

ACP-EU Trade Issues in the Beef Sector

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Summary

This brief begins by outlining the structure of the basic EU regime for beef, including the full incorporation of the beef sector into the single-payment scheme and the link to management arrangements in the dairy sector, which may slow the reduction in the total capacity for beef production. The long-term trend in prices received by ACP suppliers is surveyed in the context of CAP reform and trade negotiations at multilateral and bilateral level, and it is noted that the EU is likely to retain safeguards against import surges.

Price reductions have reduced the attractiveness of the EU market to exporters, but a key development concerns the trend towards the consumption of higher-quality beef in the EU. This may open markets for exporters able to meet such standards, but on the other hand it threatens a rise in exports of low-quality EU beef, even in the context of net imports, which may threaten ACP markets.

The increasing attention paid to food-safety and animal-welfare standards in the EU is likely to raise costs for exporters, and the recent curtailment of imports from Brazil can be seen as a warning to other exporters. Uncertainties remain, however, as to how far the EU will allow this factor to impact on ACP suppliers, given recognition of institutional capacity limitations.

‘Aid for trade’, in particular in relation to raising the capacity to reach such standards, is currently under discussion in the EU, but it is not yet clear that this will be sufficient either in scale or in being appropriately targeted to meet the challenges that ACP beef producers face, despite winning duty-free, quota-free access to the EU market. Similarly aid may be needed to help producers to better target the increasingly differentiated EU market. Finally ACP countries may need to take action to monitor and guard against threats from cheap imports into domestic and regional markets.

1. The EU beef-sector regime

1.1 The basic regime and beyond

The basic regulations establishing the common organisation of the market in beef within the EU date back to 1968. The system consisted of four major elements:

- price support through a system of intervention buying;
- high levels of tariff protection around the EU market for beef;
- export-refund support to promote beef exports;
- direct payments.

With the implementation of CAP reform in the beef sector, a number of major changes have taken place, consistent with the shift from **price support** to **direct farm-support payments**. This has involved a substantial expansion of direct support payments in parallel with price reductions and the dismantling of intervention buying.

However, beyond this shift in instruments there has emerged a shift in focus, away from an emphasis on the **quantity of production** to an emphasis on its **quality**. In the beef sector in particular, this has involved two distinct elements: food safety, which is foremost the responsibility of government authorities; and food quality, which is essentially an issue for the private sector (although in the case of the EU, substantial levels of public assistance are being extended in support of the development of quality-assurance schemes and quality labels).

Food-safety issues and food-quality differentiation of beef products will be critical factors in the coming years in determining the nature of ACP-EU trade in beef products.

The process of EU beef-sector reform

From the end of 1992 a process of reform has been under way in the EU beef sector, involving a movement away from price support to increased levels of direct aid payments to farmers. This has featured increasing headage premia and progressive reductions in the intervention price for beef.

The 'Agenda 2000' extension of reform in the beef sector involved a 20% reduction in the intervention price for beef in three stages. From January 1st 2000 the intervention price fell to €3,475 per tonne for the first six months, to €3,242 per tonne for the season from July 2000 to June 2001, and to €3,013 per tonne for the season 2001/2002. On July 1st 2002 the intervention price was replaced by a 'basic price' for storage of €2,224 per tonne. Under this new system if the EU market price falls below 103% of the 'basic price' then the EU will finance private storage of beef in order to support the market (roughly equivalent to an intervention price of €2,669 per tonne under the old intervention price system). In addition beef producers will also benefit from a 'safety net' intervention system for bulls and steers, involving the organisation of 'buying-in tenders' in particular member states, if the market price for bulls and steers in the member state concerned falls below €1,540 per tonne for two consecutive weeks.

To compensate for these reductions in the intervention price, direct aid to EU beef farmers was increased. Initially these payments consisted of different premia paid per head; however as of June 2003 further reform measures were adopted, involving the progressive decoupling of existing farm aid payments from production through the establishment of a single-payment scheme, which embraced a range of commodities. (See the executive brief on CAP reform for further details of the single-payment scheme.)

As with other sectors, the single-payment scheme will be linked to 'cross compliance' with environmental, food-safety, and animal-welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition.

During a transitional period up to December 2006, EU member states had a degree of discretion over the pace at which they implemented the decoupling of farm payments. By 2008 the single-payment scheme will be extended to the dairy sector (although quotas will remain in place until the 2014/15 season). This is important since trends in the dairy sector have a direct bearing on overall EU beef production.

1.2 The EU import regime

High prices inside the EU traditionally required it to maintain high levels of import tariffs in the beef sector. The EU's MFN import regime for beef consists of a combination of an *ad valorem* duty and a specific amount per tonne (see table below). As can be seen, the Uruguay Round agreement resulted in a 36% reduction in these duties over six years. By far the most important duty is the specific duty, which for beef now stands at €1,768 per tonne. It is this duty which is likely to be subject to the most extensive tariff dismantling, particularly as part of moves towards establishing *ad valorem* equivalent values prior to tariff reductions under the Doha Round.

The EU beef-import regime

		Base rate for reductions	1995	2000	reduction
Live animals	<i>ad valorem</i>	16.0%	15.0%	10.2%	36%
	specific €/tonne	1,454	1,367	931	36%
Beef meat	<i>ad valorem</i>	20.0%	18.8%	12.8%	36%
	specific €/tonne	2,763	2,597	1,768	36%
Preserved meat	<i>ad valorem</i>	26.0%	24.4%	16.6%	36%

Source: Situation and outlook: beef sector, CAP 2000 working document, DG Agriculture, April 1997, p.13.

The Agriculture Commissioner Mariann Fischer Boel has acknowledged that the conclusion of the Doha Round may require the EU to introduce tariff cuts in the beef sector which would 'certainly mean some extra beef imports'. This will be easier for domestic EU beef producers to accommodate as a result of two developments: the shift over to direct aid payments to EU livestock farmers (according to the Commissioner dairy farmers for example now get around €5 billion per annum in direct aid payments under the single-payment scheme) and efforts to actively promote a shift over to quality beef production in order to serve 'luxury purchase' components of the EU market, where Brazilian beef does not compete directly. These developments will also make it easier for the EC to contemplate tariff concessions in the beef sector under bilateral reciprocal preferential trade agreements, such as the one under negotiation with Mercosur.

