

Prioritising SPS Capacity-Building Options:

Aflandia Country Case Study

Basic facts:

Aflandia is a land-locked country in sub-Saharan Africa with a population of 15 million. Most people live in rural areas and are involved in subsistence agriculture or artisanal fishing. The leading cash crops are cotton, maize, coconuts and coffee. Agriculture and fisheries accounted for 40% of GDP in 2010. The manufacturing sector is small (accounting for 15% of GDP in 2010). Services accounted for the remaining 45% of GDP in 2010. In recent years, Aflandia has developed a tourism sector which now attracts about 100,000 visitors per year and employs around 8,000 people. Average per capita income in 2010 was \$1,100.

Trade performance:

Over the years, Aflandia has had a large trade deficit. The country is a significant importer of machinery, oil, and an array of consumer products. Its traditional exports have been cotton, coffee and coconuts. Exports of cotton and coffee have fluctuated from year to year, whilst those of coconuts have declined due to persistent disease problems. As part of efforts to diversify its exports and drive economic growth and poverty reduction, the government has made efforts to encourage exports of a number of high-value agri-food products, notably shrimp and pineapple, but also fresh vegetables and honey. Exports of groundnuts and maize have also grown over time.

The key characteristics of these more dynamic exports are as follows:

- **Groundnuts** exports were valued at \$10 million in 2010, most of which went to the European Union (EU). Over the last 3 to 4 years, exports grew at 10% annually, reflecting Aflandia's relatively low costs of production. Approximately, 20,000 smallholders are engaged in groundnut production for export, predominantly in relatively remote areas with few other income opportunities. There is also a large domestic market for groundnuts.
- **Shrimp** exports have expanded rapidly in recent years, reaching \$60 million by 2010. Around 90% of exports are to the EU, with the remainder directed mainly to the Middle East and China where prices are 40% lower than in the EU. Around 60% of shrimp production is from wild capture, employing 30,000 small fishers in poor northern districts. Wild capture production is not expected to grow because of efforts to ensure sustainability in the sector. The remaining 40% of

production is from aquaculture, mainly near the capital. There are around 5,000 aquaculture producers of shrimp averaging 10 hectares in size. It is estimated that 40,000 people are directly employed in the aquaculture sector, most of whom are landless. The unit price of shrimp from wild capture and aquaculture production are almost the same.

- Investment in **pineapple** production has increased recently, especially in an area with high rates of poverty. Aflandia has good conditions for pineapple production and its costs of production are lower than its main competitors. Pineapple is produced on a small number of large plantations that have relatively few permanent employees, but that employ large numbers of women in pack houses. The main export markets for pineapple are neighbouring countries, which were valued at \$25 million in 2010. However, it is estimated that exports could be 200% greater within five years if access to North Rinzandia (Aflandia's larger and more affluent neighbouring country) could be achieved.
- Although exports of **honey** were only \$500,000 in 2010, these support the livelihoods of an estimated 30,000 producers, the majority of whom are women. Most production is in marginal rural areas with high rates of poverty and HIV/AIDS. Honey production is critical for the maintenance of local ecosystems. Currently, all exports are to regional markets, although a recent study identified potential EU markets worth \$1 million annually. Although there is considerable scope for increasing honey production, the study suggests that 50% of regional exports would be diverted to the EU. Prices in regional markets are half those of EU markets.
- Aflandia has **fresh vegetable** exports of \$50 million annually to the EU, mainly directed at wholesale markets and the catering sector in the UK, Netherlands, France and Germany. Production is on 10 large farms near the capital, which account for 80% of exports, and 20,000 smallholder out-growers producing under contract. These smallholders also supply the domestic market. Around 30% of smallholders in vegetable production for export are women. Exporters have explored markets in the Middle East, that appear to offer the next best opportunity, but prices there are half those of the EU markets currently served. Building on its position in EU markets, Aflandia is exploring the scope for exporting fresh vegetables to the United States, starting with Hot Pepper. Although, there are challenges to compete against Latin American suppliers with much lower production and transport costs, the Association of Fresh Produce Exporters of Aflandia (AFPEA) estimates that exports of \$5 million a year could

be achieved within five years. Around 5,000 smallholders are engaged in hot pepper production, mainly near the capital, and could expand production if this new market became available through switching away from maize.

- Aflandia is currently self-sufficient in **beef** and has potential to become a substantial exporter to regional markets if access could be achieved. Estimates suggest exports of \$10 million could be achieved within five years, expanding to \$50 million over 10 years. Most production is on large farms in areas with significant wildlife and pastoral producers that produce for own consumption and informal local markets.
- **Maize** is the staple food crop of Aflandia. As a result of efforts to boost productivity of maize production, there is now a sustained surplus for export to regional markets. Current exports amount to \$30 million, even after routine price discounts of 10% due to high levels of aflatoxins. Further exports of \$20 million are expected if recurring problems with aflatoxins are addressed. Around 50% of production is on medium and large farms, and the remainder on small farms. Smallholder production tends to be in areas with high rates of poverty, where maize is a key element of farm household income. There is no segregation of maize production according to source.
- Aflandia has been exploring the scope for **mango** exports to North Rinzandia. Mango production is widespread in the country, predominantly by smallholders and in areas with high poverty levels and prevalence of HIV/AIDS. Women are actively engaged in mango production. The potential export market for mangoes in North Rinzandia is estimated at \$500,000 per year. Many producers are beginning to doubt the viability of mango production and have started to uproot their trees. Exports are seen as one way to prevent this happening. Mangoes also have important nutritional benefits for the local diet.

