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ACP-EU Agricultural Trade Issues

News and Analysis

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EPA negotiations: general

EC to launch initiative on tax reform in developing countries

On 9 December 2009 the EC and the EP launched a 'debate on how to improve tax revenue collection in developing countries'. Trade Commissioner-designate, Karel De Gucht, highlighted the serious implications of the limited tax revenues in developing countries and stressed that getting tax collection right could offer a new avenue for development. He pointed out that under the 10th EDF, part of the €2.7 billion reserved to support good governance is to be devoted to reform of tax administrations. Recognising that it is 'the prime responsibility of developing countries to improve their tax systems', the Commissioner raised a critical issue, asking 'how can donors assist developing countries in these reforms, bearing in mind that taxes are at the centre of the domestic political debate?'

The EC memorandum accompanying the launch highlighted the recent growth in the tax-to-GDP ratio in sub-Saharan Africa, but noted that this was largely based on 'natural resource taxes'. The memorandum also identified a number of factors that inhibit tax revenue collection:

- weak tax authorities and administration;
- the structure of developing country economies and the extent of the informal economy;
- lack of transparency;
- numerous tax exceptions for large foreign and domestic investors;
- pressure from transnational investors and global tax 'races to the bottom'.

Additional constraining factors identified include transfer pricing by international companies and a lack of effective international tax collaboration. This constitutes one obvious area for collaboration, particularly given that tax evasion results in a €40 billion loss each year, 'simply because wealthy individuals place their assets in non-cooperative jurisdictions instead of their own countries'.

The EC background memorandum notes that the 'the development of Economic Partnership Agreements has increased the importance of these reforms as the mitigation of the possible negative impacts of trade liberalisation on customs revenues has increased in relevance'. The memorandum notes that the EC is now 'in the preliminary stages of working on an initiative … [with the] objective 'to promote tax reform in the context of a regulatory framework designed to support international tax cooperation, private-sector development and economic growth'.

Meanwhile the EC has posted a summary of the state of play in EPA negotiations at the end of October 2009. The briefing maintains that the EC and member states are working with regional organisations and national governments to determine 'regional "aid for trade" packages that will build on, and complement, the existing support for EPA implementation and regional economic integration'. It adds that 'all six 10th EDF regional programmes focus on trade and regional integration, in anticipation of EPA implementation needs'.

Sources

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EC, Informal Background Paper, 31 October 2009
http://d.yimg.com/kq/groups/6098427/2133793298/name/EU%20Com%20state%20of%20the%20play%20091031.doc

Comment

Concerns over the fiscal effects of the tariff offers put forward by ACP regional configurations have had a major effect on the structure of tariff offers tabled. In some regions, national trade negotiators were told to prioritise national revenue concerns in constructing regional tariff offers. This led to the compilation of extensive lists of product exclusions, which in some instances made it impossible for regional groupings to proceed collectively in putting forward a single regional tariff elimination offer. A concerted and effective initiative by the EC and EU member states to assist ACP governments in restructuring their tax collection system could open up new opportunities for harmonising national tariff offers at the regional level in a number of ACP regions. However, given the length of time required for the successful implementation of sustainable tax reforms, such a convergence is still likely to be some way off.

Lessons from the Caribbean rum-sector development programme

CTA and ECDPM have published a paper entitled 'The Caribbean rum programme Cost-Sharing Grant Scheme experience: Lessons for programme development in other ACP countries'. The paper reviews the origins of the programme in a unilateral change of policy by the EU, and the recognition of the need for adjustment support for ACP rum producers. It summarises the overall structure of the rum programme and locates the CSGS in this context. The main body of the report looks at the lessons arising for both the design and implementation of the CSGS established to support trade and production adjustments in response to trade-policy changes.

In terms of design, the paper highlights the following areas:

- the importance of clearly defining specific objectives to be attained via the CSGS;
- the need for well conceived and managed accompanying measures to support CSGS implementation in pursuit of the overall programme objectives;
- the importance of providing EC co-financing support at a level which provides an incentive for the adoption of proactive trade- and production-adjustment responses;
- the importance of addressing tendering and procurement issues in the design phase so as to avoid any disruption of normal commercial 'best practice' procurement;
- the need to build flexibility into the budget process, so that the use of aid funds can be recipient driven;
- the importance of establishing efficient and transparent decision-making systems that take into account issues of commercial confidentiality.

In terms of implementation, the paper highlights:

- the importance of providing effective support to the administration of the reimbursement process;
- the need for an ongoing review process so that problems can be identified early and remedial measures can be set in place;
- the difficulties faced in using CSGS to support certain types of activities, and hence the need to define carefully what should and should not be eligible for support (particularly in the marketing and distribution area).

The paper goes on to review the lessons arising for other ACP countries, stressing:

- the importance of sustained advocacy, alliance building and industry leadership in moving from conceptualisation to operationalisation of trade- and production-adjustment support;

- the importance of dealing with tendering and procurement issues through a dedicated manual of procedures jointly agreed with the EC services;
- the importance of ensuring the EC co-financing contribution is sufficient to incentivise proactive, market-led production- and trade-adjustment activities;
- the importance of establishing flanking programmes of administrative support for the implementation of the programme and the attainment of overall programme objectives;
- the central importance of trade-adjustment and marketing support to the overall process of production adjustment.

Overall the paper concludes that once initial design and establishment problems have been addressed, cost-sharing grant schemes can provide a relatively quick way of committing and disbursing funds in support of operational improvements targeted at improving the competitiveness of ACP production, in ways which are market-led and private-sector based.

Sources

CTA and ECDPM, Paper setting out initial findings of research, October 2009:

Link to CTA web page on workshop on 'Aid for Trade and Agriculture: Towards a SADC agenda', giving access to a range of presentations, including the above paper in session 4 of the workshop: http://www.cta.int/en/About-us/What-we-do/Agricultural-Trade-Programme/Main-areas-of-work/International-agricultural-trade-negotiations/Aid-for-Trade-and-Agriculture-workshop-SADC-region

Direct link to CTA-ECDPM paper: http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/1368888E725B664CC1257662004D7722/$FILE/Draft%20DP%20Namibia%20Rum%20Oct%202009.pdf

Comment

The CTA-ECDPM paper on the restructuring of the Caribbean rum programme highlights the importance of effective private-sector leadership of sector-specific production- and trade-adjustment processes, and hence the need to redefine the role of public authorities in the design and implementation of such programmes. This closely parallels the EU's own internal experience under its rural development programmes, which have taken many years to evolve into programmes focused on investment that serves emerging differentiated markets rather than providing straightforward subsidies for traditional patterns of production.

The importance of basing production- and trade-adjustment support programmes on evolving market trends and existing commercial practices also emerges clearly from this review. This has important implications for the scope for replicating such programmes across other, very different, ACP regions or sectors which have a different internal organisational structure.

EC fact sheet on 'aid for trade'

The EC has posted a fact sheet setting out its perspectives on the scope for 'aid for trade', the EU 'aid for trade' strategy and the financing arrangements for 'aid for trade' interventions. 'Aid for trade' is described as 'development assistance provided in support of partner countries' efforts to develop the basic economic infrastructure and tools they need to expand their trade', with the 'aid for trade' initiative being located firmly in the initiative launched at the December 2005 WTO Ministerial Conference in Hong Kong. 'Aid for trade' is seen by the EC not as 'a new global development fund for trade' but as an initiative 'to expand financial resources devoted to trade as part of existing development strategies'.

