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ACP FTAs

Benin profits from Nigeria's agricultural trade policy

A USDA review of the agricultural situation in Benin, published in March 2014, notes that "Benin serves as a delivery corridor for West Africa, reaching more than 100 million people in the landlocked countries of Niger, Mali, Burkina Faso, Chad and the northern states of Nigeria." USDA observes that "Benin's relatively efficient port services and liberal trade policies mean it is an important cog in the regional trade flows to nearby countries." The report notes improvements in the country's port operations as well as some small improvements in the ease of doing business over the past 3 years. Benin applies the WAEMU (often known by its francophone name UEMOA) common external tariff (CET) with its four tariff bands (zero, 5%, 10% and 20%) with no quantitative restrictions applied.

The review comments that "informal trade between Nigeria and Benin is substantial." The main products involved in this informal trade include rice, poultry products, refined sugar and a range of other food and agricultural products." The report notes trade sources' estimates that "more than 85 percent of these types of products that are shipped to Benin are meant for onward sales into Nigeria through informal cross-border trading activities." This trade poses particular problems in the poultry and rice sectors.

Benin has only a small poultry meat sector (13,000 tonnes), with production at present largely focused on egg production. However, Benin is "a major importer of poultry meat", with imports totalling 160,000 tonnes (about 6,500 40-foot containers), valued at US$450 million (although some traders suggest this could be as high as 300,000 tonnes). The informal trade to Nigerian markets brings major benefits to traders from Benin, with many fish importers shifting the use of their cold-store facilities to the import of poultry meat and even expanding their overall cold-store capacity with poultry imports in mind.

This trade is seen as being driven by the government of Nigeria's "ban on legal frozen poultry imports", a measure aimed at protecting local Nigerian poultry producers.

Benin's poultry producers for their part would like to see the Nigerian government "remove its import ban on poultry meat in order for them to gain free access into Nigeria's massive market". It is thought that this would then encourage investment in poultry production for both export and domestic markets.

In the rice sector, according to the USDA review, traders from Benin can sell a 50-kg bag of rice in Nigeria at prices 75% higher than they can obtain on the Benin side of the border. According to USDA, in order to avoid the high Nigerian levies, Nigerian traders have been directing their rice consignments to ports in neighbouring countries "where they are cleared and moved into the Nigerian market through informal trading activities". According to press reports, the Comptroller General of Customs in Nigeria has "identified the low tariff on rice in neighbouring countries as one of the major factors contributing to smuggling of rice into the country".

The trade dynamic along the Benin–Nigeria border needs to be seen against the background of the scheduled introduction from 1 January 2015 of the ECOWAS CET, a move intended to end the re-exportation trade. The Director General of the Lagos Chamber of Commerce and Industry has highlighted how the introduction of the CET will need to include scrapping of the import and export prohibition lists, "abrogation of import duty waivers, abrogation of import levies and loss of sovereign authority over tariff policy".

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Comment

The trade situation between Benin and Nigeria would appear to highlight the challenges faced in implementing the ECOWAS CET and the need for broader policy harmonisation, if the economic incentive for large-scale informal trade, which impacts directly on formal sector investment decisions, is to be removed.

While this is essentially an internal matter that will need to be resolved within ECOWAS, there is an external EU dimension, with EU exports of poultry parts finding their way into this re-export trade in ways that pose major threats to the health of the consumers at the end of the chain (see *Agritrade* article 'Continued growth projected for EU poultry-meat exports to Africa', 24 November 2013 and 'Continued growth in EU poultry meat exports targeting some African markets', 3 March 2014). (The mode of smuggling completely undermines the integrity of the cold chain, with products subsequently being refrozen upon delivery in Nigeria).

In the rice sector, recent developments in Nigeria suggest that there is a growing realisation that the effective tariff differential between Nigeria and neighbouring West African states needs to be lowered substantially if the issue of smuggling – which undermines national policy implementation – is to be effectively addressed (see *Agritrade* article 'Uncertain movement on Nigeria's rice trade policy', 18 May 2014). This is also a critical issue for the credibility of the ECOWAS CET, which would be undermined by the extensive continued use of non-tariff measures alongside the CET.

ACP regional trade

African agricultural research rises but is still patchy and too low

In its annual report on global food policy, the International Food Policy Research Institute (IFPRI) notes that spending on agricultural research increased in real terms by over one-third during the period 2000–11. But the bulk of expenditure was concentrated in a few countries and is still too low in relation to the importance of agriculture in Africa. Nigeria and Uganda between them accounted for almost half of this growth, with Ghana, Kenya and Tanzania each also contributing between 5 and 9% of the total.

By contrast, seven of the 28 sub-Saharan African (SSA) states for which data are available saw declines in their agricultural research expenditure, and a further seven experienced virtually no growth. In 2011, just 10 countries met the NEPAD target that investment in agricultural research should equal at least 1% of the value of output. In reality, "SSA as a whole invested $0.51 for every $100 of agricultural output." During the 10 years since the adoption of the Comprehensive Africa Agriculture Development Programme (CAADP), "Africa as a whole has not met the CAADP targets of raising annual agricultural growth by at least 6 percent and committing at least 10 percent of national budgets to agricultural development." This means that the growing dependence on food imports is unlikely to be reversed soon.

Two reports have been published by Club Déméter, one on West African cereals markets and the issue of import dependency, and the second on maize in Eastern and Southern Africa. The first of these points to growing import dependence, due to domestic production failing to keep pace with growing demand, while in Eastern and Southern Africa (excluding South Africa), average yields of maize are only 1.5 tonnes per hectare, according to the second report. Both this analysis of the maize market and the IFPRI report emphasise the importance of South Africa as a major contributor to African production. The USDA's forecasts for 2014/15 anticipate that South Africa's production of maize will exceed 12 million tonnes in both 2013/14 and 2014/15. But the declining trend in the area planted to wheat will continue, so that the country's wheat imports are expected to reach about 1.7 million tonnes.

The IFPRI report notes that investment in research typically takes time to result in higher returns, so even if expenditure were to increase to closer to the CAADP and NEPAD target levels, many countries in the region will remain dependent on imports for a significant part of their food supply.

However, it needs to be borne in mind that it is the quality of the research that matters. IFPRI reports that the pool of researchers is ageing fast in a number of countries as a result of public-sector recruitment restrictions. "As many senior staff approach retirement, mid-level researchers who can take on seniority roles and mentor the next generation of junior scientists are often lacking." To an extent, these constraints may be overcome by growing private sector research. This is growing quickly in Africa, albeit from a low base, and mainly in South Africa. IFPRI predicts that in future, private sector research will increase faster than public sector research.

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Comment

The fundamental problem underlying many of the obstacles to African regional integration and the growing dependence on food imports is the failure of domestic agricultural production to keep pace with demand. Of the 10 states listed in the IFPRI report as facing the worst rankings in its Global Hunger Index, eight are in Africa. While it is politically hard for governments in countries with relatively better harvests to allow part of domestic production to be exported, restrictions on trade with neighbouring countries undermine the attainment of regional integration goals. Concerns about the security of regional supplies, in turn, increase the likelihood that the more vulnerable countries will look to extra-regional trade as a more secure source of supply in bad years.

These tensions have been moderated, because world food supply has been in better balance with demand in recent years. IFPRI reports the FAO finding that the average price of food in 2013 was at its lowest level in 3 years and that prices were relatively stable. However, this calm may well be followed by a storm, when another global food supply shortage takes hold, with this being more a question of when, rather than if, this will occur. The evidence to date on agricultural research in Africa suggests that far greater investments will be required if Africa is to be better placed to weather the next price surge storm.

EPAs

Regardless of outcome of negotiations, there will be EPA-related costs

According to press reports, the Ghanaian business community is divided over whether Ghana should ratify the EPA. Exporters to the EU (e.g. tuna and fruit processors) favour signing, while manufacturers targeting national and sub-regional markets oppose the agreement. At a meeting in April to discuss the EPA, a number of company representatives said that their industries would collapse if an EPA were not concluded, since their operations were "generally dependent on the EU market".

Despite these views, the Association of Ghana Industries (AGI) has spoken out against the EPA agreement "after heated disagreements".

Speaking on a current affairs programme, Ghana's Minister of Trade and Industry has acknowledged that there will be costs whether an EPA is signed or not. Mr Haruna Iddrisu maintained that losing duty-free access to the EU market could result in "dire consequences", since 49% of exports would be affected. The Minister argued that "the fear of losing the EU market" and associated investment "makes it compelling to have an arrangement of a sort". Nevertheless, signing an agreement would "challenge Ghana to build its competitiveness, increase the capacity of local industries and increase [exports in order] to take advantage of the opportunity".

The debate in Ghana on the EPA is becoming party political, with the Convention People's Party (CPP), an opposition party, maintaining that signing the EPA could cost Ghana "between US$1.12 billion and US$5.23 billion over a 14-year period" and could put "43, 000 local jobs on the line". The CPP has warned that as result of the EPA, the government "will lose the option of using tariffs and price mechanism as means of protecting… local industries and addressing… balance of payment deficits". The CPP says that the EPA also risks "weakening regional integration".

However, some ministers in the Ghanaian government have expressed the belief that what is needed at the regional level is a stronger commitment on the part of ECOWAS governments to the implementation of the ECOWAS Trade Liberalisation Scheme (ETLS), and they consider that an EPA would help in this regard.

In neighbouring Nigeria, civil society bodies are also concerned about the revenue, employment and investment implications of an EPA. According to press reports, Professor Ademola Oyejide, Vice Chairman of the National Focal Point Committee, and Mr Ken Ukaoha, President of the National Association of Nigerian Traders (NANTS), both maintained that the private sector was "completely opposed to signing the agreement in its current form". Mr Ukaoha commented that

"Nigeria does not need to shiver over deadlines set by the EU, as there have been several deadlines set in the past."

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Comment

Since Nigeria does not benefit from the transitional EU market access regulation (MAR1528/2007), which will lapse on 1 October 2014, Nigeria will indeed not be affected by the lapsing of the measure after that date. The lapsing of the measure does, however, mean that Nigerian exporters of a number of agri-food export products will continue to face EU import duties.

Equally, West African least developed countries (LDCs) will not be affected, since they benefit from duty-free, quota-free access under the EU's 'Everything But Arms' initiative.

However, Ghana and Côte d'Ivoire, both non-LDCs, have been benefiting from MAR1528/2007 and, in the absence of an alternative agreement from 1 October 2014, would face the imposition of import duties on a range of agri-food sector products. This would severely undermine the competitiveness of their banana exports, and also affect emerging horticultural and processed cocoa product exports.

In contrast, if a regional EPA agreement were concluded, the Nigerian government would need to rethink its current use of a range of trade policy tools (such as conditional import licences, import bans and high supplementary levies). But a rethink is already required as a result of the commitments into which the Nigerian government has entered as part of the ECOWAS common external tariff (CET) process. Debates in the Nigerian press suggest that such a rethink of the current use of these tools may already be under way (see *Agritrade* article 'Uncertain movement on Nigeria's rice trade policy', 18 May 2014 and 'Nigeria to abandon cassava blending policy?', 23 May 2014).

In Ghana, a regional EPA agreement could also place constraints on the potential use of agricultural trade policy tools in the context of the setting up of a Ghanaian International Trade Commission aimed at enhancing government trade policy (see *Agritrade* article 'Ghana looking to establish an International Trade Commission', 24 April 2014).

EPA implications of the EU streamlining of its trade defence mechanisms

The European Parliament and Council have both approved (on April 2 and May 8 respectively) a new legal framework under which the European Commission can amend the European trade regime for specific countries "to better enforce EU rights". Essentially, the regime will allow the Commission to withdraw trade benefits from a partner under any agreement that includes dispute settlement, such as the WTO or EPAs.

