Agriculture News Update

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EU concluding a range of FTA negotiations

On 15 October 2009 representatives of the EC and South Korea initialled a free-trade agreement (FTA). The EC will formally present the agreement to the EU Council in early 2010, with the agreement expected to have gone through the full approval process by the second half of 2010, when it would enter into force. The Commission press release described the agreement as 'the most important ever negotiated between the European Union and a third country' and said that the agreement, 'estimated to be worth up to €19 billion in new trade for EU exporters, will remove virtually all tariffs between the two economies, as well as many non-tariff barriers'. The then EC trade commissioner, Catherine Ashton, stressed that the new agreement would 'create new opportunities for European companies in services, manufacturing and agriculture'.

In terms of the agricultural dimension of the agreement, the EU exports over €1 billion in products every year, making it one of the EU's most important export markets for agricultural products. The EC's explanatory memorandum highlights the advantages to EU exporters in the food-and-agricultural sector, but gives no details of the market access offered to Korean food-and-agricultural exporters. While most products will have duty-free access as soon as the agreement enters into force, with other products having duties eliminated within seven years, longer transitional periods will be allowed for sensitive agricultural products. Ultimately the agreement will fully liberalise all EU agricultural exports to Korea except rice, which has been excluded from the FTA by South Korean negotiators, despite the limited EU exports in this area. This has been described as 'the biggest market liberalisation for EU agricultural exports in years'. It is estimated that there will be savings for EU agricultural exports of '€380 million annually on duties for agricultural products'. In this context there is seen to be considerable potential for expanding EU food-and-agricultural exports. The agreement nevertheless remains a defensive agreement, given the wide variety of trade agreements that South Korea has been concluding with 'strong agricultural exporters such as Chile, USA, Canada, Australia and New Zealand'.

The agreement includes commitments to abolish the use of import licences and prohibits the use of export taxes from the date when the agreement enters into force. A committee on trade in goods has also been established which can 'consider broadening the scope of NTB disciplines'. The agreement also includes a chapter on SPS measures aimed at facilitating trade between the EU and Korea 'in animals and animal products, plants and plant products'. It includes provisions for setting up a formal dialogue process on SPS issues, a commitment to transparency in the application of SPS measures, and a procedure for recognition of disease-free areas (i.e. areas eligible for exporting products to the other party).

Regarding other FTA negotiations, press reports have been published giving more detail on the EU-Egypt trade agreement. Under this agreement, it is reported that 'tariff protection is removed for all fruits and vegetables, except for garlic and strawberries for which quotas of 4,000 and 10,000 tonnes respectively have been established'. For potatoes and onions, quota restrictions on Egyptian exports are to be removed under the agreement, with 'all other fruits and vegetables … exempt from customs duties, except for some fruits and vegetables whose trade is considered "delicate": these are tomato, garlic, cucumber, zucchini, artichoke, table grape and strawberry. For these products some limitations are maintained regarding in particular the export calendar.' Tomato exports will be duty free from 1 November until 30 June, provided that exports respect the minimum entry price for tomatoes. The EU has also extended an existing agricultural trade agreement with Israel. This now grants duty-free access for 95% of all processed agricultural products and 80% of fresh products.

Meanwhile, press reports from Namibia are warning of the implications for the Namibian beef sector of the priority accorded by the incoming Spanish presidency of the EU to concluding the EU-Mercosur agreement. Under this agreement, Mercosur negotiators are seeking an additional 315,000-tonne beef quota over and above Mercosur's current share of the Hilton beef quota. The EC, for its part, is looking to a progressive expansion of the beef quota up to a maximum of 116,000 tonnes. Negotiations however remain ongoing, with the EC willing to contemplate a possible offer of a further 100,000 tonnes if Mercosur is more open in allowing EU access to Mercosur markets in industrial goods, and services and investment.

In the face of this potential increase in competition on EU beef markets (compounding the effects of the recent EU-US agreement to resolve the beef hormone dispute), some Namibian observers are arguing for increased efforts to diversify markets away from the EU, even going so far as to suggest that in this context 'a signature to the interim EPA would not secure the industry's long-term survival'.

FTA negotiations with Central American countries are currently stalled, following internal political developments in a number of countries (notably the military coup in Honduras) and the unresolved issue of Panama's engagement with the regional process. Meanwhile the EC, in its negotiations with ASEAN countries, is now looking to shift away from the conclusion of a comprehensive region-to-region agreement towards the negotiation of a 'different arrangement with different ASEAN countries'. Significantly in this context, in an interview with the Jakarta Post, the EC's lead negotiator, James Moran, director of the Asia Division of the EC External Relations Directorate, claimed that it would not be appropriate for the EU to negotiate an FTA with least-developed Myanmar 'because the level of development there is so low that there is no way we could have a reciprocal FTA with an economy of that order'.

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Comment

The question arises of how these various new and pending agreements will affect the future value of ACP trade preferences. This is a particularly relevant question in the context of the ongoing EPA negotiations, as some ACP countries are signing interim EPAs (IEPAs) solely to preserve preferential access to the EU market. As one ACP observer has already asked, what is the value of signing IEPAs to preserve preferential access to the EU market if the value of that preferential access is rapidly being eroded? This is a question which ACP governments contemplating signing an IEPA will need to assess in the light of their underlying motivation for signing, the structure of their country's current exports to the EU and the current trend towards erosion of the value of traditional ACP trade preferences.

The SPS provisions included in the EU-South Korea agreement could potentially be of interest to ACP exporters such as Namibia, which on the one hand is in dispute with the EU over recognition of disease-free areas and, on the other hand, finds its beef exports to Korea blocked on SPS grounds.

The interview in the Jakarta Post with the EC lead negotiator raises the further question of why, if the level of development of Myanmar is such that 'there is no way [the EU] could have a reciprocal FTA with an economy of that order', the EC should be so vigorously pursuing FTA arrangements with least-developed ACP countries whose economic status is on a par with Myanmar, and whose human development indicators are in many instances lower than those of Myanmar.

Caribbean-EU EPA

Interest in agriculture diminishing

Guyana's President Jagdeo has argued at a press conference that greater 'political will' is needed if agricultural development is to be promoted in the Caribbean. He has called for the establishment of concrete policy measures such as 'incentives and budgetary allocations for drainage and irrigation, and research and development' in order for the region 'to meet its food demand and capitalise on export opportunities'.

Sources

Caribbean Net News, 16 November 2009
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Comment

The statement by President Jagdeo highlights the need for a clear policy lead and commitment in redefining the role of the food-and-agricultural sector in the Caribbean in evolving global production and trade context. However, a number of questions arise: should this be state driven or private-sector driven? What types of private-public sector dialogue on agro-food sector strategies are needed to establish a clear vision of the future of the food-and-agriculture sector in the Caribbean? What lessons can be drawn from existing successful restructuring and adjustment processes, such as those under way in the Caribbean rum sector? What policy tools can best be deployed in support of sector-specific, market-led, private-sector-based restructuring processes in the Caribbean region?