'Aid for trade' consists of both 'aid directly helping beneficiaries formulate and implement trade policies and practice ("trade-related assistance") and aid supporting developing beneficiaries' wider economic capacity to trade, e.g. invest in infrastructure and productive sectors ("wider aid for trade")'. The EU sees itself as a leading provider of 'aid for trade'. Its strategy consists of five elements:

- scaling up total EU 'aid for trade' to reach €2 billion annually by 2010, with a focus on 'specific funding of trade-related assistance';
- 'enhancing the impact and pro-poor focus of EU "aid for trade"';
- increasing the effectiveness of 'aid for trade' support;
- 'supporting the ACP regional integration process';
- ensuring effective monitoring and reporting to sustain implementation of the 'aid for trade' initiative.

The EC fact sheet maintains that EU 'aid for trade' support between 2004 and 2007 reached a cumulative total of €7.2 billion, with the combined EC and EU member states' contribution in 2007 reaching €1.98 billion, thereby virtually attaining the 2010 target. EU 'aid for trade' support is delivered in the same way as other EU aid, via the process of 'policy dialogue, needs assessments, inclusion of priorities into national and regional development strategies … and formulation of response strategies'. 'Aid for trade' is financed from both the EDF and EU annual budget resources.

On 12 November, the EC submitted a report to the WTO on its deployment of 'aid for trade' support for trade facilitation, maintaining that between 2006 and 2008 some €1.01 billion had been deployed in support of 95 trade facilitation projects. This is seen as part of the wider package of 'aid for trade' support of over €7 billion. Of the trade facilitation expenditures, fully 37% have been to non-EU European countries (including Balkans and Commonwealth of Independent States), 21% to Asian countries, 18% to African countries (including north African countries), 18% to the countries of Latin America and the Caribbean, 4% to middle-eastern countries and 2% to Oceania. The press release cites the example of a €2 million programme for strengthening institutional capacities and enhancing the trade environment in Chad.

Sources

EC, Fact sheet on 'aid for trade', September 2009
http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_140837.pdf

Europa Press Releases Rapid, Press release, IP/09/1707, 12 November 2009
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1707&type=HTML&aged=0&language=EN&guiLanguage=en

Comment

Only 38% of the 'aid for trade' identified in the EC fact sheet is destined for ACP countries, and only a small percentage of the EU trade facilitation support. This is a common feature of wider EU 'aid for trade' expenditures. In the ACP, 'aid for trade' funds are largely drawn from existing EDF allocations or from sectoral or theme-specific instruments under the EU annual budget. A large proportion of EU 'aid for trade' support extended under the EDF is concentrated in the traditional area of EU engagement, road infrastructure development.

This being noted, a number of EU-supported 'aid for trade' initiatives are aimed at supporting production and trade adjustments in response to EU policy changes, most notably the EDF-financed Caribbean rum programme, the EU budget-financed sugar protocol accompanying measures programme, the former special framework of assistance for ACP banana producers (EU budget-financed) and the proposed 'Banana Accompanying Measures' programme.

Recent discussions on 'aid for trade' in the agricultural sector have stressed the importance of supporting market-led, private-sector-based trade- and production-adjustment processes in response to challenges arising from preference erosion, and agricultural trade liberalisation and development processes. One important lesson arising from these discussions is the need for strong private-sector leadership, if proactive trade- and production-adjustment responses are to be formulated and successfully implemented. A second important lesson is the need for publicly financed 'pump priming' support to get processes moving. Such public assistance however can never be a substitute for strong private-sector leadership, but merely supplement it within the framework of effective public-private sector dialogue processes. In this context neither can 'aid for trade' support be a substitute for well conceived and effective national trade policies, including, where appropriate, the use of trade-policy tools such as import licensing and infant industry protection.

EPA negotiations: Caribbean configuration

Haiti signs the Caribbean-EU EPA

On 11 December, Haiti signed the Caribbean-EU Economic Partnership Agreement, becoming the fifteenth Caribbean member of the region-to-region agreement. Haiti is the only LDC member of the Caribbean EPA negotiating configuration. The government of Haiti had proposed to adjust some of the commitments on tariffs included in the EPA, a request which the EC accepted 'in the light of its specific needs as LDC'.

Sources

Europa Press Releases Rapid, Press release, IP/09/1909, 11 December 2009
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1909&format=HTML&aged=0&language=EN&guiLanguage=en

Comment

Haiti's signature of the Caribbean-EU EPA draws to a close the EPA negotiations process in the Caribbean, with implementation issues now coming to the fore. Currently there is no consensus in the Caribbean on how to move forward with the full implementation of the reciprocal commitments contained in the EPA.

EPA negotiations: ESA configuration

Possibility of reintroduction of EU import duties raised in Kenyan press

According to press reports in Kenya, 'the European Union has for the first time indicated that the failure by the East African Community to sign a new trade agreement will lead to introduction of taxes on Kenyan exports to Europe'. This follows the issuing of a press statement from the EC Delegation in Nairobi warning that failure to finalise the EPA process could result in the reimposition of standard GSP duties on Kenyan exports. This statement was reinforced by comments from the head of the EPA unit in the Commission, Jacques Wunenburger, who argued that discussion about the costs of an EPA should now move towards discussion about 'the cost of non-EPA'.

Kenya is a leading supplier of cut flowers to the EU and exports around 450,000 tonnes of fruits and vegetables to the EU annually. Citing an earlier PricewaterhouseCoopers study, the report notes that 'without the duty-free and quota-free access to the EU market, the sector would collapse'.

Uncertainty over future access to the EU market is causing concern amongst the Fresh Produce Exporters Association of Kenya, which has said that it would like to see the early signing of the EAC-EU interim EPA (IEPA) to remove the current uncertainty.

Sources

toboc.com, 9 December 2009
http://www.freshplaza.com/news_detail.asp?id=55237

The Nation, 7 December 2009
http://www.freshplaza.com/news_detail.asp?id=55162

Comment

Of the five EAC countries, Kenya as a non-least developed country is in a unique position in terms of its trade relations with the EU. Whereas the other four members are all classified as LDCs, and hence are eligible for duty-free, quota-free access under the EU's Everything But Arms initiative, Kenya would only be eligible for standard GSP treatment, which would result in the reimposition of import duties on major categories of Kenyan exports. It remains to be seen how the emerging pressure on the Kenyan government to sign the IEPA will be reconciled with the outstanding concerns of its LDC partners in the EAC. With the EAC having only fairly recently been resurrected after its earlier acrimonious collapse, it also remains to be seen what leeway the new EU trade commissioner will give Kenya to ensure that dissension around the timing of the signing of the EAC-EU IEPA and the resolution of outstanding areas of concern do not spill over into increased tensions within the EAC itself.

EPA negotiations: Pacific configuration

Fiji signs interim EPA

After initialling a bilateral interim EPA (IEPA) in November 2007, the government of Fiji put its full signature to the bilateral IEPA on 11 December.

Sources

Europa Press Releases Rapid, Press release, IP/09/1911, 11 December 2009
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Comment

Despite the recent signing of a bilateral IEPA by the government of Fiji, the conclusion of a regional IEPA in the Pacific still appears some way off. Indeed, in the Pacific the EC may revert to the approach now being adopted in dealing with the ASEAN region, namely that of building a regional approach via the conclusion of FTAs with those individual countries most interested in concluding such deals with the EU.

