

# Grow Markets, Fight Hunger: A Food Security Framework for US-Africa Trade Relations

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## Executive summary

- ▶ The African agriculture and food sector is expected to reach \$1 trillion by 2030.<sup>1</sup> Congress has several legislative opportunities this year to ensure the United States is positioned to tap this burgeoning market—most notably by renewing Trade Promotion Authority and the African Growth and Opportunity Act (AGOA). Combining strong commercial policy with effective development policy will significantly advance food security objectives in Africa.
  - ▶ Putting the right trade policies in place is essential to meeting food security goals. Africa is currently on course to produce just 15 percent of its estimated food demand in 2030.<sup>2</sup> While international trade alone cannot eradicate food insecurity, it can alleviate it by filling the gap between a country's demand for food and its long-term ability to produce food.
  - ▶ Improvements in regional trade and harmonization of standards and regulations would drive economic growth while improving the availability and affordability of nutritious foods throughout Africa.
  - ▶ AGOA is the focal point of US-Africa trade relations, but the program does not benefit Africa's agriculture sector enough, and it is not designed to incentivize regional integration or address Africa's own barriers to food trade. This neither aligns with other
- US investments in Africa's food security nor positions US companies to take advantage of Africa's growing agriculture and food sector.
  - ▶ A new dimension of US-Africa trade relations should be centered around five goals that address key barriers to the agriculture and food sector:
    - Enable access to modern seeds and technologies by smallholder farmers.
    - Move food more cheaply and efficiently across African borders.
    - Eliminate barriers to regional markets that can help feed Africa.
    - Improve the legal environment for responsible investment in African agriculture.
    - Reduce vulnerability to ad hoc government interventions that restrict African countries' ability to import affordable food.
  - ▶ These goals can be achieved through a new food security framework for US-Africa trade relations encompassing the following actions:
    - Create a US-Africa Food Dialogue with an agenda dedicated to advancing regional economic integration, reducing technical regulations and standards barriers to agriculture and food trade, and implementing trade facilitation measures.

- Boost US government staffing in the economic agencies to align economic growth, food security, and trade capacity-building goals.
- Amend AGOA to better support African agriculture.
- Focus existing US-Africa regional trade talks on investment agreements.

## Food trade with Africa offers vital opportunities.

Africa is the second fastest-growing region in the world and home to eight of the fifteen fastest-growing economies.<sup>3</sup> While economic diversification is driving much of Africa’s growth, agriculture production and agribusiness still generate nearly half of the gross domestic product (GDP) in Sub-Saharan Africa.<sup>4</sup> The World Bank estimates this sector is poised for takeoff, with the potential to reach a value of \$1 trillion by 2030.<sup>5</sup>

But those numbers don’t tell the whole story. Agriculture employs more than two-thirds of Africans, yet one in every four people in Sub-Saharan Africa remains undernourished, the highest prevalence of malnutrition anywhere in the world.<sup>6</sup> Many of the undernourished are farmers.

The development case for investing in agriculture livelihoods is clear. Growth in the agriculture sector is on average at least twice as effective at reducing poverty as growth in other sectors.<sup>7</sup> But if the economic forecasts for future growth in the African food sector are right, the business case is also clear.

US trade negotiators and legislators should take notice. We need to start viewing Africa as the future

*The African agriculture and food sector is poised for takeoff, with the potential to reach a value of \$1 trillion by 2030.*

food market that it is. Africans don’t just want access to our market, they want better access to their own, to each other’s, and to large emerging markets. So do US farmers and agribusiness. Current US-Africa trade policy does not reflect that reality.

A well-balanced approach to US-Africa relations would have trade policy working to generate opportunities across the value chain in Africa’s growing

food sector while maintaining a conscious focus on interventions to bolster local capacity and make nutrient-rich foods more widely available on the continent.

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With a variety of important trade bills on the docket this year, including the reauthorization of the AGOA and Trade Promotion Authority as well as consideration of the Global Food Security Act, now is the perfect time to fix this critical gap in our trade policy.

## Trade policy can grow markets for business and fight hunger.

One of the best ways for the United States to promote food security and tap into the economic potential in Africa is to expand agriculture investment, food production, and cross-border food trade with and in Africa. Trade policy can remove obstacles across nearly every facet of the farming business, enabling African and American farmers to sell more in Africa and support livelihoods in Africa as well as at home.

US-Africa food trade policy should also promote transparent legal and customs infrastructure and help accelerate regional economic integration in Sub-Saharan Africa. In parallel, the United States should advocate for global commitments to reduce government measures that distort agriculture trade, as these measures can have a disproportionate and negative effect on poorer, food-importing countries.

These objectives can best be accomplished through focusing trade policy on the following five goals. Trade and investment policy approaches designed to meet these goals would then support small farmers and larger commercial enterprises in a way that serves the needs of food insecure populations (box 1).

### Goal one—Grow more food using the best available inputs by addressing technical regulation and standards.

Examples of regulatory hurdles affecting agriculture and the food industry in Africa are numerous. Trucking restrictions affect the length of time it takes food

### Box 1

## “Trade for Food Security” Policy Framework

Trade policy can remove obstacles across nearly every facet of the farming business, creating opportunities for African and American farmers to sell more—in Africa—to feed Africa and support livelihoods in Africa.

INDIVIDUAL FARMER & AGRIBUSINESS GOALS	POLICY AREA	TRADE & INVESTMENT POLICY APPROACH
 Access inputs to grow food	 STANDARDS	Rationalize regional technical regulations and standards to promote trade in seeds and fertilizer
 Move food across borders	 TRADE FACILITATION	Implement trade facilitation measures with a focus on expediting trade in staple foods
 Sell more food to other countries	 MARKET ACCESS	Remove market access barriers to regional trade; further open the US market through AGOA
 Use income to invest in production	 INVESTMENT AGREEMENTS	Improve the legal environment through investment treaties
 Reduce risk and financial uncertainty	 GLOBAL DISCIPLINES	Advance global agreements to achieve greater transparency and reduce impacts of trade-distorting limitations on food trade

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to reach markets, elevating risks for postharvest loss and conveying higher prices to the consumer. Regulatory obstacles inhibit investment in infrastructure, information technology, financing, and other nonagriculture sectors necessary to support efficient agriculture and food sectors. Differences among commodity product and food safety standards can effectively block access to regional and global markets for African food exports.

To address the most fundamental supply-side constraints, policy should initially focus on the complex and costly regulatory systems that prevent African farmers from securing access to their most critical traded inputs: adaptive, high-yielding seeds and effective fertilizers.