The Commission has three specific circumstances in which it will use its powers. These are:

- "EU trade sanctions when a country does not comply with an arbitration ruling under multilateral or bilateral dispute settlement rules";
- "Action to defend EU interests when third countries adopt bilateral/regional safeguard measures unduly restricting EU trade";
- "Suspending trade benefits granted to a WTO Member that modifies its concessions to the EU under Article XXVIII GATT 1994 and fails to provide compensation to the EU".

The new framework – which is an amended version of a proposal made by the Commission in December 2012 – has been made necessary by the Lisbon Treaty, which divides legislative and executive powers between the EU institutions. Under the Lisbon Treaty, "it is for the Council and the European Parliament to establish a clear and stable framework for the implementation of the common commercial policy", which the Commission then implements. The purpose of the new legal arrangement is to provide the framework within which the Commission can "react swiftly and effectively", avoiding a lengthy process involving all three European institutions in specific cases.

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Comment

Many (though not all) dispute settlement provisions in the trade agreements to which the EU is a party include provision for what happens if a dispute is launched and one side "loses", but then fails to take whatever remedial action has been recommended by the adjudicators. Dispute settlement provisions in EU trade agreements often allow the complaining party to take offsetting retaliatory measures that reduce proportionately the benefits of the agreement to the party found to be in the wrong. The new legal framework allows the Commission swiftly to apply whatever such "compensatory" measures it decides upon.

ACP countries could be affected if they belong to any trade agreement with dispute settlement to which the EU also belongs – such as the WTO. But it is perhaps most likely that they could be affected in the context of EPAs. EPAs include a range of obligations on both parties. Some of the obligations are quite clear (e.g. reducing specific tariffs) and some are opaque, in the sense that there may be disagreement over what actually needs to be done (for example, in the case of the requirement that charges on imports that have the same effect as a tariff must be phased out, there could be disagreement over whether a particular levy falls into this category). In some ACP EPA countries, many of these "additional charges" apply particularly to agricultural imports.

No doubt, many disagreements will be resolved by negotiation. But if any go to dispute settlement and the ACP side loses, it may feel the effects of this "streamlined" EU procedure.

Food safety

UK moves to full cost recovery for SPS inspections, but no agreement yet at EU level

On 6 April 2014, new plant health inspection fees were introduced in England for all imports requiring a phytosanitary certificate. These fees are set out in The Plant Health (Fees) (England) Regulations 2014, No. 601.

Comparison with earlier fee schedules shows that between 1 January 2011 and 6 April 2014 standard fees increased by around 235%. This applied to both 'daytime working' and 'non-daytime working' inspection fees.

UK plant health inspection fees for cut flowers and fresh fruit and vegetables (£)

	1 Jan 2011	6 April 2012	6 April 2013	6 April 2014	% change 2011/14
Cut flowers					
Up to 20,000 stems					
Daytime	14.28	46.98	49.66	47.87	+235.2
Non-daytime	21.42	70.47	74.50	71.80	+235.2
Each additional 1,000 stems					
Daytime Up to max. of	0.11 114.24	0.36 375.84	0.38 397.31	0.37 382.92	+236.4
Non-daytime Up to max. of	0.16 171.36	0.54 563.76	0.57 595.97	0.55 574.38	+243.8
Fresh fruit and vegetables					
Up to 25 tonnes					
Daytime	14.28	46.98	49.66	47.87	+235.2
Non-daytime	21.42	70.47	74.50	71.80	+235.2
Each additional tonne					
Daytime	0.57	1.88	1.98	1.91	+235.1
Non-daytime	0.85	2.81	2.97	2.87	+237.6

Source: Extracted from Plant Health (Fees) (England) Regulations (various – see below)

Schedule 2 of Regulations 2014 No. 601 sets out the reduced rates applicable to combinations of countries and products where, following risk assessments, reduced rates are charged. For example, the reduced rate inspection fees applicable to certain products from specific East African countries have also increased by around 236%. However, for some countries, the reduced rate charges have increased more substantially, for example for Ethiopian and Tanzanian roses.

EC proposals to introduce mandatory recovery of full inspection costs across all EU food and feed supply chains, with special exemption for micro enterprises, have not yet been endorsed by the EU Council and the European Parliament. According to a UK Food Standards Agency update, "on 16 April 2014, the European Parliament voted to approve its position on the articles within the proposal. [The first of two] key amendments approved [was]: flexibility for charging and exempting smaller businesses in line with the UK's negotiating position".

This means that neither mandatory full cost recovery nor the "mandatory exemption for micro-enterprises" is endorsed, and that they have both been left to the discretion of member states' governments. The debate around the EC proposals continues, particularly in "areas where clarity is still required or where there could still be unintended consequences".

Plant health inspection fees for roses from selected East African countries (£ per 20,000 stems)

	1 Jan 2011	6 April 2012	6 April 2013	6 April 2014	% change 2011/14
Kenya					
Daytime	0.71	2.35	2.48	2.39	+236.6
Non-daytime	1.06	3.52	3.72	3.59	+238.7
Zambia					
Daytime	3.57	11.74	12.42	11.96	+235.0
Non-daytime	5.35	17.62	18.62	17.95	+235.5
Uganda					
Daytime	3.57	11.74	12.42	not available	
Non-daytime	5.35	17.62	18.62		
Tanzania					
Daytime	1.42	4.70	4.96	7.18	+505.6
Non-daytime	2.13	7.05	7.42	10.77	+505.6
Ethiopia					
Daytime	0.71	2.35	4.96	4.78	+ 598.6
Non-daytime	1.06	3.52	7.41	7.18	+577.4

Source: Extracted from Plant Health (Fees) (England) Regulations (various – see below)

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Comment

Since 2011, the UK has moved to full cost recovery for all official inspections of imports requiring a phytosanitary certificate. Despite the slight downward adjustment of fees in April 2014 to reflect actual costs of controls, the move has resulted in a significant increase in fees charged.

In addition to the increases in fees, the UK inspection service has introduced measures to increase the frequency of inspections in line with EU requirements. This is estimated to have led to an approximate doubling of the frequency of inspections, with each inspection being charged at the higher fee level. On average, this has resulted in an almost sixfold increase in costs of inspections since the first quarter of 2012.

Fee increases have been introduced even where reduced fees were payable due to lower risk. For lower-risk country/product combinations of imports, where risk assessments have been carried out and the risk is judged low, the impact of the fee increases has been mitigated by the lower frequency of inspections. However, for countries with no established track record of exports to the EU (i.e. countries that have not exported more than 200 consignments per annum for 3 years), no such risk assessment is possible, and hence all consignments are inspected. In this case, the burden of the fee increases is greatest. This would apply to ACP exporters seeking to develop non-traditional exports to the EU market.

Moves to full cost recovery in the UK have led to an increase both in fees and in the frequency of inspections of imports. But because of the discretionary nature of the process, no similar cost recovery measures have been adopted vis-à-vis domestic producers of competing products, and the costs of SPS inspections for domestic producers are being paid for from the public purse.

The experience in England provides a benchmark for assessing the potential impact of the final decision on EC proposals to move to mandatory full cost recovery for all official controls throughout the whole EU supply chain.

Banana sector

FAO review of corporate developments in the international banana trade

An information note from FAO, 'The changing role of multinational companies in the global banana trade', produced by the FAO's Intergovernmental Group on Bananas and Tropical Fruits, has been published, and shows that the combined market share of the top three global banana trading companies fell from 65.3% in the 1980s to 36.6% in 2013. Similarly, the share of the top five companies fell from 70% in 2002 to 44.4% in 2013. According to FAO economists, while "competition among banana producing countries is fierce," with many struggling to remain competitive, "there are also new opportunities, as the market is no longer dominated by big players – and new buyers are entering the market."

The FAO information note notes that "the scope of operations of the big multinationals has… undergone a significant shift, away from plantation ownership and production, and more towards post-production logistics, including purchasing from producers, transportation, facilities to ripen the fruit, and marketing." One illustration of this is Fyffes, which used to "own plantations in Jamaica, Belize and the Windward islands, but withdrew from production and switched to purchasing its bananas through contracts with producers".

In recent years, supermarket chains have played an increasingly important role in the international banana trade: the FAO note comments that they "dominate the retail market in the main banana-consuming countries and are also increasingly purchasing from smaller wholesalers or directly from growers". Direct purchasing by supermarkets has been greatly facilitated by "the establishment of direct container liner services from banana-producing regions to the main destination markets." This has served to reduce the costs of entry into the international banana trade. This has led to the banana markets "becoming more fragmented as new players are entering the market". More fundamentally, according to FAO, it has also seen a "shift of market power away from the major banana brands towards retailers".

Regarding the recent merger of Fyffes and Chiquita, the FAO information note considers it "unlikely that the merger will give the new company sufficient market power to exert pressure over the banana market and influence either producer prices or import/wholesale prices", but that it is unclear at present whether the merger will "imply any changes to the structure of banana trade".

According to the Secretary of the FAO Intergovernmental Group, Mr. K. Chang, "in order to seize opportunities in an increasingly competitive market, banana producers need to be better informed and better prepared, including smallholder producers and any cooperatives or other organizations that represent them." In the context of the changing market structure, Mr Chang considered it "vital that smallholders, as well as producer organizations, receive support" in "maintaining good cultivation practices, preventing and fighting plant diseases, strengthening producer organizations and developing both domestic and international marketing strategies".

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Comment

With the FAO highlighting the importance of both assisting smallholder farmers to organise themselves to "seize opportunities" in evolving markets and establishing effective extension support systems that encourage good cultivation practices and prevent and contain the spread of diseases, the question arises as to what role ACP governments should play in these efforts.

In an ACP–EU context, a related question arises as to whether EU Banana Sector Accompanying Measures support could not be better targeted at assisting smallholder farmers in meeting these pressing challenges.

A further area for possible joint ACP action arises relates to the scope for supporting recent calls from the Fairtrade Foundation for the launching of an EU investigation into retail pricing tactics in the banana sector across Europe and the creation of an ombudsman (similar to the UK Groceries Code Adjudicator) to regulate buyer power in the banana sector and other sectors of interest to ACP exporters, where scope for abuse of a dominant market position exists (see *Agritrade* article 'Fairtrade Foundation calls for regulatory action to promote more sustainable banana production', 2 June 2014).

Fairtrade Foundation calls for regulatory action to promote more sustainable banana production

The Fairtrade Foundation has published a report highlighting the impact of UK retailers' "banana wars" on banana producers. In the past decade, the UK has been in the forefront of a consumer move to fair-trade bananas – 35% of all bananas sold in the UK are now certified as fairly traded. The same period has also seen relentless retailer price wars, which have led to a 40% decline in the "typical UK retail price of loose bananas" from £1.08/kg in 2002 to £0.68/kg in 2013, in the context of a doubling of producer input costs. This contrasts with a 4% increase in the retail price of bananas in Italy, a 7% increase in Germany and 10% increase in France over the same period.

The report seeks to analyse the functioning of UK banana supply chain and "assess how far a falling retail price translates in problems for producers".

In the UK, seven large retailers control over 80% of all banana sales. Some retailers maintain that there is no direct relationship between the costs they incur in procuring bananas and the price they charge consumers. However, the Fairtrade Foundation asserts that there is "a clear long-term correlation between retail prices and prices paid in banana producing countries". This is based on an assessment of the average import prices of bananas, taking into account inflation.

The Fairtrade Foundation research in the report shows that "the declining value of the export price combined with increases in living costs has made it hard for workers to achieve progress in earnings." In addition, the research shows that "small farmers are under pressure to match the prices paid to large plantations". It states that "average prices in countries that supply Britain's banana market are failing to keep pace with the costs of sustainable production," and that "the pressure on price has driven a trend towards… the marginalisation of smallholder producers."

The report maintains that the Fairtrade minimum price (i.e. the price below which prices should never fall) is commonly taken as a market reference price rather than the absolute minimum price that it was intended to be. According to the Fairtrade Foundation, "the pressure to reduce prices… means that no one in the supply chain – retailers, banana companies or growers – [is] able to adequately reinvest profits in improving the sustainability of the banana industry."