International dimensions of CAP reform

Agriculture Commissioner sets out EU perspectives on food security issues

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

- investment in agricultural infrastructure such as warehouses, slaughterhouses and equipment for water management, and the establishment of codes of conduct for investments in agricultural land;
- the importance of appropriate financial infrastructure, from micro-credit to agricultural insurance schemes, and the importance of donors moving agricultural investments 'up the list of funding priorities';
- the central importance of investing through women, since women are 'the driving force in agriculture in the developing world';
- the importance of developing technology 'to produce more food with less';
- the importance of good governance to agricultural development and the promotion of food security;
- the importance of establishing appropriate trade relations and trade policy arrangements.

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

Sources

Europa Press Releases Rapid, Speech by Commissioner Fischer Boel, SPEECH/09/537, 17 November 2009
http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/537&format=HTML&aged=0&language=EN&guiLanguage=en

Comment

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

Debate gets under way on the future of the CAP

Agriculture Commissioner Mariann Fischer Boel has set out her perspectives on the future of the CAP in an address to Swedish farmers. Picking up on earlier presentations, she stressed that while 'markets play an essential role in providing food', policy must continue to 'shield our productive base against crises and physical damage'. She stressed, however, that the EU should 'certainly keep an open approach to trade because we're not aiming at food self sufficiency' but at having 'an insurance policy'. Commissioner Fischer Boel sees decoupled payments as 'part of that insurance policy', arguing that decoupled payments 'don't distort trade or insulate farmers from market signals'. She argued that the system of direct aid payments should continue to have a future within the CAP beyond 2013, as it is a relatively simple tool to achieve wider policy objectives. She also argued that there should continue to be 'a place for market instruments in the CAP', since 'market instruments must provide a safety net for times of crisis', although 'they must not be regular price setters'. In this context she argued for 'something similar to our current intervention system', but 'try[ing] even harder to stop it from influencing day-to-day expectations in the market'. She did however argue that export refunds should be phased out.

Commissioner Fischer Boel called for an exploration of policy measures which were increasingly about 'helping farmers to help themselves', including through the possible use of futures markets to improve price predictability. The central importance of agricultural-product quality policy was emphasised, with 'quality' being seen as 'our farmers' and food producers' strongest weapon in the arena of international competition'. Effective product differentiation was seen as a key response to meeting the challenge of lower-cost competitors. In this context, the commissioner called for a major expansion of the budget for the promotion of EU food-and-agricultural products on domestic and third-country markets (the latest international EU agricultural-product promotion programme was approved on 30 November 2009, with an EU contribution of €11.1 million of support). The Commissioner also called for an expansion of rural development spending under the central banner of 'green growth'. This would retain the existing objectives (see table below), but with a greater focus on competitiveness, including investment in 'technology, innovation, investment and skills' aimed at 'get[ting] the most out of all resources used in the production process'.

Commission Fischer Boel also stressed how the future EU agricultural policy has to remain a 'common' policy and should not be renationalised.

Finally, Commissioner Fischer Boel responded to those people 'who would like to abolish the agricultural budget' by pointing out the consequences, namely 'a technical insolvency of many farmers because of the importance the support has for farmers' income'. She argued in this context that policy changes needed to take place 'over a long transitional period'.

Pillar 1 of the CAP

	Market interventions	Coupled subsidies	Direct income support
Policy objectives	Raise and stabilise market prices	Increase production of selected goods	Reward farmers' historic support entitlements
Main instruments	Intervention buying; export subsidies	Production premia; area payments	Single farm payment
2008 budget expenditures	€4,159,000,000	€5,620,000,000	€31,414,000,000

Pillar 2 of the CAP

	Axis 1	Axis 2	Axis 3
Policy objectives	Improving the competitiveness of the food-and-agriculture and forestry sectors	Improving the environment and the countryside	Improving the quality of life in rural areas and encouraging diversification of the rural economy
Main instruments	Support to modernisation of agricultural holdings, value addition and physical infrastructure	Agri-environmental payments to farmers in areas with handicaps	Village renewal and development; enhancing provision of basic services to rural populations; business creation and development
Budget share 2007-13	35%	44%	19%

The impact of current CAP instruments and the implications for the future review of the CAP in 2013 is explored in a number of policy papers posted on the Groupe d'Economie Mondiale (GEM) website of the Fondation Nationale des Sciences Politiques (SciencesPo). These deal with issues as wide-ranging as the modelling of the economic impact of the CAP at national (French), EU and global levels; the long-term challenges facing the CAP; and the benefits of removing the CAP and restructuring the EU budget to move away from a focus on the CAP towards enhancing EU competitiveness. In terms of the external effects of the CAP, it is suggested that the current CAP:

- despite some decoupling ,'still biases production towards products and activities that benefit from strong assistance';
- promotes 'higher output of the farm- and food-processing sectors in the EU of about 8% and 6% respectively';
- globally 'has relatively small effects on some agricultural sectors across the world';
- leads to 'production of cereals in parts of Africa' which are 'smaller than it would be without the CAP';
- reduces 'global welfare by about US$45 billion', at the expense of 'mostly developing and least developed economies which protect much less than the EU their farm sector';
- involves a welfare cost to the EU of US$30 billion, with the largest contributor to welfare loss being border protection.

Calls have been made for radical reforms of the CAP, involving the more efficient targeting of financial resources on clearly articulated public policy objectives. These views are most clearly articulated in the dedicated website on the 2013 CAP reform process established by the European

Centre for International Political Economy (ECIPE), a non-profit research think tank on trade policy and other international economic issues, rooted in classic free-market economic policy analysis. ECIPE has posted key data on the CAP indicating the current utilisation of EU funding by policy objective and instrument.

This wider debate on the macro-economic impact of the CAP is leading to the policy conclusion that 'European farmers should join industrialists in asking for a massive shift of the post-2013 European budget to research and development investments, a more accurate term than subsidies'. The debate also provides the context within which statements by EC agriculture officials and publications on agricultural policy debates need to be seen, and to which in part they are seeking to respond.

Sources

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http://www.pc.gov.au/__data/assets/pdf_file/0005/92777/european-agricultural-policy.pdf

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Svensk Näringsliv (Confederation of Swedish Enterprise), Overview document for conference 'From the CAP to competitiveness', undated
http://cap2020.ieep.eu/assets/2009/6/26/From_CAP_to_competitiveness_-_Reforming_the_EU_Budget.pdf

ECIPE/Reform the CAP, Overview of CAP expenditures, undated
http://www.reformthecap.eu/key-data-on-the-cap

ECIPE/Reform the CAP, 2013 CAP reform web site, undated
http://www.reformthecap.eu/home

Comment

The concern to 'shield [the] productive base against crises and physical damage' is shared by many ACP governments. Indeed, in an era of increased global price instability, a number of ACP governments would go further and argue that agricultural policy, including agricultural trade policy, should not simply shield the productive base, but should promote the development of the domestic and regional productive base in the food-and-agricultural sector. Against this background a number of critical issues arise, most notably:

* what policy tools can ACP governments realistically deploy to shield and support the development of the productive base in the food-and-agricultural sector, given the limited revenue base of most ACP governments?
* what policy tools are most appropriate to shield and promote the food-and-agricultural sector in the very different circumstances of individual ACP countries in the various regions of the ACP?
* what policy tools should ACP governments be allowed to continue to use in order to shield and develop the productive base of their food-and-agricultural sectors?

- what does this mean for the free-trade agreements currently being negotiated, that are designed to give greater rein to market forces in the food-and-agricultural sectors of different ACP economies?