### Improvements in seed trade are needed to meet demand.

Approvals of new seed varieties in Africa take an average of two to three years.<sup>8</sup> In some countries the process to complete field trials, conduct laboratory analysis, clear committee reviews, and obtain certification before a new seed variety can be commercialized

can stretch over seven to eight years and may duplicate analysis conducted in countries where agroclimatic conditions are similar (box 2).<sup>9</sup>

Despite a lack of institutional infrastructure to support national approvals, testing, and certification,

*US trade policy toward Africa should focus on the complex and costly regulatory systems that prevent African farmers from securing access to their most critical inputs: adaptive, high-yielding seeds, and effective fertilizers.*

many countries maintain unique national specifications and procedures. Only seven laboratories in Africa (out of 116 worldwide) are accredited by the International Seed Testing Association to test samples and issue the certificates required to trade seed in most African countries.<sup>10</sup> In many cases, samples must be preshipped and retested by the importing country to ensure the seeds meet additional phytosanitary requirements.

Only about one-quarter of the demand in Africa for improved seed is being satisfied.<sup>11</sup> To reduce costs and

### Seed Approval Process

Time and cost of redundant government procedures across markets reduce the number of varieties available to farmers, resulting in foregone or lower production output and suppression of a more robust seed market. Harmonization and mutual recognition can reduce regulatory burden while ensuring quality, efficacy, and speed to market of new varieties.



Source: John C. Keyser, *Opening Up the Markets for Seed Trade in Africa*, Africa Trade Practice Working Paper Series No. 2 (Washington, DC: World Bank, 2013).

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delays, African governments have advanced agreements to govern and facilitate regional seed trade. Initiatives such as the Common Market for Eastern and Southern Africa Green Pass apply the key principle of approved once, approved everywhere. Once in effect, producers may obtain certification that can be used in any participating country. Regional bodies are also reviewing the potential for common standards to ensure quality (e.g., moisture content, insect damage, broken grains) and to limit the spread of pests and disease.

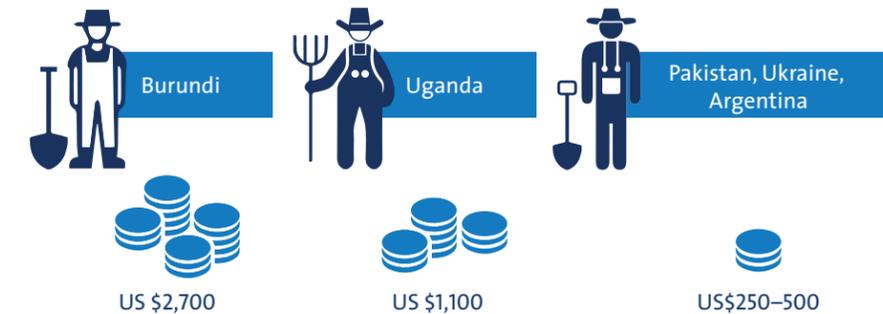
However, much work remains to amend national laws, develop common implementation protocols, and train inspectors to ensure these systems become fully operational and reliable. In addition, work can be done with governments moving ahead to unilaterally adopt the system, which would produce near-term benefits for their own farmers.

### Improvements in fertilizer trade are crucial to lowering costs and increasing yields.

The average amount of fertilizer used per hectare in Sub-Saharan Africa is about one-tenth the world average.<sup>12</sup> Low usage stems from relatively high prices and inefficient delivery systems.

As with seeds, unique national requirements for fertilizer blends limit access and affordable use by farmers. National sanitary and phytosanitary (SPS) measures deter seed and fertilizer producers from entering the smaller markets in Africa because the time and resources to secure product registrations, trade permits, phytosanitary certificates, and customs documentation are prohibitive. The resulting price for fertilizers in some African countries can be as much as 10 times higher than in other developing countries (box 3).<sup>13</sup>

### Cost Per Metric Ton of Nitrogen-Based Fertilizer



Source: “FAOSTAT,” Food and Agriculture Organization of the United Nations Statistical Division, accessed February 4, 2015, <http://faostat3.fao.org/home/E>.

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Common specifications or allowances would facilitate regional trade, enabling bulk regional purchase and distribution and driving down costs to individual farmers. Public resources spent to administer complex and opaque government-managed tenders to purchase fertilizer could be better deployed, providing appropriate regulation and oversight to ensure the quality conformance of the fertilizer sold and traded regionally by the private sector.

To illustrate the potential impact of improving access to cheaper and effective fertilizers, the World Bank calculated that streamlining trade procedures in Malawi to reduce farm gate fertilizer prices by 7.7 percent could, in turn, increase fertilizer use by 10 percent. This would support a 15 percent increase in yields and as much as a 50 percent improvement in profits per hectare of maize.<sup>14</sup>

US producers and traders would place high value on the consistent and transparent use of harmonized regional standards. US “standards diplomacy” is generally oriented toward adoption of internationally developed standards and often includes training on US approaches to regulation. However, putting resources and energy into regional harmonization would help create larger African markets for US suppliers. Once regional regulatory regimes are functioning, the United States can engage more effectively with regional bodies to address remaining standards barriers to US-Africa trade.

### Goal two—Move food efficiently across borders by implementing trade facilitation agreements.

Trade corridors are being developed to link Africa to overseas markets. However, the cost of moving food throughout Africa is high and varies across the continent. In some cases, transportation costs can reach as high as 77 percent of the value of the export.<sup>15</sup>

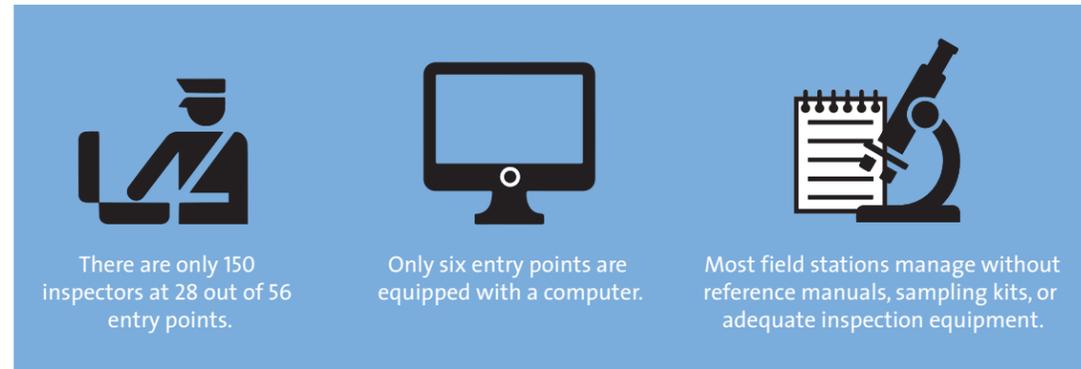
For example, road transport in Central and West Africa costs more than in Southern Africa due to “queuing” systems in the trucking sector under which loads are distributed to the next truck in line versus through competitive, privately negotiated contracts.

Critical gaps remain in the infrastructure and logistics services connecting African countries, affecting the 40 percent of Africans who live in landlocked countries and areas far away from ports as well as small producers who are far away from primary markets.

