inflows to East Africa

FDI Inflows, in US$ million			
Host Country	1995	1996	1997
Kenya	33	13	40
Uganda	121	121	250
Tanzania	120	150	250
SSA	3,874	3,515	2,899
Africa	5,136	4,828	4,710
World	331,189	337,550	400,486

Source: World Investment Report, 1998 United Nations

Table 4.2 indicates that Kenya shows an erratic and somewhat low level of FDI in recent years, while both Uganda and Tanzania reflect increasing levels of FDI in response to their privatisation programmes and trade liberalisation programmes.

4.4 Uganda Trade Development Review

4.4.1 Trade Relations

Uganda, as noted earlier, is a member of a number of overlapping trade agreements including the WTO, COMESA, EAC, CBI, Lomé Convention and GSP. As an LDC it has considerable latitude in the observance of the rules of the MTS as laid out during the Uruguay Round. This has both positive and negative implications. From a positive perspective the country has a longer time frame to adjust to the new rules and to reach compliance. It also has considerable more latitude in the degree of compliance. However on the downside it has less of a motivational force to achieve compliance and its allocation of resources to MTS issues tends to be on the very low side. Internal knowledge of MTS rules, opportunities and threats is minimal except amongst a small group of individuals who have been involved in the Uruguay process or have attended workshops and the like. Such people tend to be in the academic and public sector, but also in the private sector.

Knowledge of the requirements of the Lomé Convention market access conditions are somewhat better known as exporters of a number of products target the EU market. Duty free access, documentation and market opportunities tend to be better understood by the business community in this respect.

The COMESA agreement is fairly well known and understood, again amongst that group of firms that have targeted the regional market. There is also a higher level of knowledge amongst the public sector and academia due to a fairly high level of involvement in COMESA meetings over the years.

The EAC is still in its formative stage. Naturally the knowledge of the other East African markets, particularly Kenya is well known by a broad section of Ugandan businesses that are involved in export and import trade. Due to the direction of trade, it is mostly importers that are dealing with cross-border trade with Kenya on a regular basis. Also the impact of the EAC is taking on increasing importance in the minds of both the public and private sectors as the three countries move closer to some form of customs union.The announcement that there would be zero tariffs between the three states by June of 1999 has brought trade issues into sharp focus. **See also Background Paper One on trade and investment prospects in the sub-region of the EAC.**

Knowledge of SADC as a “political” regional grouping is high, but there is little knowledge of the terms and implications of the SADC Trade Protocol.

4.4.2 Current and Future Competitiveness

Uganda has the following major traditional exports in order of importance: coffee, cotton, tea, tobacco and with tourism equal 60% of total export revenues. Major non traditional exports are: beans and other legumes, hides and skins, cut flowers (mostly roses), sesame seeds, soap, bananas, and cocoa beans. No other products achieved more than US$1 million of export value. Fastest growing sectors are cut flowers, gold, and cotton. Fish has good potential but has been hurt by EU NTBs. Products that may have some potential in the not too distant future include spices (ginger and vanilla), and plant cuttings. There is potential for exporting essential oils.

Exports increased slightly during the first six months of 1998/99 compared to the same period of 1997/1998 but are still sell below the levels achieved in 1996/97. Coffee receipts have recovered from the extremely poor performance in 1997/1998 despite the fact that the onset of the coffee season was delayed until the second half of November. Coffee exports also benefited from the small increases that occurred in world coffee prices following the destruction of the Central American coffee crop by a hurricane. Conversely, receipts from non-coffee exports declined during the first half of 1998/1999. Improvements in fish, maize and flowers exports could not compensate for the significant deterioration in cotton, tea, tobacco, hides and gold exports compared to the levels achieved in the first six months of 1997/1998.

Manufactured exports are currently only between 2 and 3 per cent of total exports and the product composition is both narrow and rudimentary. The main items are soap, hoes, hand tools, axes, plastic materials, cement and building materials, clothing, petroleum products, milk, beer, shoes, soft drinks, tobacco products, mattresses, furniture and blankets. The bulk of the output from the manufacturing firms is consumed domestically while the bulk of the inputs used in the production process are imported.

Many of the non- traditional exports are still agro- related products. Fish has of late gained prominence and also involves some degree of processing and there is considerable scope for increasing production as well as exports, especially if health standards can be assured. The main products are currently fish fillets, fish maws, fish oil and fish skins. There are 12 fish processing firms at the shores of Lake Victoria and about 50 per cent of these firms meet the EU directives regarding health and related standards. The processing activities require a comparatively skilled labour force, however, wage costs are still significantly lower in Uganda hence giving fish a competitive advantage.

Manufactured exports are mainly sold in the COMESA area of Tanzania, Sudan, Rwanda and Zaire. This market penetration has mainly been a result of several factors:

(i) donors and relief agencies have tended to buy most of their products for supply to these areas from Uganda;

(ii) there has been an inability of enterprises within the importing countries to satisfy domestic demand at competitive prices; and

(iii) these frontier markets also offer a cost advantage in the form of relatively low transport and delivery charges from producers in neighbouring Uganda. These areas include Southern Sudan, Northern Tanzania and Eastern DRC.

Regional trade has been characterised by narrow commodity structure while the possibilities for expanding the product range of exports of manufactures appear limited in the short to medium term. There is however possibilities for further penetration of regional markets especially because there has been a growth in regional demand for Ugandan products arising mainly from improvements in regional market access conditions and the impact of regional IMF/WB led liberalisation policies. (See also Annexe III).

4.4.3 Positive Factors for Competitiveness:

- Climate, land and water for agricultural production;
- Improved power supply in medium term;
- Increasing sophistication of the private sector;
- Open economy with low barriers to entry;
- Dynamic tariff regime;
- Reasonable access routes to East African markets; and
- Duty-free access to major international markets.

4.4.4 Negative Factors against Competitiveness

- Low level of skills in general workforce;
- Small domestic capital base for investment;
- Expensive transport routes to international markets;

- Limited direct air access to international markets;
- Domination of imported manufactured products affecting local production capability;
- High utility costs;
- Bureaucracy still prevalent in administration of international business transactions;
- Lack of credit for working capital needs;
- Limited diversification of exportable products;
- Limited knowledge of regional and international markets;
- Poor market information flow;
- Limited knowledge of pros and cons on trade agreements;
- Limited technology transfer to increase value added production; and
- Weak linkages between various sectors of the economy.

4.4.5 Specific Export Constraints

"A sizeable proportion of Uganda's exports are currently destined to the European Union. However, the exports are still limited both in size and composition making market preference erosion at best of minimal consequence to market access limitation. The extent of preferences erosion for Uganda's principal exports to the European Union market has been negligible mainly because of constraints in the supply capabilities of Uganda's export enterprises. This has particularly been manifested by the inability to benefit from improved access to non-European Union markets. Even if there was a possibility that higher levels of demand for products exported by Uganda could result from the income effects of multilateral trade liberalisation, the issue of supply constraints still needs to be addressed.

The poor infrastructure development, the lack of manufacturing competitiveness and the limited provision of market information appear to be the key constraints to market access. These can be expanded to include weak technological capacity, weak entrepreneurial capacity, paucity of long-term finance, high transport costs, expensive trade credit and pre-shipment finance, inadequate legal and regulatory frameworks, lack of a coherent strategy for export sector development, deficiency in physical infrastructure as well as the weak enabling institutions."[5]

The key constraints restricting the ability for Ugandan enterprises to be internationally competitive were as follows according to recent surveys of the business community:

- Lack of trade finance;

[5] Trade Policy, Manufacturing Efficiency & Exports in Uganda's Liberalising Economy, AERC, 1998

- Inadequate government policies;
- Poor infrastructure and transport constraints;
- High taxes;
- High cost of production;
- Corruption;
- Inadequate human resources;
- Poor access to international markets;
- Tariff and NTBs in target markets;
- Inadequate international marketing management skills; and
- Low technology and product development.

Uganda needs to actively take advantage of the market access conditions created through the URA."Taking advantage of the new opportunities can be done through the pursuit of appropriate outward trade and domestic policies to improve both the export as well as domestic competitiveness of the enterprises. In line with this argument, the official market access Uruguay Round strategy for Uganda has involved helping the authorities, enterprises and business persons to develop and pursue outward looking policies, improve export competitiveness of enterprises and projects. However, due to inadequate level of both physical and financial resources, government organs as well as business enterprises have not be able to take full advantage of the special measures and more favourable treatment provisions contained in a number of Uruguay Round Agreements.

The Ministry of Tourism, Trade and Industry is yet to increase sufficiently the awareness of the Ugandan public of the domestic legal, regulatory and institutional means through which they would defend or safeguard the country's rights in the trading system."[6]

It is particularly worth noting that high tariff protection in Uganda's key international markets have not been a significant barrier to entry. However NTBs such as SPS requirements have and continue to take on an increasingly important role in restricting market access.

Most of Uganda's agricultural exports are free of duty in its major markets, and all minerals and metals product exports face very low tariffs. The products also receive above average tariff preferences due to the Lomé Convention with the EU.

"Uganda also has preferential access to developed country markets under both the generalised system of preferences applied by all the industrialised countries as well as under the frame work of the LOME convention. Kol and Kujiper (1998) however point out that the

[6] Ibid.

level of preference these products meet in developed economies were very low since they already meet very low tariffs or are duty free. Export diversification into processed traditional products such as coffee extracts, cocoa pastes and vegetable oils are not subject to steep tariff escalation. In addition the market for processed agricultural products increased by 2.5 times in the period 1980-1992 than those of basic agricultural products (Kol 1998). Uganda needs to explore opportunities for reaping benefits from this expansion. This however does not ignore the point that on average, tariffs tend to be higher on processed than primary commodities resulting in tariff escalation. This is a characteristic of product chains involving fish and fish products, leather and leather products- putting obstacles to efforts by Uganda to diversity it's exports into higher value added and particularly manufactured products and to engage in sustained export led growth”[7]

Uganda's exporters especially of food related items frequently have problems in meeting technical regulations, product standards and SPS measures in their main export markets in the developed countries. These regulations and standards are thus likely to be more important determinants to market access that tariffs. The ability of countries like Uganda to produce and certify products to international standards will be of increasing importance.

“To increase market access, there is need to provide support for high value exports through the provision of financial and technical support to exports. This is in terms of both physical and human investment in the areas of production, transport as well as utilities. It is important for future competitiveness to support efficient domestic production. This efficiency will require massive human and financial investment as well as technical assistance in trade policy reform.”[8]

Exports will receive a boost through better and cheaper transportation methods, the elimination of power shortages affecting industrial production and the use of cold storage for perishables at key distribution points like airports.

As was pointed out by UNCTAD (1997) and Kol et al (1998) more market access for Uganda is likely to arise from:

- Making the necessary adjustment to production structures;
- The overcoming of supply side constraints particularly in terms of products which are largely agro- based and can enter the EU through specialised preferences;
- Continuing to implementing outward oriented policies; and
- Continued provision of financial and technical assistance to the country in support of further policy reforms.

4.4.6 Investment Review

During the Ugandan trade policy review by the WTO, it was pointed out that the implementation of the Uruguay Round Agreement on Trade Related Investment Measures (TRIMs) would further improve the country's attraction to foreign direct investment (FDI).

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[7] Ibid.
[8] Ibid.

On the domestic front the return of expropriated properties, the liberalisation of the foreign exchange market as well as the removal of restrictions on the capital account are likely to further boost FDI flows. These flows are likely to become the critical engine boosting investment in the manufacturing sector as well as driving the future development and diversification of the export sector.

There have been positive signs in this respect, particularly with investments from South Africa, the UK and Kenya. In many cases it has involved either the privatisation process or rehabilitation of existing factories and estates.

Investor confidence in Uganda has been growing in recent years. As measured by the Institutional Investor, Uganda's overall has increased from 8.4 just five years ago to 19.9 (out of 100). It increased every six months since March 1993, except for a 6 percent drop in September 1998, owing primarily to the regional security situation.

Table 4.3: Investor Confidence Rankings for Uganda

	Ranking Among Countries	**Creditor Rating**	**Change from Previous (%)**
Sep-98	107	19.9	-6.1
Mar-98	104	21.2	5.5
Sep-97	103	20.1	13.6
Mar-97	107	17.7	9.9
Sep-96	113	16.1	11.0
Mar-96	117	14.5	10.7
Sep-95	119	13.1	2.3
Mar-95	119	12.8	10.3
Sep-94	121	11.6	14.9
Mar-94	122	10.1	20.2
Sep-93	123	8.4	15.6
Mar-93	121	7.3	40.4
Sep-92	126	5.2	-5.5
Mar-92	119	5.5	3.8
Sep-91	113	5.3	-8.3
Mar-91	110	5.8	-0.4
Sep-90	110	5.8	7.4
Mar-90	109	5.4	20.0
Sep-89	110	4.5	-16.7
Mar-89	109	5.4	-3.6
Sep-88	109	5.6	7.7
Mar-88	111	5.2	0.0

Source: The Institutional Investor

There has also been strong growth in foreign direct investment over the last five years, which has also contributed to the growth in private sector investment. The estimated level of FDI in 1997/98 was the equivalent of 29% of total private investment.

Comparing the figures of 1993 and 1997, an increase of around 350% was achieved (from US$ 54.6 million to US$250 million).

Table 4.4: Foreign Direct Investment into Uganda

Year	Inward FDI (USD mn)	FDI/GDP %	Major sources	Main sectors
1993	54.6	1.3	UK **India** Kenya South Africa Canada United States Netherlands Germany	Manufacturing Agro-processing Tourism Mining Energy
1994	88.2	1.8		
1995	121.2	2.2		
1996	121.0	2.0		
1997	250.0	3.8		

Sources: Bank of Uganda, Uganda Investment Authority, UNCTAD, World Investment Report 1998.

Tax exemptions as incentives for investment were first introduced, under the Investment Code (1991). The structure of incentives were as follows:

- All production machinery imported free of all Import levies;
- All raw materials imported free of Import Levies;
- "First Arrival Treatment", that allows each expatriate to bring in one project vehicle tax free on first arrival; and
- A Tax Holiday of 5 or 6 or 7 years (depending on priority of sector of investment) on Corporation Tax.

In the 1997/1998 budget, tax holidays were abolished and replaced by Investment package under which imported machinery is subject to zero tariff and excise duties, but face 10 percent VAT. Vehicles face 4 percent import duty and zero excise duties and 17 percent VAT. However, senior expatriates continue to enjoy a "First Arrival Treatment" for one car or less than 2000c.c, but vehicles with capacity of more than 2000c.c. face 20 percent duty, 10 percent excise duty and 17 percent VAT. Industrial materials face 5 percent duty, zero excise duty and 17 percent VAT, but there is a 5 percent duty remission on industrial raw materials hence these imports are effectively zero rated for import duty. Computers and office Automation equipment face tariff and excise duties and 17 percent VAT.

It should be noted that VAT on raw materials imported by investors might be deferred and paid out of production sales. The 1997/1998 national budget also re-instated the "old" tax incentives as an option for investors. So two parallel systems are available to investors. Accelerated depreciation or tax incentives (but not both).

In the 1998 survey of firms' perceptions, Ugandan firms identified price and quality of utility services (electricity, telephone, water, etc.), high taxes and interest rates as "major" constraints to investment. Corruption, access to finance, tax administration, and the cost of raw materials and supplies formed a second tier of leading constraints. Finally, the group of "moderate" constraints included the problems to local competition, lack of demand, lack of business support services, crime and security, lack of skilled labour, and uncertainty about government policies. The largest variance in responses between firms were in access to finance and access to raw materials

Inadequate Infrastructure Services:

Reliability and adequacy of electric power supply remain the leading infrastructure constraints to Ugandan enterprises in 1998, the only "major constraint" in the evaluation of respondents. And responses suggest that electric power supply has in fact worsened in the last development challenge, including the availability of electric power, telephone services, transport infrastructure, waste disposal, and water. Water supply and air transport are the only infrastructure services that are perceived to have improved and to be less constraining in 1998 than in 1994.

Transport Infrastructure:

Roads are the third leading infrastructure constraint identifies by firms, perceived as a "moderate" constraint. Road service is perceived as most constraining in Mbarara and Kampala. On average, firms perceive no change in quality of roads over time, but firms in Jinja, Mbale and Mukono said that roads had deteriorated slightly in recent years. Enterprise access to public roads varies substantially by location: only 41 % of Mukono firms have access and 72 % of Mbarara firms. Even in Kampala, 17 % of firms report they do not have an adequate access to roads.

Rail service is perceived to be a much more binding constraint in 1998 than in 1994. This is largely due to the deterioration in service quality in recent years. Only 2 % of firms, on average, report using rail service for their transport needs (zero % at the median.).

Ports, such as Port-Bell in lake-Victoria, pose a "moderate" constraint to Uganda firms. The perception is that port services have deteriorated during recent years and are now a more binding constraint than in 1994. Unlike other transport services, air transport services are reported to have improved in recent years. However, it still takes an average of 8 days to clear air cargo.

4.4.7 Domestic Production Review

Coffee:

Unlike tea, coffee is grown predominantly on smallholdings, each with 0.1 to 0.5 hectares of land, often in combination with subsistence crops such as bananas. This, and the crop's natural longevity and resilience, help explain why the sector fared better during Uganda's past periods of political and economic disarray than virtually any other economic activity. In 1991, the total population of the 13 major coffee-growing districts was 6.6 million, involving over 1.1 million farm families.

Uganda, the world's sixth largest coffee producer, grows the two major varieties – arabica and robusta. While arabica, cultivated in regions above 1,200 metres, generally fetches higher prices, it represents no more than 10 % of Uganda's total production. The authorities have drawn up plans to replace unproductive old robusta trees with new robusta clone varieties, and develop high yielding and disease-resistant arabica varieties.

Uganda is a member of the International Coffee Organisation (ICO), and has ratified the new International Coffee Agreement adopted in March 1994. To the disappointment of producer countries, the new Agreement did not include provisions to regulate volume or prices of production and exports. Possibly in anticipation of this outcome, 28 producer countries, including Uganda, representing in September 1993. Under the Lomé Convention, countries agreed on a Coffee Retention Scheme, which became effective in October 1993. The scheme requires participants to retain up to 20 percent of their exportable coffee production if specified price levels are undercut. Its implementation is 1993/1994 coincided with a low harvest in Brazil, and world market prices rebounded sharply.