Commissioner Fischer Boel clearly implies that a balance needs to be struck, a balance which takes into account evolving domestic policy priorities (e.g. with regard to the environment, rural development, job creation and growth promotion) and the evolution of global markets in the light of those domestic policy concerns. The argument which Commissioner Fischer Boel puts forward, i.e. that policy changes need to 'take place over a long transitional period', is one which would find ready support in many ACP governments as they seek to get to grips with the complex issues raised in the food-and-agricultural sector by the EPA negotiation process.

In the case of the EU, as radical free-market oriented critics of the CAP point out, the EU's 'insurance policy' approach is implemented at considerable cost to other sectors of the EU economy, and implicitly diverts resources from other economic priorities. This financially based 'insurance policy' approach is a luxury which few ACP countries can afford. What then are the policy tools which should remain available to different ACP governments to attain the same policy objective as the EU, namely to 'shield' their productive base in the food-and-agricultural sector from crises and physical damage in the context of the pursuit of wider policy objectives?

WTO agreement on agriculture

Why a Doha Round agreement matters

The World Bank has posted a policy research working paper on the theme of why a conclusion to the Doha Round matters. The paper acknowledges that 'what is now on the table does not meet the expectations that many countries had when the round was launched in 2001', but argues that concluding the Doha Development Round is important, because it would 'contribute to a more robust recovery from the global recession by':

- 'reducing the probability that governments will resort to protectionism';
- assisting governments to reduce fiscal expenditures by ensuring a credible pre-commitment to 'lowering agricultural subsidies';
- 'bolstering the prospects for cooperation in other critical areas – such as climate change, aid for trade and services regulation'.

In this context the papers argues that the deal on the table is still valuable.

Of significance to the ACP-EU trade relationship, the paper notes the increased use by the EU of export subsidies in response to the global downturn in dairy sector prices, and points out that such a policy response would be prohibited under a Doha agreement. It argues furthermore that while the current provisions on domestic agricultural support would 'not lead to significant cuts in actual subsidies', they would 'constrain industrial country subsidies, especially for products such as cotton, peanuts and sugar, which are of particular export importance for many developing countries'.

With regard to the tariff reduction deal on the table, the paper argues that 'lowering somewhat applied average levels of protection and constraining the ability of governments to raise barriers in the future, a Doha deal would also help address some of the factors that have contributed to severe volatility of food prices on world markets'. This, it is argued, would bring benefits to developing-country food importers. The paper further argues that 'a trading system that disciplines the ability of governments to insulate domestic markets and hence make world markets thicker would be a major source of welfare gains for developing countries'.

The paper also points out that LDCs would benefit from the generalised granting of duty-free, quota-free access, but acknowledges that the value of this access will be dependent on the level of exemptions to this treatment allowed, and the rules of origin applied under such an arrangement (with rules of origin not being a subject for negotiations but unilaterally established).

The paper further points out that a Doha deal could bring about major reductions in domestic support in the cotton sector, to the benefit of ACP cotton exporters. However it notes that this is still the subject of ongoing negotiations.

Overall the paper argues that 'contentious issues should not be allowed to prevent a deal'. In this context it argues that since 'the principle of safeguard mechanisms is firmly established in the WTO', the details should not prove a major obstacle. It notes that 'experience suggests that the welfare cost … has typically been far less than the trade barriers that were removed'. It argues that in establishing a 'special safeguard mechanism', the key principle to be followed should be ensuring that 'all domestic interests are heard in the process of deciding to apply temporary protection'.

Source

World Bank, *Policy Research Working Paper*, Ref. WPS5135, November 2009
http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2009/11/18/000158349_20091118112934/Rendered/PDF/WPS5135.pdf

Comment

The analysis of the benefits arising from the elimination of export subsidies neglects the declining dependence of EU food-and-agricultural exports on the deployment of such subsidies. The overall aim of the EU agricultural reform process is to close the gap between EU and world market prices, by shifting over to direct aid to farmers rather than price support. Had the US dollar, in which major agricultural commodities are traded, not experienced a dramatic devaluation since 2001, the EU would have been able to attain this policy objective in many sectors through the process of CAP reform already implemented.

In the longer term, the real issue in terms of EU exports is the impact of the system of so-called non-trade-distorting direct-aid payments on EU production levels and trade patterns. This is particularly important with regard to their impact on the competitiveness of EU value-added food-product exports, which are playing an increasingly important role in the EU's overall food, drink and agricultural products export profile, and particularly important in the ACP, where a stated aspiration is to use trade policy to promote increased local value-added processing within food-and-agricultural-product value chains.

In addition, given the duty-free, quota-free access granted to most ACP exporters of food-and-agricultural products under the IEPAs and EBA initiative, EU tariff reductions in the WTO context will not directly benefit ACP exporters. Indeed, they may serve simply to accelerate the process of erosion of the margins of ACP tariff preferences in the food-and-agricultural sector. For ACP countries, gains from tariff reduction commitments will largely occur on non-EU markets.

Seventh WTO Ministerial meeting lays stress on development dimension

The seventh WTO Ministerial meeting ended with ministers declaring their commitment to an early conclusion of the Doha Round, preferably before the end of 2010. The importance of ensuring that the development dimension was central to the outcome of the round was stressed. The major areas of concern to ACP governments where issues still need to be resolved include:

- the nature of the special safeguard mechanisms for agricultural products to which developing countries should have recourse;
- how to reconcile conflicting proposals on tropical products and preference erosion;
- cotton-sector issues, where there has been no significant progress since December 2001, largely because of domestic political difficulties on these issues in the United States;
- addressing the needs of small and vulnerable economies (although progress is being made);
- the extent of exemptions to the duty-free and quota-free access to be granted to LDCs by developed and advanced developing economies.

In one of her final statements as EC Agriculture Commissioner, Marion Fischer Boel argued that 'the days of only nice statements should be over'. Delegates largely agreed that the drafts circulated by the chair of the negotiating group in December 2008 'should remain the basis for negotiations' on agricultural provisions.

According to one developing country delegate cited by ICTSD, the meeting was 'worthwhile' since 'it showed that the WTO was still alive'. A meeting to take stock is reported to be scheduled for March or April 2010.

Meanwhile the South Centre has posted a series of analytical notes on technical issues in the WTO agricultural negotiations. These cover trends in agricultural import surges in developing countries; the basis for a volume-based special safeguard mechanism; the scope for a price-based special safeguard mechanism; a comparison of special safeguard provisions (SSG) and the special safeguard mechanism (SSM) in terms of who is actually receiving special and differential treatment. The latter paper concludes that the SSM has been so diluted that it is less effective than the SSG provisions.

South Centre has also posted an analysis of how the WTO negotiations process functions and whether, given recent developments, the development dimension is substantively back on the Doha Round negotiating agenda. The South Centre analysis argues that the claims that developing countries will be major winners from the round are based on 'shaky assumptions, controversial economic modelling, misleading representations of the benefits, and disregard for the high costs of Doha-style liberalisation for many developing countries'.

