agritrade

Executive brief

August 2009

The Implications of the CAP Reform for ACP-EU Agricultural Trade

Contents

Summary

This executive brief reviews the scope of the CAP: its basic structure, product coverage, objectives and evolution since 1992. The review of the CAP reform process highlights:

- the shift in policy emphasis from the quantity of EU agricultural production to the quality of EU agricultural and food products and the different aspects of the 'quality' dimension;
- the growing role of rural-development policy and instruments within the CAP and its interface with wider processes of CAP reform;
- the link between the CAP-reform process and EU positions in agricultural negotiations in the WTO, particularly the relationship to the ultimate aim of bringing EU agricultural prices down towards world-market price levels.

The section on the impact of CAP reform on ACP-EU agricultural trade focuses on:

- the impact of CAP reform on the value of traditional ACP trade preferences;
- the need for ACP exporters to respond proactively to changes within EU markets for food and agricultural products;
- the importance for ACP authorities and private-sector operators of getting to grips with the food-safety challenge and the increasing costs of accessing the EU market;
- the trends in EU exports of agricultural and simple value-added food products to ACP markets;
- the importance of developing an effective policy response to the competitive challenges this poses and the necessity for this to encompass a value-chain analysis if it is to support the development of local value-added agricultural and food-product production in ACP countries.

1. The scope of the common agricultural policy

In its early years in the context of the ongoing cold-war confrontation with the Soviet Union the focus of the CAP was on ensuring European food supplies through increasing 'the productivity of agriculture', promoting 'a fairer standard of living for farmers' and achieving 'market stabilisation'. This was based on a high-price policy which stimulated production. The regime consisted of:

- price-support systems, such as intervention prices, minimum grower prices, etc, to stimulate production;
- tariff protection to protect domestic markets and sustain internal prices;
- market-support mechanisms, such as storage and withdrawals to deal with surpluses which emerged as production was over-stimulated;
- export refunds to assist in clearing markets of surplus production.

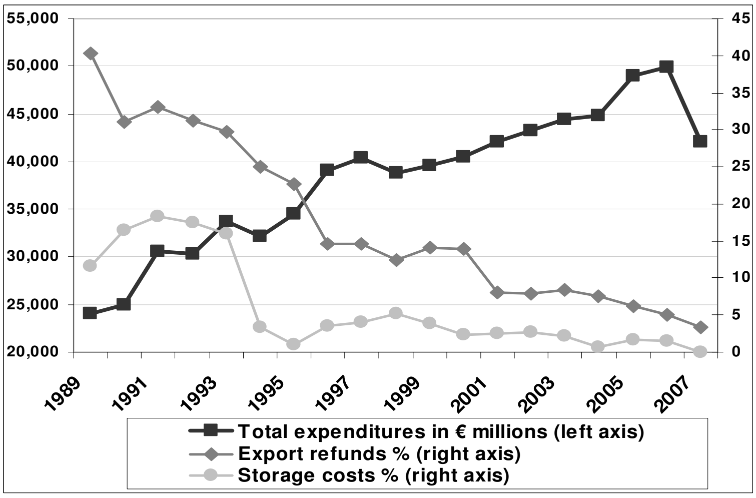
Trade relations were an integral part of the CAP regime. In many respects this policy proved remarkably successful, particularly with regard to productivity increases and market stabilisation.

The CAP did not cover all agricultural products, only those which, by mutual agreement were subject to the common organisation of the EU market. In addition some products and goods benefited from customs protection' and specific production assistance. Furthermore there were so-called 'non-annex 1' products, which are composite products formed from basic agricultural raw materials falling under the CAP, which were subject to 'specific import and export arrangements'. Finally, there were some products such as potatoes, which although not subject to a CMO, were subject to marketing standards. With the extension of the single-payment scheme to more and more products, these various market-organisation arrangements have been consolidated into a single market framework.

Evolution of CAP expenditures: increased spending and a declining role for export refunds and storage costs

	Total	Export refunds		Storage costs	
	€ million	€ million	%	€ million	%
1989	24,084	9,708	40.3	2,804	11.6
1990	24,936	7,722	31.0	4,097	16.4
1991	30,551	10,080	33.0	5,602	18.3
1992	30,350	9,487	31.3	5,267	17.4
1993	33,659	9,999	29.7	5,358	15.9
1994	32,205	8,075	25.1	1,070	3.3
1995	34,492	7,802	22.6	339	1.0
1996	39,108	5,700	14.6	1,392	3.6
1997	40,423	5,884	14.6	1,597	4.0
1998	38,748	4,826	12.5	2,008	5.2
1999	39,541	5,573	14.1	1,568	3.9
2000	40,467	5,646	14.0	951	2.4
2001	42,083	3,400	8.1	1,060	2.5
2002	43,214	3,432	7.9	1,162	2.7
2003	44,461	3,730	8.4	928	2.1
2004	44,761	3,384	7.6	322	0.7
2005	48,928	3,052	6.2	852*	1.7
2006	49,865	2,494	5.0	757	1.5
2007	42,121	1,445	3.4	-106.7**	-

* Reflects difficulties in getting grain to market in new member states; ** ° Reflects a net income to the EC.
Source: extracted from 'Agricultural situation in the European Union', Annual reports, Table 3.4.4.



By maintaining high prices, suppressing domestic demand and establishing prices which were uncompetitive globally, the old policy stimulated 'surplus production', which placed a growing burden on the public purse. It also gave rise to the 'dumping' of surplus basic agricultural commodities on third-country markets using export-refund support, a policy which led to substantial international protests and concern over its longer-term development consequences.

2. The evolving CAP

2.1 The CAP reform process

While elements of this old system remain in place, fundamental reform has been under way since 1992, accelerating in 2000 and 2003 and subject to a 'health check' in 2008 (with other reforms being introduced in between these major rounds of reform). In part this reform process was driven by financial pressures. However, this factor should not be overstated, since reform has required a substantial expansion of CAP expenditures, as the cost of supporting EU farming has been shifted from consumers (via high prices) to the public purse (through direct aid payments). A more critical factor was the end of the cold-war confrontation in Europe, which removed the imperative for food self-sufficiency. Alongside this the impending conclusion of the Uruguay Round of multilateral trade negotiations was seen as creating opportunities for a new more market-oriented EU agricultural policy (albeit based on higher levels of public funding via direct aid to farmers). These considerations encouraged EU policy-makers to 'bite the bullet' of reform in 1992, with the 'McSharry reforms'.

As a consequence of this reorientation of EU agricultural policy since 1992 a fundamental shift in the nature of the CAP has been under way. This can be divided into three overlapping phases:

Phase I a shift from price support to direct aid to farmers;

Phase II a partial shift from direct aid to farmers linked to production, to area payments (and subsequently to historical payment obligations), progressively 'decoupled' from production;

Phase III a complete shift to non-production-related farm assistance (full 'decoupling') across all CAP-covered products.

This has involved a shift to 'higher direct aid payments to farmers [to] offset lower guaranteed prices'. An explicit aim of this policy is to allow prices to fall towards world market price levels. This process has been progressively extended to more and more crops, where it has served to:

- boost consumption;
- reduce the gap between EU and world market prices;
- reduce 'surpluses' (by boosting domestic consumption and export possibilities).

The direct aid payment system has been progressively reformed to remove the link between direct aid payments and levels of production. This process is referred to as 'decoupling'. The principal vehicle for this is a shift to a single-payment scheme (SPS). In the course of 2007 all sectors subject to the CAP were brought under the ambit of the SPS, although in certain sectors coupled payments are being only gradually phased out. To date some 21 separate agricultural-product regimes have been incorporated into a single CMO, with the aim of improving transparency and making the policy more easily accessible'. In future the CAP will consist of just four main Council acts: 'those on the single CMO, the direct aid regime, rural development and the financing of the CAP'. This process of moving over to a single-payment scheme is in the process of being consolidated by the tabling of a range of proposals under the CAP 'health check'.

