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Agritrade

Agricultural and fisheries trade issues for ACP countries

2010 COMPENDIUM

CTA
partageons les connaissances au profit des communautés rurales
sharing knowledge, improving rural livelihoods

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Contributions

Editorial team

Dr Colin Stoneman

Clare Smedley

Vincent Fautrel (CTA)

Nathalia Dukhan (CTA)

Louis Hinzen (CTA)

Authors

Dr Arlène Alpha (GRET)

Dr Paul Goodison (GDC Partners)

Béatrice Gorez (CAPE)

Dr Stefano Ponte (DIIS)

Dr Chris Stevens (ODI)

Solène Sureau

Translation

BDD Translations

Editing

Anne Sweetmore

Photographs

Cover: CFFA-CAPE; p.7: CTA; p.11: K. Hackshaw, CTA;

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Designed and compiled by:
Pure Impression
Patrick Raymond

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Pure Impression
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ZAC Fréjorgues Est
34130 Mauguio
France

ACP-EU Technical Centre for Agricultural and Rural Cooperation (CTA)
Agro Business Park 2
6708 PW Wageningen
The Netherlands
Tel.: +31 (0)317 467100
Fax: +31 (0)317 460067
cta@cta.int
http://www.cta.int

Brussels Office
Rue Montoyer 39
1040 Bruxelles
Belgium
Tel.: +32 (0) 2 5137436
Fax: +32 (0) 2 5113868

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CD-ROM

The CD-ROM contains all the documents in PDF version, in English and in French, as well as the main information sources of each document.

Foreword

The ACP–EU Technical Centre for Agricultural and Rural Cooperation (CTA) is pleased to release the 2010 Compendium, the second in a series launched in 2009. It offers a collection of critical reviews of issues related to agricultural and fisheries trade for the African, Caribbean and Pacific (ACP) countries published on the *Agritrade* (http://agritrade.cta.int) website between 2009 and 2010.

The food -price crisis of 2008–09, and the overall economic and financial crisis associated with high price volatility on the world markets, have contributed to undermining the position of a large number of ACP countries, which still depend heavily on trade in agricultural products.

The deadlock in World Trade Organization (WTO) negotiations and the rise of free -trade agreements between the European Union (EU) and other developing countries (particularly Latin America), combined with price reductions on the European market via Common Agricultural Policy (CAP) reform, have greatly contributed to eroding the benefits of preferential access to European markets previously enjoyed by ACP countries.

The latest example is the Agreement on Bananas, concluded between the EU and the Andean countries in December 2009. At the same time, ACP–EU negotiations on Economic Partnership Agreements (EPAs), which aim to establish reciprocal market access conditions, continue to play a prominent role in the ACP-EU agenda. However, despite recent progress in the technical negotiations, a number of contentious issues remain unresolved at the time of publication, such as the clauses on most-favoured nation treatment, special safeguard clauses, infant industry protection provisions, rules of origin, etc.

All these technical issues require a deep analysis of their implications for the ACP countries, to help them in their negotiations and tackle the underlying adjustments required of their economies.

The Executive Briefs are updated annually and are available on the *Agritrade* website. This compilation aims to enhance the dissemination of information that is available to ACP stakeholders. The three main topics covered include the following issues :

- agricultural trade issues – WTO negotiations, EPA negotiations, EU market access, CAP reform, food safety/SPS ;
- fisheries trade issues – WTO negotiations, ACP–EU Fisheries Partnership Agreements, market access, EU common fisheries policy (CFP) reform ;
- trade policy issues for commodities including bananas, sugar, coffee, cotton, cereals, oilseeds, beef, and fruit and vegetables.

We trust the 2010 Compendium will enjoy even greater success than the 2009 publication and will continue to serve the needs of ACP stakeholders. I join the *Agritrade* editorial team in thanking you for your dedication, wishing you happy reading, and would like to take this opportunity to reaffirm CTA's commitment to supporting the agricultural development agenda of ACP countries by supporting the sharing of information and experiences, facilitating ACP–EU dialogue and building capacity on issues related to agricultural and fisheries trade.

Michael Hailu,
Director, CTA

Abbreviations

4C	Common Code for the Coffee Community
AAACP	All-ACP Agricultural Commodities Programme (EU)
ACP	African, Caribbean and Pacific countries
AETS	AETS Consortium (Application Européenne de Technologies et de Services)
AFD	Agence Française de Développement (French Development Agency)
AGOA	African Growth and Opportunity Act (USA)
AMS	aggregate measurement of support
ANSA	Angola, Namibia and South Africa
AoA	Agreement on Agriculture
ASCM	Agreement on Subsidies and Countervailing Measures (WTO agreement)
ASEAN	Association of Southeast Asian Nations
AU	African Union
AVE	ad valorem equivalent
BLNS	Botswana, Lesotho, Namibia and Swaziland
Bt	*Bacillus thuringiensis* (transgenic cotton)
C.A.F.E.	Coffee and Farmer Equity Practices (Starbucks)
CAP	Common Agricultural Policy (EU)
CARICOM	Caribbean Community and Common Market
CARIFORUM	Caribbean Forum of ACP States
CEDEAO	Communauté économique des États de l'Afrique de l'Ouest (= ECOWAS)
CEMAC	Central African Economic and Monetary Community
CET	common external tariff
CFP	Common Fisheries Policy (EU)
CMO	Common Organisation of the Market (for commodities in the EU)
CN	Combined Nomenclature (EU)
COLEACP	Europe–Africa-Caribbean-Pacific Liaison Committee (Comité de Liaison Europe–Afrique-Caraïbes-Pacifique)
COMESA	Common Market for Eastern and Southern Africa
COPA-COGECA	Committee of Professional Agricultural Organisations–General Confederation of Agricultural Cooperatives
COREPER	Comité des Représentants Permanents/Committee of Permanent Representatives (EU)
COTED	Council for Trade and Economic Development (CARICOM)
CPA	Cotonou Partnership Agreement
CRNM	Caribbean Regional Negotiating Machinery
CUTS-CITEE	Consumer Unity & Trust Society – Centre for International Trade, Economics and Environment
DIIS	Danish Institute for International Studies
EAC	East Africa Community
EAFRD	European Agricultural Fund for Rural Development
EBA	'Everything but Arms' initiative
EC	European Commission
EC	European Community
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States (= CEDEAO)
EDF	European Development Fund
EESC	European Economic and Social Committee

EEZ	Exclusive Economic Zone
EPA	Economic Partnership Agreement
EPS	entry price system (EU)
ESA	Eastern and Southern African
EU	European Union
FAPRI	Food and Agricultural Policy Research Institute
FFA	Pacific Islands Forum Fisheries Agency
FIFG	Financial Instrument for Fisheries Guidance
FLO	Fairtrade Labelling Organizations International
FORAPE	Fonds régional APE (EPA regional fund)
FPA	Fisheries Partnership Agreement
FTA	free-trade area
FVO	Food and Veterinary Office (EC)
GAEC	good agricultural and environmental condition
GAIN	Global Agriculture Information Network
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GEM	Groupe d'Economie Mondiale (World Economy Group at the French National Foundation for Political Science)
GI	geographical indication
GRET	Group for Technological Research and Exchange
GSP	Generalised System of (tariff) Preferences
GSP+	Generalised System of (tariff) Preferences+
HACCP	Hazard Analysis Critical Control Point
HS	Harmonized Commodity Description and Coding System
ICA	International Coffee Agreement
ICAC	International Cotton Advisory Committee
ICCO	International Cocoa Organization
ICO	International Coffee Organization
ICTSD	International Centre for Trade and Sustainable Development
IEPA	interim Economic Partnership Agreement
IIIS	Institute for International Integration Studies
IPRs	intellectual property rights
IRIN	Integrated Regional Information Networks (of the UN Office for the Coordination of Humanitarian Affairs)
IUU	illegal, unreported and unregulated fishing
JPA	Joint Parliamentary Assembly of European and ACP parliamentarians
LDCs	least-developed countries
LDRAC	Long-Distance Fisheries Advisory Committee (EC)
LDWF	long-distance water fleets
MAI	Multilateral Agreement on Investment
MCS	monitoring, control and surveillance
MEA	Multilateral Environmental Agreement
Mercosur	Mercado Común del Sur (Southern Common Market)
MFN	most-favoured nation
MRL	maximum residue level (for pesticides)
NAFTA	North American Free Trade Area
NAMA	non-agricultural market access
NEPAD	New Partnership for Africa's Development
NFIDC	Net Food-Importing Developing Countries
NIP	National Indicative Programme (EDF)
NTB	non-tariff barrier
OCTs	Overseas Territories of the European Community
ODI	Overseas Development Institute (UK)

OECD	Organisation for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
OIE	World Organisation for Animal Health (originally Office International des Epizooties)
OTN	Office of Trade Negotiations (of the CARICOM Secretariat)
PACER	Pacific Agreement on Closer Economic Relations
PACP	Pacific ACP countries
PANEAC	Plate Forme des Acteurs Non Etatiques d'Afrique Centrale (regional platform of CA non-state stakeholders)
PAPED	EPA development programme (Programme de l'APE pour le développement)
PICTA	Pacific Island Countries Trade Agreement
PIP	Pesticides Initiative Programme (of COLEACP)
POSEI	Programmes d'options spécifiques pour l'éloignement et l'insularité
PSE	producer support estimate
PVS	private voluntary standards
QRs	quantitative restrictions
R&D	research and development
RFMO	Regional Fisheries Management Organization
RIP	Regional Indicative Programme (EDF)
RISDP	Regional Indicative Strategic Development Plan (SADC)
ROPPA	Réseau des Organisations Paysannes et de Producteurs d'Afrique de l'Ouest (Network of Peasant Organizations and Producers in West Africa)
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDT (or S&DT)	special and differential treatment
SEATINI	Southern and Eastern African Trade Information and Negotiations Institute
SIA	sustainable impact assessment
SIDS	small-island developing states
SMEs	small and medium-sized enterprises
SPS	single payment scheme
SPS	Special Preferential Sugar Arrangement
SPS	sanitary and phytosanitary
SSM	special safeguard mechanism
TBT	technical barrier to trade
TDCA	Trade, Development and Cooperation Agreement (FTA between EU and South Africa)
TRIMs	trade-related investment measures
TRIPs	trade-related intellectual property rights
TRQ	tariff-rate quota
TSN	traditional supply needs
UEMOA	Union Economique et Monétaire Ouest Africaine (= WAEMU)
URAA	Uruguay Round Agreements Act
USDA	United States Department of Agriculture
USDA FAS	United States Department of Agriculture, Foreign Agricultural Service
VMS	vessel-monitoring system (satellite-based)
WAEMU	West African Economic and Monetary Union (= UEMOA)
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Agricultural trade issues for ACP countries

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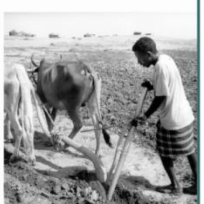

ACP-EU trade relations

Executive brief: Update

EPA negotiation issues between Central Africa and the EU

Contents

About this update

CTA's executive brief on *EPA negotiation issues between Central Africa and the EU* was published in January 2009 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in March 2010, consists of:

1 Background and key issues: briefly summarising the original executive brief and, where necessary, updating developments related to key issues;

2 Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2009) is available on request from: agritrade-mail@cta.int

1 Background and key issues

In the framework of the Cotonou Agreement, it was decided to replace the non-reciprocal preferential system that had been in place since the Lomé Accords (1975). Under the preferential system, ACP countries enjoyed access to the European Union market by way of free-trade agreements between the six ACP regions (Caribbean, West Africa, Eastern and Southern Africa, Central Africa, Southern Africa, Pacific) and the EU. That system was not compatible with the rules of the World Trade Organization (WTO) and two fundamental principles governing preferential agreements: non-discrimination towards third countries and reciprocity of preferences. It was therefore challenged by some WTO members. Since 2003, the Central African (CA) region and the EU have been negotiating an Economic Partnership Agreement (EPA). In this context, the ACP preferential system was terminated at the end of 2007, when EPAs were due to enter into force. However, because of numerous points of disagreement (as in most ACP regions), the two regions were unable to reach an agreement before the deadline, and Cameroon decided to conclude a bilateral EPA with the EU.

In the specific context of the EPA negotiations, the CA region is composed of the six countries of the Monetary and Economic Community of Central Africa (CEMAC: Cameroon, Central African Republic, Republic of Congo, Gabon, Equatorial Guinea and Chad), plus the Democratic Republic of the Congo and São Tomé e Príncipe. Despite the existence within CEMAC of a customs union, a common external tariff and a common market, regional integration remains weak. The CA countries trade above all with the outside world, and firstly with the EU, which is the region's leading supplier (45% of the region's total imports in 2007) and main export market (26% of total exports during the same period). At regional level, Cameroon, the leading supplier of the region's countries, is the main intra-community trading partner. One of the fundamental objectives of the EPA is to strengthen integration within the six ACP regions. The negotiations do not as yet seem to have achieved this objective, and they could even undermine it, given the difficulties in concluding regional EPAs, and given the conclusion of bilateral EPAs such as that concluded with Cameroon.

What makes it so difficult for the two regions to conclude an EPA is the fact that the CA region's eight countries do not have the same status, as some are least developed countries (LDCs) while others are not, so their interests are not the same when it comes to signing the EPA. The five LDCs of the subregion – Chad, the Central African Republic, the Democratic Republic of the Congo, São Tomé e Príncipe and Equatorial Guinea, which contributed only 10% of agricultural exports to the EU in 2007 – enjoy free access to the European market thanks to the 'Everything but Arms' (EBA) initiative. These five countries therefore had no incentive to conclude an EPA at the end of 2007. The situation is different for the three non-LDCs – Cameroon, Gabon and the Congo – as the non-signing of the EPA means that they fall within the scope of the European General System of Preferences (GSP), which is less favourable than the system from which they benefited up to the end of 2007, and also less favourable than the EPA for certain products, in particular bananas and processed products (such as cocoa-based products). This influenced Cameroon's decision at the end of 2007 to initial an interim EPA with the EU; bananas represent Cameroon's fourth biggest export to the EU (6.7%) by value for the period 2006–08, and would have been taxed when entering the European market if no agreement had been signed.

Although the region's economies are based mainly on the mining and forestry sectors, agriculture is nevertheless an important sector in this region, where a large part of the population is rural – between 39 and 74%, depending on the country, in 2007 (except for Gabon, where the proportion is low at 15%). Accordingly, many of the issues at stake in the EPA concern the agricultural sector. The CA region's agricultural exports are concentrated on a small number of products, two of which represent just under three-quarters of the region's total agricultural exports to the EU by value: cocoa and its derivatives account for 37% of these exports, and fruit (mainly bananas) 32%. Two other products represent almost one-fifth of exports: cotton (6%) and coffee (11%) (2005–07). The signing of the EPA would enable Gabon and the Congo to export these products to the EU on a duty-free, quota-free basis, and in particular it would enable the Congo, the only country in the region to have signed the sugar protocol, to continue to enjoy duty-free access for its sugar exports to the EU.

However, the EPA would also involve the opening of ACP markets, and the liberalisation of their imports would result in particularly heavy losses of tax revenues for wheat flour, powdered milk and poultry meat, which were the main EU exports during the period 2005–07 along with drinks. Furthermore, this liberalisation will make European products even more competitive than they already are, making them a potential threat to local producers. According to impact studies, this will be the case for wheat flour, poultry meat, soybean oil, powdered milk and sugar, hence the importance of the identification and treatment of sensitive products (products that would be subject to gradual liberalisation) and products to be excluded from the agreement.

The question of the degree of liberalisation and the liberalisation schedule has been the main stumbling block in the discussions between EU and CA negotiators, and in the light of the failure of the two parties to conclude an agreement, on 29 October 2007 all the governments requested an extension of the dispensation concerning the Cotonou preferences for two additional years. On the deadline of 31 December 2007, only Cameroon had initialled an interim agreement with the EU, and this agreement was finally signed on 15 January 2009. The extension request having been rejected, Gabon and the Congo have been subject to the GSP since 2008, while the other countries of the subregion, being LDCs, continue to benefit from the EBA initiative. The negotiations for a regional EPA are ongoing, but they continue to be frustrated by the differences of opinion between the two parties, mainly concerning the market-access offer and provisions on the financing of support measures.

The agreement initialled in December 2007 by Cameroon did not provide for tariff liberalisation to start immediately, but at the beginning of 2010. The agreement requires the liberalisation of around 20% of imports from the EU over 15 years. The general liberalisation of customs duties 'has been deferred until the end of the transitional period, but this deferment is limited', 'Cameroon will therefore feel its effects very rapidly'. The products excluded from the tariff-elimination commitments 'represented 21% of the products imported from the EU in 2005–2006', although 'less than a third of them are agricultural products', covering some 354 tariff lines. The main agricultural and food products excluded are meat-derivative products, vegetables, cereal-based food products, coffee, cocoa, sugar and confectionery.

Although Cameroon has signed an agreement, the CA representatives are insisting that this agreement should not be used as the basis of the regional EPA, and that the negotiations should continue on the basis of those conducted in 2007 between the EU and the CA region as a whole. In July 2008, CA put forward a tariff-liberalisation proposal, whereby 71% of imports by value from the EU would be liberalised over the next 20 years. This proposal followed the rejection by the EC of a proposal providing for the liberalisation of 60% of CA's imports over 25 years. According to the new market-access offer, 1,205 products would have been excluded, representing 24.5% of the tariff lines. Moreover, a preparatory period of 5 years was proposed in order to prepare the five LDCs for the challenges resulting from liberalisation, namely the impact on local production and lost tax revenues. However, the EU did not accept this proposal, arguing that it was incompatible with the notion of the 'substantially all trade' specified in article XXIV of the General Agreement on Tariffs and Trade (GATT). Thus, according to the International Centre for Trade and Sustainable Development (ICTSD), during the July 2008 meeting 'the EU repeated that 80% of products should be liberalised over 15 years'. It is important to note that, given the predominance of EU imports from CA in trade between the two regions, if CA were to liberalise 71% of current imports from the EU, whereas the EU would grant duty-free, quota-free access, on average 88% of trade in 2007 would be subject to liberalisation under the agreement. Regarding the schedule proposed by the CA negotiators, there do not appear to be any substantial differences from the schedule agreed with the countries of the East African Community. In November 2008, the CA negotiators maintained this offer, despite it having been rejected by the EC.

2 Latest developments and implications for ACP countries

2.1 The Cameroon–EU EPA: the initial phase of dismantling tariff barriers

According to the liberalisation schedule, the first tariff barriers protecting the Cameroon market from European exports were due to be lifted with effect from 1 January 2010. Liberalisation is scheduled to be implemented over 15 years, in three phases:

- Group 1: gradual tariff liberalisation up to 2013;
- Group 2: gradual tariff liberalisation up to 2017;
- Group 3: gradual tariff liberalisation up to 2023.

The first phase covers products with high customs duties: 'almost half of Cameroon's imports from the EU during the 2005–2006 period will be fully liberalised within ten years'. Some agricultural and food products will be subject to tariff elimination during the first phase, including some varieties of potatoes and corms, although the value of these imports is insignificant. The first liberalisation phase also covers equipment used in agriculture and horticulture, which should help to reduce capital investment costs in the agricultural sector.