This is particularly the case since, in addition to these two duties, a safeguard clause allows customs duties to be increased in the case of import surges or a drop in import prices below a certain trigger threshold. The EU is likely to insist on the retention of safeguards as a policy tool in both multilateral and bilateral contexts.

1.3 ACP and other trade preferences

The following table shows the preferential quotas for chilled and frozen de-boned beef/veal formerly extended to ACP countries under the Cotonou Agreement, and the average quota utilisation over the period. These preferential quotas totalled 52,100 tonnes and constituted around 14% of total EU imports throughout the 1990s. However, Kenya has only supplied beef in one year, 1992, and Madagascar has not supplied any beef to the EU since 1998, while, initially as a result of foot-and-mouth disease, Zimbabwe has also not supplied the EU market since 2002. Swaziland has also faced problems in supplying the EU market under the beef protocol. This leaves Namibia and Botswana as the only two ACP countries regularly exporting beef to the EU.

ACP beef exports to the EU 1977-2004

	Quota (tonnes)	Ave. supply (tonnes)	% quota fill (ave.)
Botswana	18,916	11,403	60.3
Namibia	13,000	9,415	72.4
Zimbabwe	9,100	6,266	68.9
Swaziland	3,363	914	27.2
Madagascar	7,579	954	12.6
Kenya	142	1	0.7

Source: Commonwealth Secretariat, 'The future of ACP beef and veal sector preferences', August 2006

With rare annual exceptions quota utilisation averaged only 55.6% of the allocated quota, suggesting that tariff barriers were not a significant barrier to trade. Indeed, meeting increasingly strict food-safety standards at commercially viable costs, in a context of falling EU market prices, has come to constitute the major challenge (price developments in early 2008 notwithstanding). The significance of the ACP as a supplier of beef has moreover fallen dramatically as EU beef imports have increased, and by 2007 ACP beef exports accounted for only 3.4% of total EU beef imports.

Looking beyond the ACP, in order to comply with its WTO market-access commitments the EU also operates a tariff-rate quota as set out below.

Market access in the beef-and-veal sector

	Quota	In-quota tariff	MFN tariff
Current access			
live animals (adults)	10,000 head	4-6%	0%
live animals (calves)	169,000 head	165+€582/tonne	10.2%+€93.1/100kg
beef meat	144,000 tonnes	20%	12.8%+€100-300/100kg
Minimum access:			
beef meat	20,000 tonnes	20%	

Source: EC Export Helpdesk, <http://exporthelp.europa.eu/index.html>

Before EU enlargement the EU in addition granted tariff-rate quotas to pre-accession countries, amounting in total (live animals and meat) to around 142,000 tonnes.

1.4. The WTO and the EU beef-export regime

In the 1990s the EU was the world’s leading beef exporter, with over 25% of world beef trade and a peak level of annual exports of 1.2 million tonnes. This was a classic outcome of the old CAP regime, which through price support encouraged over-production relative to domestic consumption, (over 1.2 billion ecus annually, with payments being equivalent to around 40% of the market price) and generated substantial intervention stocks. In ACP countries where lower-quality and hence lower-priced beef cuts were sold, the importance of export refunds was even greater in fuelling this trade.

EU export commitments under the Uruguay Round

	Value (€ million)	Volume (thousand tonnes)
Base	1,959	1,040
1995	1,923	1,137
2000	1,254	822
Reduction	36%	21%

Source: *Situation and outlook: beef sector*, CAP 2000 working document, DG Agriculture, April 1997, p.15.

However, the Uruguay Round agreement placed ceilings on the level of subsidised EU beef exports, and along with the BSE crisis, continued improvements in milk yields in a context of restrictive production quotas, and the implementation of the reform of the beef sector, exports began to fall sharply. By 2004 EU beef exports were only around one-third of what they had been throughout most of the 1990s, with export-refund allocations by then being substantially below the allowed WTO ceiling (just over a quarter) and with export volumes well below half the allowed level on which export refunds could be paid. This trend has continued, with EU beef exports in 2007 being under 12% of what they were in the early 1990s, when they were at their peak. By 2015 it is estimated that they will be only 5.3% of the peak levels. In the context of falling EU production, and the transformation of the EU into a net beef importer after 2003, WTO export-refund ceilings currently have no impact on the level of EU beef exports.

1.5 The beef sector and the dairy regime

A factor strongly influencing EU beef production is the progress of reform of the EU dairy regime, since two-thirds of EU beef production comes from the dairy herd. The maintenance of milk quotas in a context of increasing milk yields has led to a substantial decline in EU beef production (with a fall of 11.9% in the total dairy herd translating into a 3.4% fall in total beef production). The production effects of dairy-sector developments have been compounded by the progressive

incorporation of the EU beef sector into the single-payment scheme, the consequent decoupling of aid and the relegation of the intervention system into a minimum safety-net function. This has allowed EU beef prices to fall, reducing the attractiveness of dedicated beef production.

However changes that are pending to the dairy regime are expected to mean ‘one less constraint on beef production in the EU’. This arises from the political acceptance in November 2008 of CAP ‘health check’ proposals to increase milk quotas by 1% per annum between 2009/10 and 2013/14. This is designed to promote a ‘soft landing’ when production quotas for milk are finally abolished in 2015. This should serve to slow down the rate of contraction of the EU dairy herd (‘projected to decline from around 24 million head in 2007 to approximately 22 million animals by 2014’ in the absence of the changes in dairy quotas). The eventual elimination of quotas could serve to reverse this declining trend, if world market prices for dairy products prove attractive. However developments in this area are highly uncertain. Thus we find that even without the envisaged quota expansion, current milk-production quotas are underutilised as demand contracts in the face of the economic downturn.