As a result of these findings, the Fairtrade Foundation calls on retailers to:

- "take their ethical responsibilities seriously", resist pressure to "drive down prices at all costs" and make a commitment to pay a fair price for bananas that covers the costs of sustainable production;
- adopt policies to ensure a place for smallholder farmers' production on UK banana markets.

It calls on the UK government to:

- amend the Groceries Supply Code of Practice to cover overseas producers that supply major UK retailers through third parties;
- "investigate the UK retail market in bananas and its impact on the sustainability of the banana supply chain and the situation of banana farmers and workers".

It calls on the EU to:

- "investigate the retail pricing tactics on bananas of retailers across Europe" and "evaluate the impact of low retail prices on the long-term interests of banana producers and European consumers" – and make a commitment to act on these findings;
- promote the creation of "an ombudsman similar to the UK Groceries Code Adjudicator in order to regulate buyer power in the retail industry, starting with bananas".

The Foundation also calls on governments in banana producing countries to:

- take a lead in setting living wage levels in the banana sector; and
- recognise the role of trade unions in collective bargaining in the banana sector.

Sources

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Comment

It has been recognised in recent years that inequality in power relationships along supply chains can potentially lead to abusive practices that can undermine the agricultural base (see *Agritrade* article 'EC proposes action to improve functioning of food supply chain', 9 December 2009). This has led to the elaboration of policy measures to avert the emergence of such practices. In the sugar sector, measures have included making inter-professional agreements between sugar beet growers and millers mandatory. In the dairy sector, it has been left to national authorities to decide whether a mandatory or voluntary approach to milk supply contracts should be adopted.

At the national level in the UK, given the structure of the retail sector, with a high concentration of sales through multiple retailers, these concerns have led to the establishment of the Groceries Supply Code of Practice and the creation of the post of UK Groceries Code Adjudicator.

The findings and recommendations of the Fairtrade Foundation report potentially constitute an important new policy area for ACP–EU dialogue across a range of sectors where the value of traditional preferences is being eroded, most notably in the banana, sugar and horticultural sectors. Questions arise over whether ACP governments should be adding their voices to calls for:

- the extension of the Groceries Supply Code of Practice to cover overseas producers;
- this approach to be generalised across the EU;
- the matter to be taken up in joint ACP–EU forums for dialogue on trade issues.

This would appear to be a relevant issue, since how supply chains function within more deregulated EU sugar and banana markets is likely to have an important bearing on the commercial and development benefits derived from future preferential access to the EU market in these sectors.

Beef sector

Global beef sector developments

According to FAO's May 2014 *Food Outlook*, a biannual report on global food markets, global beef production will be largely unchanged in 2013/14, at around 68 million tonnes (+0.5%). This reflects the trend of limited growth in production in recent years. According to FAO, "the small increase in world production is being led by the developing countries, which collectively account for almost 60 percent of the total," with cattle availability and slaughtering rising in Brazil and Argentina.

FAO notes how the Brazilian national cattle herd is in an expansion phase, "supported by improvements in productivity and genetics", with global beef prices stimulating greater use of feed to maintain cattle weight. Paraguay and Uruguay are also planning to expand production in response to strong global prices. In contrast, in recent years the government of Argentina has restricted exports, focusing more on meeting internal demand.

In China, moderate production growth is projected as smallholder farmers slaughter dairy cattle in the face of stricter milk standards.

In Africa, reasonable rainfall has improved pasture, leading to a moderate increase in production, with the exception of East Africa, where delays in the arrival of the rains have led to a deterioration of pasture conditions and constrained production growth. The situation in Kenya has been compounded by outbreaks of foot-and-mouth disease, and restrictions on cattle movement have been introduced while a mass vaccination programme is implemented.

Dry conditions in some parts of South Africa are also likely to hold back production growth.

In contrast to production trends in developing countries, overall beef production in developed economies is projected to fall to 28.5 million tonnes (a decline of 1.9%), with the US leading the way in this decline. In the EU, meanwhile, the "long-term reduction in the cattle herd is slowing", linked to abolition of EU milk production quotas. As a consequence, a small rise in EU beef production is forecast.

The report notes that "world trade in bovine meat is anticipated to grow by 3.5 percent, to 9.4 million tonnes, despite international prices being at exceptionally high levels." China "is expected to record a strong rise in imports", with projected purchases of "1.2 million tonnes in 2014, 18% more than last year", which was double the level of imports in 2012. This will confirm China as the world's main market for beef. Demand in China looks set to continue to grow as a result of "rising incomes, and growth in meals outside the home". Demand for beef has also been stimulated by the 2013 outbreak of avian flu, which turned some consumers away from poultry meat.

Brazilian beef exports are expected to increase by 8% and Indian exports by 6%, in response to the strong demand and elevated prices. The FAO beef price index rose from 135 in 2009 to 197 in 2013, and continued to rise, reaching 212 by March 2014, before falling back to 210 in April 2014.

Sources

FAO, *Food Outlook*, May 2014
http://www.fao.org/docrep/019/I3751E/I3751E.pdf

Comment

The ongoing growth in Chinese demand for beef could open up new opportunities for ACP beef exports of both high-quality beef for the restaurant trade and lower-quality beef for the mass market.

However, key questions arise:

- What prices could be obtained for different cuts of beef on the Chinese market?
- Are these likely to exceed those available on existing or alternative markets?

In terms of promoting the structural development of ACP beef sectors through market diversification, identifying higher-priced market components for value-added beef products in China would appear to be an important challenge that needs to be addressed.

Most ACP beef sectors are too small to undertake this task alone. There would, however, appear to be scope for a beef-sector-specific multi-country ACP programme to:

- map evolving patterns of Chinese demand for beef;
- identify potential niche markets that yield better financial returns than traditional markets;
- support initial exposure visits; and even
- foster initial enterprise-to-enterprise contacts.

In addition, since the conclusion of sanitary and phytosanitary (SPS) and food safety protocols is a prerequisite for beef exports to China, scope exists for a pan-ACP programme to establish the broad parameters of Chinese SPS and quarantine protocol requirements for the beef trade. This could help to overcome the institutional capacity constraints that exist, not only in many ACP countries but also in the Chinese Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), which is facing growing demand from third parties for SPS protocol negotiations.

Cereals sector

Could Dominican Republic cereals sector policy hold lessons for Nigeria?

According to a recent report published by the US Department of Agriculture (USDA), the Dominican Republic (DR) has a large milling industry based entirely on imports, having no domestic wheat production. The DR's flour milling industry has a daily capacity of 3,320 tonnes with a current average utilisation rate of 52%. In addition to serving the national market, the local milling industry was given a considerable boost by the devastating earthquake in neighbouring Haiti, which overnight created a market for 200,000 tonnes of wheat-equivalent flour. This saw a 40–50% expansion of the local Dominican wheat milling industry. However, with the reconstruction and the reactivation of Haiti's own wheat mill, in 2013 there was a reduction of 10% in wheat imported for milling in the DR.

Wheat and wheat product imports, exports and consumption in the Dominican Republic 2008–2013 (tonnes)

	Imports	Production	Exports	Apparent consumption
2008	380,924	0	48,528	332,396
2009	399,369	0	57,512	341,857
2010	584,935	0	152,894	432,041
2011	582,183	0	188,718	393,465
2012	560,001	0	129,760	430,241
2013	480,243	0	142,951	337,292

Source: USDA, 'Dominican Republic', 1 April 2014 (see below), p. 5.

Efforts to develop exports of wheat products to Venezuela, the United States and other markets throughout the region have met with only limited success compared to the importance of exports to the Haitian market since 2010. In 2013, Haiti imported 115,000 tonnes out of the DR's official wheat product exports of 142,951 – some 80% of the total.

The US provides 98% of the DR's wheat import requirements on a "just in time" basis (i.e. delivered within a time frame that requires only limited investment in local storage capacity).

In the maize sector, domestic production is equivalent to only around 3% of imports. Maize is mainly used for animal feed for poultry and pork production, with 75% of the maize supply consumed in the poultry sector and 20% in the pork sector. While traditionally the US was the main supplier, quality concerns have seen importers shift to South American suppliers.

In terms of wheat sector trade policy, "the DR applies no tariffs on the importation of wheat, but there are duties in place on wheat flour (5.6%) and pasta products… (8%), along with a value-added tax… of 18% on the latter."

The USDA report notes that in terms of maize sector trade policy, the DR maintains a standard import tariff of 40%. However, the DR's duty-free tariff-rate quota of 1,091,000 tonnes fully accommodates maize import requirements, de facto providing duty-free access. This is seen as necessary, since maize is primarily an input into the livestock sector. Government policy, however, does require every licensed maize importer "to purchase locally produced sorghum" equivalent to "5% of national sorghum production in exchange for the importation of corn".

Sources

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Comment

There are two areas where the policy experience in the Dominican Republic could hold lessons for Nigeria.

The first relates to the use of import licences for maize to create markets for locally produced sorghum. Maize imports are de facto duty free, but can only take place through licensed importers who, when applying for a licence, take on the obligation to purchase a set proportion of national sorghum production. It is then left to the private sector to provide the commercial outlets for sorghum-based products. This experience could potentially be relevant to Nigerian government efforts to create commercial outlets for local cassava production.

The second relates to the processing of wheat into value-added products to serve regional markets. The USDA has regularly advocated that the Nigerian government should abandon its cassava blending policy and associated punitive tariffs on wheat imports in favour of a policy focusing on the development of value-added wheat product industries targeting regional markets.

The experience in the DR since 2010 highlights both the benefits and pitfalls of such a policy. The surge in demand arising from the closure of the Haitian wheat milling industry following the 2010 earthquake created a boom for the DR wheat milling industry. However, when local milling capacity in neighbouring Haiti was redeveloped, exports slumped and a situation of acute under-utilisation of installed capacity arose.

This suggests that when developing an export-orientated, value-added wheat product industry, it needs to be based on competitive processing advantages if developments in target markets are not to lead to a loss of markets and resulting overcapacity. Issues of underlying competitiveness must constantly be borne in mind when developing export-orientated, value-added processing activities.

Nigeria to abandon cassava blending policy?

A press report in Nigeria suggests that the Nigerian government may be planning to abandon its cassava blending policy, following repeated delays in expanding processing capacity for high-quality cassava flour in line with the government targets (for details of government objectives see *Agritrade* article '[Debate on cassava flour in bread intensifies in Nigeria]', 6 August 2012). A source at the Federal Ministry of Agriculture and Rural Development reportedly told the local media that "the policy is known by all to be a well thought out one, but it is also going to impact on the profitability of many of the wheat importers and processors in the country."

Local wheat processors, for their part, have commented that while "the policy may look good on paper", it has been "doomed to fail" from its inception, since "bread and other confectioneries made from a blend of wheat and cassava flour [are] just not good". According to flour processors, "bread from composite [flour] has low shelf life, poor taste and… is inconsistent."

According to the report, the ministry source suggested that the current cassava blending policy would "probably just fizzle away slowly".

Sources

This Day, 'Nigeria: [Federal Government] abandons cassava, wheat composite flour policy', 1 April 2014
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Comment

It appears the press report does not reflect current declared government policy. At a stakeholders' meeting on 10 April 2014, the team leader for the Cassava Value Chain Development initiative at the Federal Ministry of Agriculture and Rural Development refuted this and similar reports and announced the finalisation of an Executive Bill to institutionalise the cassava blending policy. Once passed into law, the Bill will introduce fines and other punitive measures for any baker found contravening blending requirements (ranging from a fine of Naira 100,000 – about €450 – to a 5-year suspension of the baker's licence to operate). The Bill also seeks to introduce special tax measures to give incentives for the blending of cassava and wheat flour.

While the legal framework may help to address some teething problems with the initiative, related to labelling and investment, serious questions arise as to whether punitive legislative measures are likely to be effective in overcoming the constraints that exist on the effective implementation of the government's cassava blending policy.