Table 1 Cameroon: first-phase agricultural commitments

NHM Code	Average imports in 2004–06 ($ thousands)	Description	Customs duty
010110	5	Pure-bred breeding horses and asses	30%
010611	0	Live primates	30%
010612	–	Whales, dolphins and porpoises (mammals of the order cetacea) [...]	30%
010619	–	Live mammals (excluding primates, whales, dolphins and porpoises) [...]	30%
010620	–	Live reptiles (e.g. snakes, turtles, alligators, caymans, iguanas, gavials) [...]	30%
051110	4	Bovine sperm	30%
071410	–	Fresh, chilled, frozen or dried roots of manioc [...]	30%
071420	–	Sweet potatoes, fresh, chilled, frozen or dried [...]	30%
071490	2	Roots of arrowroot, salep, jerusalem artichokes and similar roots [...]	30%

Source: EU – Cameroon Interim EPA Agreement text.

Whereas the first tariff-dismantlement phase should have started at the beginning of this year, according to an article in the online newspaper *AfriScoop.com* of 12 January 2010, 'eleven days after the deadline fixed by the schedule, no indications have been given about the entry into force of the interim EPA concluded between Cameroon and the EU, the Cameron government having requested a deferment'. According to the article, this deferment may have been requested because of the failure to conclude an agreement between the two regions on rules of origin, or because of delays in the negotiations between the CA region and the EU, and 'if the deferment is agreed, one of the risks for Cameroon is that the EU may be obliged to re-introduce automatically the GSP'.

Table 2 The Cameroon–EU interim EPA: summary of the main provisions

Rules of origin	Cameroon benefits from the improved rules of origin granted to signatories of interim EPAs. New rules of origin will be annexed to the interim EPA when they are agreed with the region in the framework of the negotiations for a full EPA.
Export taxes	No new taxes may be introduced or existing taxes increased. Temporary new taxes/tax increases are authorised for reasons relating to the protection of the environment or to maintain monetary stability, after consultation with the EC.
Status quo clause	Yes
Most favoured nation (MFN) clause	Yes
Review of the tariff concessions in the event of serious difficulties	Yes. In the event of serious difficulties, the tariff dismantlement may be reviewed, by mutual agreement, but not beyond the maximum transitional period. If no agreement can be reached, Cameroon may suspend the tariff reductions for a maximum period of 1 year.
Safeguard instruments	Suspension of tariff reductions, increases in customs duties to be applied to MFN rates and tariff quotas – quantitative restrictions not authorised.
Food security safeguard	In case of food insecurity, preventive safeguards may be applied.
Measures to protect new industries	No quantitative restrictions possible. Safeguards possible for a period of 8 years during the first 15 years. Extension possible for one additional year.
Abolition of non-tariff barriers and quantitative measures	Ban on all import and export restrictions other than duties and taxes except for antidumping/countervailing measures.

Sources: ECDPM, ODI. The new EPAs: comparative analysis of their content and the challenges for 2008. 31 mars 2008. http://www.acp-eu-trade.org/library/files/ECDPM-ODI_EN_310308_ECDPM-ODI_The-new-EPAs.pdf
Commission européenne, DG Commerce. Fact sheet on the interim EPA – Central Africa: Cameroon. Janvier 2009. http://ec.europa.eu/development/icenter/repository/fact_sheet_epa_cameroon.pdf
Journal officiel de l'Union européenne. Accord d'étape vers un accord de partenariat économique entre la Communauté européenne et ses États membres, d'une part, et la partie Afrique centrale, d'autre part. L 57/2 FR. 28 février 2009. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:057:0002:0360:FR:PDF

After the signing of the agreement by the two parties at the beginning of 2009, the agreement was notified to the WTO on 28 September 2009. However, the agreement may be reviewed if a full EPA is concluded with the region. Moreover, the agreement gives rise to certain fears, in particular regarding the consequences set out in the following sections.

The fiscal impact of the EPA

As in other regions, problems of tax adjustment are a major source of concern in CA. A 2009 study on the impact of signing an EPA on Cameroon's economy projects that 775 billion CFA francs (€1.2 billion) will be lost at regional level over the next 12 years. According to the report, these losses will include some 295 billion CFA francs (€450 million) for Cameroon. In a context in which customs duties represent almost 40% of the tax revenues of most CA countries, an EPA would have a significant fiscal impact. A study carried out by the Cameroon ministry of finance estimates that the EPA between the EU and Cameroon will cause lost customs revenues of up to €197 million between 2010 and 2023, and €356 million by 2030.

Difficulties in penetrating the EU market and the erosion of preferences despite the access obtained thanks to the EPA

Concerns have been expressed about the future value of duty-free, quota-free access to the EU market in the framework of the EPA, given the very strict hygiene and quality standards applied by the EU. Accordingly, the total opening of the EU market may not produce the expected results in terms of an increase in export volumes. One solution could be to increase aid to boost production capacities and compliance with food-safety standards on the European market.

In addition, following the agreement on bananas concluded on 15 December 2009 between the EU and Latin American countries, the preferential access to the European market that Cameroon still enjoys thanks to the signing of the EPA does not have the same value. The agreement will reduce customs duties for 'dollar' bananas from €176/tonne to €114/tonne by 2017, with an immediate reduction to €148/tonne as soon as the agreement is signed. In exchange, Latin American banana exporters will withdraw their complaint filed against the EU with the WTO, and will not attempt to obtain additional reductions in the banana tariff in the framework of the Doha Round. The vast majority of the EU's banana imports come from Latin

American countries (the market share of Colombia, Costa Rica, Ecuador and Panama amounted to 77.5% during the period 2006–08), whereas banana imports from Cameroon represent only 6.7%. This market share has varied over the past 10 years: after having increased from 1999, it has fallen from 7.2% in 2003 to 5.6% in 2008. This share is likely to fall further given the recently concluded agreement, which will make 'dollar' bananas even more competitive *vis-à-vis* ACP and Cameroon bananas. According to ICTSD, the agreement is likely to reduce ACP banana exports by 14%, whereas Latin American banana exports are expected to increase by around 17%. The future signing of free-trade agreements with Central American countries is likely to intensify the process of preference erosion even further.

In order to help ACP banana-exporting countries to adapt to this fall in the MFN rate, the EC has undertaken to pay aid of €200 million, in addition to the aid already committed. Local industry in Cameroon is facing an important challenge in this regard, namely its capacity to introduce efficient programmes that will enable the country's bananas to become more competitive and stand out from 'dollar' bananas.

One solution for Cameroon's banana producers would be to switch their production to fair-trade or organic-certified products in order to distinguish them from Latin American bananas. Although many Caribbean producers have already made this switch, African producers do not seem to have made sufficient use of this possibility.

2.2 Negotiations for a regional EPA suspended since February 2009

No joint meetings have been held since February 2009, mainly because of the reorganisation of the CEMAC Secretariat, which is now complete. A joint technical negotiation meeting was due to be held in Brussels in April 2009, but was put back at the request of CA. At the beginning of October, the representatives of the two parties had agreed to resume the technical negotiations. A regional-level meeting was scheduled for 9–13 November 2009 in Libreville to prepare the December round of negotiations, but was postponed, which also resulted in the joint technical negotiations with the EU being cancelled. On 11 December 2009, the CEMAC Council of Ministers met, with ministers calling for an impact study on the implementation of the Cameroon–EU EPA for the economies of the region as a whole. A fresh meeting was held on 15 February 2010, at which the CEMAC ministers apparently discussed a series of issues to be taken into account before the conclusion of a regional EPA. In continuation of the work undertaken by the regional committee on EPAs, they examined certain questions in abeyance, such as market access, services, rules of origin, and the nature of the EPA regional fund (FORAPE). No agreement has yet been reached on these issues.

In its February 2009 communiqué, the regional platform of CA non-state stakeholders (PANEAC) suggested that after the February 2009 round of negotiations the process was deadlocked for two main reasons. First, the European negotiators were unwilling to budge on their initial positions on all issues, whereas CA has made numerous concessions, in particular regarding its market-access offer. Second, the EC 'has back-tracked on several points relative to the development aspects of the EPA', in particular regarding the implementation of a 'Joint guidance document for capacity building and upgrading African economies', agreed in 2007, and support for tax adjustment.

The degree of liberalisation and the liberalisation schedule remain the main stumbling block in the negotiations. Moreover, according to the European Centre for Development Policy Management (ECDPM), discussions on the EU's legal commitments regarding EPA development support, rules of origin and the commitments of the non-execution clause (which deals with the non-performance of the agreement's provisions) are still ongoing between the parties. Questions regarding dispute resolution and the EPA development component have not yet been discussed, whereas additional negotiations are still necessary on export taxes, the MFN clause, safeguard provisions and anti-dumping measures.

2.2.1 Disagreement on the extent of liberalisation and the schedule

CA's market-access offer remains the main point of disagreement with the EU. As indicated previously, its market-access offer tabled in July 2008, which proposed the liberalisation of 71% of its imports over 20 years, was rejected by the EC, which considers that in order to be compatible with article XXIV of the GATT, a market-access offer must liberalise at least 80% of trade over 15 years. According to the PANEAC communiqué, the EC's position is 'completely unfounded'; moreover, the European Parliament's resolution of 25 March 2009 on the EU–CA EPA 'Considers that to demand 80% liberalisation by value of trade is an interpretation of Article XXIV of the GATT that does not take sufficient account of the fact that the EU is negotiating with some of the poorest countries in the world, which have differences in their level of development and sensitive sectors.'

A recent study carried out by the Group for Technological Research and Exchange (GRET) at the request of the French Development Agency (AFD) has analysed 41 free-trade agreements in force, and reveals that some agreements have liberalisation levels of below 80% and have not been contested at the WTO. This shows the region's market-access offer in a new light. In particular, in the EU–Mexico free-trade agreement, 54.1 and 98.1%, respectively, of imports by value by Mexico from the EU, and EU imports from Mexico, are liberalised, which represents only 66% of trade, compared with CA's offer which implies the liberalisation of 88% of trade in 2007 between the two regions.

This study supports the report of the French European Affairs Commission submitted to the French National Assembly in December 2009, which also calls on the EC to review its position, in particular as regards the liberalisation rate and schedule. According to this report, 'the EC's position is based on its own interpretation of the GATT rules and does not correspond to the practices of free-trade agreements', and it recommends the EC 'to restore a system of asymmetrical trade preferences'.

2.2.2 Rules-of-origin negotiations

According to ECDPM, further negotiations on rules of origin are still necessary. The EC recognises the 'potentially very important dimension for the region's development, in particular its industrial development' and according to it, 'the initial exchanges have revealed an overall convergence of views between the EU and CA, on the basis of the EU's proposal to maintain the *acquis* of the Cotonou Agreement in this area while proposing improvements'. This seems to be in line with the position of the European Parliament which, in its March 2009 resolution, 'Calls for the production and export of higher-value-added processed products to be supported, in particular by simplifying and making more flexible the rules of origin'. The new rules of origin negotiated at regional level are intended to be integrated into the Cameroon–EU interim agreement. Failing an agreement between the two regions, Cameroon will export under less favourable rules of origin, hence the importance for the negotiators of reaching an agreement as quickly as possible.

2.2.3 The inclusion of the most favoured nation clause

As in all the other regions, the EU's proposal regarding the MFN clause, which requires the region to grant automatically to the EU all the concessions granted to its main trading partners, has given rise to heated discussions. According to ICTSD, 'Central Africa has systematically refused the inclusion of this clause in the future agreement. […] But it intends to accept its inclusion provided that the development component is sufficiently taken into account in the agreement.'

2.2.4 Safeguard measures

According to ECDPM, negotiations are still necessary on the safeguard measures. Regarding the measures included in the Cameroon–EC agreement, the European Parliament's resolution 'points out that the instruments provided for their adoption are complex, which could limit the chances of implementing them'; it therefore calls for these measures to be revised in the future regional agreement.

2.2.5 The use of trade-policy instruments

The use of trade-policy instruments other than customs duties, such as export taxes, quantitative trade-restriction measures or import licences, is a bone of contention in some EPA negotiations. The use of these measures, which can prove very effective when it comes to supporting domestic agricultural production and food security, or the development of higher added-value processing activities, could be called into question by the EPA.

In the framework of the Cameroon–EC agreement, measures involving quantitative restrictions (such as import bans, quotas and licences) are formally prohibited, even for the purpose of protecting new industries or for reasons of food security. This clause will therefore probably be integrated into the regional agreement. According to an article published in *Eclairage sur les négociations*, 'the bans in force in Cameroon on exporting certain wood essences, the use of export permits and restrictions which ensure that wood is processed locally, could […] be called into question by the EPA'. According to the *Trade Policy Review* of the WTO, as CA countries apply measures involving quantitative restrictions on imports in the agricultural sector for reasons of food security or to protect new sectors or industries (see Table 1), any prohibition of such measures could cause a problem.

Regarding export taxes, according to the EC, the negotiators still have to reach a compromise. In the framework of the Cameroon–EU EPA, the clause on export taxes does not prohibit their use if the taxes in question were in place before the agreement, and authorises the introduction of new export taxes 'for environmental protection purposes or to maintain monetary stability, after consultation with the EC'.

If the CA countries want to be able to continue to use this type of instrument, it will be important to ensure the regional agreement includes a certain degree of flexibility regarding their use, in particular for reasons of food security or to protect new industries.

Table 3 Trade-policy instruments in force in CA

	Cameroon (2007)	Congo (2006)	Gabon (2007)	Central African Republic (2007)
Import licences		Meat, poultry, sea fish, salted fish, wheat flour and meal, edible oils, salt, mineral water, sugar, rice, concentrated tomato paste		Sugar
Import restrictions	Poultry	Sugar (ban until national production has been sold) and wheat meal (quotas)	Sugar (prohibited except for CEMAC imports)	Coffee (prohibited until national production has been sold), sugar
Export taxes	Cocoa and coffee (duties in aid of the national office of the multi-industry council and international organisations)			

Source: OMC, Trade Policy Reviews.

Regarding instruments to support agricultural development, the European Parliament's resolution:

- ‘considers that, in order to guarantee food security in Cameroon and in the region, a policy of long-term support for local agriculture needs to be put in place, including trade policy instruments which enable market regulation and the protection of sustainable family agriculture;
- considers that the potential for state intervention in this area should not be restricted;
- stresses that these topics must be placed at the centre of the negotiations in order to guarantee the coherence of trade policy and all the EU’s policies with regard to food sovereignty and the right to food.’

2.2.6 EPA support measures

In February 2009, according to ICTSD, ‘the region has stressed capacity building, […] the inadequacy of the budget amount allocated to the region as well as the percentage devoted to EPA support measures’. On 30 September 2009, the Regional Indicative Programme (RIP) of the 10th European Development Fund (EDF) was signed. It amounts to €165 million, while the regional strategy document adopted in May 2009 provides for €97 million (58%) to be devoted to economic and trade integration.

In this regard, the European Parliament’s resolution stresses that ‘additional financing [in addition to that of the EDF] was anticipated’ and points out that ‘the amounts allocated under the NIP for Cameroon and the RIP are insufficient to bring the Cameroonian economy up to standard, which the signing of an EPA would entail’. It also stresses that the support programme must cover bringing the economies up to standard and offsetting the losses in customs revenues.

2.3 Towards a regional EPA

A new calendar for meetings in the negotiations was expected to be agreed for the first quarter, according to ECDPM in early 2010. The conclusion of an agreement in 2010 will depend on the progress made by the CA region internally, as it was, above all, the institutional problems of CEMAC and the organisation of elections in several countries in the region that delayed the negotiations in 2009.

The two parties will have to reach an agreement on all the disputed clauses, and first of all on CA’s market-access offer. In the light of the appeals made by France and the European Parliament, in particular for the EC to adopt a more flexible approach in the negotiations, the EC could be induced to review its position.

The transition from the Cameroon–EU interim EPA to the regional EPA also raises some questions. Fears have been expressed regarding the impact of Cameroon signing an EPA by with the EU on the negotiations for a full regional EPA. The regional EPA must be the result of negotiations between all the region’s member states, and not based on the interim EPA signed by Cameroon. The title given to the official legal document of the interim EPA has provoked fears, since it refers to the ‘European Community and its member states’ on the one part and ‘Central Africa’ on the other part, whereas only Cameroon has initialled this agreement. According to an article published in *Trade Negotiation Insights* (March 2009), ‘some observers think that the wording suggests that the EU has treated Cameroon as being equivalent to the region in a legal agreement and will neither accept the demands of the other countries in the regional negotiations nor will it move regional integration forward; on the contrary it will impose the interim EPA signed with Cameroon on the other countries’.

The Cameroon–EU agreement stipulates that Cameroon’s market-access offer may be revised when the region’s countries join the EPA, within 3 years after the implementation of the first tariff-dismantling phase in Cameroon, that is to say by 1 January 2013. The two parties have agreed to base the future regional agreement on the results of the last negotiations between the two regions, and not on the Cameroon–EU interim agreement. However, ‘this raises the question of how far the commitments entered into by Cameroon will influence the regional agreement […]', as the ODI/ECDPM analysis of the EPA stresses.

Furthermore, according to the ODI/ECDPM analysis, given that the Common External Tariff of CEMAC is not yet fully applied, and that the tariff dismantling should normally have started at the beginning of the year, it will be necessary in this case to realign customs duties within the region when a full EPA is put in place. Once the agreement has been signed, either Cameroon will have to increase its customs duties up to regional level; or the region's other countries will have to accept rapid tariff cuts to bring their rates into line with those of Cameroon; or the regional EPA will have to specify a transitional period during which Cameroon will apply different rates of duties from the region's other countries, until the latter have reached the same level of liberalisation as Cameroon.

Cameroon's request to postpone the first phase of tariff dismantling, which was due to start in January 2010, has somewhat changed the situation in this regard. Cameroon appears to be waiting for the signing of the regional agreement in order to implement the first phase. However, there is a risk that this might cause serious problems for certain sectors in Cameroon, in particular for banana producers, as banana exports would be taxed under the GSP system.

If the Central African and EU negotiators fail to break the deadlock, Gabon and Congo Brazzaville will be able to apply again to benefit from the EU's Generalised System of (tariff) Preferences+ (GSP+) system during 2010.

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Executive brief: Update

EPA negotiation issues between ESA and the EU

Contents

About this update

CTA's *Executive brief: EPA negotiations: ESA configuration* was published in October 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in April 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key issues

Members of the Eastern and Southern Africa (ESA) European Partnership Agreement (EPA) configuration currently trade with the EU under seven different trade agreements. Five least developed countries (LDCs) have declined to initial an interim EPA (IEPA) and export under the unilateral non-reciprocal 'Everything but Arms' (EBA) arrangement, which forms part of the EU's Generalised System of (tariff) Preferences (GSP) regime. (Somalia never participated in the negotiations, while the Democratic Republic of Congo was ambiguous in its participation.) The five members of the East Africa Community (EAC) Customs Union have collectively initialled a single agreement, while six ESA members have initialled bilateral IEPAs, four of which have been signed. While each government initialling a bilateral IEPA drew up its tariff offer in the light of the Common Market for Eastern and Southern Africa (COMESA) common external tariff (CET), according to analysis posted by the Overseas Development Institute (ODI) and the European Centre for Development Policy Management (ECDPM), 'the details of their liberalisation and of their exclusion baskets are different'. In addition, problems arise in relation to the COMESA CET classification, with 'over a thousand items being liberalised by one or more of the ESA countries where there is some degree of discrepancy in the CET classification', and with the classification of the same product being different in some instances in all the tariff schedules.