2. Trends in the beef sector

2.1 Recent trends in EU imports and exports

In the 1990s EU imports of beef remained fairly constant at around 370,000 tonnes per annum. However since 2002, EU imports of beef have risen substantially to an average of around 432,000 tonnes in 2002-2003, before rising to 619,000 tonnes in 2006. Some 70% of these imports came from Brazil and 20% from Argentina, with, in both instances, the full duty being paid. This arises from the highly price-competitive nature of Brazilian and Argentinean beef production (this was related to dramatic currency movements involving the devaluation of the Real and Peso respectively). For example, in 2005 Brazilian rib-eye cuts (€7 per kg) were almost half the price of Irish rib-eye cuts (€13 per kg) and 30% cheaper than Dutch Limousin rib-eye (€10 per kg). Argentinean production, while more expensive than Brazilian (at €9 per kg), was still highly competitively priced for most European markets.

Wholesale prices, August 2005

Brazilian rib-eye	about €7/kg
Argentinean rib-eye	about €9/kg
Dutch Limousin rib-eye	about €10/kg
Irish rib-eye	about €13/kg

Source: USDA (GAIN Report No. E35178-09/08/2005)
<http://www.fas.usda.gov/gainfiles/200509/146130828.pdf>

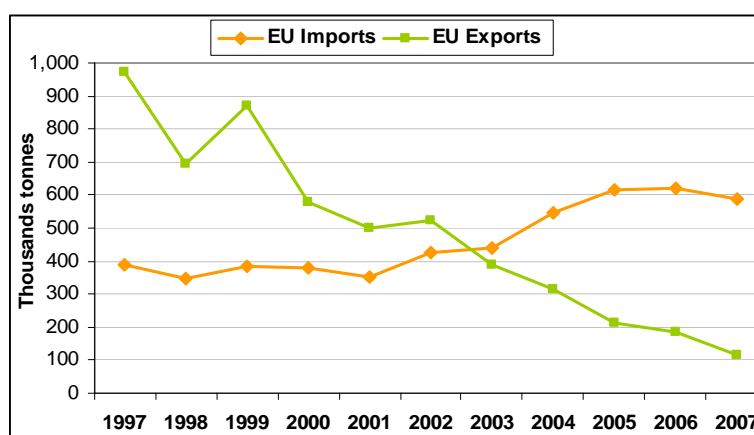
Since 2002 EU imports of beef have exceeded EU beef exports as a consequence of: a strong recovery in EU beef consumption after the BSE crisis; a contraction in EU beef production linked to the decline in the size of the dairy herd; and a loss of competitiveness on third-country markets relative to advanced developing-country beef exporters. The enlargement of the EU to include Bulgaria and Romania saw imports into the EU fall by 12.6% in 2007 and consumption increase slightly. This however only marginally affected the underlying trend of declining exports and increasing imports. These trends were temporarily halted in 2008 with the imposition of food-safety-related restrictions on imports of beef from Brazil and an expansion of EU beef production and exports in response to high domestic and international beef prices.

EU beef imports and exports 1997-2008*

	Imports (tonnes)	Exports (tonnes)
1997	387,000	971,000
1998	347,000	695,000
1999	385,000	872,000
2000	378,000	577,000
2001	350,000	498,000
2002	424,000	522,000
2003	440,000	390,000
2004	548,000	315,000
2005	614,000	213,000
2006	619,000	186,000
2007	541,000	113,000
2008	379,000	162,000

* EU25 1997-2003; EU27 2003-2008

Source: *Prospects for Agricultural markets and Income in the EU* series 1999 to 2009, annexed tables.



According to the EC’s analysis, global beef prices have shown steady but variable price increases since the late 1990s. This is attributed to rising consumption of beef in Russia and China, with global production growth only just matching global consumption growth. Despite this generally favourable market environment, the EU’s role in global beef exports is rapidly declining as a consequence of its underlying lack of price competitiveness relative to suppliers in advanced developing countries.

Superimposed on these longer-term trends, global beef prices surged from December 2007 to July 2008 ‘from US\$2.6/kg to US\$3.87/kg’ an almost 50% increase in seven months. However, between July and December 2008, with the onset of the global economic slowdown ‘beef prices lost US\$1.4/kg, reaching US\$2.48/kg in December 2008’. After a ‘timid recovery in January 2009’, beef prices once more fell back ‘reaching US\$2.36/kg’ in February, ‘the lowest level since the spring of 2004’. It is against this background that EU beef exports are projected to shrink by some 32% in 2009 compared to 2008, thereafter returning to the underlying downward trend.

2.2 Longer term production, consumption and trade trends

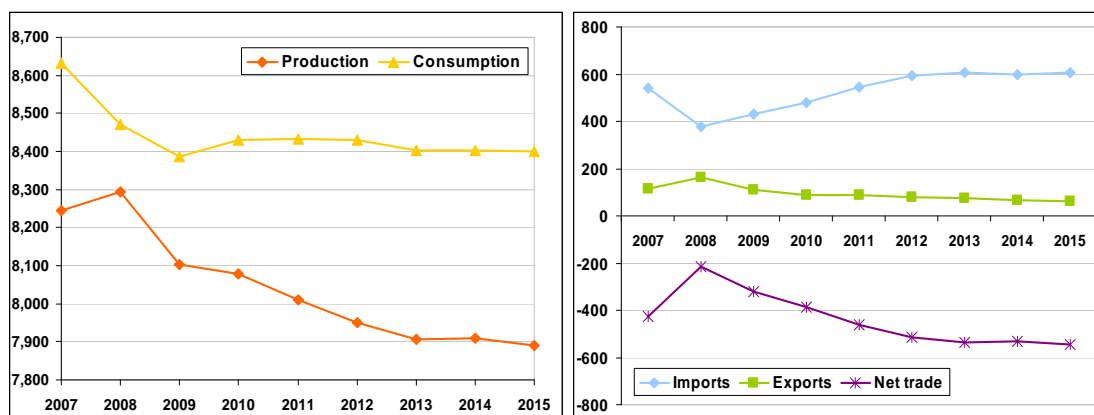
EU beef production is expected to decline by some 4.8% in the next seven years as a result of the reduction in the dairy herd and the effects of decoupling of farm payments from beef production on dedicated beef farms. Consumption of beef in the EU is projected to decline by a more modest 2.7%. This is expected to result in an increase in EU imports by 2015 of 12.4% compared to 2007 levels (2008 was an exceptionally low year for imports as a result of the food-safety-related restrictions on beef imports from Brazil). In this context EU exports of beef are projected to fall from a high of 162,000 tonnes in 2008 to a mere 63,000 tonnes in 2015.