Tea:

Tea growing in Uganda covers about 20,000 hectares, half of which is under estate management. Some 30 privately-owned estates cultivate about 30 per cent of the tea area, while two parastatals and two joint ventures control the remainder directly or indirectly. They are concentrated in the south-western part of the country, which offers favourable natural conditions. Tea growing demands more constant attention than coffee and its processing is more complex, organised and labour-intensive.

In the 1970s, tea production was severely affected by Uganda's political and economic decline, and by expropriation. Production came down from 23,000 tonnes in 1972 to less than 2,000 tonnes in the late 1970s, when most factories closed down. In recent years, the Government has implemented or started preparing several reforms, including re-privatisation of expropriated estates, removal of the Uganda Tea Authority's export monopoly, and establishment of the Uganda Tea Board. Efforts are also being made to improve incentives for smallholders, who depend for processing on the Uganda Tea Growers Corporation. Farm-gate prices have risen significantly in recent years and production has responded swiftly to a more favourable market environment, with a tenfold increase in quantities between 1986 and 1993. Uganda produced 12,000 tonnes of tea in 1993, 80 per cent of which were exported.

Fisheries:

While representing to more than 2 per cent of GDP, the fisheries sector provides over 50 percent of Uganda's animal protein consumption. More than one sixth of the country is covered by water (42,000 km2), offering scope for significant fishing activities. Estimates suggest that the country's sustainable harvest is about 300,000 tonnes per annum, more than 20 per cent above the current catch. The sector is made up mainly of small, private operators (fishermen, fish trader, and exporters).

Manufacturing:

Uganda's small manufacturing sector, with a workforce of over 60,000, represents 5 per cent of GDP. It is dominated by processing of agricultural products (coffee, textiles, leather, sugar, beer and tobacco), but also includes producers of paper and wood products (furniture), chemical (soap, paint), and construction materials (bricks and cement) and re-traders of tyres.

The sector has developed rapidly, with large variations among industries, in an increasingly liberal and predictable environment since 1987. While output of the food-processing, chemical, and steel industries more than tripled between 1987 and 1994, production of textiles, clothing, leather and footwear showed no growth.

Much of Uganda’s manufacturing activities are carried out by small enterprises, over 80 per cent of firms employ 35 persons of less. Production of furniture, tools, and clothing are the traditional domains of small-scale manufacturing, contrasting with larger entities in the foods, beverages, tobacco, textiles, construction materials, and steel sectors.

Tourism:

Tourism has the potential to be a significant revenue earner for the country. There have been some steps to encourage new investment into the industry as well as to privatise some of the state tourist assets. Tourist arrivals have been steadily increasing and reached 227,000 in 1997. However, the industry is very sensitive to unrest and recent events within the area could dampen growth. Tourism is the only sector in which Uganda have made specific commitments under the GATS. It is accordingly bound not to place restrictions on cross-border supply and consumption abroad of two types of tourist – and travel-related services: hotel and restaurants, and travel agencies and tour operators’ services. However, concerning the commercial presence of services providers, Uganda reserved the right to continue operating the approval requirement under the Investment Code and related regulations. Also, except for technical personnel not locally available, Uganda is not committed to accepting the presence of foreign nationals supplying tourist services in its territory.

Other Non-traditional Exportables

Floriculture:

The climate in Kampala / Entebbe region is very promising for quality cut-flower production of certain flower types. In particular the small diurnal variation in temperatures will enhance the quality and yield of crops such as roses, asters, gypsophila and a number of others. Given the correct technical inputs there is every possibility that the crops could match those from Kenya and Zimbabwe, which are the leading African flower exporters to Europe.

To achieve these targets the Ugandan growers will need technical assistance. Some of this is already being provided through the USAID funded IDEA project. Uganda’s constraints include:

- Lack of experience in these crops;
- No network of large, established farms;
- Lack of agronomic and marketing information;
- Lack of business planning experience;
- Insufficient cold store facilities; and
- Labour force untrained in handling delicate, perishable products.

Already there are signs that some of these difficulties are being overcome, particularly in rose growing which has considerable future potential.

Maize & Beans:

Uganda has significant competitive advantage in supplying the regional market with maize and beans. It has good soils, fairly reliable rainfall and bi-modal rains, which would allow two crops per year. Transport costs to neighbouring markets are also less significant a problem.

At present major actual and potential clients are the international relief agencies providing food to refugees and Kenya. Kenya has an annual maize deficit in the order of 500,000 to 1 million tonnes. Uganda could satisfy this deficit. Similarly bean exports would be targeted at the relief agencies and Kenya.

The development needs hinge around increasing the hectarage under cultivation, improved primary processing and storage with its geographical diversification into the rural areas, and provision of working capital to exporters.

There is a very strong logic for Uganda to been seen as the grain basket for Kenya due its resource potential. This would help towards balancing the trade flows and at the same time would increase Uganda's capacity to import inputs and manufactured goods from Kenya. Obviously Uganda would have to be competitively priced which will mean increasing yields and lowering regional transport costs and bottlenecks. General administrative constraints also need to be removed.

A further important need will be to provide reliable and useful market information to all those involved in the production and buying chain. Particularly when dealing with essential food crops reliable supply and accurate pricing information is critical.

Other markets in the region are also of potential such as Rwanda, Burundi, Sudan and possibly Tanzania if there are food deficits in that country.

4.4.8 Domestic Trade Policy Review

For importers, an attempt has been made to minimise bureaucratic procedures as well as the volume of documentation required in the conduct of customs clearing. Importers with a valid import certificate are now required to complete pre-shipment inspection formalities, provide a commercial invoice, health and phyto-sanitary certificates in cases were necessary, for clearing purposes. Exporters and importers alike are required to possess valid tax identification numbers, business registration certificates and trading licences. Another import requirement is that all exports are expected to be declared at the port of exit supported by an export certificate. In addition, coffee exporters are supposed to register with Uganda Coffee Development Authority. Despite these apparent reductions in bureaucracy, firms still report high levels of rent seeking by officials and bureaucratic delays.

Ugandan customs valuation is still based on the Brussels definition of value. Apparently relevant legislation is being reviewed in order to implement the definition of the WTO customs valuation agreement (Agreement on implementation of Article VII of the

General Agreement on Trade and Tariffs 1994). Uganda has until 1st January 2000 to bring valuation procedures in line with this agreement. See also annexe VI

All merchandise imports entering Uganda with a value exceeding US$ 2000 are subject to Pre Shipment Inspection. Pre-shipment inspection is not in any way used for discrimination but for revenue assessment purposes.

In the area of trade policy instruments, the key instrument has been tariff changes. Trade taxes in Uganda have continued to be adjusted, lowered or eliminated as in the case of exports, while the variance in tax structure as well as tax bands have been streamlined. Quantitative restrictions have been largely eliminated and replaced with more transparent taxes. As a result, Uganda's trade policy is increasingly being focused on tariffs on imported goods. A vital goal for trade liberalisation has been to reduce the anti-export bias and ensure that no excessive protection results from the tariff system. Again, despite these positive steps the business community complains about the tax burden. Part of the problem is rent seeking, part is that those that were avoiding tax are now being brought into the net, and part is due to indirect tax increasing product costs. (See also Annexes II, VI and VII).

The manufacturers, especially through the Uganda Manufacturers Association, have expressed concern at the speed of trade liberalisation. They have in particular pointed out that Uganda’s major trading partners within the region has not reciprocated the removal of tariff and non-tariff barriers. This exposes their production business to unfair competition. However, the Government has undertaken to promote efficiency through measures aimed at reducing the level of protection in the economy as a whole in order to increase efficiency through market forces. This is viewed as a mechanism which can trigger the upgrading of quality and were necessary the restructuring of some industries and the reduction of prices.

4.5 Response

It is within this context that Uganda develops its future trade policy. At the present time there is no formal national trade policy, although there are a number of policies and directions taken by the country that constitute the main elements of a trade policy. These are usually built into overall economic policy that is based upon macro-economic and market reform, trade liberalisation, exchange control liberalisation, privatisation and the like.

A number of key issues require to be debated further by the stakeholders. These include:

- The roles of the public and private sectors;
- Revenue implications of tariff reduction programmes;
- National competitiveness in the context of production and supply constraints;
- infrastructure and the graduation of subsistence producers into the commercial arena;
- Capacity building of institutions involved in trade policy formulation and those facilitating competitiveness. These would include the Ministry of Industry and Trade, Customs, Export Promotion Council, Chambers of Commerce, and the likes;

- Review of the legal framework to ensure compatibility with the MTS agreements;
- Review of the domestic taxation system and incentives to promote investment; and
- Review of bureaucracy and hidden costs affecting businesses operations;

For the medium term Uganda will continue to rely on its traditional crops to earn the substantial part of its exports. Certain non-traditional resource based products such as fish, maize and floriculture show growth potential. Key target markets will continue to be in the developed world, with small volumes of manufactured products penetrating neighbouring markets. (See also Annexe VIII).

In order to advance competitiveness it will be necessary for Uganda to address its infrastructure limitations including the availability and cost of utilities. It will need to improve its administrative structures to increase efficiency and reduce corruption. It will need to development a comprehensive trade development programme that addresses the technical, entrepreneurial and information shortcomings, if productivity is to increase. In addition there will be need to be product development in order to overcome NTBs in key target markets. A partial solution to the problem will be to enhance policies that will attract FDI into productive enterprises. This will increase the financial and technical resources flowing into the country. Policies to remove any residual anti-export biases and to provide incentives for export activities need to be entrenched in the economic structure of the country.

CHAPTER 5

TRADE POLICY IMPACT OF WTO AGREEMENTS

The WTO requirements outlined in Chapter 1 are onerous for small or weak developing countries. This chapter gives the details of the specific trade policy reforms required, and indicates what Uganda has done or needs to do. In this context as well, Uganda has identified and indicated its comprehensive needs in the context of the Integrated Framework for LDCs programme of six international development agencies, as reproduced in Annexe XI.

5.1 General conformity to WTO rules

SITUATION

Under the Trade Policy Review Mechanism Uganda has been reviewed since the ratification of the WTO, and that was in 1995 (too early for it to be judged on more than its intentions). These were accepted by the review, as conforming to the requirements, taking advantage of the special provisions for least developed countries where these were available.

In the years since 1995, Uganda and Kenya (which as a developing country has tighter requirements) have made regular notifications of the stages of compliance to the WTO. Tanzania has made far fewer notifications.

Ensuring sufficient representation in Geneva is one of the difficulties faced by small countries. This is needed to acquire full information on WTO requirements, including how these are being interpreted by the WTO, by the dispute procedure, and by other countries. But it is also necessary because initiatives for new policies come from individual countries, and arise from discussions before they reach the stage of formal proposals. Some countries still have no representation in Geneva, relying on embassies to other European capitals (often Brussels for the ACP). This is a serious handicap even in keeping informed about decisions taken by the WTO, and makes any negotiating position effectively impossible. Uganda only established a permanent delegation in 1995 (after its Trade Policy Review), although it had increased the staff to five by 1997.

There have been proposals to assist developing countries, or particular groups like least developed, ACP, Commonwealth, or regional groups, in strengthening their presence in Geneva, especially at the WTO.

RESPONSE

Uganda needs good and timely information about WTO decisions (and their interpretation) and a capacity to influence the new agenda of the WTO at an early stage. The WTO is ‘member-driven’ and reacts only to member initiatives. Financial assistance could be sought, but technical or other direct participation would be inappropriate in a negotiating organisation.

5.2 Tariffs, import licensing and other interventions on imports

SITUATION

Uganda and other East African countries had already abolished most import licensing, before the end of the Uruguay Round. In 1996, Uganda notified its remaining requirements to the WTO. Kenya notified the goods requiring licenses in 1997, but stated that (except for prohibited imports, which were mainly prohibited parts of endangered species or hazardous materials) there were no quantitative controls. Some were for sanitary and phytosanitary, environmental, or technical standards reasons, including live animals, some seafood products, plants and cuttings, insecticides, etc. Others were simply listed as still requiring specific approval. These include weapons and other explosives. It also notified that it was retaining the freedom to impose import controls on clothing and textiles, but this has not been used. All these would probably be permitted under standard GATT or WTO exceptions, but they would need to be reclassified and the appropriate exception specified. All have removed export licensing (although some certification procedures remain). The countries are, therefore, probably in compliance on these.

Uganda, Kenya and Tanzania bound most of their tariffs, although in most cases above current rates. Kenya bound agricultural tariffs at 100% and other products at between 18% and 62 %. Tanzania bound agricultural products and some others at 120%. Uganda bound 87% of its agricultural products, most at 80%, and the remainder at between 40% and 70%, and bound about 15% of its non-agricultural products at between 40% and 80%, giving a total share of bound tariffs at about a quarter (WTO, Trade Policy Review, 1995). Its applied rates are between 0 and 60%, but most falls between 10% and 30%. There are no formal requirements on the percentage of tariffs to be bound, although there was strong pressure to bind all agricultural tariffs. Binding all tariffs is likely to be required in the next round. This could put pressure on Uganda to renounce its still large degree of flexibility on policy for industrial goods.

Under the Integrated Framework for Trade-Related Technical Assistance to LDCs (Integrated Framework), it is the IMF which has responsibility for providing assistance on ‘rationalising the import tariff’ and improving ‘efficient collection of revenues’ in all the countries. Such measures are part of the general development side of the programme, not required as part of the Uruguay Round compliance. **See also Annexe VII** for details on the evolution of trade taxes in Uganda. See also Annexe XI for the summary of Uganda’s technical assistance needs in the area of trade development, provided under the Integrated Framework programme.

RESPONSE

All the EAC countries have complied with most of the Uruguay Round requirements on their import licensing and tariff regimes; they may need to reformulate their legislation to fit the authorised exceptions more precisely. This should be a matter for simple technical assistance. They may be under other pressure to reduce the level or the differentiation of their tariffs; this should be clearly differentiated from legal requirements in the Integrated Framework.

5.3 Agriculture

SITUATION

Under the Uruguay Round Agreement on Agriculture, all agricultural quantitative border measures were to be replaced by tariffs, although these could be (and were) designed to provide substantially the same level of protection (and thus range up to 1000 % in some developed countries). Then, tariffs and export subsidies were to be reduced by 36% over six years by developed countries. Developing countries were allowed 10 years, with a minimum reduction of 24%. LDCs were not required to make any reduction. Domestic support was to be reduced by 20% (developed countries), or 13.3% (developing).

Measures judged to have a minimal effect on trade, the so-called ‘green box’, are excluded from the reduction commitments. In particular, income-support policies not linked to output were permitted, as are environmental programmes and domestic food aid. Certain assistance measures to promote agricultural and rural development were allowed in developing countries. Direct payments under production-limiting programmes, are also broadly exempt. The problem is that both measures are more available to developed countries than to developing ones. The exemptions for least developed countries mean that Uganda and Tanzania are not required to change their rules. Uganda does retain potential price and quantity controls on coffee exports. But, as with tariffs, it is clear that the support offered by Uganda could be challenged by pressure for unilateral trade policy reform.

RESPONSE

Uganda is in compliance on agricultural support. The country needs to watch the forthcoming negotiations on agriculture as the requirements could be tightened, and they may face pressure outside WTO requirements.

5.4 Services

SITUATION

Shortly before the completion of the Uruguay Round, GATT made estimates of the developing countries most dependent on exports of services. Kenya (at about half of export earnings) and Tanzania (a third) were both among them, and Uganda is trying to increase its earnings.

Including services in the GATT disciplines was one of the principal US objectives in proposing the Uruguay Round. The outcome was less than it hoped before the Round, but much more than might have been expected given the 40 years it had taken to obtain substantial reductions in tariffs on goods. Except for minor provisions on the timing of submitting the offers and a section on their need for information and technical assistance, but to improve efficiency, not compliance, there are no special provisions for developing countries. There was a general principle in GATS Article IV on increasing the participation of developing countries. They were allowed to delay setting up the ‘National Enquiry Points', which were to give information about a country’s specific regulations.

GATS provided explicitly for new negotiations to be held within five years, by 2000. In some sectors these negotiations were to begin immediately. These include financial services and shipping, where there were serious disagreements at the end of the UR negotiations, and most offers were left provisional; basic telecommunications (telephone systems, etc.), where there was a basic division between those who had liberalised their national service and the rest; and labour movement. The types of demands made in the UR negotiations on trade in services went beyond what is meant by ‘access’ for goods, partly because of the nature of intervention in services. Although there are some taxes and fees which are equivalent to tariffs in trade in goods (port and customs services charges; taxes on travel or transport services, etc.), many more obstacles are either in the form of direct government regulation or limits on setting up a distributor in the foreign market.

The approach of regulating the supplier rather than the service is reflected in the four-way classification of ‘means of provision’ of services used in the agreed framework. These are (i) cross-border supply (the direct equivalent of trade in goods); (ii) consumption abroad (arguably closely equivalent); (iii) commercial presence (effectively taken for granted in trade in goods, but the direct and intangible character of services makes the nature of the presence more critical than the nature of a sales agent for a good); and (iv) presence of ‘natural persons’ (again, a need for this is a consequence of the nature of many services).

The ways in which a country’s treatment of services is brought under the WTO are effectively divided into four. The first decision is whether a service will be opened to international regulation, i.e. incorporated in a country’s offer. For those that are, a country can register any of three types of control: restrictions on market access, limitations on national treatment of the supplier, or derogations from the general rule of Most Favoured Nation among suppliers. All of the last three can be at national, sectoral, or individual service level. Most of the offers are subject to some general national restrictions, with additional ones on individual items.

It was thus possible to avoid opening services and thus retain the right to increase current controls: by not making any offer in some, even most, sectors; by imposing and registering strict restrictions; or by specifying the registered restrictions as ‘unbound’. The agreement on services lists the types of barrier which would be considered obstacles to access, and which a country must therefore specify if it wishes to maintain them. They are a mixture of restrictions analogous to NTBs on goods (quotas on suppliers or transactions), restrictions on labour, and restrictions on capital. The listing is on a ‘positive list’ principle: services not listed in a country’s offer are not included. The offers on individual sectors were prepared under 11 headings: business, communications, construction, distribution, education, environment, financial, health, tourism, recreation, and transport. Government services (and government procurement) are excluded (unless expressly added). All countries were required to ‘offer’ at least one sector, but there was no minimum degree of liberalisation.