Some countries also have multiple roadblocks along their internal transportation routes. Research from 2008 on maize prices in Kenya, Tanzania, and Uganda documented four to ten roadblocks between farms and secondary wholesale markets, the equivalent of a stoppage every 30 to 50 kilometers. These stoppages are compounded by the solicitation of bribes at each checkpoint, ranging from US\$2.40 to US\$16.80.<sup>16</sup>

### Tanzania's Plant Health Service

Inadequate numbers and capacity of staff, weak protocols, lack of means to conduct inspections, and poor or no communication with the Agriculture Ministry make for long waits and uncertain outcomes at the border.



Source: The World Bank, *Africa Can Help Feed Africa: Removing Barriers to Regional Trade in Food Staples* (Washington, DC: The World Bank, October 2012), p. 55.

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In addition, unpredictable costs and long wait times are all too common once food arrives at the border due to bureaucratic delays and regulatory red tape. This can greatly diminish the benefits of investments in roads and other hard infrastructure. Long delays at the border and redundant inspections that require on- and off-loading of food result in postharvest food loss in the form of spoilage and damage. Further, officials inspecting and testing for health and food safety requirements can be lacking in number and level of professional skill. Inspectors often do not know basic protocols or have appropriate test equipment (box 4). Adopting and implementing “trade facilitation” agreements is critical to moving food across African borders. Such agreements are designed to move goods across borders more cheaply, safely, and efficiently.

The World Trade Organization (WTO) Trade Facilitation Agreement (TFA) concluded in December 2013 focuses on measures to simplify, harmonize, and make transparent the procedures used by border officials to collect and process data required for the movement of goods in international trade.<sup>17</sup> For example, under TFA governments are obliged to issue notification when enhancing controls or inspections of foods, beverages, and feedstuffs; to enforce any such measures uniformly; and to withdraw them when they no longer apply.

The TFA also requires that SPS measures be based on available scientific evidence and that testing be carried out in an independent, objective, and transparent manner. The agreement provides importers with the opportunity to conduct a second test where food has been detained. This can be important for determining the appropriateness and accuracy of the first test or assess-

***Adopting and implementing “trade facilitation” agreements is critical to moving food across African borders.***

ing whether only a portion of the batch, lot, or consignment has been affected, thereby minimizing losses.

Another key provision for food traders obliges WTO member states to provide, under normal circumstances, for the release of perishable goods within the shortest possible time. This gives them appropriate priority for inspection and allows for proper storage prior to customs release, including release at storage facilities where practicable.

There are costs to implementing TFA, which may require investments in information technologies and equipment, policy reforms, and retraining, but TFA is

expected to be a force multiplier in terms of benefits to African economies. The Organisation for Economic Co-operation and Development (OECD) estimates that a 10 percent improvement in transport and trade-related infrastructure quality has the potential to increase the agricultural exports of developing countries by 30 percent.<sup>18</sup>

The TFA does not oblige developing and least-developed countries (LDCs) to undertake investments in infrastructure projects beyond their means. In fact, TFA is the first multilateral trade agreement to be directly linked to pledges of funding from bilateral and global institutions such as the World Bank to support implementation. Not pursuing necessary upgrades as a first-mover would leave valuable assistance on the table.

Collaboration and training on best practices in customs administration is essential and many reference tools already exist. TFA implementation will give

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African officials the opportunity to work more closely with one another to facilitate regional trade and with their peers outside Africa to grow international trade.

The predictability and transparency inherent in these obligations can also help address corruption at all levels. Many studies document that when customs processes are more efficient, goods flow faster, enabling governments to collect more in legitimate duties and fees. Ghana saw customs revenue grow by 49 percent in the first 18 months after implementing GCNet, its electronic data interchange system for customs procedures.<sup>19</sup>

Corruption at the borders is not only costly—it can be dangerous. Hundreds of thousands of Africans cross borders every day to move food from surplus areas to markets where they command higher prices. The majority of these traders are women. They are vulnerable due to long waits in insecure environments and lack knowledge about the fees they may be legally charged. In surveys they report regular occurrence of bribes, confiscated goods, acts of violence, and sexual harassment.<sup>20</sup> Increasing transparency at the borders

and eliminating excessive internal checkpoints will reduce threats to the physical safety and economic security of these women.

### Goal three: Sell more food in other countries by securing market access

The United States has offered Sub-Saharan African trading partners nonreciprocal access to the US market through AGOA since 2000. The AGOA program is an important anchor for US-Africa relations and has been successful in generating African exports in certain sectors. The program, however, only modestly benefits African agriculture exports.

According to WTO statistics, the entire continent of Africa exported \$52 billion in agriculture products in 2012, the most recent year for which data is available.<sup>21</sup> Africa's top markets were in Europe, Africa, and Asia. Forty percent of Africa's agriculture exports went to Europe, 24 percent were destined for Asia, and 26 percent stayed in Africa. Only 0.6 percent went to North America. The WTO found that in general, developed markets are still important agriculture export destinations for developing countries, but growth has stagnated while agriculture trade between developing countries has increased.<sup>22</sup>

US trade policy should unlock trade in agriculture on the continent so African exporters can thrive and US businesses can begin to make significant inroads. This requires advancing regional economic integration through existing African trade initiatives. In the meantime, improvements can and should be made to AGOA to stimulate new opportunities for African agriculture in the US market.

### Regional economic integration is essential to market development.

Opportunities to source agricultural inputs and food regionally in Africa are vastly underdeveloped due to regulatory barriers and border measures that hinder economic integration and increase the cost of trade. Reducing barriers to trade between African countries drives economic growth, supports food security, and increases the market opportunities for African and American businesses.

**Cross-border trade drives economic growth and increases the availability of food.**

The expansion of cross-border trade creates opportunities for smallholders to become small commercial growers, moving from informal production to formal value chains and markets where economies of scale can be achieved. When combined with access to information about markets such as the spot price for their crops, increased profitability can fuel a virtuous cycle. Profitability creates incentive for small commercial farmers to maximize production for market and provides the means to invest in quality inputs and care for their soil, further improving productivity. In addition, fast-tracking commitments to achieve duty-free trade of agriculture and food within Africa will boost opportunities for African farmers and producers while ensuring that food moves safely and cost effectively to where it is needed in Africa.

**Cross-border trade provides stability against domestic price surges.**

Food prices are less volatile in countries with open borders in part because free trade acts as a stabilizer. When confined to small domestic markets, production swings in food staples can lead quickly to collapses

and surges in prices. Import bans intended to promote consumption of domestic output can have the effect of suppressing income to that country’s farmers and may exacerbate price instability in neighboring countries. Export bans also result in income loss for farmers. Excess crops that have no return in the market are sometimes left to rot in the fields, reducing availability for food insecure communities.