EC projections EU: beef (thousand tonnes cwe*)

Year	Production	Consumption	Imports	Exports	Net trade
2007	8,245	8,631	541	113	-428
2008	8,293	8,470	379	162	-217
2009	8,102	8,386	431	110	-321
2010	8,078	8,429	478	90	-388
2011	8,010	8,433	546	86	-460
2012	7,951	8,430	594	79	-515
2013	7,906	8,404	608	73	-535
2014	7,908	8,403	599	68	-531
2015	7,891	8,400	608	63	-545

* Carcase weight equivalent

Source: Extracted from table A.9 of *Prospects for Agricultural Markets and Income in the European Union 2008-2015*, EC Directorate General for Agriculture and Rural Development, March 2009.



This does not provide the whole picture, however, with Irish beef traders reportedly ‘maintaining their supply chains in non-EU markets with supplies of South American beef’. This triangular trade from Latin America, via Europe, potentially raises important rules-of-origin issues, which may need to be taken up in consultative structures established under the various (I)EPAs. This is particularly the case given the potential SPS and food-safety issues which such a triangular trade could give rise to.

The long-term decline in EU cattle numbers will only be slowed down by the proposal to expand milk-production quotas in the run-up to their abolition. The impact of the termination of dairy-production quotas in 2015 on cattle numbers is by no means clear, since this will be determined by the state of global dairy markets and the stimulus this gives to European dairy production in the context of the final ending of the system of export-refund payments. However, falling EU beef consumption (a projected fall of 2.6% or 228,000 tonnes compared to 2007 levels) alongside a shift in patterns of consumption towards higher-quality beef products, could, with the ending of quota restrictions in the dairy sector, see an expansion of EU exports of low-quality beef products.

It is significant that when the impact of the dairy-sector measures arising from the CAP ‘health check’ (involving a 1% expansion of milk production quotas up to 2015) was accommodated the EC revised upwards its projections as to future levels of EU beef exports in the March 2009 edition of its *Prospects for EU Agricultural Markets and Incomes* compared to the 2008 edition (projections were 50% higher for the level of exports in 2014 in the 2009 edition compared to the 2008 edition).

As has been noted, the continuation of exports will largely be a consequence of the imbalance between production and demand for low- and high-quality beef cuts.

While EU imports of beef are projected to increase by over 12.4% between 2007 and 2015, ACP suppliers are poorly placed to take advantage of these opportunities as they face serious supply constraints and major difficulties in meeting EU food-safety standards cost-effectively (see section 3.3). What is more they face a fundamental lack of price competitiveness vis-à-vis the major exporters of beef to the EU, namely Brazil and Argentina. Indeed the prospects of tariff reductions

on Brazilian, Argentinean and Uruguayan beef exports, either as a result of the conclusion of a bilateral FTA agreement or the conclusion of the Doha Development Round, is likely to intensify price competition on the EU market. A December 2005 EC assessment of the impact of its market-access offer at the Hong Kong WTO Ministerial suggested that the EU's trading position in the beef sector could shift from net imports of 400,000 tonnes, following full implementation of agreed CAP reforms, to net imports of 1.2 million tonnes of beef as a result of the implementation of the EU's tariff-reduction offer. This would be likely to have profound price effects on undifferentiated EU beef markets compared to the situation prevailing without a WTO agreement.

2.3 Growing Product differentiation within the EU market

A growing trend in the EU beef market is towards increased product differentiation, with a clear distinction emerging between high-quality and low-quality beef, labelled differentiated beef and non-labelled generic beef. The EU27 currently has a shortage of high-quality beef and a surplus of low-quality beef. This arises in large part from the disjuncture between patterns of beef production in new member states (low quality) and aspirational consumption patterns (towards high-quality beef). This explains why, despite a growing deficit between EU production and consumption since 2003, the EU remains a beef exporter, albeit on a much reduced scale.

This has important implications for the trade relationship with ACP beef-producing countries. With a growing gap between EU beef consumption and EU beef production, ACP beef producers now have the opportunity to profitably export high-quality beef, to an increasingly differentiated EU beef market (see section 4.2).

3. Implications for the ACP of EU beef-sector developments

3.1 The impact of reform on EU beef prices

From an ACP perspective the first major effect of reform of the EU beef regime is on the prices received for beef sold in the EU. The EU's traditional high-price policy, which maintained EU beef prices substantially above world market prices, was at the heart of the attractiveness of the EU market to ACP beef exporters. The shift over to direct aid payments to farmers has allowed EU market prices to fall towards world market price levels. Against this background ACP beef producers have seen the value of their earnings from exports to the EU progressively decline in euro terms.

The reductions in the beef price induced by the reform process (see section 1.1) have served to greatly reduce the commercial attractiveness of EU markets to ACP exports of undifferentiated beef products. While EU farmers have been compensated for these reform-induced price declines by increased levels of direct aid payments, ACP suppliers have simply had to absorb the resulting income losses.

In the case of southern African beef exporters the sterling value of beef exports declined by between 28% and 30% from 1999 to 2001. In the case of Namibia this resulted in an income loss of €6 million in 2001 compared to the prices received when Namibia first began exporting to the EU. In the case of Swaziland the declining EU beef price led first to a discontinuation of exports of lower-quality beef cuts, and subsequently a discontinuation of all exports in the face of lower local currency earnings following a strengthening of the rand against the Euro.