EPA negotiations: west African configuration

Debates continue on the basis for an EU-west Africa EPA

The fourth joint ACP-EU Parliamentary Assembly meeting held on 28 October 2009 in Ouagadougou, Burkina Faso, discussed the difficulties faced in the EPA negotiations. Growing concerns were expressed about the direction the EPA negotiations were taking. EC representatives argued that the only way the ACP can achieve development is through a reciprocal trade regime like the EPA. Representatives from the host parliament however highlighted the differences in the level of development between the EU and the African countries. In this context, considerable priority is being accorded to first reinforcing regional integration.

A revised market access offer was tabled by west African negotiators at the negotiating session from 23-24 October in Abidjan. This was a product of extensive internal consultations in west Africa. 'A large number of products … were reclassified from the exclusion to liberalisation lists. This includes certain animal products (four products) vegetable products (83 products) animal- and vegetable-fat products (seven products) and prepared foodstuffs and beverages (18 products). However, according to ECOWAS Commissioner for Trade and Industry, Alhaji Mohammed Daramy, this revised west African market access offer was 'conditional on the commitment of the EU to support the EPA development programme'.

Meanwhile at a press conference in Abidjan on 13 November 2009, Ivorian representatives argued that their initialling of the IEPA had avoided a loss of market share and competitiveness of its products in the European Union market. This, it was held, was not an insignificant development, since Côte d'Ivoire exports more that €610 million of merchandise to the EU market annually. However, despite the initialling of the IEPA, differences of view remain on how to move the EPA negotiations forward. Against this background some felt that the signing of a comprehensive EU-west Africa EPA was still some way off.

On 19 November Nigeria's National Indicative Programme was signed, with some 16% of the NIP (€105 million) allocated in support of trade and regional integration, the EPA development programme and improvement of competitiveness of the private sector.

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Comment

Reinforcing regional integration in west Africa constitutes a major problem for governments in the region, with a multiplicity of unconventional non-tariff barriers (NTBs, e.g. informal road blocks) and divergent policy perspectives hindering the development of regional trade. Against this background some argue that an agreement with the EU would impose new disciplines on governments in the region compelling them to get to grips with these NTBs. However, many of these NTBs are so deeply entrenched that any FTA with the EU would stimulate extra-regional imports while having a minimal effect on intra-regional trade. As a result there are fears that this could result in the piecemeal incorporation of west African economies into EU-centred trading networks, rather than supporting the development of regional trading networks and stimulating the development of regional productive capacities.

While many governments initialled IEPAs to preserve duty-free access to the EU market, the pending conclusion of a banana deal raises questions about the long-term future value of these trade preferences, as the EU progresses towards its overall policy goal of closing the gap between EU and world market prices.

The availability of development funds continues to be seen as important to negotiators and officials in the region, but the EU-Nigeria EPA suggests that this funding will not be additional to existing allocations: given the allocation within Nigeria's NIP of €105 million to, among other priorities, 'the EPA development programme', this suggests that the EC EPA development programme support will largely (if not exclusively) be drawn from existing EDF allocations to west African countries and the west African region.

EPA negotiations: central African configuration

Concerns expressed over costs and benefits of IEPA

In a study carried out earlier this year on the impact of signing the EPA on the economy of Cameroon, losses of 775 billion CFA francs (€1.2 billion) were projected at the regional level over the next 12 years. These losses included some FCFA 295 billion (€450 million) in losses for Cameroon. In a context where customs duties represent almost 40% of the fiscal revenue of most central African countries, the fiscal effects of the EPA would also be considerable. A study by the Cameroon Ministry of Finance revealed that the EPA between EU and Cameroun would lead to losses in customs revenue of up to €197 million between 2010 and 2023, with this reaching €356 million by 2030. These studies remain relevant, given the state of play in the central Africa EPA negotiations, and resolution of these issues remains of considerable importance to local producers.

The impact of the elimination of tariffs on imports from the EU also needs to be taken into account. Currently intra-regional trade in CEMAC is insignificant, accounting for only 0.28% per annum according to the Fondation pour le renforcement des capacités en Afrique centrale (ACBF). Major efforts to counter corruption, counterfeiting and fraud in customs procedures are needed before regional trade in central Africa can be expanded.

Concerns have also been expressed over the future value of duty-free, quota-free access to the EU market, given the very strict hygiene and quality standards applied by the EU. It is felt that in reality only a tiny portion of Cameroon's exports will finally reach the EU market. Concerns have also been raised about the future value of EU trade preferences in the banana sector, given the deal pending with Latin American banana suppliers on the fringes of the Doha Development Round.

Nevertheless, according to the EPA update in the November 2009 *Trade Negotiations Insights*, the central Africa-EU EPA negotiations are set to resume, following informal consultations in Brussels on 2 October. Areas for continued negotiations include market access coverage and transition periods, legal commitments for EU EPA development support, the non-execution clause, rules of origin, the MFN clause and provisions related to temporary movement of people.

Meanwhile the Cameroon interim EPA was notified to the WTO. The process of 'tariff dismantling' is set to begin in January 2010. It is unclear how this process is to be harmonised with the ongoing central Africa-EU EPA negotiations process.

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Comment

As in other regions, fiscal adjustment issues are a major source of concern in central Africa. Getting to grips with the issue of extending effective support to fiscal adjustment in central Africa could go a long way towards addressing concerns over the impact of reciprocal tariff-elimination commitments on the local economy.

The issue of preference erosion is likely to be a more complicated issue to address. To date, banana exporters from Cameroon and Côte d'Ivoire have been expanding their share of ACP banana exports to the EU at the expense of traditional Caribbean suppliers. With the impending reduction of tariffs for 'dollar banana' suppliers to €114 per tonne (down from €176/tonne), issues related to the underlying cost competitiveness of Cameroonian banana exports will arise. An important issue in this regard will be the ability of the local industry to set in place effective programmes to utilise Cameroon's share of the proposed €190 million of 'Banana Accompanying Measures' programme support, which is scheduled to be agreed as part of a wider banana deal.

EPA negotiations: ESA configuration

Comprehensive ESA-EU EPA still some time off

November's edition of *Trade Negotiations Insights* reports that a comprehensive ESA-EU EPA is now unlikely this year, as no further negotiating sessions have been held since the signing of the four country-specific IEPAs in August 2009. According to ESA representatives, 'the outstanding disagreements on safeguard and infant industry clauses, and on export taxes, need to be resolved with the EU in order for the remaining seven of the region's countries to sign on to IEPAs.' The issue of the rendezvous clause also needs to be resolved.

Issues related to 'some modification to tariffs on sensitive items' and the maintenance of TRQs in four main areas have however been largely resolved, according to TNI reports.

Sources

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Comment

A notable feature across African ACP regions is the extent to which IEPA provisions linked to the EU's new policy focus on removing non-tariff barriers to trade (including limiting the use of traditional trade-policy tools) have become a matter of contention in the finalisation of the IEPAs. Many of these issues were only tabled for discussion at the end of 2007, and the full implications of these provisions were not always reviewed prior to the initialling of the IEPAs. With African governments often lacking the budgetary resources to use the kind of financial tools which the EU routinely deploys in pursuit of agricultural policy objectives, greater recourse needs to be made to the use of trade-policy tools. These include import licensing, infant industry provisions, special agricultural safeguards and export taxes in support of agricultural development of food security objectives. Such tools are quite different to non-tariff barriers to trade such as illegal road blocks and corrupt customs practices, and should be treated as such) Against this background, a more thorough review of EC positions on these issues would appear to be needed.

