The changing context of ACP-EU agricultural trade relations: developing a response

Paper commissioned for the CTA-ECDPM dialogue meeting on 'Challenges of changing agricultural markets in the context of ACPEU trade: Identifying an Aid for Trade agenda for the agricultural sector'

-

Brussels, 14-15 April 2008

Draft version – For restricted use

April 2008

Introduction

The changing context of ACP-EU agricultural trade relations need to be seen against the background of:

a) the importance of agriculture and associated food processing industries to the economies of many ACP countries, in terms of employment and income generation, foreign exchange earnings and food security;

b) the central objective of EPA negotiations (particularly in Africa), namely establishing a trade framework with the EU which assists ACP producers in **moving up the agricultural and food product value chain, producing and trading an increasing proportion of value added food and agricultural products into *national*, *regional* and *international* markets.**

This background and the underlying ACP objective in turn need to be seen against the backdrop of:

- an EU agricultural policy which, since 1992, has been pursuing a reform programme, **explicitly** designed to make EU food and agricultural products **more price competitive** on both the **EU market** and **internationally;**

- wider processes of change taking place in the EU market for food and agricultural products linked to demographic and income growth trends;

- the link between the process of CAP reform and the evolution of the EU's agricultural trade policy which is likely to exacerbate the process of preference erosion which is already underway in the ACP-EU agricultural trade relationship.

It should be noted that from a domestic EU perspective the process of CAP reform which is underway represents a coherent and sustained attempt to effectively prepare the EU food and agricultural sector for trade liberalization[1] and to establish a new basis for the engagement of the EU food and agricultural sector with the global economy.

Against this background this paper will review: the impact of CAP reform; the evolution of the EU market; the potential implications of EU bilateral free trade agreement negotiations; the potential implications of multilateral negotiations and the EPA challenges, before briefly looking at ways of responding to these challenges.

The Impact of CAP Reform

This process of EU agricultural reform involves a shift from **price support for EU agricultural products** to **income support for EU agricultural producers**. The aim of this shift in the basis of EU agricultural assistance programmes is to:

a) allow prices of EU agricultural commodities to fall towards world market price levels, without undermining farm incomes and, in some cases, without undermining existing levels of production;

[1] The trade implications of the failure to move ahead with CAP reform can be seen in the structure of EU's Everything But Arms initiative, which maintained in place restrictions over a transitional period for rice, bananas and sugar, all sectors which at that time had not been subjected to reform.

b) encourage a shift in patterns of European agricultural production so that different areas produce the crops most suited to their underlying agronomic conditions, thereby enhancing cost competitiveness;

c) support a shift in patterns of EU production towards serving the 'luxury purchase' components of the EU market[2] and away from the production of undifferentiated bulk commodities ('necessity purchase' products), where EU producers simply cannot compete on price with highly competitive developing country suppliers (e.g. Brazil, China, Thailand etc);

d) promote greater value addition in agricultural and food product chains to serve growing higher priced markets which reflect changing demographic trends[3];

e) promote non-agricultural employment and income earning opportunities in rural areas;

f) ensure the compatibility of EU agricultural support instruments with evolving WTO rules.

This process of reform has a number of important implications for ACP agricultural exporters.

Firstly across a range of basic agricultural products CAP reform is reducing the price paid for imports from ACP countries of undifferentiated products in the sectors affected. This is reducing the income gained on ACP sales of the affected commodities to the EU market. Whilst this process is currently most visible in the sugar sector, it has been underway or is increasingly underway in the beef, rice, fruit and vegetable and banana sectors.

By closing the gap between EU and world market prices, this process of reform is also serving to reduce the need for tariff protection. This is in many respects a key objective of the reform process, with on July 25th 2001 the then Agricultural Commissioner Franz Fischler speaking in Japan about how "***protecting our farmers need not mean protecting our markets. We believe that preserving our agricultural system can be done without trade barriers".*** While given the subsequent weakening of the US $ against the Euro, this EC view has not been reiterated, it reflects the underlying logic of the CAP reform process.

The second principal impact of the CAP reform process is on the price competitiveness of EU exports of agricultural and simple value added food products. By allowing market prices of EU produced agricultural products to fall, the reform process is reducing the cost of exporting simple food and agricultural products and reducing the need for export refunds in the sectors affected.