Significantly from an ACP perspective, this analysis points out that 'a few large developing countries get the vast majority of developing country gains', with, according to earlier World Bank estimates, 'sub-Saharan Africa and other poor areas being worse off after Doha'. It also highlights the hidden costs of the Doha Round for poorer developing countries, including via government revenue losses arising from tariff-elimination commitments (a particular concern for ACP countries). The analysis maintains that 'development has yet to find its way back to the WTO agenda', and argues with regard to agriculture that if the development dimension is to be given substance, then:

- the US and Europe should agree to honour WTO rulings on cotton and sugar, since this would give a tangible boost to farmers in west Africa and Latin America;
- more attention should be paid to African concerns over 'taming the highly concentrated and volatile global commodities markets, dominated by agribusinesses that suck most of the value out of these value chains';
- rich nations should 'grant poorer countries extensive rights to exempt staples of their local economy … from tariff cuts and allow them to raise duties' when import surges are faced;
- the paramount importance of the principle of special and differential treatment should be reasserted;
- a moratorium should be placed on north-south preferential trade agreements, since these 'curtail the ability of developing countries to deploy effective policies for development'.

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Comment

From an ACP perspective a distinction needs to be drawn between cotton and sugar. In the case of cotton, full compliance with WTO rulings and the accommodation of the 'Cotton 4' (C4, a group bringing together cotton producers from Mali, Burkina Faso, Chad and Benin) position would lead to major benefits to ACP producers. With regard to sugar, any further market access liberalisation by the EU is simply likely to exacerbate the adjustment challenges already facing a number of ACP sugar exporters arising from the impact of EU sugar-sector reform. A more disaggregated approach to the analysis of ACP issues, rather than developing country issues, thus often leads to different policy conclusions from a specifically ACP perspective.

Many of the issues highlighted in the South Centre analysis were covered in the ACP resolution of the Seventh WTO Ministerial meeting. It remains to be seen how these issues will be resolved as negotiations resume in the first quarter of 2010.

Sugar sector

How will a WTO sugar deal affect importing and exporting countries?

The ICTSD has posted a paper on the question of how a WTO trade deal would affect sugar importing and exporting countries. In terms of the EU-ACP sugar trade relationship, the debate in the WTO relates to the treatment to be accorded sugar. Latin American countries favour treating sugar as a tropical product where trade liberalisation would be 'accelerated and deepened', while the ACP countries favour treating sugar under the provisions dealing with preference erosion, where tariff liberalisation would be 'slowed down and cushioned'. The report highlights the high volume of trade taking place under preferential trade agreements, which 'encourages production of sugar in non-competitive preference-receiving countries … at the expense of competitive low-cost sugar-producing countries'. It notes that 'high-cost sugar producing countries like the EU' continue to maintain high levels of tariff protection. These 'trade barriers result in higher domestic sugar prices, and hence higher domestic production and lower sugar consumption'. It notes that the EU sugar reforms have a significant impact on ACP countries, with the highest-cost ACP producers being most seriously affected. For lower-cost ACP/LDC producers, the adverse impact of EU sugar sector reforms is expected to be mitigated in part by the expanded duty-free, quota-free access which recently came into effect.

Against this background the Falconer text proposals presented in December 2008 would involve 'large cuts in bound tariffs, lower domestic support, expansions in tariff rate quotas (TRQs) and the elimination of export subsidies'. This would in the first instance require the EU to 'reduce their tariffs by 70%'. However, if the EU classifies sugar as a 'sensitive product', the tariff reduction required would be less, but a large expansion in the TRQ (of between 500,000 and 700,000 tonnes) would be necessary. Such a quota expansion would, it is asserted, impact on EU prices and production.

If sugar is treated as a tropical product, the EU would have to 'reduce their bound tariff rates by 85%'. This would increase imports by 9% and stimulate a 1.2% increase in average world sugar prices. If sugar was treated under the preference erosion provisions, two options would be available: 'delaying the start of the tariff cut by 10 years or increasing the implementation period to 13 years for the preference-granting member'. This would allow more time for affected ACP countries to adjust.

In terms of the 'Total Aggregate Measure of Support' (AMS) provisions, 'the EU would face a 70% reduction', with 'an initial cut of 25%'. Overall the EU would 'have to reduce their Total AMS levels by 12 billion USD … to stay within the new lower Final Bound Total AMS'. 'After *de minimis* adjustments, the product-specific AMS limits' for the EU would be €5.9 billion.

With regard to export subsidy commitments, the EU would eliminate export subsidies by 2013. The report argues that 'the impact of the elimination of the export subsidies in the EU has been mitigated by the implementation of the EU CMO sugar reforms which reduced sugar production drastically'. However the report also notes that 'to meet its commitment to eliminate export subsidies while fulfilling its commitment to preferential sugar imports from developing countries, the EU may be compelled to further reduce domestic sugar prices and production.

The study concludes that:

- 'The increased market access results in a higher world price for sugar', given increased market access and the emergence of a closer linkage between domestic and world market prices on major markets. However in the EU it will reduce domestic sugar prices, decrease domestic production and increase domestic consumption;
- 'competitive sugar-exporting countries like Brazil' are likely to increase their market share, but higher world market prices are likely to reduce sugar demand in sugar-importing countries;
- if sugar is treated as a sensitive product, competitive sugar exporters will benefit from higher tariff-rate quota access;
- 'If sugar is treated as a tropical product, more sugar imports occur as countries further reduce their tariffs';
- EU sugar production is impacted by a reduction in domestic support, with the analysis suggesting that 'reducing support lowers domestic prices and production and increases consumption';
- the elimination of export subsidies also reduces sugar production and exports, thus increasing the world price;
- overall, the lowering of trade barriers, reducing domestic support and removing export subsidies result in lower domestic production in countries providing support. Since these countries tend to be high-cost producers, the result is a diversion of trade to low-cost, more efficient producers'.

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Comment

While sugar production has been ended and reduced in some EU countries following the implementation of the reform measures, in some EU countries sugar production is increasing. In the German sugar sector the process of price reductions has not led to a reduction in sugar production, but merely an expansion of out-of-quota sugar production. This season, following a previous bumper harvest, German sugar production exceeded its EU production quota by 45% (see article 'German sugar production still expanding'). This suggests that the direct-aid payments being made to German sugar beet farmers and the market opportunities created by EU biofuel policies are leading to different production outcomes that are projected in the model used in the ICTSD study.

It should further be noted that the current high world market prices (a 98% increase in prices in the previous year) have merely constrained the rate of expansion of global sugar consumption and have not served to reduce global sugar consumption. This suggests that the impact of the price-increasing effects of a sugar-sector agreement on global sugar consumption is likely to be marginal, given the projected price increase of 12%.

The analysis does not fully take into account a number of factors, notably:

* the increasingly differentiated nature of EU sugar markets;

* the diversification of income sources from sugar cane production under way in certain traditional preferential sugar suppliers, and the impact this has on 'competitiveness' at reduced EU sugar prices;

* the changing pattern of EU corporate ownership in the sugar sector and the increasingly global operation of EU sugar companies;
* the extent of 'box shifting' in EU agricultural support, which reduces the impact of commitments to the reduction of domestic support;
* the underlying trajectory of EU reform involving the redistribution of production to the most competitive areas of the EU and the increased targeting of 'luxury purchase' markets by EU producers.

German sugar production still expanding

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

Overall EU prospects for sugar production are reported as relatively good, with actual production falling far less than the nominal quota reductions would suggest. The EU will nevertheless become the world's largest sugar importer in the coming years.

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

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

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Comment

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

Illovo sugar exports to EU to double

Press reports indicate that Illovo sugar 'expects to double exports to the EU over the next 4-5 years' in response to the granting of duty-free, quota-free access. Major production expansion plans are under way in Zambia, Swaziland, Mozambique and Mali, with all but Mali targeting the EU market. Output across the Illovo Group is expected to increase by around 200,000 tonnes to 1.78 million tonnes, while current exports to the EU market are around 150,000 to 160,000 tonnes. Illovo's expansion is based on the expectation of world market prices of around 20 US cents/lb for the next couple of years, with a decline over three to five years to around 15-16 c/lb. Illovo is not alone in expanding production: there are press reports that Tongaat Hulett has invested some US$47 million in Mozambique to develop 800,000 ha of land for sugar cane production.