2.2 The CAP 'health check'

On May 20th 2008 formal proposals for a 'health check for the CAP' were tabled, with EU agriculture ministers reaching a political agreement on these proposals on November 20th 2008. This agreement paved the way for:

- the abolition of set-aside, which previously required arable farmers to leave 10% of their land fallow;
- the phasing-out of milk quotas through five annual increases of 1% between 2009/10 and 2013/14, (with Italy being allowed an immediate 5% increase and with penalties 50% higher than the normal penalty for farmers who exceed milk quotas by more than 6%), prior to their abolition in 2015;
- the establishment of certain 'flanking measures' under article 68, and rural-development programmes to help milk producers in disadvantaged areas (although proposals for a special milk fund were rejected);
- the conversion of market-intervention mechanisms into a genuine safety net (intervention will be abolished for pig meat; set at zero for barley and sorghum; limited intervention will be allowed for wheat, with clear limits; while intervention-buying for butter will be limited to 30,000 tonnes and that for skimmed milk powder to 109,000 tonnes);
- the shifting of remaining coupled payments to the decoupled single-payment scheme (despite the fact that this is seen as a 'fundamental element of the health check', an exception will remain for the suckler-cow, goat and sheep premia);
- giving member states the possibility of moving away from historical payments towards a flatter system, so as to remove historical anomalies in the level of farm payments by region;
- an extension of the single area payment scheme in ten of the twelve new member states beyond 2010 to 2013;
- simplification of cross-compliance standards, whereby farmers receive aid in exchange for meeting environmental, animal-welfare and food-quality standards;
- the introduction of greater flexibility in providing 'assistance to sectors with special problems', within the 10% national budget ceiling allowed to member states;
- an increase in 'modulation', whereby direct payments to farmers receiving more that €5,000 in direct aid payments are reduced and transferred to the rural-development fund, from 5% to 10% by 2012 (up to 14% for payments above €300,000 per annum), with these additional expenditures being co-financed by the EU at a rate of between 75% and 90% depending on the status of the region;
- the establishment of 'a minimum payment per farm of €250, or for a minimum size of 1 hectare or both';

- the introduction of a series of administrative changes to expand and facilitate rural-development expenditures.

According to the ICTSD this was 'quite contentious, with France, Germany and Italy fighting for stronger protections for farmers, while the UK reportedly argued for deeper subsidy cuts'. According to Commissioner Fischer Boel, overall the final Council agreement preserved all the principles of EC's original proposals, and is contributing to making EU farmers 'more responsive to market signals – while also giving them the right kind of support … one which will help them through genuine crises but will allow them to respond energetically to market signals'. The CAP 'health check' was thus seen as part of the continuum of reform, with the next stage being the 2013 round of CAP reforms.

The EC has long taken the view that while 'the market has a very important role to play', it cannot be 'left to itself ... if we strip farming of all defences against occasional crises, we gamble with our food supply'. It is against this background that the CAP 'health check' has sought to 'clear away obstacles which are hindering farmers' responses to market signals', while providing necessary safety nets for EU producers.

2.3 Situating reform: implications for the WTO

This process of shifting from price support to direct aid, by narrowing the gap between EU and world market prices has also had implications for agricultural trade policy: it has reduced the need for the EU to use protective tariffs and deploy export refunds and thus allows the EU to contemplate substantial tariff reductions and accept the eventual abolition of exports refunds (by 2013). The process of reform however also 'marks the limits' of the EU's negotiating position in the WTO. As the Agriculture Commissioner has unequivocally stated 'we will not allow the Doha Round to be the main driver of our domestic policy for farms and rural areas in the years ahead'. While the EC has a degree of flexibility in the WTO negotiations, this is limited. Nevertheless, on major contentious issues such as export-refund support the Commissioner has argued that regardless of the outcome of the Doha Round, the EU should do away with export refunds. This is because the export-refund policy tool is no longer relevant in an era of a single agricultural regime supported by a single-payment scheme, which leaves farmers free to adjust their production to what the market requires, rather than the prerequisites of production-tied agricultural-support systems.

The 2003 CAP reforms and the 2008 CAP 'health check' represent a decisive shift to decoupled payments and are designed to allow full decoupling in the 2013 round of CAP reform. In the majority of agricultural commodities this has now eliminated the link between payments to farmers and the area sown or the volume of production of any particular crop.

The implementation of phase II and the transition towards phase III are designed to:

- allow further reductions in tariffs in certain sectors;
- further reduce the need for export refunds; and
- reduce the EU's dependence on WTO-constrained forms of domestic agricultural support, by moving a proportion of EU agricultural support from the 'blue box' to the 'green box'.

The aim is to allow the EU to 'park' the bulk of EU farm support securely in the 'green box' where it will be free from any WTO disciplines.

Herein lies the significance of the basic CAP-reform process: it will allow the EU to maintain systems of farm support to achieve wider policy objectives without falling foul of WTO rules. EU Agriculture Commissioners have repeatedly defended the EU's 'sovereign right' to pursue these broader policy objectives provided it does so in ways which do not distort trade.

The progressive implementation of this three-phased process of CAP reform does not mean that the EU has been able to dispense entirely with the traditional forms of agricultural support, such as export refunds. The EU continues to use this policy tool where the market circumstances so require. Indeed, the strengthening of the euro against the US dollar since the turn of the century has created some difficulties in terms of attaining the EU's underlying objective of attaining parity between EU and world market prices. This has on occasion required an expansion of the budgetary allocation to export refunds, despite sustained efforts to remove the need for the deployment of such policy tools, given their clearly trade-distorting nature. While increases in world market prices allowed export refunds to be set at zero across a range of sectors, for tariffs on some products to be set at zero, and for publicly owned intervention stores to be largely emptied, subsequent declines in world market prices have seen import duties reintroduced, export refunds for certain products reintroduced and an expansion of purchases into intervention stocks. It should be noted that setting export refunds and tariffs at zero is quite different from dismantling the system of export refunds and tariff protection. Setting them at zero, while retaining the policy tools in place, allows the level of support or protection to be increased in future should market circumstances so require, in order to maintain stability on EU markets. The EU is thus likely to seek to retain the right to use these policy tools for as long as possible, while committing itself to reducing their use where market developments so allow. This policy nuance would appear to be an important one for ACP governments to note when negotiating tariff removal in sensitive agricultural sectors.

This shift in how EU agricultural support is organised needs to be seen against the backdrop of two wider policy trends, namely:

- changes in market demand within the EU and globally and the associated growing emphasis on the 'quality' rather than the quantity of agricultural production;

- the strengthening and extension of the rural-development pillar of the CAP, with rural development no longer being seen as synonymous with the development of agricultural production.

The single-payment scheme

Under the SPS the single payment will be made once a year and will replace most existing product-specific direct aid payments. The national allocation to the single farm-payment scheme consists of the aggregation of the maximum that each state could spend on direct aid payments during the agreed historic reference period.

Payments will be made to any farmer actively farming at the date each member state introduces the scheme. Farmer entitlements will be defined by the entitlements that the farmer enjoyed during the reference period (normally 2000-02, although there are variations).

'Each entitlement is calculated by dividing the reference amount by the number of hectares which gave rise to this amount in the reference years'. Eligible hectares include all types of agricultural land except land used for permanent crops and forestry. 'Farms may produce all crops with the exception of permanent crops, fruit and vegetables and potatoes'.

This payment is linked to cross-compliance with various conditions, linked to land management, good agricultural practices and environmental considerations.