Market access and market developments

EC proposes action to improve functioning of food supply chain

According to an EC press release, 'the recent sharp decline in agricultural commodity prices alongside persistently high consumer food prices' has raised concerns over the 'functioning of the food supply chain in the EU'. Against this background the EC has agreed a communication proposing 'concrete actions to improve (the) functioning of the food supply chain in the EU'. In part these proposals aim to improve 'commercial relationships between actors of the chain' to the ultimate benefit of all concerned.

Commissioner Fischer Boel, in her blog, highlighted three main thrusts of the communication: the importance of the newly launched European food prices monitoring tool; the importance of boosting 'farmers' bargaining power in the supply chain' and the importance of farmers working together. More specifically in the communication the EC identifies:

- 'significant tensions in contractual relations between actors of the chain, stemming from their diversity and differences in bargaining power';
- a 'lack of transparency of prices along the food chain';
- 'increased volatility of commodity process'.
- It further notes the continue fragmentation of EU food markets.

Specifically the communication notes that the Commission proposes to:

- 'promote sustainable and market-based relationships between stakeholder of the food supply chain', by identifying 'unfair contractual practices stemming from asymmetries in bargaining power' and monitoring 'potential abuses', by working with national competition authorities to monitor the functioning of the food supply chain and by drafting 'standard contracts with stakeholders from the different sectors';
- 'increase transparency in the food supply chain' by establishing a 'European food prices monitoring tool', improving 'oversight of agricultural commodity derivatives market' so as 'to contain volatility and speculation'. The Commission is also proposing the establishment at the national level of 'price comparison services' to allow consumers to compare prices of different retailers;
- 'foster the integration of the internal market for food and the competitiveness of all sectors of the food supply chain' by removing measures which 'impede cross-border trade' and 'force' retailers to source locally, looking at 'how farmers' bargaining position can be strengthened'.

A report is to be prepared on the effectiveness of these measures by the end of 2010.

The EC has also posted the Commission staff working papers which went into the formulation of the EC communication on the functioning of the food supply chain in the EU. These papers include analysis of: price transmission along the food supply chain in the EU; competition in the food supply chain; 'agricultural commodity derivative markets: the way ahead'; improving price transparency along the food supply chain for consumers and policy makers; the evolution of value-added repartition along the European food supply chain; and the functioning of the food supply chain and its effect on food prices in the European Union. The EC has also posted the staff working paper 'Outcomes of the High-Level Group on the Competitiveness of the Agro-Food Industry: Proposals to increase the efficiency and competitiveness of the EU food supply chain'.

The EC initiative to improve the functioning of the food supply chain has been welcomed by European farmers' group COPA-COGECA, who however also called for 'much stronger measures' to be urgently introduced. In its press release, COPA-COGECA argued that 'the EU food market is dominated by large retailers, and farmers' share in retail food prices is continuing to be eroded'. The Secretary-General of COPA-COGECA, Pekka Personen, called for 'measures to facilitate the concentration of supply to make sure that farmers can have a better position on the market', as well as measures 'to address the problems of late payments, market abuses and distortions of competition in the food chain'.

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Comment

EU concerns over the functioning of the food supply chain find a strong echo in ACP countries, where inequalities in power relationships can mean that ACP agricultural producers obtain only a tiny percentage of the final sale value of the food-and-agricultural products they grow. EU investigations and policy responses may carry important lessons for ACP countries in their own efforts to strengthen the negotiating position of agricultural producers in both national and international supply chains.

However, it needs to be recognised that ACP governments tend to face severe budgetary restrictions on the types of policy tools they can use in addressing inequalities in power relationships in the various supply chains in which national producers are engaged. This means that often trade-policy tools, such as the use of import licences, are the only means available to address inequalities in power along the supply chain.

A case in point is the use of import licensing in the Namibian horticultural sector, where this tool has been effectively used as part of a wider policy to effectively encourage greater local sourcing of fruit and vegetables by major retailers and traders. This has seen the domestic supply of fruit and vegetables increase from 5% of local consumption to around 25% in only five years. Against this background a far more nuanced approach is needed in the EC's approach to securing the abolition of non-tariff barriers to trade under the interim EPAs, with far greater scope being left for the use of these kinds of policy tools as part of wider sector development strategies.

International dimensions of CAP reform

The future of the CAP

Discussing the future of rural areas in Europe on 29 October 2009 in Sweden, Commissioner Fischer Boel highlighted an increasingly important EU policy concern, namely to 'make sure that real crises don't cause excessive damage to our production base'. She argued that 'if we allow our own production base to be damaged by crises, and if in this way we allow too much of global food production to be concentrated in a few areas of the world, we're giving a hostage to fortune. A serious disease outbreak in one or more of these areas – or bad weather – would send the world's food markets into meltdown'. This, she argued, meant a continued need for 'a Common Agricultural Policy which allows farmers to breathe the stimulating air of the marketplace, but which also helps the sector through very difficult times'.

In a similar vein, addressing a workshop on 10 November 2009 on the future of CAP after 2013, Commissioner Fischer Boel asserted that 'the CAP may need further changes for the future, but these changes must strengthen it, not weaken it'. She argued that in future agricultural production would need 'an increase of between 70% and 100%'. In this context, she stressed the importance of not neglecting the EU's 'domestic production base', stressing once again the dangers inherent in concentrating production in 'just a few areas of the world' which are 'vulnerable to shocks from disease or bad weather'.

The Commissioner argued that in moving EU policy forward, 'complete deregulation' was not appropriate, but rather that emphasis should be placed on 'giving farmers the freedom to respond competitively and creatively to market signals'. She maintained that 'it *is* possible to have a safety net that doesn't discourage competitiveness, and that's what we need'.

Commissioner Fischer Boel further argued that if farmers were over-regulated, this would transfer production overseas, and farmers and policy makers would have to 'explain to the public why we're generating more greenhouse gases by importing more food – food produced to environmental standards … lower than our own'. On this basis she argued for 'green growth' in building on and strengthening the CAP in future. In this context she stressed the importance of designing a CAP with 'clear goals to which the public can sign up'.

Meanwhile a group of leading agricultural economists has published a declaration proposing a radical and fundamental reform of the CAP that involves a much clearer definition of what should be done at the national and EU levels, and the progressive abolition of direct-aid payments to farmers and their replacement by social expenditures which are much more clearly targeted on the rural poor. The declaration drew and immediate and sharp response from the EU farmers' organisation, COPA-COGECA, which argued that food security considerations, direct payments to farmers and traditional market management tools should remain central to any future CAP. The only point of agreement with the declaration was on the need for measures to strengthen producers' bargaining power within the food supply chain in order to prevent any abuse of market power by food retailers and manufacturers.

