



MINISTERIAL STATEMENT

BY

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IN THE

NATIONAL ASSEMBLY

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Hon. Speaker;

Hon. Members of the National Assembly;

I rise to explain the rationale for the adoption of policy and regulatory measures such as infant industry protection (IIP) and quantitative restrictions on imports of selected products entering our market. The primary reason is to preserve and nurture our economic and industrial growth and in turn accelerate job and wealth creation and to equalize wealth distribution by cushioning and creating policy space for existing economic value chains to get off the ground and build the requisite competitive capacity.

I will also address some concerns and perceptions on the impact of such measures on free trade and consumers.

Comrade Speaker

Hon. Members

The global trading system poses a harsh environment for small developing countries. The cost of access to the global market has been to give up policy options through which to support, protect and nurture industries until they are sustainable and competitive. Policy space to support industry is highly restricted and it is often said that developed countries have kicked away the ladder that they used to climb to the level of industrialization where they are today. On the one hand there is increasing pressure on the use of subsidies, reduced taxation, import tariffs or quotas for industrialization, and what is not already confined by global structures such as the World Trade Organization is under attack in bilateral trade negotiations. On the other however, there are still massive subsidies paid by the developed economies in especially the agricultural and agro processing sectors, which continue to distort markets and make it very difficult for developing economies like ours to develop and industrialize. I am happy to say that a great deal of coherence has emerged in Africa on this matter and that we are holding our ground in defending remaining policy space that is required for us to develop our productive capacity.

It is for that reason that the countries of our region agreed to include in our own trade agreements such as the SADC Trade Protocol and the SACU Agreement provisions that enable Governments to support industrialization through trade measures such as infant industry protection and quantitative restrictions on imports (as outlined in the accompanying annex).

Hon Members

Since independence, we have recognized low growth, poverty, high unemployment and income inequality as major problems and challenges facing our country and requiring our collective and decisive action. Collectively, we recognize that in order to effectively address these challenges, we need a paradigm shift and real restructuring and transformation of our economy. In particular we need, on one hand, to transform the economy from its heavy reliance on the production and export of raw material commodities and, on the other hand, to become an industrialized economy where manufacturing, innovation and the development of value chains assume the center stage and we are able to add value to our resources and to produce some of the consumer goods that we import in large quantities.

Vision 2030, the current national development plan (NDP4) and our national industrial policy provide a sound framework for targeted action to bring about sustained and high levels of economic growth and employment, wealth creation and income distribution and equality. I have no doubt that you will agree, Hon. Members, that the change and positive results that we desire to see will require more deliberate and rigorous action especially policy interventions or State support to our budding manufacturing industries.

We agree with the notion that “growth is not an automatic birthright for an economy”. This means that for an economy to grow, it has to create the right conditions for such growth to take place.

It is our firm belief that unless we nurture, strengthen and expand our manufacturing and supply-side capacity, our economy will continue to face limited growth prospects and will remain vulnerable to external shocks, adverse changes in terms of trade, and the challenges of avoiding the 'natural resource curse' when commodity prices move on a boom - bust curve and economies fail to diversify because of the temporary comfort of natural endowments. This is indeed a shared national goal as exemplified in the designation of manufacturing as one of the four sectors that have been identified for development under NDP4. This is also the premise for the commodity-based industrialization that we are advocating through our Growth at Home Strategy and its emphasis on strengthening local and regional value chains.

Globally, there is a shared acknowledgement that the manufacturing sector plays a strategic role in economic development and is the component of industry that presents greater opportunities for sustained growth, employment and poverty reduction. Countries without significant manufacturing often exhibit so-called jobless growth and increasing inequality. While there have been notable investments in manufacturing and other non-primary sectors in Namibia over the past years, the growth of our economy is still predominantly primary sector-driven and our industrial base is still narrow.

Historically and even now, attempts to set up local manufacturing were by and large frustrated by imports from well developed economies in the region and beyond, some of whom gain entry and consolidate their presence in our market by exercising anti-competitive practices such as predatory pricing and dumping methods. Such practices from foreign businesses, which are often in cohort with goods importers or foreign-owned retailers operating in our market, create unfair competition for our budding industries. Without at this time wishing to dwell on the detail, we can recall the Cheetah cement saga of blatant price manipulation, which destroyed efforts to establish local cement production; and then there were certain activities concerning the supply of beer bottles that may have been intended by foreign competitors to bring our local brewery down. More recently we have come to learn that our printing industry is under severe

pressure due to raised tariffs on the import of printing paper distorting the market in favor of competitors with better access to affordable inputs.