---

[2] Of course this extends beyond the EU, to serving "luxury purchase" markets across the globe. EU efforts to secure international recognition of its geographical indicators and establish binding rules which ensure the enforcement of the rights of EU producers to exclusively use these geographical indicators, forms an integral part of EU efforts in this area.

[3] For details of underlying demographic trends in the EU and its implications for price trends in various components of the EU food and agricultural product markets see the "Scenar 2020" study commissioned by the EC in 2006 and posted on the web at the beginning of 2007. This study can be found at: http://ec.europa.eu/agriculture/agrista/2006/scenar2020/final_report/scenar2020final.pdf

In a context of rising world market prices this allows EU food and agricultural product exports to escape the confines of WTO export refund ceilings. The expansion of EU food and agricultural exports to ACP countries which this has given rise to (despite the strength of the Euro against the US $) is reflected in the recent trends in ACP-EU trade in agricultural and food products (see box).

Recent Trends in EU-ACP Agricultural Trade

Figures posted on the DG Agriculture website set out trends in the ACP-EU trade in food and agricultural products from 1999 to 2006. These figures show EU exports of food and agricultural products to ACP markets growing 38.9% in value terms between 1999 and 2006, while the value of ACP exports to the EU market have stagnated, indeed the value of ACP food and agricultural exports in 2006 were 1% lower than the value of ACP food and agricultural exports in 1999. This saw the ACP agricultural trade surplus with the EU decline from €5.337 billion in 1999 to € 3.832 billion in 2006, a decline of 28.2%.

Total Agricultural Trade 1999 and 2006

	1999 (€ million)	2006 (€ million)	% change 1999-2006
ACP Exports to EU	8,981	8,892	- 1%
EU Exports to ACP	3,643	5,060	+ 38.9%
ACP Surplus	+ 5,337	+ 3,832	- 28.2%

It should be borne in mind that the period from 1999 to 2006 coincided with the implementation of a number of major rounds of CAP reforms (this included 2000, 2003 and 2005 rounds of CAP reform), which were explicitly designed to enhance the price competitiveness of EU food and agricultural products on domestic and international markets.

Source:
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

It should be borne in mind that the ultimate aim of this process of CAP reform is to **align European agricultural prices with world market price levels**, thereby increasing the competitiveness of EU food and agricultural production, while removing the constraints on exports imposed by WTO export refund ceilings.

A third dimension of the impact of CAP reform which needs to be borne in mind, links closely to the evolving EU market for food and agricultural products and relates to the use of a variety of policy measures to **differentiate EU produced products from imported products** in ways which carry **real commercial implications**. The situation of price reductions for basic commodities brought about by CAP reform, is leading to far higher price differentials between 'necessity purchase' products (basic undifferentiated commodities), where **prices are falling** and 'luxury purchase' products (various forms of 'quality' and 'ethically' produced products) where, in response to rising incomes and changing consumption patterns, prices are **holding up or rising.** The problem for ACP countries is that the benefits of traditional trade preferences have been concentrated in undifferentiated bulk commodity exports. It is to this evolution of the EU market that we now turn.

The Evolution of the EU Market

Major changes are taking place on EU food and agricultural product markets. According to the United States Department of Agriculture (USDA) 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. It might be organic or artisanal produced, or it might be a "fair trade" product or respect animal welfare standards, or have some particular geographical designation of origin to which a particular value is attributed. Whatever the non-price reasons which drive the purchase decisions, this type of EU consumer is willing to pay more, often substantially more, for the "luxury purchase" product compared to the "necessity purchase" product.

While there have always been differences in prices paid based on quality considerations, with the process of CAP reform bringing down the price of basic commodities, this price differential has increased significantly. In addition according to EC commissioned 2006 ***Scenar 2020*** study, which looked at the future of agriculture in rural areas of the EU up to 2020, given the underlying demographic within the EU 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 favoring high quality products and convenience foods. As a consequence in the face of a progressive liberalization of imports of agricultural products (increasingly feasible in the context of the shift away from price support to income support), it is expected that prices of undifferentiated agricultural commodities ('necessity purchases') **will fall in the coming years in the EU**.