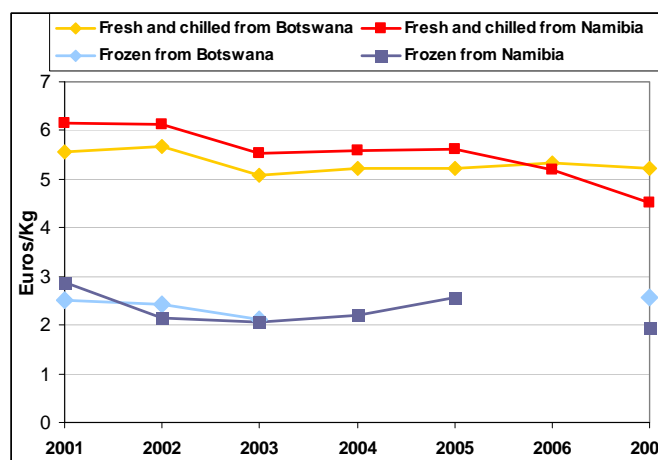
Under the impact of the 2000 round of CAP reform these price declines continued until 2003. For Namibia, earnings for fresh and chilled beef exports fell from €6.143 per kg in 2001 to €5.589 per kg in 2003 (a 9.8% decline), while for Botswana the decline was from €5.572 per kg in 2001 to €5.075 per kg in 2003 (a 9% decline). The price declines for frozen beef cuts were even more pronounced, with prices for frozen Namibian beef cuts falling from €2.876 per kg to €2.069 per kg (a decline of 28.1%) and those from Botswana falling from €2.508 per kg to €2.120 per kg (a decline of 15.5%). There was however some 'bounce back' in prices in 2004 and 2005 reflecting the elimination of public beef stocks in the EU and the emergence of a deficit in beef supplies to the EU market. For Botswana, this bounce back continued into 2006, before prices declined to below 2005 levels, while

for Namibia the recorded prices obtained in euros per kg continued to fall in 2006 and 2007, reaching levels 26.6% below those of 2001 for fresh and chilled beef and 32.3% below in the case of frozen beef. In the case of Botswana prices for fresh and chilled beef fell by 6.2%, but those for frozen beef rose by 2.3%. (Given the concentration of Botswanan and Namibian exports, these fluctuations in part reflect currency movements between the euro and the pound sterling.)

Beef exports from Namibia and Botswana

	Fresh and chilled beef exports (€/kg)		Frozen beef exports (€/kg)	
	Botswana	Namibia	Botswana	Namibia
2007	5.224	4.509	2.566	1.947
2006	5.338	5.199	-	-
2005	5.227	5.624	-	2.558
2004	5.233	5.589	-	2.210
2003	5.075	5.544	2.120	2.069
2002	5.662	6.135	2.428	2.157
2001	5.572	6.143	2.508	2.876

Source: http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138666.pdf for 2007; http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138649.pdf for 2006; http://trade.ec.europa.eu/doclib/docs/2006/april/tradoc_128152.pdf for 2005; http://trade.ec.europa.eu/doclib/docs/2005/april/tradoc_122515.pdf for 2004; http://trade.ec.europa.eu/doclib/docs/2004/april/tradoc_116843.pdf for 2003; http://trade.ec.europa.eu/doclib/docs/2003/june/tradoc_113164.pdf for 2002; http://trade.ec.europa.eu/doclib/docs/2003/april/tradoc_111595.pdf for 2001;



In the face of the price competitiveness of Latin American supplies, targeting ‘luxury purchase’ markets in the EU (see section 4.2) would appear to be the only basis on which ACP beef suppliers can continue to supply the EU market profitably in the longer term. This is particularly the case since tariffs on imports from Brazil and Argentina are likely to fall in the coming years with the conclusion of a Mercosur-EU free-trade-area agreement and the expansion of tariff-rate quotas for sensitive products as part of the final deal under the Doha Development Round. This would serve to further enhance the price competitiveness of Brazilian and Argentinean beef on the EU market.

This dominant trend was temporarily reversed in 2008 with the introduction of food-safety-related restrictions on beef imports from Brazil. This saw the number of Brazilian farms approved to export beef to the EU fall dramatically from over 6,700 to slightly over 100 (see the box in section 3.3). This, combined with export restrictions imposed by the Argentinean government in the face of rapidly rising prices (an almost 50% increase between December 2007 and July 2008), and limited availability of beef from alternative sources of supply (Uruguay, Australia and New Zealand), saw EU beef imports fall from 541,000 tonnes in 2007 to 379,000 tonnes in 2008 (a decline of some 30%).

The tight market situation that this generated saw average EU market prices increase (to nearly 50% above the reference price), which stimulated a limited expansion in EU beef production (by about 48,000 tonnes). However this stimulus proved short-lived as the economic downturn began to bite and consumers switched to cheaper meats (notably poultry meat). Overall EU beef consumption fell by 1.9% in 2008, with a further decline in 2009 projected to bring the decline to 3% over the two years.

This did however bring certain short-term price benefits to ACP beef exporters in the early months of 2008, with the overall unit value of EU beef imports from all sources in 2008 increasing by 12.9%, despite a subsequent decline in beef prices in the second half of 2008.

The reversal of these temporary gains in the second half of 2008 has however seen prices returning to the overall downward trend.

Potential impact of a WTO agreement in the beef sector

Under various Doha Round proposals EU beef tariffs could be lowered by between 60% and 70%. Under such a scenario Brazilian duty-paid imports would directly impact on EU domestic prices. The price declines that this would induce could seriously compromise the profitability of ACP beef exports. Thus, whether as a result of multilateral trade liberalisation or tariff concessions under the EU's 'ambitious' free-trade-area agreements, ACP beef exporters are likely to face a significant erosion of their margins of tariff preference in the coming years and hence the value of traditional beef-sector preferences.