The GATT Secretariat disaggregated the commitments by detailed sub-sector and by type of commitment. The average share of the total possible commitments for developing countries was 15%, with Asia highest at 26% and Africa lowest at 10%. The EU and US both included about 60%. Measured using only the 11 major sectors, the same pattern held: the African countries normally offered fewer than half the sectors, with several at only one. The Latin American and more advanced Asian countries made offers in more than half the sectors, and even India and Pakistan offered 5. Almost all the developing countries have made offers in tourism (and this is frequently the single offer for those making only one). Kenya offered four: communication, financial services, tourism and transport. Tanzania and Uganda both offered only tourism. In principle therefore, all gained much more on access than they offered. The African offers are, fairly consistently, limited even in countries which have been opening their trade in goods. A closer examination of individual countries shows that for the sectors in which they do make offers, the detail is much less than in the offers of the industrial countries or of the Latin American and more advanced Asian countries, presumably reflecting less advanced domestic regulatory regimes.

The need to specify at the time of the offer all MFN exemptions (special arrangements within regions) and all limitations on the services which are scheduled, without the possibility of adding to them as countries become more experienced in using, providing and trading services, not surprisingly, made the least developed countries very cautious in offering individual sectors. (It might have been possible to make detailed, but unbound, registration of current regulation, as India did, but this option seems to have been little used.) Although developing countries can create an effect equivalent to protection from imports (where reciprocity has not been specified) through not making offers and using the offers of those that have made them on an MFN basis, there is no provision for an equivalent of preferences. Industrial countries could have created this, through appropriate scheduling of MFN exemptions, but with minor exceptions they have not done so.

Since the Uruguay Round, financial services and telecommunications were (as agreed) renegotiated, and Kenya has revised its Financial services section, while Uganda added telecommunications. Both have also made the required notification on a ‘National Enquiry Point’. Assistance in developing services policies is being provided by UNCTAD.

The WTO has now prepared reports for about 20 sectors on how the arrangements made in the Uruguay round are working, and on problems with them, which will help to set the agenda for simple reforms (www.wto.org/wto/services/w65.htm). The proposal for model WTO schedules could provide a structure for more fundamental negotiations, aimed at greatly extending the coverage and the degree of liberalisation in a new services agreement. There are, however, still no data on how much countries, particularly developing countries, may have benefited (or lost) from progress so far. This lack of information will make the negotiations difficult. It requires countries to make their own studies and plans. The nature of the services negotiations has evolved differently from goods, with greater reliance on specialists (not necessarily from trade ministries), and therefore a particular need for a co-ordinated national approach. Electronic commerce, often linked to services, is not in itself an issue. It is a way of supplying goods or services (themselves governed by the relevant rules), or a particular way of carrying on business: as such it may be cross-border or not.

The WTO and private business do not see it as raising new issues, but rather put the emphasis on what is being supplied. But the new forms will affect negotiations.

There is a strong expectation that developing countries will be expected to increase the number of sectors in which they have made offers in services, particularly countries like Tanzania with only one sector bound, and only a limited offer in that. As was clear in the initial offers, this is particularly difficult for countries with still limited domestic services sectors, because the existing regulation may be weak or poorly designed, and therefore both unsuitable for notification and unsuitable for the country to bind itself to for the future. This is probably a priority area for all three countries. They need assistance in designing national objectives for the type of service sectors and nature of regulation, which they expect to need in the long run, and then to obtain information about how other similar countries regulate their services.

RESPONSE

There were effectively no minimum requirements for services offers in the Uruguay Round, so Uganda has formally complied. But there will be much more pressure in the next round to make substantive offers. There has as yet been no clear indication on the type of assistance to be made available that Uganda will need for a major exercise in both economic strategy and regulatory legislation. Uganda will certainly need to find models: the WTO may offer one, but it may not be suitable for least developed countries, or for countries with a high dependence on services income, or for countries in particular economic or political situations; analysing its suitability would be itself a major task. Services should be a priority for attention by policy makers in Uganda and under the JITAP.

5.5 Non-tariff Barriers

SITUATION

The multilateral round of trade negotiations before the Uruguay Round, the Tokyo Round, had made the first effort to regulate these (although they had been in principle illegal from the beginning of GATT). They had been increasingly used by the developed countries in the 1970s and were becoming a major strain on the trading system. The reforms to agriculture and the MFA in the Uruguay Round brought two of the major areas under regulation, if not control. There is no formal classification or regulation; if they are forbidden measures, like quotas, they have always been illegal under GATT; if they are *de facto* barriers, but not formally forbidden, there are no constraints. Uganda must be aware of the rules and alert to the possibility of complaints by other countries and defend its market access conditions.

RESPONSE

Only well informed local trade experts, familiar with all their own country's economic measures can make a reasonable assessment of whether any non-tariff barriers are in conflict with WTO rules. Familiarity with complaints made and sustained about other countries' measures may help, so there is a role for the training in trade policy, but the judgements will need to be made by those trained: outside experts are unlikely to have the required detailed familiarity with local policies. This is an ongoing process, as the case law about what is a barrier evolves (particularly in areas like services), and therefore an ongoing requirement for following WTO disputes decisions.

5.6 Subsidies

SITUATION

The Agreement on Subsidies and Countervailing Measures defined subsidies not allowed on traded goods. It exempted LDCs (and countries with an income under $1000, thus including Kenya) from the provisions on export subsidies, and gave other developing countries eight years to conform. For import replacing subsidies, least developed had eight years and other developing five. Developing countries are also allowed a stricter standard of proof in any complaint: for developed countries, there is a presumption that any subsidy equivalent to more than 5% of the value of the product is damaging, but for developing countries it is necessary to prove damage. While some phasing out was to occur during these periods, the countries have no obligations, except on import-related subsides by 2003; they can apply for an extension (giving at least a year's notice) beyond this. Until then, their obligation is to notify the WTO of any subsidies. They need not notify permitted subsidies, for example, within the *de minimis* provisions (3% for manufactures, 10% for agriculture), or green measures. But if a country does not notify a subsidy that does come under the regulations, then it loses its exemption period, leaving a dilemma if there are subsidies about which it was doubtful, although this becomes less important as 2000 and 2003 grows nearer. Uganda has notified that it has no relevant subsidies.

RESPONSE

As with NTBs, Uganda needs to re-examine all government measures to see if they are in conflict with the new provisions on subsidies, using the training that they can obtain from the international organisations.

5.7 Anti-dumping rules, countervailing actions and safeguards

SITUATION

The decreasing level and flexibility of tariffs made the use of alternative ways of controlling unexpected and unwelcome increases in imports increase during the 1980s and 1990s. Thus a clearer definition of subsidies in both the Agreement on Subsidies and Countervailing Measures and the Agreement on Agricultural made the scope for using countervailing measures clearer. (Agricultural subsidies are not actionable until 2003, because of a 'cease-fire' agreed in the Uruguay Round). Private companies take anti-dumping measures against countries exporting goods at prices below home prices because of action. Countervailing measures are taken where a subsidy by the exporter's government can be identified. Safeguards in general are measures taken where there is no formal finding of dumping or subsidy, and therefore no other available action, but a country can show 'serious injury.'

The pre-Uruguay Round GATT agreement allowed countries whose producers were being 'seriously injured' (Article XIX) by a rise in imports to impose temporary controls on imports of that good. It did not permit these quotas to discriminate by country. Country-specific quotas were, however, among the most frequent NTBs, and making these legitimate was one of the EU's objectives for the Uruguay Round. The Agreement on Safeguards permitted this, introducing regulations on how they are used. Normally the quotas should be equal to recent shares in imports, unless the increase from 'certain members' is 'disproportionate'. Developing countries appear favoured by the provision that imports from them should not be controlled unless one country accounts for more than 3% of total imports or all imports from developing countries with less than 3% account for more than 9%. But in practice, as new suppliers, they cannot avoid having 'disproportionate' increases if they are to acquire any market share. There is a four year initial and eight year total limit on all controls. Developing countries are allowed to extend these to 10 years. Existing controls, none of which met the Article XIX or the new rules, had to be brought into conformity with the new regulations within four years.

The principal users of anti-dumping have been the US, Australia and EU. Australia and US have also been the principal users of countervailing duties. Of the East African countries, none has used anti-dumping and only Kenya has been the subject of it. The Uruguay Round agreement replaced a ‘plurilateral’ code adopted in the Tokyo Round (which countries could follow or not). It gave a new, in some ways more flexible, definition of the prices to be used in making investigations of dumping and also introduced requirements for procedures and automatic review after five years. The new rules in most cases required countries to revise their existing legislation, and to notify when this was done.

The anti-dumping rules make no distinction in their application between developed and developing countries. The new rules on countervailing duties (against domestic subsidies to production or export) do have higher *de minimis* provisions for them and some exemption for subsidies, partly to bring them into line with the more relaxed rules on subsidies and longer periods of adjustment allowed to developing countries by the other sections of the Settlement. The only special mention of developing countries in the anti-dumping provisions is that they may need assistance to meet the more detailed provisions when taking their own anti-dumping actions.

The WTO has taken the requirement to conform to the new rules to mean that countries with no legislation had to introduce such legislation, and has been particularly active in technical assistance and encouragement in this area. There is a COMESA regime for anti-dumping that applies to Uganda, Kenya and Tanzania. It is likely to be amended in order to be WTO compatible and Kenya has already requested the WTO secretariat for technical assistance in 1996. Clearly, the East African countries will need to co-ordinate the revisions with each other and the other COMESA members. None of the countries has formal procedures for other safeguard measures, although Kenya has notified that it takes ‘*ad hoc*’ measures.

As developing country producers may compete more on cost factors than those in industrial countries, the increased scope of the anti-dumping actions is more likely to damage them than industrial countries. This is reinforced by the increased respectability given to this form of protection by its greater prominence in the WTO system and by such innovations as GATT courses in how to take anti-dumping action for developing countries.

Both the anti-dumping procedures and the subsidy codes (on which countervailing actions are based) are now subject to much more precise regulation. In itself, this increases certainty and reduces the possibility of arbitrary action, but it also makes any dispute potentially more technically complicated. This could put poor or inexperienced countries and new firms at a disadvantage. The response offered by WTO (and other international institutions) is increased training.

RESPONSE

For formal compliance with the WTO, Uganda must see that the COMESA rules and procedures on anti-dumping, countervailing, and safeguards are reformed to fit the WTO rules, and this appears to be under way. It is important to ensure that it is co-ordinated across all COMESA. There are, however, no immediate national interests in such legislation, as either plaintiff or defendant, so it is not in policy terms a priority for implementation. From a negotiating point of view, however, reforming the system may be a priority if rules are included in the next round, especially as the number of anti-dumping cases continues to rise.

5.8 Customs valuation and other customs rules

SITUATION

The Uruguay Round included a range of rules on items like customs valuation, which require countries to check whether they comply. Uganda and other East African countries have formally requested the delay in implementation permitted to developing countries. (None had submitted legislation for approval under the Tokyo Round procedures.) Uganda stated in its trade policy review that it intended to comply. This is an area that not only requires formal changes in the customs rules and training of officials (on which assistance is possible), but has potential effects on tariff revenue, unless complementary changes are made in tariff or other tax legislation. Using reference prices (as has been done) instead of the actual prices (as required by the WTO rules) can mean that tariffs are calculated on a higher base. Therefore reform requires national analysis as well as formal compliance.

RESPONSE

The East African countries are approaching the end of the permitted delays in conforming to the WTO rules on customs valuation. On a technical level, this will not be difficult, and the information and training are being made available. On the revenue side, Uganda needs to give more priority to reforming the tariff or tax system to keep the level of revenue up. It is probable that all the East African countries have sufficient margin below their bound tariff rates to make any necessary adjustments, but they may choose alternative taxes as part of a more general fiscal reform.

5.9 Pre-shipment inspection

SITUATION

On pre-shipment inspection, there was considerable suspicion by the developed countries of its use by developing countries, which led to its inclusion in the Uruguay Round negotiations. It had become a less heated issue by the end of the Round, partly because greater experience had already led to more standard procedures.

Since the mid-1980s, many developing countries had brought in international agents to check the price and/or quality of their imports before they are shipped from the exporting country. This was intended to supplement normal customs procedures (in at least one case, Indonesia, it entirely replaced the customs service) and reduce the risks of exporters not meeting normal quality standards or over-pricing; developing countries were assumed to be vulnerable as inexperienced buyers.[9] It was also a deterrent to the use of over (or under)

[9] This was not an imaginary problem: over-pricing to the OPEC countries in the late 1970s had been large and conspicuous enough to find its way into the specification of trade models, as well as into the consciousness of importers.

pricing to transfer funds to low-tax countries, profits beyond the reach of a possibly unstable country, and payments to possibly corrupt customs services. Exporters objected to it, ostensibly on the grounds of delay and cost.

The Uruguay Round agreement is phrased as clarifying existing GATT obligations, not instituting new ones. It does not forbid PSI but it requires non-discriminatory and transparent implementation, and commercial confidentiality. Exporters should not be required to supply extra information, and it sets a time limit for the inspection. The principal new requirement was the limits on which prices can be used for comparison of export prices: not prices for products for other markets or from other countries or home prices in the importing country, and not the costs of production, for example. A separate dispute settlement mechanism is provided, but the normal GATT mechanisms remain available. The agreement refers throughout to ‘developing countries’.[10]

Uganda has reported the use of PSI to the WTO, and its intention to move away from the system.

RESPONSE

The PSI provisions of the Uruguay Round were confusingly drafted and designed to meet a problem that was diminishing as the Round progressed. Formally, Uganda may be able to meet the requirements on transparency, despite few difficulties on "non-discrimination". In the long run, higher income and better-trained customs officials will obviate the need for PSI. It is not clear that this is an efficient use of scarce training and other resources in the short-run as this is an area (unlike most of those discussed here) where a substitute is available to purchase. Uganda will need to consider how to divide their resources between compliance and negotiating clarification or amendment of the provisions.

5.10 Trade Related Intellectual Property (TRIPS)

SITUATION

Copyright, patent and other forms of protecting ‘intellectual property’ were not treated as trade (or even trade-related) issues before the Uruguay Round. They had their own international negotiations, notably through the World Intellectual Property Organisation, or were subject to bilateral agreements.

They were brought into the Uruguay Round initially because exports from some south-east Asian countries of counterfeit goods, ranging from software to designer clothing, were seen as a growing problem. Also, pharmaceutical companies, especially in the US, had long seen local production of their products, without payment of licence fees and justified under national health policies, as a serious cost of their potential trade. If these could be treated as trade issues, this opened up the possibility of using trade sanctions, whether

[10] As the ‘least developed’ countries are considered a separate group, not a sub-category of ‘developing countries’, in other provisions it is not clear whether the Agreement applies to them. This ambiguity is found in several parts of the Uruguay Round Agreement.

bilateral or multilateral through GATT, particularly as domestic enforcement mechanisms within the offending countries do not meet the agreed standards or are ineffectual.

The TRIPS agreement thus had to go beyond the traditional GATT concept of national treatment, namely equality with local producers, to setting minimum acceptable standards for protection. It affects all goods and services, not only those traded. The agreement required countries to accept the substance of existing international conventions on copyright (the Berne convention) and on patents (the Paris convention). It also opened the WTO dispute settlement and enforcement mechanisms, including trade-offs with other trade issues, to those with intellectual property complaints. In principle, there should be no conflict between its provisions and those of the existing conventions the WTO agreement is declared to prevail in any conflicts of competence. It adds to the existing Conventions by clarifying protection of computer databases, films, and unauthorised (and uncompensated) recording, and by specifying the minimum periods of protection. On patents, it allows countries to exclude certain types of process for reasons of national policy, but specifically includes among products to be patented the controversial one of plant varieties. It also specifies minimum legal and administrative procedure requirements to be used for enforcement.

Special treatment for developing countries in TRIPS is limited to time to adjust and a commitment to transfer technology. While industrial countries must conform within a year, developing countries have 5 years (up to the end of 1999). Uganda and other LDCs have 11 years (up to the end of 2005, but this last can be extended by the Council which is to supervise the agreement if a country makes a ‘duly motivated’ request). In some cases where there is no current legislation, the middle-income countries have 10 years, but pharmaceutical and some chemical products can start to apply for patents immediately, receiving the protection as soon as the adjustment period is completed. There are increased obligations to license the use of technology.

<u>RESPONSE</u>

Uganda must comply with the TRIPS rules within the next six year. The implementation of the TRIPS Agreement may require the amendment of the principal legislation or for those that are procedural in nature, by statutory instruments. In sectors where the country does not have a law, such as geographical indications, new laws will be required. It s

would also seek for WTO members to operationalise provisions for technology transfer.

5.11 Trade Related Investment Measures (TRIMS)

<u>SITUATION</u>

Trade-related investment measures were a major issue at the outset of the Uruguay Round, but faded into the background during the Round. Some of the issues related to investment were incorporated into other parts of the agreement, including services and TRIPs; changes in attitudes and in the direction of flows in investment probably also contributed. More industrial countries were receiving investment and more developing countries were liberalising their own provisions, as part of their trade liberalisation or because of growing confidence in their ability to exploit its advantages.

The TRIMs provisions deal only with investment related to traded goods (services investments are covered in the services section, and thus only apply to national offers). Its principal requirements are national treatment and prohibition of export or import restrictions, but these are specified as compliance with the existing GATT Articles III and XI. Effectively, therefore, it is merely confirming and perhaps clarifying existing obligations. It adds an ‘illustrative list’ of measures that would be inconsistent with these articles. Developing countries can have temporary exemptions under the usual balance-of-payments protection conditions. There are further exceptions for not only existing arrangements with companies but also concessions to companies that might compete with those which already have concessions. Countries are required to notify the WTO of those measures, which they are using and to remove them, within 2 years for industrial countries, 5 for developing and 7 for the least developed.

Uganda only has just over two years to comply. Uganda has notified its provisions, and stated that it is aware that they are not in conformity, and requested the full seven years to adjust.

RESPONSE

Until the Uruguay Round, investment law has not been central to GATT or WTO rules, and countries have been able to ignore the rules. Now, with the WTO and the strengthening of the dispute settlement procedure, increased interest in attracting foreign investment, and discussion of a more extensive regulation of investment under the WTO, Uganda needs at least to be aware of the rules, and its vulnerability if it does not adapt to them. The wide variety of types of investment regime which are used by developing (and developed) countries, however, makes technical assistance less certain than in more clearly defined areas. It must be combined with awareness of other countries’ regimes and national judgement.