Meanwhile press reports based on analysis from J.P. Morgan are warning that sugar futures 'could fall early in 2010' to as low as 15 c/lb on the back of 'a big cane overhang from Brazil's current harvest'. Concerns over the impact of the large volume of Brazilian sugar cane still to be harvested need to be set against the likely poor quality of this cane and its consequent use mainly for ethanol production. Presenters at a recent ISO seminar suggested that 'sugar futures prices were likely to stay high due to historically low stock-to-use ratios, steady consumption, and the risks of supply crunch in Asia'. Other analysts suggest that 'raw sugar futures could bounce up to a 30-40 cents/lb range in the next 18-24 months' as a result of inflationary pressures. Such projections, however, appear rather unrealistic, with SKIL reporting a stable trend over the last month, with prices trading between 22c/lb and 24c/lb. Meanwhile Kingsman reports the prospect of a 'shift from a deficit in production to a small surplus in 2010/11'. FAO notes the expanding African sugar production (+3.5%), with strong production growth in LDCs targeting the EU market under the EBA initiative.

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Comment

High world market prices of sugar are likely to support sugar prices in the EU and reduce the impact of the reduction in the administratively determined EU sugar price. Price uncertainty in part accounts for why some ACP suppliers are continuing to meet delivery commitments to the EU despite higher regional prices for sugar. It is clear however that the marketing arrangements for ACP sugar are becoming increasingly complex. How the producers from individual ACP sugar-exporting countries position themselves in the coming years, in response to the changing routes to market that are opening up in the EU, will be a critical factor in determining the long-term future of individual ACP sugar sectors. Illovo's strategic alliance with British Sugar (via Associated British Foods) and the strategic partnership established between the Mauritian sugar sector and Suedzucker need to be seen in this light.

Banana sector

Banana deal struck

While earlier press reports suggested that a final resolution of the banana dispute could be held back by US and ACP concerns or linked to deals on other commodities (sugar, rum, tobacco), this has not proved to be the case, with a final deal being initialled on 15 December 2009. Parties who initialled the deal included the USA.

The deal will cut tariffs from €176/tonne to €114/t by 2017, with an immediate reduction to €148/t once the agreement has been signed by the parties, probably in around four months' time. In exchange, Latin American banana exporters will drop all actions against the EU in the WTO and will not seek further tariff reductions on bananas in the Doha Round. Parallel to this, the EU has agreed on the approach to be adopted in dealing with 'tropical products' and 'preference erosion'. In a side agreement, the EU has agreed to make available some €200 million in new funding under the 'Banana Assistance Measures' programme.

ICTSD reports that a deal is likely to reduce ACP banana exports by 14%, while Latin American banana exports would grow around 17%. While overall imports of bananas into the EU have increased from 545,000 tonnes in 1992 to 927,000 tonnes in 2007, the share of traditional Caribbean suppliers has slumped dramatically. In 2008, Latin American suppliers accounted for 72.5% of the 5.4 million tonnes of banana sold on the EU market, with the ACP accounting for 17% and EU producers 10.5%. The conclusion of the banana deal is expected to facilitate EU FTA negotiations with Colombia, Peru and Ecuador, which are being accorded a high priority by the Spanish presidency of the EU.

In terms of the price effects of a deal, press reports note that banana prices on the UK market have already been falling. Indeed a report in the UK industry paper, the Grocer, notes that while fruit-and-vegetable prices have fallen 9.9% in the year to November 2009, banana prices in the UK have seen a 36% fall. Other media analysis however suggests that this is largely being driven by the pricing policies of supermarket chains in the UK, which use low-priced bananas to bring consumers through the door, hence the periodic outbreak of 'banana wars' among UK supermarkets.

In response to the deal, some African banana exporters are reported to be looking to develop national and regional markets for bananas.

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Comment

Press reports would suggest that the future price impact of the WTO banana deal needs to be seen within the context of the treatment of bananas by supermarket chains. This raises important issues about the functioning of the supply chain for bananas. Any EU programme of accompanying measures for ACP banana producers could therefore usefully include the launching of an investigation into the functioning of the banana supply chain and specific initiatives to strengthen the commercial position of banana growers within the various supply chains serving ACP banana exporters.

Assistance could also usefully be provided to ACP producers to restructure trade and production, in order to successfully serve increasingly differentiated EU banana markets (see article 'World Banana Forum Launched' for the scope in this regard). Assistance with certification costs of small-scale producers and verification of compliance are obvious areas for such support.

World Banana Forum launch

December saw the launch of the World Banana Forum, which aims at 'sharing information, ideas and best practices among stakeholders of the banana sector' on issues such as 'sustainable production systems, environmental impact, workplace issues and value distribution along the marketing chain'. The forum brings together 'banana trade associations, private companies (major banana marketing companies and retailers), civil society and small farmers' organisations and government representatives'. Progress reports on the deliberations of the forum will appear on the Banana Link website.

The background to the launch of the World Banana Forum can be found in GEM's summary report of the multi-stakeholder round table on bananas held in Paris in March 2009, which includes a discussion document on the establishment of a multi-stakeholder forum for sustainable banana production and trade. A number of issues are highlighted in this report, including:

- the possible emergence of major banana producers as significant banana exporters (notably India);
- the high biological challenge facing Cavendish banana production, the most common variety of internationally traded bananas;
- the capacity to reduce production costs demonstrated by formerly high-cost Caribbean banana producers (notably Jamaica and Suriname, which moved from being the most expensive to the least expensive ACP producers, although at reduced volumes);
- the scope for diversification through product differentiation in a context where 'organic' and 'fair trade' bananas for example now account for 30% of total UK banana consumption and 60% of Swiss banana consumption;
- the importance of cooperation throughout the supply chain in developing differentiated marketing of bananas;
- the dominant role in marketing played by two multinational companies and the strong influence of the policies of large retailers on the functioning of banana markets, hence the large inequalities of market power within the banana supply chain and the scope for a greater role for competition policy in regulating relations within the banana supply chain;

- the increasing role of private standards in regulating access to the market.

Estimated banana exports/sales certified to selected sustainable agriculture standards

Standard	Estimated global exports 2007 (MT)	Estimated percentage share of banana exports 2007 (%)	Estimated sales 2007 (US$ million)
'Organic' agriculture	310,000 - 330,000	2.2	800
'Fair trade'	250,000 - 260,000	1.7	450
Rainforest Alliance	1,500,000 - 1,700,000	11.0	1,800
Total	2,000,000 - 2,200,000	14.5	2,900 - 3,000

Meanwhile, according to FAO the volume of global banana exports has held up relatively well under the impact of the global economic downturn, with EU consumption down only 4%, US consumption down only 3.5% and consumption in other developed economies down 3.2%. This has been counterbalanced by a continued growth in banana consumption in developing countries (+2%), and largely driven by an increase in Chinese demand. If the global recession bottoms out at the end of 2009, global demand for bananas is projected to increase 7.8% (compared to a 2% increase for all tropical fruit). Launching its analysis, FAO has called for the establishment of 'a global map of banana and plantain diseases' to combat serious disease outbreaks, which it estimates could cause $4 billion of economic damage by 2010 if left unchecked. To date limited resources have held back efforts to combat these diseases.