3.2 The impact of EU beef export trends on ACP markets

While the scale of EU beef exports has been greatly reduced and EU beef intervention stocks are empty, this does not mean that ACP countries no longer face any threats of market disruption. The EU is facing increased competition on its traditional beef-export markets and is increasingly needing to dispose of lower-quality beef cuts, which find no markets in the EU. As in other sectors (e.g. cereal-based value-added food products), the EU could easily fall back on supplying ACP (mainly African) markets.

There is some evidence to suggest that for a period between 1999 and 2003 the ACP became a more important market for overall EU meat exports (beef, poultry meat and pig meat) generally, with a 24% expansion in their value in this period, in the context of a 15.5% contraction in the value of overall EU meat exports. With a surplus of low-quality beef, and given the scale of EU production relative to the size of ACP markets, even exporting as little as an average of 84,000 tonnes per annum over the next seven years raises the possibility that EU beef exports could easily swamp ACP markets. This danger is exacerbated by the fact that highly price-competitive Latin American suppliers are increasingly pushing EU traders out of their traditional beef markets. In this context, as in other sectors where the EU has faced intensified competition in bulk commodities in higher-priced markets, EU traders may find themselves increasingly looking to supply African markets as 'markets of last resort'.

This is a matter of some concern, as this beef, destined mainly for the low-price end of the market tends to compete directly with the production of small-scale farmers and emergent commercial farmers (whose commercial position already tends to be weak), further harming the development of this sector of ACP beef production. In southern Africa two of the potential regional markets, Angola and the Democratic Republic of the Congo are amongst the top ten destinations for EU beef exports, with the value of exports to Angola having risen by 83% between 1995 and 2005.

A number of factors can be seen to influence EU beef exports to ACP countries, notably:

- the openness and demand for beef on non-ACP markets;
- the cyclical ups and downs of European beef production, as well as the pace of change in the composition of production (from lower quality to higher quality);
- the development of domestic consumption of beef within the EU (towards higher-quality beef, within a declining overall consumption trend);

- the variations in the level of export refunds offered for different types of beef cuts for different destinations;
- the trade arrangements established by ACP countries to regulate beef imports (tariffs and safeguard arrangements).

The WTO ceiling on the level of export refunds which the EU can provide in the beef sector, is unlikely to have any impact on the overall volume of EU beef exports in the coming period, given the underlying downward trend in EU beef exports. Equally local supply-and-demand considerations on ACP markets are likely to have only a marginal impact on the actual pattern of EU beef exports to ACP countries.

3.3 The increasing importance of food safety and food quality

In terms of exporting to the EU, the second major effect of the reform process has been a growing policy emphasis on food safety and, in parallel, a growing emphasis on food quality. Food-safety standards have to be met in order for beef products to be allowed entry into the EU market. Food quality is important from a commercial perspective since it allows beef products to attract the premium prices which make it attractive to export to an EU market in a context where prices have generally been falling, while costs of supplying the market have been rising.

In order to be granted access to the EU market, verification of food-safety compliance needs to be addressed at three levels:

- recognition by the EU of the country as eligible to export;
- the listing by the EU of establishments eligible for export to the EU;
- the certification by the local competent authority that the consignment meets EU standards.

This last stage of certification by the local competent authority must comply with a range of basic principles. Meeting these standards fully and consistently places a considerable and growing financial burden on ACP national administrations. Yet getting the paper-work right and establishing a credible system of control by the competent authority is now vital to trading meat products into the EU. If any of the paper-work is not in order, or the integrity of the competent authority is brought into question, imports of these meat products into the EU will cease.

The case of Brazil's compliance with EU standards

On December 19th 2007 the EU standing committee on the food chain and animal health took the decision to increase surveillance of imports of Brazilian beef, after a repeated failure of the Brazilian authorities to comply with EU requirements for food-safety and animal-disease surveillance. This was described as 'overdue' by EU farmers' leaders, who called on the EC to take all appropriate measures, including banning imports if Brazil continued to fail to comply with EU animal-disease control and food-safety requirements.

According to the USDA, DG SANCO effectively suspended new certification of imports of Brazilian beef with this measure. While beef which had already been certified was allowed to be landed in the EU, no new certification for exports took place pending a further audit by the EU Food and Veterinary Office (FVO).

After failing to reach agreement with Brazil over a list of farms licensed for export to the EU, on January 31st 2008 the EC imposed a ban on beef from all holdings until inspections had been carried out. The Brazilian Beef Information Service (BBIS) said that the EC's decision was not a ban but a 'temporary interruption' in supplies.

The EU partially lifted this ban on February 27th 2008 by agreeing to allow meat exports from 106 farms deemed to fulfil EU safety requirements. This however left over 6,600 Brazilian farms unable to continue to export beef to the EU, causing a decline in imports of beef of 25% in the first five months of 2008. With very high global beef prices up to August 2008, Brazilian suppliers reportedly lost interest in the EU market.

The difficulties faced in Brazil in meeting EU food-safety standards, given the scale of trade involved, throws into stark relief the scale of the challenge facing ACP beef suppliers, if they wish to maintain beef exports to the EU market.

<http://www.dailypost.co.uk/farming-north-wales/farming-news/2008/01/31/farmers-embrace-brazilian-beef-ban-55578-20421716/>

http://business.maktoob.com/NewsDetails-20070423142498-EU_partially_lifts_ban_on_Brazilian_beef_official.htm

This placing of responsibility for ensuring the integrity of food-safety controls throughout the food chain (from the production of animal feed through the handling and disposal of animal by-products, to the despatch of the beef from the port) in the hands of a competent local authority, places the performance of public bodies in ACP countries at the centre of the beef trade with the EU. Any failure by ACP governments in performing these functions, if the infringements are considered serious enough, will lead to the closure of the EU market, regardless of the quality of operations of the beef producers and processors involved in the trade. This suggests a need to establish targeted programmes of ‘aid for trade’ to support the establishment and effective operation of systems of public food-safety control.