5.12 Standards

SITUATION

These can be used as a barrier to trade, if a country sets unduly high standards, and especially if it expects higher standards in imports than in home production. But they can also be a real barrier, where there are genuine differences in standards or where there is lack of information about what the standards of export markets are or how to meet them. The WTO attempted to introduce transparency, through requiring identification of national standard-setting bodies, and to require technical or scientific justification for the standards used, restricting the possibility of using idiosyncratic national standards, by requiring countries to show a reason if they did not use international standards. This could cut not only the cost of setting standards, but the information cost, if all export markets had the same, international standards.

The agreement on technical barriers to trade was intended to prevent countries from using standards as barriers to trade, on any good. It therefore dealt with how standards should be set and enforced, requiring information and transparency, and use of international standards were available (unless there are special reasons). As with several other provisions, one of the requirements was the establishment of a national information point. Uganda has notified this to the WTO. It has also started to make joint notifications with other members of EAC (Kenya and Tanzania).

For developing countries, there was to be assistance in implementation, and also a requirement that international standards be attainable by them. There was a request to allow them to not use international standards 'which are not appropriate to their development, financial and trade needs', but this is not binding. There was encouragement of international bodies to provide standards for developing country products. Again, they are allowed to apply for time to comply.

International standards are becoming more common, and for countries which have not yet set their own, adopting these at an early stage may be a particularly efficient step. Developing countries may therefore have an interest in promoting the adoption of international standards. An alternative for Uganda and other countries in a region like the EAC or COMESA is to move to regional standards, provided those are compatible with international standards, if available. This may be a saving in costs on national standards. Notifications of regional standards have been made for the EAC.

Agricultural standards, especially Sanitary and Phytosanitary rules (SPS) are becoming increasingly important, and will be so particularly to agricultural exporters like Uganda. The WTO is providing technical assistance to all countries on this. There was explicit provision in the agreement for WTO members or international organisations to provide such assistance, and 'where the appropriate level of protection allows scope for the phased introduction of new sanitary or phytosanitary measures longer time-frames for compliance should be accorded on products of interest to developing country Members.' However, this was by implication in the requirements of developed countries (as it was to protect developing exports), not in the regulations of developing countries. For that, there was provision for them to apply to the Committee on SPS for time to comply. This was first aimed simply at the notification obligations, but has now acquired a more 'developmental' orientation. The assistance provided, however, has so far been mainly in the form of regional seminars, rather than focused assessment of the training and institutional needs of individual standards organisations. Although the review of the needs of Uganda undertaken in 1997 (see Annexe XI) suggested that direct assistance was needed. This remains, however, very short-term. It identifies a need for the international standards organisations to play a part.

RESPONSE

The WTO is making progress in helping countries with the technical compliance with the WTO agreements on notification and application of standards, in connection with the provisions on Sanitary and Phytosanitary Measures and Technical Barriers to Trade. A more sustained assistance than the WTO provides is necessary for full compliance, probably from the standards organisations themselves or from an agency specialising in such assistance, like the ITC. It will be important to ensure that assistance to Uganda is co-ordinated across at least the EAC, and probably the COMESA, region to avoid duplication or conflicting advice, and to secure the economies from joint setting and enforcement of standards.

5.13 Government Procurement

SITUATION

The agreement on opening government purchases that was reached following the Tokyo Round was a ‘plurilateral agreement’; in other words GATT members could choose whether to join it. The agreement negotiated during the Uruguay Round has the same status in the WTO, an exception to the attempt to make the WTO universal. The new agreement includes extension to some services, including construction; to other levels of government, at the equivalent of states or countries and some large cities (previously only national governments were covered); and to five public utilities: water, ports, airports, electricity, and urban transport. The WTO estimated that this could extend its coverage by a factor of 10, but this is very uncertain because, as in the services agreement, countries have the option of deciding to which levels of government and which utilities they will apply these extensions.

There was little direct effect on developing countries because the only developing country that was able to sign was Korea. In principle there could be some diversion in countries, which have followed the practice of permitting some foreign bidding, but with a price advantage for national bidders; by receiving national treatment, other members for the agreement will be placed at an advantage relative to non-members. The new agreement, however, is also intended to encourage more developing countries to join, apparently principally by providing assistance in analysing the benefits to particular country of joining.

Whether Uganda will have to do so depends on whether it wants to export to government purchasers who have joined the agreement, and whether it wants to give preference to any local suppliers who would be in competition from potential foreign suppliers. If a substantial proportion of a country's government expenditure is financed by aid, there may be other constraints on its purchasing (and a commitment to open tendering could offer a counterweight to preferences for donors' suppliers). This is a question where Uganda must take their own view; international agency advice is unlikely to be sufficiently informed about the country situation to be useful, but the experience of other developing countries could be useful, although it will be difficult to find any that have signed.

RESPONSE

There is no obligation to join the agreement on Government Procurement, and few developing countries have. There could be advantages if any of the member countries’ exports anything that could be the subject of government procurement in other countries, which have signed. This is because unlike other WTO agreements, access depends on reciprocity, and there might be little cost because the countries may be heavily dependent on foreign suppliers for most tradable goods. The question for Uganda needs further national study, possibly with advice from similar countries, to determine the present purchasing and exporting prospects of each country. The possibilities to obtain greater transparency and market access at sub-regional level like EAC and COMESA could be analysed.

5.14 Interactions between regional trade Agreements and the multilateral system

SITUATION

During the Uruguay Round, two important areas, Europe and North America, moved to closer integration through the intensification or formation of regional economic groups. This led to the inclusion of tighter regulations on how far regional trade agreements could operate within the WTO in the final settlement. Regional trade agreements violate the most fundamental principle of the GATT or the WTO, the most-favoured nation treatment, that members should treat all other members equally.

However, from the beginning, GATT recognised that some countries had special relationships with each other, and tried to find a compromise between allowing a reduction in barriers and minimising the potential damage to those excluded. This is embodied in GATT Article XXIV (and in the Enabling Clause for developing countries in 1979). The first requirement in both GATT Article XXIV and Enabling Clause is that all regional trade agreements be notified to the WTO to ensure transparency and compliance with the relevant WTO disciplines. Beyond this, the principal risk to non-members of a regional trade agreement is that their access to the members will be reduced. This can be done directly, through raising the barriers at the regional level. Thus, GATT Article XXIV stipulates that regional trade agreements, which form part of the customs unions, are forbidden to raise the average tariff level. It can also happen indirectly. For example, by lowering barriers within the region, barriers to the outside are inevitably made higher in relative terms. If trade is then 'diverted' to a supplier within the regional trade agreement, the former supplier is damaged. GATT Article XXIV attempted to discourage this by requiring that any RTA should cover substantially all trade, and thus prevent it from 'cherry picking' the goods where there would be diversion from the outside, while not liberalising goods where there would be competition within the region.

The tightening in the Uruguay Round of GATT Article XXIV and understanding was:

- to clarify the calculation of the average tariff;
- to strengthen the regulation of indirect discrimination by setting a time limit on adjustment (10 years), and

- to force regional trade agreements to meet the criteria in a reasonable time

For trade in services, the GATS introduced a provision (Article V) which was meant to be parallel to GATT Article XXIV for goods. The rules for discriminating in favour of regional partners, however, are even less developed (although on paper stronger) than those for goods. They have not been tested as yet by any ruling by the WTO on submission on trade in services made by some regional trade agreements involving primarily developed countries. The feasibility of partners' discriminating in the purchase of an immaterial item, however, may be more limited. The EU set the precedent for substantial progress at regional level, but this was largely in the 1980s before the progress made at the WTO. The structure of the way in which services offers were made discriminated in favour of existing regional trade agreements, and against new ones, with countries allowed to specify any discrimination that already existed, without limit, but subject to strict rules for new discrimination.

<u>RESPONSE</u>

The new regulations of regional trade agreements do not affect the EAC and COMESA countries' arrangements on goods trade directly, but could affect the rigour with which they are examined. If these groupings move into further integration on services, they would need to balance this with any offers they make multilaterally because of the way the services agreement is structured. There is no effective form of external advice for this. Thus Uganda (Kenya and Tanzania) will need to look at how they will act together on common policies in future negotiations. Other customs unions offer examples, and may offer advice or a common position.

5.15 Labour and the environment

SITUATION

Rules on these have appeared in regional arrangements (notably the EU and NAFTA), but the rules and the provisions for enforcing them have been separate from the trade agreements. This is in accordance with the multilateral system, which up to now has dealt with these subjects by separate environmental covenants and the International Labour Office (ILO). Some members of the WTO have proposed including these in future negotiations, but this has not been generally accepted, especially by developing countries.

RESPONSE

There is no need for immediate action on labour or environment issues to meet international standards, (except for the existing environmental protocols and any obligations under ILO Conventions) and the need to study these issues. But there will be opportunities for Uganda to use environmental arguments in trade negotiations, and therefore it may be useful to examine products for which liberalisation is sought from this point of view.

5.16 Summary

Uganda needs good and timely information about WTO decisions (and their interpretation) and a capacity to influence the new agenda of the WTO at an early stage. The WTO is ‘member-driven’ and reacts only to member initiatives. Financial assistance could be sought, but technical or other direct participation would be inappropriate in a negotiating organisation. An adequate trade policy and an integrated institutional mechanism (involving all affected stakeholders) for follow-up at the national level is also crucial, in enhancing the country’s capacity at the national level to respond effective to negotiations. Co-ordination with other developing countries, especially in trade negotiations affecting sectors of common interest, will help to ensure maximum benefits.

Uganda needs to ask for assistance in assessing its trading organisations (public and private), and identifying which adjustments are relevant to each of these. It needs to be aware of all the international organisations, which may be relevant for each type of assistance, and ensure that the ‘lead organisation’ in each case makes full use of the expertise of the others. Effective follow-up at the national level on implementation of technical assistance is also important, given that such assistance increasingly focus on developing national capacity to continue provision of similar services when the technical assistance comes to an end.

Uganda has complied with most of the Uruguay Round requirements on their import licensing and tariff regimes. It may need to reformulate their legislation to fit the authorised exceptions more precisely. This should be a matter for simple technical assistance. They may be under other pressure to reduce the level or the differentiation of their tariffs; this should be clearly differentiated from legal requirements.

Unless other countries successfully challenge any of Uganda's support measures, the country is in compliance on agricultural support. The country needs to watch the forthcoming negotiations on agriculture as the requirements could be tightened, and they may face pressure outside WTO requirements. Also, the further liberalisation may further erode the preferences Tanzania enjoys in its major markets either as a member of the ACP Group or being in the LDCs category.

There were effectively no minimum requirements for services offers in the Uruguay Round, so Uganda has formally complied. But there will be much more pressure in the forthcoming mandatory next negotiations under GATS to make substantive offers. There has as yet been no clear indication that the type of assistance that country will need for a major exercise in both economic strategy and regulatory legislation for services will be available. Uganda will certainly need to find models: the WTO may offer one, but it may not be suitable for LDCs, or for countries with a high dependence on services income, or for countries in particular economic or political situations - analysing its suitability would be itself a major task. Services should be a priority for attention by policy makers in Uganda.

Only well informed local trade experts, and familiar with all their own country's economic measures can make a reasonable assessment of whether any non-tariff barriers are in conflict with WTO rules. Familiarity with complaints made and sustained about other countries' measures may help, so there is a role for the training in trade policy but the judgements will need to be made by those trained. Outside experts are unlikely to have the required detailed familiarity with local policies.

As with non-tariff barriers, Uganda needs to re-examine all government measures to see if they are in conflict with the new provisions on subsidies. It should use for this purpose its personnel who have benefited from the training on WTO rules provided by international organisations.

For formal compliance with the WTO, Uganda must see that the COMESA rules and procedures on anti-dumping, countervailing, and safeguards are reformed to fit the WTO rules, and this appears to be under way. It is important to ensure that it is co-ordinated across all COMESA. There are, however, no immediate national interests in such legislation, as either plaintiff or defendant, so it is not in policy terms a priority for implementation. Regarding negotiations, however, reforming the system may be a priority if rules are included in the future negotiations, especially as the number of anti-dumping cases continues to rise.

Uganda is approaching the end of the permitted delays in conforming to the WTO rules on customs valuation. On a technical level, this will not be difficult, and the information and training are being made available. On the revenue side, the country needs to give more priority to reforming the tariff or tax system to keep the level of revenue up.

The PSI provisions of the Uruguay Round were confusingly drafted and designed to meet a problem that was diminishing as the Round progressed. Formally, Uganda and other East African countries may be able to meet the requirements on transparency, although Kenya has suggested that there may be serious difficulties on 'non-discrimination.' In the long run, higher income and better-trained customs officials will obviate the need for PSI. Uganda will need to consider how to divide their resources between compliance and negotiating clarification or amendment of the provisions.

Kenya must comply with the TRIPS rules by the end of this year; Tanzania and Uganda have another 6 years, and have access to technical assistance for this. All three countries have legal systems, which are likely to be adaptable to the standard forms of laws. Thus, priority must be placed on improving such rules and assistance sought from WTO, WIPO and other donors to improve compliance with TRIPS.

Until now, investment law has not been central to GATT or WTO rules, and Uganda has been able to ignore the rules. Now, with the strengthening of the disputes procedure, increased interest in attracting foreign investment, and discussion of a more extensive regulation of investment under the WTO, Uganda needs at least to be aware of the rules, and their vulnerability if it does not adapt to them. The wide variety of types of investment regime which are used by developing (and developed) countries, however, makes technical assistance less certain than in more clearly defined areas. It must be combined with awareness of other countries' regimes and national judgement.

The new regulations for regional trade agreements do not affect the EAC countries' arrangements on goods trade directly, but could affect the way in which they are examined. If they move into further integration on services, they would need to balance this with any offers they make multilaterally because of the way the services agreement is structured. There is no effective form of external advice for this. They will need to look at how they will act together on common policies in the next Round: other customs unions offer examples, and may offer advice or a common position.

There is no need for immediate action on labour or environment issues to meet international standards (except for the existing environmental protocols and any obligations under ILO Conventions). But there will be opportunities for Uganda to use environmental arguments in trade negotiations, and therefore it may be useful to examine products for which liberalisation is sought from this point of view.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Continuous Trade Negotiations

By definition negotiation is the process of discussion and compromise in order to arrive at a mutually acceptable (not necessarily mutually beneficial) arrangement. In the past, trade negotiations were conducted in cycles and in between these cycles, the implementation of the agreed results took place. Today, international trade negotiations occur almost continuously, and involve many different forums. This presents a difficult challenge for all countries and in particular for developing countries and the least developed among them such as Uganda. The negotiations are not only onerous in terms of costs of participation and implementation of results, but also onerous in terms of addressing the many different and difficult trade subjects consider such as services and intellectual property rights.

The Uruguay Round was one of the more remarkable negotiation activities in the world in the last twenty years. It was the longest round of all previous rounds, and included the largest number of participants, especially developing countries. However, African countries played a marginal role in the process despite the fact that the outcome will set the scene for international trade relations for the foreseeable future.

The various Lomé Conventions (i.e. first, second, third and fourth conventions) have also been one of the most dominant negotiation platforms on development since the Second World War. Uganda and other African States through the mechanism of the ACP Group have played a much more active role in the process. This was expected given the benefits in terms of financial assistance and market access provided by the EU under the Convention. However, the significant point so far is that Lomé has been a one way traffic with trade and aid concessions flowing from the EU States to the ACP States.

The PTA for Eastern and Southern Africa, which became COMESA has been a more internal negotiation process for the African countries concerned. However negotiations on trade issues were relatively uncomplicated and were not protracted. Under the guidance of the UN agencies, the Economic Commission for Africa (ECA) and the PTA Secretariat a fairly straightforward process of tariff reductions was established, initially against a “Common List” and a set of rules of origin. In time these were modified from being exclusive to being inclusive and rules of ownership were removed from the qualifying criteria. While compliance with the tariff reduction process has been variable by the member states there has been no fundamental revision of the process.

The re-creation of the East African Community is a relatively recent event and has been driven in the main by a political process. It has considerable economic impacts and will also see the development of a *de facto* Free Trade Area amongst the three member states. The trade negotiation process is in its infancy but some supporting impact analysis has been completed.

The Cross Border Initiative is not a formal trade agreement but is rather a technical process to assist the successful compliance by the member countries with their trade and investment liberalisation commitments, as well as to try and fast track the liberalisation process. It is aligned to the COMESA agreements and is supported by a number of the multilateral aid agencies.

Putting all these agreements and initiatives together one gets the following matrix:

WTO	**Lome**	**COMESA**	**SADC**	**EAC**	**CBI**
Kenya	Kenya	Kenya	-	Kenya	Kenya
Tanzania	Tanzania	Tanzania	Tanzania	Tanzania	Tanzania
Uganda	Uganda	Uganda	-	Uganda	Uganda

The anticipated end point of these agreements is as follows:

WTO	**Lome**	**COMESA**	**SADC**	**EAC**
Liberalised, transparent world trade order	Mutually beneficial liberalised trade between the EU and the ACP states* Possibly leading to an FTA	Customs Union amongst participating states by the Year 2004 with a CET	Free Trade Area amongst participating states within 8 years of Trade Protocol entering into force	Customs Union possibly by the Year 2004 with a CET

* Excluding all of the other development functions of the Lomé Convention

Uganda and the other two members of EAC have three levels of negotiations in which they need to be actively involved:

- The first is amongst themselves over the shape and form of the EAC;
- The second is with other African States either within the context of COMESA or SADC; and
- The third is with the international community under both Lome and the WTO.

6.2 The Negotiation Agenda

6.2.1 The Internal Negotiation Tasks and Stakeholders

Before Uganda can successfully take its place at the international negotiation fora it is important that it reached internal domestic agreement on the priorities, strategies and way forward. Some of the outstanding issues at the national level are as follows:

Tasks	Stakeholders	Inputs	Outputs
Tariff measures	Finance, Trade, Customs, CB, PS	Economic and revenue impact analysis	Tariff reduction/ stabilisation programme
Infant industry issues	Trade, PS, Finance	ERP analysis, incentive options, time frames	Programme of support to infant industries
Rules of origin and Customs issues	Finance, Customs, Public Service Board, Justice, PS	Resource requirements, legal amendments	Improved trade facilitation and transparency
Export incentives	Finance, Trade, CB, PS	Economic analysis, revenue impact	WTO compatible programmes to boost exports
Standards, technology and quality issues	Industry, Standards Bureau, Justice, PS	Technical and financial resources, legislation amendments	Enhanced value added production meeting international requirements
Trade Facilitation	Trade, Customs, Transport, Finance, CB, Justice, PS	Technical review of trade processes, documentary and legislative changes	Transparent, non-bureaucratic trade processes
Utility costs and infrastructure	Finance, Utility Operators, Transport, PS	Prioritisation of projects and processes affecting utility and transport provision	Competitive, efficient provision of utilities and transport

Key: Finance includes any National Revenue Authority,
Trade, Industry, Transport, Finance means any Ministries responsible for these issues
Customs means the National Customs Authority
CB means the Central Bank
PS means the private sector representatives

6.2.2 The Regional and International Negotiation Tasks

The following is a "suggested list" of the issues that need to debated, agreed upon and implemented within the context of the different agreements to which Uganda is a signatory.