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Comment

ACP banana producers are facing an increasingly complex set of challenges. Considerable care will need to be taken in developing operational programmes at the national and pan-ACP levels to address these challenges. At the policy level, important issues to be addressed include the role of the state in creating a conducive environment for competitive banana production; the role of public assistance in 'pump priming' market- and production-adjustment processes (including where appropriate identifying and developing new markets); and the potential role for collaboration with the EU on competition-related issues in order to improve the functioning of the banana supply chain to the benefit of banana producers.

An additional area of support would appear to be the initiation of joint research programmes for combating diseases affecting banana production.

Beef sector

Falling beef self-sufficiency in EU may open up opportunities in 2010

The latest EC update on developments in international agricultural commodity markets (reflecting October 2009 prices) shows beef prices continuing to slide between September and October 2009 (-3%). Beef prices are now 31.5% below their July 2008 peak. The EC analysis notes the weakness in global meat demand following the economic downturn, a weakness which has made itself particularly felt in the beef sector. However, the update notes that the continued growth in advanced developing countries is serving to counter the severity of the downturn. Exports of beef in 2010 are expected to rebound from recent declines, with prices making moderate gains in 2010, as 'supply may fall short of the increasing demand brought about by an improving world economy'.

Within the EU, press reports indicate that EU15 beef self sufficiency is decreasing, with 'total EU15 beef production in 2009 forecast to fall 1.6% to 7.1 million tonnes', while 'overall consumption is expected to fall by 0.8%'. EU self-sufficiency in beef is then expected to fall to 96%. A further production fall of 1% is expected in 2010. Total imports into the EU27 have increased 14% year on year up to July 2009. Argentina is the main supplier (33%), followed by Uruguay (29%) and Brazil (14%).

Meanwhile, FAO reports that beef production in Africa is set to increase by 2%, despite the onset of drought conditions in both west Africa and east Africa. Thus, in the longer term, livestock production looks set to decline in these regions as the income and access to staples of pastoralists are constrained.

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Comment

What do the changing global patterns of beef consumption mean for the marketing strategies which ACP beef exporters should develop? Currently SPS and food-safety compliance requirements constitute a major constraint on market diversification aimed at serving emerging markets. ACP exporters often cannot get a hearing on these issues in major emerging markets. In this context, the provisions included in the recent EU-South Korea FTA dealing with transparency in the application of SPS measures could well hold important lessons for ACP beef exporters.

Some ACP beef exporters are increasingly adopting highly differentiated marketing strategies, involving the vacuum-packing of individual beef cuts tailored to the demands of individual markets. This much more sophisticated approach to beef marketing potentially allows ACP suppliers to maintain exports to traditional markets, despite the intensifying price competition from advanced developing country exporters like Argentina, Uruguay and Brazil. However, the costs associated with the development of marketing strategies and production to meet the needs of differentiated 'luxury purchase' markets should not be underestimated, and in some ACP countries some level of 'pump priming' public-sector support may well be needed.

Cereals sector

Role highlighted of non-food external factors on cereals prices

The latest EC update on developments in international agricultural commodity markets (reflecting October prices) shows maize and wheat prices rising. This is confirmed by FAO analysis which shows these wheat and maize price rises continuing into November 2009 (+20% since end October 2009). However prices remain below earlier peak levels (around 45% and 30% respectively for wheat and maize). Supplies from major exporters are more than adequate to meet any increase in demand, and so a new price surge is unlikely. The wheat stocks-to-use ratio has risen from 12% to 20% and is expected to continue to increase in the coming year. While coarse grain stocks are expected to decline slightly, they will remain at the second-highest level since 2001.

EU exports of wheat are expected to decline in the face of increased competition on traditional export markets and the strong euro.

The FAO has however highlighted the influence which external factors (such as exchange rates, oil prices, interest rates and macro-economic variables) are increasingly having on cereals prices, and warns that the influence of these 'external non-food economy events requires continuous vigilance'.

In terms of maize production and trade in Africa, both Malawi and Zambia have emerged as regional maize exporters (200,000 and 260,000 tonnes respectively). Overall in sub-Saharan Africa, smaller imports in Botswana, Mozambique, Zambia and Zimbabwe are forecast to be offset by increased imports into drought-affected east Africa.

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Comment

If the external factors causing investors to put cash into commodity markets require 'continuous vigilance', this raises questions about the policy implications of this new development for different ACP countries (such as net food-importing countries and food surplus countries) and for international policies aimed at averting new food crises in developing countries. A further question arises of what lessons can be learned at the level of ACP-EU relations from the recent EC analysis of the functioning of food supply chains within the EU.

Other critical questions currently emerging in Africa include how the recent improvements in maize production in Malawi and Zambia can be sustained; what policies are required, and at what level, to sustain the production gains which have been made through the financing of large-scale input-supply programmes; and whether these gains can be replicated in other countries – or whether the deployment of purely financial support instruments will prove unsustainable, given the perilous state of public finances in many African countries.

The difficulties faced by EU exporters on traditional markets may well see EU cereals and cereal-based food-product exporters refocus their export efforts on African markets, particularly on certain west African markets which are part of the CFA zone, where the effects of the strong euro on the EU's competitive position are less pronounced.

Dairy sector

EU dairy market recovering

At the beginning of December 2009, EU member states reached agreement on the distribution of additional aid to EU dairy farmers, based on production within quota in the 2008/09 period. Some €318 million of new dairy-sector restructuring interventions have now been approved under the 'CAP health check', with measures focusing on farm modernisation and animal welfare payments.

Meanwhile EU dairy prices have continued to improve, leading to a termination of intervention-buying for butter and skimmed-milk powder. Indeed, butter prices have increased so dramatically that the EU dairy association Eucolait called on the EC to begin sales of butter from intervention stocks. The EC resisted this call, but did halt all export refunds for dairy products, except for butter where the refunds were reduced from €65/100 kg to €14.50/100 kg.

Sources

EC, Agriculture and Rural Development Directorate-General, 4 December 2009
http://ec.europa.eu/agriculture/newsroom/en/373.htm

Europa Press Releases Rapid, Press release, IP/09/1813, 24 November 2009
English:
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1813&format=HTML&aged=0&language=EN&guiLanguage=en
French:
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1813&format=HTML&aged=0&language=FR&guiLanguage=en

TheDairySite.com, 25 November 2009
http://www.thedairysite.com/news/29108/eu-halts-export-subsidies

Comment

The EU's response to the price crisis in the EU dairy sector exhibits a willingness to use traditional trade-policy tools, which are now generally classed as trade distorting, where wider policy objectives are held to take precedence. The EU is however aware of the wider implications of the use of these tools, and seeks to deploy them in a responsible manner, taking into account their global trade effects. Hence we see the immediate discontinuation of export refund support where this is no longer needed and the responsible management of intervention stocks.

Changing patterns of global dairy trade

The latest EC update on developments in international agricultural commodity markets (reflecting October 2009 prices) shows dairy prices recovering. Between September and October there were price increases of 18.5% for butter, 9.4% for cheese, 10.4% for skimmed- milk powder and 6.5% for whole-milk powder. However these prices are still 34.4%, 41.6%, 49.8%, and 42.4% below the peak levels attained during the price surge of 2007. This strengthening of dairy prices is held to be a result of the 'combined effects of firmer demand and tighter supply from Oceania' and increased demand from the Middle East, north Africa and south-east Asia. However, the weak dollar also appears to have contributed to the price increases.

