

# SEATINI



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**Message of Supachai Panitchpakdi, secretary-general of UNCTAD, to the 11<sup>th</sup> African Oil & Gas Trade and Finance Conference delivered by Lakshmi Puri, Director, UNCTAD trade division Nairobi, 23 may 2007**

*In his message the Secretary General of UNCTAD cautioned that the challenge of energy security will either become a driving force towards the development of global alliances for energy, investment, technology, and environment development –or it will turn into a source of conflict and global loss. There is, therefore “a need to formulate a global oil policy to reconcile the diverse needs and capacities of individual countries, and laying the foundations for future development”. The following is an abridged text of his message.*

Energy development is one of the most challenging issues facing developing regions, and particularly Africa, today. Energy determines the quality of our daily lives and is one of the most important drivers of economic development, especially in the context of increasing globalization, trade growth and the digital revolution. The provision of adequate, affordable energy is essential for eradicating poverty, improving human welfare and raising living standards worldwide. Unfortunately, however, there are still 1.6 billion people in the world without electricity, 509 million of them in Africa. To achieve the Millennium Development Goals, this number should be reduced to less than 1 billion by 2015. But this will not be possible without dramatic new investments in energy resources and infrastructure, including alternative sources of energy and efficient energy use. To quench the world's thirst for energy, according to IEA estimates, a cumulative

investment in energy-supply infrastructure of over \$20 trillion in real terms is needed for 2005-2030, with at least half this amount being directed to developing countries. This requires international cooperation and private-sector participation, along with the appropriate government policy initiatives.

Many changes will need to be effected through worldwide research and development, coalitions of energy users and producers, efficient use of energy, and energy mix. The challenge of energy security will either become a driving force towards the development of global alliances for energy, investment, technology, and environment development – or it will turn into a source of conflict and global loss. As proposed at an UNCTAD expert meeting last November on the "Participation of Developing Countries in New Dynamic Sectors of World Trade: Review of the Energy Sector", there is a need to formulate a global oil policy to reconcile the diverse needs and capacities of individual countries, and laying the foundations for future development.

Through its work on energy in Africa, UNCTAD seeks to enable both exporting and importing countries to achieve oil security. We adopt a holistic regional approach, helping exporting countries to devise strategies for fostering the development of the energy sector as an engine for Africa's development. The oil and gas industry is the most important wealth-creating sector on the continent. For some countries, it generates over 90% of total revenues and accounts for over 50% of GDP. Key policy objectives to meet economic growth and development needs include channeling oil revenues into capital investments in national and regional infrastructure

development and basic services, while avoiding real exchange rate appreciation and taking due account of each economy's absorption capacity.

African oil-importing countries could reap great benefits from cooperation, particularly in the procurement field. Savings can be made from efficient procurement procedures for oil and oil products. Reorganizing the procurement of small volume imports of petroleum products into bulk procurement, and distributing these imports to sub-regions, will generate economies of scale. Sharing storage infrastructures can also generate savings, but this requires active cooperation from the governments involved.

A survey of African importers by the African Development Bank shows that 28 countries spend more than 10% of their total import bill on oil. The tremendous volatility in international oil prices has an impact not only on budget revenue and expenditure but on national economies as a whole. The transportation sector and the movement and supply of goods are affected, leading to slower economic growth and erosion of export competitiveness. Importing countries need to adopt measures that would allow for spreading the costs of higher oil prices over a long period of time. Such policies could include structured finance and risk management instruments.

Another important issue that UNCTAD considers a prerequisite for the structural transformation of the oil and gas industry is enhancing the competitiveness of local entrepreneurs. However, the involvement of local enterprises in the industry's auxiliary services is very low, and few linkages exist to generate economic spillovers.

Critical to the success of local content development is setting pragmatic measures, pro-active policy intervention to ensure environmental sustainability of productive activities, and long-term strategies within the context of public-private partnerships, involving all stakeholders. Adequate financing is also needed to implement complex and capital intensive exploration and production activities, as well as small service contracts.

Increasing oil price volatility, and the growing seriousness of global warming, have driven countries and institutions to explore alternative energy sources, especially renewable and climate-friendly sources such as bio-fuels, wind energy, tidal and sea energy, and solar power.

The bio fuels sector is a typical example of this shift, having undergone considerable growth and development over the past decade. Bio fuels offer an attractive diversification strategy for developing countries. For instance, 80% of African land can be used for biofuels production, which can have great benefits not just in terms of energy mix, but also for employment and wealth generation. However, using more land could affect food availability. Further analysis is needed to assess the risks of a possible trade-off between biofuels development and food security.

Biofuels production in Africa is still relatively young. Investment in infrastructure, technology and research will be required to gear production towards the needs of small farmers, whether for local scale or agro-processing purposes. Africa will need to find viable funding sources to develop this sector to meet its priority domestic needs, especially for electricity generation and

transportation. To address these needs, UNCTAD and EBID – the Ecowas Bank for Investment and Development – have pooled efforts to promote the financing of bio-fuels and Jatropha plantation development in Africa, with a special emphasis on CDM (clean development mechanisms). This initiative, the first of its kind, involves creating a fund to finance agricultural and industrial production of bio-fuels in Africa. The main objective is to promote investments in the bio-fuels supply chain, including a window for financing Research and Development and capacity building.