***EAC*:** Tariff reduction, tariff harmonisation, common external tariff, infant industry protection, cross border investments, rules of origin compliance, customs administration, export incentives and export processing zones, labour regulations, utility costs, business licenses, and services.

***COMESA*:** Common external tariff, rules of origin compliance, cross border investment, customs administration, cross border investments, labour movement, services, exchange controls, and trade facilitation

SADC: Tariff reduction, tariff harmonisation, infant industry protection, cross border investments, rules of origin compliance, customs administration, export incentives, labour movement, services, and trade facilitation.

***EU*:** Tariff preferences, stabilisation funds, reciprocity, trade development assistance, SPS, inward investment, trade facilitation, and services.

WTO: Tariff bindings, safeguard measures, countervailing and anti-dumping requirements, customs administration, legislative change, SPS, NTBs, competition policy, export incentives and subsidies, agreement on textiles and clothing, services, technical assistance, and technology transfer.

6.2.3 The External Negotiation Tasks and Timeframe

Leading from the above agendas is the setting out of an indicative framework of priority tasks and timings for Uganda's international negotiations. This framework would need to be debated and enhanced within the national context involving all key stakeholders.

MTS	**Task**					**Probable Timeframe**
EAC	Tariff reduction	HET	NTBs	Standards	Legislation	1999-2002
COMESA	Tariff reduction	CET	NTBs	Safeguard measures	Cross-border Investment	1999-2004
EU	Re-negotiation of Lome	SPSs	NTBs	Market stability	Inward Investment	1999-2005
WTO	Notifications, Legislation	ATC	TRIMS	TRIPS	Services	1999-2005

6.2.4 Guiding Principles for Regional Integration

The principle of "reciprocity" has primacy in regional integration. It is a principle whereby all the other member countries under an agreed framework should reciprocate preferences offered by one member country in a regional agreement.

The "subsidiarity" principle underscores the need for integration schemes to incorporate multi-level participation and involvement of a wide range of stakeholders in the process. This implies that all relevant inputs will be allowed to influence developments in the regional co-operation arrangements, and highlights the recognition that there are various interest groups.

The "variable geometry" principle allows for progression in co-operation among a sub-group of members in larger integration schemes in a variety of areas and at different speeds. EAC, SADC and COMESA, in one way or another, have adopted a development integration approach which provides for continuing with functional co-operation in addressing the developmental issues of production, infrastructure and efficiency in the member countries and the different levels of economic development in each member country

The principle of "international competitiveness", whereby benefits of regional co-operation and/or integration can also be seen in terms of removing or reducing the economic problems and difficulties of the co-operating countries, individually or collectively. It implies an acceptance of the discipline of the global markets. International competitiveness is guided by the following factors: the macroeconomic environment; the ability to use and develop technology to reduce costs, improve product quality and generate new products; the ability to market products successfully in domestic, regional and international markets.

In addition that in negotiations, such as in trade, the member countries of an integration grouping can try to obtain trade agreements and concessions en bloc as opposed to individually. This has greater effectiveness within a customs union whose external trade policy has been integrated into a common external tariff.

6.3 Issues of Particular Concern for Uganda

6.3.1 Regional

CET – Possibility of converging towards the least liberalised level. There is the possibility that under the EAC or COMESA arrangements that the negotiations would lead to the adoption of the tariffs being applied by the least liberal member. This would effectively mean that those countries that have gone furthest along the tariff reform process would have to step backwards and re-impose higher tariffs. This retrogressive step could be adopted in order to achieve consensus, however, may be in conflict with WTO obligations. This has a higher chance of happening in the EAC due to the small number of countries involved. In the context of COMESA it is expressly recognised in the Treaty that some members may opt out at the start of a CET and that possibly only a sub-group would proceed, with the others joining at a later stage.

Rules of Origin – Over stringent requirements, questions of substantial transformation and inputs from third country member states. No need for internal rules of origin if effective CET in place. Rules of origin can often be used as NTBs. They can also be an administrative nightmare with the potential to generate corrupt practises. The principle of keeping it simple and easily verifiable should be followed, so that both the enterprises and the verifying authorities (usually Customs or the Chamber of Commerce) can use the rules as positive instruments for internal trade development and value added processing.

Subsidies – Definitional issues and investigations of compliance. The LDCs have considerably more leeway under WTO rules to provide subsidies in one form or another for economic development. Clear definitions of what is permitted and what is not will need to debated and agreed upon. In Uganda the limits to the national budgets means that very little is actually available for direct subsidies to the enterprise community. Generally there are only duty drawback schemes which do not function very well and are under-resourced. Export development funding is usually through some donor programme providing technical assistance, concessionary finance or matching grant funds.

Overlapping obligations and variable time frames – These can cause considerable confusion. For a Uganda importer for example will he use the rules governing COMESA or the EAC for an import from Kenya.

Redistribution effects and possible compensatory mechanisms - As Uganda undergo structural change and the impact of liberalisation, there is increasing pressure for development finance or compensatory mechanisms to be put in place to alleviate some of the short term negative effects. Often the issue is where is such support to come from. ACP countries are most familiar with the STABEX and SYSMIN systems of the EU. Within the region the only similar example is the revenue share formula operated by the South African Customs Union (SACU).

How to achieve large-scale impacts through regional integration - There is evidence to indicate that such integration tends to work best where the member states have a strong link to a major market. Relevant examples include SACU with South Africa, Mercosur with Brazil and the EU with Germany. Given the dynamics of the Lomé Convention, COMESA and SADC there are various options that could be explored. Is it conceivable that under the EAC umbrella and given that Tanzania is a member of SADC that a bilateral trade treaty should be negotiated between the EAC and SACU? This could anchor the EAC into the dynamism and size of the South African market as a counter balance to possible loss of market preference into Europe.

Product differentiation - Another concern is the similar structure of production in the three countries with similar primary commodity exports, limited exchangeable manufactured products (with possible exception of Kenyan manufactured goods) and similar import requirements which are not produced in the region – such as machinery and transport equipment. However while there are understandable fears that EAC regional integration will create difficulties for the domestic industries in Tanzania and Uganda in particular, the overall adjustment process in which the three countries are involved will by definition increase competition for domestic industries. It is just possible that by creating competition within a more limited environment of East Africa, domestic industries will have time to adjust before facing the full onslaught of the international market place.

Suitable exchange rate adjustments will have a vital role to play in this situation given the rapidly declining tariff barriers both at the regional and multilateral level. The essential feature amongst all this is a high level of co-ordinated action and harmonisation of polices by the three countries if the process is to be successful and equitable. Development finance will play a crucial role in assisting the integration process.

6.4 Strategies to Improve Economic Performance

6.4.1 Strategies to Improve The Investment Potential

For Government

A stable macro-economic and political environment: This is essential to attract regional and foreign investment. This includes stable rates of exchange, inflation and interest as well as the commitment of the governments in protecting the interests of those parties that invest in their countries. Policies planned for the economy need to be clearly stated, and deviations from a strategy should be minimal. A recent survey[11] carried out among UK investors to Tanzania, Uganda, South Africa, Zambia and Zimbabwe pointed out that some adjustment policies have done much to improve prospects. It was mainly through reducing regulation and bureaucracy through privatisation, trade reform, new investment codes, decontrol of forex, prices and tax holidays. However, structural and social issues such as infrastructure, labour skills and regional integration had been neglected.

Privatisation: It is a vehicle for attracting additional domestic and foreign investment flows. It acts as a signal of government commitment to the private sector, consolidating the credibility attributed to other economic reform measures. It creates expectation that the privatised companies will provide a more reliable service and will expand their capacity. It also creates an environment where investment could increase more easily.

[11] "Private Capital Flows to Sub-Saharan Africa, A Supply-Side Study", External Finance for Africa, July 1997.

Liberalisation of financial markets: These would improve access to finance. In Uganda an institutional mechanism is needed to support a market economy through a legal environment where corporate disputes are settled on time.

Improved fiscal policy: The successful introduction of independent revenue authorities in some countries has improved efficiency in collecting taxes and providing a better environment for investment. More work can still be done in this area in Uganda.

Investment promotion: Investment promotion missions, with strong private sector participation, should be undertaken to let foreign investors know of the investment potential in the East African countries. Investment Promotion Agencies should be more focussed in their investment promotion and targeting efforts and their regional approach should be strengthened by setting up campaigns for the region as a potential investment zone. Use the private sector to sell investment opportunities.

Reduced bureaucracy: The potential for corruption and investment costs will be reduced if regulations can be simplified and made more straightforward.

Other issues to be considered: These include:

(a) allocate more resources to improvement of infrastructure;

(b) diversify sectors and source countries; and

(c) target promotion efforts with a deeper analysis of firms' motivations, sectors' investment policies and ways of retaining existing investment.

For Regional Integration Institutions

Promote regional investment among potential investors in the following areas:

- Creation of a common market within the region to widen the consumption base;
- Promotion of cross-border joint ventures;
- Improved information sharing and avoiding duplication of efforts;
- Implementing agreed programmes and projects;
- Co-ordinated investment promotion activities for member States. Example: The EAC seminar on "East Africa – from Co-operation to Community" in January 1999 in London which gathered senior government officials from Kenya, Tanzania and Uganda, EAC officials, delegates from the European Union and the Commonwealth Secretariat and the East African and foreign private sector. The seminar targeted participants from companies interested in setting up manufacturing, trading and business operation in the region, bankers and corporate financiers, fund managers and investment analysts, consultants, lawyers and other professional advisers; and

- Create and maintain peace in the region. The institutions can play a central role in resolving ongoing disputes and devising effective mechanisms of conflict prevention. This in turn creates an environment more conducive for attracting investors.

For Donors

The options proposed for the donors can be summarised as follows:

- Harmonise donors' programmes to fit in with the priorities of the recipient;
- Focus more on private sector development, recognising them as an independent entity;
- Support efforts that either work towards increasing investment or towards minimising impediments to investment;
- Improve co-ordination with other donors to avoid duplication in resource allocation;
- Facilitate access to finance especially for small and medium sized companies; and
- Focus on the improvement of the overall infrastructure of the countries.

For Private sector

Focus on private-sector driven actions to improve the investment climate, financial services and local capacity, especially:

- Investing in capacity building through education and training to develop a better skilled labour force and to increase management capacity;
- Adopting a regional outlook and be pro-active;
- Seeking ways of diversifying available financial institutions and instruments for private sector development, such as investment funds and leasing companies;
- Developing a capacity to compete for resources and markets. Private sector associations should network with counterpart organisations in the region and internationally, for technology transfer, capital attraction and development of joint ventures;
- Taking up opportunities created by the privatisation programmes; and
- Taking active part in investment promotion activities.

6.4.2: Strategies to Improve the Private Sector Participation In Regional Integration, and Trade Policy Formulation

All the main actors in the regional integration process can help improve the situation. Underlying this process should be a renewed commitment to regional integration, realising that although there may be short term problems associated with the process, the long term gains will overall have a far greater impact.

(a) Government

Government should give a commitment to positively involve the private sector in policy dialogue relating to regional integration. In Uganda this would involve inviting private sector participation at the national level in determining national policy positions. The CBI Technical Working Groups (TWGs) could play an important role in this respect. They should be given the mandate by governments to facilitate, at the national level, the decision-making process and subsequent implementation of decisions made by regional institutions. The TWGs should provide a forum in each country for discussion and debate between all relevant government departments and the private sector. Furthermore they can initiate studies at the national level to help in the discussions at the regional level. Workshops and seminars, on a joint public/private sector platform, should be organised to discuss particularly important issues with the wider business community. For specific issues, special joint public/private task forces could be set up.

At the higher policy-making level, Uganda should consider establishing a joint public/private sector forum for regional integration issues. Membership of this forum would comprise the Ministers with responsibility for economic and integration issues, the Governor of the Central Bank and leaders of the private sector. In Mauritius a Regional Co-operation Council exists specifically for this function.

Government should invite private sector representatives to be official delegates in their delegations to regional meetings where policy issues are discussed. If funding is a problem for certain representatives, governments should seek means to cover the direct costs of their participation in regional meetings in the same way as the costs are covered for public sector officials. Close co-operation between the public and private sector on regional integration issues will do much to enhance mutual trust and respect between government and private sector representatives.

(b) Private sector

The private sector in Uganda must become more pro-active in respect to the issue of regional integration, realising that the global liberalisation trends will leave them behind unless these issues are given their full attention. Regional integration is a stepping stone to global integration of the markets, a trend that is well underway now in East Africa. Private business people, both from small as well as larger companies, need to give adequate resources to their membership organisations, in terms of manpower and finance, to enable these organisations to adequately participate in regional issues. These organisations need to be adequately staffed with professionals capable of handling these issues.

Business people also need to give of their time to meet with government officials to discuss, lobby and participate in the process. This could involve participating in TWG or EAEN meetings, workshops and other fora set up for discussing these issues. The apathy that has characterised private sector participation in these issues must be a thing of the past.

(c) Regional integration institutions

Regional integration institutions have to give more than lip-service to private sector participation in their activities. Some recent initiatives that are helpful include the decision by the EAC Secretariat to circulate widely the draft text of the Treaty to establish the East African Community. This document has been in the public domain for nine months already. It gives civil society, including the private sector, the opportunity to discuss the document and give feedback to the policy makers before the text is finalised. The TWGs in each of the three concerned countries have taken the opportunity to have the draft Treaty discussed in joint public/private sector workshops. This approach to publish and circulate draft texts should be taken as standard practice by regional integration institutions when developing new policy instruments, with emphasis on increasing use of electronic communications (email and the Internet) for such purposes. Workshops involving private sector representatives, at both the national and regional levels should be organised to debate significant key policy issues.

The private sector should be viewed as a main actor in the regional integration process, not as an “extra”. The private sector should be invited to participate in the technical meetings of the institutions, both as members of national delegations and through apex private sector organisations, such as the East African Business Council and EAEN. Policy discussion documents should be circulated in advance to such bodies and their views sought.

(d) Donor organisations

Inevitably there will not be adequate funds for the private sector in East Africa to participate as extensively as would be desirable. Donor organisations can help in this process. Regional projects can be developed- in consultation with the private sector- to support the private sector in regional integration activities. On the one hand practical support measures can be given to facilitate intra-regional trade and investment. An example is the EC-funded PRIDE[12] project for the Indian Ocean Commission countries. Under this project, assistance is given to manufacturers and exporters in these countries to enable them to undertake activities to reposition themselves and improve their competitiveness on regional and international markets. Eligible activities include trade missions, trade fair participation, inter-industry visits, manpower development in the areas of production and international trade, market studies, technical assistance for improvement of productivity and quality, and development of joint ventures. Funding is part grant and part loan, organised through commercial banks.

The other main area of assistance would be in the area of policy dialogue. At the national level, private sector organisations usually have insufficient in-house expertise to handle these important policy issues. Donors can support these organisations through technical assistance to carry out studies and to help organisations prepare their own policy statements.

Donor organisations can also assist with cost sharing for private sector attendance at meetings, workshops and seminars to discuss regional policy issues. This was the case with the workshops held on the draft EAC Treaty.

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12 Programme Régional Integré de Développement des Echanges

6.5 Recommendations on MTS Actions

The table below summarises the action needed and where Uganda could seek assistance for furthering their involvement and commitments to the MTS. There are a few areas where all that is needed is direct legal or other short-term technical assistance to meet a clear requirement, including checks of existing rules for compliance in import policy, agriculture, anti-dumping and safeguards, the rules on customs valuation, and TRIPs. There are some areas where medium-term assistance will be necessary, financial (for support in Geneva) or support amounting to development assistance to meet new requirements from an appropriate technically specialised agency.

JITAP offers the possibility of this support, but countries may need to take the lead in identifying their specific requirements. Areas appropriate to Uganda include:

- legal training in trade law and its interpretation to make national assessments of the status of assistance to industry in the context of rules on non-tariff barriers and subsidies;
- assistance in designing fiscal reform to meet the cost of changes in customs valuation or any import requirements found not to be in compliance;
- assistance in developing national and regional standards; and
- identifying suitable trade development assistance to enhance performance of potential export products.

There are also areas where the best form of assistance may be information from or co-ordination with other developing countries, which need to make the same strategic decisions about domestic policies and international negotiating positions. These include how to manage the integration of services into the international system, the use of PSI, regulation and promotion of investment, regional co-ordination of standards and lobbying for international standards, and the interaction between customs unions and the WTO.

Finally, there are areas where only the national governments (perhaps with regional co-ordination) can take action and design long-term strategies for services, investment, and government procurement rules.

Table 7.1: Summary of Actions for Uganda

	UGANDA
WTO participation	
Action	Strong representation in Geneva
Assistance	Ask for financial assistance
Least Developed Programme	
Action	Check that all commitments made in 1997 are met
Assistance	Ask for assistance from specialist organisations as well as WTO/ UNCTAD
Import policy	
Action	Need final legal check that comply with rules
Assistance	Ask for short-term legal assistance from WTO

	UGANDA
Agriculture	
Action	No action required at present In next negotiation, watch for increased regulation
Services	
Action	Have met minimum requirements for Uruguay Round. In next Round, there may be pressure to increase the number of services covered
Assistance	National policy makers must formulate national priorities, as background for new offers Information from other developing countries
Non-tariff barriers	
Action	Check all local policies against current interpretation of WTO rules Continue to check as WTO law evolves
Assistance	Legal training for local experts
Subsidies	
Action	Notify subsidies for import-replacement, and abolish by 2003 (or ask for extension) Check all local assistance against definition of 'subsidy'
Assistance	Legal training for local experts
Anti-dumping, countervailing, safeguards	
Action	Reform COMESA rules to comply with WTO Ensure a regional approach
Assistance	Short-term technical assistance from WTO
Customs valuation	
Action	Reform rules for valuation and notify compliance to WTO
Assistance	Find alternative revenue sources
Pre-Shipment Inspection	
Action	Train customs officers to meet requirements on transparency and non-discrimination Consider how agreement can be clarified in the next Round
Assistance	Co-ordination with other users of PSI
TRIPS	
Action	Meet WTO rules by 2005
Assistance	Legal short-term assistance, (already offered)
TRIMS	
Action	No immediate action required Watch discussions for potential negotiations
Assistance	Study other countries' rules and experience
Standards	
Action	Establish standards and enforcement mechanism Co-ordinate regionally Look at possibility of new international standards
Assistance	Long-term technical assistance from specialist agencies Co-ordination with EAC, COMESA and other developing countries
Government procurement	
Action	No action required by WTO Consider long-term advantages and disadvantages, including in the ECA and COMESA regional groupings.