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Comment

In recent speeches Commissioner Fischer Boel has been making the case for limiting the extent to which the EU agricultural sector is exposed to the unrestrained effects of market forces. She has highlighted the importance of maintaining the production base, despite periodic crisis on world markets. In pursuing this policy objective, the EC is making increasing use of financial instruments of support within the framework of moves towards increased tariff liberalisation in the agro-food sector. However, these moves towards tariff liberalisation are not pursued in a dogmatic manner, but in the light of the underlying concern to maintain the agricultural production base in the EU and the progressive development of financial and other instruments of support. In addition to this, where necessary the EU continues to use trade-policy tools which have trade-distorting effects where it is seen as essential to the continued maintenance of production in crisis-affected sectors (e.g. in the dairy sector).

These underlying EU concerns over 'food security', place the current IEPA debates on the dismantling of non-tariff measures regulating trade in food and agricultural products (such as import-licensing arrangements, infant industry protection and special agricultural safeguards) in a new light. Surely, in a context where ACP governments share EU concerns over food security, but lack the financial means to extensively deploy financial support instruments to sustain the basis for domestic agricultural production, greater tolerance should be shown towards the continued use of trade-policy tools designed to sustain and promote the development of the agricultural production?

Agriculture Commissioner sets out EU perspectives on food security issues

At the World Summit on Food Security in Rome on 17 November 2009, Commissioner Mariann Fischer Boel set out the EU perspective on food security issues, emphasising a number of elements considered necessary for a successful food security policy. These included:

- investment in agricultural infrastructure such as warehouses, slaughterhouses and equipment for water management, and the establishment of codes of conduct for investments in agricultural land;
- the importance of appropriate financial infrastructure, from micro-credit to agricultural insurance schemes, and the importance of donors moving agricultural investments 'up the list of funding priorities';
- the central importance of investing through women, since women are 'the driving force in agriculture in the developing world';

- the importance of developing technology 'to produce more food with less';
- the importance of good governance to agricultural development and the promotion of food security;
- the importance of establishing appropriate trade relations and trade policy arrangements.

With regard to the trade dimension Commissioner Fischer Boel argued that trade could 'iron out local variations in supply' and 'hand real economic opportunities to developing countries'. She further maintained that CAP reform had reduced the trade-distorting effects of EU agricultural policies, with EU support measures now being in large part 'non-trade distorting'.

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Comment

In the EU a considerable volume of public aid is being deployed in support of the restructuring of the EU food-and-agricultural sector in response to agricultural trade liberalisation and changing patterns of global agricultural trade. In total, some €53 billion in public aid is being made available over the 2007-13 period in support of the restructuring of production in the EU. This reinforces the importance of giving a higher priority to the food-and-agricultural sector in the deployment of EU and member states' aid to ACP countries. However, in the EC's presentation on food security in Rome, far less emphasis was given to the domestic policy measures which need to be set in place to promote food security in the context of periodic crisis in agricultural markets and production than is apparent in internal EU discussion on the future of the CAP in an era of growing price instability. It is far from clear what lessons the EC is carrying over into the international domain from its domestic process of policy formulation with regard to food security. Domestically, considerable emphasis is being placed on ensuring that 'real crises don't cause excessive damage' to the EU's own production base, with appropriate policy measures being set in place to ensure no 'excessive damage' occurs. This raises the question in an ACP context: what appropriate policy measures are required to ensure that 'real crises don't cause excessive damage' to the agricultural production base in individual ACP economies?

WTO agreement on agriculture

EU launches WTO challenge to Chinese use of export taxes

On 4 November 2009 the EC 'requested the establishment of a WTO panel on Chinese export restrictions on a number of key raw materials'. The EC believes that these restrictions, which affect 'key raw materials such as yellow phosphorus, bauxite, coke, fluorspar, magnesium, manganese, silicon metal, silicon carbide and zinc' are a clear breach of international trade rules and 'specific commitments which China signed up to as part of the WTO Accession Protocol'. However it is the measures not covered by China's accession agreement which the EC is challenging. Chinese export duties are imposed on 373 tariff lines at the 8-digit level, with imports of these products into the EU worth an estimated €4.5 billion in 2008. The USA and Mexico have also requested a panel on the same issue.

Catherine Ashton, then the EC Trade Commissioner, argued that 'China's restrictions on raw materials continue to distort competition and increase global prices, making conditions for our companies even more difficult in this economic climate'. This particularly the case in those raw materials which cannot be found elsewhere. These measures give value-added processing industries in China 'an unfair advantage'. The Chinese measures mainly affect the EU steel, aluminium and chemical industries, representing 'about 4% of EU industrial activity and around 500,000 jobs'.

The EC request for a panel follows on from formal WTO consultations that were requested on 23 June 2009 but which proved unsuccessful.

Sources

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Comment

EU concerns over the use of export taxes by the Chinese authorities are understandable, given their impact on major sectors of the EU economy. However, to a certain extent ACP governments have found themselves embroiled in this dispute through the EC's attempts to introduce prohibitions on the use of export taxes into IEPAs. It should be noted that at the WTO the EU is not challenging all Chinese export taxes, but only those not covered by the provisions of China's WTO accession agreement. Against this background, questions arise as to why under the IEPAs the EC is seeking to introduce blanket prohibitions on the use of export taxes. Once again, a more nuanced approach to prohibitions on the use of export taxes would appear to be warranted, particularly with regard to agricultural products. It should be recalled that a major policy preoccupation of ACP governments is supporting movement up the value chain, to reduce dependence on exports of raw materials. Given this policy focus and the limited access which ACP governments have to financial incentive-based policy tools, a legitimate role for the use of export taxes would appear to exist.

WTO DG upbeat against a background of general gloom

WTO Director-General Pascal Lamy has called for text-based talks, if progress is to be made in the Doha negotiations. He argued, amidst a mood of gloom amongst delegates, that progress to date had been simply too slow. Reporting on the state of play in the agricultural negotiations in November, Lamy highlighted the twin-track approach being adopted, consisting of a template approach and informal consultations in small groups. He maintained that the template approach was 'advancing well', with the 'identification of base date and appropriate tables' approaching completion. This it was argued would provide the basis for 'the preparation of templates to be used in scheduling. The small group discussions meanwhile were focusing on 'bracketed and otherwise annotated issues in the draft modalities and associated documentation'.

This presentation of progress to date came against the background of concerns that 'time for the round is running out' and 'the package on the table is beginning to unravel'. Symptomatic of this unravelling was held to be US efforts to 'protect an additional 2% of agricultural tariff lines as "sensitive"'.

Despite DG Lamy's optimistic report to the WTO General Council in the run-up to the Ministerial Council at the end of November, ICTSD reports little overall progress in the small group discussions called by the Chair to facilitate forward movement in the negotiations process.