A first step in this direction will be an EBID-financed project for the production of biodiesel in Ghana, at a cost of \$35 million, in conjunction with Ghanaian commercial banks and other financial institutions.

In closing, allow me to reiterate our great appreciation to Kenya for hosting our 11th Africa Oil & Gas Trade and Finance Conference. This year's meeting will expand on the central theme of the "Interface between Hydrocarbons and Finance", with a special emphasis on issues related to natural gas, downstream deregulation, technology innovations, the future of refineries, and cooperation.

I thank the distinguished speakers and participants who made this annual gathering a success. We will continue to organize these conferences as an interface between the energy and finance sectors and as a forum for exploring how oil and gas can contribute to growth and poverty alleviation in Africa

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**China Premier reaffirms  
commitment to help Africa  
accelerate its social and economic  
growth**

*Wen Jiabao*

*“As the economic and trade relations between China and Africa grow closer the bilateral financial cooperation at various levels develops in an all-round way. The Chinese government is ready to continue working with the international financial institutions including the African Development Bank (ADB) to build a bright future in Africa. We are committed to helping Africa accelerate social and economic growth so that the African countries and people are benefited tangibly”. This was stated by the Chinese Premier Wen Jiabao, when addressing the annual meeting of the Board of Governors of the African Development Bank 16th of May in Shanghai, China.*

He noted that the deepening trends of world multi-polarization and economic globalization create both valuable development opportunities and serious challenges to Africa. We are glad to see that in recent years Africa enjoys increasing peace and stability, stable progress of regional cooperation and integration process, strong economic growth momentum, constant social progress and strides resolutely forward on the road of development and rejuvenation. However, we should also be aware that Africa still faces arduous tasks of economic and social development and difficulties of realizing the Millennium Development Goals. To further grow Africa should rely on its own efforts, but the support and help of the international community is equally important. He appealed to the international community, especially the developed countries, to honor their commitments to assisting Africa, by taking tangible

actions in terms of debt reduction and exemption, market access and technology transfer, to help Africa grow its self-development capacity and achieve sustainable economic and social development.

Wen said that China and Africa share a profound traditional friendship. Since China started establishing diplomatic relations with African countries more than 50 years ago, China has built more than 900 infrastructure and public projects in Africa and provided inter alia technical in various fields. China also extends zero-tariff treatment to the exports of some least developed African countries to China and offers greater market access to African products. It takes active measures to ease Africa's debt burden and has canceled a total of 10.9 billion yuan of African debt to China. It also promises the exemption of another more than 10 billion yuan of African debt and related efforts are well underway.

He stated that during the Beijing Summit of the Forum on China-Africa Cooperation held in November 2006, the Chinese and African leaders agreed to build and develop the new type of strategic partnership between China and Africa featuring equality and mutual trust in terms of politics, mutually beneficial and win-win economic cooperation and cultural exchanges and jointly outlined the blueprint of China-Africa cooperation in the next 3 years. China announced eight policy measures to reinforce the pragmatic cooperation with Africa and support Africa's growth this include expanding assistance to Africa, canceling the debt of the heavily indebted poor countries and least developed countries in Africa, opening the market to Africa and strengthening cooperation in various economic and

social sectors. He said, "We will fulfill our commitment and make joint efforts with African countries to implement those policy measures".

The Chinese Premier underscored the need for exploring new ways of cooperation and of upgrading current cooperation to bring about mutual benefit. Government assistance should be combined with business cooperation. Government should provide more guidance and businesses act as the major players in the market. Project assessment should be strengthened and market rules followed to increase the benefit of investment and loans. Greater focus should be put on public projects, especially infrastructure, agricultural, medical and healthcare, educational, poverty alleviation and environmental protection. Technological cooperation and talents training should be emphasized to increase the development of indigenous capacity of recipients. International rules should be observed and assistance projects be done in an open, fair, reasonable and transparent way. He said that; China is committed to helping Africa accelerate social and economic growth so that the African countries and people are benefited tangibly.

He noted that over 30 years since beginning reforms China has found a development road suitable to its own national conditions. China has realized rapid economic growth, increased considerably the national strength and improved living standards.

The Chinese financial industry has also undergone fundamental changes. In recent years, China has taken major steps to reform its financial sector. Most large state-owned commercial banks have completed shareholding transformation, set up the modern

banking systems and enhanced asset quality. China's capital market reforms are moving steadily and the securities market is growing more sophisticated. The Renminbi exchange rate formation mechanism is being reformed and the market-oriented interest rate reform is accelerated. The financial sector gets increasingly open. According to its WTO commitment, China has relaxed the geographical and business scope limitations in the financial sector. An increasing number of foreign financial institutions are opening offices to do business and make equity investment in China. Financial supervision and legislation are also strengthened. To cope with economic and financial globalization and meet the needs of reform and opening up, China will continue to deepen the financial reform, strengthen financial innovation, build a modern financial system, improve financial legislation, and intensify financial supervision and control so as to ensure the sustainable, healthy, development of the financial industry.