Member states have various options as to how they calculate and make payments. This can be based on individual farmers' receipts during the reference period or averages for the region or the state.

During the transition period coupled payments may under certain conditions be maintained (so-called 'partial decoupling'). All payments made were reduced by 3% in 2005, 4% in 2006 and 5% in 2007, under the principle of 'modulation', which is designed to free funding for wider rural-development activities (the CAP 'health check' proposes to extend 'modulation' to 13% of direct aid payments by 2012).

According to the EC the SPS 'provides stable support allowing farmers to produce to market demand and to plan for the future'.

2.4 From quantity to 'quality'

There are now two distinct components to the EU market: 'necessity purchases' and 'luxury purchases'. 'Necessity purchases' are those products where purchase decisions are made exclusively on the basis of price considerations. For 'luxury purchases', in contrast, purchase decisions are not primarily based on price, but on some perceived 'quality' attributes of the product. According to an EC-funded study, the EU's underlying demographic means that there will be no expansion of overall demand for food and agricultural products in the coming period. Rather, as EU citizens become more affluent, patterns of food consumption will change, with consumers increasingly favouring high-quality products and convenience foods ('luxury purchase' products). These luxury purchase products are less prone to price declines and tend to face stable or buoyant price trends. In contrast, in the face of a progressive liberalisation of imports of basic agricultural products, it is expected that prices of undifferentiated agricultural commodities in Europe ('necessity purchase' products) will fall in real terms in the coming years.

It is against this background that EC policy is seeking to shift European food and agricultural production from quantity to quality, from serving 'necessity purchase' markets to serving 'luxury purchase' markets. For the EC, progressively shifting European production from bulk commodities to differentiated higher-quality products, for local, national, European and international markets, is now a fundamental aspect of the new CAP. Agriculture Commissioner Mariann Fischer Boel elaborated on this point in October 2005 when she pointed out that the emergence of strong new players on world markets was setting entirely new standards for productivity and generating fierce competition. In this context she argued that 'competing on product quality is not an optional extra ... [but] … essential to our strategy in the future'. This point was repeated by the then Trade Commissioner Mandelson in the UK on February 27th 2006, when he told UK farmers that shifting to the production of 'high-quality, value-added goods' was essential since 'Europe simply cannot compete in the long run with third-country producers in Brazil, Argentina or elsewhere'.

Quality considerations are increasingly being placed at the centre of the CAP with rural-development policy instruments being designed to assist this shift to quality production. Indeed a strengthened and extended rural-development policy can be seen as the critical second plank of the new CAP, alongside the single-payment scheme. However, using rural-development spending to support this objective is by no means a simple process, with a 2006 Court of Auditors report finding that insufficient attention was being paid to 'what was financed and what was achieved'. This has led to two new initiatives in the EU: one focusing on improving the use of funds routinely made available under the rural-development policy; and one focusing on consolidating EU policy on agricultural product quality.

At the level of the routine deployment of rural-development funding, on April 29th 2009 Commissioner Fischer Boel launched a call for the more targeted deployment of rural-development funding on 'active measures which support modernisation and restructuring'. She went on to call on EU member states to adopt 'a more selective priority-based approach which channels the funding to where it can make the biggest difference' and to 'pick the most useful measures, set clear goals, and aim the funding accurately at those goals'.

On the issue of agricultural product quality, in October 2008 the EC launched a consultation on 'how to help European farmers make the most of the quality of the food and drinks they produce'. Launching the consultation Commissioner Fischer Boel argued that European farmers had three main advantages in facing up to competition from low-cost producers in third countries on both EU markets and abroad, namely 'quality … quality … and quality'. Thus the EC sees developing 'quality' production as the means of meeting 'head on' the intensifying challenge from low-cost producers in third countries in the era of trade liberalisation. The consultation paper covered three areas:

- 'baseline production requirements and marketing standards;
- specific EU quality schemes such as geographical indications (GIs), traditional specialities and organic farming;
- food-quality certification schemes'.

In March 2009, the EC brought together a summary of the conclusions of this consultation process for a Czech presidency conference on agricultural product quality. This set out the conclusions with regard to the use of logos and marketing standards; the role of GIs; the role of organic production; and the role of food-quality certification schemes (see box for details). Underlying all of these conclusions were hard-headed commercial considerations given the global challenges facing the EU food and agriculture sector.

Agricultural product quality consultation

Logos and marketing standards:

There was general opposition to the 'creation of an EU logo to signal compliance with EU requirements', but support for 'the indication of the place of farming'. Food processors however were opposed to such schemes, citing traceability and cost concerns. There was strong opposition to self-regulation of marketing standards.

Geographical indications (GIs):

The current GI rules were judged to be sufficient, with most respondents opposed to the introduction of additional stricter criteria for GIs. However, there was felt to be a need to extend TRIPS-related protection for wines and spirits to other products. Considerable importance was attached to the establishment of an international register of GIs, to improve protection of GIs outside of the EU, with this being backed up by appropriate provisions in bilateral trade agreements. Third-country organisations however opposed such a move, arguing that 'international trademark and fair-trading regimes provide enough protection for brands'.

GIs and trademarks were seen not as alternatives but 'two systems distinct in nature' which should co-exist, with some respondents arguing that 'collective trademarks could be an alternative to GIs for certain typical local productions linked to an area having a limited economical impact'. In this context the scope for the 'use of collective trademarks not linked to protected denominations of origin/protected GIs' was highlighted.

Some producer associations argued for more flexible criteria regarding the origin of raw materials used in GDOs (Geographical Designation of Origin) and PGI (Protected Geographical Indications) schemes.

'Organics':

A call for significantly enhanced promotion efforts for 'organic' products was made by respondents. New EU member states in particular called for more support to developing and consolidating 'organic' production and marketing. Calls were made for greater protection of 'organic' standards, so as to ensure consumer confidence and create a single EU market in 'organic' products. Verification of claims in private-labelling schemes was felt to be necessary, alongside the establishment of a common control system.

Food-quality certification schemes (FQCSs):

A majority of respondents felt that FQCSs 'structure the demand, create consumer confidence or increase it', while private standards were felt to be more flexible and responsive to new demands and trends, with the latter better able to create value for producers, particularly where efficiently managed, with costs kept to a minimum. A need was felt for better communication of the benefits of specific FQCSs to consumers, so as to secure premium prices.

The danger of too many FQCSs was highlighted since this could confuse consumers and multiply costs. It was noted that FQCSs can lead to additional costs, while non-adherence can effectively exclude products from the market; ensuring that producers gain real value is thus seen as vitally important. It was felt that clear EU guidelines could contribute to a more coherent development of FQCSs, although harmonisation of private-sector initiatives could make EU involvement unnecessary. Suggestions for reducing the cost-burden of FQCSs included: the introduction of mutual recognition; group certification; combining audits and direct financial support.

Support existed for extending technical and financial aid to developing countries to help them comply with private certification standards.

Source: EC, Conclusions from the consultation on agricultural product quality, Brussels, VC D(2009)
http://ec.europa.eu/agriculture/quality/policy/consultation/contributions/summary_en.pdf

Debates and policy initiatives on GIs in the WTO and bilateral contexts need to be seen in this light, as, to a limited extent, does the debate on food-safety standards. Establishing through the WTO an international regulatory framework which recognises geographical designations of origin and GIs will clearly increase the commercial value of exclusive product designations beyond the EU to embrace the huge global market.

With regard to food-safety standards, while the comprehensive new policy evolved since 2000 is primarily driven by health concerns (linked to high-profile food scares (BSE/CJD and the dioxin crisis in Belgium), it nevertheless has an important commercial dimension. EU producers are actively being encouraged to differentiate their products from imported products on food-safety grounds, so as to secure important price premia.