Far greater attention will need to be paid to:

- assisting millers and bakers in securing appropriate technology;
- equipping millers to effectively use the new technology to produce consistent, high-quality composite flour;
- equipping bakers to effectively work with composite flour to produce bread that consumers are willing to buy.

To date, the potential importance of the initiative to stimulate local agricultural production has been recognised – if it can be successfully implemented. But, more than two years after the policy was announced, there is little evidence on the ground that bakeries across the country have the equipment and staff skills to implement the policy.

Cocoa sector

Scope highlighted for chocolate market using single-origin cocoa

Barry Callebaut has launched a premium range of single-origin chocolate under the brand ‘Origin’, advertising that the product can also be used in a range of confectionery, desserts or pastries. The marketing of this single-origin chocolate highlights both the distinct flavours of the cocoa from various countries arising from “the combination of terroir, botanical species and care by the local farmers” in producing high-quality beans and ensuring that the roasting technique at lower temperature preserves the “character and sensorial complexity” of the specific cocoa bean used.

Under the Origin brand, Barry Callebaut has launched chocolate made from single-origin cocoa from seven countries. Four of these single-origin cocoa sources are ACP countries: Cameroon, the Dominican Republic, Papua New Guinea and Tanzania.

This development corroborates analysis from elsewhere in the industry. At the end of 2013, the French chocolate company Cémoi’s quality and R&D manager forecast that the chocolate market would increasingly be divided between “cheaper, lower-quality products and higher-end offerings that use cocoa blends allowing consumers to distinguish aromatic notes like a wine tasting”. He acknowledged that the market for the higher-end products would be the smaller of the two market components – “but with high added value”.

Sources

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Confectionerynews.com, ‘Chocolate to evolve like wine: Aromatics the future for premium sector – CEMOI RD chief’, 20 December 2013
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Comment

The development of a single-origin range of chocolate by the world’s largest cocoa processing company for use by consumer product manufacturers highlights the growth in demand for differentiated chocolate products. It also highlights the potential for securing additional returns on investments in traceability schemes, which are being introduced as part of the drive towards more sustainable sourcing of cocoa beans.

The Barry Callebaut initiative would appear to highlight the potential for smaller ACP cocoa producers to pursue single-origin marketing strategies for their cocoa and cocoa products, as part of broader strategies to enhance revenues from quality-differentiated cocoa production.

Individual ACP producers of fine cocoa may face difficulties in pursuing such strategies, given their limited financial and human resources. The problem of size could, however, be overcome by joint ACP initiatives to promote quality-based cocoa bean differentiation.

This could potentially build on the format of successful regional stakeholder-led initiatives to promote quality-based product differentiation, such as the Authentic Caribbean Rum Programme.

Collective action by ACP fine cocoa sectors could enhance the scope for realising higher prices for high-quality, single-origin cocoa beans through a sharing of current experiences of single-origin cocoa marketing.

Eventually, such action could even foster a joint approach by fine cocoa producers to negotiate with major cocoa processing multinationals over the distribution of the price premiums along the supply chain, in view of the higher values obtainable from single-origin cocoa products.

Coffee sector

Jamaican coffee policy under review as production falls despite market opportunities

The contribution of the coffee sector to foreign exchange earnings in Jamaica has declined by a half in the last 10 years. The Jamaican government is consequently undertaking consultations with stakeholders to see how this situation can be reversed. Roger Clarke, the Minister of Agriculture, announced in February that the government was "looking at the possibility of applying a cess [a tax] on imported coffee to use for the development of the local industry".

This comes against the background of rising imports of coffee: between 2008 and 2012, the volume of coffee imports rose by 23%. John Minott, President of the Jamaica Coffee Growers Association (JCGA), described the 2013 Jamaican coffee crop as "the worst… in 20 years". According to press reports, "the effects of rust disease, along with hurricanes and the abandonment of farms, has reduced available trees and, therefore, production since the onset of the Western financial crisis in 2008." The poor year in 2013 followed a fall in the value of exports in 2012 to US$17.3 million, in a context where the crop had traditionally earned around US$25 million prior to 2008.

According to John Minott, "Jamaica Blue Mountain (JBM) and Jamaica High Mountain (JHM) coffee production is expected to dip towards 130,000 boxes and 31,000 boxes respectively for the ensuing 2013/14 crop," representing a 40% (JBM) and 27% (JHM) decline from 2012/13 levels (a box is 60 lbs of coffee cherry). Mr Minott called for "an importation window during which replanting should occur". Jamaica's current import regime for coffee involves the submission of an import application to the Coffee Industry Board (CIB), with the decision lying with the Minister of Agriculture, based on recommendations from the CIB. The Chairman of the CIB has called for a clear import policy so that "stakeholders can have an understanding of the playing field". The Minister of Agriculture acknowledged the need for such a clear policy "to avoid informal importation".

At present, shortages of coffee on the local market have "resulted in small farmers getting record prices". This has seen calls for a relaxation of import restrictions, but local coffee processors have called for instant coffee to be excluded from any such relaxation of import restrictions.

On the export market, JBM and JHM are both premium brands, attracting prices of US$50/lb and US$30/lb respectively, and a number of distributors have reported a rise in demand for these premium coffees. Stakeholders at the meeting in February also discussed the problem of yields: those for Blue Mountain coffee were only 30–40% of the level required for profitability, while those for High Mountain coffee yields were around 70%.

Also in February, Coffee Roasters of Jamaica announced that it was now compliant with the US Food Safety and Modernisation Act, and that this would enable it also to increase exports to the EU.

Sources

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Comment

While the government of Jamaica remains an active player in the coffee sector, processes of government disengagement from commercial activities and institutional reform are under way. In 2013, the government sold the Wallenford Coffee Company (WCC) to AIC International Investments Limited (AIIL). As in other sectors, the sales agreement included clear commitments on new investments, with AIIL committing to a US$23.5-million, 4-year investment programme, aimed at improving the quality of green beans and strengthening the Wallenford brand by diversifying the product offerings in existing and new markets.

At the farm level, this involves upgrading equipment and facilities, improving extension services and expanding the area under coffee. In terms of product development, the coffee beverage industry is growing swiftly, with new blends, coffee products, brewing equipment and service offerings being introduced to the market with remarkable rapidity. However, at present, value-added coffee products remain a relatively minor component of the sector in Jamaica. It remains unclear to what extent AIIL plans to lead a drive into greater local value addition.

In addition to favouring a tax on imported coffee, the government of Jamaica is looking to rationalise institutional arrangements for the production and export of selected commodities (including coffee), with consideration being given to the creation of a new Agricultural Commodities Regulatory Authority (ACRA).

More broadly, the fact that the world-renowned, premium-brand Jamaican Blue Mountain coffee has seen production halved in a decade is a matter of grave concern. While this is attributed to the standard operational risks of farming in the Caribbean (hurricane damage and disease outbreaks), the absence of effective strategies to control coffee plant diseases and reduce the adverse effects of hurricanes for this very high-value and sought-after product suggests a need to intensify efforts to combat coffee plant diseases and identify ways in which hurricane damage can be minimised or rapidly redressed, if the coffee sector is to be placed on a sustainable path to recovery.

Cotton sector

Benin faces challenges in revitalising cotton sector

A USDA review of the agricultural situation in Benin has highlighted the challenges faced in the cotton sector, which accounts for "nearly 40% of GDP and roughly 80% of official export receipts". According to USDA, Benin, which was a leading global producer of cotton between 2004 and 2006, has since experienced "a sharp fall in production and exports and has not been able to recover its former output levels". Production in 2010/11 was "less than one-third of the installed ginning capacity of 620,000 tonnes", while "production of cotton lint was less than half of the level recorded in 2004/2005."

According to USDA, cotton production in 2011/2012 reached 174,052 tonnes. In 2012/13, "the government set the cotton farm gate price of 260 CFA francs (US$0.51) per kg…, up from 250 CFA/kg last season and 200 CFA/kg the season before, in an attempt to stimulate more planting." Increased planting in the 2012/13 season was projected to lead to a 50% increase in production. However, the start of the 2012/13 season was delayed by input supply problems. According to USDA, "early reports had 225,000 tonnes of cotton… ginned from the estimated cotton production for the 2012/2013 campaign", a 29.3% increase over production in 2011/12. Input supply problems continued into the 2013/14 season, leading the IMF to caution the government over "the need for a cotton processing management system that is more responsive to market conditions".

Benin is now in the process of establishing a new policy framework for the cotton sector. As a part of this, in mid 2013 the Association Interprofessionnelle du Coton (the cotton sector inter-trade association) lost its role as the key input supplier and facilitator of financing. The new framework seeks to set out "new terms for public–private partnerships". To date, the reforms initiated have included "making sure that producers/farmers are fully paid for the previous year's crop, consolidating [farmer] organizations, creating village cooperatives, providing capacity building to small producers, and fortifying input committees to reach the goal of 600,000 tonnes of seed cotton production in the next 5 years".

The Benin government has also taken over the export of cotton and cotton seed and now pays ginners "a fixed fee of 50 CFA/kg for processing". However, since ginners wanted twice this amount and had previously handled all exports, this has disrupted the normal functioning of commercial relations in the sector. As a consequence, according to USDA, "the government is now faced with the challenge of rebuilding both production and exports with a dissatisfied ginning industry".

Concerns that these domestic difficulties could be compounded by developments in global cotton markets may now be receding. The long-anticipated announcement in January 2014 by the Chinese authorities that "the state would no longer support a strategic reserve for cotton" was widely expected to reverberate through global cotton markets. However, the Chinese authorities are firmly committed to an orderly policy change, and no dramatic price declines have occurred to date. Indeed, it appears that the price gains since November 2012 have been sustained into 2014, despite the projected 4% contraction in global cotton trade arising from the decline in Chinese import demand.

Sources

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Comment

Ensuring effective functioning of the cotton sector supply chain in Benin has proved a considerable challenge in recent years. The framework agreement, which delegated a range of functions linked to input supply, processing and marketing to the private sector, has now been suspended, with the state once more taking over these functions.

The suspension of the framework agreement has given rise to disruptions in both the functioning of input supply chains and the commencement of the ginning activities. The discontent of ginners with the government's proposed payment arrangements delayed processing, with the government stepping in to start ginning by requisitioning a number of the factories/processing units and Sodeco personnel. This seems likely to give rise to considerable production losses, given the country's shortcomings in storage facilities, and would appear likely to discourage future investment in cotton ginning.

After a difficult period, production is now once again getting under way, but with output likely to be below forecast levels. This is unfortunate, given the expansion in production, which grew from 175,000 tonnes in 2011/12 to 250,000 tonnes in 2012/13, with 300,000 tonnes forecast for 2013/14. These results are partly due to the price paid to the producers, one of the most attractive producer prices in the region (FCFA 265/kg for 2013/2014). This has been effective in motivating farmers to increase the area under cotton.

The recent organisational disruptions in the sector, however, mean that cotton production in Benin continues to fall short of its potential.

European consumer demand driving corporate investment in organic cotton production in Ethiopia

At the end of March 2014, Aycoom Agricultural Development plc, a joint venture between Ayka Addis Textile & Investment Group (holding 55%) and Omo Valley Agricultural Development Plc (45%), announced the launch of a project to develop 10,000 ha of organic cotton production in Ethiopia. The project is expected to cost around 815 million birr (approx. €30.4 million at 4 June 2014).

The large-scale, estate-based project comes at a time of growing demand for organic cotton in the European market and a "cumbersome and costly" process of certification of smallholder cotton farmers. Currently, the Ayka Addis Textile & Investment Group has to import organic cotton – which cost the company 72.5 million birr (approx. €2.7 million) in 2013. The new project will enable the Ayka Group to become an integrated "end-to-end" producer of organic cotton textile products.