The Premier observed that the general economic and financial situation in China is good. However, problems including growing imbalance in international payment, rapid accumulation of foreign exchange reserves and excessive liquidity still exist. We are taking comprehensive measures to solve those problems. Efforts are being made to intensify financial reform and control and use multiple financial tools to reasonably control the total amount of credit, speed up economic restructuring, stimulate domestic demand, optimize foreign trade structure, strive for basic balance of international payment, deepen the reform of foreign exchange management system, improve the Renminbi exchange rate formation mechanism, give full play to the role of

market supply and demand relations, increase exchange rate elasticity, improve the management and operation of foreign exchange reserves and find new ways of using foreign exchange reserves. We are fully confident and capable of and well positioned to properly handle financial problems and maintain the sustained and healthy financial growth. This is not only conducive to China's economic and social progress but also contributes to world economic and financial stability.

Wen lastly pointed out that as the economic and trade relations between China and Africa grow closer the bilateral financial cooperation at various levels develops in an all-round way. China attaches great importance to the cooperation with the ADB and sub-regional development organizations in Africa. In particular, since China joined the ADB in 1985 the two sides have maintained sound cooperation. China-Africa cooperation is a part of international development cooperation. The Chinese government is ready to continue working with the international financial institutions including the ADB to build a bright future in Africa.

The theme of the ADB meeting was "African and Asia: Partners in Development", and focused on infrastructure development in Africa, regional integration and poverty relief.

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### **Development Priorities, Domestic Reform and Development Assistance**

*Hon. Janat B. Mukwaya  
Uganda's Minister for Tourism Trade and Industry*

*Speaking at a WTO high level session on cotton, Hon Mukwaya highlighted that African governments have*

*succumbed to the pressures of the Washington Consensus to liberalise and become open economies. This has exposed small holder peasants of developing countries to the vagaries of the market and other forces while the powerful lobbies in the developed and other cotton producing countries have been enjoying high protection in the form of high tariffs, domestic support and export subsidies.*

*The minister stressed that while efforts are being made to eliminate all forms of support to cotton producers in the developed countries, the poor cotton producers in the least developed countries should receive development assistance and be helped to diversify and add value to their cotton in order to increase revenue and create employment. Below is the abridged version of the speech.*

1. It gives me great pleasure to take the floor and share with you some African perspectives on development priorities, domestic reform, and development assistance.
2. As you all know, Africa is a continent in which most of the world's least developed countries are found. In most African Countries, absolute poverty is rife and social, political and economic development very low. Therefore a key challenge for African countries is to ensure that their countries emerge out of under development and absolute poverty. It is now generally accepted that trade is a powerful tool in contributing to the economic development. In the past, African countries were dealing with trade as a development policy instrument in an *ad hoc* manner. However, the situation is gradually changing

with most African countries now mainstreaming trade in their national development plans and strategies. In making trade contribute to development, African countries are looking at trade not as an end, but as a means to achieve faster development and growth.

3. Uganda's, and indeed most African countries' development priorities include modernisation of agriculture, development of infrastructure such as roads, railways, energy, and support for industrialization. It is anticipated that these development priorities can best be achieved within the context of increasingly liberalized internal and external trade.
4. The reform process that has taken place in furtherance of achieving these development priorities has been heavily influenced by the Washington consensus, wherein market liberalisation has been voluntarily embraced by most African countries as the context to economic development. Indeed, these countries' Poverty Reduction Strategy Papers (PRSPs) of which Uganda's Poverty Eradication Action Plan (PEAP), is a good example clearly spell out the role of trade in economic development.
5. The effect of the voluntary liberalization has been that most African countries have become open economies. As a consequence most sectors in these economies, including the cotton sub-sector have been thoroughly liberalized. For example in Uganda, the government of Uganda abolished the Lint Marketing Board, dismantled the cotton cooperatives and liberalized both the internal and external trade of

cotton. Government only retained the Cotton Development Organisation, whose purpose is mainly regulation for standardisation, oversight and promotional. Thus cotton producers in African countries, most of whom are small holder peasants have been fully exposed to the vagaries of the cotton market and other forces such as: low and unstable prices; heavy subsidies given by the developed countries to their cotton farmers; exploitation by the middle men and the ginners; inability to acquire cotton production inputs; insecurity of land tenure and adverse climatic conditions.