In addition to having to deal with the anti-competitive practices that I have outlined above, the few local manufacturing and value adding industries that we have managed to develop are faced with other challenges at home and abroad. These are high utility costs, high cost of imported inputs and non-tariff barriers when attempting to export to other countries.

Hon Speaker

Hon Members

So far, the Government of Namibia through the Ministry of Trade and Industry has instituted infant industry protection (IIP) measures that have enabled the development and survival of certain manufacturing industries, especially in the agro-processing sector. Past examples include the manufacturing of pasteurized and UHT milk, and as a consequence we have seen significant investment in the dairy value chain.

In addition to these IIP measures, last year it was also found necessary to impose restrictions on the quantities of imports of specified poultry products and dairy products in order to safeguard local value chains from import surges and to prevent or reduce the risk of job losses and related socio-economic negative effects.

It is important to point out that infant industry protection is granted to an industry or sector and not a single company in line with international norms and practices. Given the small size of our market and narrow industrial base, there are often only very few manufacturing companies or only one major manufacturing company operating in a number of our industrial segments. This is the case with cement, poultry and dairy industry segments. Our interventions are however always geared towards safeguarding the entire industry and value chain.

Hon Members

Almost invariably when we have imposed an IIP duty or quantitative restrictions on imports such measures are being challenged by a few importers with entrenched interests and who obviously wish to see Namibia remaining as a captive market for imports from other countries. We are opposing these challenges, and we seek the support of all Namibians in this fight in the interest of our national industrialization drive.

Hon Speaker

Hon Members

Benefits of IIP

The purpose of policy interventions such as IIP is obviously to bring about benefits to the economy and citizens.

Firstly, the process of industrialisation in a country with limited manufacturing capacity, like Namibia, will not follow a natural traction in the face of foreign competition. This supports the argument that industrialisation cannot be left to market forces or the “invisible hand”, but requires deliberate government intervention to bring about the desired structural change and diversification.

Secondly, the setting up of new industries involves a business risk, which necessitates some form of support or incentives to entice the producer to enter the industry. If the emerging industry is open to foreign competition, local producers are often at risk of failure and even closure altogether if they are not protected.

The third positive aspect relates to employment and development of local human capital through the process of learning by doing and exposure to production technologies that are used in these manufacturing industries. The industries concerned employ over 4,000 Namibians.

The fourth element is that IIP or quantitative restrictions have the potential to provide an incentive for local manufacturers to procure inputs and services from local suppliers, and in this regard has the potential to foster deeper backward and forward linkages between protected industries and other industries in the economy. This particularly holds benefits for our small and medium sector and supportive industries such as packaging, transport, water and power.

In the long-run, it is expected that industries that are enjoying protection will build the necessary productive capacity during the period of protection, resulting in increased efficiency and output and should be able to offer quality products at competitive prices.

Hon. Speaker

Hon. Members

We have taken note of some concerns that have been expressed that some of our measures in this regard are either inhibiting free trade and tend to have undesired effects, notably increases in prices of the goods produced by the industries granted protection.

Monitoring and Corrective Measures

We recognize that there is a risk that, if not properly implemented, policy measures such as IIP or quantitative restrictions may result in unintended or undesirable consequences. In order to prevent and mitigate against any such risks, I have tasked the Namibian Competition Commission and Namibia Trade Forum to verify actual cost structures and production levels as well as to monitor farm gate or ex-factory and retail prices in the country, and to also monitor what is happening in the region. Such accurate information will enable effective monitoring the impact of the measures and for timely corrective measures when required.

While we are aware that the industries that have been granted IIP or quantitative restrictions have increased the prices of the goods they manufacture, it is important to interrogate the reason for such increases. Information available to us indicates that producer prices are driven by exogenous factors that are beyond the control of local producers. These are increases in the cost of inputs - such as water, electricity, rates and taxes and fuel. These increases in cost are eventually passed on to the retailers, who in addition to their profit margins also pass them on to the end consumer. While I can understand the rationale behind such cost increases, I believe we should not tolerate prices to be determined by domestic producers simply on the basis of the cost of imported products. Ultimately efficiency gains resulting from government support must be passed on to the consumer.