	UGANDA
Regional obligations	
Action	No immediate action required Examine EAC and COMESA commitments in context with how WTO Committee on RTAs interprets understanding on Article XXIV Examine interaction between services in WTO and in region Develop regional negotiating machinery
Assistance	Exchange experience with other customs unions
Labour and environment	
Action	No immediate action required Examine potential environmental arguments for individual exports
Assistance	Assistance with analysis and production by sector from sectoral experts

ANNEXES

ANNEX I: LIST OF NOTIFICATIONS SUBMITTED TO WTO SECRETARIAT

1. THE ANTI DUMPING AGREEMENT
Art 16.5: Semi annual reports and contact points
Art 18.5: laws, regulations, etc

2. AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURE
Art XVI of GATT and Art 25 of SCM: Subsidy programmes, contact points and semi annual reports
Art 32.6: Laws

3. AGREEMENT OF RULES OF ORIGIN
Annex II Art 5.4: Preferential rules of origin

4. RECTIFICATION AND MODIFICATION OF THE SCHEDULES OF TARIFF
Concessions and their certification
Finance Bill

5. THE TRIMS AGREEMENT
Art 5.1: TRIMS not in conformity
Art 5.2 and 5.3: Extension of transitional period
Art 6.2: Publications

6. THE TRIPS AGREEMENT
Art 69; Contact point
Art 63.2: laws, regulations, etc.

7. THE SPS AGREEMENT
Annex B: National Notification Authority and enquiry point

8. THE CUSTOMS VALUATION AGREEMENT
Art 16.5: Competent authority
Art 22.1: Domestic procedures and laws
Art 20: Application of WTO valuation

9. THE PRESHIPMENT INSPECTION AGREEMENT
Art 5: Publication and policy

10. THE TBT AGREEMENT
Art 2.9: and 2.10: Technical Regulation, Formulation of standards and the legislation
Art 10: Enquiry point and Government Authority

11. THE IMPORT LICENSING AGREEMENT
Art 1.4 (a): Laws, Administration arrangements and publications
Art 5 (2): Procedures, contact points
Art 7.3: Annual Questionnaire

Source: Ministry of Tourism, Trade and Industry

ANNEX II: UGANDA BINDINGS

Tariff item Member	Description of Product	Bound Rate of Duty Ad valorem %	Other Duties and Charges	Applied Rate 1998	Other Duties and Charges 1998
0101.11	Pure-bred Breeding Horses	40	10	15	10
0101.19	Other horses	40	10	15	10
0101.20	Live asses, mules and hinnies	40	40	15	10
0102.10	Pure-bred Breeding animals	40	10	7	10
0103.10	Pure-bred Breeding live swine	60	10	15	10
0104.10	Live Sheep	60	10	15	10
0105.91	1 Day old chicks (domestic fowls)	60	10	7	10
0106.00	Other live animals	60	10	15	10
0106.11	Grown up domestic fowls	60	10	7	10
0205.00	Meat of Horse, asses, mules	50	10	15	10
0206.10	Edible offal of bovine animals	50	10	15	10
0206.21	Tongues of Bovine animals	50	10	15	10
0207.10	Fresh of Chilled poultry	60	10	15	10
0207.21	Frozen domestic poultry	60	10	15	10
0207.22	Turkeys meat	50	10	15	10
0207.23	Frozen dicks, geese, guinea fowls	60	10	15	10
0207.31	Fatty livers of geese	60	10	15	10
0207.41	Frozen livers of turkeys	60	10	15	10
0207.43	Frozen liver of ducks, geese, guinea fowls	60	10	15	10
0208.20	Frozen legs	50	10	15	10
0208.90	Other meats	70	10	15	10
0409.00	Natural honey	60	10	15	10
0410.00	Other edible products of animal origin				

Source:GATT (1994) Uruguay Round Schedule CXXVI for Uganda

ANNEX III: EVOLUTION OF TRADE LIBERALISATION IN UGANDA

Period	**Trade & Payments Reforms 1987-1497**
1987	Dual Licensing introduced Exemptions on raw materials and capital goods suspended
1988	Some protective tariffs (e.g. sugar & soap) raised
1989	Retention account scheme for imports introduced
1990	Export licensing system for exports replaced with certification system Forex Bureaux introduced with the legalisation of the market for foreign exchange Duty exemptions on raw material reduced
1991	Import licensing system replaced with certification system Investment Code introduced
1992	Foreign exchange auction introduced. Tariff structure rationalised to the 10-50 per cent range Several duties on raw materials abolished Tax on coffee exports abolished Removal of monopoly on Coffee marketing Board
1993	Unified inter-bank foreign exchange market established Requirement to surrender coffee export receipts waived Special import surcharges on Kenya imports applied Harmonised cording system for imports introduced Documentation system reformed, pre-shipment inspections required Cross Boarder Initiative for the promotion of regional trade initiated
1994	Tariff structure further rationalised to the 10-30% range Import duties on some raw materials set at 1- percent and subsequently suspended Stabilisation tax on coffee introduced to help manage the impact of the coffee boom
1995	Import duties on raw materials re-applied, but at 5% rather than at 10% Stabilisation tax on coffee reduced Capital goods on which exemptions from import taxes had been granted to specific investors were zero-rated and such exemptions suspended.
1996	Stabilisation tax on coffee abolished Value Added Tax introduced, Duty Draw back Scheme implemented Currency convertibility within EAC allowed Tariff reduced by 80 per cent on goods from COMESA countries
1997	Fuel duty on petrol reduced to 215%, diesel 160% and Paraffin 105% ASYCUDA customs based data processing system introduced Capital account liberalised

Source: AERC Africa and the World Trading System, 1998

ANNEX IV: TRADE-RELATED TECHNICAL ASSISTANCE IN UGANDA

Uganda is a beneficiary of a number of trade-related technical assistance projects supported by multilateral and bilateral donor agencies. These include:

(i) UNDP sponsored 5 year Private Sector Development Project (PSDP);

(ii) Swiss Government sponsored "Procurement and Logistics Management Association (PALMA) aimed at improving import operations and techniques-expired;

iii) USAID sponsored "Investment in the Development of Export Agriculture" (IDEA). This is a five year (1994-99) year project, providing vertically integrated or commodity system support to exporters of designated non-traditional agricultural export crops including, Floriculture and Horticultural crops, essential oils, Maize, Beans and Soya beans;

(iv) IDA/World Bank sponsored "Private Sector Competitiveness Project (PSCP). This is a five year project (1996-2000) with the objective of enhancing the competitiveness of private sector enterprises through four components namely; Private Sector Foundation (PSF), implementing agency of PSCP; Business Uganda Development Scheme (BUDS) enhancing know-how through markets, equity financing, enhancing know-how through financial partners, and Investment Promotion facilitation, supporting UIA to attract DFI from abroad;

(v) Austrian sponsored Technology Information Promotion Services (TIPS), assistance extended to UMA and implemented by UNDP;

(vi) World Bank/Austria sponsored Commercial Law Reform Project implemented by Uganda Law Reform Commission and Ministry of Justice;

(vii) On-going sector projects include:

- EU (ECU 2 Million) Pilot Project support extended to the Silk Development Association for the Development of Silk Production and Marketing;
- IDA/World Bank sponsored Cotton sub-sector development project. It aims at rationalised cotton ginneries and prepare them for privatisation;
- Commonwealth Secretariat assistance to the Coffee Trade Federation;
- USA (Proceeds of PL480) - Support to co-operative activities and oil seeds development project;

- Common Fund for commodities (proposed) - Support to develop a Ware-housing Receipt System to enhance coffee and cotton marketing;

- UNDP - National Leather and Footwear Project;

- USAID - Private Enterprises support, training and organisation (PRESTO); and

- Launched in 1997 to support the Private Sector.

viii) Joint ITC/UNCTAD/ WTO integrated Programme for the follow-up and implementation of WTO agreements; and

ix) Integrated framework for technical assistance for trade and development of least developed countries.

Source: Ministry of Tourism, Trade & Industry, Uganda, October 1998

ANNEX V: SCHEDULE OF SPECIFIC SERVICES COMMITMENTS BY UGANDA

Modes of Supply: 1.Cross border supply 2.Consumption abroad 3.Commercial presence 4.Presence of natural persons

Sector or Subsector	Limitations on market access	Limitations on National treatment
II. Sector – specific commitments		
9. Tourism and related services		
A. Hotels and Restaurants	1. None 2. None 3. Government approval is required in accordance with the investment code and the Regulations within it 4. Unbound except for technical personnel except where Ugandans are or become available. Entry and temporary stay of foreign service suppliers subject to compliance with laws, regulations and guidelines in force in Uganda	1. None 2. None 3. None 4. Unbound except for technical personnel stipulated under market access
B. Travel Agencies/Tour Operator	1. None 2. None 3. Government approval required through Investment Authority 4. Unbound except for technical personnel except where Ugandans are or become available. Entry and temporary stay of foreign service suppliers subject to compliance with laws, regulation and guidelines in force in Uganda	1. None 2. None 3. None

Source: WTO: Schedule of Specific Commitments

ANNEX VI: UGANDA TARIFF ADMINISTRATION

Uganda's customs valuation is presently based on the Brussels Definition of Value (BDV). In practice, valuation generally relies on the actual transaction value, including freight, insurance, and other incidental charges, but not the 2 per cent import commission (c.i.f. value). In the absence of a reliable basis, the authorities may use alternatives, for examples the value of similar goods, or the wholesale price with retroactive adjustments. The relevant legislation is currently being aligned with the definition of the WTO Customs Valuation Agreement (Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994); Uganda has until 1 January 200 to bring its valuation procedures in the line with the Agreement.

<u>Anti-dumping and countervailing measures</u>

Uganda's Customs (Dumping and Subsidies) Act provides the current legal framework for anti-dumping and countervailing measures. The Act, which dates back to the former East African Community (EAC); Chapter II (5) I (ii), deals only with dumped or subsidised imports form outside "the partner States", i.e., Uganda, Kenya and Tanzania (Section 2). The President of a partner State may, subject to a public-interest clause, impose an additional duty on dumped or subsidised imports which cause, or threaten to cause, material injury to an established domestic industry; the relevant rate is to be determined by the President or the Minister of trade and Industry. The Act explicitly requires that any such action be in conformity with the members' obligations under the GATT. The authorities envisage legislative changes following the ratification of the WTO and COMESA Agreement.

While no measures were taken under these provisions over the last decade, Uganda levied a surtax during 1993/94 on a range of imports from Kenya.

The COMESA Treaty bans dumping practices, which cause, or threaten to cause, material injury to an established industry in a member State. To counteract infringements, anti-dumping duties may be imposed at a level not greater than the dumping margin. Subsidies are considered "incompatible with the Common market if they distort, or threaten to distort, competition and affect intra-area trade. They may draw countervailing duties, subject to the same criteria and constraints as above. Offsetting duties may also be imposed on dumped or subsidised imports from third countries. The member States are held to co-operate in detecting and investigating dumping and subsidy practices and imposing remedial measures.

<u>Safeguard measures</u>

According to the authorities, Uganda has no specific safeguard legislation corresponding to Article XIX of the GATT. The Government intends to initiate such legislation on the basis of the Uruguay Round Agreement on Safeguards.

A safeguards clause in the COMESA Treaty (Article 61) allows for measures to be taken, it serious economic disturbances arise as a result of trade liberalisation under the Treaty. The measures, which are not further specified, are to be applied on a non-discriminatory basis; they can be maintained for up one year and may be extended only by a decision of the Council of Ministers.

ANNEX VII: UGANDA'S TARIFF REGIME AND REFORMS

As of now, Uganda has attained the (0,5 10, 20) simplified structure, which conforms to the Mauritius Terms. Uganda is also already ahead of the Tariff Reduction programme agreed for COMESA member countries in 1987. The current tariff structure facing COMESA imports is (0,2,4,5,6,10,12) with 12% reserved for tobacco products (which are on the Negative List.) However, imports from East Africa attract a further 10% point surcharge, which implies that the effective tariff structure faced by imports from East Africa is (0,12,14,16,22). These rates are clearly higher than the rates faced by imports from the rest of the world. Tobacco also faces a duty of 30%, making the non-zero rates applicable in Uganda to be effectively four.

Uganda imports also generally face three main excise duty rates of 0, 10 and 20 percent. But petroleum products face higher excise rates at 215% for petrol, 160% for diesel and 105% for kerosene. Tobacco faces an excise rate of 122% while large vehicles of 2500cc and above face 20% rate. Other excise rates are 30% on mineral waters, 65% on beers, 75% on wines and 130% on ethyl alcohol, spirits and vinegar. There is also an import levy of 2% for Uganda national Bureau of Standards and a pre-shipment charge of 1% applicable to imports worth over US$10,000. All imports face 17% VAT.

Uganda maintains a negative list for imports of cigarettes, beers, sodas, car batteries and second-hand tyres. The ban on importation of these goods was lifted in April 1998, except cigarettes, which will be unbanned in April 1999. The abolition of imports bans were replaced by import surcharges of 30% on beer and 15% on sodas and car batteries. The import surcharges are programmed to be removed by April 1999.

Other imports, which have faced bans or restrictions are dairy products, wheat flour, foam mattresses, meat products and sugar. These products which are mostly imported from Kenya, have been restricted on the basis of standards and quality control. But it is widely acknowledged that the restrictions were mainly for protection.

CUSTOMS DUTY EXEMPTIONS

In **Uganda**, duty exempted imports were valued at US$ 99.3 mn in 1996/97. At an average weighted tariff of 15.8%, this would work out at a revenue loss of US$15.7 mn or 17.9 percent out of total potential revenue of US$87.9 mn on declared imports. Of these, 69 percent were for diplomats or other obligations under international agreements. Discretionary exemptions accounted for 29 per cent, with the balance being for approved investors, but these are being phased out. Total revenue loss on declared imports amounted to 24.5 percent of potential revenue. It was further estimated that an additional US$51.5 mn might have been lost that year on unofficial imports, for which no duty was paid. This was equivalent to 76 percent of actual duty collections. Unofficial imports are imports that are smuggled, under-valued or not recorded by Customs.

Table 1: Customs duty revenue losses and exemptions

Country	Year	Currency	Potential Revenue	Actual revenue	Revenue loss	Official exemptions	Rev. loss as % of potential
Uganda	1996/97	US$	87.9 mn	66.4 mn	21.5 mn	15.7 mn	24.5

* = estimated on simple average.

NON-TARIFF BARRIERS

Some non-tariff barriers are still remaining after the significant efforts of the governments to abolish them as a mean of protectionism, but the more traditional legal NTBs have mostly disappeared.

The ban on imports to **Uganda** for products such as beer, sodas, car batteries and second hand tyres were lifted on 1st April 1998. However, some restrictions have been imposed on imports that have not complied with Uganda's Quality Standards, appearing to be a mean of protectionism to some importers.

ANNEX VIII: MATRIX OF EXCHANGEABLE PRODUCTS AND MARKETS FOR UGANDA (SOURCE: ITC)

Evaluation of export performance and potential of the priority products

The products were selected according to their weight in the export basket, their export performance and the dynamism of world demand.