In contrast the demand for "luxury purchase" products will show a marked increase due to "*a shift to quality ("luxury") and convenient products (e.g. ready meals)*" in European consumption patterns. Against this background there will be "*an increase in value rather than an increase in the volume of food consumed*[4]". This represents the longer term trend on EU markets.

As the gap between EU and world market prices is eliminated, EU prices will then come to follow world market prices, as is increasingly the case across a range of sectors. If this is the case, there will no longer be an additional value to be had on the EU market by preferred suppliers such as those in the ACP.
It is against the background of these general market trends that a conscious effort is being made within the CAP reform process to shift patterns of European food and agricultural production towards serving this "luxury purchase" component of the EU market. Indeed this is a central tenant of agricultural reform in the EU as it progresses into the 21st century, since it effectively insulates EU producers from the worst effects of intensified competition from low cost advanced developing country suppliers.

The opposite side of this coin of course, will be an increased EU openness to the import of basic agricultural raw materials and food products serving the "necessity purchase" component of the EU market, since EU producers will be less and less concerned about

[4] See "Scenar 2020" at: http://ec.europa.eu/agriculture/agrista/2006/scenar2020/final_report/scenar2020final.pdf

this component of the market. However, this openness will occur against a backdrop of **declining prices** for these "necessity purchase" products on the EU market.

This throws up a major policy challenge for the ACP, namely how to effectively make a similar transition in their production for export to the EU away from the 'necessity purchase' component of the EU market to the 'luxury purchase' components of the EU market.

With the process of CAP reform having been underway since 1992 and with the pace of change quickening since 2003, ACP food and agricultural product producers and exporters now have only a small window of opportunity to make this shift in their production for export to the EU away from the 'necessity purchase' component of the EU market to the 'luxury purchase' components of the EU market. The questions arise:

- how can ACP efforts to make this transition best be supported in the context of the planned expansion of EU aid for trade support?
- what lessons can be learnt from the EU's own internal experience of agricultural restructuring?
- what financial instruments of support are required?
- what are the best modalities for the efficient and effective delivery of this support?
- what are the organizational pre-requisites for effective design of targeted programmes of support linked to making this transition to serving increasingly differentiated EU markets?

What is clear is that the context within which these questions will need to be addressed will be increasingly complicated by the EU's evolving agricultural trade relations. It is to this dimension that we now turn

The Potential Implications of EU Bilateral FTA Negotiations

As an integral part of an evolving trade policy designed to contribute to the key EU policy objectives of job creation and the promotion of economic growth, the EU is increasingly looking to conclude "ambitious" free trade agreements (FTAs) with advanced developing countries. Within this EU FTA policy considerable emphasis is placed on including comprehensive provisions on trade related areas, trade in services and investment regulation in such agreements. Such ambitious free trade agreements are seen by the EC as being of critical importance for the EU economy, with EU companies seen as having a competitive advantage in the provision of services. The economic significance of this should not be under-estimated. A recent EC commissioned study suggested that "*ambitious*" FTAs with India, South Korea and ASEAN countries could increase EU exports of goods and services by €40 billion per annum, with most of these gains being in the service sector. However, this assumed that such agreements would include the kind of provisions on trade related areas, trade in services and investment regulation being put forward in the EPA context.

In a WTO context advanced developing countries have to date rejected negotiations in these areas. This raises the question: **what will the EC be able to offer in a bilateral free trade agreement which will encourage the governments of these countries to reverse their earlier opposition to international agreements in these areas?**

The obvious answer, since this is the only area in which significant tariff barriers remain, lies in the opening up of EU agricultural markets on a preferential basis to the countries concerned through these "*ambitious*" bilateral free trade agreements. The evolution of EU trade policy in this direction would greatly increase the competition faced by ACP suppliers in key components of the EU market, from beef and bananas through to sugar and horticultural exports. This would be particularly the case since in many instances exporters from these countries are already supplying the EU market on a duty paid basis. Given the volumes potentially involved when dealing with the large advanced developing countries concerned, the removal or significant reduction of these duties, would be likely to exert a downward pressure on import prices, to the detriment of traditional ACP suppliers.