This gives rise to a multiplicity of separate and diverse tariff elimination commitments towards the EU from ESA configuration members. Only in the case of the EAC is a single tariff reduction arrangement in place that is consistent with the establishment of a CET. Not only does the extent and pace of tariff liberalisation vary, but so too does the type of sensitive products excluded from tariff elimination commitments, with only one category of agricultural products in common in the list of exclusions under the six bilaterally concluded IEPAs. In all other areas of product exclusions, at least one ESA government has initialled an IEPA that has subjected 'excluded' products to some level of tariff elimination (see Annexes 1 and 2).

Table 1 Status of ESA (I)EPA trade relations (as at 1 March 2010)

Type of agreement	Non-LDC		LDC	
	Initialled	Signed	Initialled	Signed
EAC IEPA	Kenya		Tanzania Uganda Burundi Rwanda	
Bilateral IEPAs		Mauritius Seychelles Zimbabwe	Zambia Comoros	Madagascar
EBA (unilateral regime – no signature needed)	Not applicable		Djibouti, Eritrea, Ethiopia, Sudan, Malawi	

Source: Agritrade website.

These different tariff elimination commitments could potentially pose problems as governments of the ESA region seek to move beyond general regional free-trade area (FTA) commitments to the creation of a regional customs union. However, it should be noted that in a number of the IEPAs, provisions exist for the revision of tariff elimination commitments in the context of regional integration initiatives, provided the overall WTO compatibility of the agreement is maintained.

Looking beyond the tariff elimination commitments, ESA configuration members are looking to revise a range of 'contentious issue' provisions relating to: the standstill clause; the right to use export taxes as a policy tool; the most favoured nation (MFN) clause; rules of origin; the right to use import licences to regulate trade in sensitive products; special agricultural safeguard provisions; infant industry protection provisions; the scope of the development dimension of the IEPA; and the definition of 'substantially all trade' (an important issue if a common regional tariff elimination offer is eventually to emerge).

At the level of regional integration initiatives in ESA, problems have arisen with regard to the establishment of a COMESA CET. Although the structure of the CET has been agreed (raw materials and capital goods – CET zero; intermediate goods – CET 10%; final products – CET 25%), no agreement has been reached on 'a formal definition that allocated each item in the nomenclature to one or other group'. Each category appears to be defined differently in each country's tariff schedules. A further complicating factor at the regional level is the commitment made at the level of heads of state to the establishment of a grand FTA arrangement bringing together the Southern African Customs Union (SACU), the Southern African Development Community (SADC), COMESA and the EAC.

As 2008 drew to a close, the following situation existed among ESA configuration countries:

- a multiplicity of different tariff elimination commitments had been tabled and initialled, the inconsistencies within which constitute a significant barrier towards the establishment of a single common and comprehensive EPA embracing all eastern and southern African states which negotiated as part of the ESA configuration;
- efforts were continuing to finalise IEPA tariff elimination commitments by other ESA configuration members that had not yet initialled an IEPA, with Zambia being the latest country to join the fold;
- discussions were continuing around a range of contentious issues, but progress remained painfully slow, with a continued divergence of views on how to sequence the resolution of these contentious issues with the signing of the IEPAs;
- wider regional integration discussions were continuing, with a new and extended commitment having been made to the establishment of an FTA and eventually a customs union embracing SACU, SADC, EAC and COMESA member states in a single framework, which would appear to further complicate efforts towards establishing a single common and comprehensive EPA;
- ongoing problems with the harmonisation of national tariff schedules with the COMESA CET.

Critical to the evolution of the ESA–EU relationship will be the flexibility shown in accommodating the inconsistencies in national tariff elimination commitments in any future regional IEPA, and in accommodating the new regional integration initiatives that have been launched since the initialling of the ESA IEPAs.

2 Latest developments

2.1 Progress of negotiations in 2009

In November 2008, the EC was looking to sign the various IEPAs by March 2009, in order to move ahead with the implementation of the reciprocal commitments entered into under the various initialled IEPAs and to enable faster progress to be made with the conclusion of a comprehensive regional EPA reaching beyond simply trade in goods.

As March 2009 approached, however, it became apparent that East African trade negotiators would be seeking an extension of the deadline for the conclusion of a comprehensive EPA with the EU. This was felt to be necessary 'to guard against sloppiness' and ensure that 'regional economies are not exposed to harmful competition from the much more advanced EU'. This followed deliberations among ESA trade ministers, which called for full consideration to be given to the outstanding issues faced prior to any further engagement with the EU. ESA ministers in particular highlighted the need 'to develop benchmarks to measure the success or failure of EPAs and how these benchmarks are delivering on development'. They argued that 'EPAs should make us better off than under the previous trade and economic agreement with the EC and accordingly, we need a set of indicators to ensure and measure that we are not worse off than yesteryear'.

This more cautious approach on the part of trade negotiators, which occurred across a number of ACP regions, appears to have been in part a response to the severity of the global economic downturn and its emerging consequences for African economies. This is particularly the case in the light of the growing debate around the impact of so called 'contentious issues', which have emerged in a number of regions, many of which revolve around the regulation of agricultural trade and the protection of infant industries in the agro-food sector.

A deadline of 31 July 2009 was subsequently put forward by the EC for the signing of the EAC–EU IEPA. It is against this background that, in July 2009, EAC ministers highlighted the need to identify a way forward in resolving outstanding issues. They specifically called for:

- the establishment of 'a credible mechanism' to address the issue of EPA adjustment costs;
- the building-in of 'economic and development safety nets to support the required economic adjustments', in order to facilitate national acceptance of the regional agreements concluded;
- political engagement between the parties to clear the logjam on economic and development issues;
- more time to conclude the negotiations, given the outstanding 'weighty and substantive' issues and concerns.

Subsequent press reports following the failure to meet the 31 July deadline for signing the EAC–EU IEPA suggested that EAC exports to the EU could be affected by any further delay in signing the initialled EAC–EU IEPA. Any withdrawal of the transitional duty-free, quota-free access extended under the December 2007 EU Council Regulation (No. 1528/2007) would exclusively affect Kenyan exports, as Kenya is the only non-LDC in the EAC grouping.

Looking beyond the EAC, on 29 August 2009, in Mauritius, the governments of four ESA countries – Mauritius, Seychelles, Madagascar and Zimbabwe – signed their bilateral IEPAs. At the signing ceremony, the EC trade commissioner argued that 'we now have the foundation to build a more comprehensive trade partnership that will support the ESA region's work to build diverse and sustainable economies'. The trade commissioner maintained that the signed agreements would bring 'a diverse region together under a single trade arrangement with the EU, tailored to the specific needs of the region and recognising its diversity'. However, this vision appears to stand in sharp contrast to the reality of the network of trade relations that the IEPAs have ushered in. As an EC memorandum issued at the time of the signing ceremony acknowledged, the reality is that so far 'the ESA countries have not been in a position to table a single regional market access offer'.

The main impact of the signing of their IEPAs by four ESA configuration members is the start of implementation of tariff reductions on EU exports to the signatory countries. These reductions are scheduled to take place over the next 15 years on 'between 80% and 92% of imports from the EU', depending on the country concerned. According to analysis undertaken by ODI/ECDPM in their final report 'The new EPAs: comparative analysis of their content and the challenges for 2008', the most significant effects would be felt first in Mauritius, where the 'first tranche of liberalisation [was] to be completed in 2008', with a quarter of all imports from the EU being affected. This process of front-loaded tariff liberalisation is, however, wholly consistent with the Mauritian national development strategy, which *de facto* seeks to establish Mauritius as a production and processing platform serving both regional and international markets.

The front-loaded process of tariff liberalisation in Mauritius contrasts with the processes in Zimbabwe and Seychelles, where the first stage of tariff elimination will commence only in 2013. However, in the case of Zimbabwe, from 2013 onwards 'it is entirely possible that EU imports would compete with domestic production'. In the case of Madagascar, items to be liberalised in 2013 account for 37% of imports from the EU over the 2004–06 period. However it should be noted that 'none of the items being liberalised in 2013 are agricultural products'.

On the eve of the signing ceremony, the governments of Zambia and the Comoros declined to sign their initialled IEPAs. With Zambia and Zimbabwe being geographically contiguous, having different tariff phase-down schedules and commitments, and excluding different products from the process of tariff elimination, the question arises: in the context of the COMESA FTA agreement and the SADC FTA, how will Zambia stop EU products being imported duty-free via Zimbabwe, even where the national policy is to maintain in place tariffs on certain specified sensitive agricultural products (such as milk and cheese). These concerns about how the different product coverage of the individual IEPAs will be reconciled with regional commitments to free trade may well be among the issues that the Zambian government would like to see addressed before it signs up to the ESA IEPA process.

Thus the 29 August 2009 signing ceremony included only four of the ESA region's original 16 members. The five ESA members of the EAC (now additionally including Tanzania, which 'transferred' from the SADC IEPA configuration at the end of 2007) did not sign their IEPA. A further two ESA governments that had initialled IEPAs (Zambia and Comoros) declined to sign, with six governments continuing to prefer trading under the non-reciprocal EBA GSP regime. In this context, a representative of the government of Ethiopia expressed the view that 'Ethiopia would not lose or gain anything by signing the EPA at present and is not contemplating signing the deal in the near future'. How to 'incentivise' the participation of LDCs in reciprocal preferential trade arrangements with the EU is one of the unresolved issues at the heart of the EPA negotiations, and is a particularly acute dilemma in the ESA region, where the majority of members, with the vast majority of the region's population, are classified as LDCs.

August 2009 also saw discussions take place on a 'comprehensive trade partnership, which would cover issues like services, investment, agriculture, technical standards, trade facilitation, trade-related rules', infant industry protection, export duties, quantitative restrictions, the standstill commitment, agricultural safeguards, the MFN clause and the treatment of outermost regions of the EU (notably Réunion). According to the EC press release, 'both sides agreed to press forward with negotiations without delay'. The EC press release highlighted the fact that, given the LDC status of Djibouti, Ethiopia, Eritrea, Malawi and Sudan, the governments of these countries 'do not need to submit a market access offer to sign the agreement and benefit from its development cooperation and fisheries provisions while negotiations towards the more comprehensive deal continue'. The EC has acknowledged that 'significant work still remains to be accomplished' on trade-related issues, with no clear consensus on how to deal with these issues emerging among ESA governments. On services, no discussions on market access issues have yet taken place. On development cooperation issues, ESA governments want 'to strengthen the language in relation to availability of additional funds from EU member states'. Dialogue meanwhile continues on the ESA proposal for the establishment of development benchmarks in the agreement.

In November 2009, *Trade Negotiations Insights* reported it unlikely that a comprehensive ESA–EU EPA would be concluded in 2009, and this indeed proved to be the case. According to ESA representatives, 'the outstanding disagreements on safeguard and infant industry clauses, and on export taxes, need to be resolved with the EU in order for the remaining seven of the region's countries to sign on to IEPAs'. However, it was reported that issues related to 'some modification to tariffs on sensitive items' and the maintenance of tariff-rate quotes in four main areas had largely been resolved.

In December 2009, pressure mounted on EAC members to sign the IEPA, with press reports maintaining that 'the European Union has for the first time indicated that the failure of the East African Community to sign a new trade agreement will lead to the introduction of taxes on Kenyan exports to Europe'. This followed the release of a press statement from the EC delegation in Nairobi indicating that a 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 Brussels, Jacques Wunenburger, who argued that talk about the costs of EPA should now move to talk about 'the cost of non-EPA'. The prospect of such a development is causing concern among Kenyan horticulture and floriculture exporters.

However, in February 2010 the Kenyan government reiterated its willingness to maintain regional solidarity with its EAC partners, and pledged its continued support to the resolution of outstanding issues. This was despite further warnings from the EC delegate to Tanzania that the current situation whereby the EU–EAC IEPA remains unsigned is 'untenable', with it being argued that enjoying free access to EU markets while declining to sign a legally binding IEPA was 'contrary to both EU law and World Trade Organization rules'. In response, the Tanzanian trade minister reiterated the government's commitment to signing an IEPA 'as soon as possible after resolving [outstanding] issues'. The Ugandan government, meanwhile, has also reiterated its commitment to signing an agreement on market access and development aid in 2010, but has indicated unwillingness to conclude a comprehensive agreement that includes provisions on trade in services, investment rules and government procurement.

Clearly, a multiplicity of issues need to be worked through before all EAC governments can sign the IEPA, with even this move not necessarily laying the foundations for the kind of comprehensive EPA to which the European Commission aspires.

2.2 Impact of duty-free, quota-free access

In terms of access for ESA exports to the EU market, following the ending of transitional arrangements, October 2009 saw ESA configuration members enjoying full duty-free, quota-free access either under an IEPA or under the EBA conditions. From the perspective of countries of the ESA configuration region, the sector most affected by the granting of full duty-free, quota-free access is sugar. Sugar exports are now restricted only by the overall ACP safeguard ceiling (trigger level 3.5 million tonnes), applicable solely to non-LDC ACP sugar exporters.

The ESA region has been a major focus for European, South African, Gulf and Indian corporate investment in sugar sector expansion. Associated British Foods, the owner of British Sugar and Billington's, is a 51% shareholder in Illovo, which in recent years in the ESA configuration has made major investments in Zambia, Malawi and Tanzania.

Zambia is one of the ESA configuration members most profoundly affected by the phasing-in of duty-free, quota-free access. From exports to the EU of 30,000 tonnes in 2007, Zambian sugar exports rose to 100,000 in 2009, with a projected increase to 250,000 tonnes by 2010/11. In addition, with the benefit of further investment from Illovo, Zambian sugar production is projected to increase from 250,000 tonnes to 440,000 tonnes (with a longer-term potential of up to 1 million tonnes).

Similarly, in Malawi, sugar production reached 266,000 tonnes in 2008, up from 207,000 tonnes in 2000, and is expected to reach 310,000 tonnes in 2010. From preferential exports of 50,000 tonnes in 2000, Malawi is looking to export some 100,000 tonnes to the EU market in 2010/11. In the case of both Malawi and Zambia, Illovo and its corporate partners (linked through Associated British Foods) can be expected to play the dominant role in this trade.

Meanwhile, in Tanzania a 25% expansion of production with the use of existing refining capacity is envisaged.

Uganda, Sudan and Ethiopia are also looking to expand sugar production, mainly on the basis of investment from India and, in the case of Sudan, the Gulf States. Sugar production in Uganda is expected to increase 11% in the coming season (2009/10) from 282,385 to 313,240 tonnes. This follows investment by local companies and foreign investment from India in upgrading existing mills. The three main factories, which account for 98% of national production, are looking to expand their combined sugar production to 335,000 tonnes by 2011.

Sudan, for its part, is projected to be the next 'Brazil', with the aim of tripling sugar production in the coming period. However, given that the source of investment in Sudanese sugar production is the Gulf States, much of this sugar may be destined for value-added processing activities in the Gulf, although undoubtedly the prospect of full duty-free, quota-free access to the EU market has also been a factor in investment location decisions.

In the case of Ethiopia, exports to the EU are expected to increase from an average of around 18,000 tonnes per annum in recent years to around 100,000 tonnes by 2010/11. However, it should be noted that, with exceptionally high world market prices and the introduction of the final reduction in the EU sugar reference prices on 1 October 2009, Ethiopia suspended sugar exports to the EU in November 2009 in order to meet domestic needs from domestic production rather than importing sugar at exceptionally high world market prices. This represents a significant turnaround in the relative position of the EU as a destination for sugar produced in the ESA region.

Looking beyond LDCs, the granting of duty-free, quota-free treatment under the IEPAs comparable with that extended under the EBA appears to have removed the disadvantage that non-LDCs have faced in terms of their attractiveness to external investment since the announcement of the EBA initiative in 2001; previously, the EBA initiative led to extensive investment flows into LDCs, notably in the sugar sector, and left non-LDCs at a disadvantage for attracting such investment. The impact this has on individual non-LDC ESA members varies considerably. In the case of Mauritius, the consolidation of duty-free, quota-free access under the IEPA was a necessary precondition for the restructuring of the Mauritian sugar trade relationship with the EU. This has seen the major German sugar producer, Suedzucker, concluding a long-term supply agreement with Mauritius to market exports of direct-consumption sugar products to the EU within an overall ceiling of 400,000 tonnes. This forms part of a comprehensive production and trade adjustment programme for the Mauritian sugar sector, involving the implementation of revenue diversification schemes; major programmes for cost reduction; and a repositioning of the Mauritian sugar sector within the global sugar economy (see section 2.4 for more detail). While this restructuring will not generate any additional volume of sugar exports to the EU, it will involve greater local value-addition to sugar products prior to export, and will open up possibilities for serving markets elsewhere, should price developments mean that the EU market becomes less financially attractive.

In the case of Zimbabwe, the granting of duty-free, quota-free access under the IEPA appears to have encouraged new sugar sector investment, despite the ongoing economic crisis. In January 2010, following good returns from its Zimbabwe operations, the South African sugar major Tongaat Hulett announced US$9 million of investment to double its production capacity in Zimbabwe from the current level of 298,000 tonnes to the installed capacity of 600,000 tonnes. The granting of duty-free, quota-free access appears to be a major factor in this decision, with Zimbabwean sugar exports to the EU projected to increase from a quota-restricted access of 55,000 tonnes to 182,000 tonnes in 2010/11.

Even the government of Kenya, the ESA region's highest-cost sugar producer, is looking within its privatisation process to bring in 'strategic investors' who can 'inject sufficient capital and provide expertise' to revive the mills. The rejuvenated Kenyan sugar sector, however, will focus largely on dealing with regional competition in domestic markets, rather than exporting to the EU, with no sugar exports to the EU from Kenya being projected in the coming period up to the 2011/12 season.

Looking beyond the sugar sector, the region also appears to have benefited from the removal of residual market access restrictions in the fruit and vegetable sector, although, given the diversified nature of this market and the multiplicity of factors affecting trade (from piracy in the Arabian Gulf to severe cold weather in Europe), quantifying the impact of granting duty-free, quota-free access is much more difficult. What is clear is that, with the EC concluding a range of preferential trade agreements with its near neighbours, ACP margins of tariff preference are likely to be progressively eroded in the fruit and vegetable sector in the coming years. In addition, a relative increase in sanitary and phytosanitary (SPS) and food safety-related impediments to trade is likely, with proactive ESA government policies, designed and implemented in close association with private-sector associations, needed to support the continuation of a reliable and profitable trade.

2.3 Resolving inconsistencies

There is considerable divergence in the agricultural and food products subject to 'front-loaded' tariff elimination. The EAC begins its first phase of tariff reductions in 2010, involving only products where the tariff is already zero. The second phase of tariff reductions runs from 2015 to 2023, and the third from 2020 to 2033. Tariff reduction commitments are thus heavily back-loaded, with the EAC 'only removing positive tariffs on a significant proportion of imports during the second phase'. This contrasts sharply with Mauritius, where the first tranche of liberalisation was completed in 2008, affecting a quarter of all imports from the EU. In the case of Mauritius, 'the great bulk of imports (71% in total) will be liberalised between 2013 and 2022'. Similar discrepancies in front- and back-loading of tariff reduction commitments occur across the other agreements.

A similar divergence exists with regard to product exclusions. In the case of Mauritius, 'only 4.4% of imports are being excluded', with some 23 of these items being agricultural products. Other ESA IEPAs have far more extensive exclusion lists, with agriculture products representing between one-third and two-thirds of all exclusions. This reflects different national policy orientations and perspectives on the role of trade liberalisation in national economic development. In the case of Mauritius, and also to a degree Zimbabwe, this reflects the aspirations of local companies to expand their role in regional trade, based on value-added processing of both imported and domestically produced inputs. In the case of Madagascar, where 19.3% of imports from the EU are excluded (two-thirds of these being agricultural items), the aim is to minimise competition from the EU in areas that 'compete directly or indirectly with local farmers'.