The Government of Aflandia has established a strategy to maintain and enhance these non-traditional exports over coming years, with close involvement of the private sector. As part of this strategy, donors have carried out analytical work aimed at identifying challenges and constraints to be addressed. One element of this work focuses on sanitary and phytosanitary (SPS) capacity and the related challenges complying with export market requirements.

SPS capacity weaknesses and related compliance challenges:

Aflandia recently concluded a comprehensive assessment of its SPS challenges in international trade, including an in-depth consultation with exporters and an

assessment of public and private sector capacity. The key findings are summarised below.

Aflandia lacks capacity to undertake laboratory tests for aflatoxins that are internationally recognized. The basic facilities are in place, but equipment needs upgrading and the laboratory needs to be internationally accredited. Exporters use mobile test kits that provide a qualitative assessment of the presence of aflatoxins, but no quantitative results. As a result, importers in the EU undertake tests and charge the cost to exporters in Aflandia. The estimated cost of these tests in 2010 was \$14,000. The estimated cost of upgrading the laboratory and achieving accreditation is \$40,000, with on-going maintenance costs of around \$6,000 annually. Testing costs using a local laboratory are estimated to be much lower, at around \$5,000 annually, even after accounting for growth in exports over the next few years.

Shrimp exports are facing two challenges:

- Despite considerable upgrading of hygiene controls along the wild capture value chain, handling methods by fishers remain largely unchanged. The European Commission undertook inspections in 2008 and raised serious concerns about this situation. The Government of Aflandia provided assurances that this situation would be rectified, although little has been done to date. It is estimated that implementing a training programme for fishers and providing plastic boxes for storage of fish on boats would cost \$55,000, with on-going costs of retraining and replacing these boxes of \$15,000.
- Controls on antibiotic use in aquaculture production. Over the last three years there have been 25 border rejections in the EU due to antibiotic residues and the Government of Aflandia is concerned that trade restrictions could soon be applied. A good aquaculture programme has been designed with funding from donors, but this has still to be implemented. The estimated cost is \$90,000. Whilst the laboratory of the Department of Fisheries has been upgraded to undertake tests for antibiotic residues, this needs to be internationally accredited at an estimated cost of \$10,000. Maintaining the laboratory is expected to cost \$5,000 annually.

Only one region, representing 10% of Aflandia's land area, is confirmed as free of fruit fly. This is seen as a major impediment to expansion of pineapple exports, notably to North Rinzandia that does not permit imports of pineapple from Aflandia. In order to gain access, a pest risk assessment is needed to confirm that an additional region (accounting for 20% of Aflandia's land area) is free of fruit fly. The estimated cost is around \$150,000.

Whilst Aflandia wishes to exploit market opportunities for honey in Germany and the UK it is not approved to export honey to the EU. This requires that a residue monitoring plan be put in place and approved by the European Commission. The estimated cost is \$40,000, with annual costs of collecting and analysing samples using a regional laboratory of \$10,000.

In the last two years, a number of consignments of fresh vegetables have been rejected at the EU border due to high levels of pesticide residues. At the same time, key buyers are asking for assurances that good agricultural practice (GAP) is followed and that EU maximum residue levels (MRLs) are complied with. Increasingly, it is recognised that controls on pesticides in fresh vegetable production for exports needs to be enhanced, notably in smallholder production. Predominantly, this would involve the design of a locally-appropriate GAP protocol and the training of smallholders directed at the implementation of this protocol. It has been suggested that a local certification scheme might be implemented to ensure compliance. The estimated cost is \$250,000, with on-going costs of around \$20,000 annually.

If Aflandia is to establish hot pepper exports to the US, a pest risk assessment needs to be undertaken by the US Animal and Plant Health Inspection Service (APHIS). This will require the National Plant Health Organisation (NPPO) in Aflandia to undertake surveillance for quarantine pests. It is estimated that this will require a one-off investment of \$10,000.

Aflandia faces considerable challenges with animal health controls if it is to gain access to regional markets for beef. Currently, it has no areas that are Foot and Mouth Disease (FMD) free. However, plans have been formulated to establish a relatively small FMD-free area where the most efficient and largest producers are situated. This would require the erection of fencing, movement of some livestock and controls on pastoralism. A buffer zone around this area would require an on-going vaccination programme. The cost of establishing the FMD-free area is estimated at \$7 million, with on-going costs of \$250,000 annually.

A long-term and persistent problem in maize production is the use of inappropriate post-harvest handling and storage practices that are responsible for high levels of aflatoxins in much of the harvest. There are important implications not only for maize exports but also exposure of the domestic population. The estimated cost of implementing controls on aflatoxins at the level of production, as well as further along the maize value chain, are \$1.5 million, with on-going costs of \$100,000 annually.

The final issue identified by the SPS assessment relates to treatment of fresh fruit, such as mangoes, to control fruit fly and facilitate exports to regional markets which are

currently closed. Establishing an appropriate hot water treatment facility is estimated to cost \$15,000, with annual operating costs of \$3,000.

The challenge for Aflandia

Whilst the assessment of SPS capacity and related compliance challenges has provided extremely valuable information to the Government and the private sector, the identified needs exceed available domestic resources. Inevitably, priorities will need to be set, although it is not clear how the competing demands of the different sectors will be reconciled. Whilst donors have offered support, they are demanding that Aflandia prepare a detailed SPS capacity-building plan, with defined and substantiated priorities. The government is not clear how to go about this.