Encouraging this shift from quantity to quality has required the elaboration of a range of new EU agricultural-policy instruments. These range from specific target programmes to support producer organisations and quality schemes (particularly in the fruit-and-vegetable sector), through the introduction of cross-compliance conditionalities linked to direct aid payments, to the deployment of rural-development funding in support of measures to modernise agricultural processing and enhance competitiveness. The review of EU agricultural-product quality will no doubt see the range of these policy tools being expanded, yet within a framework which targets the available resources much more carefully.

The implications of this shift from quantity to quality will need to be carefully assessed by ACP governments and agriculture-based private-sector enterprises in developing future agricultural trade relations with the EU.

2.5 The growing role of rural development

Since 1995 there has been a strengthening of the rural-development pillar of the CAP. However a qualitative change occurred in 2000 when a dedicated financial allocation was included in the budget. The twin aims of the EU's rural-development policy are to enhance the competitiveness of the EU food-and-agriculture sector and to encourage the development of non-agricultural activities in rural areas.

This policy emphasis on rural development was further strengthened by the 2003 round of CAP reforms, which introduced the concept of 'modulation' and the inclusion of new areas within the rural-development concept. Under the modulation concept, funds paid to large farms were to be capped, with payments being progressively recouped for redeployment in support of broader rural-development objectives. In terms of the extension of the scope of rural-development policy new chapters were introduced in the regulation dealing with food-quality assurance-and-certification schemes, and support to producer groups for the promotion of products produced under these schemes (including geographically designated and 'organic' products) – thereby strengthening the policy emphasis on quality over quantity.

Since 2003 the rural-development policy has been subject to a comprehensive review, including the consolidation of all rural-development funding under a single instrument – the European Agricultural Fund for Rural Development (EAFRD). Under the new policy approved by the EU Council in September 2005 rural-development activities are organised around four axes (see box below).

While a minimum of 10% of rural-development funding is nominally targeted to improving the competitiveness of the EU food-and-agriculture sector, in reality an average of some 37% of total rural-development funding made available from the public purse for the period from 2007 to 2013 has been allocated to measures explicitly designed to enhance the competitiveness of enterprises in the sector. This percentage of funding allocated to competitiveness-enhancing measures rises to as much as 74% in the French overseas territories of the Caribbean, the areas of the EU with economic structures most closely resembling those of ACP economies.

Rural-development spending 2007-13 (total and 'axis 1') May 2007 to April 2008 (€ millions)

	Total programme	Axis 1 (enhancing competitiveness)	Axis 1 (% total)
April 2008	142,841.4	53,094.7	37.17

Under the CAP 'health check' 'modulation' has been expanded, increasing the financial resources available for rural-development spending 'in the field of climate change, renewable energy, water management and biodiversity'. The significance of EU rural-development policy in promoting structural change within the EU food and agricultural sector thus continues to grow.

The EU's new rural-development policy and instruments

The main features of the EU's new rural-development policy are:

- the creation of one funding instrument, the European Agricultural Fund for Rural Development (EAFRD);
- the creation of a genuine strategy for rural development with focused priorities;
- strengthened controls and reporting;
- reinforcement of the 'bottom-up' approach to programme design and implementation.

The new policy has four main axes:

- improving the competitiveness of farming and forestry enterprises;
- improving environmental and land management;
- improving the quality of life and diversification of economic activities in rural areas;
- the extension of the existing LEADER programmes.

Under the first objective this may include support for: improving and developing infrastructure for the development and adaptation of agriculture and forestry; support to farmers' participation in food-quality schemes; setting up young farmers; support to semi-subsistence farming in new member states.

Under the second objective this may include support for: provision of natural handicap payments to farmers in mountain areas; agri-environmental measures; animal-welfare payments; support to NATURA 2000 programme activities.

Under the third objective this may include support for: diversification into non-agricultural activities; the creation of micro-enterprises; the encouragement of tourism; village renewal.

Throughout, emphasis is placed on local design and implementation of activities within the framework of locally developed strategies. Support to farmers and food-sector enterprises in meeting food-safety standards and promoting animal welfare also forms an important component of these rural-development programmes.

The new EAFRD will bring together all expenditures dealing with rural development.

'Rural development is the key tool for the restructuring of the agricultural sector and to encourage diversification and innovation in rural areas'. The EC argues that 'getting the restructuring process right is essential for macroeconomic growth', with policy being designed to steer the process of reform towards 'a higher value-added more flexible economy'. Rural-development policy is seen as playing a major role in all member states in promoting 'competitiveness in the agricultural and food-processing sectors'. The significance of this should not be underestimated. The EU food-and-agriculture sector (including drinks) accounts for 19 million jobs in the EU27, equivalent to 9% of total employment. It is thus in value-added food-processing activities that the greatest scope for income and employment growth is to be found in the EU, rather than in the agricultural sector *per se*.

However, the EU's rural-development policy is not just about employment creation in the food-processing sector, it is also about supporting rural diversification. Indeed it was argued in the *Scenar 2020* study that since 1997 agriculture is less and less the driving force of the rural economy in many regions and that in future 'rural and agricultural policies need to be distinct'. Increasingly therefore agriculture is no longer seen as synonymous with rural development, but merely as one of the constituent elements (albeit an important one), within a much broader concept of the future of rural areas within the EU. The implications of this were rather bluntly stated by the Agriculture Commissioner in her speech to the informal EU Agricultural Council meeting in Mainz on May 22nd 2007 when she argued that there will be 'increased diversity of the farming sector in the next ten years … the most competitive holdings will continue to specialise in very specific sectors, like for example high-quality food and renewable energies, while other holdings will concentrate on services'.

She maintained that 'multifunctionality is already a feature of a large number of farms in Europe and this trend will probably deepen'. It was in this context that she stressed the importance of providing investment support instead of simple subsidies. It is this approach which lay behind the expansion of modulation under the CAP 'health check'.

2.6. CAP and the 'Food Facility'

A recent development within the CAP impacting on ACP countries was the July 2008 proposal (approved in November 2008) to use 'unutilised' funds within the CAP budget, arising from high global food prices, to finance programmes to improve agricultural production in developing countries. The 'Food Facility' makes available €1 billion to finance supply-side measures to improve access in developing countries to farm inputs such as fertilisers and seeds and in support of initiatives to improve agricultural productivity. The aim is to 'boost agricultural supply in developing countries in the short term and … to act now to increase the size of harvests in the coming seasons'. The programme is being implemented through international organisations such as the FAO, IFAD, WFP, UNICEF, the World Bank and through regional organisations. The first package of programmes was announced on March 31st (€314 million), with a second package of programmes being announced at the end of April (€194 million). Activities supported include:

- improving access to agricultural inputs and technical services;
- supporting microcredit schemes, rural infrastructure, farmers' organisations and training programmes;
- safety-net measures to assist vulnerable groups.

Of the €906.7 million allocated to country-specific programmes, some €561.8 million is allocated to 12 selected ACP countries.

This initiative is unique, since normally such unutilised agricultural funds would be reallocated within the EU general budget or be returned to member states at the end of the financial year. While this initiative is no doubt to be welcomed, it has little impact on the underlying structure of ACP-EU trade relations as determined by the process of CAP reform.

2.7 The overall aim of CAP reform

Under the European model of agriculture that this process of reform is promoting, prices will be progressively reduced towards world market price levels, as price support is replaced by programmes of direct aid to farmers that are increasingly decoupled from production. According to Commissioner Fischer Boel since the system of decoupled payments does not depend on production 'they leave farmers free to listen to the market and produce whatever it needs – in the quantities that it needs'. The deployment of this support is linked to cross-compliance requirements and other measures designed to shift European food-and-agricultural production away from bulk commodities towards increasingly specialised and differentiated higher-value quality food products.