Overall, in the agricultural component of the tariff liberalisation offers under these agreements, there are inconsistencies between both the first-stage tariff elimination commitments and the exclusions lists. Under any regional agreement, such inconsistencies would need to be reconciled, thus the question arises: on what basis could this be achieved when national policy orientations and perspectives on the role of trade liberalisation in national economic development vary so much?

These inconsistencies are likely to be thrown into sharp focus as efforts to deepen regional integration, via the establishment of a common customs union (with a CET), reach the implementation stage. A quantitative assessment of the COMESA Customs Union carried out by the Regional Strategic Analysis and Knowledge Support System, posted on the internet in September 2009, noted that the establishment of the COMESA CET within the agreed framework would require some COMESA countries to increase their tariffs, while the majority of member states would need to undertake significant tariff reductions. The analysis (based on the Global Trade Analysis Project [GTAP] database and the MIRAGE computable general equilibrium model for trade policy analysis) found, among other things, that with the introduction of the CET agricultural production in COMESA will decline 'as cheaper imports are allowed into COMESA' and, contrary to expectations, 'the proposed COMESA customs union will not be beneficial to a majority of the member countries'. This suggests that reconciling IEPA commitments within moves towards the implementation of the COMESA CET is likely to prove extremely difficult.

In the short term, it is unclear what the implications will be for regional trade in food and agricultural products. The greatest problems are likely to arise between geographically contiguous states that have very different tariff phase-down commitments and product exclusion lists (such as Zimbabwe, Zambia and Malawi). They are likely to be most acute in sensitive sectors where the origin of products is 'fudgeable' and individual governments are seeking to promote local production in an era of increasing price volatility (such as the dairy sector). In these particular areas, there may be a need to revise tariff elimination commitments and/or show greater flexibility in the interpretation and application of contentious provisions (for example, provisions relating to the use of import licences).

A pragmatic approach based on an understanding of, and support for, national agricultural development efforts appears to be needed in this regard, particularly as it is unlikely, outside a limited number of areas, that the existing inconsistencies will actually give rise to substantial economic difficulties (above and beyond those created by moves towards the COMESA CET in itself). Of course, if the aim is to establish a single, common, ESA-wide tariff offer, then the existing inconsistencies pose a major challenge. This is particularly the case when it is recalled that it was largely the failure to agree on a common product exclusion list and the structure of the tariff offer that led to the fragmentation of the ESA IEPA configuration grouping towards the end of 2007.

2.4 Support to production and trade adjustment in the food and agriculture sector

For the European Commission, the principal vehicle for support to regional integration and EPA implementation in the ESA region is seen as the 10th EDF Regional Indicative Programme (RIP). The 10th EDF RIP for Eastern and Southern African and Indian Ocean states contains an indicative allocation of €645 million. This is almost twice the combined size of the initial allocation to East Africa (€223 million) and Southern Africa (€101 million) for regional cooperation under the 9th EDF. Not only has RIP funding been increased, but fully 85% of the allocation is deployed in support of regional economic integration initiatives (a further 10% is allocated to regional political integration and 5% to non-focal areas). The focal area of regional economic integration includes interventions in:

- trade-related assistance and capacity building;
- alleviation of the impact of economic and fiscal adjustments in public expenditures;
- support to private-sector development;
- removal of supply-side constraints;
- improvement of land- and water-resources management to develop agricultural and food production;
- improving economic benefits derived from sustainable management of marine resources;
- conservation of nature resources and management of the environment.

In addition, the innovative mechanism for aid delivery used under the 9th EDF, Contribution Agreements, will continue to be used under the 10th EDF to support COMESA-managed programmes. Looking beyond COMESA-managed programmes, however, critical issues will need to be addressed in making effective use of available aid resources in support of food- and agricultural-sector adjustment processes. These include:

- overcoming the delays in moving from programming to implementation of measures in support of sector-specific trade and production adjustment support programmes;
- ensuring that activities supported address concrete problems on the ground arising as a consequence of the implementation of IEPAs;
- ensuring that the production and trade adjustment support extended is consistent with the needs of private-sector operators in the ESA region.

While the RIP allocation has been substantially expanded, it may well be that, regarding national food- and agricultural-sector adjustment processes, EC funding will be provided largely outside the RIP framework, either through national indicative programmes (including the 'B' allocation from which assistance under the FLEX instrument can be drawn), or through EU budget allocations to specific sector-based restructuring processes in Eastern and Southern Africa, notably the sugar protocol accompanying measures programme. For example, the seven ESA beneficiaries of the sugar protocol accompanying measures programme have been allocated a total of €186,247 million in restructuring support. However, by far the highest percentage (over two-thirds) is allocated to one country, Mauritius, which also enjoys the highest disbursement rate of any ESA-region sugar protocol accompanying measures beneficiary (see Annex 3). By April 2009 Mauritius accounted for fully 88% of all disbursements made under these programmes. In addition, assistance in the form of loans from the European Investment Bank has also been mobilised for the expansion of sugar refining capacity (a €13 million loan signed in August 2009 and a €15 million loan signed on 2 February 2010).

While no other sugar protocol accompanying measures programme has enjoyed the same success as the Mauritian programme, important lessons can be drawn from this experience in terms of getting to grips with production and trade adjustment challenges in the food and agriculture sector in the ESA region. Effective engagement in the deployment of development assistance to support EPA-related trade and production adjustments in the food and agriculture sector appears to be an area where a new impetus is needed around the IEPA negotiations. This is particularly important, as progress in this area could influence the overall assessment by LDC governments of the costs and benefits associated with fuller participation in the IEPA process.

Table 2 Sugar protocol accompanying measures beneficiaries: ESA EPA configuration

Country	Multi-annual Indicative Programme allocation 2007–10 (€)	Share of ESA total (%)
ESA beneficiaries		
Mauritius	127,541,000	68.48
Zimbabwe	22,137,000	11.89
Malawi	9,911,000	5.32
Madagascar	8,428,000	4.53
Kenya	6,230,000	3.35
Tanzania	6,000,000	3.22
Zambia	6,000,000	3.22
Subtotal	**186,247,000**	

Source: figures extracted from multi-annual indicative programmes for individual sugar protocol accompanying measures beneficiaries.

2.5 Regional developments in ESA

In parallel with the IEPA process, the governments of the ESA region have been grappling with the deepening and harmonisation of their wider regional integration processes. The conclusion of a multiplicity of IEPAs, with widely differing tariff elimination commitments, implementation time-frames and exclusion lists, greatly complicates this regional integration process.

The practical implications of the complications that can arise are illustrated by the experience of the launching of the COMESA customs union in June 2009. In order to establish the COMESA CET, while most member governments will need to reduce tariffs, a number of governments will need instead to increase their tariffs. This will prove difficult, given the differing tariff elimination commitments made in the individual IEPAs concluded and the tariff 'standstill' commitments (not to increase tariffs from the agreed baseline) made in some of the agreements. The problem of the different tariff elimination commitments made under the IEPAs was manageable while COMESA was simply a free-trade area, but it poses a major problem given efforts to move towards a CET. This remains the case even with the 3-year transition period allowed (extending to 5 years in exceptional cases, with scope allowed for excluding some items from the CET process) to enable all member states to align their national tariff schedules with the COMESA CET. The practical difficulties faced may in part account for why only a minority of members signed up to the COMESA customs union in June 2009.

In the context of the EAC, there remains the additional problem of harmonising the EAC CET with the COMESA CET, an issue complicated by the fact that Tanzania remains outside COMESA.

While the inconsistencies in tariff elimination commitments contained in the various IEPAs will not pose an immediate challenge, given the transitional period set in place for moving towards a COMESA CET, they will create difficulties in the coming years unless existing inconsistencies in the treatment of products under the various IEPAs can be ironed out.

In the agri-food sector, problems are most likely to arise with regard to processed food products, particularly regarding rules-of-origin questions, which have already proved controversial, for example regarding the wheat products sector.

The seriousness of the dilemma posed by the conflicting demands of trade liberalisation agreements to which ESA governments have signed up is highlighted by press reports in 2009 of growing frustration in the Kenyan government over the pace of EAC decision making, with indications emerging around the signing ceremony of June 2009 that the government of Kenya was even considering signing the COMESA customs union agreement unilaterally.

Efforts to launch the grand SACU/SADC/COMESA/EAC FTA can be seen as further complicating matters. However, as long as this remains at the level of an FTA, with no requirement for the establishment of a CET, the inconsistencies in the tariff treatment of imports from the EU appear to be manageable. The FTA would, however, create problems regarding the establishment and implementation of rules of origin for a range of processed agricultural and food products.

3 Implications for ACP countries

3. Dealing with contentious issues

Many of the contentious issues in the EPA negotiations emerged only towards the end of 2007. A number of ACP negotiators have linked the emergence of these contentious issues to the EU's broader trade policy, which is increasingly focused on the removal of non-tariff barriers to trade, seen as the principal impediment to expanded EU exports in the coming period. Many of these contentious provisions have a direct bearing on the use of trade-policy tools in support of food and agriculture sector development, with the full implications at the national level only now being assessed. The future role of trade-policy tools needs to be seen against the backdrop of the acute fiscal constraints on the kind of financial tools that the EU routinely deploys in pursuit of agricultural policy objectives. This means that governments of ESA IEPA member states have a greater need for traditional trade-policy tools (import licensing, infant industry provisions, special agricultural safeguards, export taxes, etc.) than is the case under the EU's reformed common agricultural policy.

Against this background, a more nuanced approach to the removal of non-tariff barriers to trade appears to be required: an approach which makes a clear distinction between legitimate trade-policy tools and non-tariff barriers to trade such as illegal road blocks, corrupt customs practices, and bureaucratic import and export procedures.

3.2 Issues faced under duty-free, quota-free access

The granting of full duty-free, quota-free access needs to be seen against the backdrop of the erosion of the value of traditional ACP agricultural trade preferences. This arises from both the process of EU agricultural policy reform (most clearly in the sugar sector), and the process of extending preferential access to the EU market for non-ACP suppliers through a range of bilateral preferential trade agreements (a trend likely to intensify in the horticultural sector). These trends mean that, in the coming period, ESA exporters will need to place greater emphasis on identifying and responding to market trends. This applies at a multiplicity of levels, ranging from making significant advances in terms of compliance with evolving quality standards in order to secure price premiums for producers, through strengthening the design, packaging and marketing of differentiated products in line with evolving consumer trends, to improving understanding of evolving market opportunities in the EU and beyond, given the changing patterns of global demand across a wide range of sectors. Targeted pump-priming public assistance, directed via producers' associations, could usefully be deployed in order to make these trade and production adjustments in response to changed market realities. This constitutes an important aspect of the 'aid for trade' agenda in the ESA region.

In the sugar sector, an equally important issue is likely to be the nature of the corporate alliances developed in getting ESA sugar to the EU market. While this is not quite so important in the current 'sellers' market', it is likely to take on considerable significance when world market prices fall. In the coming period, the nature of the commercial relationships set in place is likely to be a critical factor in the distribution of value along the sugar supply chain, and hence in the long-term profitability and sustainability of the various patterns of sugar production emerging in the ESA region.

The issue of the corporate alliances formed could also become an important factor in the horticulture sector, given the growing complexity of EU SPS and food-safety regulations, and the distribution of market power along fruit and vegetable supply chains serving EU markets.

In addition, in the coming years, SPS and food-safety concerns and regulations, and non-tariff barriers to trade, are likely to become a critical determining factor in the benefits derived from the granting of full duty-free, quota-free access to the EU market. Getting to grips with these challenges at the level of both private and public sectors will constitute a major challenge and is an important area for 'aid for trade' support.

3.3 Ensuring effective support for food and agriculture production and trade adjustment processes

Given the future challenges faced in exploiting duty-free, quota-free access and responding to trade liberalisation challenges, it will be important to learn from existing experiences in the ESA region of effectively utilising external assistance to support nationally designed and nationally driven food- and agriculture-sector trade and production adjustment processes. Experience in other regions where FTAs have been set in place, notably the SADC region following the signing of the EU–South Africa Trade Development and Cooperation Agreement, suggest a need to ensure restructuring challenges faced at the national level are effectively addressed. This has not always been the case, with scarce EC finance often being deployed in support of regional policy formulation and institutional capacity-building processes, rather than nationally designed and implemented programmes of production and trade adjustment. The challenges faced in effectively operationalising the national–regional policy-making interface have become increasingly apparent as regions seek to move forward together in dealing with the IEPAs.

At the national level, the success of the Mauritian sugar protocol accompanying measures programme in the face of the radical changes on the EU market, which accounts for the vast majority of Mauritian sugar exports, can be attributed to the existence of a pre-existing restructuring programme, behind which a broad stakeholder consensus had been built. It was characterised by:

- an active policy of diversification of revenue streams from sugar cane production;
- a market-led policy for repositioning Mauritian sugar exports on the EU market, including a redefinition of the routes to market;
- implementation of a rigorous cost-reduction programme at field and factory levels, including rationalisation of production;
- establishment of mechanisms to distribute the benefits of restructuring across all stakeholders;
- a broad stakeholder consensus on the strategies to be pursued;
- effective public administration for the deployment of pump-priming support to the production process;
- strong involvement of the private sector in financing the overall restructuring process;
- close coordination of sugar sector restructuring with broader economic adjustment processes;
- maintenance of an ongoing and constructive dialogue between the private sector, governments and the local EC delegation, which greatly facilitated implementation.

This facilitated not only a rapid disbursement of available EC assistance, but also its effective deployment in support of a coherent, multi-faceted, market-led production and trade adjustment process.

However, in many respects the sugar sector experience in Mauritius is unique. Across a range of sectors, it will be much more difficult to identify not only the specific effects of the new IEPA arrangements, and the impact of broader processes of change in the EU–ESA agricultural trade relationship that are under way, but also the proactive, market-led trade and production adjustment strategies necessary to respond to these changes. There can be little doubt, however, that this process can be effectively assisted by the targeted deployment of pump-priming public sector assistance, deployed within the framework of substantive and effective structures for public–private sector dialogue on the adjustment challenges faced and appropriate response strategies required. Financing alone, however, is not sufficient: an open and substantive public–private sector dialogue, with strong sector-specific private-sector leadership, is essential to conceptualising, designing and subsequently implementing proactive trade and production adjustment strategies. It needs to be recognised that, outside a limited number of sectors and countries, the foundations in the ESA region for such an approach are fragile. This poses major problems for ensuring effective support for food and agriculture production and trade adjustment processes across the ESA region. This challenge will need to be addressed if least-developed agriculture-dependent economies in the ESA region are to be convinced of the benefits of the EPA process.

3.4 Accommodating regional integration processes

Given the incomplete nature of the process of harmonising national tariffs in line with the COMESA CET and the varied tariff reduction offers which ESA member states have tabled, a way will need to be found to reconcile 'standstill' commitments and inconsistent tariff elimination commitments, if COMESA is to be assisted in dealing with the difficult process of tariff harmonisation. In this context, the European Parliament's call for provision to be made for existing commitments to be revised 'if they prove too burdensome to implement' should be noted. Given the new powers granted to the European Parliament under the Lisbon Treaty, this could offer an interesting case study of the European Commission's new openness to parliamentary perspectives on trade negotiations. Indeed, a strong case appears to exist for the adoption of a flexible approach involving waiving certain tariff reduction commitments and granting approval for certain tariff increases. This would enable progress to be made towards a single regional FTA arrangement across the ESA IEPA members. In particular, it would help to avoid placing serious obstacles in the way of ongoing regional integration processes in ESA that would inevitably arise without such flexibility.

3.5 Potential reimposition of duties

Pressure on Kenya is mounting to press ahead with its signature of the EAC–EU IEPA: withdrawal of the transitional duty-free, quota-free access extended under the December 2007 EU Council Regulation (Reg. No. 1528/2007) is being held out as a real prospect if the agreement is not signed in the near future. It is unclear how the current situation will evolve. The interpretation placed on the provisions of the EU Council Regulation, which extended duty-free, quota-free treatment to a number of countries listed in annex 1 to the Regulation, will be critical.

The regulation stipulates that countries will remain eligible for such duty-free, quota-free access unless the EU Council, acting by qualified majority on the basis of a proposal from the EC, were to sanction their removal from the list of eligible beneficiary countries. The regulation stipulates that this can occur only where a region or state indicates that it does not intend to ratify the initialled IEPA, or if such ratification has not taken place within 'a reasonable period of time', or if a state or region formally terminates the agreement or rights and obligations set out under the agreement. To date, no EAC government has indicated an intention not to ratify the initialled IEPA, nor has any EAC government terminated the rights and obligations set out under the agreement. Equally, what constitutes 'a reasonable period of time' is nowhere defined in the December 2007 EU Council resolution.

Annexes

Annex 1 Agricultural exclusions set out in ESA's interim EPAs

HS2*	Description	EAC	COM	MAD	MAU	SEY	ZIM
52	Cotton	Yes		Yes			
20	Preparations of vegetables, fruit, nuts or other parts of plants	Yes	Yes	Yes	Yes		
07	Edible vegetables and certain roots and tubers	Yes	Yes	Yes		Yes	Yes
09	Coffee, tea, maté and spices	Yes	Yes	Yes	Yes	Yes	Yes
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified	Yes	Yes	Yes	Yes		Yes
08	Edible fruit and nuts; peel of citrus fruits or melons	Yes	Yes	Yes		Yes	Yes
02	Meat and edible meat offal	Yes	Yes	Yes	Yes	Yes	Yes
22	Beverages, spirits and vinegar	Yes		Yes	Yes	Yes	
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	Yes	Yes	Yes		Yes	
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	Yes		Yes	Yes		
21	Miscellaneous edible preparations	Yes		Yes	Yes		
17	Sugars and sugar confectionery	Yes		Yes	Yes		
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	Yes	Yes	Yes	Yes		
11	Products of the milling industry; malt; starches; inulin; wheat gluten	Yes	Yes	Yes	Yes		
03	Fish and crustaceans, molluscs and other aquatic invertebrates	Yes	Yes	Yes		Yes	Yes
24	Tobacco and manufactured tobacco substitutes	Yes	Yes		Yes	Yes	
10	Cereals	Yes	Yes	Yes			Yes
18	Cocoa and cocoa preparations	Yes		Yes			
23	Residues and waste from the food industries; prepared animal fodder	Yes					
01	Live animals	Yes			Yes		Yes
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	Yes			Yes		
14	Vegetable planting materials; vegetable products not elsewhere specified	Yes					
05	Products of animal origin not elsewhere specified or included		Yes				Yes
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder			Yes			Yes
13	Lac; gums, resins and other vegetable saps and extracts			Yes			

HS, Harmonized Commodity Description and Coding System.
EAC, East Africa Community; COM, Comoros; MAD, Madagascar; MAU, Mauritius; SEY, Seychelles; ZIM, Zimbabwe.
Source: ECDPM/ODI (2008).