There is a further dimension to pricing that I need to mention, namely that the retail price bears little or no relationship to the ex-factory or farm gate price. While there may be frustration at price increases, such frustration may in some instances more correctly be directed at the retailers. The ex-factory price for whole chicken was indicated to us as N\$ 31.00 per 1.5 kg. Retail prices for the same whole chicken for the consumer ranged from N\$45.00 to over N\$ 60.00 in some instances. This translates into mark-ups of between 50 and 100%. This appears excessive and not in the interest of consumers. We have therefore initiated to develop a retail charter for Namibia in cooperation with a number of stakeholders that will increase transparency in price composition as one of its elements.

Hon Members

We recognize that protection measures should be temporary and targeted, and should not be excessive or permanent. I wish to point out that IIP or quantitative restriction measures are only imposed for a defined period. In addition, we are fully aware such measures are necessary but not adequate to guarantee the survival and growth of local industries, if applied in isolation of other complementary policies i.e. economic,

industrials, investment, financial, public procurement and social (local procurement and skills) policies.

I look forward to the support of the Hon Members of this August House and the entire Namibian nation in order to preserve and create jobs and the gains that we have made over the years and to increase our chances to realise our goal of becoming an industrialised nation by 2030.

Hon Speaker

Hon Members

Before concluding allow me to address some statements that have been made or were published recently in the local print media regarding quantitative restrictions for the importation of poultry and dairy products as well as the Economic Partnership Agreement (EPA).

Let me start off with the EPA. The CEO of Meatco has attacked the Government reportedly for prolonging the signing of EPA with the European Union and accusing it for “not consulting” with stakeholders on the EPA negotiations. The Meatco CEO further described Namibia’s stance to preserve policy space and flexibilities that will allow us to introduce measures that will enable to transform our economy and build a strong industrial base as a “political game”. In addition, he claims Meatco alone opened the Russian market after it went on a “diplomatic offensive”.

Our responses on these assertions are as follows:

On the insinuation that Namibia has taken an isolated position, I wish to correct and inform that the SADC–EPA group has reached a consensus to abandon the Interim EPA negotiation and to go for a full EPA. The issues where no agreement between us and the EC could be reached centered around the loss policy space for industrial development and regional economic integration. Further, the Heads of State and Government of the Africa, Caribbean and Pacific (ACP) group of countries at their

7th Summit held in December 2012 in Malabo, Equatorial Guinea, declared in the Sipopo Declaration that instead of serving as “instruments of development”, “the EPAs have undermined the regional integration processes” and contain provisions “that severely limit ACP countries’ policy space”. Both the ACP Group and African Union have come out strongly against the manner in which the EU is putting unreasonable demands on the ACP countries in the EPA process and their positions on EPAs were presented at the 9th WTO Ministerial Conference held in December 2013 in Bali, Indonesia. So Namibia is not alone in its position on the EPA negotiations.

The claim that the Government does not consult with and take on board the views of the private sector during the EPA negotiations is equally not reflecting the factual situation. The private sector has organized itself and formed the Agricultural Trade Forum (ATF) and the National Trade Forum (NTF) whose membership includes all the major producers of meat and agro products and all agricultural unions, and delegates of these bodies are part of the national Negotiating Team. These forums have been established to serve as a conduit of private sector inputs into the negotiations. The Government through the Ministry of Trade and Industry even provides funding towards the operations of the NTF. MEATCO itself assisted with funds for the ATF, which we appreciated very much. There is therefore no truth in the assertion that the private sector is a spectator to the EPA negotiation process.

On the issue of alternative export markets, I wish to inform this August House that the Namibian Government has gone out and has succeeded in securing export markets for locally produced products. The very preferential market access Namibia has enjoyed for beef, fish and grapes in the EU was a result of government initiatives. We have subsequently negotiated and secured preferential access to the Norway market for our beef and the markets of EFTA countries and SADC for all other products as a result of the SACU-EFTA Free Trade Agreement and the SADC Free Trade Agreement, respectively. Currently, progress has been made with respect to exports of our beef and mutton to China and the Russian Federation, while other initiatives are ongoing to also open up the Hong Kong, United Arab Emirates (UEA), Qatar and the Republic of Korea.

These efforts are collective team efforts involving ATF, NTF The Meat Board, the MAW&F, and the MTI.