EU's Evolving Trade Relations with Central America

"The European Union is willing to accept an increase in banana and sugar exports from the Central American countries, if the countries of the isthmus show more openness to their goods and services in return. The General Director of Foreign Affairs of the European Commission Eneko Landaburu made the announcement during a meeting with Central American journalists in Brussels, before the inaugural session of the negotiations for a commercial association agreement between the EU and isthmus nations…. "It is a global negotiation hypothesis where all parties involved must win" added Landaburu…."

Source: Sopisco News page 18, 41/07, Nova media Publishing Inc, Panama, see www.sophisconews.com

In this context, given the unlikely prospect that traditional ACP suppliers will be able to compete on price with the likes of Brazil and China, this means ACP exporters will need to **increasingly move up the value chain** or **differentiate their products on quality grounds and target 'luxury purchase' components of the EU market, if a profitable trade with the EU in these products is to be maintained.**

Establishing effective policy tools which assist ACP producers and processors in responding to these emerging challenges (including by supporting certain types of private investment) will be a critical issue in the coming years as the EU moves to elaborate and operationalise its commitment to expanded 'aid for trade' support for developing countries.

The Potential Implications of Multilateral Negotiations

The multilateral process of tariff reductions will compound these problems, since by reducing MFN duties, it will reduce the associated GSP duties. This will further fuel the process of preference erosion of ACP/LDC margins of preference over other third country suppliers[5].
In addition, given the likely landing ground for WTO negotiations (should a landing ground be found), it is highly unlikely that the Doha Round will result in a significant reduction in EU agricultural support, with the EC insisting that much of its agricultural support now falls in the "green box" and is WTO compatible and thus not subject to any reduction commitments. This EC contention is increasingly being questioned, but is unlikely to be resolved through a process of negotiations. It is much more likely that over the coming years this issue will be resolved through the process of WTO dispute settlement.

A paper on CAP reform, submitted to the April 2007 ICTSD conference on "green box" support suggested that the EU's Single Payment Scheme (SPS) has some of the features of the US cotton scheme which was found to be WTO incompatible and hence could be subject to challenge[6]. This is held to be likely because such large volumes of support are being "parked" by the EU within its provisions. However it notes that even if successfully challenged under the "green box", this would not mean the end of such EU support programmes, since the EU could still continue to provide such supports, although they would now be "*subject to the de minimis clause and reduction commitments on the Aggregate Measurement of Support*".

Thus even in the medium term the process of WTO negotiations and dispute settlement is unlikely to bring about any respite from the **price competitive challenges** arising on ACP markets as a result of the process of reform. This provides the context within which EPA negotiations need to be seen in the agricultural and food products sector.

The Dilemma of EPA Negotiations in the Context of CAP Reform

If the new forms of EU direct aid payments (the single payment scheme – SPS) still provide a high level of indirect export subsidization (by allowing EU producers to sell their products at prices which do not reflect their full production costs), then moves towards free trade could generate some perverse trade outcomes, so long as these other impediments to free and fair trade remain (e.g. high levels of direct public payments to EU farmers). These perverse trade outcomes could serve to undermine the development of regional production for emerging regional markets for food and agricultural products, particularly for simple value added food products. This could then have serious implications for efforts in Africa to promote investment in value added production within key agricultural product chains, based on emerging regional markets.

[5] Indeed as a result of the continuation of the erosion of the value of traditional ACP trade preferences (via CAP reform) and erosion of the preferential margins of traditional ACP trade preferences (via multilateral and bilateral tariff reductions) it seems likely that the additional value obtainable on the EU market for undifferentiated exports will have largely disappeared by around 2015, with ACP exporters then obtaining prices in the EU market little different from those obtainable on world markets.
[6] This conference paper on decoupling and the green box can be found at http://www.ictsd.org/dlogue/2007-04-16/Matthews%20Decoupling%20and%20the%20Green%20Box.pdf

This raises important questions in relation to the appropriate tariff policy to be pursued to encourage investment in value added processing of local agricultural production for national and regional markets. Here there is a need to think in terms of "product chains" when formulating tariff policy to support the development of national and regional production structures in the ACP, bearing in mind of course the importance of avoiding excessive domestic protection which only serves to discourage innovation, raises food prices and adversely effects urban poverty levels.