Sources

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ICTSD, *Bridges Weekly Trade News Digest*, Vol. 13, No. 37, 28 October 2009
http://ictsd.org/i/news/bridgesweekly/58136/

ICTSD, *Bridges Weekly Trade News Digest*, Vol. 13, No. 36, 21 October 2009
http://ictsd.org/i/news/bridgesweekly/57427/

Comment

Overall little substantive progress appears to have been made in the negotiations to date. However, this is to a certain extent deceptive, with the likelihood being that once an agreement is in sight, progress will be made rapidly in parallel across a multiplicity of fronts. Against this background it would appear to be essential for the ACP to make sure that at all stages their essential interests and concerns are being effectively addressed.

Sugar sector

Some setbacks but overall good times for Illovo Sugar

Output projections for Zambia Sugar's year to March 2010 have been cut from 420,000 tonnes to 350,000 tonnes. This is attributed to 'off-season rains in the early part of the growing period'. However, production of 350,000 tonnes will still be a record for the company. In the current season the company reports that 'export demand from regional markets has been buoyant, with good realisations being achieved as a result of increased world sugar prices, whilst preferential quotas into the European Union have been supplied in full'. The company expects lower prices for EU sugar from October 2009 to be 'offset by increased market access'. Meanwhile, Illovo, the owner of Zambia Sugar, reported an 18% rise in first-half profits on its operations in Malawi. This has contributed to an increase in headline earnings across the Illovo Group of between 25% and 30% compared to the previous year.

In parallel to Illovo's performance, British Sugar's owner, Associated British Foods (which also has a 51% share in Illovo) has announced an increase in pre-tax profits, taking them to £655 million in the latest financial year. 'Overall ABF group revenue was up 12% ... and adjusted operating profit [was] up 8%'. This improved performance follows on from the finalisation of the 2010 beet contract, 'which meant that the price paid to growers would remain unchanged next season'.

Sources

Reuters Africa, 2 November 2009
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Bloomberg.com, 3 November 2009
http://www.bloomberg.com/apps/news?pid=20601116&sid=aCUoNth2r2l8#

Farmer's Weekly Interactive, 3 November 2009
http://www.fwi.co.uk/Articles/2009/11/03/118568/British-Sugars-owner-reports-hike-in-profits.htm

Comment

The financial performance of southern Africa's sugar industry is increasingly interlinked with the financial performance of EU sugar companies, given the pattern of investments which has emerged in the region in recent years. While currently both southern African sugar growers and sugar mills are benefiting from high global prices which have prevented the full effects of EU reductions in administratively determined prices from being transmitted through to the market price paid, in the years beyond 2012 this financial performance is likely to diverge. This raises challenges with regard to the utilisation of EC 'sugar-protocol accompanying measures' programme support. Will these funds be used in the coming period to strengthen the financial position of sugar out-growers in southern Africa, in preparation for the likely reduction of EU prices once price guarantees for ACP sugar are eliminated from October 2012? The deployment of accompanying-measures funding in such a manner would be wholly consistent with the trajectory of internal EU policy in the dairy and fruit-and-vegetable sectors, where the issue of the unequal distribution of power along the supply chain is most sorely felt within the EU.

German sugar production still expanding

The German sugar industry is once again expected to exceed its EU production quota, following favourable weather conditions which saw the beet yield increase from 61 tonnes per hectare to 67 tonnes/ha and the sugar content of harvested beets increase from 17.81% to 18.32%. The expansion of production was also supported by a 4.3% increase in beet plantings. German refined sugar production is set to reach 4.11 million tonnes, up from 3.7 million tonnes last year. The head of German sugar industry association WVZ commented that 'with 116,000 [tonnes] of unsold stocks transferred into the new season … Germany will probably produce about 1.3 million tonnes of sugar above its EU production quota of 2.89 million tonnes'.

This is likely to increase sugar exports, a development assisted by the EU's decision in October to increase the 'maximum permitted volume of non-quota sugar which can be exported in the current 2009/10 season from 650,000 tonnes to 1.35 million tonnes'. However the bio-ethanol industry is also expected to be a large customer.

The increased concentration of ownership in the EU sugar sector is a matter of growing concern to national competition authorities in the EU, with, according to press reports, at least three investigations under way at national level into 'cartel activity to fix prices and divide up customers and territory'. According to one press report, the German company 'Südzucker is one of the companies being investigated for cartel activity', although 'it denies any wrongdoing'.

Sources

Reuters, 3 November 2009
http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/commodities/2009/November/commodities_November2.xml&section=commodities

The New York Times, 26 October 2009
http://www.nytimes.com/2009/10/27/world/europe/27iht-sugar.html?_r=1&partner=rss&emc=rss

Comment

The scale of German over-quota sugar production provides an indication of where an expansion of sugar production is likely to occur, once internal EU sugar quotas are abolished in 2015. It suggests that the process of internal EU sugar sector restructuring is far from complete. This ongoing process of internal restructuring in the EU is likely to have important implications for the routes to market open for ACP sugar exports in the coming period, both up to and beyond 2015. Staying alert to these changes and their implications will be a challenge for ACP sugar exporters, as both traditional and new ACP/LDC suppliers compete for a share of the rapidly evolving EU sugar market.

ACP Ministers adopt resolution on sugar

At the ACP Ministerial meeting, on 19 November a resolution was adopted on sugar which called on the EU to:

- urgently address any problems arising from 'the implementation of the EC Import Regulation (No. 828/2009)';
- ensure the maintenance of a 'managed market which ensures an adequate level of remunerative price which safeguards the interests of all ACP sugar suppliers';
- maintain preferential access until 'after 2015';
- extend the implementation period of accompanying measures programmes beyond 2013, including through the provision of additional assistance to address the impact of preference erosion;
- 'oppose, in the WTO negotiations, both the re-opening of the July 2008 convergence package and the concept of reverse engineering';
- implement any tariff cuts for sugar and high sugar-content products in equal instalments over 'ten years, following a two-year moratorium as detailed in the July 2008 convergence package', ensure that under the sensitive-product provisions the lowest possible additional TRQ is established, that binding takes place on the basis of specific tariffs (not *ad valorem* duties) and that the special safeguard clause is maintained.

Source

ACP Secretariat, Resolution of ACP Ministers, 19 November 2009
http://www.acp-eu-trade.org/library/library_detail.php?library_detail_id=5193&doc_language=Both

Comment

The measures called for by ACP Ministers are intended to ensure that in developing its policy positions on sugar in both bilateral negotiations and the multilateral WTO negotiations, the EU fully takes account of ACP interests in the sugar sector. This is essential since in the cut and thrust of these negotiations, EC negotiators are likely to place priority on the benefits to be derived by EU businesses from the concessions granted on market access for sugar. In this context it should be borne in mind that EU sugar milling companies are increasingly 'international' in their production and associated trading operations. Indeed, in the coming years it seems likely that the majority of the top nine EU sugar producers (which control some 80% of the EU sugar market) will have the majority of their sugar production located outside the EU. In this context, the commitment of these EU sugar refining companies to the maintenance of extensive tariff protection around EU sugar markets is likely to weaken.

It is against this background that the articulation of clear and strong ACP positions on sugar issues is essential.