Hon Speaker

Hon Members

I also wish to react on the recent statement by Clover informing that it was forced to retrench some 34 Namibians and that it has stopped serving many localities away from the capital as a result of the negative impact of our quantitative restriction on its imports of dairy products into our market. We wish to point that the local dairy sector or value chain, which we are protecting through these measures, employs over 1,750 Namibians. We however consider every job given to our people important, and we are very saddened by this purely profit driven move, which does not take into account the well-being of our people. This is a demonstration that it is important to have a home-based productive capacity, which is able to serve all corners of our country and reduces vulnerabilities in the labor market.

Lastly I wish to put the record straight on the statistics on the milk and dairy products imports and the claimed resultant impact. According to the official import data on the ASYCUDA system of our Customs, some 650,562 liters of milk was imported into Namibia in 2013. The current quota restriction limits those imports to 500,000 liters. This means the percentage of imports restricted is only 24%. Equally on yogurt products, the official import figures for 2013 indicate an import volume of 204,555 liters, while the quota is 200,000 liters, representing only a 2% restriction. If these figures are anything to go by, which we think they are, this mild restriction could not have caused any serious shortages in the market. Import figures that were quoted recently however, appear to be much higher than the official figures, which could indicate under-declaration, a matter that needs to be investigated.

I hope that I was able to clarify the policy stance on IPP and QR and I thank you.

Annex: Policy and Legal Framework

Infant Industry Protection is an important tool of policy-making in the world, both in historical and current contexts. Few countries became industrialized without infant industry protection. Indeed both the early industrialised and newly industrialised countries of the world applied the same principles, albeit in varying degrees and ways. Even Customs Union, Free and Multilateral Trade Agreements also recognize and include provisions on infant industry protection and import restrictions although there are often significant barriers to using these.

Namibia is a member of SACU, SADC and WTO and has rights and obligations under these economic and trading arrangements.

With respect to the WTO rules, the principal justification for IIP is found in GATT Article XVIII regarding *'governmental assistance to economic development'*. This provision recognises that the attainment of the objectives of the WTO GATT 47 will be facilitated by the progressive development of the contracting parties' economies and GATT therefore provides that *"in order to implement programmes and policies of economic development designed to raise the general standard of living of their people, members may take protective or other measures affecting imports in order to a) maintain sufficient flexibility in their tariff structures to be able to grant the tariff protection required for the establishment of a particular industry and b) apply quantitative restrictions for balance of payment purposes taking into full account the continued high level of demand for imports likely to be generated by their programmes of economic development"*.

At the sub-regional level, Article 25 of the SACU Agreement 2002 provides that:

1. *“Member States recognize the right of each Member State to prohibit or restrict the importation from its area of any goods for economic, social, cultural or other reasons as may be agreed upon by the council.*
2. *Except in so far so as may be agreed upon between the Member States from time to time, the provisions of this Agreement shall not be deemed to suspend or supersede the provisions of any law within any part of the Common Customs Area which prohibits or restricts the importation or exportation of goods.*
3. *The Provisions of paragraphs 1 and 2 shall not be so construed as to permit the prohibition or restriction of the importation by any Member State into its area of goods grown, produced or manufactured in other areas of the Common Customs Area for the purpose of protecting its own industries producing such goods” – but not excluding restrictions for the purpose of maintaining employment, investment, industrialization etc.*

Article 26 provides that “the Government of Botswana, Lesotho, Namibia or Swaziland may as a temporary measure levy additional duties on goods imported into its area to enable infant industries in its area to meet competition from other producers or manufacturers in the Common Customs Area, provided that such duties are levied equally on goods grown, produced or manufactured in other parts of the Common Customs Area and like products imported from outside that area, irrespective of whether the latter goods are imported directly or from the area of another Member State and subject to payment of the customs duties applicable to such goods on importation into the Common Customs Area”.

Article 21 of the SADC Protocol on Trade equally authorizes member states to suspend certain obligations of the Protocol in respect of like Goods imported from other member states, as a temporally measure in order to promote an infant industry, and subject to WTO provisions.

At a national level, this August House passed the Import and Export Control Act (Act 30 of 1994) as a tool to enable us to manage imports and exports in the national interest. Specifically Section 2 of the Act authorizes the Minister of Trade and Industry to and I quote: *“whenever necessary or expedient in the public interest and by notice in the Gazette, prohibit import into or export from Namibia”*.