In addition once this transition from price support to direct aid is under way in all sectors the EC will seek to extend the concept of 'dynamic modulation', so as to progressively reduce the real value of direct aid payments, and encourage more efficient cropping patterns in the various regions of the EU (shifting from subsidies to investment support). Over time this could lead to the concentration of individual crops in those areas most favourable to their production, with a consequent increase in average productivity and competitiveness. This would occur as more marginal farming areas within the EU gradually go out of production.

The ultimate aim of this reform process is to create a situation in which all internal EU prices are brought into line with international prices, with EU agricultural production feeding a globally oriented food-and-drink industry, increasingly specialising in high-value, high-quality food-and-drink products. This will take place within the context of increasingly diversified rural economies, with expanding employment opportunities outside of both agriculture and food processing (i.e. in a diversified service sector).

If this transition can be brought about, this will result in a fundamental shift in the orientation of European agriculture. Agricultural policy will no longer be aimed at ensuring food security within the EU, with incidental surpluses being exported with the help of publicly financed export refunds. Instead it will be geared towards both the production of high-quality food products for 'luxury purchase' markets in the EU and globally, and towards providing the EU food-and-drink industry with access to world-market-priced raw materials, used in globally oriented, price-competitive value-added food-and-drink industries. This process is already substantially under way, with food and drink constituting the single largest manufacturing value-added subsector within the EU. However, it should be noted that this more competitive EU food-and-drink industry will remain dependent upon the continued provision of large, but more efficiently deployed, volumes of public aid to the basic system of agricultural production and in support of investment in upgrading products and following market trends.

The changing pattern of EU agricultural trade

According to the EC analysis of the 'Situation and prospects for EU agriculture and rural areas', the EU's 'agri-food trade has significantly changed in recent years'.

'Despite the decline of the EU export shares in many commodity markets (e.g. sugar, butter, SMP, cereals), the competitiveness of the EU has gradually and regularly improved in many agri-food sectors over the most recent years. In 2003, the EU overtook the USA as the world's leading agricultural exporter. EU exports have further increased and in 2006 reached an unprecedented level of €72.5 billion. As a result the EU became a net exporter of agri-food products in 2006. For the first time since the introduction of the CAP, the EU agricultural balance was indeed positive, coming close to €4.5 billion. This reversal in the EU agricultural trade balance is all the more striking as it comes despite the strengthening of the euro and despite enlargement, which resulted in ... increased net agricultural imports. Since 2004 EU exports have grown faster than imports, hence the improvement in the trade balance.'

In particular final products (goods which are ready for final consumption) 'dominate EU agri-food trade' accounting for two-thirds of export sales. When the final-product trade is considered on its own 'the balance is positive and has significantly improved in 2006. In other words the dynamism in final products is one key factor explaining the reversal in the EU agricultural trade balance'. This is entirely consistent with the objectives of a reformed CAP.

Source: 'Situation and prospects for EU agriculture and rural areas', AGRI G.2/BT/LB/PB/TV /WM/D(2007) http://ec.europa.eu/agriculture/analysis/markets/prospects12_2007_en.pdf

3. The CAP and ACP-EU agricultural trade

3.1 The CAP and traditional ACP preferences

The EU's traditional high-price policy required a highly regulated agricultural-trade regime to prevent cheaper world-market-priced products undermining EU domestic markets. The coverage of this external trade regime has always been more extensive than the CAP regime, since it extends to any products which potentially compete with EU CAP products, and value-added products produced on the basis of CAP-covered agricultural raw materials (e.g. litchi juice, which could compete with orange juice which falls under the processed fruit-and-vegetable regime).

ACP countries benefited from this arrangement, since under preferential trade arrangements, they were allowed controlled access to these high-priced EU markets. While not enjoying full duty-free, quota-free access for agricultural products (the basic principle of the ACP-EU trade arrangement) various systems of quota-restricted duty-free or reduced-duty access were established. The most prominent trade arrangements were the commodity protocols (the sugar protocol, the beef protocol and the banana protocol) and the provisions of Declaration XXII (the joint declaration concerning agricultural products referred to in Article 1(2)(a) of Annex V).

This preferential access to high-priced EU markets generated high levels of 'income transfers' to those ACP agricultural producers benefiting from these trade preferences. The most important of these was the sugar protocol, since this is where the greatest difference between EU and world market prices emerged. Thus while traditionally the CAP restricted the scope of the duty-free access granted to ACP countries for agricultural exports, it also enabled those benefiting from specific trade preferences to secure considerable extra income as a result of the high domestic prices maintained under the CAP. In this context for many years the ACP sat at the apex of a pyramid of EU agricultural trade preferences. With the initiation of CAP reform in 1992, the acceleration of multilateral trade liberalisation and the initiation of the EU's free-trade-area policy from 1994 onwards, this began to change.

Speaking in Japan in July 2002, the then Agriculture Commissioner, Franz Fischler, made it clear that the EU's ultimate objective was to establish an EU agricultural system which 'could be preserved without trade barriers', by shifting from support for production to support for producers. This has profound implications for the agricultural trade preferences enjoyed by ACP countries and is resulting in the progressive erosion of the value of traditional ACP trade preferences. This is the background against which the EU's decision to grant full duty-free, quota-free access to ACP exports (including food and agricultural products, except for rice and sugar for which special transitional arrangements have been established) under economic partnership agreements needs to be seen.

3.2 An overview of the effects of CAP reform

Against this background from an ACP perspective, the multifaceted process of CAP reform is having a number of significant effects. It is:

- making the EU market less attractive for basic agricultural exports, by substantially reducing EU market prices, thereby undermining the value of traditional trade preferences;
- creating a more differentiated market, requiring ACP suppliers to make the shift from trading bulk commodities into the EU, to the marketing of differentiated products into specific parts of the EU market;
- increasing the cost of placing goods on the EU market through the strengthening of EU food-safety standards and control procedures;
- enhancing the price competitiveness of EU exports, particularly simple value-added foods products.

3.3 ACP exports

3.3.1 ACP exports to the EU: the value of preferences

The shift from price support to direct aid to farmers, has had and is having a direct impact on the value of traditional ACP trade preferences.

Beef prices paid to ACP exporters initially fell by 30%, before recovering to 20% below pre-reform levels. In the rice sector, EU prices initially fell by between 16% and 37% depending on the rice variety planted. By 2007 recorded prices paid by EU importers for rice from Guyana and Suriname were 17.5% below the price levels of 2001. While the surge in commodity prices saw a price recovery in 2007 and 2008, prices remained below the pre-reform peaks (see Agritrade commodity briefs for more details).

In the sugar sector the agreed reforms are set to see the price offered for ACP sugar fall by 36% by October 2009, while the market-access arrangement established under the various EPAs (replacing the sugar protocol which will expire in October 2009) will see a further five percentage-point reduction in the price offered for ACP sugar, if import volumes increase in line with EC expectations. Indeed the elimination of any price guarantees for ACP sugar from October 2012 could see little difference between EU and world market prices for sugar (depending of course on the exchange rate between the US dollar and the euro, and the world market price of sugar from October 2012).

In the longer term all ACP countries which export products falling under the scope of the CAP will be affected by the shift to the decoupled single-payment scheme. Outside of the sugar and banana sectors, these price effects have already occurred, and have thus already affected the value of agricultural trade preferences extended to ACP countries. The worst effects of these price declines have however been mitigated in part in some ACP countries by the strength of the euro against the US dollar.

Nevertheless the impact of these EU price declines can be seen in the stagnation in the value of ACP agricultural and food-product export earnings between 1999 and 2006. This trend has only been partially mitigated by the high agricultural prices experienced in 2007.