Some however would argue that the promotion of such value addition activities to serve regional markets is 'old fashioned thinking', with the more critical issue being the basis for insertion of Africa and the wider ACP group into the new global division of labour, which increasingly involves importing inputs, adding value and exporting higher value products. However, this begs the question: what does this mean for domestic agricultural producers who in many African ACP countries constitute the vast majority of the poor.

The EPA Challenge

The final area of change impacting on ACP-EU agricultural trade will be that arising as a result of the consequence of the conclusion and implementation of economic partnership agreements, involving the elimination of import duties on substantially all imports from the EU into regional groupings of ACP countries. It is vital that the process of liberalization of food and agricultural products trade under EPAs be firmly situated in an understanding of the trade implications of EU CAP reforms, an explicit objective of which is to **enhance the price competitiveness of EU products on domestic and international markets**.

This has not always been the case. In the EU-South Africa Trade, Development and Cooperation Agreement for example the EC successfully negotiated an extensive opening of the South African market for food and agricultural products, with agreement being reached on the elimination of import duties on 83% of the EU's food and agricultural exports to South Africa over a 12 year period, starting in 2000. In contrast the duty free quota free access for South African exports was limited to 61% of then current exports, with a further 13% of South Africa agricultural exports being covered by tariff rate quotas. This South African offer saw continued protection of sugar, but the dismantling of protection around major sugar containing food products, notably sweets and chocolates. This was to have a significant impact on investment patterns in the sweet and chocolates sector, an important element of the sugar value chain.

It was also to have an impact on a range of EU food and agricultural exports to South Africa. According to a presentation made at the June 25th 2007 DG Agriculture symposium on EU Agri-food Export Interests, the value of EU exports of food preparations to South Africa grew 106% between 1996 and 2005, while EU exports of fruit and vegetables grew 108%, olive oil exports 106%, beverage exports 72%, biscuit exports 39% and chocolate exports 38%[7].

The South African Sweets and Chocolate Sector Experience

Trends in the sweets and chocolates sector in South Africa following the conclusion of the EU-South Africa Trade, Development and Cooperation Agreement (TDCA) have been a source of some concern in neighboring Southern African countries. This agreement included a commitment to halving duties on imports of sweets and chocolates from the EU by 2008 and eliminating them by 2012. This initially saw a large scale downsizing of the South African sweets and chocolates sector, with a major contraction of the product range produced, around a 25% reduction in the size of the work force employed in the sector and a significant contraction of sugar usage by the sector[8]. This in a context where the Southern African region has some of the lowest field level costs of sugar production in the world. This trend was only reversed when special safeguard duties were imposed, after which a renewed growth in the South African sweets and chocolates sector occurred.

The importance of taking on board the impact of CAP reform on the price competitiveness of EU food and agricultural exports is also highlighted if one looks at trends in those product chains where the process of CAP reform is most advanced, namely the cereals value chain.

Exports of “products of the milling industry” and “preparations of cereals” to ACP countries rose 82.1% and a staggering 188% respectively between 1996 and 2005. With the ACP share in total EU exports increasing from 12.6% to 20.6% and from 4.9% to 10.6% respectively for “products of the milling industry” and “preparations of cereals” respectively.

EU Exports of “Products of the Milling Industry” to ACP Countries 1996-2005, Million ECU/EURO

	Products of the Milling Industry ACP (CN 11)	Products of the Milling Industry World (CN 11)	EU exports to ACP Countries as a % total exports
1996	201	1,597	12.6
1997	333	1,978	16.8
1998	361	1,639	22.0
1999	302	1,398	21.6
2000	343	1,598	21.5
2001	336	1,749	19.2
2002	368	1,787	20.6
2003	340	1,696	20.0
2004	363	1,765	20.6
2005	366	1,534	23.9

Source: Tables 3.72 and 3.7.12 in the annual reports of the “Agricultural Situation in the European Union”

[8] The trade with the EU has not been the only factor behind this trend. Imports of sweets from Brazil largely for the ‘street hawker’ trade, and ‘imitation’ non-branded chocolates from the United Arab Emirates have both contributed to this decline. However, it is the EU export of quality ‘branded’ chocolate products which is seen as critical given the aim of attracting international investment in sugar based value added processing activities.