Percentage share of dairy exports (volume)

	EU %	New Zealand %	Australia %	Brazil %	Argentina %
Whole-milk powder					
- 2008	25.0	31.9	7.1	4.2	5.3
- 2009 preliminary	20.3	34.9	8.7	6.4	6.0
- 2010 forecast	17.0	32.2	7.0	6.3	5.9
Skimmed-milk powder				**USA**	
- 2008	14.8	20.7	9.8	31.7	
- 2009 preliminary	15.4	28.6	14.7	18.2	
- 2010 forecast	15.4	29.1	13.6	18.1	
Butter				**Belarus**	
- 2008	18.9	41.0	6.1	7.8	
- 2009 preliminary	18.2	46.3	7.5	8.4	
- 2010 forecast	18.7	44.5	8.2	8.7	
Cheese					
- 2008	30.9	16.4	11.5	5.7	
- 2009 preliminary	31.1	16.8	9.0	6.0	
- 2010 forecast	29.8	17.4	11.1	5.8	

Dairy prices have become increasingly volatile since 2007. Prices rose sharply in October and November, although the reasons behind the strong price increases are unclear, particularly given the high stocks held in the USA and EU (where low world market and domestic prices encouraged sales into intervention, with stocks of 268,000 tonnes of skimmed-milk powder and 150,000 tonnes of butter now being held in the EU). These stocks could undermine the recovery in global prices if they were released onto the market. The EC however has so far resisted pressure to sell from intervention stocks, and intends no such sales in the short term. However, if EU butter stocks were released for sale in 2010, then this would contribute a 7% expansion of the butter trade. Assuming no sales from intervention stocks, EU exports are expected to decline 12% in 2009 and a further 4% in 2010.

Growth in milk production is expected to slow down in Africa as drought affects pasture quality and milk yields. Nevertheless in 2010 African milk production is projected to increase 2%. The tight supply situation in eastern Africa is encouraging farmers to invest in pasture development. However, fears over the 'El Niño' effect are expected to adversely impact on dairy production in southern Africa.

Sources

FAO, *Food Outlook*, Global market analysis of milk and milk products, December 2009
http://www.fao.org/docrep/012/ak341e/ak341e10.htm

EC, File note, doc. ref D(2009) agri.l.5 373468, 20 November 2009
http://ec.europa.eu/agriculture/analysis/tradepol/commodityprices/112009_en.pdf

Comment

The EU's declining share of global dairy commodity markets reflects the shift in policy emphasis towards the production of value-added dairy products. The declining position on cheese markets measured in volume terms is also in part a reflection of this trend, although this is also attributable to the strong growth in domestic demand for cheese across the EU27. More immediately, it is unclear what wider impact EU policies designed to insulate domestic producers from price declines have on global dairy prices. Intervention buying would appear to ease downward price pressures in times of low prices, while intervention sales, if properly managed, can ease upward price pressures during times of rapidly rising prices. This would appear to be a stabilising factor. However, the existence of such 'insurance policies' would, in the longer term, appear to maintain EU production levels above the levels which would prevail in the absence of the 'safety net' (or 'insurance policy') approach adopted by the EU.

In terms of dairy-sector development in Africa, a critical issue remains the availability of policy tools to support and nurture local dairy-sector development. In some countries traditional trade-policy tools (e.g. infant industry protection and import licensing) are used to nurture local dairy sector development. The continued availability of such tools is likely to be important to the further development of the dairy sector in these countries. These dairy concerns may well be a factor in some of the positions being adopted in the IEPA negotiations, where measures have been proposed by the EU which would limit the use of these traditional trade-policy tools in support of dairy sector development.

Horticulture sector

Spanish concern over Morocco-EU trade deal

According to FEPEX, the Spanish federation of fresh producers' and exporters' associations, 'the high volume of cheap imports facilitated by non-payment of customs duties has led to the collapse of EU markets, strongly aggravating the crisis in which the whole Spanish sector is immersed. FEPEX has reiterated calls for proper enforcement of the terms of the EU-Morocco Association Agreement. Once again Spanish tomato producers have complained about Moroccan exporters exceeding the quota set out in the Association Agreement with the EU (24,000 tonnes, compared to a quota of 10,000 tonnes in the period in question), with import prices below the agreed minimum entry price. Spanish producers take the view that the applicable specific duties are not being paid due to problems of enforcement at the points of entry.

The situation is leading to vocal opposition from Spanish farmers to the recent EU-Moroccan trade deal which will see either a lifting of duties and quotas or a major expansion of tariff rate quotas for

Moroccan fruit-and-vegetable exports to the EU (a 39% increase in the tomato quota to 257,000 tonnes, a doubling of the courgette quota to 50,000 tonnes and an expansion of the clementine orange quota from 130,000 to 175,000 tonnes). The chair of the Andalusian fruit-and-vegetable federation has described the deal as the worst possible deal, coinciding as it does with 'the crisis in the Spanish agricultural sector'. Spanish farmers have called for increased support to 'reorganise and modernise Spanish exports to deal with the Moroccan competition'.

Sources

ANSAmed.info, 3 December 2009
http://www.freshplaza.com/news_detail.asp?id=54980

FEPEX, 23 November 2009
http://www.freshplaza.com/news_detail.asp?id=54395

Comment

Enforcement problems under EU trade arrangements, such as those reported by FEPEX in relation to Moroccan exports, raise the issue of the likely impact of such agreements on traditional ACP preferences. Will the proliferation of new deals and enforcement problems see an acceleration in the process of erosion of the value of traditional ACP trade preferences as these new agreements move towards implementation, or will the existing violations mean that the additional market impact of new arrangements is marginal? Clearly the impact on ACP preferences will vary from sector to sector and agreement to agreement, suggesting a need for close monitoring of the situation.

Poultry sector

Poultry trade and prices fairly stable despite global downturn

The latest EC update on developments in international agricultural commodity markets (reflecting October 2009 prices) shows chicken prices sliding slightly between September and October 2009 (-2.4%), with this contributing to a year-on-year decline of 5.1%. In 2010, world poultry prices are expected to remain broadly around their current levels.

FAO meanwhile is reporting lower than expected poultry-meat production, largely driven by output declines in Brazil. This will result in a 4% decline in the global poultry-meat trade. EU poultry-meat exports are also expected to decline by around 4%. Poultry production however is expected to rebound in 2010, provided that no new disease outbreaks disrupt trade and that feed prices do not increase dramatically. The EU's participation in this expansion is however expected to be very limited. New animal welfare legislation is generating uncertainties in the poultry sector, since it is unclear whether its scope would extend to this sector.

The situation for poultry-meat production in Nigeria and Benin is seen as positive, while output in South Africa is largely anticipated to remain unchanged.

Sources

FAO, *Food Outlook*, Global market analysis of meat and meat products, December 2009
http://www.fao.org/docrep/012/ak341e/ak341e09.htm

EC, File note, doc. ref D(2009) agri.l.5 373468, 20 November 2009
http://ec.europa.eu/agriculture/analysis/tradepol/commodityprices/112009_en.pdf

Comment

The global poultry sector has been less affected by global price instability than other sectors. Indeed, the impact of the global economic downturn has been mitigated by 'down purchasing' by consumers who have switched from more expensive beef to cheaper poultry-meat cuts. This stability may well be assisting the expansion of poultry-meat production which is under way in African countries.

Rice sector

Kenyan rice production booming

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

Sources

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

Comment

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

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

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

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