Total ACP-EU agricultural and food-product trade 1999 and 2006

	1999 (€ million)	2006 (€ million)	% change 1999-2006
ACP exports to the EU	8,981	8,892	- 1.0
EU exports to the ACP	3,643	5,060	+ 38.9
ACP surplus	+ 5,337	+ 3,832	- 28.2

Sources: EU exports http://ec.europa.eu/agriculture/agrista/tradestats/2006/eur25ch/page_071.htm
EU imports http://ec.europa.eu/agriculture/agrista/tradestats/2006/eur25ch/page_072.htm

These developments need to be taken into account in the final stages of the negotiations for comprehensive EPAs, particularly with regard to the policy tools required to address the process of preference erosion, the processes of change under way on EU food and agricultural markets and the processes of change under way in ACP-EU agricultural trade relations. The question arises: how is this issue of preference erosion to be effectively addressed? What trade tools and instruments for development assistance will need to be set in place to ensure that ACP countries continue to gain from their food and agricultural-product trade with the EU? The full granting of duty-free, quota-free access can be seen as a partial response, although improved rules of origin could greatly facilitate value-added investment in countries subject to periodic weather-related disruptions of production.

Possible policy responses to preference erosion

In formulating a response to the process of preference erosion which is under way in ACP-EU trade, six concrete areas for action can be identified. Three of these are primarily trade measures or trade-related measures, while three of them are targeted 'aid for trade' measures in support of trade adjustments that are required as a result of preference erosion.

Specifically on the trade and trade-related side the kinds of measures required include:

- the early removal of all remaining tariff and quota restrictions on ACP food-and-agricultural exports to the EU, so that full advantage can be taken of what margins of preference remain for as long as they remain;
- changes to the rules of origin for value-added food products;
- cooperation on administrative arrangements to reduce transaction costs on exports to Europe, particularly for small ACP suppliers and countries undertaking diversification;
- the establishment of clear time-bound procedures for the resolution of SPS disputes, including the establishment of arbitration arrangements in case of non-resolution of the SPS dispute within the agreed time-frame.

Only one of these measures, the removal of all remaining tariff and quota restrictions on ACP food and agricultural exports, has so far been achieved within the EPA negotiations process.

In the area of development assistance and 'aid for trade' the specific kinds of measures required include:

- the establishment of effective, targeted 'aid for trade' packages to assist in production adjustments to enhance efficiency and reduce costs, to meet 'quality' standards and facilitate movement up the value chain, and targeted support to improve marketing;
- the establishment of aid instruments to support diversification out of the affected sectors (involving the provision of both technical and financial support) both within agriculture and beyond;
- the provision of support to social adjustments in affected sectors and communities in order to reduce the transition costs and support the maintenance of an investment-friendly environment.

In each of these areas detailed measures and appropriate modalities for their implementation, on a sector-, country- and region-specific basis, will need to be worked out.

3.3.2 ACP exports to the EU: responding to a changing EU market

The growing differentiation within the EU market suggests a need to increasingly develop a capacity to market products into particular components of the EU market, rather than simply trading bulk commodities into undifferentiated markets. Indeed, this will be essential if ACP exporters are not to get caught out by a decline in EU prices for basic agricultural commodities (relative to pre-reform prices). Developing this increased marketing capacity is human-resource intensive, but despite the human-resource constraints faced throughout the ACP, producers in some countries are making the transition (e.g. in the Kenyan horticultural sector and the Namibian beef sector). However, more generally there would appear to be a need to establish programmes to assist ACP producers in making this transition.

Commitments to expanding 'aid for trade' financing made by EC and EU member states in October 2006 would appear to offer considerable financial scope for getting to grips with the challenges faced. What is more the EC has considerable experience under its internal rural-development programmes of supporting farmers' organisations and sectoral associations in the EU in undertaking production and trade adjustments in response to changing market conditions. Similar such instruments and programmes may well need to be established for ACP producers' organisations also. However, this will require a significant shift in the policy of DG Development, which currently remains highly ambiguous over the role of ACP private-sector organisations in the design and implementation of programmes of trade-and-production adjustment. This is despite the central role granted to stakeholder bodies in the EU's own internal agricultural restructuring processes financed under 'axis 1' rural-development programmes.

The EC perspective on the CAP and ACP Countries

In June 2008 the EC issued a memorandum on the CAP, setting out its perspectives on its external effects. The memorandum argued that the CAP no longer 'encourages overproduction of unwanted commodities'. According to the EC, EU 'surpluses are a thing of the past', with the CAP being much more 'trade-friendly, as 90% of our direct payments are classed by the WTO as non-trade distorting'.

The memorandum rejected suggestions that the CAP is to blame for the food crisis, since reforms have increased the market orientation of EU agricultural production.

It was acknowledged that the EU 'cannot compete with the likes of Brazil on bulk commodities', but it was argued that the EU has advantages 'in the provision of high-value processed foods'. Against this background it was pointed out that the EU is committed to maintaining 'healthy two-way trade'.

The memorandum rejected suggestions that 'CAP export subsidies destroy farmers' livelihoods in developing countries'. It pointed out that the budget for export refunds was only 3.5% of what it was 15 years ago, with the main destination for exports supported by export refunds being 'the Mediterranean basin and the rest of Europe'. Accordingly 'only a minimal proportion of subsidised goods find their way to Africa'. It pointed out that export subsidies 'are less and less needed as our prices are now aligned with world market prices', with export subsidies being described as 'yesterday's policy'.

It highlighted the fact that EU agricultural markets (except for a limited number of sensitive products) are now completely open to LDC and ACP exports and that this results in the EU taking 'more agricultural products from developing countries than the USA, Australia, Japan, Canada and New Zealand put together'. The memorandum rejected any suggestion that 'the CAP is the reason the Doha Round has not succeeded so far'.

3.3.3 ACP exports to the EU: the cost of accessing the EU market

The income losses that ACP exporters will face in areas where preferential access to formerly high-priced EU market has hitherto been enjoyed are likely to be compounded by the extra costs that ACP producers are facing in meeting the increasingly harmonised and strict EU hygiene standards.

In addition to the investment and recurrent costs associated with meeting higher EU food-safety standards there is also the issue of the cost of verifying compliance with EU standards. This can be particularly burdensome for small-scale producers and is an area where dialogue can be effective in designing schemes to verify compliance, whilst minimising the costs of administration of such schemes.

There is furthermore the issue of the central role being given to state bodies in monitoring and controlling compliance with EU standards. Increasingly responsibility for verifying compliance is being vested in national food-safety authorities in ACP countries, whose institutional development, in many instances, is still at an early stage. Under the EU's 2004 food-and-feed control regulation the emphasis is not mainly on the standards of individual production establishments but rather on 'evaluating the performance of the relevant competent authority in the overall operation of national control systems, especially its ability to transpose, implement and enforce EU legislative standards effectively'. Under this new approach, public authorities in ACP countries will have major obligations to certify and verify compliance with EU food-safety standards. If they fail to do so, then this risks the closure of the EU market to relevant exports from the ACP country concerned, regardless of the standards attained in the individual enterprises. Given the constraints on human and institutional capacity faced by ACP food-safety authorities this raises significant new challenges for public institutions in ACP countries.

As a result of these developments there is likely to be an increased incidence of SPS disputes in the coming years. Development assistance will need to be mobilised to assist in meeting both the technical standards and national food-safety control functions. In a number of sectors the EU has already initiated such support programmes (a €29 million pesticide programme and a €45 million fisheries-sector programme). In addition it has recently launched a 'food safety in Africa' initiative. However, the scope for funding such initiatives will need to be expanded substantially in the coming years as an integral part of newly-announced EC and member state 'aid for trade' initiatives.