6. On the other hand, while the African Country Governments succumbed to the pressures of the Washington consensus, and have liberalized their economies, the powerful cotton lobbies in the developed and other cotton producing countries have been enjoying high protection in form of high tariffs for their products, domestic support and export subsidies. For example in the period 2001/2002 direct income and price support provided by the developed countries to their farmers amounted to USD \$5.8 billion and USD\$5 billion in 2005/2006.
7. Thus the playing field is not levelled as the direct income and price support by the developed countries greatly distort the marketing of cotton which negatively affect the poor farmers in developing countries that do not receive subsidies. Indeed the international Cotton Advisory Committee (ICAC) put it that elimination of subsidies would

have a positive impact of raising prices by more than the value of development support that has been promised. For example for Uganda in 2001/02 if there had been no subsidies, an average of US \$ 31 cents would have been added to the farmer's price. Translated in Uganda shillings, the farmer would receive SHS 1,370 per Kilogram compared to the SHS 350 received.

8. This is why the Least Developed Countries and the Developing Countries Members of the WTO came out strongly at the Launch of the Doha Round to emphasize the Development Aspect of the Agenda. Additionally, this is why some members of LDCs took up the specific case of cotton in order to urge strongly for justice in the cotton market place. You will recall that regarding the trading aspect of cotton, the cotton producing countries are simply saying that it is not fair to let the poor peasant in the cotton producing countries face the full wrath of the market forces, while the rich cotton producers in the developed countries are sheltered behind high tariffs, high domestic support and high export subsidies. This is why on the development side, in Hong Kong, it was agreed that while efforts are being made to eliminate all support to cotton producers in the developed countries, the poor cotton producers in the LDCs should receive development assistance.
9. A key obstacle to the efficient production of cotton in Uganda and other African countries are the supply-side constraints including poor infrastructure, weak levels of mechanisation, energy limitations, limited funding for research, and

others. The development assistance aspects of cotton are supposed to assist these countries in overcoming these challenges. Unfortunately, at this stage, there is no clarity as to the means in which this assistance can be channelled for the specific purpose of delivering on the obligation that developed countries undertook to assist us on cotton. Our understanding of the dichotomy between the development and trade components of the cotton negotiations is that the development aspects of cotton should be dealt with prior to the trade aspects. We therefore feel that this high level session, under the auspices of the Director-General's consultative framework mechanism on cotton, is timely, because it allows us to take stock of where this issue is, and to think together, about how delivery of the development aspects can be improved.

10. I should also wish to emphasise here that as we discuss both the trade and development dimension of cotton, it must be borne in mind that down stream, the cotton farmers must be helped to diversify and add value to their cotton. This value addition will help increase the revenues and create employment. In this way the problems facing the cotton sector in Africa will have been resolved squarely. For example, Uganda would like to highlight the following projects that should benefit from the development assistance fund: (i) Support to farmer group formation (ii) Support aimed at provision of production inputs to small-scale farmers through creation of an input voucher system (iii) Support

for the establishment of a price stabilisation fund (iv) Support aimed at research for improvement of ginning out-turn (GOT), fibre quality and incorporation of resistance to wilts in Ugandan cotton varieties (v) Cotton Biotechnology (vi) Support for irrigation (vii) support in value addition (viii) Promotion of organic cotton

11. In conclusion, cotton and its importance to Africa as a whole is undoubted. A large number of African countries have undertaken more liberal reform than most other countries in the world. However, the international markets are distorted. Liberalizing these distorted markets and granting development assistance to the African countries in the short run would go a long way in achieving their national development priorities, and enable them to enjoy the fruits of their national reform processes. In parallel, meaningful and substantial reduction in domestic support in the economies of our developed country members is urgent. Short of this, it remains rhetoric to talk about Doha as a development Round.

I would like to thank the Director General of the World Trade Organization for having given me this opportunity to participate in this High Level Session on Cotton. I remain optimistic and hope there will be: (a) very clear and concise mechanism for the channelling of development assistance for cotton; (b) fruitful conclusion of the Hong Kong Ministerial pledge for quicker phase out of domestic support in cotton; (c) an overall package in Doha that delivers on development

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## ESA CSO Statement to the 11<sup>th</sup> RNF Nairobi 14 – 16<sup>th</sup> May 2007

*Members of Civil Society organisations from Eastern and Southern Africa met in Nairobi, Kenya from 12 to 13 May 2007 to review the Economic Partnership Agreement negotiations and provide a position that will feed into the 11<sup>th</sup> Regional Negotiating Forum. What follows below is their declaration:*

We members of Civil Society organisations from Eastern and Southern Africa wish to make the following observations:

### **Development**

Our understanding of the stated intention of the Cotonou Partnership Agreement (CPA) which is the basis of the EPAs negotiations is that the CPA will bring sustainable development and contribute to poverty eradication. Article 34.1, of the Agreement states, for example:

*Economic and trade cooperation shall aim at fostering the smooth and gradual integration of the ACP States into the world economy, with due regard for their political choices and development priorities, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries.*

We take this to mean that an EPA is an instrument for sustainable development. This means therefore, that the development dimension has to be reflected in all areas of negotiations. This is acknowledged by the Joint ESA-EC Report (4<sup>th</sup> April 2007) of negotiations of an EPA which explicitly states that: *“In terms of substance of the negotiations, the key priority for the ESA region is the development component of an EPA, without which there will be no EPA.”* The joint ESA-EC report goes further to state that negotiations can only be concluded: *“on the basis of agreed agenda and roadmap provided that all outstanding*