Uganda

The ten priority products are:

030410	Fish fillets and other fish meat, minced or not, fresh or chilled
030420	Fish fillets frozen
060210	Cuttings and slips, unrooted
060310	Cut flowers & flower buds for bouquets or ornamental purposed, fresh
090111	Coffee, not roasted, not decaffeinated
091010	Ginger
120740	Sesame seeds, whether or not broken
130219	Vegetable saps and extracts nes
240120	Tobacco, unmanufactured, partly or wholly stemmed or stripped
520100	Cotton, not carded or combed

Indicators for additional priority products are as follows:

030269	Fish nes, fresh or chilled excl heading No 03.04, livers and roes
070820	Beans, shelled or unshelled, fresh or chilled
090500	Vanilla beans
410121	Bovine hides, whole, fresh or wet-salted

Source : ITC

ANNEX IX: VALUE AND QUANTITY OF UGANDA EXPORTS - 1990-1997

QUANTITY OF UGANDA EXPORTS 1990 - 1997

COMMODITY	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
TRADITIONAL EXPORTS (TE)								
Coffee (kgs)	141'885'060	125'100'240	121'849'740	125'318'520	180'312'300	167'565'180	248'928'180	254'226'840
Tourism (visits)	54'672	66'750	92'736	111'393	147'308	193'000	252'830	220'000
Tea (kgs)	4'475'364	7'206'698	7'853'877	11'051'100	10'971'539	10'681'687	15'948'620	14'827'892
Cotton (kgs)	18'685	7'014'149	7'815'104	8'463'635	3'820'789	5'577'000	6'780'991	15'315'978
Tobacco (kgs)	2'331'896	2'397'426	2'290'842	3'853'569	3'406'885	5'941'396	2'205'559	8'351'294
NON-TRADITIONAL EXPORTS (NTE)								
Fish and Fish Products (kgs)	1'689'534	4'750'986	4'812'975	6'037'051	6'563'726	12'970'862	16'396'387	4'838'918
Maize (kgs)	25'893'156	33'069'533	29'623'004	169'577'793	102'182'795	104'062'315	79'913'956	20'573'399
Gold (gms)		100'000	7'500	11'200	1'413	2'331'400	8'303	263'876
Hides & Skins (kgs)	2'703'251	2'791'907	3'678'861	5'745'319	6'954'945	4'681'451	5'594'084	11'198'240
Sesame Seeds (kgs)	9'211'978	17'804'925	12'862'640	8'371'569	4'141'612	8'948'799	10'431'114	11'913'429
Beans and Other Legumes (kgs)	8'751'111	14'514'586	9'326'682	47'590'369	37'514'264	27'408'903	34'239'197	30'022'988
Electric Current (kwh)	148'984'868	150'079'500	281'827'128	256'182	252'200'000	190'648'665	151'100'000	169'400'000
Soya Beans (kgs)	23'300	2'381'623	1'103'760	7'075'689	1'689'997	3'988'091	9'216'417	396'244
Soap (kgs)	2'500	128'477	597'361	2'596'719	2'411'841	3'999'920	3'513'969	5'706'791
Cocoa Beans (kgs)	1'396'058	702'464	623'160	1'313'058	623'022	509'060	1'443'876	155'311
Bananas (kgs)	582'401	1'814'406	1'951'516	2'912'023	2'534'918	1'474'100	3'026'149	2'008'570
Vanilla (kgs)	1'536	4'820	3'446	5'815	13'488	176	14'868	96
Cut Flowers (kgs)	16'483	7'078		96'973	293'160	2'580'810	4'312'616	11'388'777
Hoes and Hand Tools (Nos)	45'300	261'454	362'026	424'538	476'150	783'675	376'431	90'753
Live Animals (Nos)	3'485			47'219	63'869	42'026	47'201	19'337
Pepper (kgs)	44'559	220'308	181'661	333'113	269'333	80'478	74'458	33'780
Ginger (kgs)	173'695	130'777	90'868	290'157	61'715	37'306	118'419	22'223
Pineapple (kgs)	274'459	137'483	27'207	36'016	28'653	29'331	23'842	715
Other Fruits (kgs)	62'277	227'768	94'356	136'329	168'586	306'371	24'669	283'518
Ground nuts (kgs)	135'800	239'238	84'403	625'366	415'165	404'106	75'357	146'896
Other	2'787'029	9'984'375	17'373'660	34'743'704	30'688'761	60'285'105	127'880'317	226'680'645

Source : Statistics Department Entebbe, UCDA, UTB.
NOTE : 1997 figures are provisional
Complied by Uganda Export Promotion Board

VALUES (US $) OF UGANDA EXPORTS 1990 - 1997								
COMMODITY	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
TRADITIONAL EXPORTS (TE)								
Coffee	135'803'921	100'741'324	92'782'700	126'613'001	273'658'768	432'651'033	388'947'678	269'422'125
Tourism	26'789'280	32'707'500	45'440'640	54'582'570	72'180'920	94'570'000	101'185'000	107'800'000
Tea	2'805'382	5'319'053	5'672'393	9'354'101	11'801'661	8'745'057	21'984'673	14'686'936
Cotton	12'460	10'114'601	8'941'194	6'812'582	3'485'141	9'696'970	9'992'494	24'334'046
Tobacco	2'944'683	4'518'999	4'202'544	6'942'593	6'608'479	9'128'609	3'864'105	10'117'450
Sub Total	168'355'726	153'401'477	157'039'471	204'304'847	367'734'969	554'791'669	525'973'950	426'360'557
% of Total Exports	87.50	77.86	83.27	73.71	78.90	79.20	67	63
NON-TRADITIONAL EXPORTS (NTE)								
Fish and Fish Products	1'394'448	5'308'735	6'450'545	8'806'933	14'768'889	25'902'775	39'780'850	17'796'881
Maize	3'246'172	4'187'613	3'893'622	24'621'044	28'665'587	20'617'002	15'597'412	12'732'909
Gold		1'070'253	49'190	903'599	224'133	25'087'454	31'273'427	38'515'726
Hides & Skins	4'029'541	3'349'661	3'374'582	5'226'949	10'549'091	9'617'412	9'325'515	10'075'039
Sesame Seeds	5'047'294	10'517'096	6'478'367	2'776'474	1'547'876	5'696'092	7'392'208	8'988'324
Beans and Other Legumes	3'672'822	4'322'948	2'781'637	12'597'180	12'918'609	11'354'521	12'509'909	14'073'005
Electric Current	529'000	1'279'000	1'765'000	994'000	2'184'000	2'381'000	4'276'000	12'381'000
Soya Beans	9'785	467'898	270'026	2'056'383	755'784	1'738'518	2'912'777	250'730
Soap	926	45'908	302'693	1'300'713	1'739'473	2'722'379	2'241'435	2'498'821
Cocoa Beans	527'096	437'112	280'996	713'743	586'269	442'354	1'104'746	1'027'703
Bananas	308'443	161'786	207'663	339'510	1'529'750	277'890	909'638	1'285'147
Vanilla	39'717	177'738	171'440	391'170	674'000	7'587	808'692	4'726
Cut Flowers	17'994	5'620		50	236'561	2'082'545	3'480'000	9'190'000
Hoes and Hand Tools	111'042	444'726	462'421	569'949	1'020'063	2'196'515	995'887	212'501
Live Animals	106'379			285'249	150'211	43'055	120'214	29'692
Pepper	34'819	197'074	209'983	350'337	448'022	93'246	72'713	67'530
Ginger	82'445	121'201	104'678	131'956	19'570	32'438	61'403	12'625
Pineapple	174'622	72'966	18'265	29'473	43'810	27'669	38'132	1'999
Other Fruits	55'022	58'398	18'498	86'420	238'336	262'186	34'341	182'589
Ground nuts	81'256	119'562	33'896	250'657	365'211	394'157	14'984	21'990
Other	1'854'406	10'566'418	4'240'885	9'861'069	18'731'649	34'179'058	127'880'317	118'287'654
Sub Total	24'044'908	43'610'156	31'550'854	72'852'667	98'333'130	145'702'046	260'830'600	247'636'591
% of total Exports	12.50	22.14	16.73	26.29	21.10	20.80	33	37
TOTAL EXPORTS	**192'400'634**	**197'011'633**	**188'590'325**	**277'157'514**	**466'068'099**	**700'493'715**	**786'804'550**	**673'997'148**

ANNEX X: LEADING EXPORT PRODUCTS OF UGANDA ACCORDING TO MIRRORD STATISTICS BY HS CODE

Leading export products of Uganda according to mirror statistics. By HS code

Values are expressed in US $ thousands

Rank	Product item	Net exports, 96	Exports, 96	Exports, 97	Export growth 94-96, %	Export growth 96-97, %	World trade growth 94-96, %	World trade growth 94-96, %
1.	090111 Coffee, not roasted, not decaffeinated	474.565	475.290	309.624	12	-7	1	25
2.	030410 Fish fillets and other fish meat, minced or not fresh or chilled	38.264	38.264	9.202	155	-59	19	9
3.	710812 Gold in unwrought forns non-monetary	28.037	28.161	14.549		-42	10	11
4.	030420 Fish fillets frozen	13.371	13.371	10.158	56	-14	11	2
5.	120740 Sesamum seeds, whether or not broken	10.784	10.784	2.142	92	-80	27	-16
6.	520100 Cotton, not carded or combed	9.298	9.298	17.508	6	99	14	-7
7.	240120 Tobacco, unmanufactured, partly or wholly stemmed or stripped	8.753	8.753	9.704	80	12	11	9
8.	030559 Fish nes, dried, whether or not salted but not smoked	6.345	6.345	5.707	48	-10	8	0
9.	060310 Cut flowers & flower buds for bouquets or ornamental purposes, fresh	4.991	5.011	7.765	103	56	9	-1
10.	090112 Coffee, not roasted, decaffeinated	2.289	2.289	2.209	-17	141	3	31
11.	240110 Tobacco, unmanufactured, not stemmed or stripped	2.165	2.165	1.417	4	-31	3	5
12.	410130 Bovine hides, raw, nes	2.028	2.028	369	-28	-78	2	5
13.	410310 Goat or kid hides and skins, raw, nes	1.618	1.618	605	-3	21	8	-28
14.	180100 Cocoa beans, whole or broken, raw or roasted	1.376	1.376	1.571	16	14	17	-17
15.	520300 Cotton, carded or combed	1.189	1.189	120	619	-90	16	-1
16.	410110 Bovine skins, whole, raw	1.063	1.063	958	-40	69	1	-22
17.	070990 Vegetables, fresh or chilled nes	1.028	1.028	1.567	52	52	10	-5
18.	120100 Soya beans	932	932	0			11	15
19.	090500 Vanilla beans	637	637	734		15	-17	-5
20.	410122 Butts and bends, bovine, fresh or wet-salted	587	587	132	112	-78	15	-29
21.	410612 Goat or kid skin leather, otherwise pre-tanned	567	567	50	64	-90	6	13
22.	090240 Black tea (fermented) & partly tea in packages exceed 3 kg	513	513	368	-39	7	1	3
23.	030379 Fish nes, frozen, excluding heading N0 03.04, livers and roes	415	415	296	514	-23	11	-7
24.	410121 Bovine hides, whole, fresh or wt-salted	399	399	1.409	53	253	1	-2
25.	090121 Coffee, roasted, not decaffeinated	394	394	277	142	1	12	10
26.	030269 Fish nes, fresh or chilled excl heading N0 03.04, livers and roes	342	342	501	483	54	5	0
27.	051191 Fish, shellfish & aua invert prod nes&dead anim of Ch 3 nt for hum cons	328	328	206	62	-37	22	4
28.	051000 Ambergris, castoreum, etc, bile drid/not&animal gland&prod for pharm prep	313	313	293	8	-6	14	1
29.	410129 Hide sections, bovine, nes, fresh or wet-salted	297	297	0	36		5	-2
30.	070960 Peppers of the genus Capsicum or of the genus Pimenta, fresh or chilled	280	280	386	-5	38	6	10

ANNEX XI: REGIONAL TRADE AGREEMENTS IN WHICH UGANDA IS A MEMBER

1. East African Co-operation

The East African Co-operation fields of common interest are trade, transport, communication, finance and investment as well as regional immigration and Security. A Secretariat was established in November 1994 in Arusha, Tanzania. The achievements of EAC include the following:

- Currencies from Kenya, Uganda and Tanzania are fully convertible and other supporting measures are to come in respect of fiscal and monetary policies;
- A preferential customs tariff is intended to prevail within EAC; and
- The Nairobi Stock Exchange is open to investment from the other two co-operating countries where businessmen can buy shares in Kenyan companies.

Among the different initiatives of EAC, the following are of relevance:

(i) the Revenue Authorities of the three East African countries, under the auspices of the EAC, are working on plans to minimise cross-border smuggling and increase legitimate trade;

(ii) the launching of an East African loan scheme in Kampala, which will lend money to small-scale traders in the three East African countries. It is backed by a regional group of investors, Stanhope Finance Company Ltd., with the backing of the EAC; and

(iii) the joint missions abroad with the aim of promoting East Africa as a bloc for investment consideration.

2. Common Market for Eastern and Southern Africa

The Common Market for Eastern and Southern Africa (COMESA) was established in 1994 to replace the Preferential Trade Area for Eastern and Southern Africa States (PTA).

The main objectives are:

(i) a Free Trade Area to be effective by October 2000;

(ii) a Custom Union with a Common External Tariff by October 2004;

(iii) free movement of capital and investment supported by common investment practices;

(iv) a gradual establishment of a payment union based on COMESA's Clearing House; and

(v) the adoption of common visa arrangements and the right of establishment.

The COMESA Authority of Heads of States and Governments in December 1994, adopted the following priorities to be the basis of COMESA's focus for the following ten years:

1. Significant and sustained increases in productivity in industry, manufacturing, processing and agro-industries to provide competitive goods as the basis for cross-border trade and to create more wealth, more jobs and more incomes for the people of the region;

2. Increase agricultural production, with special emphasis on the joint development of lake and river basins so as to reduce dependence on rain-fed agriculture and new programmes on food security at the provincial or district levels, national and regional levels;

3. Development of transport and communications infrastructures and services with special emphasis on linking the rural areas with the rest of the economy in each country as well as linking the Member States; and

4. New programmes for trade promotion, trade expansion and trade facilitation especially geared to the private sector, so as to enable the business community to take maximum advantage of the Common Market.

Notable achievements of COMESA are:

- Implementation of tariff reductions for intra-COMESA trade leading to a Free Trade Area in October 2000. At the moment most countries offer a rate of preference of between 60 to 80 percent discount off the MFN tariffs;

- The removal of non-tariff barriers;

- Implementation of the Automated System of Customs Data (ASYCUDA) by most Member State custom administrations to facilitate trade; and

- Formulation and adoption of a single COMESA Customs Document, the COMESA-CD;

- Putting in place effective measures for transit traffic to facilitate the movement of goods; this also includes the implementation of a regional motor insurance scheme - the Yellow Card; and

- The establishment of independent institutions such as the regional trade and development bank, the PTA Bank, ZE-PRE and the Clearing House to support private sector activities.

The COMESA Clearing House is in a process of restructuring with the proposed change into a Regional Export Services Agency (RESA). The services provided would be the following ones (the proposed services are the ones resulting from a feasibility study carried out in June 1998, reported in the synopsis "A needs assessment study of banking and business sectors: a case for the creation of a Regional Export Services Agency", Tony Hawkins, ed. Janelle Farris, 1998):

- Africa Guaranty Facility covering political risks on trade related transactions of to 0 to 3 years;

- Fast Payment Facility to reduce cost of regional transactions in a liberalised foreign exchange regime by improving risk management in payment system;

- SWIFT Regional Centre for the standardisation and automation of international payment messaging; and

- Business Services to help businessmen and enterprises that want to trade or invest in the COMESA region (network of facilitators).

BACKGROUND PAPERS

BACKGROUND PAPER ONE

PROSPECTS FOR TRADE AND INVESTMENT UNDER THE EAC

Trade prospects. These are likely to increase as a result of similarities in the region in terms of income, which is translated to similar demand, influenced by similar taste (Linder hypothesis). Thus for instance, to the extent that, say, Kenyan industries are formed around the processing of raw materials found in Kenya, there are prospects that these raw materials could be imported from Tanzania or Uganda. In addition, food and other consumer goods produced in, say, Tanzania is likely to find markets in the two other countries as well. Examples include beans, maize, timber and cashew nuts.

Production prospects. Linked to trade prospects the new co-operation is also likely to result in production prospects for Tanzania as, in future each country will specialise in the production of goods and services for which it has a comparative advantage (Heckscher-Ohlin theory). Indications show that Tanzania has comparative advantages in Uganda and Kenyan market for the commodities mentioned in the preceding paragraph. Also, Tanzania would seem to have comparative advantage, vis-à-vis other SSA countries in textiles and tourism. Tanzania has known but not yet explored gas deposits in Songo Songo – a product with a market potential in the region (although it is uncertain if the amount of gas will be sufficient for export, given Tanzania's own power deficit). It was also revealed that currently Tanzania is the second largest producer of raw materials for Kenyan industries after South Africa.

Investment prospect. The broadened market may also encourage foreign and domestic investment as investors consider a larger market in anticipation of enjoying economies of scale. Multinational corporations can take advantage of the bigger market so it expected that investment will increase due to market size and harmonised investment climate. Investment can be co-ordinated to take advantage of the EA market. For example, in tourism, a circuit can be planned and co-ordinated in include all tourist services EA as a region can offer.

Note, however, than Kenyan infra-structure for tourism is much better developed that it is in Tanzania and there is a clear risk that most of the benefits of East African tourism will accrue of Kenya (much as it is today). On the other hand, it deserves to be pointed out, first, that while Kenya is likely to gain more from an integrated tourist circuit, Tanzania is not likely to lose in absolute terms and, second, this is a short-term problem because if proper attention is given to infra-structure (probably the major impediment to Tanzanian tourism), the country will rapidly become competitive.

International Trade Profile for East Africa: 1996

BACKGROUND PAPER TWO

POLICY OPTIONS AND RECOMMENDATIONS FOR FUTURE EA COUNTRIES MACRO-ECONOMIC CO-OPERATION

These policy recommendations are necessary to avoid the possibility that the only function of less industrialised countries will be importers and assembly lines for more developed countries.

EA countries differ in level of (industrial) development, economic structures, size, sensitivity to external policies and the way they deal with their adjustment problems.

Up to now EA countries held on too much to their sovereignty and macroeconomic policy was mainly made at national level. The impact of the nationally-driven adjustment policies was minimal on poverty reduction within the countries (though it is difficult to draw firm conclusions because of data problems). The whole changing economic environment, within the context of increased globalisation and liberalisation forces the range of barriers between EA economies to be brought down. This reduces the impact of nationally-focused policies and requires a different approach to industrial development, instead of a passive and defensive approach.

EA member states should realise that there is a growing need to approach macroeconomic and development issues, such as labour market and industrial issues, in a co-operative, integrated and consistent approach. For the whole EA enterprises to survive, macroeconomic policy making should be approached on a sub-regional level instead of merely on a country-by-country basis. Member states should address problems together in order to create more stable and productive economies, which does not mean that they should abandon nationally-driven initiatives but complement these with wider development objectives by a joint approach. They should be convinced that national benefits could be maximised through such changes. Following the approach of adjustment policies at sub-regional level, consensus about a series of key building blocks should grow across the individual countries. However a system of adjustment based on a common package for all EA countries should be avoided.

Within the macro-economic framework, policy-making will be determined by the interaction of the EA partners; actions concerning co-ordination and co-operation, taken by each country will determine the degree and pace of the co-operation process.

Attention should be paid, within an EA-wide approach to macro-economic policy-making, to the following interlinked areas:

- Research and knowledge;
- Information flows across EA countries; and
- Developing a nationally-based institutional framework (to lead the flow of information and improve communication channels).

EA states need to have the institutional ability to undertake macro-economic analysis which draws together and exchanges information on a national and sub-regional level to further suitable policy formulation.