Agricultural economists Dorosh, Dradri, and Haggblade model this phenomenon for maize production in Zambia.<sup>23</sup> In their analysis, a bumper harvest where output was 30 percent above normal caused the price of maize to drop by 50 percent when the border was closed. The price decrease was mitigated to 26 percent when the border was open. Similarly, if production were diminished by 30 percent below normal due to drought, prices spiked 150 percent when confined to one market. If maize flowed across the border, the price increase was contained to 36 percent.

**Cross-border trade is critical to market growth.**

Agricultural output in Africa could increase from \$280 billion per year today to as much as \$880 billion by 2030.<sup>24</sup> Demand for upstream products such as fertilizers, seeds, and pesticides will grow, and increased output will support downstream activities such as

grain refining, biofuels, and other types of processing. Together, these could be worth an additional \$275 billion in revenue by 2030 (box 5).<sup>25</sup>

Regional agreements that create free trade among African nations are a net positive for the American pri-

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vate sector because they link small national markets to create a market large enough to absorb the risks of entry, which may include spending on investments in critical infrastructure. When the US negotiated the US-Central America Free Trade Agreement (CAFTA), a primary objective was to remove barriers to intra-regional trade, benefiting US investors and exporters who gained access to one large market versus five small markets. The Central American countries had been working for 40 years to achieve integration. Yet it was the US-CAFTA that helped achieve this longstanding goal by providing a robust framework and political impetus for removing difficult barriers.

Similar efforts in Africa do not need to be structured as a US-Africa free trade agreement (FTA), though regional integration opens the door to an eventual reciprocal agreement. In the meantime, existing African frameworks for integration can serve as the basis for US efforts to advance standards harmonization, streamlined customs procedures, common external tariffs, and the legal infrastructure to achieve integration and realize the \$1 trillion potential of Sub-Saharan Africa’s food market.

**The African Growth and Opportunity Act (AGO) must be leveraged to expand US imports of agricultural products from Africa.**

Of the \$39.3 billion in African goods imported by the United States in 2013, only \$2 billion were agricultural products.<sup>26</sup> Nearly half of that import value was from cocoa beans that entered the United States duty-free on a “most favored nation” basis (the duty the United States offers every WTO member), not through AGOA.

AGOA currently excludes agricultural commodities, including dairy, sugar, cotton, peanuts, and beef, on which the United States maintains tariff-rate quotas. With some notable exceptions, the in-quota duty on these commodities is zero. But African countries have struggled to use in-quota duty rates either because they do not enjoy a historical allocation or a set-aside share of the quota, or they cannot fill the quota when competing on a first-come, first-served basis. Over quota, AGOA imports are subject to the same duties as any country without preferences.

To be more supportive of economic growth in Africa, the AGOA program should bolster exports of African agriculture products to the United States. Yet there appears to be only a narrow scope for meaningful expansion of AGOA toward this goal. When examined on a product basis, an opportunity may exist to encourage value-added production for peanut-based processed foods and cocoa-containing products.<sup>27</sup>

The United States could set aside an AGOA share of the in-quota rate or create an over-quota allocation for the tariff lines relevant to prepared or preserved peanuts and the tariff lines relevant to cocoa preparations containing sugar, butter fat, or dried milk. This would be done in the same way the United States creates additional preferential market access for its FTA partners.

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***Of the \$39.3 billion in African goods imported by the United States through the African Growth and Opportunity Act in 2013, only 5 percent were agricultural products.***

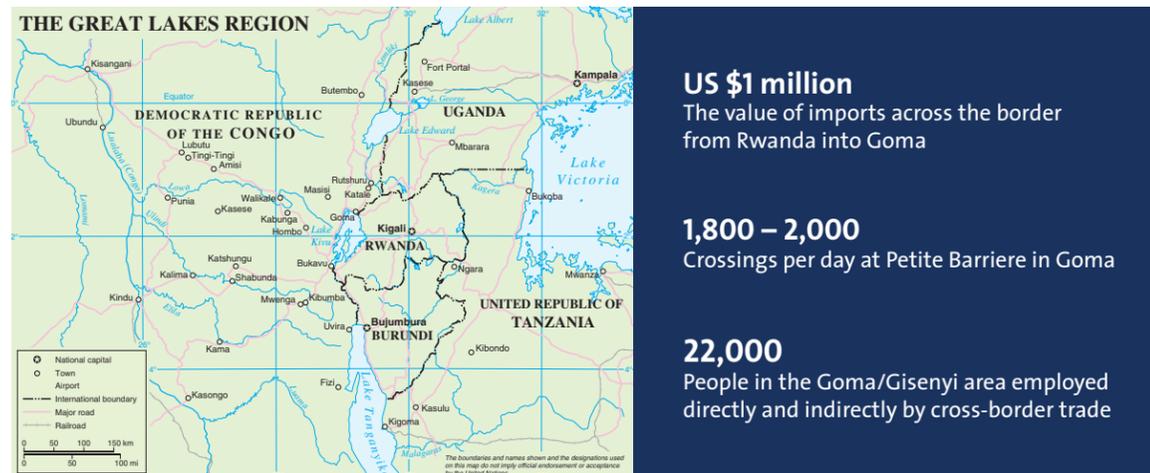
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AGOA legislation could also address barriers to US imports of more fresh African fruits and vegetables. Before the United States permits imports of horticultural products from any country, the US Department of Agriculture (USDA) Animal and Plant Health Inspection Service (APHIS) must conduct a pest risk analysis, assess the need for risk mitigation measures, and complete a rule-making process, which can take two to five years in total. Upon review of a partial list of products from Africa submitted for US approval, the International Food & Agricultural Trade Policy Council found that many African fruits and vegetables pending

Box 5

**Importance of Cross-Border Trade**

Cross-border trade is vital to cities and towns on the borders of countries in the Great Lakes region of Africa, where food staples are supplied through trade on a daily basis.



Source: Map No. 4004.1, January 2004, Department of Peacekeeping Operations, Cartographic Operation, United Nations.

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approval by APHIS were already being exported to the European Union.<sup>28</sup>

Through AGOA, Congress could request a status report and, where appropriate, seek expedited review of pending import approvals for AGOA beneficiaries. Congress can also press USDA to use a notice-based approach to approval versus formal rulemaking. The US administration can engage Europe through the Transatlantic Trade and Investment Partnership to explore regulatory coherence wherein the United States could recognize European approvals of certain African fruits and vegetables as equivalent, expediting their entry.

In these ways, Congress can work with the administration to improve access for African agriculture through AGOA. However, standards barriers and bor-

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***The standards and trade facilitation agendas must be pursued in parallel with AGOA improvements if AGOA is to yield real benefits for African agriculture.***

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der impediments could effectively erase the value of new benefits if not addressed. In his testimony on AGOA renewal, Ed Gresser of Progressive Economy combines data on the costs of port fees and delays to illustrate this point. When compared to sourcing from a competitor in Southeast Asia, the extra 10 days' transit time and additional \$550 in seaport costs to source from a port in littoral Africa would cost a US importer the equivalent of a 20 percent tariff. Everything else being equal, the buyer will source elsewhere.<sup>29</sup> Therefore, the standards and trade facilitation agendas must be pursued in parallel with AGOA improvements if AGOA is to yield real benefits for African agriculture.