*issues are fully addressed.”* It is our assessment that the outstanding issues are far from being addressed. **We therefore call upon ESA to take a firm position in ensuring that development concerns are adequately addressed in all clusters under negotiations, as well as in the development chapter.**

### **Agriculture**

There is significant evidence of the link between food security policies and local production, yet this is the precise area of production that will be eroded as small scale farmers abandon agriculture due to their inability to compete. Any apparent gains in reduced prices from cheap subsidised imports are lost through costs of unemployment and declining local agricultural production base and demands on scarce foreign exchange to purchase food. EPAs will undermine food security in ESA, a region which is predominantly dependent on agriculture for livelihoods. This will worsen the impact of HIV/Aids in the region, thereby deepening the poverty levels. **We therefore call upon ESA countries to insist on a deal that guarantees food security and preserves livelihoods.**

The ESA agricultural sector is threatened by EU agriculture subsidies as it (ESA) is dominated by peasant production, largely dependent on natural rainfall patterns therefore vulnerable to natural disasters, with poor or non-existent infrastructure, poor access to modern energy and inadequate credit lines. In contrast, the EU, through its Common Agricultural Policy (CAP), has provided subsidies to EU farmers since 1962, which guarantee minimum price for crops, export subsidies, and development aid to diversify the rural economy. Export subsidies have made it easier for Europe to dump excess production in developing country markets at low prices resulting in destruction of local livelihoods. ESA countries will not survive competition with the EU producers in a Free Trade Area arrangement.

We note with interest that the WTO has set 2013 as an end date for the elimination of all forms of agricultural export

subsidies, but ESA countries have put no pressure on the EU to eliminate all forms of trade distorting subsidies. In particular, Article 95 of the draft EPA text, while dealing with subsidies and domestic support, makes no mention of time-bound elimination of export and domestic subsidies. As civil society we are worried that relying on the WTO process for an automatic feed-in on the subsidies issue can be a strategic blunder. It provides no effective obligation for the EU to eliminate trade-distorting subsidies and leaves ESA producers exposed.

We are of the view that in the context of the extreme and longstanding inequalities between EU and ESA agricultural production systems, there will be limited or absent returns to local and smallholder producers from an EPA unless they are deliberately protected and invested in under the EPA. Furthermore, **we call on the EU to eliminate all forms of trade distorting subsidies. The chapter on agriculture in the draft EPA text would need to specify the time-bound elimination of all forms of trade-distorting subsidies by a credible date.**

#### Market Access

The objective of ESA in this regard should be to improve market access and market entry for their products. This requires *inter alia* addressing the issues of high tariff, tariff peaks and tariff escalation, Non Tariff Barriers including SPS and TBT, and developing a more simplified and transparent tariff quota regime. ESA should continue to call for market access for its products and simplified rules of origin. There must be facilitation for ESA goods into the EU market.

EU-ACP trade cooperation should be founded on an approach that :

- Is based on a principle of non reciprocity, as instituted in the Generalised Systems of preferences and Special and differential treatment in the WTO.
- Protects ACP producers, domestic and regional markets

- Excludes pressure for trade and investment liberalisation; and
- Is founded on the respect for and supports the space of ACP countries to formulate and pursue their own development strategies.

ESA countries will only be able to take advantage of market access if it is accompanied by reform of rules of origin and much greater support for overcoming supply-side constraints. Review of tariff liberalisation must be linked to development rather than to time frames. We however, strongly believe that ultimately the success and failure of EPAs negotiations has to be measured not mainly against market access of interest to developing countries, but rather against the ability of the major trading partners to commit themselves on development.

#### Services

The EU has promoted extensive liberalisation of services in ESA countries under the GATS by requesting opening up of service sectors. The CPA (Article 41.4) states: “The Parties further agree on the objective of extending under the economic partnership ... the liberalisation of services in accordance with the provisions of GATS and particularly those relating to the participation of developing countries in liberalisation agreements.” In 2004, the EU had proposed that LDCs and other unspecified vulnerable states should not be required to further open their markets. Instead, they would “benefit from improved access to developed and rich developing markets...” (European Commission, 2004). In contrast, the liberalisation of services and the opening of markets to foreign investors is part of the EPA negotiations and EPAs are expected to liberalize ‘substantially all trade’.