Sugar prices expected to remain buoyant

Australian sugar analysts are suggesting that global sugar prices 'will stay fairly firm for the next 12, maybe 18 months'. Prices have risen 98% in the past year following 'adverse weather in Brazil and India' and increased global demand. However it is expected that in the longer term, 'high prices will encourage increased production'. According to German researcher F.O. Licht, 'global sugar consumption will climb 2.6% to 165.4 million metric tonnes in the season that began on 1 October, exceeding production for a second year'. While there has been some expansion of production in response to higher prices, this will only reduce the supply deficit from 10.7 million tonnes to 6 million tonnes. The stock-to-consumption ratio is expected to drop to about 35%. Meanwhile press reports based on technical analysis by LaSalle Futures Group in Chicago suggest that world sugar prices 'may jump as much as 19% to 27 US cents', although it suggests there is an equal chance that it will fall 12% to 20 cents/lb.

Sources

Bloomberg.com, 20 November 2009
http://www.bloomberg.com/apps/news?pid=20601081&sid=aGD6sIkW.yEM#

Bloomberg.com, 13 November 2009
http://www.financialpost.com/news-sectors/trading-desk/story.html?id=2218612

Comment

The high world market prices for sugar have created a situation where for some ACP sugar exporters it is currently more profitable to export to regional markets than to the EU. However, for certain major suppliers this shift in exports is not taking place, since contractual commitments to supply EU importers have been made. One impact of high world market sugar prices however, is that ACP exporters are currently being insulated from the full effects of reductions in the guaranteed price for ACP sugar. On the basis of current projects, this situation looks likely to continue at least until October 2011. The critical issue for ACP sugar exporters then becomes what happens after this date in the context of the removal of EU price guarantees from 1 October 2012. Clearly ACP sugar exporters will need to set in place long-term sugar supply arrangements if they are to continued to be insulated from the full effects of the reductions in the EU guaranteed price for ACP sugar and the eventual elimination of price guarantees.

Banana sector

Resolution of banana dispute pending

ICTSD reports intensified negotiations to conclude a banana deal, with a deal expected before the 30 November WTO Ministerial meeting. The deal, nominally entitled the 'Geneva Agreement on Trade in Bananas' is expected to resemble the July 2008 arrangement. This would see the duty paid by Latin American suppliers fall progressively from the current €176/tonne to €114/t after seven years. The new agreement would 'mandate that bananas receive "stand-alone" treatment and be excluded from the Tropical Products list – a list of products that will receive the "fullest liberalisation", settle all pending disputes with Latin American exporters, and provide a "credit clause" to mark the lowered MFN tariff as the EU's final market access commitment in the Doha

Round'. In addition, if no deal is reached in the multilateral trade talks by 2013, the process of tariff reductions will be temporarily halted after two years. Reports of a pending deal have seen the share value of Fyffes plc increase by 8%. In contrast it is feared that the deal will result in a 12% decline in banana prices and a decline of 14% in ACP banana exports to the EU. This, it is feared, could be 'devastating' for the economies of the Windward Islands. Against this background 'Britain's shoppers are being urged to keep faith with fair trade Caribbean banana growers'.

According to ICTSD the EU will provide 'a substantial amount of aid through "Banana Accompanying Measures"' reported to consist of €190 million 'beyond the support offered through the European Development Fund'.

At the ACP Ministerial meeting on 19 November a resolution was adopted which:

- reaffirmed 'the serious social, economic and political dislocation that could result from the destruction of the banana industry in ACP countries';
- reiterated the ACP view that bananas should have 'a separate tariff treatment in the DDA modalities on agriculture' and should not be subject to treatment as a 'Tropical Product', and that the EU and ACP should 'jointly agree on the modalities for addressing preference erosion products/tropical products in the agriculture negotiations';
- stressed that the banana deal should be implemented as an integral part of the Doha Round package;
- argued that the current EU offer to MFN suppliers exceeded what was necessary to 'fulfil the EC's obligations under Article XXVIII of the GATT and for complying with the WTO Appellate Body's ruling';
- called for the 'implementation of tariff cuts in instalments spread over at least 10 years', a three-year moratorium following the first reduction in the tariff, the allocation of €250 million to the 'Banana Accompanying Measures' programme, with a review of the situation of ACP banana suppliers in 2013 to determine whether additional resources are required.

Sources

ICTSD, *Bridges Weekly Trade News Digest*, Vol. 13, No. 39, 11 November 2009
http://ictsd.org/i/news/bridgesweekly/59222/

independent.ie, 20 November 2009
http://www.freshplaza.com/news_detail.asp?id=54345

Times Online, 18 November 2009
http://www.freshplaza.com/news_detail.asp?id=54265

guardian.co.uk, 18 November 2009
http://www.guardian.co.uk/business/2009/nov/18/fair-trade-farmers-banana-war

ACP Secretariat, Communiqué, 19 November 2009
http://www.acp.int/en/trade/acpstatementbanana09.html

Comment

According to ICTSD reports, additional funding beyond that available under the EDF is to be mobilised in support of the proposed 'Bananas Accompanying Measures' programme. This would be consistent with earlier EU support to banana sector adjustments, which were funded through the EU annual budget. This would represent 'new money' for the ACP.

The utility of this aid will however be critically determined by the arrangements set in place for its use. Given the success of the Caribbean rum programme in effectively deploying EU resources in support of market-led, private-sector-based trade- and production-adjustment processes, similar cost-sharing grant-scheme and technical assistance arrangements could usefully be set up in those banana exporting economies where competitiveness could potentially be maintained under the new market arrangements.

Beef sector

Differentiating EU beef products on animal welfare ground

On 28 October 2009 the EC adopted a report on animal welfare labelling, aimed at making it 'easier for consumers to identify and choose welfare-friendly products'. This would, it is hoped, 'give an economic incentive to producers to improve the welfare of animals'. The EU Health Commissioner, Androulla Vassiliou, argued that 'if successfully communicated, higher animal welfare standards offer the prospects of a win-win situation for both consumers and producers. Consumers looking for welfare-friendly products can more easily identify them, and producers applying higher standards can market their products more effectively'.

Options for animal welfare labelling include:

'the establishment of requirements for the voluntary use of animal welfare claims';

'the establishment of a voluntary Community Animal Welfare Label open for all to use, provided they meet the criteria';

the drafting of guidelines for animal welfare labelling and quality schemes.

The EC report has launched a political debate over animal welfare labelling. Specific proposals will only emerge at the end of this process of debate.

Sources

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http://ec.europa.eu/food/animal/welfare/farm/options_animal_welfare_labelling_report_en.pdf

EC, Staff working document summarising impact assessment report, ref. SEC(2009)
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TheBeefSite.com, Press report on the EC adoption of report on animal welfare labelling, 29 October 2009
http://www.thebeefsite.com/news/28864/eu-moves-to-improve-animal-welfare-labelling

Comment

While animal welfare labelling to enable consumers to differentiate meat products based on animal welfare considerations forms part of the general evolution in European consumption towards the purchase of 'luxury purchase', differentiated, food products, the question arises whether the standards applied will be generic, and hence open to all meat producers regardless of region of origin, or whether the definition of the animal welfare standards to be applied will rather be Eurocentric in origin, and hence come to constitute a means of discriminating against imported meat products which in reality meet similar animal welfare standards. A secondary question relates to the certification requirements linked to animal welfare labelling. Will these certification requirements come to impose additional financial burdens on ACP exporters of quality meat products, produced from animals raised in line with EU animal welfare standards, or will all producers have equal access to the certification process at equal cost?