Commenting on the company developments, Yared Mesfin, Cotton and Textile Marketing Director of the Ethiopian Textile Industry Development Institute, observed that garments made from organic cotton were in higher demand on global markets and hence fetching a better price. The trend in rising demand is confirmed by the Textile Exchange's 2012 organic cotton market report, which highlights growing commitment by retailers to organic cotton and sustainable sourcing of fibres, in a context of flat levels of production of organic cotton fibre. However, the Textile Exchange report also highlights that end users are concerned about other socio-economic and environmental considerations (e.g. fair trade and broader sustainability) that reach beyond simply organic forms of agricultural production and also inform sourcing decisions.

Press analysis suggests that a trend is developing of big textile companies investing in cotton cultivation in Ethiopia in order to secure their inputs. According to the Ethiopian Cotton Producers, Ginners and Exporters Association, 55,000 ha of land was under cotton cultivation in 2012/13, with 35,000 tonnes of cotton harvested. A further 20,000 tonnes of cotton was imported.

Sources

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Comment

There is currently a paradox in the organic cotton market. Demand for organic cotton is high – with several global brands such as H&M, Nike, Puma and Inditex highlighting their aim to increase the use of organic cotton in their products – but production of organic cotton has been falling since 2011, after 10 years of growth. The reasons include drought, but also more structural factors such as lack of certified seed and training, contamination by GM cotton, and above all the number of cotton farmers whose economic situation is not just not improving, but worsening.

C&A, the largest user of organic cotton in 2012 (according to Textile Exchange's 2012 report), with 39% of its products in 2013 made from organic cotton, became concerned in early April, considering the situation sufficiently serious to affect the company's long-term investments.

Even if brands and companies are managing to sell their organic products at a higher price, small-scale producers do not appear to be sharing in the profits. Small producers are not fully engaged in the value chain, and often fail to benefit from the price premium, selling their organic cotton at the same price as non-organic cotton at the same time as achieving poorer yields. Producers can only sell their cotton as organic if they are certified, but there is no guarantee that they can either sell their cotton as organic or achieve a price premium over what they would have gained for conventional cotton. Difficulty in achieving a premium price when selling organic cotton is one of the reasons for the drop in the area under organic cultivation. In addition, even when farmers do achieve a premium price, it may not fully compensate for the lower yields and certification costs. Organic cotton, like non-organic, is vulnerable to fluctuations in supply and demand, and producers are also subject to price volatility. Becoming a part of the supply chain and securing medium-term contracts with companies and traders would appear to be indispensable conditions for guaranteeing production by and financial returns to farmers.

While the production of organic cotton is falling, along with certified Fairtrade cotton (the only scheme that guarantees a minimum price to the producer), the Better Cotton Initiative (BCI) is currently achieving considerable success. In 2013, more than 800,000 tonnes of BCI-certified cotton was produced – compared to 140,000 tonnes of organic cotton in 2011/12. The BCI scheme uses less demanding criteria, and involves all the stakeholders in the sector in order to make the production process "more sustainable and responsible". India, which became the top global producer of organic cotton, saw its production declining by almost 50% in 2012/11 before stabilising at that level. The country has now turned to BCI cotton, which is less expensive, less constrictive and does not exclude GMOs.

These are all considerations relevant for African cotton-producing countries – a key issue being the need to respond to the global rising demand for organic cotton while at the same time ensuring that small producers are adequately rewarded, so that they do not become marginalised within organic cotton supply chains.

Dairy sector

Higher global milk powder prices being felt in Jamaica

According to press reports in Jamaica, "the cost of powdered milk has surpassed the price of fresh milk produced locally by 23%," as a result of high global prices. According to Jamaica's Dairy Development Board, "farm gate prices for fresh milk range between $62 and $70 per litre [approx. US$0.56–0.63], compared with $76 per litre [US$0.69] for reconstituted milk powder". In 2009, "whole milk powder prices stood at roughly US$2,000 per tonne", rising to "between US$3,000 and US$4,000 per tonne" in the period 2010–2012. In 2013, prices ranged between US$3,000 and US$5,000 per tonne.

This price evolution needs to be seen in a context where Jamaica's fresh milk production has fallen from 38 million litres in the 1990s to 12.5 million litres in 2011, followed by a slight recovery to 12.85 million litres in 2012, before falling back to 12.34 million in litres in 2013. Jamaica has had its Dairy Sector Revitalisation Programme in place since 2008, but this has had little sustained effect to date. The government's aim is to raise local milk production to 55 million litres by 2017, i.e. around 47.4% of current national milk consumption.

At present, "Jamaica imports 90% of milk and milk product." The latter includes "some 7 million litres of yogurt annually, about 1 million litres of ice cream and close to 1 million litres of whipped cream". It is argued that such value-added products could be manufactured locally.

Current high world market milk powder prices are also seen as offering opportunities for the development of local milk production. But, according to the Dairy Development Board, if local milk producers cannot respond with expanded production, Jamaican consumers will face rising dairy product prices, which the Board considers will pose a risk to food security.

Rising prices for milk powder are attributed to rapidly expanding demand in China and India, as a result of urbanisation, the growth of middle classes and changing consumption patterns. But despite a sharp rise in the FAO Food Price Index in March 2014, dairy prices actually fell by 2.5% "as purchases by China declined".

Rabobank estimates of whole-milk powder and skimmed-milk powder prices for the Oceania region Q1 2014–Q1 2015 (US$/tonne)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Whole-milk powder	5,000	4,600	4,500	4,300	4,200
Skimmed-milk powder	4,850	4,400	4,300	4,150	4,050

Source: *Agrimoney.com*, 'Dairy rally…', 21 March 2014 (see below)

The commodity analysis website *Agrimoney* reported in March that growth in Chinese demand for dairy imports remains strong, forecasting that it will hit "25% in the first half of the year" before falling back to "15% in the second half of 2014" as Chinese milk production recovers. Exporters are expected to increase output in order to "exploit the high prices", with available supplies expected to increase by 20% in the first half of 2015, an increase "equivalent to an extra 5 billion litres in milk equivalent terms". Rabobank forecasts that skimmed-milk powder prices will fall back to US$4,050/tonne in the first quarter of 2015, noting that "the rate of price reduction will be limited by structural constraints on suppliers."

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Comment

Market reports suggest a weakening of global milk powder prices as exporting nations respond to market opportunities arising from the major expansion of Chinese import demand. A substantial increase in milk production in areas of rapid demand growth is also forecast. However, with the long-term trend of expanding demand unlikely to reverse, EC projections state that prices for whole-milk powder and skimmed-milk powder are likely to increase by 6% and 15% respectively between 2013 and 2023 (see *Agritrade* article 'Good prospects for EU dairy exports but growing competition', 3 March 2014).

Jamaica's experience since 2008 of efforts to rejuvenate its dairy sector suggest that major hurdles will be faced in capitalising on evolving dairy market conditions. Current yields per cow in the country suggest a need for aggressive productivity-based interventions, particularly in terms of improving the genetic stock. Efforts to improve herd quality on an ongoing basis since the mid 1970s have enjoyed only limited success, with this contributing to the relative lack of success of the Dairy Development Programme to date.

Given the evolving demand in Jamaica, this experience underscores the importance for Caribbean countries of effectively reading the market for strategic export and import-replacement agri-food products, and of crafting strategic long-term development plans for industry survival and growth. Fluctuations in global markets for major commodities of interest to Caribbean producers will continue to occur, and hence the real test of industry resilience will be their ability to "ride the price waves".

The impact of global price volatility on the agricultural base is an issue that the EU has been seeking to address since 2008 through the development of new policy frameworks to strengthen the functioning of dairy supply chains and through a redefinition of the use of traditional agricultural trade policy tools. There may be some value in reviewing the relevance of the new EU policy framework to the Caribbean efforts to rejuvenate local production in the face of elevated, yet volatile, global market prices.

Kenya Dairy Board looking to regulate farm gate milk prices

Press reports suggest that the Kenya Dairy Board (KDB) is planning to regulate farm gate milk prices in order to iron out seasonal variations in raw milk prices and "protect farmers from exploitation by processors". KDB has initiated "consultations with dairy farmers across the country… on how to go about the policy shift". This is in response to calls from farmers for the KDB to set raw milk prices in a context where fluctuations in the prices mean that price levels are periodically too low to cover farmers' costs of production.

At the end of March 2014, New Kenya Co-operative Creameries (New KCC) "followed Brookside [Dairies] in lowering [the] farm gate price of milk", reportedly by some 12.5%. It was also reported that the company was "delaying payment to farmers on unsold stocks". The New KCC Managing Director, Kipkirui Langat, commented that "the huge stocks of long-life products that we are holding have put us under pressure from our suppliers," suggesting that stocks of unsold long-life milk are creating cash flow difficulties for the companies concerned.

At the beginning of March, Brookside reduced the raw milk prices it was paying by 15.6%. The company claimed that "unseasonal rains have improved animal forage supply in the normally dry period", resulting in higher supplies of milk than expected at this time of year.

Brookside Dairies and New KCC account for 44% and 20.8% respectively of the processed milk market in Kenya.

According to Samuel Njoroge, Chair of the Kenya Dairy Traders Association (KDTA), "there is a reliable market network to sustain a stable pricing for the farmer's milk," making such intervention unnecessary. A similar view was taken by the New KCC Chair, Matu Wamae, who attributed the price declines to periodic gluts arising from a lack of processing capacity to deal with peak production levels. He called for support for "vibrant dairy cooperatives" to pool, handle and process high-quality milk under hygienic conditions, with value being added through the production of multiple dairy products.

After reviewing policies in other countries, the director of KDB, Machira Gichohi, concluded that currently "most of our policies are working against our core agenda of improving returns for the farmers while using the dairy sector as a vehicle of wealth creation."

However, KDB's moves have been denounced in press reports as interference in the operation of the market. One of the reports asserts that what is needed is more investment in milk drying and long-life milk production to reduce seasonal fluctuations in supply, alongside efforts to develop national and regional markets for dairy products. It maintains that "the production chain has grown faster than the marketing chain," while investment in "modern dairy husbandry practices… has not been matched by the same investment in the milk processing sector". The key to Kenyan dairy sector development is thus seen as investment to address these shortcomings in the supply chain.

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Comment

The fact that two companies together account for 64.8% of the processed milk market in Kenya suggests a high level of oligopolistic control in the dairy sector, and the recent trend of farmer-owned dairy cooperatives being bought out by larger private sector firms is likely to exacerbate this situation. It is noteworthy that despite the glut of milk, there has been no lowering of formal sector consumer prices for milk, with milk remaining unaffordable to most poor rural and urban households. This raises the issue of building effective local demand for dairy products.

There have been demands for stronger farmer organisations and government support for affordable financing and access to technology, to enable farmers' cooperatives to expand their dairy processing activities. At a minimum, there would appear to be a need for stronger farmer organisations to strengthen the position of farmers in negotiating with large dairies, with potentially a role for public policy in strengthening the functioning of local dairy supply chains.

Whether this should extend to formal price controls is, however, hotly debated, with fears arising that some of the gains in structural dairy sector development since liberalisation could be reversed.

Any moves towards establishing a regulatory framework for price negotiations, however, will critically hinge upon the effectiveness of farmer organisations and the minimum standards established to facilitate milk pooling. In addition, any broader supportive policy framework will need to include measures to stimulate investment in basic processing and storage infrastructure, as well as investment in the development of efficient marketing chains for a range of dairy products.

This potentially raises important dairy sector trade policy issues, ranging from the regulation of imports of inputs (milk powders) and of dairy products to the establishment of regional dairy standards and effective regional regulation of the use of non-tariff measures in the dairy sector.

EU farmers call for relaxation of milk quotas in final year of implementation

EU farmers are pressing the EC to relax the milk production ceiling in the final year of application of milk production quotas in order to assist EU producers in capitalising on growing market opportunities in overseas markets such as China and India.