As Civil Society organizations we propose great caution over making any commitments especially in key sectors such as the health sector. This caution was expressed at the 4th Ordinary Session of the AU Conference of Ministers of Trade in April 2006, where the ministers:

*“noted the intention of the European Community to seek extensive opening of African service sectors. We re-commit ourselves to pursuing the architecture under the WTO General Agreement on Trade in Services, of a positive list approach, and underscore the absolute need for a carefully managed sequencing of services liberalisation in line with the establishment of strong regulatory frameworks. We therefore shall not make services commitments in the EPAs that go beyond our WTO commitments and we urge our EU partners not to push our countries to do so.”*

**We, therefore, urge ESA countries not to make any services commitments in the EPAs that go beyond their WTO commitments and that EU partners not push for extensive liberalisation that does not recognise the absolute need for a carefully managed sequencing of services liberalisation, preceded by the establishment of strong regulatory frameworks.**

#### **Trade Related Issues**

On TRI, we reaffirm the CSO observations that Singapore issues should not be negotiated in bi-laterals as ESA countries have not developed adequate capacity to deal with the EU as an equal partner. As CSOs **we reiterate the position taken by African Ministers of Trade that the issues of investment policy, competition policy and government procurement be kept outside the ambit of Economic Partnership Agreements.**

#### **Financial implications**

Implementation of the EPA will have financial implications for the ESA countries, such as the losses in tariff revenue. Adjustment costs will arise from the direct economic measures, from the institutional demands on implementation and the spill over impacts of trade measures, including in areas such as health. Our experiences of the Structural Adjustment Programmes in Africa indicate that such costs are often not recognised, planned for, or funded.

In response to the concerns of ACP countries with regard to the costs of implementing the EPAs, the EC has pledged to increase the amount pledged under the next EDF funding cycle (2008-13, the 10th EDF) to €22.7bn. While this figure seems high, it is in fact a very small increase on the €21.3bn estimated to be needed for the 10th EDF funding cycle to cover the existing aid portfolio, even without the EPA. Hence the 10th EDF will provide little additional funding. It is unlikely that EU will cover EPA adjustment costs from its existing aid budget.

Where this leaves ESA countries with unmet adjustment costs to finance from own revenue, there is a potential for revenue to be diverted from the provision of essential services. **We therefore call for a doubling of development aid to meet additional resource cost of implementing the EPA.**

Although there are indications that the EC wishes to take compensatory measures to cover the costs of implementing an EPA through the EDF, the lack of significant additional resources implies that this will come from diversion of existing funds, including those allocated to essential services. It would appear that this uncertainty needs to be cleared before the EPA is concluded. **Therefore, we call upon ESA countries to insist on an EPA development facility which is not linked to the EDF.**

The cost of implementing EPAs in ESA countries needs to be estimated, and the sources of funds to meet this agreed on. It is important that the EPA includes predictable funding of an EPA adjustment facility, as proposed by the AU trade Ministers.

With limited sources of domestic revenue and limited tax bases, tariffs are one key source of revenue. According to the World Bank, tariff revenues in sub-Saharan Africa average 7-10% of government revenue. ESA countries thus rely on import taxes to contribute to government revenue to finance public services. If

tariffs are eliminated on EU imports this would seriously lower tariff revenues for ACP. Most ESA countries rely on import duties to raise government revenue. The loss to public revenue can be significant, with potential consequences for spending on essential services.

In a bid to offset revenue losses from tariff cuts, some countries may cut public spending, or resort to other forms of taxation, including less equitable taxes such as value-added tax on consumers, that impact more heavily on poor households. Revenue loss acts as a further pressure on governments to transfer the ownership and running of state utilities to the private sector.

#### **Negotiation process**

We observe with dismay that African governments are being bullied by the EU, and they continue to ignore technical advice (reviews) emerging from African think tanks that they are not ready to sign EPA by December 2007. This undermines the credibility of existing impact assessment studies that have shown that EPAs will have a negative impact on poverty eradication initiatives and on processes like regional integration, harmonization of national and regional fiscal policies and other related processes directed at domestic demand driven growth. **We urge ESA to carefully consider the technical advice from think tanks in responding to the EU proposals in the negotiation process.**

We note with concern that the space for regional CSOs is not being guaranteed in the RNF. **We call on the COMESA secretariat to restore the regional CSOs desk with full speaking rights.**

#### **Conclusion**

**We, CSOs in ESA, reiterate that EPAs should be an instrument to foster the development of ESA countries.** Their scope and content should be determined by this objective. Given the level of development and developmental needs of ESA countries, ESA should continue to press for Special and Differential treatment as part of the grand bargain in

the overall negotiations. S & D should be recognised as a right and not treated as a favour.

Given the asymmetries among member states, it is patently unrealistic to have a one size fits all approach to negotiations. Our countries need space to develop institutions and capacities necessary to take advantage of market access available in the global market place as well as their own domestic and regional markets. **NO COUNTRY MUST BE WORSE OFF AFTER SIGNING AN EPA.**

*This statement is endorsed by the following organizations:*

*Econews Africa, ACCORD, Civil Society Agriculture Network, SEATINI, ACTADE, CDI, Civil society Trade network of Zambia and Mwengo.*

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#### **Speech by President Mwai Kibaki of Kenya to the UNCTAD 11th African Oil and Gas Trade and Finance Conference and Exhibition, Nairobi, 24th may, 2007**

*President Mwai Kibaki stated that it is important to ensure that the hydrocarbon resources are exploited in a clean and sustainable environment, and the revenues derived from their sale are equitably distributed for national development. Africa's oil and gas industry should become environmentally sustainable and fiscally prudent so that oil resources become a blessing to our people.*

*He noted that while Africa as a region has enough hydrocarbon resources to meet its current and future needs, most of the oil and gas resources are exported to other regions due to the lack of regional distribution infrastructure. The following is an abridged text of his statement:*

This conference comes at a crucial time for Africa and the world as energy

demand and prices are rising. This is because development is an energy consuming process, and as more countries join the ranks of rapidly growing economies, the demand for fuel and other energy resources will continue to grow and threaten to outstrip supply. These circumstances are leading to sustained high oil prices for the foreseeable future. Although this situation has adversely affected non-oil and gas producing countries, it has also opened up new opportunities for investors in the industry. Oil companies are earning higher returns to their investment now, more than at any other time in their history.