In addition procedures will need to be established within the context of the EPA negotiations for consultation and arbitration in the case of SPS disputes, with clear procedures and time-frames for the resolution of disputes. This will be essential if ACP producers are to have the opportunity to serve EU agricultural and food-product markets under the circumstances created by a reformed CAP.

3.4 ACP imports

3.4.1 EU exports to ACP markets: the underlying trend

The EU argues that direct aid payments are less trade-distorting than price support and export subsidies. However, from the perspective of agriculture-based ACP economies any beneficial consequences from the supposed less-trade-distorting nature may be hard to find. If direct aid payments improve the price competitiveness of EU suppliers (the stated objective of the CAP-reform process) and so enable EU suppliers to win contracts and supply markets which ACP producers and processors previously served, then the fact that at the macro-economic level direct aid payments may be less trade-distorting than other forms of public aid, will provide little consolation. ACP producers, even if they are economically more efficient than their European counterparts, will still find themselves losing markets to EU suppliers and find their profitability undermined. This could have serious consequences for those ACP countries seeking to expand their markets and add value to basic agricultural raw materials, as a means of promoting more sustainable patterns of poverty-focused economic growth.

Despite EC claims to the contrary, at this basic level the process of CAP reform will not fully eliminate the trade-distorting nature of EU agricultural-support programmes. Even under the CAP 'health check' it will remain at the discretion of EU member states as to the extent to which they move away from historical payments (based on entitlements that individual farmers enjoyed over the period 2000 to 2002) towards a 'flatter' scheme. Unless member states extensively avail themselves of this opportunity, the danger is that past distortions will remain largely frozen in place until this issue is revisited on a compulsory basis in 2013.

This situation will be compounded in certain ACP regions by tariff-elimination commitments on food and agricultural products entered into through (I)EPAs and in some instances through the non-tariff commitments being entered into. Most notable in this regard are: commitments related to the immediate elimination of import-licensing arrangements; the limited scope of infant-industry protection; the very general nature of safeguard provisions (most notably the absence of specific agricultural-safeguard arrangements).

This highlights some of the concerns that ACP countries have with regard to the impact of CAP-reform measures on production levels and trade outcomes. It also illustrates that EU price competitiveness in future will no longer be dependent on the deployment of WTO-constrained export refunds. Rather it will be derived from the supply-side effects of the system of direct aid payments, which allows prices to be reduced without necessarily affecting the overall levels of production, but which also allows markets to be cleared at world market price levels. These somewhat perverse effects of CAP reform are in part a product of the commitment to avoiding any land abandonment, which was a central component of the final political agreement on the June 2003 reform package. This commitment has a direct impact on the level of direct aid payments established, which in turn affects the area sown. With EU farmers consistently attaining increased yields in all major arable crops, this has the effect of increasing overall levels of EU production. A notable exception to this trend will be the sugar sector, where WTO rulings on the export-promotion impacts of the functioning of the sugar regime (i.e. the cross subsidisation of 'C' sugar exports from the 'A' and 'B' quota price) has resulted in the end of 'C' sugar exports.

3.4.2 EU exports to ACP markets: the cereals sector

The complexities of the direct impact of the process of CAP reform on agricultural markets can be illustrated with reference to the cereals sector. Here the shift to a system of direct-aid payments allowed EU cereal prices to fall dramatically, on average by between 45% and 50% since 1992. This boosted domestic consumption of cereals in Europe and laid the basis for an expansion of unsubsidised exports of EU cereals.

The EU's ambition in the cereals sector

'Aligning Community prices with those on the world market should therefore make it possible to export without subsidies, and therefore without quantitative ceilings. Community products will therefore be able to benefit from opportunities in a world market where the volume of trade is expected to increase significantly in the medium term'.

Source: DG Agriculture, September 26th 2007
http://europa.eu.int/comm/agriculture/markets/crops/index_en.htm

However the scope this created for the elimination of export refunds in the cereals sector did not immediately materialise, for with a weakening of the US dollar against the euro and the emergence of non-traditional low-cost cereals exporters from the Black Sea area, the gap between EU and world market prices for cereals increased, necessitating an expansion of export refunds in the cereals sector after a decade of continuous declines. Nevertheless, in a context of increasing competition on traditional EU markets, to a certain extent the ACP has emerged as a 'market of last resort' for EU cereals traders.

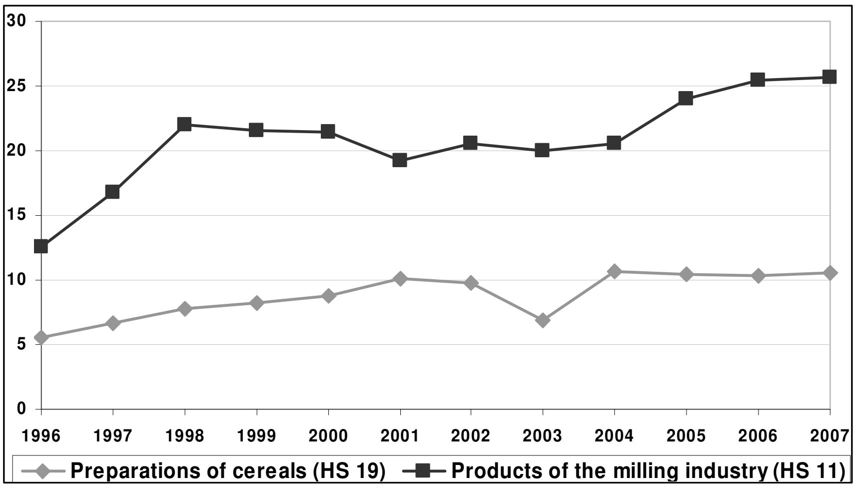
This trend is more pronounced in cereal-based processed-food products, where the importance of the ACP market has grown considerably. In the area of 'preparations of cereals' (CN 19), the ACP now takes about 10% of EU exports, compared to about 5% in 1995, while for 'products of the milling industry' it takes about a quarter of EU exports compared to an eighth in 1996.

EU exports of preparations of cereals and products of the milling industry (million €)

	Preparations of cereals (HS 19)			Products of the milling industry (HS 11)		
Year	**Exports to ACP**	**Exports to world**	**% share of ACP**	**Exports to ACP**	**Exports to world**	**% share of ACP**
1995	127	2,387	5.32			
1996	152	2,712	5.61	201	1,597	12.6
1997	202	3,022	6.68	333	1,978	16.8
1998	228	2,948	7.73	361	1,639	22
1999	233	2,830	8.23	302	1,398	21.6
2000	285	3,242	8.79	343	1,598	21.5
2001	373	3,700	10.08	336	1,749	19.2
2002	356	3,659	9.73	368	1,787	20.6
2003	347	3,568	6.92	340	1,696	20
2004	359	3,374	10.64	363	1,764	20.6
2005	385	3,689	10.44	368	1,536	24
2006	420	4,055	10.35	404	1,592	25.4
2007	479	4,525	10.59	479	1,863	25.7
% change 95-07	**277.20%**	**89.60%**	-	**138.30%**	**16.70%**	-

Source: Tables 3.72 and 3.7.12 in 'Agricultural situation in the EU', Annual reports

Part of EU exports to the ACP in EU total exports (million euros)



While the value of total EU exports of 'preparations of cereals' grew by 89.6% between 1995 and 2007, EU exports to the ACP grew by 277.2%; for 'products of the milling industry' EU exports to the ACP grew by 138.3% while overall EU exports grew by only 16.7%. This highlights the growing importance of ACP markets to EU cereals-sector exporters. This was highlighted in the June 2007 DG Agriculture seminar on agri-food exports, which sought to identify EU 'offensive interests' in free-trade-area negotiations. Representatives of the EU cereals-sector industry noted the EU's structural overcapacity in flour milling and the increased competition faced on third-country markets from low-cost advanced developing-country suppliers. It was noted that the ACP was now taking 'over half of all exports' of flour and called for the EC to pay particular attention to removing tariff and non-tariff barriers to flour exports, the combined effect of which in certain ACP markets could be the equivalent of a 50% import duty. The presentation stressed that in the EPA negotiations 'interests of EU producers and exporters cannot be left aside', arguing for the establishment of an 'acceptable import duty' of not more than 5%. In at least one ACP region provisions which could *de facto* deliver on this European cereals exporter's demand, namely, the inclusion of provisions requiring the immediate elimination of import-licensing arrangements, have become a source of contention in the final negotiations for an interim EPA.