Annex 2 Tariff elimination commitments and main exclusions in the ESA region's final interim EPAs

ESA region IEPAs	Percentage liberalisation commitments (%)				Main exclusions
	in 2008	by 2012	by 2017	by 2022	
Seychelles		62.0	77.0	97.5	Meat and fisheries products; beverages; tobacco; leather articles; glass and ceramics; vehicles
Zimbabwe		45.0	n/a	80.0	Products of animal origin; cereals; beverages; paper, plastics, rubber; textiles, clothing and footwear; glass and ceramics; consumer electronics; vehicles
Mauritius	24.5	n/a	53.6	95.6	Live animals and meat; edible products of animal origin, fats; edible preparations and beverages; chemicals, plastics and rubber articles; leather, fur and skins; iron and steel; consumer electronics
Comoros		21.5	n/a	80.6	Products of animal origin and fish; beverages; chemicals; vehicles
Madagascar		37.0	n/a	80.7	Meat and fish products; vegetables; cereals; beverages; plastics and rubber; articles of leather, fur and skins; paper; metals

Source: ECDPM/ODI (2008).

Annex 3 Commitment and disbursement rates under EC sugar protocol accompanying measures programme 2006–08: situation for southern and eastern African beneficiaries

	Global allocation*	Secondary commitments	Disbursements	Disbursements as percentage of allocation 2006–08
ESA beneficiaries				
Mauritius (B)	74,866,000	42,500,000	39,800,000	53.16
Malawi	10,578,000	2,812,580	1,075,291	10.17
Tanzania	6,562,000	2,694,514	2,283,043	34.79
Zambia	6,562,000	469,943	327,168	4.99
Kenya	502,000	140,130	84,078	16.75
Madagascar	3,895,000	753,554	628,390	16.13
Zimbabwe	2,700,000	2,359,962	753,127	27.89
Total	**105,665,000**	**51,730,683**	**44,951,097**	**42.54**

Source: EC response to European Parliament Written Question P-3433/09.

(B): Sugar protocol accompanying measures funding is committed to these countries in the form of budgetary support.

*Global allocation refers to funds allocated in 2006, 2007 and 2008, but excludes the allocations made for 2009 and 2010, for which no commitments and payments could have been made by April 2009. The total allocations for 2006–10 for each country are larger than indicated in this table, as the allocations for 2009 and 2010, as well as the initial preliminary allocation made to each country in 2006, are not included in the total global allocation.

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EPA negotiation issues between SADC and the EU

Contents

About this update

CTA's *Executive brief: EU-SADC EPA negotiations*, was published in October 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key issues

At the end of 2007, the governments of five countries that were party to the Southern African Development Community (SADC) interim Economic Partnership Agreement (IEPA) negotiations (Botswana, Lesotho, Namibia, Mozambique and Swaziland) initialled an IEPA with the EU, with the government of one of these countries (Namibia) expressing formal reservations about specific aspects of the text put forward for initialling, and requesting further consultations on these issues to resolve 'contentious issues'. The government of Tanzania declined to initial the SADC–EU IEPA, and instead joined the East African Community IEPA configuration. The governments of Angola and South Africa declined to initial the SADC–EU IEPA.

Following the initialling of the IEPA, these five countries became eligible for full duty-free, quota-free access to the EU market under EU Council Regulation 1528/2007, adopted in December 2007. This provided full duty-free, quota-free access, except for sugar, bananas and rice, where transitional quota-based arrangements were established up to 1 October 2009. Countries listed in annex 1 to this regulation were to remain eligible for such duty-free, quota-free access unless the EU Council, acting by qualified majority on the basis of a proposal from the EC, were to sanction their removal from the list. However, it was stipulated that this could occur only where a region or state indicated that it did not intend to ratify the initialled IEPA, where such ratification had not taken place within 'a reasonable period of time', or where a state or region formally terminated the agreement, or the rights and obligations set out under the agreement.

In early 2008, it was argued that 'a host of recently tabled issues' had complicated matters and given rise to a range of contentious issues, which members of the SADC EPA configuration considered needed to be resolved before they could sign the initialled agreement. It equally became apparent in 2008 that there were fundamental differences of approach to the resolution of 'contentious issues'. The EC argued that the signing of the initialled IEPA was a prerequisite for addressing 'contentious issues', while a number of SADC IEPA configuration governments argued that there was little point in signing an agreement that contained substantive provisions with which they remained in fundamental disagreement.

The EC's insistence that 'contentious issues' could be addressed only if other SADC IEPA members shared particular nationally expressed concerns gave rise to the emergence of a subgroup within the SADC IEPA configuration, which became known as the ANSA group (Angola, Namibia and South Africa). This grouping has actively pushed for the substantive resolution of issues of concern as a means of moving the IEPA process forward. Major issues of concern with an impact on the food and agricultural sector, identified by the ANSA group, include:

- provisions dealing with the prohibition of quantitative restrictions that would have an immediate impact on the use of import-licensing arrangements to manage trade in sensitive food and agricultural products and as a tool for the promotion of the structural development of certain national agricultural subsectors;
- provisions banning the use of export taxes, which it is felt would prevent the use of this trade-policy tool for the promotion of value-added processing in certain agricultural product chains, both traditional and non-traditional products;
- provisions that were incompatible with existing Southern African Customs Union (SACU) infant industry protection provisions, which would undermine the use of this policy tool to promote food security and value-added processing in a context of growing global price instability (most notably affecting certain wheat-based products, such as pasta);
- concerns over the 'standstill' provisions, which it was felt could lock in unrealistically low tariffs established in response to high global food prices;

- concerns over the limitations of the agreed safeguard clause, in terms of its application in the special circumstances prevailing in trade in food and agricultural products.

There are, in addition, concerns over:

- the impact of the IEPA process on regional integration processes;
- the implications of the most-favoured nation (MFN) clause for efforts to diversify trade relations in the context of the shifting focus of global economic growth;
- provisions that place restrictions on local procurement and local content rules;
- an insistence on institutional requirements far removed from regional institutional realities.

By the final quarter of 2008, a situation existed where:

- two distinct positions existed within the SADC IEPA grouping, with continuing efforts being made to ensure that, despite intra-regional differences, a common approach to negotiations was maintained;
- the implications of contentious issues for food- and agricultural-sector development in certain SADC IEPA configuration countries were increasingly clearly articulated and efforts were under way to elaborate an alternative text which would address ANSA concerns.

2 Latest developments

2.1 Process of negotiations in 2009

Despite the ongoing expressions of concern over contentious clauses in the IEPA, in mid-2008 the EC was expressing the belief that agreement could be reached which would allow the signing of the agreement in October 2008. In September 2008, then trade commissioner Peter Mandelson reiterated his view that a prerequisite for addressing issues of concern to Namibia was that 'both sides should sign what has already been agreed before engaging on the different issues'. This remained a fundamental point of divergence between the parties.

The arrival of Baroness Catherine Ashton as EC trade commissioner served to change the mood around the negotiations, with Namibian officials expressing the view that the appointment of the new trade commissioner would increase scope for negotiations on controversial issues. This indeed proved to be the case, although it was matched by an increase in tensions within SACU around the IEPA negotiations, with certain governments in the Botswana, Lesotho, Namibia and Swaziland (BLNS) grouping fearing the implications for market access of delays in the signing of the initialled agreement.

In December 2008, proposals were tabled to 'retrofit' the EU–South Africa Trade, Development and Cooperation Agreement (TDCA) and the SADC IEPA tariff-elimination commitments, in order to ensure the integrity of SACU's common external tariff (CET). This proposal involved extending the phase-in period for tariff reductions under the TDCA on some 33 tariff lines and accelerating the implementation of tariff reductions under the TDCA on some 320 tariff lines, with South Africa receiving in exchange improved access on certain agricultural, fisheries and industrial tariff lines. This proposal was described in some quarters as 'an extremely open-handed gesture from the EC', while South Africa's chief negotiator described the proposal as 'quite an important development'. The EC maintained that the proposal 'would allow South Africa to align its tariff regime with that agreed with the BLNS, … solve the problem of regional coherence, and give South Africa the improved market access it seeks'. It would, so it was argued, allow the folding of the TDCA into the regional EPA, if the South African government so wished.

However, this tariff proposal left unaddressed a range of trade-related issues, many of which were felt to have greater economic implications. Against this background, in January 2009 the ANSA grouping submitted a joint demarche to EU member states, setting out concerns over the EC approach to addressing contentious issues and the implications of that approach for regional integration processes. It should be recalled that many of these issues have a direct bearing on the use of trade-policy tools in the food and agricultural sector. In the demarche, the view was expressed that EC engagement on the substantive issues raised by ANSA governments 'has thus far been extremely limited', with it being asserted that to date 'no flexibility has been demonstrated by the EC on the key substantive points of concern'. The demarche argued that 'proposed solutions that unduly exacerbate differentiation between South Africa and other members of SADC and SACU should be avoided, as they create additional trade-policy divisions in the region'. It went on to argue that, in the light of the experience to date, 'the indication that these may be addressed in negotiating towards a full or final EPA offers little comfort', particularly given that 'the signing and entry into force of [the] IEPA will create a new legal framework ... that will make changes to the legal text of the IEPA, in order to address the concerns, more difficult to obtain'. The demarche closed by calling for 'more time to fully engage EU member states and the Commission on each of these issues', given that there is no imminent danger of a World Trade Organization (WTO) challenge, as Botswana, Namibia and Swaziland are already *de facto* members of a free-trade area (FTA) with the EU as a result of their membership of SACU, and thus the basis for trade relations with the EU is already WTO-compliant.

These developments provided the background to the visit to southern Africa by Trade Commissioner Ashton in early February 2009. During this visit, consultations were held with the South African government, the ANSA subgroup and the SADC EPA configuration members as a whole. Trade Commissioner Ashton reiterated the importance of keeping all countries on board in the EPA negotiating process, and indicated that she would not be pressing for an early signature of the SADC IEPA. It was agreed that all substantive issues of concern would be discussed at a meeting of senior officials in March 2009. EC officials subsequently sought to prioritise these issues, the 'priorities' being the focus of discussion at the meeting in Swakopmund. ANSA negotiators, however, continued to focus on all the substantive issues of concern.

In March, a meeting of senior officials took place in Swakopmund, at which alternative texts were agreed on many of the 'unresolved negotiation issues', although by no means all of the 'contentious issues' of concern to ANSA countries. This included agreed texts on export taxes, infant industry protection, the use of import licences, free circulation of goods and food security, with no agreement being reached on the MFN provision and the technical issue of the 'definition of the parties', and no substantive discussions taking place on a range of other issues. Nevertheless, when the concerned officials departed from the meeting in Swakopmund, it was felt that an agreement was in sight on a range of issues that had a direct bearing on the use of trade-policy tools in support of food- and agricultural-sector development. Subsequently, however, further legal scrutiny of the agreed texts revealed drafting weaknesses which left considerable uncertainty as to how the agreed compromise would be incorporated into the text of the IEPA, and how such provisions would subsequently be applied. It also left unaddressed the majority of the total body of issues that had been identified as unresolved. The emergence of a fundamental disagreement on whether the agreed changes should be incorporated into the text of the IEPA prior to signature, or only be taken up in the comprehensive EPA, remained an ongoing matter of controversy within the negotiations. It was a controversy that stymied further discussion of unresolved issues that had not been substantively discussed in Swakopmund.

Meanwhile, on 20 March 2009, Trade Commissioner Ashton sent a letter to SADC EPA configuration trade ministers arguing that a date should be set for the signing of the IEPA, describing this as 'a matter of urgency'. The ANSA group, however, continued to see no WTO imperative for rushing into signing an agreement that still contained provisions with which they remained in fundamental disagreement, mainly because the failure to incorporate the changes agreed at the Swakopmund meeting into the text to be signed made further discussion of issues that had not been substantively discussed in Swakopmund largely irrelevant. Despite this, the EC continued to press for early signing of the initialled IEPA, and on 4 June 2009 the governments of Lesotho, Swaziland and Botswana duly signed the IEPA, with the Mozambique government signing on 15 June 2009.

The Namibian government declined to sign the IEPA at this stage, but reiterated its continued commitment to signing once outstanding 'contentious issues' (or 'unresolved negotiation issues' as they are also referred to) had been addressed in the text of the agreement to be signed. In this context, Trade Minister Geingob committed the Namibian government 'to [continuing] negotiations as a matter of urgency and priority'. It should be noted that while the countries that signed the IEPA represent slightly over a quarter of the population of the SADC IEPA configuration, as a whole their GDP represents only 7% of the combined GDP of the remaining SADC EPA configuration countries.

Namibian concerns hinged on the relative legal status of the IEPA text that it was being asked to sign, and the letter and annexed text nominally incorporating the compromise provisions agreed in Swakopmund into the scope of the agreement. There remains concern that the IEPA text is governed by a broad body of international trade law, while the letter and annexed text have virtually no legally enforceable status. This, it is felt, could have serious implications for the use of traditional agricultural trade-policy tools. It is this issue that now needs to be addressed, in order to ensure the legal right of the Namibian government to continue to use those trade-policy tools that it currently successfully deploys in support of food- and agricultural-sector development.

Commission officials then warned that the Namibian government faced the possibility of a legal challenge to its duty-free, quota-free access established under the December 2007 regulation. In November 2009, EU member state representatives urged the Namibian government to sign the IEPA, while the Namibian foreign minister reiterated the government's seriousness in engaging with the IEPA negotiations. A round of negotiations planned for November 2009 was cancelled at the insistence of SADC IEPA member state governments, with consultations between SADC IEPA governments being intensified, and Swaziland's minister of trade arguing that the internal activities of SACU needed first to be aligned before a final EPA with the EU could be concluded.

Negotiations are currently continuing to resolve the ongoing impasse. South Africa's chief negotiator, however, has warned that if progress is to be made, the EC will need to move beyond 'broad declaratory statement' to addressing the 'detailed outcomes of the negotiating processes'. In particular, it is felt that the provisions of the IEPA need to take into account the efforts under way to establish common industrial, agricultural and trade policies within SACU and the broader processes for deepening regional integration, which still need to be initiated. Despite these continued disagreements, to date Trade Commissioner Ashton's assurance that duty-free access would not be withdrawn while negotiations on unresolved negotiation issues are ongoing continues to hold. In response to questioning from the European Parliament, Trade Commissioner-designate Karel De Gucht committed himself to maintaining the flexibility in the EPA negotiations demonstrated by his predecessor Baroness Ashton.

2.2 Granting of full duty-free, quota-free access

All SADC EPA configuration countries whose governments initialled the IEPA have benefited from the maintenance of traditional trade preferences. For Botswana and Swaziland, securing the continuation and expansion of duty-free access to the EU market was a major concern in the IEPA negotiations. This was achieved through the initialling and subsequent signing of the IEPA. The principal benefit to Botswana in the agriculture sector was the waiving of the 8%

residual special duty paid on beef exports, which yielded exporters additional income of an estimated €1.96 million per annum. In the case of Swaziland, the end of quota restrictions on sugar exports from 1 October 2009 saw the attainment of its primary trade-policy objective with regard to supporting its internal sugar sector adjustment process. It is envisaged that in the coming seasons as much as 300,000 tonnes of sugar per year may be exported to the EU market, depending on world market prices. This expansion of exports to the EU is seen as effectively 'compensating' for the revenue losses arising from reductions in the EU reference price for sugar, thereby reducing the impact of the EU reform process on the Swazi sugar sector. This is particularly the case given the restructuring of Swaziland's export trade with the EU, which has seen the negotiation of new marketing arrangements involving a revenue-sharing formula for the distribution of the profits (minus costs) arising from the sale of refined sugar produced from Swazi raw sugars. Despite these more favourable marketing arrangements, the increase in world market prices of sugar to a 29-year high means that exports to the EU market are currently held to be attracting a net price of up to €80/tonne less than that obtainable on the world market. However, this foregone income in the short term is likely to be more than balanced in the long term by the improved security of revenues derived from the new marketing arrangements established.

In addition, for Swaziland the granting of duty-free, quota-free access appears to have removed the disadvantage, in terms of investment attractiveness, arising from the granting of full duty-free, quota-free access to least-developed countries (LDCs) under the EU's 2001 'Everything but Arms' (EBA) initiative. This has seen extensive sugar sector investment flow into neighbouring LDCs since 2001 in order to exploit the pending duty-free, quota-free access to the EU market. However, this should not be overstated, as the structure of the EU's transitional safeguard arrangements means that their application would fall particularly heavily on Swazi exports, a reality which may serve to undermine the attractiveness of Swaziland as an investment location. Both Swaziland and Botswana also appear to be benefiting from improvements in rules of origin for textile products agreed as part of the IEPA negotiations (both now benefiting from a single-stage processing requirement, as does Lesotho).

Mozambique also appears well placed to benefit from the granting of full duty-free, quota-free access for sugar under the EBA initiative (with IEPA duty-free, quota-free access provisions having little additional effect). It is reported that in 2010/11, sugar companies with production in Mozambique will be looking to export some 310,000 tonnes of sugar to the EU market (exports in 2006/07 were a mere 37,042 tonnes). Some of this trade will take place through intra-corporate arrangements within the Tereos family of companies, while other parts of this trade will take place through trade arrangements within the Associated British Foods group of companies. The investment in the sugar sector which Mozambique has attracted since 2001 is expected to see sugar production rise to 500,000 tonnes by 2012. Beyond the sugar sector, there are reports of multinational companies investing in Mozambique in the development of banana production for export to the EU, with initial experimental exports already reportedly under way.

Lesotho and Namibia are less well placed to benefit from improvements in access arising from the granting of full duty-free, quota-free access, although both Lesotho and Namibia could potentially benefit from the more favourable rules of origin now applied to textile exports. In the food and agriculture sector, Namibian grape exports have benefited from no longer having to pay duty on export volumes above 800 tonnes. With off-season grape exports expanding, this will bring Namibian exporters certain additional financial gains, but will not have a major impact on their market position, as exports were already expanding prior to 1 January 2008, despite the duty applied. Despite these benefits, Namibian exporters continue to look for alternative markets to the EU in order to reduce their market dependency. According to press reports carried on the freshplaza.com website, at the end of 2009 Namibia exported some 110,000 cartons of grapes to the Chinese market, with a value of US$1.1 million (some 3.4% of the total value of Namibian grape exports). Similarly to the situation in Botswana, Namibian beef exports have benefited from no longer having to pay the 8% of the special duty that was still applicable up to 1 January 2008 (yielding a financial benefit of around €1.5 million per annum). Beyond these limited areas, no new benefits from granting full duty-free, quota-free access are immediately apparent in the food and agriculture sector.

2.3 Repositioning exports in response to preference erosion

In the course of 2009, in response to the erosion of the value of traditional trade preferences in the beef sector, the main Namibian beef exporting company MEATCO continued to develop its efforts to serve 'quality'-differentiated components of the market. This has involved:

- a clear identification of the quality-differentiated 'luxury-purchase' market components to be served, not only in traditional EU markets but beyond;
- the appointment of overseas representatives whose job is to get to know in-depth final consumer needs and requirements;
- the development of a distinct brand identity (the 'Nature's Reserve' brand launched in September 2008) to facilitate product identification by discerning quality-conscious consumers;
- investment in new packing equipment (e.g. vacuum-packing equipment) to ensure customers' requirements are met more effectively.