The EU farmers' organisation Copa-Cogeca has published a letter that it sent to the EC and member states in which it maintains that while EU producers are trying to capitalise on growing global demand, the system of milk super-levies for overproduction effectively penalises them. In the letter, Copa-Cogeca calls for "the milk super-levy collected for 2014/2015 to go back to the sector". The organisation also calls for measures to be set in place "to deal with the potential increase in price volatility when milk quotas expire in 2015".

In April 2014, the EC announced the launch of a European Milk Market Observatory, with the aim of strengthening "the Commission's capacity to monitor the dairy market and help the sector adapt to the new environment, after some 30 years under a quota regime". The intention is to increase transparency and accuracy of market data so that milk supply chain stakeholders "can take well-informed business decisions" and the Commission "can make well-informed policy decisions". The Observatory will provide current data and will also "analyse past and present trends in EU and world dairy markets, production, balance between supply and demand, [production] costs, [market] perspectives etc.".

The Observatory will be open to all members of the supply chain, as well as national and EC policy-makers. Reports of Milk Market Observatory meetings will also be compiled and made publicly available.

In terms of market developments, after a succession of price rises in 2013 and two further price increase in early 2014, EU dairy companies began reducing farm gate milk prices in April 2014, with Arla following FrieslandCampina in announcing price reductions. This was attributed to a "significant negative trend in commodity markets", with the benchmark Fonterra auction prices down 20% since the February 2014 high. Price declines were attributed in part to "a strong start to the northern hemisphere production season… as farmers maximise output to exploit prices which remain at historically elevated levels".

Monthly average EU28 and world market prices, March 2014 (per tonne) and evolution since March 2013

	EU28		World		
	€	**% change Mar13 – Mar14**	**US$**	**€***	**% change Mar13 – Mar14**
Skimmed-milk powder	3,223	21.0	4,888	3,535.6	26.0
Whole-milk powder	3,713	21.9	4,825	3,490.5	14.4
Cheese	3,999	18.0	5,100	3,688.9	22.4
Butter	3,680	9.3	4,756	3,440.1	19.6

* Exchange rate: US$1 = €0.72 (9 May 2014)

Source: EC, 'Commodity price dashboard No. 22', 25 April 2014 (see below)

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Comment

With the exception of whole-milk powder (WMP) prices, world market prices have increased more rapidly than domestic EU prices. By March 2014, world skimmed-milk powder (SMP) prices were almost 10% higher than EU SMP. This would account for the desire of milk producers to see a relaxation of EU milk production quotas in 2014. However, the recent weakening of dairy commodity prices was itself attributed in part to growing levels of production in northern hemisphere suppliers.

This creates something of a dilemma for EU policy-makers. Relaxing quota restrictions in 2014 would boost production and could risk further undermining prices. But maintaining production quotas would place other exporters such as the US and New Zealand in a better position to exploit historically high dairy market price levels. (US milk producer prices are at record highs, in large part because of booming international demand for milk powders at historically high price levels.).

In terms of the ACP, any early relaxation of EU milk production quotas would bring forward the date at which ACP dairy sectors have to deal with the consequences of potentially elevated levels of EU milk powder exports. In the absence of clear policy frameworks for dealing with elevated EU milk powder exports and for integrating imported milk powder into national dairy development strategies, this could prove disruptive of local ACP milk-to-dairy supply chains.

Oil crops sector

First company performance report published on compliance with stricter palm oil sustainability requirements

In 2013, the Palm Oil Innovation Group (POIG). a multi-stakeholder palm oil sustainability initiative, was launched by "a group of progressive palm oil companies together with environmental and social NGOs". POIG emerged out of dissatisfaction with the 2013 review of the Roundtable on Sustainable Palm Oil (RSPO) principles and criteria, which it was thought "could have been more innovative, especially on the issues of deforestation, carbon stocks, biodiversity and social relations". POIG is "committed to reinforcing and improving the RSPO Principles and Criteria" by recognising the attainment of higher standards than those currently required under the RSPO scheme.

According to Greenpeace, the POIG Charter goes beyond RSPO requirements and "addresses deforestation, peat land development, greenhouse gas emissions, pesticides, water accountability, comprehensive free prior and informed consent of indigenous peoples and local communities, food security…, transparency and corruption, and traceability".

Membership of POIG is only open to producers with a proven track record of producing palm oil to the highest standards of sustainability. Specifically, to become a "grower member" of the group, palm oil companies must "have achieved at least 50% RSPO certification… and [must] commit to 100% certification within two years of joining".

The major ACP palm oil producer, New Britain Palm Oil Limited (NBPOL), was one of only two palm oil companies involved in the launch of the POIG initiative. According to NBPOL's 2012/13 Sustainability Report, it engaged with the POIG initiative in response to evolving stakeholder concerns on sustainability requirements, with a view to meeting "the expectations of even the most prominent critics of palm oil production".

According to NBPOL's 2012/13 Sustainability Report, the company first attained full RSPO certification in 2008, for its operations in Papua New Guinea (PNG), the Solomon Islands and the UK, with its certification successfully extended to newly acquired operations in 2012, including sustainability certification for all of the company's smallholder oil palm producers. NBPOL maintains that it is now "the leading supplier of traceable, segregated sustainable palm oil in the world".

NBPOL reports that it continues to invest in methane capture arising from palm oil mill effluent, as part of a broader commitment to "zero new carbon emissions". The company also reports that it seeks to pass on to smallholder producers a share of price premiums gained from the attainment of sustainability certification. In 2013, NBPOL maintained that it was paying a premium equivalent to US$8.72/tonne of crude palm oil for certified sustainable smallholder production, while "book & claim" GreenPalm certificates were priced much lower, at US$2.76/tonne.

NBPOL's 2012/13 sustainability report provides an assessment of the company's performance against the stricter POIG criteria, rather than the standard RSPO standards.

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Comment

With palm oil production in PNG and the Solomon Islands and refineries in the UK and PNG, NBPOL has played a leading role in developing stricter sustainability principles and criteria in response to evolving consumer concerns. This places NBPOL, an ACP-based company, in the forefront of debates around sustainability requirements.

Significantly, one of the objectives of the POIG initiative is to create "added value for innovative and progressive producers through increased market recognition and demand for palm oil products from innovative and improved practices". This can be seen as a vitally important development in the sustainability debate, since it seeks to ensure that end users place a commercial value on the attainment of sustainability standards, to the benefit of primary producers.

This is a critical issue for the ACP in the evolving sustainability debate in OECD countries. Securing price premiums ("increased market recognition") on sustainably produced goods can be seen as essential in maintaining sustainable production at times of adverse market developments or weather-affected production levels.

The experience of NBPOL suggests that within the ACP, experience exists that could be tapped into, thus strengthening collective ACP engagement in major policy debates around issues such as private sector sustainability standards and the critical issue of the distribution of the costs and benefits of sustainability certification along the supply chain (see *Agritrade* special report, 'The ACP and increased private sector demands for sustainability certification', 26 May 2014).

Sustainable sourcing of palm oil cheaper than bad publicity for OECD consumer product manufacturers

According to Euromonitor International, "the cost of moving towards traceable and sustainable palm oil is marginal compared to the long-term effects of negative publicity." For example, "in 2013, consumer groups turned on Kellogg's, after media reports claimed that its supply partner… had provided it with illegally grown palm oil from Indonesia.". According to a Euromonitor food analyst, if deforestation and environmental concerns led "just 1% of Kellogg's consumers… to stop buying its products, company sales could fall by US$200 million". While there had been no immediate threat of a consumer boycott, Kellogg's subsequently announced "its intention to source sustainable and traceable palm oil."

Euromonitor maintains that "pressure from environmental groups and 'green' consumers [has] forced global food manufacturers to tighten their ethical policies on palm oil amid mounting concerns over deforestation and sustainability." It notes that "most major brands, including

Nestlé, Pepsico, Danone and Unilever, have set themselves 'sustainable targets' to source 100% of their palm oil" through the Roundtable on Sustainable Palm Oil (RSPO – see *Agritrade* 'Executive Brief Update 2013: Oil crops sector', 20 December 2013 for more information). Euromonitor notes that Kellogg's "has set its own target and will only accept palm oil that has full traceability".

Euromonitor observes that "of the estimated 50 million tonnes of palm oil harvested, only 15% is certified by RSPO", and that "illegal plantations are a huge problem… as a result of poor local monitoring systems, making traceability difficult". Based on its analysis, Euromonitor maintains that companies that are slow to move to sustainably sourced palm oil could face problems in securing supplies.

In many processed food products, the volume of palm oil used is relatively small, ranging from 1% in bread to 2% in ready meals, 4% in chocolate and 14% in biscuits. In this context, potentially facing a consumer backlash for non-sustainable sourcing is increasingly seen as an unnecessary risk.

Reflecting these concerns, in April 2014, RSPO reported a 49% increase in the "physical uptake of CSPO" (certified sustainable palm oil) from 340,668 tonnes to 506,586 tonnes, in the first quarter (Q1) of 2014 compared to the equivalent period in 2013. Sales of "physical CSPO" take place under three systems of certification: Identity Preserved (IP), Segregated (SG) and Mass Balance (MB) supply chains.

In addition, sales of GreenPalm certificates expanded by 54% from 555,906 tonnes to 853,338 tonnes in Q1 2014, compared to Q1 in 2013. GreenPalm, a certification programme for sustainably produced palm oil, uses a "book and claim" system, and directly provides financial support to sustainable palm oil production.

Commenting in RSPO's statement on its Q1 results, the UTZ Certified Executive Director said that "transparency, disclosure, clarity and efficiency in the physical trading of CSPO and its fractions along the supply chain are increasingly important for all stakeholders."

According to the RSPO Technical Director, a growing number of companies are making a commitment to acquire all the palm oil they need from RSPO-certified sources, many of them establishing a deadline of 2015 for meeting their commitment.

Among the ACP countries, Papua New Guinea, the Solomon Islands and Côte d'Ivoire all have palm oil production certified as sustainable by RSPO.

Meanwhile, 27 Swedish food companies and organisations have signed up to the Swedish Soy Dialogue, an initiative that aims to ensure that "100% of the soy used for the production of foodstuffs sold in Sweden is socially and environmentally sustainable by 2015". An interim target of 60% sustainable sourcing has been set for the end of 2014.

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Comment

It is noteworthy that the 62.75% of the sustainable palm oil sourced in the first quarter of 2014 used the "book and claim" certification system. This allows manufacturers to offset their use of palm oil, palm kernel oil (PKO) and palm kernel expeller (PKE) by buying GreenPalm certificates from growers, representing an equivalent volume that has been produced in line with RSPO principles and criteria. However, this system of certification is increasingly being criticised by environmental NGOs for allowing non-sustainable producers to profit from a rising market.

Given the sensitivity of consumer product manufacturers to pressure from final consumers on ethical grounds, it seems likely that pressure will increase over time to supply fully segregated palm oil, so that only palm oil physically certified as sustainable finds its way into the supply chains of companies committed to 100% sustainable sourcing.

This suggests that ACP palm oil exporters will need to increasingly invest in fully traceable, segregated, certified palm oil production, processing, transport, storage and delivery to end consumers. Indeed, with new environmental concerns arising linked to the by-products of palm oil processing (see *Agritrade* article 'Calls for more action on palm oil sustainability', 11 April 2014), additional investments may well be needed in waste water management as sustainability requirements are deepened.

This raises public policy issues across a range of areas, from dialogue with the EU on sustainability labelling requirements, through support for cost-effective sustainability certification under smallholder production systems, to public policy on sales of co-generated electricity arising from investments in capturing methane produced during processing.

Poultry sector

FAO 2014 outlook for global poultry sector developments

According to FAO's May 2014 Food Outlook, global poultry production, "after limited growth in 2013", is "anticipated to rise by 1.6% to 108.7 million tonnes in 2014". The largest expansion in production is projected in developed economies, as growth of production in developing countries will be dragged down by the expected 1.7% decrease in Chinese poultry production in response to the avian flu outbreak of 2013.