The price declines following on from EU cereals sector reform also had a major impact on EU exports of poultry meat, since poultry production uses cereals as a major input. Between 1991 and 2001 total EU poultry meat exports increased from 478,000 tonnes to 1,000,000 tonnes[9].

EU Exports "Preparations of Cereals" to ACP Countries 1996-2004, Million ECU/EURO

	Preparations of Cereals ACP (CN 19)	Preparations of Cereals World (CN 19)	EU exports to ACP Countries as a % total exports
1996	133	2,724	4.9
1997	176	3,021	5.8
1998	226	2,947	7.7
1999	230	2,829	8.1
2000	281	3,242	8.7
2001	368	3,700	9.9
2002	350	3,666	9.5
2003	339	3,569	9.5
2004	359	3,375	10.6
2005	383	3,611	10.6

Source: Tables 3.7.2 and 3.7.12 in the annual reports of the "Agricultural Situation in the European Union"

Significantly the composition of EU poultry meat exports has changed over time, with a shift over to exports of poultry parts (around 60% of total EU poultry exports), as EU consumption of breast has increased. This shift over to exports of poultry meat parts saw a dramatic increase in exports to ACP countries, with the share of EU exports of poultry parts to ACP countries increasing from 5% (14,570 tonnes) in 1996 to 14.9% (79,752 tonnes) in 2002.

In both instances west and central Africa were a particular focus for this expansion of EU exports. This caused particularly severe disruptions of domestic poultry production in Ghana and Cameroon, affecting both smallholder poultry producers and cereal producers providing feed to the poultry sector.

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

[9] Since its peak at the turn of the century EU exports of poultry meat have declined from over a million tonnes to 863,000 tonnes and are projected to decline still further to 693,000 tonnes by 2014. In contrast imports are set to increase, rising from 708,000 tonnes in 2006 to 747,000 tonnes in 2014, by which time the EU will be a net importer of poultry meat. However, with the composition of EU poultry meat exports changing this is likely to give rise to a situation where EU firms place themselves at the centre of a triangular trade, involving importing cheaper meats from highly competitive advanced developing country suppliers (notably Brazil), with the breast being consumed in Europe and the chicken parts being re-exported to African markets. For details of projected trends see the "Prospects for EU Agricultural markets and Incomes 2007-2014" at http://ec.europa.eu/agriculture/publi/caprep/prospects2007a/fullrep.pdf

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.	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.

The experience in west and central Africa, where the expansion of EU food and agricultural exports appears to be concentrated, has raised questions elsewhere in Africa as to **whether the closer economic integration between west and central Africa and the EU** (notably via metropolitan France and the inherited currency arrangements and corporate ownership patterns) **has been a critical factor in fueling this expansion of EU food and agricultural exports and the consequent disruptions of domestic food and agricultural sectors which have occurred**. This has given pause for thought in the elaboration of tariff offers in the food and agricultural sector in those African countries looking to promote increased local value addition within agricultural and food product value chains. For if it is indeed the closer economic integration between west and central Africa and the EU which fuels this trade (rather than simple geographical proximity), then what will be the consequences for the food and agricultural sector in African countries of signing economic partnership agreements designed to foster closer economic integration with the EU?

In this context, with the process of CAP reform having been rolled out to more and more agricultural sectors since 2000, there are deep and profound concerns in some African regions over **the impact which any process of elimination of tariffs on imports of food and agricultural products from the EU could have on African efforts to promote movement up the agricultural and food product value chain.**

Given the African desire to see EPAs promote value addition within agricultural and food product value chains (for national, regional and international markets), existing trends and developments are a major source of concern. This was reflected in the attempts to draw up regional tariff elimination offers, which came to include extensive exclusion lists[10]. These trends also throw up significant competitiveness and restructuring challenges. Challenges which could be more effectively addressed if targeted 'aid for trade' instruments were established to support production and market adjustments not only in response to EPAs, but also the wider processes of change underway impacting on the ACP-EU agricultural trade relationship.

[10] It can be argued that it was in part the need to reduce very extensive regional exclusions lists (the length of which was unacceptable to the EC), which eventually led, at the end of 2007, to a splintering of African regional negotiating groupings and the conclusion of interim EPAs bilaterally or with sub-groups of ACP countries.