Oil producing countries are also enjoying windfall revenues and surpluses. All these developments have made available substantial resources for further oil and gas exploration throughout the world, including the continent of Africa. I am therefore pleased to note that your deliberations bring together representatives from various African states, investors, financiers, multilateral, and bilateral organizations to explore and exchange ideas on enhancing oil exploration and production activities in Africa.

In your deliberations, you will be discussing among other things the need to expand and develop better infrastructure for the distribution of oil and gas to meet the growing demands of Africa's fast growing economies. The forum also provides an excellent opportunity for African countries to showcase geological sites with promising hydrocarbon potential, attractive fiscal and legal regimes put in place to attract investors, and institutional mechanisms being developed to ensure that revenues from oil and gas are put to good use for the benefit of their societies. It is my hope that all participants will find this

conference a useful forum for their needs. The investors will be able to acquaint themselves with the various fiscal and legal regimes African countries are offering.

The financiers will find feasible projects, while the development agencies will find viable and socially responsible revenue sharing schemes that will enable citizens in the oil and gas producing countries to enjoy a better quality of life. I am optimistic that this conference will come up with practical recommendations towards the realization of a vibrant energy sector in Africa.

Africa's oil production rose at a rate of 3.3 percent between 1995 and 2005, raising its contribution to the global oil production from 10.4 percent in 1995 to 12.1 percent in 2005. However, this was not sufficient to overcome the global oil deficit that occurred over a six-year period between 1999 and 2005 when global oil production lagged behind consumption. It is therefore important for Africa to plan and implement strategies that will enable our oil and gas producing nations, as well as our oil and gas consuming ones, to prosper together in these times of tight energy supplies and high prices.

Indeed, we are all aware, that while the volume of proven global oil reserves rose from 1,025 billion barrels to 1,200 billion barrels between 1995 and 2005, consumption during the same period rose from 25 billion to 30 billion barrels per year. Thus the global growth in reserves at 1.6 percent annually was surpassed by growth in global demand at 1.7 percent annually during this decade. This mismatch between production and consumption led to high international prices witnessed in the last three years. These

prices have benefited some African oil and gas producers handsomely. However, the majority of African's non oil-producing countries have faced high oil prices and the adverse effects of these prices on most sectors of the economy. For instance, Kenya faced rising energy-driven inflation in the year 2005 when oil prices rose sharply and the country had to spend 23 percent of the import bill on petroleum imports.

The import bill is expected to be higher this year as demand for oil increases due to the robust economic growth Kenya is experiencing, as well as the continued rise in international crude oil prices. This situation is worsened by the inability of Kenya's distribution infrastructure to cope with the growing demand, internally, and in the region. It is imperative for African countries to invest in more efficient and effective oil and gas refining, storage and distribution infrastructure thereby reducing the cost to consumers. Moreover, we in Africa need to step up the exploration of areas with commercial hydrocarbon potential, and facilitate investment that will bring the production from these sites into the market as soon as possible so as to ease the pressure on supply and the rising oil prices. I am therefore encouraged with recent developments in hydrocarbon exploration in Africa. There is heightened interest in exploring high potential blocks in various parts of the continent. Indeed, some of the new exploration is yielding results.

We have recently witnessed growing interest in East Africa with the discovery of oil deposits in Uganda, and gas in Tanzania. Kenya has also benefited, with more than 80 percent of our onshore and offshore blocks attracting interest from international oil

exploration companies. Although we are yet to strike oil or gas deposits in Kenya, I wish to encourage oil companies to take advantage of the existing incentives and apply for the remaining exploration blocks in the country. It is our hope that this Conference will come up with feasible recommendations on expanding the financing of exploration and downstream activities in Africa's oil and gas sector to enable the continent meet its needs and increase its share of the global oil supply.