This more targeted marketing approach and associated investments in production to service the needs of particular luxury-purchase market components more effectively has enabled MEATCO to secure a larger share of the premium prices available from the sale of quality-differentiated Namibian beef cuts. This, in turn, has enabled the exporter to pay Namibian beef farmers price premiums of N$183 million per annum (some €18.58 million at March 2010 exchange rates) above the prices received by comparable South African farmers. It has also enabled the Namibian beef industry to diversify away from its exclusive dependence on overseas EU markets for prepared meat products (most notably by serving the quality end of the South African and Norwegian markets). Overall, this has served to stabilise the number of cattle being offered for slaughter at MEATCO facilities, and has even begun to prompt a small increase in the number of cattle placed for slaughter (+9% in the most recent marketing season compared with the year before).

Table 1 MEATCO beef exports, percentage of sales value by region/country

Destination	Percentage of sales value
European Union	39.6
South Africa	29.5
Norway	13.5
Namibia	12.8
Reunion	2.3
Switzerland	1.4
Other African countries	0.9

Source based on figures given at MEATCO presentation to CTA seminar, November 2009, Windhoek.

This experience contrasts markedly with that of Swaziland, where exports of undifferentiated beef products first shrank, and then were discontinued. While nominally this was a result of shortcomings in sanitary and phytosanitary (SPS) compliance, this is likely to have been a consequence of the reduced attractiveness of the EU market leading to a deferment of investments necessary to maintain SPS compliance.

A proactive response to preference erosion is also apparent in the Swazi sugar sector, where the focus has been on redefining the routes to market for Swazi sugar and strengthening the commercial ties with European importers. To date, however, no strategy has been adopted to shift production substantially away from dependence on raw sugar exports to the EU, by expanding refined and speciality sugar exports. Corporate players in the Swazi sugar sector have focused on the development of supplementary revenue streams from sugar cane production (such as alcohol sales, ethanol sales and co-generation of electricity) to reduce costs. Investments in sugar refining appear to be awaiting the outcome of the final shake-out in the European sugar sector following the full implementation of EU sugar sector reforms.

2.4 Wider developments

As a result of the impact of the global economic downturn, in February 2009 South Africa's Minister of Finance announced an impending decline in SACU revenues of R1 billion with a further decline of R1.5 billion anticipated for the following year. This was in marked contrast to the annual increase in transfers from the SACU revenue pool to the BLNS countries of 22% per annum over the period 2000/01 to 2006/07. Swaziland and Lesotho were identified as most vulnerable to this decline in SACU financial transfers, given their high revenue dependence on trade-based taxes. However, the economic downturn also had severe effects on the fiscal position of Botswana, with the suspension of diamond mining operations at the beginning of 2009 leading to a sharp drop in government mineral revenues, and hence total revenues. This reportedly led to a re-evaluation of the role of trade policy in national agricultural and industrial development in Botswana. This may well have contributed to greater openness within SACU towards a discussion of what trade-policy tools should remain available to governments in order to promote wider agricultural and industrial development policy objectives. This greater openness may, in time, promote a greater degree of consensus in the SADC EPA configuration on the role of trade policy in national agricultural and industrial development.

In terms of SACU's wider trade relations, in October 2009 a preferential trade agreement was concluded with Mercosur, although with only limited product coverage of some 1,000 tariff lines (compared with the 6,500 tariff lines covered by the EU–South Africa TDCA). Trade in sensitive products such as sugar and beef, however, was excluded from the SACU–Mercosur agreement. This needs to be seen against the background of concerted efforts to diversify trade relations away from traditional links to Europe towards faster-growing regions of the global economy. Preferential trade agreements are also under negotiation with China and India, while negotiations continue around a possible merging of the FTA arrangements for the Common Market for Eastern and Southern Africa (COMESA), SADC and the East African Community (EAC) into a single grand FTA. However, the existence of very different tariff elimination commitments towards the region's major trading partner, the EU, via the various bilateral and plurilateral IEPAs concluded, is seen as complicating this process, particularly regarding the contentious area of the rules of origin to be applied under such a grand FTA.

3 Implications for ACP countries

3.1 Reconciling different approaches to trade policy

The progress of the IEPA negotiation in 2009 highlighted fundamental differences within SACU with regard to the use of trade-policy tools in support of industrial and agricultural development. An article published in the July–August 2009 issue of *Trade Negotiations Insights* argued that the government of Botswana favours wholesale liberalisation to kick-start a process of economic diversification, while the South African and Namibian governments wish to see trade-policy tools actively used as part of wider industrial and agricultural development policies. South Africa, in particular, with its more broadly based economy, was reported to be increasingly 'favouring a sector-based industrial policy incorporating potential tariff increases, a renewed emphasis on state-owned enterprises in network service sectors, and a retention of policy space'. According to the analysis, 'this dichotomy is at the heart of the differences concerning trade negotiations with the EU'.

The launch in October 2009 of a review of the SACU revenue-sharing formula, in the context of a wider review of the functioning of SACU as whole, offers one vehicle for resolving these divergent views on the role of trade policy. The commission established under the chairpersonship of the Namibian Permanent Secretary of Finance, Calle Schlettwein, has been given a remit 'to come up fast with a blueprint to overhaul the customs union' and 'position it at the centre of the SADC economic integration agenda'. This may include drawing up proposals for the diversion of part of the SACU revenue transfers to a development fund to support industrial and agricultural development programmes. If agreement can be reached on the role of trade policy in agricultural and industrial development, then a basis could be laid for the SADC configuration to move forward together once more in developing its trade relations with the EU.

3.2 Implications of the IEPA process for SACU

There is considerable debate over what the implications of the conclusion of an IEPA with the EU would be for SACU if it excluded SACU's largest economy, South Africa. The EC at times appears to take the view that, on the basis of its practice to date, SACU is capable of sustaining parallel trade arrangements with the EU. After all, since 1975 two parallel import regimes have applied to EU trade with SACU, and since 2000 two parallel export regimes have applied to EU trade with SACU (the non-reciprocal Cotonou Agreement and the reciprocal TDCA). Deeper concerns, however, arise within SACU: South Africa's Minister of Trade and Industry has warned that the application of the SADC–EU IEPA could 'send SACU progressively backwards' by requiring a 'strengthening [of] customs controls within the region'. This is giving rise to fears that agricultural trade could be hindered if the partial signing of the IEPA were to lead to a breakdown in effective administrative cooperation within SACU. The situation will only arise, however, once the signed IEPAs have been ratified. This appears to still allow time to address the outstanding issues of concern. However, it is far from clear whether the lead for addressing the outstanding issues will come from within the IEPA negotiations process, or from the process under way for reviewing the functioning of SACU.

3.3 Addressing concerns over the impact of IEPAs on regional integration

The concern arising over the impact of the IEPA negotiations on regional trade integration processes constitutes a major unresolved issue in the IEPA negotiations. Addressing the SADC Southern African Forum on Trade, South Africa's Deputy Director-General for Trade and Industry, Xavier Carim, highlighted the fact that EPAs in their current form 'limit the SADC region's policy space to promote industrial and agricultural development, would hamper efforts to promote trade diversification, and would undermine regional integration processes'. The latter dimension is seen as a very real issue, with the IEPA process having given rise to SADC member states being engaged in five separate negotiating configurations with the EU, each with different tariff dismantling obligations, different product coverage, and different schedules for tariff reductions. According to Carim, 'all of this is going to certainly complicate and possibly foreclose efforts to foster deeper regional integration in SADC'. It was argued this could even give rise to a situation where there would be a need for 'strengthening customs controls and rules of origin controls within the region'. Despite this, the South African government remains committed to 'addressing these issues with the EU and other members in the SADC and the Southern African Customs Union'. It remains to be seen how concretely this can be realised, given the advanced stage of the various EPA negotiations. Any breakdown of effective customs cooperation or the reintroduction of border controls is likely to undermine emerging regional trade in food and agricultural products. This could then serve to close down the development opportunities in the food and agriculture sector that could be opened up by closer regional trade integration.

3.4 Beyond agriculture and trade in goods issues

Beyond the issues taken up in the SADC–EU IEPA, the EC remains committed to concluding a comprehensive SADC–EU EPA embracing provisions dealing with trade in services and a multiplicity of trade-related areas. Against this background, there remains concern in certain SADC IEPA governments that the EC's unwillingness to include agreed alternative text, dealing with unresolved negotiation issues in the IEPA, prior to signing, is rooted in its desire to ensure that a comprehensive EPA is concluded with all SADC EPA configuration members, including South Africa. Given South Africa's ongoing reluctance to be drawn into commitments on trade in services and trade-related areas within the framework of an EPA (preferring to negotiate on these issues at the WTO, if at all), a fundamental question arises as to whether the conclusion of an ambitious EPA embracing all members of SACU is a realistic policy proposition. This, in turn, generates uncertainty as to the possibility of a future IEPA agreement that includes revised provisions dealing with unresolved negotiation issues drawn up on the basis of the agreements reached in Swakopmund. This is important, as many of these provisions have a direct bearing on the right of SADC IEPA governments to continue to use the affected trade-policy tools in support of food- and agricultural-sector development.

3.5 The danger of non-agreement: a complex reality

If agreement cannot be reached on the incorporation of such alternative provisions, then a number of SADC IEPA configuration governments may continue to defer signature of the agreement. This could create demands for the EC to propose the withdrawal of the country or countries concerned from the list of beneficiaries of the December 2007 EU Council Regulation (1528/2007), a move which, if approved by the EU Council, would result in the loss of duty-free, quota-free access. If duty-free, quota-free access were withdrawn, this would result in the *de facto* closure of the EU market to exports of beef and sugar from the affected countries, and would reduce the profitability of exports of a number of other agricultural products. In this context, some SADC IEPA governments may wish to continue with the IEPA process (moving forward with ratification), while other SADC IEPA governments, notably Namibia, may see exports having to take place under the EU's standard Generalised System of (tariff) Preferences regime.

The introduction of different trade arrangements between the EU and SACU governments could see the reintroduction of border controls and, in a worst-case scenario, raise the spectre of the break-up of SACU, since it would undermine the integrity of SACU's CET. No government of a SACU member state would view such a development with equanimity. However, this doomsday scenario for SACU appears unlikely, as the EU *de facto* already enjoys duty-free access to the SACU market (including Namibia) on 'substantially all trade', via the South Africa–EU TDCA, which will be fully implemented by 2012. In this context, withdrawing duty-free, quota-free access from an individual SACU member state in the name of WTO compatibility would, to say the least, appear perverse.

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EPA negotiation issues between West Africa and the EU

Contents

About this update

CTA's Executive brief on "EPA negotiation issues between West Africa and the EU" was published in March 2009 and in CTA's Agritrade: ACP–EU Trade Issues (2009 Compendium). This brief, updated in February 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2009) is available on request from: agritrade-mail@cta.int.

1 Background and key issues

Since 2002, the European Union (EU) and the West Africa (WA) region have been negotiating an Economic Partnership Agreement (EPA), a free-trade agreement intended to replace, from 1 January 2008, the non-reciprocal preferential access enjoyed by the ACP countries since the Yaoundé Conventions (1967–74) and the Lomé Agreements (1975–2000). After having been called into question by the non-ACP developing countries, this preferential scheme was seen as inconsistent with the rules of the World Trade Organization (WTO). It was therefore decided to replace it with regional EPAs. The negotiations concern an agreement that would allow ACP exports to enjoy duty-free, quota-free access to the European market for all products except rice, bananas and sugar. In exchange, the ACP countries must also allow duty-free access to their market for their 'main' imports. This market opening would inevitably involve a decrease in customs revenues (which in WA represent a very significant share of government revenues), as well as increased competition between imports from the EU and local production. After 5 years of negotiations, the two regions have not yet reached an agreement, and Côte d'Ivoire and Ghana have signed a bilateral interim EPA (IEPA) with the EU, thereby breaking ranks with the regional bloc.

For the time being, no WA customs union exists. Eight French-speaking countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea, Mali, Niger, Senegal and Togo) have a customs and monetary union, the West African Economic and Monetary Union (WAEMU), and the countries of this area and seven others (Cape Verde, Guinea Bissau, Nigeria, Sierra Leone, Liberia, Ghana and Gambia) have formed a free-trade area which is in the process of becoming a customs union, the Economic Community of West African States (ECOWAS). In addition to these 15 countries, the WA region includes Mauritania, which does not belong to either of the aforementioned integrated areas but must join them if it wants to be part of the regional EPA. Although the majority of the countries in the WA region are least-developed countries (LDCs: 12 out of 16), the non-LDCs (Côte d'Ivoire, Ghana, Nigeria and Cape Verde) are among the main exporters to the EU (more than 80% of exports). Consequently, it is more in the interest of the latter group of countries to sign an EPA in order to maintain the widest possible access to the European market, since LDCs enjoy free access via the 'Everything but Arms' (EBA) initiative. Cape Verde has not been considered an LDC since 2008, but it benefits from a 3-year transitional period during which it can still export under the EBA scheme.

West Africa is the main ACP region in terms of its importance in EU trade (approximately 40% of ACP–EU trade) and the EU is WA's main trading partner (30% of the region's trade in 2007). In this context, a change of trade regime is a strategic issue for the future of WA economies. The agricultural and food sector represents a significant share of trade between the two regions (18% during the 2005–07 period), and employs the majority of the population (between 60 and 85% of the total population is rural, except in Cape Verde where the rural percentage is 30%). Whereas WA runs a large trade deficit in non-agricultural products, it has a surplus in agricultural products, with a positive balance of €1.25 billion for the 2005–07 period. This has deteriorated sharply since the 1996–98 period, as agricultural and food imports have increased by 51.6% while exports have grown by only 14%.

Despite the preferential access to the European market, agricultural exports to the EU have stagnated in recent years, but the structure of exports is still based strongly on raw materials, in particular agricultural raw materials. The region's exports are highly concentrated on a small number of products, chiefly unprocessed or partly processed primary products. Cocoa and its derivative products alone account for 60% of agricultural exports to the EU, followed a long way back by fisheries products (11%) and tropical fruits (pineapples and bananas, with a share of 9%). The region's countries therefore depend on a small range of agricultural products in terms of exports, and benefit from preferential margins on the European market on a small number of products, but these margins are declining as result of multilateral liberalisation and the negotiation of free-trade agreements between the EU and other regions in the world. The issues in terms of market access are therefore limited to a very small number of products, and concern only a few of the region's countries, but its biggest exporters (non-LDCs).

Imports of agricultural and food products represent 14% of the region's total imports from the EU, and are increasing strongly. Accordingly, the opening of WA markets represents a serious threat to local production, as European exports are very competitive and *de facto* subsidised, hence the importance of the definition of sensitive products to be excluded from the agreement. Although imported agricultural and food products are relatively diversified, imports of cereals and cereal-based products, dairy products, meat and fish (as well as their preparations), fruit and vegetables and preparations, which are the main products in competition with WA products, represent 69.4% of the total.

As mentioned above, while the two regions have been negotiating an agreement since 2003 and the deadline fixed for concluding them was 1 June 2008, at the beginning of 2010 the negotiations had still not culminated in a regional agreement. Three points are holding up the conclusion of the negotiations.

It took until the beginning of 2009 to prepare the WA market-access offer, after a long process, based on determining sensitive products in the framework of trade liberalisation. Each country has produced a market-access offer based on a comparable methodology (involving sensitivity criteria, indicators, marks and weighting). These offers were then consolidated into a regional offer and the consolidated offer was then presented to the EU. However, discussions between the two regions are still ongoing.

The text of the agreement is still under negotiation.

The EPA development programme (PAPED) in WA is a unique approach among the ACP regions. This programme is a reformulation of the 'support and upgrading measures' approach intended to make the EPA a development instrument. Based on a participatory process, the process has encountered several difficulties, but was finally validated by the region in February 2009 and finalised during the same year.

The region had requested an extension of the WTO dispensation enabling it to export under the Cotonou Agreement beyond 2008. On the one hand, this request was rejected by the EC; on the other hand, the proposed European stepping-stone agreement, limited to the liberalisation of trade in goods, was rejected by the region. Since 2008, LDC exports have consequently been subject to the EBA scheme; and those of Nigeria, the only non-LDC not having initialled an EPA before the end of 2007, to the Generalised System of (tariff) Preferences (GSP), which is less favourable than the Cotonou system. Nigeria has requested application of the GSP+, but the EC has rejected its request on the grounds that Nigeria does not satisfy the necessary conditions, in particular concerning the ratification of certain international agreements. The risks resulting from this change of system led Côte d'Ivoire and Ghana to conclude an IEPA on a national basis. However, this has undermined the negotiating powers of the regional block.

These two IEPAs include a liberalisation schedule for the various groups of products classified according to their sensitivity and all the provisions of a full EPA, but do not contain any precise commitment from the EC on the development part of the IEPA. Under the IEPAs, the exports of the two countries will have duty-free, quota-free access to the EU market, except for rice and sugar, which will be liberalised after a transitional period (10 and 15 years, respectively). On the other hand, the two agreements are not harmonised as regards the liberalisation plan (concerning which products are included in each group), which will undoubtedly create problems if the two countries are required to agree on a regional EPA. Under the Côte d'Ivoire–EU IEPA, the tariff-elimination commitments commence immediately and will be completed in 2022. The products excluded from the tariff-liberalisation commitments represent 19% of the products imported from the EU by the country in 2004–06 (representing 11% of tariff lines), more than one-third of these being composed of agricultural and food products (226 tariff lines). The Ghana–EC IEPA also provides for liberalisation over 15 years, and approximately 20% of the products currently imported from the EU are to be excluded from liberalisation (representing 19% of tariff lines), 28% of them being agricultural products and 62% falling within the highest tariff band. The products excluded by both Ghana and Côte d'Ivoire include cotton, poultry and other meats, tomatoes, onions, sugar, tobacco and beer. In addition to these products, Ghana has excluded wheat and frozen fish.

2 Latest developments and implications for West African countries

2.1 Key facts

2.1.1 The regional dimension is undermined

Given the deadlock in the negotiations for a regional EPA, Côte d'Ivoire and Ghana decided at the end of 2007 to initial an IEPA. At the same time, the regional negotiations continued in 2008, when five negotiation rounds took place. At the end of 2008, the two parties had reached agreement on the provisions of the text on trade in goods, but still had to reach a compromise on export taxes, regional levies, the most-favoured nation (MFN) clause and rules of origin, while the WA region as a whole still had to finalise the PAPED and its market-access offer.

2.1.2 Implications of signing an IEPA for Côte d'Ivoire and Ghana

On 28 November 2008, Côte d'Ivoire signed the EPA initialled one year earlier. The first tariff dismantling started at the beginning of 2008. Although some goods were already zero rated, others were subject to duties of 20%. Five agricultural products representing more than $US1 million in import value are integrated into the initial phase of liberalisation commitments (six other fishery products are also included). According to an ODI/ECDPM study analysing the IEPAs, 'several agricultural products seem to be products that might be in competition with local products'; however, it is too soon to assess the effects of this tariff dismantling. According to this study, Côte d'Ivoire could lose €139 million up to 2022 in customs revenues, with 60% of this loss being incurred in the period up to 2012, hence the importance of determining as quickly as possible the amount of the EPA adjustment aid.

On the other hand, in January 2010 Ghana had still not signed the agreement initialled in December 2007. This has not prevented the implementation of the first tranche of liberalisation, which commenced on 1 January 2009. The products on which customs duties are the highest are included in the first phase of liberalisation, and four agricultural products are included in this first phase, including turkey pieces, wheat flour and oats. According to the ODI/ECDPM report, Ghana could lose €97 million in customs revenues by 2022, with 29% of this loss being incurred in the period up to 2012.