US poultry production is expected to rise by 1.8% to a record 20.6 million tonnes, while EU production is expected to increase by 0.8%. Brazil and Mexico are also expected to show some production gains, while production in Russia and India is projected to increase by 8% and 6% respectively.

Russian government policy initiatives to increase domestic poultry production led to a fall in EU chicken exports to Russia of 18% in 2013, and a further decline of 2% is expected for 2014, as EU poultry meat exports fall to "less than half of what they were in the mid-2000s".

According to FAO, the global trade in poultry meat has doubled in the past decade, with growth slowing down in 2012 and 2013 and a 2.4% increase anticipated in 2014. FAO notes that "the four leading exporters, Brazil, the United States, the EU and China, which together account for almost three-quarters of global trade, have seen little expansion in sales in recent years."

FAO highlights the differing geographical focus of the second tier exporters, Thailand, Turkey, Argentina, Ukraine and Belarus. Of these, the first three "are projected to continue recording strong growth in 2014", and "each has focused on a different region or market segment":

- Thailand – mainly the Japanese market and EU markets for boneless poultry cuts and prepared poultry meat;
- Turkey – mainly Middle Eastern markets;
- Argentina – mainly Latin American markets (but looking to broaden its focus by targeting markets in China and South Africa, among others).

In Africa, imports are forecast to increase by 4.8%, well above the average increase in world trade. Ghana and Benin are among the countries where imports are projected to increase most, "as income growth strengthens demand". In South Africa, which is the major African destination for imported poultry meat imports, imports in 2014 are projected to remain unchanged.

In terms of price, between 2009 and 2013, US and Brazilian dollar-denominated poultry meat reference prices were 24.3% and 29.8% higher respectively. More generally, the FAO poultry meat price index rose from 162 in 2009 to 206 in 2013 (+27%). The 2013 FAO annual price index figure, however, masked the continuous fall in poultry meat prices from the third quarter of 2013. These declines stabilised in 2014 at 189, an index level only 16.7% above the 2009 level.

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Comment

The FAO assertion of limited expansion in exports by the four leading exporters in recent years does not hold for the EU – between 2010 and 2013, EU exports of poultry meat (mainly poultry parts) grew by 13%. More specifically, EU poultry meat exports are increasingly focusing on African markets. Exports from the EU have been a major contributing factor in sub-Saharan Africa increasing its share of total global poultry meat imports from 4% in 2000 to 10% in 2011 (see *Agritrade* article 'Poultry exports to Africa continue to grow', 19 January 2014). African markets could become even more important if political tensions with Russia lead to a more rapid decline in EU poultry meat exports to Russia than FAO projects.

Most recently, because of the tariff preferences enjoyed, the EU has focused on the South African market (see *Agritrade* article 'South Africa selectively raises duties on five poultry items within WTO bound ceilings', 17 November 2013). This could well displace poultry meat from other suppliers (including potential Argentinian poultry meat exports) to markets in West Africa (Ghana and Benin) and Southern Africa (Angola).

In view of African efforts to integrate regional markets and the "footloose" nature of trade in frozen poultry parts (which responds rapidly to government policy changes), regional policy harmonisation in the poultry sector would appear essential if the trade in smuggled poultry products – which carries a heightened risk of serious food poisoning as a result of the repeated defrosting and refreezing of the smuggled product – is to be contained.

Rice sector

Rice sector developments in selected West African countries

The US Department of Agriculture (USDA) has posted a review of rice production trends in 11 West African countries (excluding Nigeria), with a focus on Burkina Faso, Côte d'Ivoire, Mali and Senegal. In marketing year (MY) 2013/14, USDA estimates that rice production will increase by 11% compared to 2012/13, which was itself up 20% on 2011/12. Between 2012 and 2015, overall rice production in the selected countries is projected to increase by 40%, in a context of a 20% rise in consumption. This is projected to lead to an 18.5% decline in imports between 2012 and 2015, according to USDA estimates.

The main countries where rice production is projected to grow between 2012 and 2015 are: Côte d'Ivoire (+154%); Burkina Faso (+40%); Chad (+27%); Senegal (+26.8%); Guinea Bissau (+23.8%); and Mali (+19.5%).

The strong growth in rice production in Côte d'Ivoire will make it the biggest rice producer of the countries reviewed by 2015. This follows the implementation of a revised National Rice Strategy, which seeks to:

- encourage farmers to use improved seeds and better equipment;
- promote processing units close to production areas;
- promote more private investment in the rice sector.

Rice production, imports and consumption in selected West African countries 2012-2015 ('000 tonnes)

	Production				Imports				Consumption			
	2012	**2013**	**2014**	**2015**	**2012**	**2013**	**2014**	**2015**	**2012**	**2013**	**2014**	**2015**
Burkina Faso	157	210	220	220	390	400	280	300	420	500	520	520
Chad	118	116	150	150	30	45	45	50	123	130	145	170
Côte d'Ivoire	550	984	1,200	1,400	1,400	1,150	1,000	800	1,400	1,900	2,000	2,100
Gambia	11	30	35	35	100	100	100	100	110	120	130	135
Guinea-Bissau	105	120	130	130	150	130	130	130	220	230	260	280
Guinea	1,098	1,110	1,250	1,200	340	360	340	350	1,360	1,390	1,480	1,500
Mali	1,130	1,250	1300	1,350	180	140	150	150	1,400	1,450	1,480	1,520
Mauri-tania	85	100	110	100	170	100	100	100	170	180	190	200
Niger	8	3	25	25	280	280	300	300	283	278	300	325
Senegal	276	320	290	350	1,200	1,000	1,100	1,100	1,325	1,350	1,400	1,450
Togo	73	75	80	90	100	100	100	100	168	170	175	190
Total	**3,611**	**4,318**	**4,790**	**5,050**	**4,270**	**3,805**	**3,645**	**3,480**	**6,979**	**7,698**	**8,080**	**8,390**

Source: CILSS data and FAS Dakar estimates, cited in USDA, 'Senegal/West Africa', 14 March 2014, Table 1 (see below)

The aim is to attain production of 2 million tonnes of milled rice by 2020. USDA considers that the government's goal of rice self-sufficiency is attainable, and estimates that the expanded production will lead to a significant decline in Ivorian rice imports (–29% between 2012 and 2014, and –43% by 2015), despite an estimated 50% increase in consumption between 2012 and 2015.

In contrast, production in Senegal is projected to fall by 9% in 2013/14 as a result of poor weather conditions. It is expected to resume growth as government support programmes are implemented. However, the analysis notes that there are problems regarding the acceptability of local rice in Senegal's urban markets, and that efforts need to be made to improve rice processing and product quality.

USDA notes that while the rice market is generally liberalised in the countries reviewed, "respective governments have the mandate to regulate the market." The government of Côte d'Ivoire, for example, retains the right to waive import duties when global rice prices rise, while in Burkina Faso the government "plays a strategic role in the distribution and promotion of rice", through a national company that buys paddy rice and manages rice stocks.

Sources

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http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Dakar_Senegal_3-14-2014.pdf

Comment

The success of government policy in stimulating rice production in Côte d'Ivoire, alongside the success being achieved by a number of West African rice producers, could potentially hold some important policy lessons for Nigeria as it tentatively begins to review its current rice trade policy (see *Agritrade* article 'Uncertain movement on Nigeria's rice trade policy', 18 May 2014).

It is noteworthy that Côte d'Ivoire's revised rice strategy (2012–2020) hinges primarily on reinforcing local production and less on adopting protectionist trade measures. In this context, it should be noted that Côte d'Ivoire's focus is on producing the quality of rice demanded by consumers at competitive prices, rather than on rice self-sufficiency per se. Côte d'Ivoire's rice policy focuses on enhancing producers' access to improved seeds, irrigation, agricultural inputs and mechanisation, and on improving the access of producers to urban markets by establishing a regulated price mechanisms that secures producers' incomes.

This has seen Côte d'Ivoire's rice sector attract not only domestic investment, but also significant foreign investment. For example, in January 2013, Louis Dreyfus Commodities signed an agreement with the government to invest US$60 million in rice production, while other companies such as Olam and Mimran have invested in serving not only national markets, but also the growing regional markets.

Sugar sector

American Sugar Refiners leads way back into the EU sugar market for DR sugar exporters

According to the latest US Department of Agriculture (USDA) annual report on the Dominican Republic (DR) sugar sector, total sugar production for 2013/14 is estimated at 575,000 tonnes, 3.3% higher than in 2012/13, due to an expected 150,000-tonne increase in cane sugar production by Central Romana, which dominates the DR sugar market. Central Romana is "the largest and most efficient mill in the country" and is expected to produce some 395,000 tonnes of sugar in marketing year (MY) 2013/2014, around 69% of national production, with a forecast increase to 410,000 tonnes in MY 2014/15. Over the same period, the Vicini Group is expected to increase production from 100,000 to 132,000 tonnes and Consorcio Azucarero Central to increase production from 70,000 to 88,000 tonnes. Production at the fourth major sugar company, Ingenio Porvenir, is declining "following the collapse of the rental agreement between private investors and the government".

Central Romana, the only local company capable of producing refined sugar, refines 44.3% of its production.

In MY 2013, a total of 162,434 tonnes of raw cane sugar was exported, "down from 209,000 tonnes in MY 2012… due mainly to reduced demand from the US". The 2013 exports all went to two destinations, the USA (56.3% – 91,434 tonnes) and the EU (43.7% – 71,000 tonnes, 60,000 of it from Central Romana and 11,000 from Consorcio Azucarero Central). The EU markets served included the UK, Portugal and Bulgaria. This was the first time since 2009 that sugar had been exported to the EU from the DR.

While Central Romana enjoys the largest tariff-rate quota (TRQ) allocation for exports to the US market out of the four DR producers (some 118,710 tonnes, or 62.84% of the total US TRQ for the DR), it exported only 40,000 tonnes to the US in 2013, a quota fill rate of only 33.7% compared to the total DR US quota fill rate of 48.4%.

The USDA report notes that the DR sugar industry recognises the importance of increasing the US TRQ fill rate in order to maintain the DR's share of the US TRQ, but adds that exporters are expected to "continue to ship sugar to the EU during the present MY, possibly as much as 60–70,000 tonnes", given "the current price disparity between the US and EU markets". It is anticipated that total DR sugar exports will recover in MY 2014 to 214,000 tonnes.

Sugar consumption in the DR is estimated at 380,000 tonnes, 52% of which is in the form of raw sugar. Demand for refined sugar is, however, increasing, "due to higher demand [for] refined sugar from the bakery and beverages industries, the tourism sector and due to population growth". Targets for growth in the tourism sector aim to increase local sugar consumption by 40% by 2024.

The "relationship between private cane producers and millers" is regulated by the government, which sets "prices for raw cane based on sugar content" and prices at all stages of the supply chain through to final consumers. INAZUCAR, the Dominican Sugar Institute, also plays a regulatory role in overseeing the market, including approving import permits and administering the TRQ.

While the government has been looking at establishing an ethanol policy since 2005, little progress has been made, and no investments made in sugar-based ethanol production. Co-generation for own use has been developed, but, in the absence of a legal framework, no sales have been made to the grid.

Sugar imports are subject to import licences, and are subject to an out-of-quota tariff of 85%. Certain import quotas (30,000 tonnes) have been established, however, on which the "import duties for raw and refined sugar are 14% and 20%, respectively, plus an 18% value-added tax". The DR has often issued import licences for amounts in excess of 30,000 tonnes "in order to cover shortfalls in domestic production".

According to USDA, under the CAFTA-DR [agreement], the government has made a commitment to “phase out its sugar tariffs over a 15-year period, beginning from its base rate of 85%”. The rate is currently 34.05%, and is scheduled to reach zero by 1 January 2020.

Sources

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Comment

With average EU sugar import prices 16.3–32.5% above US import prices between March 2013 and March 2014, the DR has begun once again to export sugar to the EU market, with Central Romana leading the way through sales to facilities operated by its sister company Tate & Lyle Sugars (TLS) in the UK and Portugal. This has helped to ease the supply problems faced by TLS, a situation exacerbated by the decision of the Fiji Sugar Corporation to sell part of its production to the main rival of TLS on the UK and Iberian markets, Associated British Sugar.