BACKGROUND PAPER THREE

URUGUAY AGENDA

Built-in Agenda Agreed on Uruguay Round	**Deadlines**
Agriculture: negotiations initiated	by the end of 1999
Subsidies: review of use of provisions on R&D subsidies	by 1/07/96
Services: new round of negotiations start	by 01/01/00
Services MFN exemptions: first review	by 01/01/00
Maritime Services: market access negotiations	30/06/96 suspended to 2000
Services and Environment: modification of GATS on general exceptions	Ministerial conference 12/96
Intellectual property: review of application of provisions on geographical indications	by the end of 1996
Intellectual property: negotiations on creating a multilateral system of notification and registration of geographical indications for wines	start in 1997
Intellectual property: review of certain exceptions to patentability and protection of plant varieties	1/01/99 or after
Intellectual property: examination of scope and methods for complaints where action has been taken that has not violated agreements but could still impair the rights of the complaining country ("non-violation")	by the end of 1999
Intellectual property: yearly review of the implementation of the agreement	by 01/01/00 or after
Pre-shipment inspection: yearly review of the operation and implementation of the agreement	by the end of 1996
Government procurement of services: negotiations start	by the end of 1996
Government procurement: further negotiations start, for improving rules and procedures	by the end of 1998
Basic telecoms: negotiations end	postponed from 1996
Financial services: negotiations end	postponed from 1996
Technical barriers to trade: yearly review of the operation and implementation of the agreement	by the end of 1997
Trade Policy Review Body: appraisal of operation of the review mechanism	by 1/01/00
Trade related Investment Measures: review of the operation of the agreement and discussion on whether provisions on investment policy and competition policy should be included in the agreement	by 01/01/00
Textile and Clothing: review of the implementation of the agreement Textiles Monitoring Body to report to Goods Council by end of 07/01 and 07/04	by the end of 1997, up to full integration into GATT 1/01/05
Safeguards: results of negotiations on emergency safeguards to take effect	by 1/01/98
Anti-Dumping: examine standard of review, consider application to countervail cases	1/01/98 or after
Rules of Origin: work programme on harmonisation of rules of origin to be completed	20/07/98
Sanitary and Phytosanitary measures: review of the operation and implementation of the agreement	in 1998
Dispute settlement: full review of rules and procedures	by the end of 1998
Tariff bindings: review of definition of "principle supplier" having negotiating rights under GATT on modifying bindings	by 01/01/00

Source: WTO

BACKGROUND PAPER FOUR

SPECIAL AND DIFFERENTIAL TREATMENT

The principle of Special and Differential Treatment (S&D Treatment) was enunciated in the Tokyo Declaration saying that the Tokyo Round negotiations should seek to accord particular benefits to the exports of developing countries, consistent with their trade, financial and development needs. Among proposals for special and differential treatment are:

- Reduction or elimination of tariffs applied to exports of developing countries under the Generalised System of Preferences (GSP);
- Expansion of product and country coverage of the GSP;
- Acceleration of the implementation of tariff cuts agreed to in the Tokyo Round for developing country exports;
- Substantial reduction or elimination of tariff escalation;
- Special provisions for developing country exports in any new codes of conduct covering non-tariff measures;
- Assurance that any new multilateral safeguard system will contain special provisions for developing country exports; and
- Principle that developed countries will expect less than full reciprocity for trade concessions they grant developing countries.

The Tokyo Round has legitimise preferential treatment in the “Decision on differential and more favourable treatment, reciprocity and fuller participation of developing countries” in 1979, usually described as the “Enabling Cause”.

The Enabling Clause codified the “graduation” principle by which developing countries would be expected to take on more and more of the obligations of GATT membership as their economies grew stronger. This has generally been interpreted to mean that developing countries will progressively give up various components of S&D Treatment as they achieve higher levels of economic development, although the Enabling Clause itself contains no specification of appropriate criteria for graduation.

Special and Differential Treatment rested then on two operational pillars[13]:

1. Enhanced access to market:

- Through preferential access under the GSP;

[13] UNCTAD Discussion paper on Special and Differential Treatment in the context of globalisation, December 1998.

- The right to benefit from multilateral trade agreements, particularly on tariffs in accordance to the MFN principle, without being obliged to offer reciprocal concessions; and

- The freedom to create preferential regional and global trading arrangements on Free Trade Areas and Customs Union (Article XXIV).

2. Policy discretion in their own market:

- Concerning the access to their market (right to maintain trade barriers to deal with Balance of Payment problems and to protect their infant domestic industries); and

- The right to offer governmental support to their domestic industries using various industrial and trade policy measures that otherwise would be inconsistent with their multilateral obligations.

Most of the changes in S&D treatment during the Uruguay Round can be traced to one institutional innovation that was adopted as a guiding principle for the round: the "Single Undertaking" principle. This principle required that all members of GATT/WTO would be bound by more or less the same set of rules. The acceptance of this principle automatically reduced the scope of many of the existing S&D provisions.

The Uruguay Round Agreements, accepted by all developing countries (which was not the case for the Tokyo Round), provide for Special and Differential Treatment mainly in the form of:

1. Time-limited derogation: - in the application of countervailing measures
   - for undertaking certain commitments

   The time –limits will be phased out in the context of WTO Agreements by 2005[14].

2. Greater flexibility with regard to certain obligations; and

3. Best endeavour clauses.

The single most important S&D provision to survive the Uruguay Round without modification for both developing and Least Developed countries is the enabling clause.

Most of the S&D treatments have been incorporated into the WTO Agreements but it has been done in a somewhat *ad hoc* manner. There were considerably eroded during the Uruguay Round because it was addressed separately in each negotiating group without an

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[14] There are only few exceptions under which developed countries, and particularly LDCs may obtain an extension of the transition periods. LDCs may, under the TRIPs Agreement, if their request is "duly motivated", obtain extension of the transitional arrangements. Developing countries may also request the Council for Trade in Goods to extend the transition period for the elimination of TRIMs. Under the Agreement on Subsidies and Countervailing Measures, LDCs and low-income developing countries (less than $1,000 per capita) are exempt from the prohibition of export subsidies contingent upon export performance, while others must phase out export subsidies over an eight year period, i.e. by the end of 2003. However, a developing country may request an extension of this eight-year period from the Committee on Subsidies and Countervailing Measures.

underlying conceptual framework. There was no overall consensus as to the trade measures required by developing countries as essential elements of their development programmes.

POST-URUGUAY ROUND S&D PROVISIONS

Subject	Developing Countries	Least Developed Countries
1. Safeguards	• Measures extendable for an additional duration of 2 years beyond the general limit of 8 years. • Can re-apply measures more often. • No safeguard action can be taken against a product originating in a developing country if its share of imports is less than 3% or not more than 9% for a group of developing countries.	• Measures extendable for an additional duration of 2 years beyond the general limit of 8 years. • Can re-apply measures more often. • No safeguard action can be taken against a product originating in a developing country if its share of imports is less than 3% or not more than 9% for a group of developing countries.
2. Balance of Payments	• Simplified consultation process applies.	• Simplified consultation process applies.
3. Subsidies		
Exports	• Not prohibited for LDCs with per capita income <than USD$1000.	• Not prohibited.
Import Substitution	• Not prohibited for 5 years from 1995.	• Not prohibited for 8 years from 1995.
4. Anti-dumping	• Special consideration when action is contemplated.	• Special consideration when action is contemplated.
5. TRIMs	• Temporary deviation allowed for BoP protection. • Elimination of prohibited measures within 5 years from 1995. • Time extension can be requested.	• Temporary deviation allowed for BoP protection. • Elimination of prohibited measures within 7 years from 1995. • Time extension can be requested.
TBTs	• Not bound to use international standards. • Technical assistance to be provided.	• Not bound to use international standards. • Technical assistance to be provided.
Customs valuation	• May delay implementation for a maximum period of 5 years.	• May delay implementation for a maximum period of 5 years.
Agriculture		
Tariff reduction	• Lower levels of reduction over longer period.	• No commitment required.
Domestic support	• Lower levels of reduction over longer period.	• No commitment required.
Export subsidies	• Lower levels of reduction over longer period.	• No commitment required.
Textiles and Clothing	• More favourable treatment for small producers.	• More favourable treatment.
Services	• Special considerations. • Technical assistance.	• Special considerations. • Technical assistance.
TRIPs	• Longer transition period: 5 years extendable to 10.	• Longer transition period: 10 years subject to further extension.
Dispute Settlement Process	-	• Obligatory provision for good offices, conciliation for mediation.

The application of the S&D principle in future trade will depend on the recognition that the basic elements of the “Enabling Clause” are still relevant and could be consolidated by their restatement and adaptation to the current context. This would involve:

1. Recognition that GSP treatment should not be “rolled back”, meaning that the access provided under the GSP should be maintained;

2. Extension of time limits for S&D Treatment in the context of WTO Agreements where the need for such extension can be demonstrate;

3. Encouraging regional and inter-regional preferential agreements among developing countries under the Enabling Clause. Developing countries should be provided differential and more favourable treatment in regional agreements with developed countries;

4. Extension of duty free access to all imports from LDCs; and

5. Financial assistance, without which the countries will not be able to implement their obligations and exercise their rights.

BACKGROUND PAPER FIVE

TRADE IN SERVICES (GATS)

The Provisions on LDCs stipulate that:

The serious difficulties of the LDCs should be taken into account in the operation of the GATS.

Priority should be given LCD's in the negotiation of specific commitments and on the increasing participation of developing countries in international trade in services.

There would be special treatment and particular recognition of the LCD's in future stages of progressive liberalisation in international trade in services

Increased technical assistance opportunities would be available to LDCs in the course of applying GATS.

BACKGROUND PAPER SIX

TRADE IN SERVICES: NEW OPPORTUNITIES FOR LDCS[15]

"For LDCs, services are increasingly important both as a direct export and as inputs into the production process. For some LDCs, the export of services is, or has the potential to become, a significant source of export earnings: the Gambia and Maldives are major tourist destinations; Benin and the United Republic of Tanzania earn substantial fees from transit through their ports of the imports and exports of neighbouring countries; and Bangladesh an (l the Sudan receive substantial remittances from workers living abroad.

The availability of efficient, cost-effective commercial services to domestic producers is an important determinant of competitiveness. Where the domestic economy is unable to provide the quantity or quality of producer services demanded by local producers and exporters, there is an increased demand for the import of these services, resulting in additional pressure on an already fragile balance of payments. Few LDCs are in a position to benefit immediately in a significant way from the export of commercial services, given the weaknesses of LDC firms' financial and human resources and their restricted access to international distribution networks and information channels. Nevertheless information technology is creating new opportunities for long-distance labour-intensive export activities from developing countries, such as data entry in the Caribbean or software-writing in India.

Another segment of the tourist market, which offers potential to certain LDCs, is ecotourism, which encompasses activities that are based on respect for the environment and do not entail environmental degradation. Eco tourism typically involves the operation of small-scale tours to natural areas or wildlife habitats, and since it is less capital-intensive than mass tourism it offers greater opportunities for local small and medium-sized enterprises. Uganda is an example of an LDC which is successfully developing the low-volume high-value-added ecotourism market, based on the rare wildlife, particularly the gorilla, which inhabits protected areas in the country, and rafting or surfing on the Nile river at the Bujagali Falls. Bhutan and Nepal have been successful in developing the high-value-added market for trekking, although Nepal is now experiencing some of the adverse environmental impacts of over-rapid expansion."…..

"So far, two major service sectors have been covered by a multilateral agreement. In February 1997, agreement was reached on basic telecommunication services by 69 WTO members, including 40 developing countries, and at the end of 1997, agreement was reached on trade in financial services by 70 WTO members. GATS recognises that the process or liberalisation should take place with due respect for national policy objectives and the level of development of individual members, both overall and in individual sectors. Thus, developing countries have the flexibility to sequence their market liberalisation in line with their particular development situation. In addition, GATS calls on members to help developing countries, through specific negotiated commitments, to strengthen their domestic services sector and improve their access and distribution channels and information networks. Priority is to be given to the liberalisation of sectors and modes of supply of export interest to LDCs.

[15] Extract from The Least Developed Countries 1998 Report, UNCTAD

LDCs could gain significantly from a more active involvement in trade in services for a number of reasons. First, the liberalisation of trade and investment in services can bring significant efficiency gains. Particularly in crucial infrastructure services such as telecommunications, transport and environmental services. Second, the high skill level needed in many service sectors, combined with a high local labour content, suggests that the transfer and diffusion of knowledge and know-how can be another important gain from inward investment in services. Third, services fulfil crucial linkage functions in an economy: the most obvious examples are transportation and telecommunications, but business services such as finance, insurance and accounting also allow other industries, (producing either goods or services) to operate more efficiently (World Bank, 1997). To ensure that these gains are realised from the liberalisation of imports of these services, it is desirable to lay clown conditions giving priority to the infrastructure and other critical services, transfer and diffusion of knowledge and know-how$_1$ and important linkages with domestic industry."

Liberalisation of Tourist Services[16]

"LDCs can use GATS and the multilateral trade framework to support the implementation of policy measures to help their face up to a more competitive market environment. By participating in the forthcoming review of the GATS Annex on Air Transport Services, LDCs can press for the liberalisation of air transport regulation as a way of lowering the price of air travel and improving the efficiency of airlines. They can also seek commitments to the training of personnel and the provision of access to distribution channels, which are essential to tourist exports, as provided for in articles IV and XIX of GATS.

The liberalisation of investment codes and the provision of commitments under GATS may encourage foreign direct investment in the tourist sector, particularly in hotel infrastructure. A range of options are available for foreign direct investment projects, including full ownership by foreign investors, joint ventures, franchising, management contracts, hotel consortia and full national ownership. Important benefits of foreign involvement in the hotel sector are the transfer of marketing and managerial skills, staff training and help in meeting international quality standards."….

In formulating a liberalisation strategy for the service sector, LDCs need to consider two broad questions (UNCTAD/World Bank, 1994). First, what price is the economy paying for inefficient service sectors in terms of missed development opportunities? Second, to what extent might these inefficiencies be reduced by increased liberalisation of transactions in services? These questions can be asked both for the service sector as a whole and for individual service activities. In the case of the latter, policy reform may focus on a service sector where the country has a comparative advantage, such as tourism, and where the removal of restrictions on foreign investment may enhance the export capacity of the sector. In other cases, the focus may be on sectors where the country does not have a comparative advantage, such as financial services, but where improved efficiency as a result of liberalisation should decrease the costs of inefficiencies that are passed on to the rest of the economy.

[16] Ibid

LDCs also need to review their position regarding CATS, and to reconsider whether they are taking full advantage of the opportunities it offers for creating a more secure and transparent environment for suppliers of services (UNCTAD, 1996a). The promotion of development is, after all, an inherent objective of GATS; for example, article IV recognises the asymmetry in the level of development of services in developed and developing countries and commits the developed countries to taking measures aimed at strengthening the domestic service sectors of developing countries and providing effective market access for their exports. Article XIX of GATS provides developing countries with the appropriate flexibility to progressively extend market access to foreign service suppliers in line with the country's individual development situation, and to attach conditions to such access with the aim of achieving the objectives referred to in article IV. Negotiations on the further liberalisation of trade in services are continuing in WTO with a view to completing the framework of GATS rules by the end of the decade. It would appear to be in the interests of LDCs to engage more fully in the negotiations than they have done hitherto.

The challenge for policy makers pursuing a liberalisation strategy is to find a proper balance between greater competition and adequate regulation. Regulation is needed in situations where there is a monopoly or near-monopoly of supply, or where information is inadequate. An effective regulatory and supervisory framework is a prerequisite for the liberalisation of the financial sector. Banking supervisory authorities have a central and distinctive role to play through the licensing of banks, enforcement of proper capital adequacy standards and enforcement of disclosure of accurate information on banks' assets and liabilities. They must have the power and financial resources to either re-capitalise bankrupt banks, force liquidation or negotiate acquisition by other parties, and to ensure that small investors are protected (for example, by means of a deposit insurance scheme)."

BACKGROUND PAPER SEVEN

ENVIRONMENTAL CHALLENGES FOR EXPORTING TO THE EU[17]

Table: Environmental policy instruments European Union

X In force (existing), with explicit environmental orientation
^ In force, but without explicit environmental orientation
- Not in force, not used
O Under discussion/planning

	CS	FE	AF	WP	PE	BM	EE	HE	OE	FU	PA	TX	PG	DC	BT	PV	SO
Various Prohibitions	X	x	x	x	X	-	-	-	-	-	-	-	-	-	-	-	-
Admission Procedures	X	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-
Registration	X	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-
Information duties	X	-	-	-	X	-	-	-	-	-	-	-	-	-	-	-	-
Product Standard	X	-	-	x	X	x	x	-	x	-	-	-	x	x	-	-	-
Take-back Obligations	-	-	-	-	-	-	-	-	-	-	-	-	x	-	-	-	-
Distribution Restrictions	^	-	-	-	^	-	-	-	-	-	-	-	-	-	-	-	-
National Product charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Labelling	X	x	-	x	X	-	x	x	-	x	x	x	x	x	X	x	x
Declaration of contents	X	-	-	-	X	-	-	-	-	-	-	-	-	x	X	-	-
Quality* Marks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

*Other than official ecolabelling schemes

Explanation of abbreviations

AF Animal Feed
BT Batteries
DC Detergents and Cleaners
FE Fertilisers
HE Household Equipment
PA Paper
PG Packaging
SO Solvents
WP Wood Preservatives

BM Building Materials
CS Chemical substances
EE Electronic Equipment
FU Furniture
OE Mineral Oils (and energy)
PE Pesticides
PV Paints, lacquers, Varnishes
TX Textiles

[17] Source : Eco Trade Manual, Kommanet BV, 1998

National Ecolabelling Schemes

Name of the Label	Scope (which countries)
- EU Ecolabel	All of the 15 EU member states
- Milieukeur label	
- Blaue Engel/Blue Angel label	The Netherlands
- Stiftung Warentest label	Germany
- Empfohlen vom IBR label	Germany
- Nordic Swan	Germany, Denmark
	Finland, Norway and Sweden

Product groups covered by the EU Ecolabel Scheme (February 1998)

Product group	Published in the Official Journal of the European Union
- Revised criteria for washing machines	L 191 of 01 August 1996
- Dishwashers	L 198 of 07 August 1993
-Soil improvers	L 364 of 31 December 1994
- Tissue paper products	L 019 of 24 January 1998
- Laundry detergents	L 217 of 13 September 1995
- Single-ended light bulbs	L 302 of 15 December 1995
- Indoor paints and varnishes	L 4 of 06 January 1996
- Bed-linen and Tshirts	L 116 of 11 May 1996
- Double ended light bulbs	L 128 of 29 May 1996
- Copying paper	L 192 of 02 August 1996
- Refrigerators	L 323 of 13 December 1996

Products groups for which EU Ecolabels are under development (October 1998)

Product group	Status
Bed mattresses	Criteria completed, awaiting formal adoption
Personal computers	Criteria completed, awaiting formal adoption
Footwear	Criteria under development
Textile products	Criteria under development
Detergents for dishwashers	Criteria under development
Batteries for consumer goods	Study completed
Floor-cleaning products	Study completed
Sanitary-cleaning products	Study completed
Shampoos	Study completed
Rubbish bags	Study completed
Converted paper products	Study completed
Converted paper products	Study completed