### **Goal four—Encourage investment in production by bolstering legal protections.**

In an unprecedented global effort to reverse declining public investment in agriculture, donor governments and international financial institutions scaled commitments over the last five years to launch projects and catalyze public and private investment in agriculture. African governments also pledged in the Maputo Declaration to invest 10 percent of their national budgets

in agriculture using plans developed under the Comprehensive Africa Agriculture Development Program. They renewed this commitment in 2014.<sup>30</sup>

Eighty percent of the farmers in Africa are smallholders cultivating less than two hectares. Creating conditions that enable smallholder farmers to invest

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***Less than 1 percent of US global foreign direct investment stock abroad flowed to Sub-Saharan Africa in 2012.***

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in their own farms to increase productivity is central to development. To meet growing demand for food in Africa, substantial private-sector investment, including foreign direct investment, is needed.

While the United States is the largest outward investor in the world, only \$31 billion—less than 1 percent—of US global foreign direct investment (FDI) stock abroad flowed to Sub-Saharan Africa in 2012. Seventy percent of those FDI flows went to just three countries and was concentrated in the mining and extractive industries.<sup>31</sup> Africa's sustained growth and rising urban middle class are beginning to attract US investors, making this a good time to negotiate investment agreements to help expand and diversify US investment in Africa into infrastructure, finance, IT, logistics, and other industries that support modern agriculture.

The New Alliance for Food Security and Nutrition is a public-private collaboration to stimulate new private-sector investment in agriculture and nutrition in Africa. African officials, corporate leaders, and G8 members form partnerships designed to accelerate implementation of CAADP country food security strategies. US\$8 billion in private investment has been

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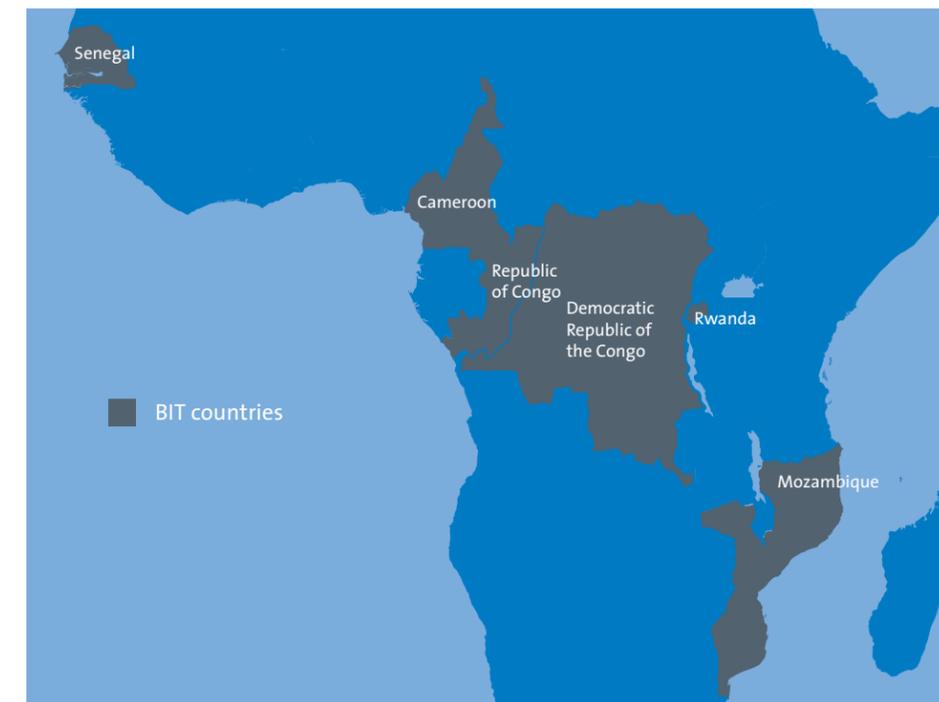
***Bilateral and regional investment treaties provide a solid framework for legal and institutional rights that attract sustained and scaled investment.***

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committed to African agriculture (including by 180 African companies), which the New Alliance estimates reaches some three million smallholders.<sup>32</sup>

#### **Box 6**

### **Countries with Which the United States Has a Bilateral Investment Treaty (BIT)**



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### **US investment agreements in Africa can be used to accelerate investment in Africa.**

Bilateral and regional investment treaties provide a solid framework for legal and institutional rights that attract sustained and scaled investment. They also help reinforce and hold governments accountable to their reform commitments.

The United States has over 40 bilateral investment treaties (BITs) and several free trade agreements that contain BIT-like investment chapters. The vast majority of BITs are with developing countries, but only six of those are with Sub-Saharan African nations (box 6).

Developing countries enter into investment agreements to attract FDI by private entities that view investment agreements as important backstops to underdeveloped legal systems. BITs, however, are challenging instruments to negotiate and would require significant US government resources to fill the holes with Sub-Saharan African governments if approached on a bilateral basis.

### **BIT negotiations should leverage US Trade and Investment Framework Agreement (TIFA) discussions.**

A stepwise approach could entail proceeding with a US-East African Community BIT as the White House has announced, while using US TIFA discussions with other African regional economic organizations to deepen understanding of BIT provisions and exchange information on relevant laws and regulations. This “pre-negotiation” dialogue in TIFAs on relevant laws and regulations is a critical first step to performing gap analysis and identifying trade capacity building for implementing BIT provisions. Benjamin Leo of the Center for Global Development has offered some pragmatic ideas for determining the “readiness” of African countries as priority candidates for BITs with the United States.<sup>33</sup>

### **Land rights principles must be advanced.**

Secure land rights play a fundamental role in reducing poverty by enabling use of land as collateral for

loans and incentivizing investments to protect soil health while intensifying production. The challenge is great. More than 90 percent of Africa’s rural land is undocumented.<sup>34</sup>

The Millennium Challenge Corporation and US Agency for International Development (USAID) offer programs to help governments improve and facilitate community access to regimes for regulating use, control, and transfer of land. They include assistance to survey, record, and assign value to parcels and to implement transparent titling and documentation processes.

Many resources for private investors now exist to assess investment impacts and guide responsible community engagement, including the OECD’s Policy Framework for Investment in Agriculture and the new “Principles for Responsible Agriculture Investment in the Context of National Food Security

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**More than 90 percent of Africa’s rural land is undocumented.**

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and Nutrition” developed jointly by the United Nations Conference on Trade and Development, the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development, and the World Bank. In addition, privately developed approaches are proliferating such as the Farmland Principles created by financial investors and initiatives to guide responsible investment in specific commodities such as soy, palm oil, and cocoa.