So long as the price obtainable on the US sugar market is not above the cost of sourcing raw cane sugar for its EU refining operations from alternative sources (world market price plus the reduced duty import levy), Central Romana looks likely to continue, and even expand, its raw cane sugar exports to TLS refineries in the UK and Portugal. This could help ease the capacity utilisation problems haunting American Sugar Refiners’ operations in the EU.

However, if the projected expansion of the tourism sector in the DR takes place, major alternative domestic markets for refined sugar production are likely to emerge in the coming years. In this context, the DR sugar sector looks well placed to deal with the consequences of the final stages of implementation of EU sugar sector reforms.

EU to emerge as a major driver of global sugar markets

According to the website *Agrimoney.com*, sugar market analysts at the UK-based broker Marex Spectron have suggested that the EU “is to become one of the two main drivers of values” on global sugar markets, with its influence second only to that of Brazil. This reflects both the deregulation process already under way in the EU sugar sector and “the greater freedom among EU farmers… to raise or lower production of beet” for use in sugar manufacturing, in response to EU and world market sugar prices. The annual nature of EU beet production could lead to widely varying levels of EU sugar production, depending on the relative prices of sugar beet and other arable crops.

The Marex Spectron analysts commented that “if the world price is too low, EU farmers can respond by sowing the minimum…, turning the EU into a substantial importer [of sugar],” while “if world prices are high enough to incentivise EU farmers to plant the maximum, the EU could again become an annual exporter.” EU sugar production could then range from a low of 14 million tonnes to a high level of 21 million tonnes, depending on prevailing prices. In this context, “the EU could be an importer of up to 2.5m tonnes, or an exporter of up to 4.5m tonnes.”

It was noted that only the Centre South region of Brazil has a comparable range of sugar production, given the ability of producers to switch between production of sugar and ethanol.

The analysts said that from 2016 there would be “two huge swing factors at work in the sugar market – one based on the EU cost of production, and the other on the Centre South Brazil cost of production,” with both capable of very rapid reaction to price changes. The play of these two “swing factors” could give rise to very different outcomes in international sugar prices.

Marex Spectron estimate the EU beet growers' production cost – i.e. the level at which farmers will receive a profit incentive to grow the crop – at about 19–20 US cents/lb (US$0.19–20/0.45 kg), and that of Centre South Brazil's producers at 17–18 US cents/lb.

Looking at EU production costs, EU sugar producer Südzucker issued a warning in April 2014 of further declines in the profitability of its operations. Up to the end of February 2014, revenues fell by 1.8% (to €7.74 billion) and operating profits fell by 32% (to €658 million) year on year. A further decline in revenues (to €7 billion) and profits (to €200 million) in the year beginning March 2014 is foreseen. This is attributed to "the expectation of an increasingly deteriorating economic environment in the European sugar and bioethanol markets", with "prices undermined by increased imports" of both sugar and ethanol and "the prospect of an end to quotas in 2017".

Sources

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Agrimoney.com, 'Suedzucker shares plunge on "huge" profit warning', 8 April 2014
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Comment

EU beet sugar production takes place alongside and in rotation with cereals production. Many EU beet processing companies also process cereals and are therefore well placed to respond to price signals from both EU and global cereals and sugar markets. Many EU-based beet companies are also exploring non-sugar uses of sugar beet. This creates a situation where, even in a context of import controls on sugar being retained, EU beet producers will be well placed to respond to market signals.

ACP sugar producers, for their part, will need to prepare for dealing with far more volatile sugar prices, given the ability of both EU and Brazilian producers to adjust rapidly to changing price signals.

Debate intensifies on extension of COOL requirements to other products

The US Department of Agriculture (USDA) has published a review of the EU's country-of-origin labelling (COOL) policy. It notes that when the EU's regulation on the provision of food information to consumers (FIC) (Regulation no. 1169/2011) was adopted, it was agreed that mandatory COOL requirements "should be extended to more food products and ingredients". The initial deadline for defining which products should be subject to COOL requirements was 31 December 2013, but USDA notes that the deadline "has already passed" and that "the Commission has not yet adopted an implementing regulation… and is still reflecting on the best way forward."

The USDA review notes that "Article 26.5 of the FIC Regulation requires the Commission to prepare reports by 13 December 2014 that assess the need and feasibility of extending mandatory COOL to the following foods":

- "types of meat other than beef, pork, sheep, goat and poultry meat;
- milk;
- milk used as an ingredient in dairy products;
- unprocessed foods;

- single-ingredient products;
- ingredients that represent more than 50% of a food".

According to Paragraph 19 of EU Regulation 1169/2011, mandatory country-of-origin labelling should only be used where it is necessary, proportional and sustainable. In Paragraph 30, the regulation makes a clear distinction between mandatory labelling and voluntary labelling "to draw consumers' attention to the qualities of their product". In Paragraph 29, the necessity of COOL requirements is explored. COOL labelling is considered to be necessary "whenever its absence is likely to mislead consumers as to the true country of origin or place of provenance of the product".

Sources

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Agrosynergie (for the EC), 'Evaluation of CAP measures applied in the sugar sector', December 2011
http://ec.europa.eu/agriculture/eval/reports/sugar-2011/fulltext_en.pdf

Comment

The EC has initiated a process of consultations over the products on which mandatory COOL requirements should be applied. This has given rise to concerns among ACP sugar exporters that COOL requirements could be extended to sugar under Article 26.5 (single-ingredient products and ingredients that represent more than 50% of a food).

But questions arise as to the relevance of COOL requirements to sugar, given the underlying objectives of the regulation and the homogenous nature of sugar as a product. In this context, the distinction between mandatory labelling and voluntary labelling designed to "draw consumers' attention to the qualities of their products" is very relevant. While country-of-origin labelling can be a useful marketing tool, this is quite different from the imposition of mandatory requirements to prevent consumers from being misled "as to the true country of origin or place of provenance of the product".

In addition, from an ACP perspective there would appear to be a commercial case against extending mandatory COOL requirements to sugar. Since EU sugar sector reforms began in 2005, there has been a significant expansion of capacity to co-refine raw cane sugar alongside beet processing operations. Some estimates put this expansion at 1.85 million tonnes of new capacity (see *Agritrade* article 'The future of EU sugar production quotas', 23 September 2012), while a 2011 evaluation of the EU Sugar Common Market Organisation reforms estimated that for raw cane sugar, "the overall refining capacity in the EU27 will be around 4.7 million tonnes/year in 2013."

This has broadened the range of customers for ACP sugar exports and has assisted ACP exporters in securing better prices on the EU market. Some of the co-refiners – i.e. sugar beet refiners who produce sugar from raw cane sugar as well as from sugar beet – now regularly and consistently process raw cane sugar, while others only process raw cane sugar when there is a shortfall in their own beet production, and others still are only now beginning to develop co-refining of raw cane sugar. Given these different patterns of co-refining, the costs of compliance with any COOL requirements would vary considerably between the co-refining companies, depending on the volumes they process and their sourcing practices (directly importing or via traders).

While the full cost implications have not been assessed, the possibility exists that any introduction of COOL requirements for sugar could discourage some companies from co-refining, thereby reducing competition on the EU market for ACP raw sugar. It could also encourage co-refiners to limit their sources of raw cane sugar imports, in order to simplify compliance with the COOL requirements, thereby effectively excluding smaller-volume ACP exporters. More fundamentally, the new requirements could prevent the use of the highly efficient practice of mixing raw cane sugar with EU beet sugar in the final refining process.

Given the homogenous nature of sugar as a consumer product, these commercial disadvantages would accrue without any corresponding consumer benefits.

Tea sector

Kenya looking to introduce new tea production processes to facilitate market diversification

In order to target new markets in the Far East, the Kenya Tea Development Agency Ltd (KTDA), a private company providing management services to small-scale tea farmers for the production, processing, and marketing of teas in Kenya, is planning to introduce processing of orthodox teas. Orthodox teas are "whole leaf teas manufactured using the traditional process", and generally fetch higher prices than those manufactured by the "crush, tear and curl" (CTC) process. KTDA's target level of production for orthodox teas is 60 million tonnes per annum, with at least one factory in each production zone manufacturing the product.

KTDA's move needs to be seen against the background of a 13.3% decline in the average price of teas exported in 2013 compared to 2012 (export values fell from US$3.09/kg in 2012 to US$2.68/kg in 2013). Despite the lower prices, the volume of Kenyan tea exports increased by 20.6%, from 33.5 million kg to 40.4 million kg, reflecting good weather conditions in Kenya. Economic and political instability in major export markets, however, meant that the improved production levels resulted in the country's total export earnings from tea increasing by only 2%.

According to KTDA, "tea prices at the Mombasa auction have suffered a 30 percent decrease since July 2013 as a result of increased supply." This in part reflects the state of the global tea market, where production exceeds consumption by 200 million kg (4.8 billion kilograms is produced, compared to consumption of 4.6 billion kilograms).

As a result, smallholder farmers have been criticising KTDA, questioning how multinational tea factories can offer higher basic prices than KTDA (KSh25/kg – approx. €0.21 as at 24 May 2014 – compared to KSh14/kg). However, this neglects end-of-season bonuses paid by KTDA, which in 2013 amounted to KSh31/kg, taking the final payment to KSh45/kg (approx. €0.38).

There have been calls for KTDA to review its bonus payments system to spread payments across the season. However, KTDA reckons that bonus payments in 2014 are likely to be the lowest in 4 years. This is unfortunate, since smallholder farmers have increased tea production by one-third since the financial year 2011/12.

Low demand on the international market and the absence of buyers from Egypt and Pakistan have resulted in weaker prices for East African teas in 2014. Rwanda reported a 1.4% decline in earnings from tea exports in February 2014 despite an 11% increase in export volumes. Prices reportedly "fell to $2.48 in February from $2.79 in January". This follows a decline of 15.6% in total export earnings from tea in 2013 compared to 2012. Approximately "60 per cent of Rwandan tea is sold at the Mombasa Auction, while 37 per cent is bought by individual buyers from different countries."

Sources

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Kenya Tea Development Agency Ltd, website home page
http://www.ktdateas.com/

Comment

The current effort to diversify tea production is commendable and could potentially impact positively on smallholder farmers, provided that this translates into increased final payments. However, there are always tensions between investments by farmer-owned bodies in both processing and support for improved farming techniques and current distribution of income. Innovation invariably carries a financial price in terms of the short-term distribution of income.

In terms of government policy initiatives, while the tea industry in both Kenya and Rwanda is largely run by the private sector, governments could assist smallholder farmers in lowering the costs of production by improving access to fertilisers and lowering energy costs. In addition, in Kenya, the broader process of parastatal reorganisation taking place in Kenya could have a positive impact by reducing the number of agricultural parastatals, thereby increasing efficiency and reducing costs to the tea industry (in the tea sector, both the Kenya Tea Board and the Tea Research Foundation are funded through levies on the tea industry).

In the longer term, the regional tea industry needs to collaborate with other producer countries in developing strategies to bring greater stability to tea markets by boosting demand. The developments in two major importing countries, Pakistan and Egypt, have had such a strong impact on the Kenyan tea sector that there would appear to be a need to explore market diversification, as well as product diversification.

Scope also exists for developing local tea markets, including through the development of packaged products that could later be launched onto international markets.

Launched by CTA (Technical Centre for Agricultural and Rural Cooperation ACP-EU) in 2001, the Agritrade website http://agritrade.cta.int is devoted to agricultural trade issues in the context of ACP (Africa, Caribbean, 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 (banana, cereals, sugar, fisheries, etc.).

The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP—EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management. It does this by providing access to information and knowledge, facilitating policy dialogue and strengthening the capacity of agricultural and rural development institutions and communities in ACP countries.

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