These are important questions, since in future they will directly impinge on the ability of ACP producers to participate competitively in an increasingly fragmented and differentiated EU meat product market. Some ACP suppliers are already actively pursuing strategies to meet the new challenges of effectively differentiating their beef products on quality grounds. While this is yielding substantial additional commercial benefits, it is vitally important that the costs of meeting new EU standards, be they welfare or hygiene standards, are kept to a minimum. These considerations need to be incorporated into the design of any new EU schemes.

Cereals sector

Maize trade patterns changing

A USDA FAS circular has been posted which analyses the changing patterns of global trade in maize. It finds that since 2004/05 China's and Argentina's share of global maize exports has shrunk. In China the virtual elimination of maize exports is seen as being a product of the elimination of export support policies, high internal prices and rapidly expanding domestic feed demand. In Argentina policy uncertainty, persistent droughts and the growing profitability of soybeans 'have all contributed to lower production and less exportable supplies'. In contrast the market shares of Brazil, South Africa, the EU and Ukraine are all expanding. However, with the exception of Brazil, this expansion is largely targeted at neighbouring regional markets where 'a comparative freight and logistical advantage' exists.

Sources

USDA FAS, *Circular Series,* FG 11-09, November 2009
http://www.fas.usda.gov/grain/circular/2009/11-09/grainfull11-09.pdf

Comment

It is unclear to what extent African ACP markets are seen as neighbouring 'regional markets' for the EU under this USDA analysis. Certainly in the wheaten products sector, African markets have become of growing significance to EU exporters as competition has intensified on traditional markets in North Africa and the Middle East. This intensified competition has emerged as a result of investment in local processing facilities to meet local tastes and the growing supply of this demand from newly emergent exporters (e.g. Ukraine) or an increasingly competitive Brazil.

Dairy sector

Latest quarterly review of the dairy market

The EC quarterly report on the dairy market prepared for the 19 October 2009 EU Agriculture Council meeting reported a steady improvement in the overall situation on the EU dairy market, with prices of dairy products increasing. 'EU average butter and SMP prices are now well above intervention levels, and quantities bought into intervention are minimal'. The report notes that average EU milk prices reached 26 euro cents in August. In terms of supply, overall milk supply in the first half of 2009 remained at the same level as 2008, despite a 1% increase in the milk production quota.

EU and world dairy commodity markets

Price	Butter	SMP	WMP	Cheddar	Edam
Intervention price/equivalent price (€/t)	2,218	1,698	2,066	2,484	2,167
Market price (June 2009) (€/t)	2,200	1,651	1,905	2,217	2,434
Current market price (€/t)	2,623	1,896	2,323	2,288	2,464
Current price as percentage of intervention price	118%	112%	112%	92%	114%
World Market price June 2009 (€/t)	1,321	1,403	1,464	1,821	-
Current world market prices (€/t)	1,783	1,699	1,917	2,136	-

In terms of export, the report notes that 'In January-August 2009 the exports of SMP, WMP and cheese declined slightly compared to the same period of 2008 (without refunds)' but that at the same time 'exports of whey powder increased by 13% and butter by 7%, with increases also of condensed milk and lactose'. The report further that notes 'recent applications for export licences indicate a better export performance of the main commodities in the second half of 2009', with the exception of butter.

Issued licences (tonnes)		
Product	**23.01.09 – 23.06.09**	**24.06.09 – 13.10.09**
Butter/oil	91,883	55,333
SMP	120,933	128,333
Cheese	133,933	102,463
Others (including WMP)	458,958	346,365

In terms of intervention buying, 83,000 tonnes of butter have been bought into intervention, 7% of production in the first seven months of 2009 (4.3% of annual production). Some 283,000 tonnes of SMP have been bought into intervention, equivalent to 42% of SMP production in the first seven months and 30% of annual production. The high protein intervention buying is linked to 'lower demand for drinking milk and high-value products'.

Following the Agriculture Council meeting on 28 October, the EC confirmed it would allow EU member states to provide up to €15,000 in state aid to EU dairy farmers to stabilise their incomes. This follows on from the amendment of the Temporary Crisis Framework adopted in January 2009. The measure is aimed at easing 'the serious cash flow problems which some farmers are experiencing'. This measure will absorb the €280 million of additional assistance to dairy farmers agreed at the EU Agriculture Council meeting.

Following the decision of European Council of Finance Ministers at their meeting of 19 November 2009, the new financial allocations for support to the dairy sector have now been released.

Sources

EC Directorate-General for Agriculture and Rural Development, 19 October 2009
http://ec.europa.eu/agriculture/markets/milk/quarterly_reports/10_2009_en.pdf

Europa Press Releases Rapid, Press release, IP/09/1599, 28 October 2009
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1599&format=HTML&aged=0&language=EN&guiLanguage=en

ICTSD, *Bridges Weekly Trade News Digest,* Vol. 13, No. 36, 21 October 2009
http://ictsd.net/i/news/bridgesweekly/57418/

Comment

Developments in the dairy sector highlight the EC's continued willingness to use traditional agricultural-support policy tools, where the market situation requires the use of such measures, despite the recognised trade-distorting effects of these measures. It also highlights the ongoing policy commitment to insulating EU producers from the worst effects of global market instability. However, as the group of leading agricultural economists pointed out in their declaration on the future of the CAP, this means that non-EU producers, particularly producers in developing countries, carry the main burden of adjusting to global price instability.

This raises the question of what policy tools ACP governments should be allowed to retain in place, so that they are able to insulate their agricultural producers from the worst effects of global price instability and thus avoid any undermining of their domestic agricultural production base.

Farmers' perspectives of the future of the EU dairy sector

On 10 November 2009, farmers' leaders provided their views on the future of the EU dairy sector to the EC High Level Expert Group on Milk. Considerable emphasis was placed on strengthening the bargaining position of dairy farmers in the supply chain by promoting a concentration of supply through cooperatives and farmers' associations. COPA President Padraig Walshe argued that farmers would 'like to see the single Common Market Organisation offering producers more opportunities to come together, for the sector's key players to organise themselves and even sign transparent agreements between themselves'. 'Balanced contractual relations properly negotiated between milk producers and dairies' were seen as an essential part of dealing with 'growing market volatility'. This point was reinforced by NFU Dairy Board chairman Gwyn Jones, who argued that 'contracts are a fundamental factor in ensuring fairness in the dairy supply chain'. He maintained that 'the creation of the High Level Group by the European Commission provided a unique opportunity to examine the structures and policy interventions that may be required at EU and member state level to provide the foundations on which the dairy sector, and especially dairy farm businesses, can thrive'. This was felt to be particularly important given the proposed ending of milk quotas in 2015. At this point, he commented, 'all decisions about the location of production, scale and distribution will be taken by milk buyers through the contracts they offer'. This, it was argued, 'could further erode the bargaining power of milk producers and opens up the risk of further abuses of power'.