The TIFA discussions provide a flexible venue to explore innovative approaches to embedding land rights in investment decision-making processes. Extending the dialogue to stakeholders would provide opportunities to discuss and share their experiences with privately developed mechanisms.

### **Goal five—Reduce risk and financial uncertainty by advancing new disciplines in global trade policy.**

Only about 25 percent of global food production enters international trade.<sup>35</sup> Half of global food trade takes place among industrial countries through regional blocs (intra-EU trade and intra-NAFTA trade). In the case of some key commodities such as rice,

only 5 to 7 percent of production is traded globally. Thinner global supply provides less of a buffer against price shocks.

Given that the volume of food traded is low relative to production, trade alone cannot eradicate food insecurity. But trade can alleviate it. In a well-functioning market, price signals are transmitted to producers,

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**Only 25 percent of global food production enters international trade. Trade alone cannot eradicate food insecurity, but it can alleviate it.**

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allowing changes in demand to be met by supply. When demand is greater than supply, producers increase production and the increased volume helps to stabilize prices. International trade can fill the gap between a country’s demand for food and its long-term ability to produce food.

### **Sound national policies can help alleviate food price volatility.**

The factors contributing to price volatility are complex and varied, from extreme weather events to speculation in financial markets and increased use of feedstock for biofuels. The list also includes ad hoc export restrictions by governments. National policies that exacerbate price spikes or that disrupt the flow of food cause adverse impacts that ripple globally and render developing countries that import food vulnerable.

Africa’s imported food bill is projected to grow from \$30 to 50 billion per year to \$150 billion by 2030.<sup>36</sup> Instability in the price of staple foods poses a significant risk to poor households in Sub-Saharan Africa, where variation in staple food prices tends to be high and where poor households allocate a large share—often more than 60 percent—of their budgets to food.

### **New disciplines in the WTO can improve food security.**

Subsidies, high tariffs and quotas, and government interventions to manage stocks have been at the heart of global trade talks for almost 20 years. Advancing liberalization in agriculture trade through the WTO remains a critical path to achieving economic gains for the world’s poor that could far exceed those from

development assistance. The United States should continue to press for meaningful outcomes in WTO agriculture negotiations, both to achieve self-interested competitive access to the big emerging markets and to generate opportunities for the LDCs.<sup>37</sup>

### **Export restrictions should be minimized.**

The price of staple foods paid by poor families in Africa is relatively high and variable. After border taxes and distribution costs, the final price paid locally can far exceed the import price. When governments of significant exporting countries ban, tax, or otherwise restrict exports of staple commodities, they effectively withhold needed food supplies from the rest of the world. Tighter supply and panic buying drives up global prices, and the brunt of impact is born by countries that rely on imports to fill demand.

Export restrictions are not prohibited in the WTO. Members acknowledge the right of governments to act to prevent or relieve domestic shortages of critical foodstuffs. However, government measures to insulate domestic markets can set off a ripple effect. This is what happened in 2007-08 when 15 countries, including some major producers, imposed export restrictions on agriculture commodities. International Food Policy Research Institute research estimates that these trade measures explain as much as 30 percent of the price spike in the first six months of 2008.<sup>38</sup>

Discussions now under way on food security at the WTO offer an opportunity for governments to improve collaboration and develop disciplines on the use of export restrictions. All of the measures below have been discussed by WTO members over the years, but members saw these commitments as tied to comprehensive agreement under the Doha Round. As other components of the former Doha agenda move forward on their own tracks, it is time to make progress on global food trade commitments, beginning with agriculture export restrictions.

- ▶ **Notify in advance:** Given the adverse impact on global markets of export bans, governments should—at a minimum—notify WTO members of such measures *in advance* of their application to the extent practicable.
- ▶ **Use common data:** Following the food crisis of 2008, UN agencies collaborated to establish the Agriculture Market Information System (AMIS) to

maintain timely and reliable data on production, trade, utilization, and stocks for key crops traded internationally by the world’s major producers. WTO members should agree that any export restraints be supported by AMIS data.

- ▶ **Improve transparency:** Transparency is a fundamental aspect of WTO commitments. When export restrictions are undertaken, governments should be obliged to provide transparent, timely, and reliable information on the quality and quantity of domestic stocks. Doing so would support the use of AMIS as a means for transparent, global policy coordination.
- ▶ **Exempt humanitarian aid:** WTO members should also move forward with agreement to exclude shipments for emergency humanitarian aid from export restrictions. Prices are expected to remain high and volatile—the global community should agree to this discipline before another crisis is allowed to plunge more people back into poverty.
- ▶ **Bind export taxes:** Export taxes also distort global prices. WTO members would be taking a step in the right direction by agreeing to bind export taxes the way tariffs are bound, thus retaining discretion over their use, but under a self-imposed cap.

### **Trade-distorting subsidies should be avoided.**

As part of its public food safety net program, India recently significantly boosted government expenditures to buy wheat and rice from farmers at above-market rates to distribute to state-run shops for sale at below-market prices. How market-distorting price supports and subsidies are valued, reported, and limited are at the center of agriculture negotiations in the WTO. India’s defense of its subsidy program has drawn attention to “the new subsidizers”—the big emerging markets—where burgeoning agribusiness and rural malnutrition coexist and where domestic farm support is on the rise.

Commitments on subsidies should not be thought of as a developed country-only set of obligations. Developing countries that are not considered LDCs such as Brazil, China, India, Turkey, and Russia import around 40 percent and export 45 percent of globally traded agricultural products.<sup>39</sup> They are major agriculture players in world markets. Their domestic policies affect global prices and impact the poorest in Africa who must import to achieve sufficiency. Large

emerging markets must be part of the global trade policy solution.

WTO members must advance discussions on subsidies, but India should not be able to define “food security” narrowly or for all WTO members. Equally, individual governments must not stand in the way of consensus agreement in areas such as trade facilitation that enable food to reach the hungry faster and more cheaply.

**Progress can be made without waiting for a “perfect” final agreement.**

Agriculture trade disciplines were not introduced in the WTO until 50 years after disciplines for industrial goods. Removing barriers to agriculture trade remains one of the most important pro-poor outcomes from multilateral trade negotiations.

But the fundamentals of food markets have changed since the Doha negotiations were framed and launched in 2001. Disciplines on export restrictions are as good a place to start as any to avoid reflexive government intervention that worsens conditions of hunger and poverty in the least food secure countries of the world.

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***When 805 million people in the world continue to suffer from hunger, food security can't wait for the perfect multilateral vehicle or a comprehensive agriculture agreement. The United States must show leadership in Geneva at the WTO and pursue commitments disciplining the use of export measures to promote international trade as a force for stabilizing prices and meeting demand.***

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## **The US administration and Congress should take the following actions to build a food security framework for US-Africa trade relations.**

Trade policy can advance the business of agriculture in Africa and bolster America's food security efforts by focusing on the five goals outlined in the first section of this paper. Creating a new US-Africa Food Dialogue is the centerpiece of a strategy to strengthen coherence across US trade and development policies; improve the delivery of trade capacity building; and better leverage knowledge of development, agriculture, food markets, and trade that resides across agencies and sectors.

