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Mainstreaming Kenya's National Climate Change Action Plan into the Trade Sector

Introduction: *Kenya Vision 2030* places high priority on the wholesale and trade sector because of the sector's linkages with production and consumption, both of which are expected to expand to contribute to the projected 10 per cent annual rate of economic growth.[1] The wholesale and retail trade sector in 2011 accounted for 16 per cent of GDP.[2] The trade sector has been one of the most rapidly expanding sectors of the economy since the introduction of trade liberalisation measures in the 1990s. Most of the employment in trade is found in the informal sector. In addition, international trade (imports and exports) is an important element of the wholesale and trade sector. Since independence, Kenya has enjoyed close international relations with the western countries, and increasingly with the Far East. Kenya is also a member of several regional trade blocs such as the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

In 2009, Uganda, the United Kingdom and Tanzania were the largest export partners of Kenya, accounting for 13.4 per cent, 11.2 per cent and 8.7 per cent, respectively, of the total export volumes.[3] Other important export partners include the Netherlands, the United States of America and Pakistan. Tea, coffee, horticultural produce, and tobacco and manufactured tobacco products are the leading export earners, collectively earning the country Ksh 511 billion in 2011.[4] Other major export items include fish and cement, the latter particularly to countries in the eastern and central African regions.

Crude petroleum and petroleum products, machinery and other capital equipment, transport equipment including motor vehicles, metals, plastics, electrical equipment as well as food and beverages are the major imports. The United Arab Emirates, India and China are the largest import partners for Kenya. In 2009, the three countries accounted for more than 31.5 per cent of the total import volume.[5] Other major importers are Saudi Arabia, South Africa, Japan and the USA.

Risks and Impacts: The trade sector depends on services and products offered by other sectors such as energy, agriculture and transport. Consequently, impacts on these sectors directly affect the trade sector. The following climate change-related risks and impacts have been identified:

- The trade sector is vulnerable to the consequences of extreme weather-related events, especially through disruptions in the reliability of water and power supply though droughts, rains and ensuing floods. This means that businesses face disruption or are confronted with higher operational costs of alternative power supply. For example, if the expansion of Mombasa's port facilities does not account for climate change risks, growth of export trade could be endangered as well.[6]
- Rising temperatures are expected to strengthen coastal winds and storms, which will affect ship navigation and other port operations, and potentially hamper international trade. For example, the recent tsunamis in Japan have affected the shipping of motor vehicles, machinery, electronics and other goods.
- The loading capacity of aeroplanes is dependent on temperature. The higher the temperature, the lower the loading capacity. Projected higher temperatures could cause a reduction in the volume of airfreight cargo, affecting the trade of commodities, such as horticultural produce that is transported to the European Union and other markets mainly by air.

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- Adverse weather events will also impact local and regional trade. For instance, the damage to the transport infrastructure by the eight-month 1997-1998 El-Niño rains caused economic losses of US$ 1 billion mainly from reduced trade activities.[7]
- The desire by some European consumers of horticulture products to reduce their carbon footprints could negatively impact Kenya's horticultural industry since Europe is its major export market.

Recommended Actions: In a prosperous low carbon climate resilient future, the trade sector is robust, diversified and competitive, which can only be achieved if other sectors of the economy are resilient to climate change-related disruptions. The crucial notion here is that trade depends on climate resilience in other sectors of the Kenyan economy including agriculture and food production, transport, water management and energy.

In the transport sector, these measures include provision of climate resilient and low carbon infrastructure such as stable roads with good drainage systems that can withstand storms; and extended railway networks to facilitate low carbon transportation of goods. A shift of freight transport from the current mode of road freight to rail freight – through modernising and extending the existing rail network – would facilitate regional trade, reduce air pollution, improve traffic safety and extend road infrastructure lifetimes. A study suggests that rail's share of transit freight in Kenya could increase to more than 30 per cent by 2020 if the necessary infrastructure investments are made.[8] Railway transportation is up to four times more fuel-efficient than road transportation, offering significant mitigation opportunities and reduced fuel imports.[9] A shift of 30 per cent of freight from road to rail could reduce emissions from the transport sector by 833 $ktCO_2$ per year in the year 2030 (see the briefing note on the transport sector for more details).

For wholesale and retail trade to thrive, the private sector needs to rely on government to provide the required enabling environment and infrastructure. The trade sector in Kenya is characterised by inefficiencies along the supply chain, but there is ample room for improvement by increasing resource efficiency and lowering transaction costs through institutional reforms. In addition, climate change considerations may provide an opportunity for focusing on (environmentally responsible and climate friendly) niche products that provide a global competitive advantage for Kenya. An example is horticultural produce from Kenya, such as the cut flowers that are sold mainly in the EU. This produce is likely on a life cycle basis to be less carbon intensive than similar produce from the destination markets, presenting an opportunity for Kenya to brand its produce as low carbon.[10] The government will need to continue to assist in branding and marketing Kenyan products in regional and international markets.[11] Research is required to determine the carbon footprint of Kenyan products, relative to that of competitors.

Other opportunities include enhancing the resilience of the trade sector against climate change impacts through diversification of goods and services. The expanding Information communications technology (ICT) sector presents an opportunity for the development of ICT products that could be sold not only locally, but also regionally and globally.

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Conclusion: A robust, diversified and competitive trade sector can only be achieved if the whole of the economy is resilient to climate change-related disruptions. Trade depends on climate resilience in other sectors of the Kenyan economy including agriculture and food production, transport, water management and energy. While climate change poses risks to the trade sector, it may bring new opportunities, such as environmentally responsible and climate friendly niche products. The government needs to provide the required enabling environment and infrastructure – including improved transportation and energy services, as well as assistance to brand and market Kenyan products in regional and international markets. Research is required to determine the carbon footprint of Kenyan products, relative to that of competitors, and to identify niche products.

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