Responding to the Challenge

These five processes of change give rise to four distinct challenges to which policy response will need to be formulated and set in place. These four major challenges faced are:

- responding effectively to a multidimensional process of **erosion of the value of traditional ACP agricultural trade preferences**, such that profitable trade can be maintained with the EU;
- responding effectively to the growing product differentiation in the EU market (which is of increasing price significance) and the need to shift patterns of production in response to this changing situation;
- responding effectively to the cost increasing effects of EU food safety standards and the compliance and verification challenges this will give rise to, which will potentially undermine the profitability of traditional exports or even in the worst case, lead to the closure of the EU market;
- responding effectively to the new competitive challenges which will be thrown up in serving national and regional markets for agricultural and food products as a result of the enhanced price competitiveness of EU food and agricultural exports (with or without tariff dismantling under EPAs).

The Danger of 'Reverse Preferences'

In the context of the erosion of the value of traditional ACP agricultural trade preferences and the prospect that the additional value to be had on the EU market (compared to world market prices) could largely have disappeared by 2015 and beyond, representatives of some ACP regional negotiating configurations have expressed concerns that through the vehicle of the EPAs, ACP countries could end up granting the EU "reverse preferences". That is to say, if the agricultural and food product tariff offers exchanged are not carefully constructed, **EU exporters could end up enjoying real margins of preference on ACP markets** for their food and agricultural products compared to other third country suppliers, while ACP food and agricultural product exporters find themselves securing returns on sales to the EU market **little different from those obtainable on the world market** for undifferentiated bulk exports and with little or no tariff advantage over competitive third country suppliers.

In terms of getting to grips with the challenge of **preference erosion, stricter EU food safety standards** and **growing product differentiation in the EU market**, the kind of measures required include:

- targeted programmes of "aid for trade" support to:
    - assist in production adjustments to enhance efficiency and reduce costs;
    - improve marketing to increasingly target "luxury purchase" components of the EU market;
    - facilitate movement up the value chain.
    - assist in cost effectively meeting "quality" standards;
    - assist in the development of public institutions for the assurance of food safety compliance;
    - assist the private sector in meeting EU food safety standards (including smallholder farmers);

- 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 none resolution of the SPS disputes within the agreed timeframe;

- the provision of support to public sector management, institutional reform and policy reform, so as to remove impediments to competitive production and marketing.

EU Rural Development Programmes and Supporting Production Adjustment: The Case of Northumbrian Meat Processors

The aim of this project was to promote nature conservation and profitable production and marketing of environment-friendly meat products. In 1998 a production company was founded by the farmer to enable him to "**d*irectly market his own beef and lamb to local customers and via farmers markets***" – part of the emerging 'luxury purchase' component of the EU market. Public support was provided to the establishment of an on farm cutting room and cold storage facilities, with a focus on the production of naturally produced organic beef and lamb. When demand began to exceed the farmer's own supply capacities "***the company began working with a number of other local organic producers to maintain year round continuity of supply of high quality products***". This required increased storage and processing capabilities, the purchase of new machinery, the establishment of transport facilities and improved marketing.

Under the EU Rural Development budget a grant of some €22,000 was provided towards the implementation of these expansion plans. This was complemented by a grant of €22,000 from the UK government. These public funds matched private funding of €44,000 from the company concerned. This public grant was provided on the basis of the stimulus the project would give to local organic beef production and the employment benefits it would generate in the local area.

The grant from public funds represented a 50% investment subsidy for a project which was responding to changing market opportunities, in this instance the emergence of the "farmers market" movement, which forms part of the "luxury purchase" market.

See, "Rural Success Story", European Communities 2006, pp 126-127.

In terms of meeting the challenge of the **increased price competitiveness of EU food and agricultural product exports**, this is in the first instance an issue to be addressed through domestic/regional tariff policy, with targeted aid for trade support to domestic adjustment processes in sectors affected by increased import competition a secondary level of intervention. Here the emphasis should be on assisting ACP producers in developing **alternative products** for **alternative markets**, where the competitive threat from EU imports is less pronounced. This is certainly the kind of restructuring which the deployment of EU rural development instruments encourages.