As if this challenge were not enough, there is considerable uncertainty and confusion as to how the EU wishes to see the various animal-product-related food-safety regulations applied in ACP countries. For example:

- will respect for the objectives of EU regulations need to be attained in the same way in all countries?
- or will the EU be able to tailor requirements to country circumstances (with countries at high risk of disease facing stricter controls than those with no history of such diseases)?
- will all provisions of the applicable EU regulations be applied equally to production in third countries or will certain aspects be waived, providing the safety of meat destined for the EU market is not compromised (for example with regard to disposal of animal by-products)?
- will the exemptions to small-scale trade in animal feed between farmers within the EU be extended to small-scale feed-trading in third countries (on the basis that for feed contamination to be of concern it must affect a minimum level of total feed intake)?

These uncertainties will need to be cleared up in the coming period as the EU’s FVO begins a more intensive programme of controls on imported products. This suggests a need for a closer institutional dialogue over these issues.

3.4 Animal-welfare standards

A further area of potential concern in the field of food safety is the EC’s efforts to ‘internationalise’ its own animal-welfare regulations. These initiatives are in part an EU response to the ‘serious cost gap with other world producers’ generated by the development of very high food-safety and welfare standards in the EU beef sector. It is against this background that in February 2004 the EC supported the OIE global conference on animal welfare, an occasion used by the EC to push the EU’s case for the establishment of international standards for animal welfare.

These EC initiatives cannot be divorced from EU member states’ concerns over the potential competitive disadvantages to EU producers arising from higher animal-welfare standards. Harmonisation of international standards for animal welfare would remove any competitive disadvantage that EU producers might face. However this would increase the costs of supplying the EU market. These cost burdens would be likely to fall particularly heavily on ACP beef exporters who use extensive-farming systems of cattle production, and this could over time come to constitute an effective trade barrier. ACP beef exporters will need to pay close attention to EU efforts to promote binding international standards for animal welfare, particularly in the area of transportation. Just how serious the EU is about animal-welfare standards can be seen from the March 21st 2007

EC decision to refer the Greek authorities to the European Court of Justice for consistent and repeated infringements of the enforcement obligations under animal-welfare regulations. The June 2009 EU regulation on the treatment of animals at the time of slaughtering, the provisions of which apply equally to slaughtering facilities in the EU and in third countries wishing to place meat for sale on the EU market, highlights the extent to which the EU wants to see animal-welfare standards applied equally, so as to provide a 'level playing field for operators'.

However it should be noted that Commissioner Fischer Boel has been highlighting the importance of EU beef farmers 'valorising' their respect for animal-welfare standards in the market place, with this being seen as a new commercial opportunity to differentiate EU products from imported products, and not as simply another cost. This approach reflects wider EC efforts to support and promote a shift in the pattern of production in the EU away from bulk products, where price competition is increasingly intense (the 'necessity purchase' component of the market), to 'quality' differentiated products, for the growing quality or ethically conscious EU consumer (the 'luxury purchase' component of the EU market).

Surveys of beef consumption show that EU consumers are increasingly favouring meat products which respect animal welfare, and that they are willing to change their shopping habits and spend more in this respect. It is this trend that the EC argues should be exploited by EU producers to give them a competitive edge over imported products. It has offered support to 'private initiatives on labelling and certification' and proposed eventual moves towards an 'EU logo label which will assure the citizen that food produced is based on the very high quality standards provided by EU legislation'. This includes support to such marketing schemes as 'Label Rouge' in France, 'Freedom Foods' in the UK, and 'Neuland' in Germany.

The current process of consultations under way on the EC's evolving agricultural product quality policy needs to be seen in this context. It is likely to see a more rigorous definition of quality standards in ways which enable EU beef producers to differentiate their products from imported beef and secure commercial advantages in the market place. In this way EU beef producers will be able to 'circumvent' rather than meet the competitive challenge posed by beef imports from Brazil and Argentina.

4. Policy options for the ACP

4.1 'Aid for trade' and food-safety and welfare standards

The issue of the financial implications of technical compliance with EU food-safety standards is an issue of critical importance to ACP beef exporters, particularly since with declining EU prices this is creating a 'squeeze' on the profitability of beef exports to the EU. Unless grant financing is made available by the EU through a dedicated funding mechanism to meet EU food-safety standards in the beef sector (similar to the support extended in the fisheries sector) then ACP beef exporters could find themselves excluded from the EU market, either as a result of failure to comply with EU food-safety standards or because the financial costs of compliance has made exports to the EU commercially non-viable.

In this context an area to which ACP beef-exporting governments will need to pay increasing attention in the coming period, is operationalising the EC's public commitments on the provision of assistance to ACP counties in meeting EU food-safety standards and improving their ability to trade and market their exports effectively. This will be essential if ACP countries are to be helped to maximise their trade potential in the area of beef and other agricultural exports.

A dedicated financial instrument to support development of institutional capacity in the area of food-safety compliance has recently been launched with an initial financial allocation of €30 million. However, a CTA study in this area has suggested that initial costs for the establishment of the necessary regulatory, legislative and institutional capacity for ensuring food-safety compliance for the ACP as a whole would be in the region of €187 million. This estimate excludes operating costs and costs of periodically upgrading testing facilities.

The importance for beef-exporting ACP countries of meeting the food-safety challenge should not be underestimated. The economic consequences of the termination of beef exports to the EU market would not be restricted to the lost income on sales to the EU market, but would be compounded by price declines on local and regional markets into which this beef would need to be diverted. This is particularly the case for high-quality beef cuts, for which there is actually a surplus in southern African markets as a result of the structure of beef consumption and production in South Africa, the major beef consumer and producer in the region. Nevertheless, recent efforts by Namibian exporters to target ‘luxury purchase’ markets in South Africa could reduce the financial costs of any loss of access to the EU market. These efforts to diversify markets are currently being intensified and constitute an important area for ‘aid for trade’ support.