### **Recommendation 1 – Create a US-Africa Food Dialogue.**

A challenge to improving food trade with and within Africa is that no platform exists for US and African leaders to deliberate on the spectrum of issues described above. The focus of the annual AGOA forum is too narrow for these purposes. To remedy this, a US-Africa Food Dialogue should be launched under the umbrella of the administration's Trade Africa initiative. In the same way that the Joint Commission on Commerce and Trade mobilizes resources to remove barriers to trade in key sectors of the US-China economic relationship, the US-Africa Food Dialogue would be an opportunity for government leaders across the continent to synchronize efforts to grow US-Africa food ties and would create impetus for expedited decision making on food policy reforms by heads of state.

The US-Africa Food Dialogue should develop an agenda on regional economic integration, reduce technical regulations and standards barriers to trade, and focus on a trade facilitation agenda that lowers cost and expedites food trade. It can also play host to a new US-Africa Private Sector and Civil Society Community Table to foster cross-fertilization of insights and ideas to aid market development.

#### **Action 1a: Develop an agenda on regional economic integration.**

Twenty-six countries in Africa are advancing consolidation of the continent's three main Regional Economic Communities—the East African Community, the Southern African Development Community, and

the Common Market for Eastern and Southern Africa—into a single trade bloc. Holding exchanges on the state of progress could inform the development of pilot programs to facilitate integration in the food sector and identify trade capacity-building projects to address barriers.

Convening discussions within the US-Africa Food Dialogue may also provide the necessary political muscle to improve regional transparency and consultation on measures such as ad hoc trade bans, variable import tariffs, and quotas on food that can exacerbate price instability in neighboring countries and reduce stocks.

The dialogue offers an opportunity in a non-negotiation setting to discuss national policies, including efforts to include agriculture stakeholders in decision making. The United States will have to be prepared to discuss its own experiences with farm policies, which may in turn help build good will for advancing solutions and negotiations on farm trade in the WTO.

#### **Action 1b: Develop an agenda to reduce the technical regulations and standards barriers to trade.**

The complexity and breadth of regulation within and across agro-related industries render this area of trade policy difficult to prioritize and negotiate. A good place to initiate discussions is to create a standards group to identify and agree on US and African shared goals.

There are three specific ways that a standards group under the US-Africa Food Dialogue can begin its work. First, enlist advisors to determine dietary food staples for which harmonized approvals and certification should be pursued as a priority to support improved nutrition in Sub-Saharan Africa. Second, form a working group that pulls in government, international, and private-sector standards experts to construct a pilot program to enable mutual recognition of test data for approvals and inspection. Third, initiate discussions on the role of accredited third-party laboratories to expand availability and lower the cost of testing services.

Whatever the specific approach, Congress should ensure that USDA and the US Food and Drug Administration in particular are granted resources to support this technical work, which will lay the foundation for a future US commercial presence and ensure that food imported from Africa meets international safety and quality standards. In addition, the number of USDA Foreign Agriculture Service officers resident

in Africa should be increased from single to double digits to provide market insights and ongoing support and involvement in standards discussions.

#### **Action 1c: Develop a trade facilitation agenda to lower costs and expedite food trade.**

A trade facilitation working group can be created under the US-Africa Food Dialogue to serve as a platform for advancing work with countries and regional blocs in Africa that are ready and willing to implement the TFA. The working group could begin by conducting a gap analysis to determine priorities for TFA implementation in Africa, focusing on capacity-building needs to expedite the clearance of food staples and perishable food. Plans must be constructed from local public- and private-sector insights and reflect local priorities.

The group can also generate a technical exchange on best practices, institutional responsibilities, and cost structures for regional customs collaboration. With high-level political support through the US-Africa Food Dialogue, the group can help establish national TFA committees to coordinate national/regional implementation and communicate with Geneva-based policymakers seeking to advance global implementation of the TFA. The group can also pilot approaches to track and measure improvements in food security from implementing the TFA.

Moving this work to the US-Africa Food Dialogue will enable improved interagency coordination, the smart deployment of targeted capacity building, and the ability to generate public-private collaboration around this business priority. The achievements of this group will create valuable opportunities for the US trade representative (USTR) to create strong developing country coalitions in Geneva as the benefits of TFA are demonstrated.

#### **Action 1d: Host a US-Africa private sector and civil society community table to foster cross-fertilization of insights and ideas to aid market development.**

The creation of a US-Africa private sector and civil society “community table” would provide a unique opportunity to exchange business and development insights on the opportunities and benefits of regional economic integration and to incubate market-driven collaboration. This community table should be hosted under the US-Africa Trade Dialogue, but can draw from the private sector engaged in the New Alliance for Food Security and Nutrition.

## Recommendation 2 – Boost US government staffing to align economic growth, food security, and trade capacity-building goals.

The barriers to food production and trade in Africa are found along the entire value chain and pertain to a range of government agencies: trade, agriculture, health and safety, transportation, and finance. Commitments to reforms in Africa require a “whole of government” approach, which should be matched by a whole of US government effort to support economic policies and capacity building in trade and investment. This is the intention behind the August 4, 2014, US Presidential Memorandum tasking the heads of executive departments and agencies with developing recommendations for a more holistic and coordinated approach to trade and investment capacity building for Sub-Saharan Africa.<sup>40</sup>

Given the unique political economy of food production and trade and the role that nonagricultural industries play in supporting farmers and food systems, USTR, USDA, and the US Department of Commerce (USDOC) should play a stronger role in prioritizing and designing trade capacity building to support agriculture development. Economic agencies should also articulate more specific trade and investment metrics for US agriculture development programs and participate in their evaluation. Conversely, the negotiating agendas of these agencies would benefit from the cross-fertilization of insights, perspectives, and ideas from lead development agencies such as USAID and the Millennium Challenge Corporation.

### Action 2a: Bolster USDA and USTR's role managing food security-related trade policy.

USTR is the lead agency on trade policy but it is not organized or staffed to support negotiations and trade capacity building related to a food security-oriented trade agenda. USDA has the staff, but it should be given a stronger role in coordinating trade-related food security policy across agencies. Given the centrality of agriculture to African development and the centrality of agriculture to advancing multilateral trade negotiations, the United States must allocate more negotiators to support food policy.

Having created the new role of undersecretary for trade at USDA through the Agriculture Act of 2014, Congress should support designating a new undersecretary as the lead coordinator for US government pol-

icy on trade and food security. In addition, Congress should support the creation of an Office for Trade and Development Policy within USTR with additional staff so the agency can generate strategies and policies that align with modern private-sector approaches to business in developing countries.