No new date has been set by the two parties for the conclusion of the negotiations, but the EU hoped to sign the EPA at the beginning of 2010. However, the way in which the future regional EPA and the IEPAs concluded by Côte d'Ivoire and Ghana will be reconciled is still outstanding. The two IEPAs have different liberalisation schedules, and the texts of the agreements, although they include many similarities, are not the same.

According to the ODI/ECDPM study, the current situation is 'clearly incompatible with a regional customs union'. Consequently, the only option is to revise the liberalisation schedule; according to ECDPM, 'the current schedules of Côte d'Ivoire and Ghana are [therefore] not pertinent'. The IEPAs concluded by Côte d'Ivoire and Ghana include different clauses in this regard: in both IEPAs a clause provides for the liberalisation timetable to be reviewed, but only the Côte d'Ivoire–EU EPA stipulates that 'the liberalisation offer could be reviewed in the light of the ECOWAS CET when the other countries [join] the EPA'. The harmonisation of the liberalisation calendars between the region's 16 countries is a difficult process, and Côte d'Ivoire and Ghana will undoubtedly have to make important concessions in relation to their initial offer, unless the European party is more flexible with regard to the regional offer. The market-access offers and liberalisation schedules of the two countries are very different; the lists of exclusions 'are not identical' and represent 11 and 19% of the tariff lines; and the EU is currently insisting that the regional offer, which must satisfy 16 countries, should limits its exclusions to 30% of tariff lines (see box below).

The delays in finalising the regional EPA and the ECOWAS CET make this situation even more complicated, given that Côte d'Ivoire and Ghana began the first tariff-dismantlement phase in 2008 and 2009, respectively. This implies that for some products, they will certainly have to restore tariffs before dismantling them again subsequently. This raises the question of how far the *status quo* clause authorises such a manœuvre.

The texts of the two IEPAs are fairly similar as regards trade in goods (see Annex). Some clauses that have been concluded in the framework of the IEPAs are the subject of disagreement in the framework of the negotiations for a regional EPA. The two IEPAs stipulate that 'this agreement will be superseded by a global EPA concluded at regional level with the EC party at its date of entry into force. In this case, the parties will endeavour or ensure that the EPA at regional level preserves most of the benefits obtained by (the country concerned) under this agreement'. Concerning the provisions of the text of the agreement, in principle the region's 16 countries have the same interests; however, given the threshold of 70% of tariff lines demanded by the EC, the regional market-access offer might not be able to take into consideration the interests of the region's 16 countries in terms of protecting the sectors that are seen as priority sectors.

The IEPAs with Côte d'Ivoire and Ghana:

tariff-liberalisation schedules and offers

The Côte d'Ivoire–EU EPA

The goods that have to be liberalised during the first phase up to 2012 'represent 58.5% of products imported by Côte d'Ivoire from the EU in 2004–2006'. Liberalisation will then be spread over 14 years, with 10.6% of imports being liberalised between 2013 and 2017 and 9.9% between 2018 and 2022; the country has excluded 20% of its imports from the tariff liberalisation.

The Ghana–EU EPA

The tariff-liberalisation commitments were initiated in 2009 and will be completed in 2022. 'Most of the liberalisation commitments are due to be implemented at the beginning of the period'. 28.8% of imports from the EU will be liberalised by 2013, 42.6% between 2013 and 2017 and 8.3% between 2018 and 2022; 20.3% of imports are excluded from the agreement.

Differences between the two agreements in the agricultural sector

The Ghana–EU agreement includes more product exclusions than the Côte d'Ivoire–EU EPA, in particular certain fruits and edible nuts; peel of citrus fruits or melons (HS 8); preparations of meat (HS 16); lac; gum, resins and other vegetable saps and extracts (HS 13); miscellaneous edible preparations (HS 21); preparations of cereals, flour, starch or milk; pastrycook products (HS 19); which the Côte d'Ivoire–EU EPA does not exclude. Similarly, there is no overlap between the first-stage tariff-elimination schedules of Ghana and Côte d'Ivoire in the agricultural sector. There is thus an incompatibility between both the first-stage tariff-elimination commitments and the exclusion lists in the agricultural component of the tariff-reduction schedules of Ghana and Côte d'Ivoire.

HS = Harmonized Commodity Description and Coding System.

Table 1 Main provisions concerning trade in goods (customs duties, trade-defence instruments, non-tariff barriers)

	Côte d'Ivoire–EU and Ghana–EU IEPAs
Rules of origin	Improved rules of origin for the signatories of the IEPAs. New rules of origin will be annexed to the IEPA when they are agreed with the region in the framework of the negotiations for a full EPA.
Export taxes	No taxes may be introduced or increased. Temporary new taxes/tax increases are authorised to protect the environment/new industries or to maintain monetary stability, after consultation with the EC. To be reviewed after 3 years.
Status quo clause	Yes
MFN clause	Yes
Review of tariff concessions in the event of serious difficulties	No
Safeguard instruments	Suspension of tariff reductions, increase in customs duties to be applied to MFN rates and tariff quotas – quantitative restrictions are not authorised.
Safeguards linked to food security	In cases of food insecurity, preventative safeguards may be implemented.
Measures motivated by the need to protect new industries	No quantitative restrictions possible. Safeguards possible for an 8-year period during the first 10 years (with an option to extend by mutual agreement). Possible extension for one additional year.
Abolition of non-tariff barriers and quantitative measures	**Ghana–EU** No export taxes or equivalent duties may be introduced or increased, except temporarily in exceptional circumstances (new industries). **Côte d'Ivoire–EU** Prohibition of all import and export restrictions other than duties and taxes except for anti-dumping/countervailing measures, except temporarily in exceptional circumstances.
Subsidies	National subsidies are authorised. (Côte d'Ivoire–EU EPA: in accordance with the WTO regulations.)

Sources: ECDPM, ODI: *The new EPAs: comparative analysis of their content and the challenges for 2008*, 31 March 2008. www.acp-eu-trade.org/library/files/ECDPM-ODI_EN_310308_ECDPM-ODI_The-new-EPAs.pdf
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2.2 Towards a regional EPA: why such a delay?

At the beginning of 2009, the EU and the WA region agreed to conclude the EPA by 30 June 2009. In March 2009, WA presented its first tariff-liberalisation offer. The EC considered that it did not comply with article XXIV of the GATT and asked the region to revise its offer. Despite several negotiation meetings in the period up to mid-June, it proved impossible to reach a compromise on this point and the other outstanding issues; the EC accordingly announced that the EPA would be concluded in October 2009. This EPA was intended to cover 'initially, only trade in goods and development cooperation linked to the EPA'. The intention was that the other aspects would be negotiated during 2010, with a view to concluding a full EPA. However, no major progress has been made, and it was decided at the meeting of 21–25 September 2009 in Brussels that the deadline of October 2009 for a partial regional EPA could no longer be met. In November 2009, the two parties reached agreement on the articles relative to development, but negotiations on the market-access offer and other disputed points are still deadlocked.

2.2.1 The market-access offer: still no agreement despite concessions by WA

Although the WA region has completed the process of preparing a joint market-access offer for the region's 16 countries, it is now the degree of market opening and the liberalisation schedule on which the two parties are in profound disagreement, despite the fact that WA has revised its proposal several times.

In the negotiations at senior and technical level in Dakar from 16 to 20 February 2009, WA tabled a preliminary market-access proposal for the liberalisation of 60% of imports from the EU over 25 years (2010–34). The EU expressed its doubts about the proposal's compatibility with article XXIV of the GATT, governing free-trade agreements, in terms of coverage and the transitional period, and asked the region to revise its offer.

An improved offer was tabled at the Dakar meeting of 16–23 July 2009, proposing to open regional trade for 63.12% of imports from the EU, again over a 25-year period. The EC, however, maintained that 'the improvement made is still marginal and this offer is unlikely to contribute to the economic development of the region's countries'. The two parties then held in-depth discussions on the region's market-access offer. In particular, they carried out an economic analysis, product by product rather than focusing on the thresholds, at the technical-level negotiations of 21–24 September 2009.

At the negotiation meeting of 23–24 October 2009 in Abidjan, the WA negotiators presented a new revised market-access offer. This offer was the fruit of in-depth internal consultations within the region. 'A large number of products […] have been reclassified'. These products include certain animal products (four products), plant-origin products (83), vegetable- and animal-fat-based products (seven) and drinks and prepared food products (18). This offer, which proposed a tariff dismantling of 67% of goods over 25 years, was examined by both parties at a meeting from 10 to 13 November 2009. The EC asked WA to revise its offer once again in order to increase the liberalisation to 70% of tariff lines and to accelerate the liberalisation of certain products. The WA negotiators apparently undertook 'to consider' this request. However, at the joint meeting of 4–5 February 2010 on the market-access offer for goods, 'the WA party indicated that it was not yet in a position to submit a new access offer with a 70% liberalisation rate', thereby not respecting the mandate given to the WA party. This delay can be explained by the fact that the region has not yet completed its work on the offer.

At the same time, the EC has been urged in some quarters to adopt a more flexible approach in the negotiations. Enda Tiers-Monde has published an examination of the legal arguments in favour of the position adopted by WA, which wants limited reciprocity in the EPA. The organisation maintains that, at the current time, there is a legal vacuum in the WTO rules regarding the treatment of what it calls 'mixed regional trade agreements', that is to say inter-regional free-trade agreements involving, on the one hand, developed economies and, on the other hand, less-developed and developing economic groupings. According to its analysis, the WTO rules are not at all explicit regarding the level of tariff liberalisation that less-developed and developing countries must implement, nor regarding the length of the transitional period that has to be respected. It adds that given 'the implicit recognition of a possible asymmetry by the EC', and by taking a weighted average of 80% of all trade as the appropriate level of product coverage, if the EU liberalises 100% of imports, WA should liberalise only 60% of its imports from the EU to be in compliance with the WTO rules. In the same way, regarding the length of the transition period, according to Enda's report, in the light of current practices in agreements between developed countries and developing countries, there should be no objection, given these 'exceptional circumstances', to a transition period of 25 years being granted in the framework of a WA–EU IEPA (as is the case in the framework of the CARIFORUM–EC and East Africa Community–EC agreements).

A recent study carried out by the Group for Technological Research and Exchange (GRET) at the request of the French Development Agency (AFD) reinforces the position of the region and Enda. It has analysed 41 free-trade agreements in force, and reveals that some agreements have liberalisation levels of below 80% and have not been contested at the WTO. This shows the region's market-access offer in a new light. In particular, in the EU–Mexico free-trade agreement, 54.1 and 98.1% of imports in value of Mexico from the EU, and EU imports from Mexico, respectively, are liberalised, which represents 66% of trade between the two regions. According to the report published by GRET, given the number of LDCs in the region, it is unlikely that an agreement liberalising 67% of imports from the EU would be challenged at the WTO. The French Foreign Affairs Commission's report submitted to the French National Assembly last December also calls on the EC to review its position, in particular regarding the liberalisation rate and schedule. According to the report, 'the European Commission's position is based on its own interpretation of the GATT rules and does not correspond to the practices of free-trade agreements' and it recommends the EC 'to introduce a system of asymmetrical trade preferences'.

If the EC maintains its position, and the region fails to reach an agreement on the 70% of imports and tariff lines needing to be liberalised, other instruments could be used to maintain a certain level of protection for sectors deemed to be sensitive and incapable of coping with an increase in imports from the EU. West Africa could, instead of including certain sensitive products in the exclusion list, use tariff quotas for these products, which would enable them to benefit from some protection and regulation, as imports will be subject to quotas, but also to extend the coverage of the agreement. Moreover, if the region is induced to liberalise sectors seen as sensitive or priority sectors, it is important that the safeguard instruments included in the agreement are sufficiently simple to trigger in the event of surges in imports.

The WA region is due to submit its new proposals ahead of the next negotiations scheduled for mid-March 2010.

2.2.2 Conclusion of an agreement on the EPA Development Programme (PAPED)

While the market-access offer still needs to be adjusted, the text of the articles relative to development in the EPA was finalised and accepted by both parties during 2009. The amount of the PAPED still needs to be validated by the European side, but very good progress has been made in the discussions. It was validated by the region at a regional workshop on 2–4 February 2009 in Accra, devoted to the community-development programme and the PAPED. This validation of the PAPED document was, however, 'subject to the integration of the observations and recommendations' of the workshop participants.

The PAPED programme has five strategic headings:

- diversification and growth of production capacities;
- developing intra-regional trade and facilitating access to international markets;
- improving and strengthening trade-related infrastructures;
- implementing indispensable adjustments and integrating other trade-related needs;
- EPA implementation and monitoring-assessment.

In accordance with the New Partnership for Africa's Development (NEPAD) initiative to strengthen production capacities, and with the sensitive products determined, the PAPED emphasises three main value chains: food supply; cotton and textiles/clothing; and tourism. Moreover, the fields covered by the PAPED concern:

- reinforcing opportunities (sanitary and phytosanitary measures, standards, trade facilitation, competitive production, EU–WA value chain);
- reducing negative effects (tax reforms and compensation, social issues and macroeconomic stability);
- implementation (capacity building, increasing intra-ECOWAS trade flows and trade with the EU, the expected investment spill-over effects of the programme, improved competitiveness, relative impact on the government's finances).

During the meeting, the amount of €9.5 billion for implementation of the PAPED was called into question as being inadequate. The answer given was that this figure did not represent 'the total costs of all the necessary adjustment measures, which moreover are being discussed with the EU'. Finally, the region effectively asked for €9.5 billion over 5 years, but this amount will have to be increased to compensate for lost taxes.

Significant progress was achieved at the meetings in April, July and September 2009, but it was only in November in Abidjan that the two parties reached an agreement on the articles relative to development that will be included in the EPA. During those meetings, the PAPED financing and implementation procedures and the support the EU has to provide above the compensation for lost taxes were discussed.

Another question discussed was the WA proposal to 'link the implementation of its commitments in the framework of liberalisation and the progress achieved in improving the region's competitiveness and production capacities, on the one hand, and, on the other hand, the financing of the programme costs by the EC'. At the meeting of 21–25 September 2009, this proposal was rejected by the EC. Finally, following the agreement concluded in November, the EC has undertaken 'through the Joint EPA Council, to seek synergies between the rate of the implementation of WA's liberalisation commitments and progress achieved in the implementation of the PAPED, in particular in relation to the mobilisation of financial resources and the improvement of the region's competitiveness and production capacities.'

Another subject of discussion between the two parties was whether or not to include a clause committing the EC to providing additional financing following the signature of the agreement. The EU was against this proposal as it did not want to undertake to provide support not drawn from existing resources. At the September meeting, WA proposed new wording whereby 'the EC and its member states undertake to provide the financing *necessary* for the implementation of the development components of the EPA'. This wording was finally accepted by the EC, which has undertaken to find additional sources of financing at the level of other donors. Moreover, the EC has undertaken to 'create new financing mechanisms if the Cotonou Agreement should expire'.

2.2.3 Ongoing discussions on the disputed clauses

Making rules of origin more flexible

Negotiations on rules of origin are ongoing. The WA party, like the other ACP regions, wants greater flexibility in the way these rules are applied to exports on the EU market. In the framework of the region's two IEPAs, provisional rules of origin are applied (EPA general rules of origin – Council Regulation 1528/2007) and will be replaced by those negotiated at regional level.

According to the report of the May 2009 meeting of experts, given 'the impossibility of obtaining a totally reworded text on the rules of origin', the two parties agreed in May 2008 to 'negotiate a provisional agreement on rules of origin which would be an improved version of Cotonou' and to insert a review clause in the EPA. In this framework, the EC has proposed provisional rules for the agricultural sector, fisheries and textiles. However, WA considers the EC proposal to be insufficient and has therefore prepared an alternative proposal. The main points of divergence between the two parties appear to concern:

- the scope of coverage of the products concerned, which is seen as insufficient;
- the question of asymmetry;
- the level of simplification;
- regional accumulation;
- rules of tolerance;
- administrative cooperation.

In March 2009, discussions were held on specific rules for agricultural products and, at the meeting of experts of 20–21 July 2009 in Dakar on rules of origin, an agreement was reached on ten chapters and headings for the products of chapters 2–23 of the harmonised system. Agreement still needs to be reached on the remaining chapters concerning products containing sugar and fish and shellfish of chapters 3 and 16. Regarding fisheries products, the group has rejected a new offer put forward by the EC, which had requested WA to withdraw all its demands relating to the fishery sector in this regard. On the other hand, the parties have reached an agreement on only some chapters as regards industrial products.

According to a study published in the *Revue d'économie du développement* on the rules of origin in the future WA/CA–EU EPAs, 'the development objectives of the EPAs could be satisfied with a maximum rate of imported content of 90-95% for LDCs and 60-70% for non-LDCs'.

Inclusion of the most-favoured nation clause

The inclusion of the MFN clause, which guarantees that neither of the two parties to the agreement will grant more favourable treatment to a third party than that granted to the other party, is subject to discussion between the two regions.

West Africa is against its inclusion on the basis of the wording proposed by the EU, which introduces the concept of 'major trading partner', which does not exist in the other trade agreements concluded by the EU, according to the ODI/ECDPM report. In most agreements, this clause applies to developed countries; the EU wants, with this formula, to include emerging countries such as China or India, a major trading partner being defined as a 'country whose share of world exports exceeds 1% or 1.5%'. This clause consequently could create a problem if the region decided to initiate negotiations with China, for example. This is a probability, given the rapid development of trade between China and WA, although it involves above all Chinese exports to WA (in 2006, Chinese exports represented 12% of the region's imports). According to ECDPM, 'West Africa has accepted the inclusion of the MFN clause in the EPA, but only if it is applied to Europe in accordance with the WTO rules.' Thus the WA region rejects the EC proposal intended to introduce the 'major trading partner' concept.

At the September 2009 meeting, the EC presented a new proposal, which has not yet been finally examined by WA.

Inclusion of a review clause

The WA side would like the EPA to include a binding clause requiring both parties to review the agreement after 5 years, 'with the possibility to amend the text if necessary'. This issue was discussed at the July negotiations, but no agreement was reached, 'the EC would prefer a non-binding political declaration'. At the September 2009 negotiations, this issue was discussed, but according to a report by Enda Tiers-Monde, 'no decision was taken'.

Given the risks inherent in the agreement regarding trade opening and lost customs revenues, such a clause could prove very useful. For example, a review after 5 years of the safeguard clauses, the trigger mechanism, and the implementation of the agreement would enable their effectiveness to be measured and adapted if necessary.

Use of trade-policy measures

Whereas in other ACP regions, the use of trade-policy instruments such as export taxes, import licences or bans was at the heart of negotiations, this issue has been given little attention in the discussions between WA and the EU. Yet some countries in the region use such instruments, whether for the purposes of generating government revenues, food security or protecting new industries. Clauses prohibiting the use of these instruments could consequently create a problem for some countries in the region. Guinea for example, which is a major exporter of mining resources, uses export taxes, which represent 20% of government revenues.

The interim WA agreements stipulate that no new tax can be introduced or tax increase implemented, except temporarily for purposes of protecting the environment, new industries or for reasons of monetary stability, and after consultation with the EC. In other EPAs (such as the full Caribbean–EU agreement), these taxes must be abolished within 3 years after the implementation of the agreement. Given the use of these instruments by certain countries in the region, it is important to ensure the clause that will be integrated in this regard in the full regional EPA will not go against the application of these measures, if the countries in question want to continue to use them. In the WA region, many of the products subject to export taxes are mining products, but some agricultural products are also subject to such taxes in order to protect new industries or for reasons of food security.