The issue of the costs of compliance with EU food-safety standards has been recognised inside the EU, and various public-assistance programmes to support food-safety compliance have been set up. These range from a dedicated budget line for food-safety measures, to the inclusion of components for food-safety compliance in direct aid payments to farmers and rural-development programmes in favour of food processors. Similar programmes, beyond those already in place would appear to be needed in the ACP if the costs of compliance are not to *de facto* drive ACP beef suppliers out of the EU market. This suggests a need to establish targeted programmes of ‘aid for trade’ support to defray, at least in part, private-sector costs associated with investing in meeting the increasingly strict EU standards.

4.2 Serving differentiated markets

The issue of the commercial sustainability of EU food-safety controls will be vitally affected by the ability of ACP beef producers and processors to make the shift from ‘trading’ beef into an undifferentiated market to ‘marketing’ beef cuts into an increasingly differentiated EU market. This is a reality which certain ACP beef suppliers are beginning to adjust to, with exports of clearly labelled and differentiated beef products being targeted at premium-priced markets. In these markets price trends are firmer and exports can remain profitable despite the escalating costs of food-safety compliance, which have to be carried by private-sector operators in ACP countries. While this process has been launched with some success in Namibia, activities in this area will need to be ongoing. What is more in other ACP beef-producing countries given the human-resource-intensive nature of these types of marketing activity and the human-resource constraints faced in the principal beef-exporting regions of the ACP (linked in large part to the reversals in human development arising from the HIV/AIDS pandemic), external financial and technical assistance will almost certainly be needed to ‘pump prime’ processes of market adjustment. With the EU already having in place extensive programmes of assistance to its own farmers in developing marketing strategies, the EC would appear to be an ideal source of support for such financial and technical assistance. Furthermore, given EU member states’ commitments to expanding ‘aid for trade’ financing in the coming period, there is ample financial scope for extending support to such programmes

It was in this context that at the end of 2007 Namibia sought to redefine its marketing strategy so as to target ‘luxury purchase’ markets in the EU more clearly, including diversifying markets within the EU away from the UK.

This is requiring the development of carefully designed labelling and marketing strategies. While in the case of Namibia this is currently being financed from private-sector resources, in some ACP suppliers this will require external technical and financial assistance to ‘pump prime’ the trade- and market-adjustment process. This is partly because the volume of exports from ACP countries involved is small relative to the costs of such labelling and marketing initiatives.

The question arises: will ACP beef producers, processors and public authorities be up to the challenge of ensuring a consistent supply of clearly labelled and differentiated high-quality beef products to the EU market?

4.3 Impact of (I)EPA duty-free, quota-free access

Given the consistent underutilisation of beef-protocol quotas, the granting of duty-free, quota-free access to ACP beef producers is unlikely to have any major effects on the volume of ACP beef exports to the EU. However the removal of the 8% residual special duty paid on beef exports under the beef protocol will bring immediate financial benefits equivalent to an estimated £150 per tonne. On the basis of existing levels of exports this would bring additional revenue of approximately €2 million and €1.5 million per annum to Botswana and Namibia respectively.

For the granting of duty-free, quota-free access to have any substantive effect, improvements in the rules of origin so as to allow greater intra-regional trade in weaner cattle is likely to be required. This could have an early effect on supplies of beef for export. However, even these measures could fall foul of food-safety and animal-disease-control measures.

In the longer term, should the EU market prove attractive, the current low rates of off-take in ACP beef-protocol countries (i.e. those countries whose beef sector is already certified to allow exports of beef to the EU market) could be raised, leading to a considerable expansion of production. However this would require the identification of remunerative markets, the improvement of quality standards, strengthening of animal disease controls and the modification of some cultural practices linked to cattle ownership.

Given the requirements for food safety and associated regulation compliance in the beef sector, the granting of duty-free, quota-free access under (I)EPAs is expected to have little impact on beef exports from non-traditional ACP suppliers. The initial investment costs in meeting EU food-safety standards is expected to be far too high to allow any new ACP countries to develop beef exports to the EU.

4.4 Defending national and regional markets

While the importance of ACP markets to the EU has declined in both absolute and relative terms (see section 3.2), governments of ACP beef-producing countries still need to look closely at policy options open to them for managing any problems that could arise given the changing patterns of ACP-EU trade in beef products and the possibility that they may be used as ‘markets of last resort’. This suggests a need for:

- the establishment of mechanisms for monitoring EU beef exports to both ACP markets and non-ACP markets;
- the establishment of swift and effective safeguard measures in the beef sector to allow immediate action to prevent market disruptions, should EU exports to ACP markets look likely to increase in the light of changes in wider EU patterns of trade;
- the establishment of surveillance mechanisms, with the support of the EU, to monitor applications for export refunds on beef destined for markets of importance to ACP beef producers (in 2007 60% of EU beef exports remained dependent on export refunds);
- the establishment of a framework for consultations under interim EPAs and the EBA initiative on beef-sector issues of concern to existing ACP beef suppliers and potential ACP beef exporters.

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L aunched by CTA (Technical Centre for Agricultural and Rural Cooperation EC-ACP) in 2001, the Agritrade website (<http://agritrade.cta.int>) is devoted to agricultural trade issues in the context of ACP (Africa, Caribbean and Pacific) – EU (European Union) relations. Its main objective is to better equip ACP stakeholders to deal with multilateral (World Trade Organization - WTO) and bilateral (Economic Partnership Agreement – EPA) negotiations. Thus it provides regular and updated information and analysis on technical aspects of the trade negotiations, developments in the CAP and their implications on ACP-EU trade, as well as on major commodities (bananas, cereals, sugar, fisheries, etc).

CTA was created in 1983 in the framework of the Lomé Convention between ACP (Africa, Caribbean, Pacific) and EU (European Union) countries. Since 2000, the Centre has been operating under the ACP-EU Cotonou Agreement. CTA's tasks are to develop and provide services that improve access to ever-changing information for agricultural and rural development, and to strengthen the capacity of ACP countries to produce, acquire, exchange and use information in this area.

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