With increased staff at USTR and the assumption of a strong coordinating role at USDA, these agencies would be better equipped to make a robust contribution to State Department and USAID-led efforts on global food security and promote better alignment between US trade policy and capacity building. With bolstered resources, USTR and USDA can deliver economic policy leadership and strong relationships with African trade and agriculture counterparts that will foster the institutional reforms necessary to support the long-term success of US agriculture development and food security programs.

### Action 2b: Create USTR-USDA advisory committees on trade and food security.

USTR, USDA, and USDOC maintain appropriate mechanisms to ensure input from the US private sector. Field officers also consult regularly with prospective US investors and local business representatives. The key question they can ask US businesses is: “What holds you back from trading with and investing in Africa’s food sector?” The answers should help inform both policy approaches and capacity building.

Currently, no mechanism exists to routinely garner private-sector perspectives on food security programming. In addition, private-sector representatives seek better understanding of US development approaches directly from the agencies that execute them. Existing agriculture trade advisory committees are funded by USDA but are co-managed by USTR and USDA. Creating an additional USTR-USDA advisory committee that includes civil society and private-sector representatives as well as a congressional advisory committee on trade and food security would be an important institutional advancement and a novel way to cross-pollinate the perspectives of policymakers, development practitioners, and the private sector.

### Action 2c: Orient the US Trade Hubs in Africa to advance the Food Dialogue agenda and promote US investment in African agribusiness and related sectors.

The United States should double down on its investments in the Africa Trade Hubs, promoting regional integration and seeding the markets for US business. USAID officers at US embassies are tremendous assets, whose knowledge, insights, and relationships should be pooled with the business networks maintained by US Foreign Commercial Service and Foreign Agriculture Service officers. These officers provide on-the-ground market insights valuable to US business and to the agencies working on food security solutions. They are well positioned to offer thought leadership on pathways to regional integration, yet today there are too few officers to cover the whole of Africa.

### Recommendation 3 – Enhance US preference programs.

Although regional economic integration in Africa offers the greatest promise for expanded US-Africa food trade, Congress can take steps in the near term through AGOA renewal to offer meaningful market access for a specific, export-ready set of African agricultural products.

### Action 3a: Make targeted adjustments to quota administration.

Congress should set aside an AGOA share of the in-quota rate or create an over-quota allocation for the tariff lines relevant to prepared or preserved peanuts and the tariff lines relevant to cocoa preparations containing sugar, butter fat, or dried milk.

### Action 3b: Fast track import approvals.

Congress should request a status report and, where appropriate, expedited review of AGOA beneficiary import approvals. In addition, Congress should request use of a notice-based approach to approval versus formal rulemaking, particularly for African horticulture products.

These program improvements must be supported with the other actions recommended in this report. AGOA alone holds little promise of advancing food security and agricultural livelihoods in Africa.

## Recommendation 4 – Focus US-Africa Regional Trade and Investment Agreement (TIFA) talks on investment.

### Action 4a: Exchange information and develop deeper understanding of African laws and regulations relevant to bilateral investment treaty (BIT) provisions.

Regular meetings under existing US TIFAs are an ideal venue to exchange information on how our respective legal systems work and how or how well BIT provisions are operating. The United States can also use TIFA discussions to inquire about the status of African regional commitments and efforts to harmonize investor protections.

### Action 4b: Review gaps and identify capacity-building measures to support BIT negotiations and implementation.

From the TIFA exchange, US negotiators can identify a common core set of obligations in the US model BIT that could be accepted without modification, enabling subsequent bilateral and regional discussions to focus on a subset of obligations that will require some adaptation. The more the United States can align the content of US-Africa BITs, the better the foundation for subsuming those BITs into coherent FTA investment chapters when US-Africa relations evolve from preferences to reciprocal agreements. Importantly, capacity building can be directed to areas that need improvement for the optimal functioning of existing US-Africa BITs and to support “readiness” and implementation of future investment commitments.

## Recommendation 5 – Pursue WTO disciplines on ad hoc government interventions that restrict Africa’s ability to import affordable food.

As part of Geneva-based discussions on food security measures, the United States should work to secure a well-rounded deal on food security. The time is ripe to seek consensus disciplines on the use of market-distorting export restrictions and ensure that due consideration is given to the increased risk and financial uncertainty incurred by food-importing developing countries affected by such measures. Among these disciplines, governments should agree to:

- ▶ advance notification at the WTO of any export limiting measures,

- ▶ timely provision of reliable data on stocks of commodities,
- ▶ consideration of AMIS data in decision making,
- ▶ exemptions for emergency humanitarian aid, and
- ▶ binding of export taxes.

## Conclusion

In August 2013 USDA's Foreign Agricultural Service published a short report entitled, "Agricultural Imports Soar in Sub-Saharan Africa."<sup>41</sup> The report highlighted three notable sets of data. First, even though US agricultural exports to Sub-Saharan Africa had increased 200 percent over the last decade, US market share was estimated at only 7 percent. The EU garnered a 27 percent share, Brazil a 10 percent share, and India an 8 percent share. Second, US commercial shipments far outstrip food aid, accounting for about 80 percent of US agricultural exports, and they are growing at twice the rate of EU exports to the region. Third, food sales in Sub-Saharan Africa are expected to increase nearly 60 percent over the next decade.

Against these optimistic forecasts for commercial growth in the food sector is a more sobering set of data. The FAO estimates that one in four people in Sub-Saharan Africa remains chronically undernourished. Two hundred twenty-seven million people in Africa are considered undernourished. As the world

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contemplates how to produce 60 percent more food for an additional 2.4 billion people by 2050, Africa cannot keep pace. At current low rates of productivity and high rates of population growth, African agricultural output could only meet 15 percent of projected demand in 2030.<sup>42</sup>

The United States has mobilized significant investments in rural infrastructure, agriculture development, and nutrition, which are yielding promising returns. Implementing a US trade policy designed to generate opportunities across the value chain in Africa's growing food sector could amplify those positive results while promoting a sustainable approach to development in Africa.

There has never been a better time to engage Africa on expanded trade in food agriculture. Congress and the administration have several immediate chances this year to execute the strategy described in this paper. By aligning commercial policy as envisioned in Trade Promotion Authority and AGOA with effective development programs bolstered through the Global Food Security Act, the US government can leverage its assets across agencies to build foundations in fast-growing African food markets in ways that support African livelihoods, generate opportunities for American agriculture and food producers, and ensure that development assistance programs achieve their potential to eliminate hunger.

Foreign Service program, from which she graduated with distinction. She previously managed a global staff responsible for public policy and external relations at an American Fortune 100 life sciences company prior to launching an independent consulting firm, Sparkplug. In her current capacity as principal of Sparkplug, she advises firms in the life sciences, food, and agriculture sectors on strategies to maximize the social impact of their businesses.

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