Thus we find that while at the aggregate level ACP markets play a minor role in the overall expansion of EU value-added food-product exports (with the former Soviet Union, eastern Europe and advanced developing countries such as China and India being seen as much more important), in certain sectors where major competitive challenges are faced on traditional EU markets their significance is considerable. What is more, viewed from an ACP perspective, given the relative size of the EU and individual ACP economies even relatively small increases in exports to ACP countries from the EU can potentially have profound implications for local ACP value-added food-product industries.

In this context it should be recalled that it has long been the EU's contention that ACP countries should be encouraged to 'move up the value chain', by adding value to raw materials for local, regional and international markets. If ACP countries can be supported in doing this, then more solid foundations will be laid for the promotion of sustainable poverty-focused growth. However, the current trajectory for CAP reform, which will greatly enhance the price competitiveness of simple value-added EU food-and-drink exports, is likely to close off market opportunities for the development of such value-added processing in ACP countries.

This is particularly problematical at the present time while the EU food-and agriculture sector is in transition between an industry focused on producing bulk undifferentiated commodities primarily for the domestic market, towards an industry focused on the production of higher-quality, higher-value products for an increasingly liberalised global market. During this transition ACP markets, particularly those in west and central Africa, could see themselves increasingly being used as a 'market of last resort', when individual EU agricultural sectors face acute competitive pressures on traditional markets or where significant market changes occur – for example, the introduction of the meat- and bone-meal ban in animal feed. It is in this latter context that the cross-sector effects of cereals-sector reforms on poultry-meat exports need to be seen.

The average 45% to 50% decline in the EU intervention price of cereals over the decade of the 1990s saw a fall in the price of EU-produced animal feedstuffs. In industries where animal feed constitutes a major cost component this decline in EU cereals prices has greatly improved the competitiveness of EU producers.

Thus in the poultry sector, where animal-feed costs have traditionally accounted for up to 70% of production costs, declining cereal prices have led to significant savings. This in turn contributed to an expansion of both EU poultry-meat production and exports (up from 400,000 tonnes to a peak of one million tonnes, before falling back to around 800,000 tonnes). Indeed the cost savings have been such that despite the expansion in EU poultry-meat exports the level of export-refund payments in the poultry-meat sector have declined dramatically over the 1990s.

ACP markets in west Africa were a particular focus for EU poultry-meat exports in the early part of this period, with changes in consumer preferences in Europe (away from red meat to white meat and towards poultry breast) and the introduction of a ban on the use of meat-and-bone meal as animal feed, fuelling an expansion of exports of chicken parts. Between 1996 and 2002 EU exports of chicken parts to west Africa increased from 3,884 tonnes to 42,443 tonnes, with west Africa's share of total EU exports of chicken parts increasing from 1.34% to 7.94%. For the ACP as a whole their share of total EU exports of chicken parts rose from 5% to 15% over the same period. With growing EU consumption of poultry meat, produced both domestically and imported, this export trade in chicken parts is likely to continue to increase, be these from domestically produced chickens or imported chickens.

EU exports of chicken parts (tonnes) to west African configuration countries

Country	1996	1997	1998	1999	2000	2001	2002
Cape Verde	25	46	120	362	1,670	1,662	2,162
Gambia	8	58	15	291	1,059	446	314
Ghana	3,399	6,523	9,260	14,395	8,255	5,826	11,850
Mauritania	257	1,321	1,899	1,100	2,561	2,990	5,098
Nigeria	11	13	39	1,245	3,081	8,983	14,705
Senegal	184	415	712	730	1,449	2,500	7,314
Total W. A.	3,884	8,376	12,045	18,123	18,075	22,407	42,443
W.A. share %	1.34	2.42	3.17	4.71	4.27	5.37	7.94
ACP total	14,570	27,846	39,848	47,759	57,952	52,701	79,752
ACP share %	5.0	8.1	10.5	12.3	13.7	12.6	14.9
Total EU	290,665	345,071	378,934	385,109	423,283	417,100	534,408

Source: USDA Foreign Agricultural Service 'European Union's Broiler Situation' 2003.

In this context it is apparent that the effects of the deployment of CAP instruments in some sectors is becoming far more complicated and less direct, as the benefits of direct aid payments in one sector are passed on to other sectors through 'normal' market mechanisms. These indirect effects of the CAP on the competitive situation facing producers in ACP countries will increasingly need to be taken into account as the process of CAP reform intensifies. This is particularly relevant as the EU moves over to the single-payment scheme, under which it will be virtually impossible to distinguish support payments to particular products.

3.5 A policy response to increased EU export-price competitiveness

Given the increased availability of EU products at lower prices, ACP countries producing competing products either need to greatly enhance the price competitiveness of their production or will need to find ways of insulating their markets from the increased price competition generated by the process of CAP reform and the changing nature of EU agricultural support. This suggests a need for ACP governments either to prioritise programmes of targeted support to enhancing the efficiency of agricultural production, trading and domestic processing or to look towards the establishment of swift, simple and effective safeguard measures which can be deployed in a pre-emptive way to avoid any market disruption, arising from the new trade flows generated by the implementation of CAP reforms.

In terms of trade-defence instruments such measures could be based on the existing Cotonou safeguard measures which are available to the EU. These provisions allow action to be taken where imports:

- cause or threaten to cause serious injury;
- threaten serious disturbances in any sector;
- threaten to create difficulties which could lead to an economic deterioration in a region.

Establishing 'monitoring and surveillance' arrangements in sensitive sectors under safeguard provisions mirroring those used by the EU could prevent severe market disruptions arising under future trade arrangements with the EU. These types of provisions are largely integrated into the various IEPAs initialled, but with a very limited time-frame for their application. This is despite the structural nature of the distortions in the food-and-agriculture sector which such provisions need to address. These types of safeguard provisions could very usefully be applied against EU agricultural and value-added food-product exports to ACP countries in a context where CAP reform is enhancing EU price competitiveness. Establishing 'monitoring and surveillance' arrangements in sensitive sectors under safeguard provisions mirroring those used by the EU could prevent severe market disruptions arising under future trade arrangements with the EU. While there are moves in this direction under various EPAs, the value of such measures will be determined by how they are applied in practice. In addition the implications of a number of trade-related provisions being proposed for inclusion in EPAs will need to be carefully evaluated. A case in point is the provisions in the SADC-EU interim EPA dealing with import-licensing arrangements for what are known as 'controlled products'. These provisions could potentially force the dismantling of current import-licensing arrangements used to regulate trade within the SACU in sensitive agricultural products, which have been specially designated for more restrictive treatment in the interests of national agricultural development and food security. The dismantling of this system, in line with the proposed provisions of the SADC-EU interim EPA, would lead to the almost immediate collapse of the Namibian irrigated cereals-farming sector and serious problems for a highly successful horticultural promotion initiative.

In addition ACP governments will have to pay close attention to the tariff offers they put forward under the EPA negotiations, with regard to food and agricultural products. They will need to construct their tariff offers around 'product chains', if the development of value-added processing based on domestic agricultural production is to be nurtured.

Sources

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agritrade

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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