Besides exploration, I am encouraged to note that this conference will deliberate on the important matter of managing Africa's hydrocarbon resources for the benefit of its people. It is important to ensure that the hydrocarbon resources are exploited in a clean and sustainable environment, and the revenues derived from their sale are equitably distributed for national development. **I am confident that this conference will arrive at recommendations for Africa's oil and gas industry to become environmentally sustainable and fiscally prudent so that oil resources become a blessing to our people.**

With most African countries enjoying robust economic growth, and rising demand for energy, there is need to invest in better distribution infrastructure, both within and across national borders. **Africa as a region has enough hydrocarbon resources to meet its current and future needs. However, most of the oil and gas resources are exported to other regions due to the lack of regional distribution infrastructure, while most of our countries import their oil from non-African producers.**

Therefore we should consider expanding and developing distribution

infrastructures in Africa's sub-regions so that oil producers can supply their neighbours. Investment in such infrastructure will also enable importing countries with seaports to supply these essential commodities to their landlocked neighbours. In this regard, the two Governments of Kenya and Uganda are implementing the extension of the oil pipeline from Eldoret to Kampala in order to serve the growing petroleum needs in Uganda and the Great Lakes region. It is expected that the pipeline will be commissioned mid next year. It is imperative that similar initiatives are undertaken across Africa in order to ensure timely and cost effective transportation of fuels.

In conclusion, ladies and gentlemen, and in view of the increasing demand for oil in Africa and around the world, it is imperative that this conference comes up with practical recommendations on the development of a vibrant energy sector that will meet the growing demand for oil in Africa. Proposals will also advise on how best African producers can benefit from increased oil and gas demand around the globe.

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**Editorial: Both China and Africa have a lot to benefit from their collaboration**

*By Ambassador Nathan Irumba*

In our recent bulletins we have included articles on issues pertaining to Africa-China relations. The emerging of China as a major player in the Global economy and attendant influence this gives rise to have been an object of many commentaries in both the developed and developing countries. Many are now waking up to the reality that with the emerging strong economies of China, India and Brazil, a new global balance of power

is being created and has to be reconfigured in policies of countries, as well as accommodated in processes of global economic management. It no longer makes sense to sideline them when discussing global issues as was the case in the past.

It is noteworthy that since 2002 world output has expanded with China as a major locomotive. According to UNCTAD TDR 2006 the rapid growth in China and India and their increasing intense use of energy and metals has sustained international demand for a wide range of commodities, from which all countries developed and developing have benefited.

Africa has not been an exception in this regard. In both trade and foreign direct investment, China and India are becoming more important partners for Africa. Trade and FDI from Asia have increased substantially over the past ten years. Africa exports of raw materials to China have increased tenfold since 1995. Imports from China also increased by 30 percent in the same period mainly involving low cost manufactures. With China and India becoming major sources of FDI, Asian countries accounted for 10 percent of all Greenfield investments in Africa in 2005 (OECD 2006 B, UNCTAD 2006B and ERA 2007).

The focus on China Africa economic relations has particularly received international limelight since the tour of Chinese Premier to a number of African countries and following the China Africa summit of November 2006 which focused on economic and trade relations. China has underscored the need for a new type of strategic partnership featuring political equality and mutual trust. China has signaled a commitment to optimizing trade, expanding investment and

strengthening technical cooperation to help African countries develop their indigenous development capacity. This position was reaffirmed by the Chinese Premier when addressing the ADB Board of Governors in Shanghai. He pointed out that Government assistance should be combined with business as are major players in the market. Greater focus should be put on public projects, especially infrastructure, agricultural, medical and healthcare, educational, poverty alleviation and environmental protection. Technological cooperation and talents training should be emphasized to increase the development of indigenous capacity of recipients.

There are however, those who genuinely fear that the China-Africa relationships could easily keep Africa trapped in the production of primary commodities as nascent domestic industries could be swamped by cheap Chinese imports. It has also been pointed out that major Chinese investments are mainly directed towards mineral extraction, especially petroleum. There has been a complaint, especially from the west and some Human Rights activist that the China stance of not making economic assistance aid conditional on good governance may undermine the efforts for democratization and Human Rights promotion. Some donor countries are also apprehensive that African countries that were previously highly indebted and whose debt has been cancelled under HIPIC initiative may get contract new unsustainable loans from China, which may once again entrap them in a new debt overhang.

However, in order to have a balanced, and mutually beneficial relations with China, it is imperative to have a sober assessment of what Africa wants in this relationship taking into account

our realities. This should be anchored in the common African as well as to a realistic strategy for realizing those goals. In this regard it is essential to avoid being confused by the diversionary and self serving comments of other powers, who while cautioning Africa are themselves busy making China an FDI destination of choice to supply goods to them and to our markets. They are also pressing African ACP countries under the EPAs negotiations to enter into Free Trade Arrangements with themselves.

What does Africa want? Africa wishes to have economic and social transformation with both vertical and horizontal diversification. It desires to produce competitively goods and services with value addition. Africa desires technological up gradation suitable to its environment. Africa also requires an international environment supportive of its developments.

Economic Report on Africa 2007: *“Accelerating Africa’s Development through Diversification”* notes that in order to accelerate and sustain growth over a long period of time, Africa needs to create a policy space and embark on innovative growth strategies. In particular, it should address the factors contributing to low and volatile growth through: improved macroeconomic management; increased domestic investment, which requires mobilization of internal and external resources; improved infrastructure (especially transport and energy supply), and diversification away from resource sectors.

China has treaded this path successfully and developed appropriate technology from which we can use. There is a lot Africa can learn and benefits from their experience, while at

the same time being guarded as to the possible pitfalls.

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