Farmers' leaders however also argued for maintaining and properly managing the existing market management tools, such as export refunds and intervention buying.

Sources

COPA-COGECA, Press release, 10 November 2009
http://www.copa-cogeca.be/Main.aspx?page=HomePage

TheDairySite.com, 11 November 2009
http://www.thedairysite.com/news/28989/eu-milk-group-offers-opportunity-for-dairy-sector

Comment

The importance of getting to grips with the issue of unequal power relationships within supply chains is an issue of vital importance to agricultural development in ACP countries. However, the policy tools available to ACP governments differ considerably from the policy tools available to the EC. Put simply, generally ACP governments lack the financial resources to use the types of financial support tools used by the EU to rebalance power relations within specific supply chains. More commonly in those ACP countries where supply chain issues are taken up and addressed, more active use is made of trade-policy tools. A case in point is the use of import-licensing arrangements in the Namibian horticulture sector, which are *de facto* used to rebalance power relationships between producers, traders and retailers with the aim of fostering a process of dialogue, which expands local production for local markets. In the case of Namibia this policy has proved extremely successful, leading to a fivefold increase in the supply of fresh horticultural products to the local market at a minimal additional cost to consumers and with little or no trade-distorting consequences.

The important point to note in this context is that in addressing unequal power relationships in food supply chains, the policy tools available to EU and ACP authorities vary considerably, with the policy space needing to be retained in ACP countries to allow the deployment of those policy tools available, in order to address an issue which is of common concern to both EU and ACP authorities.

Horticulture sector

Carbon effects of international trade debated

The debate on the role of the international food trade in climate change has intensified, with statements from the Archbishop of Canterbury calling on consumers to 'eat local'. This has prompted a response highlighting the energy intensity of 'local' greenhouse-based vegetable production and the carbon effects of internal fruit-and-vegetable transportation. It is argued that the international trade in fruit and vegetables would 'make hardly any impact on climate change but would harm over one million people in sub-Saharan Africa'. According to opinion pieces carried on the Guardian website, 'air-freighted fruit and vegetables contribute less than one-tenth of 1% of the UK's greenhouse gas emissions', with far greater emissions occurring as a result of 'domestic transport of food goods within the United Kingdom'.

Meanwhile in South Africa a major multiple retailer is working with farmers to ensure that its fresh produce is produced in increasingly environmentally friendly ways. The 'Farming for the future' scheme, which 'focuses on building and maintaining healthy soil', is set to be rolled out from the end of 2009, with the aim of ensuring that all locally grown fresh produce meets the farming practices laid down under the scheme by 2012.

Sources

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supermarket.co.za, 5 November 2009
http://www.freshplaza.com/news_detail.asp?id=53579

Comment

Consumers in Europe and affluent consumers in developing countries are increasingly searching for products which are produced in ways that are sustainable and minimise the damage to both the local and global environment. With major retailers increasingly responding to this trend, producers in ACP countries will need to revise their production practices if they are to continue to serve premium-priced components of the market. This represents a substantial challenge for the coming period, in support of which expanding 'aid for trade' allocations could usefully be deployed.

Rice sector

FAO round-up of global rice market developments

FAO has reduced its forecast for global paddy rice production in 2009 by 21.3 million tonnes to 668 million tonnes, 3% less than 2008. This reflects 'unfavourable climatic conditions in northern hemisphere Asian countries'. However although less favourable growing conditions have affected Africa's rice growing areas, production is expected to be 'close to the outstanding 25.4 million tonnes gathered in 2008'. This reflects 'an expansion drive from governments and renewed interest in the sector from both institutional and private investors'. The round-up adds that 'particularly good crops are forecast in Madagascar and Mozambique, as well as Mali and Nigeria', but that drought has however impacted on production in eastern Africa. In the Caribbean, larger crops are reported in the Dominican Republic, while a production decline is expected in Guyana. Meanwhile paddy production is projected to expand in the EU27.

In terms of trade in rice, a 2% expansion to 30.7 million tonnes is projected for 2009, with the EU being among the regions increasing their imports of rice. Trade is then expected to contract 1% in 2010 to 30.3 million tonnes. Global rice stocks meanwhile have increased to 121.4 million tonnes, an 11% increase. Stocks are expected to build up in several major importing countries, as well as in rice-exporting countries such as China, India, Pakistan, Thailand and the United States. World rice reserves now cover 3.2 months of global rice utilisation, with a stock-to-use ratio of 27%.

In terms of price developments, while stability was a feature of the market in July and August, prices fell markedly in September, although with production expectations lowered, prices are expected to recover slightly before the arrival of new supplies exerts further downward pressure. Declining wheat prices (-30% in the last year) are seen as exerting a downward pressure on rice prices. Over the longer term, from January to September average 2009 indica high quality rice prices were 26.1% below the average level over the same period in 2008, while indica low quality rice prices were 39.2% below the average levels prevailing in the 2008 period and aromatic rice prices were on average 8.2% below the levels prevailing in 2008. Japonica rice prices however were 23% above the comparable average level for January to September 2008.

Sources

FAO, *Rice Market Monitor*, September 2009
http://www.fao.org/ES/ESC/en/15/70/highlight_71.html

Comment

Rice production is expanding in both Africa and the EU, however with rice markets becoming increasingly differentiated, this does not mean that competition is likely to increase between EU and African producers, since they serve different market components. Important questions arise however as to the impact which current IEPA provisions will have on the use of policy tools currently deployed by African governments in support of rice sector developments. This needs to be carefully reviewed prior to the ratification and implementation of the agreed IEPAs, in order to ensure that the policy space for the further promotion of rice sector development is maintained.

Kenyan rice production booming

FAO reports a bumper rice crop in Kenya, following substantial investments into a series of one-year input supply programmes in rice farming areas. In some areas where FAO programmes have been launched, yields have been doubled and even tripled. With robust local and regional markets (including through FAO purchase programmes to serve food deficit areas), these bigger yields are delivering bigger profits to Kenyan rice farmers (earning them incomes some seven to eight times larger than in previous seasons). The ready availability of profitable outlets for expanded production (via local, national and regional traders as well as via FAO purchase programmes) has been critical to the commercial success of the input supply programmes. In some areas, increased earnings have allowed revolving funds to be established to finance input supplies as well as the investment of funds in improved equipment. The success achieved is holding out the prospect of a more commercially oriented smallholder rice farming sector in Kenya. However the need for improved training in financial management and technical innovation has been identified, in order to break the cycle of boom and bust which has traditionally characterised FAO-led interventions of this kind.

Sources

FAO, Media centre release, 6 November 2009
http://www.fao.org/news/story/en/item/36909/icode/

Comment

The importance of ensuring commercially attractive outlets for expanded rice production is one of the important lessons to be drawn from this FAO rice-sector experience in Kenya. Without the ready availability of commercially attractive market outlets at local, national and regional levels, expanded production can simply depress prices and lead to increased levels of indebtedness for smallholder producers.

Launched 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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