Concerning quantitative trade restrictions (in particular, import bans and import/export licences), the Ghana–EU agreement prohibits all quantitative trade restrictions other than duties or taxes (as in most other EPAs), whereas this is not specified in the Côte d'Ivoire–EU agreement. This clause will have significant consequences for Nigeria, which has put in place numerous import bans in the agricultural sector (dead or live birds, pork, beef, eggs, cassava, some refined vegetable oils and fats, butter, cocoa powder and biscuits, pasta, packed fruit juices, water) and some export bans for reasons of food security (maize). Moreover, food-security regulations require a licence for the export of unprocessed food products.

Concerns about European agricultural subsidies

Regarding EU subsidies to European farmers, and in particular export refunds, discussions are making slow progress. At the September 2009 negotiations, WA reiterated its request to the EU to terminate refunds and internal support measures. It also called on the EU to include an article in the text of the EPA leading to their elimination, specifying that 'if this elimination should not prove possible, it proposes that the two parties should consider solutions to all trade distortion effects, including losses in the competitiveness of WA exports to the EU market and local products on markets'.

The EC reiterated that this issue could not be dealt with at bilateral level and had to be addressed in the context of the WTO negotiations. In this framework, export refunds would be eliminated in full by 2013 and internal support measures distorting world trade would be reduced.

2.2.4 Delays in implementing the ECOWAS CET and non-resolution of the question of community levies

The application of a CET across the 16 countries of the WA region (including Mauritania) is a prerequisite for implementation of the EPA; however, at the beginning of 2010 no CET has yet been fully defined, and therefore cannot be applied.

Adopted on 12 January 2006, the ECOWAS CET was due to be applied on 1 January 2008 after a 2-year transitional period. Designed as an extension of the WAEMU CET adopted in 2000, it was intended to include four tariff bands of 0, 5, 10 and 20%, as well as a statistical tax of 1% and a community levy of 0.5%. Moreover, the countries have the possibility of applying two taxes, the degressive protection tax, which is intended to compensate for significant falls in tariff protection linked to the implementation of the CET; and the import activity tax, which is in fact a safeguard measure.

Nigeria judged the CET to be insufficiently protective and called for the introduction of a fifth 50% band to protect sensitive products and new industries. Finally, the 36th summit of heads of state and government decided on 22 June 2009 to adopt a fifth band, taxing imports at 35%. Although the creation of this fifth band can be seen as an improvement, some observers consider that it is inadequate, given the food-security challenges facing the region. The Réseau des Organisations Paysannes et de Producteurs d'Afrique de l'Ouest (ROPPA) has also called for the possibility of 50% protection, 'a CET on the agricultural products of the ECOWAS lower [than this rate] would not allow the region to achieve the strategic development objectives, in particular those of the ECOWAS common agricultural policy'.

Despite this progress in defining the CET, the latter cannot be applied, as the products falling within the scope of this fifth band need to be reclassified, which requires a consensus among the 16 countries. One problems that remains to be resolved concerns the methodology to be adopted for the reclassification of these products; in all likelihood this methodology has not yet been defined, and the final communiqué of the June 2009 meeting urged 'the Commission to accelerate discussions on the regional methodology to determine the products to be transferred to the fifth band as well as the reclassification'. According to ECDPM, the finalisation of the customs union was to be one of the two main objectives of the ECOWAS summit to be held on 16 February 2010.

Moreover, the question of maintaining the ECOWAS regional levies has still not been resolved. West Africa wants to be able to maintain community taxes on imports within ECOWAS which are used to finance regional integration. According to the Enda report on the September 2009 negotiations, the EC has recognised the importance of these levies […] but claims, however, that it is not certain whether it would be legal not to eliminate them during the tariff-disarmament process. These levies are in fact additional customs duties levied on all imports up to 0.5 and 1%, and represent 50% of the revenues of ECOWAS and WAEMU. The region is now proposing to exclude these levies from the definition of customs duties. No decision has yet been taken on this subject, but the Enda report maintains that the 'region will not change its position'.

2.3 Wider developments affecting ACP–EU trade

2.3.1 Duty-free, quota-free access for all LDC products since October 2009

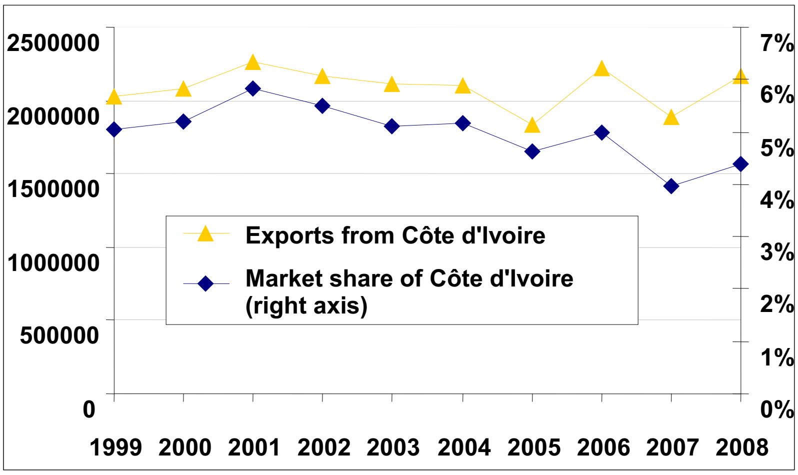
Since October 2009, the region's 12 LDCs (and Cape Verde) have been entitled to duty-free, quota-free access for the three products that still benefit from a transitional period, namely rice, bananas and sugar. However, this improved access will not in principle have any major implications, given that WA LDC exports of these products are minor, although a number of them are rice producers.

2.3.2 The banana dispute between Latin America and the EU: repercussions for Côte d'Ivoire

Following the agreement on bananas concluded on 15 December 2009 between the EU and Latin American countries, the preferential access to the European market which Côte d'Ivoire has maintained thanks to the signing of the IEPA does not have the same significance. The agreement will reduce customs duties from €176/tonne to €114/tonne by 2017, but with an immediate reduction to €148/tonne on the signing of the agreement, probably early in 2010. In exchange, Latin American banana exporters will abandon their complaints against the EU filed with the WTO, and will not attempt to obtain additional tariff reductions on bananas in the framework of the Doha cycle.

As Côte d'Ivoire's banana exports represent 5.11% of total exports to the European market (average over the 2006–08 period), this agreement could cause serious problems for Côte d'Ivoire's exports. Bananas from Côte d'Ivoire currently represent 4.4% of the EU's imports, but this proportion has continued to decline since 2001. According to the International Centre for Trade and Sustainable Development (ICTSD), the agreement is likely to reduce ACP banana exports by 14%, while Latin American exports are expected to increase by around 17%. The conclusion of future free-trade agreements with Central American countries is likely to intensify this process even further, leading to the erosion of preferences. In order to help ACP banana-exporting countries adapt to this reduction in the MFN right, the EC has undertaken to pay €200 million of aid in addition to aid already committed.

Figure 1 Market share of WA bananas on the EU market (1999–2008)



Source: Comext, Eurostat

One solution for Côte d'Ivoire's banana producers would be to switch their production to fair trade or organic certified products in order to distinguish their products from Latin American bananas. Although many Caribbean producers have already made this switch, WA producers do not seem to have made sufficient use of this possibility.

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EPA negotiation issues between Pacific and the EU

Contents

About this update

CTA's *Executive brief: The EU – Pacific EPA negotiations,* was published in February 2009 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in April 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

The original executive brief (20009) is available on request from: agritrade-mail@cta.int.

1 Background and key issues

There are 15 Pacific ACP (PACP) states (least-developed countries – LDCs – are italicised): Cook Islands, Fiji, *Kiribati*, Republic of Marshall Islands, Federated States of Micronesia (FSM), Nauru, Niue, Palau, Papua New Guinea (PNG), *Samoa*, *Solomon Islands*, *Timor-Leste,* Tonga, *Tuvalu* and *Vanuatu.*

Relations with the EU have been dominated in recent years by three issues:

- the establishment of a successor arrangement to the Cotonou Partnership Agreement (CPA) on 31 December 2007;
- the reform of the EU sugar regime, which has led to a reduction in the guaranteed price for ACP sugar exported to the EU; and
- fisheries-sector relations (especially related to tuna).

More recently, the issue of enhanced opportunities for PACP exports of labour has also risen in prominence.

In 2007, governments of two of the 15 PACP states (Fiji and PNG) initialled interim economic partnership agreements (IEPAs) with the EU (three others signed fisheries partnership agreements (FPAs) with the EU). Fiji and PNG dominate PACP exports to the EU. Their governments initialled an IEPA bilaterally (as opposed to regionally) primarily to ensure a continuation of duty-free access to the EU market. Failure to do so would have resulted in an imposition of standard Generalised System of Preferences duties. In the case of Fiji, this would have affected 70 of 180 products exported to the EU, with a total duty payable on 2007 export volumes of almost €60 million. In the case of PNG, this would have seen the imposition of duties on 33 of the country's 201 products exported to the EU, with a total duty payable on 2007 export volumes of €9.6 million (mainly on tuna exports). This would have severely disrupted exports to the EU. PNG signed its initialled IEPA on 30 July 2009, while Fiji signed its initialled IEPA on 11 December 2009. Once these signed agreements have been duly ratified, implementation of the national tariff-elimination commitments of Fiji and PNG included in the tariff-reduction schedules will commence.

Agreement was reached in the negotiations on the removal of residual tariff barriers and quantitative restrictions on all goods and some improvement in the rules of origin were achieved. Some concessions were also secured on the export of labour to EU member states.

As LDCs, Kiribati, Samoa, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu faced few problems arising from the end of the CPA regime, as they also benefit from the EU's 'Everything but Arms' regime which offers similar preferences to Cotonou (apart from the provisions for sharing production processes among them – known as 'cumulation'). The same does not apply to Cook Islands, Tonga, Republic of Marshall Islands, FSM, Niue, Palau and Nauru, all of which were transferred by the EU in January 2008 to a less favourable trade regime. But this has had little effect on them as they export few, if any, goods to Europe that face significant tariffs (and FSM, together with Kiribati and the Solomon Islands, has safeguarded access for fish exports through a bilateral FPA). Throughout the negotiations, a major preoccupation was the impact of the terms and provisions of a free-trade area agreement with the EU on PACP states' trade relations with their near neighbours Australia and New Zealand, which are the region's main sources of imports.

The key issues for 2008–09 have been:

- the trade effects of the implementation of the tariff-elimination commitments of the agreed bilateral IEPAs;
- whether other PACP states would join;

- whether contentious issues related to infant-industry protection, the standstill clause, tariff-liberalisation rules, MFN issues and trade in services could be included and progress could be made towards the conclusion of a full EPA.

2 Latest developments and implications for ACP countries

2.1 The negotiations

2.1.1 Impact of IEPAs on exports

Both Fiji and PNG have signed bilateral IEPAs, which contain significant differences in their liberalisation schedules. These commitments may have an impact on their import patterns, and may have an effect on patterns of exports as well. However, these effects will be felt only once the agreement is implemented, and will be influenced by the wider development of the trade regimes of PACP states, notably through their impact on trade relations with Australia and New Zealand under the Pacific Agreement on Closer Economic Relations (PACER) agreement. A number of potential areas where the agreement could impact on exports can, however, be identified.

In the case of PNG, the principal impact of the loss of traditional trade preferences on the EU market would have fallen on the tuna sector, and would probably have required a search for new markets. Given the fact that PNG will be liberalising only a very few items that face significant tariffs, and that the EU can supply competitively, the IEPA may represent a 'very modest cost to avoid a less modest cost' option.

The IEPA has secured access to the EU for Fiji's sugar exports on the basis of duty-free, quota-free access within a transitional plan: this has a total ACP/LDC safeguard target of up to 3.5 million tonnes up to October 2015 (with targets for non-LDCs of 1.38 million tonnes in 2009/10, 1.45 million tonnes in 2010/11, and 1.6 million tonnes per season from the 2011/12 season up to and including the 2015/16 season). The renunciation of the sugar protocol that came into effect on 1 October 2009 ends national quotas for ACP suppliers and allows a phasing out of price guarantees in the context of a reduction in administratively determined floor prices for sugar, and movement over to market-based price determination for ACP sugar imports from 1 October 2012.

This has averted the need for Fiji to find alternative markets for its sugar, since any re-imposition of duties on sugar (which would have been equivalent to over two-thirds of the value of exports) would have made continued exports to the EU commercially non-viable. While the IEPA has secured duty-free, quota-free access to the EU market for Fijian sugar exports, it is unclear what the implications of this will be for long-term trade, given wider developments. This is despite the 7-year deal concluded in May 2008 to supply Tate & Lyle with 300,000 tonnes of raw cane sugar per annum. This commercial deal was intended to 'ensure that Fiji was able to take full advantage of the additional market-access opportunities for sugar in the EU as well as benefit under its long-term contract with Tate & Lyle'.

However, the Fijian sugar sector has been facing difficulties for some years now. In 2007, the EU recorded only 174,547 tonnes of sugar imports from Fiji, while industry sources reported a further drop in supply to Tate & Lyle in 2009. The situation was complicated by the high prices on the world sugar market, which reduced the attractiveness of the EU market. Nevertheless, overall sugar production did decline from 310,000 tonnes in the 2006 season to 208,000 tonnes in the 2008 season, with serious concerns being raised about the future of the industry.

Against this background, the miller Fiji Sugar Corporation Ltd has made significant investments to upgrade the four sugar factories in a programme that is to be completed at the start of the next season. Furthermore, the government has adopted a strategy which is seeking, *inter alia*, to address land-tenure issues, revive the sugar industry and progressively bring sugar production back to former levels.

The future for Fiji's sugar trade with the EU nevertheless looks far from certain because:

- of the ongoing production difficulties in Fiji which the government is currently addressing;
- Tate & Lyle is seeking to develop alternative sources of supply from non-ACP LDCs (or even, according to reports in the UK financial press, to sell its sugar division);
- declining world market prices are likely to impact on prices offered for ACP sugar;
- of the ending of minimum import-price requirements for ACP sugar from 1 October 2012.

The growing number of countries with preferential access to the EU sugar market alongside a further consolidation of corporate alliances around six major players, which now control around 80% of the EU market, is likely to compound the situation, as a limited number of importers are in a stronger position to negotiate on price with a growing number of exporters. These developments could quickly make the EU an unprofitable market for Fiji sugar, where the cost of production has been put at €309/tonne before transport.

Table 1 Evolution of the EU sugar price (€/tonne)

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
EU price	523.7	496.8	496.8	448.8	Not less than 90% of 335.0	Not less than 90% of 335.0	Not less than 90% of 335.0	Market-related prices

Source: European Commission.

Looking beyond sugar, the World Trade Organization (WTO)'s *Trade Policy Review* for Fiji (18 February 2009) noted that the EU's 'strict rules of origin on fish exports ... have severely restricted opportunities'. These have been relaxed under the IEPA, allowing non-originating product to be used by domestic processors. However, in the short term the benefits of these changes to the rules of origin have been undermined by 'the EC's decision to prohibit all Fijian fish exports on SPS grounds in May 2008'.

A critical issue for Fiji and PNG is whether the full duty-free, quota-free access granted and improved rules of origin under the IEPA will support a diversification of exports to the EU. An analysis of the pre-2008 exports of Fiji and PNG to the world does not indicate any obvious products that are currently exported to other markets, but which might be diverted to the EU with the removal of any residual CPA tariffs. Nor does it provide any foundation for a preliminary guess at possible new supply capacity. However, this being noted, the trade features section of the EC Trade Directorate-General's website has recently carried an interview with a small Fijian cosmetics business, which started developing production for export on the basis of contracts in the EU and subsequently expanded exports to over 50 countries. This company provides employment to 800 people in the agricultural sector and 65 workers in the processing factory, with further expansion planned. The question arises as to whether elements of the IEPA will encourage the development of production for export of these kinds of 'niche market' exporters, for while these exports may be statistically insignificant, their proliferation could be of considerable benefit to individual PACP states, given the small size of their economies.

However, SPS, food-safety and quality standards are likely to have critical bearing on the scope for development of these kinds of niche products. Establishing effective provisions and flanking measures around any EPA arrangement, which can effectively help small- and medium-sized Pacific-island enterprises penetrate the EU market, is likely to be a critical determinant of the overall value of such an agreement.

The provisions of the IEPAs initialled with PACP states are less restrictive with regard to the use of export duties than other IEPAs. Article 10 of the PACP IEPA allows Fiji and PNG (plus any future signatories) to impose them if necessary in order to ensure fiscal solvency or to protect the environment. Also, and subject to mutual agreement, 'in exceptional circumstances' with the EC, it allows them to be imposed for a 'limited number of products' in relation to infant-industry development.

All in all, therefore, the main effect of the IEPA on the exports of Fiji and PNG appears to be one of avoiding disruption following the lapsing of Cotonou preferences rather than of creating new opportunities.

2.1.2 Impact of IEPAs on imports

Once it applies the IEPA, Fiji's import regime will change significantly – and in the opposite direction to the recent trend. The WTO *Trade Policy Review* found that Fiji's MFN rates have gradually increased, from an unweighted average of 7.9% in 2003 to 10.4% in 2008, and reached 11.3% in 2009. The averages for agricultural and industrial products were 12.0 and 10.1%, respectively, in 2008 (12.7 and 11.1% in 2009). Fiji is scheduled to liberalise just over 84% of its imports from the EU in four tranches, to be completed, in principle, by the end of 2008, 2013, 2018 and 2023. Unlike most other (I)EPA states, the liberalisation in each tranche will not occur through a series of incremental cuts. Instead, the IEPA contains no obligation to lower any tariff up to the day before it is scheduled to be set at zero. However, to date none of the agreed tariff reductions has come into effect.

About 40% of the 1,173 products groups that Fiji is not liberalising are agricultural. Animal products followed by other agricultural products plus processed-food items account for just under half of all the exclusions. Many of the most sensitive products, facing the highest tariffs at present, have been excluded – but by no means all. Over half the exclusions currently have tariffs of 10% or more, but only 6% are in the highest tariff band (which is 27%).

Table 2 Summary of Fiji exclusions

Description	Number of lines
Total	1,173 at HS6 and national tariff line level
Covered by WTO Agreement on Agriculture	469
In highest applicable tariff band	75 (= 27% or varying specific duties, whichever is greater)
Specific duty only	58
Tariff 10% or more	667
Tariff less than 10%	373
Duty free	–

Source: Commonwealth Secretariat, 2008, Table 3.

Table 3 Broad composition of Fiji exclusions

HS section*	Description	Share of total excluded lines (%)
I	Live animals; animal products	13.0
II	Vegetable products	13.7
III	Animal or vegetable fats/oils	1.1
IV	Prepared foodstuffs; beverages; tobacco	19.2
V	Mineral products	2.0
VI	Chemical products	5.3
VII	Plastics/rubber & articles	4.3
IX	Wood & articles	5.7
X	Wood pulp/paper & articles	3.2
XI	Textiles & clothing	11.3
XII	Footwear/headgear/umbrellas etc.	1.2
XIV	Precious/semi-precious stones/metals & articles	0.4
XV	Base metals & articles	9.5
XVI	Machinery & mechanical appliances	2.1
XVII	Vehicles/aircraft/vessels & associated equip.	7.3
XIX	Arms & ammunition; parts/accessories thereof	0.5

*HS, Harmonized Commodity Description and Coding System. There are no exclusions in the following HS sections: VIII (hides/skins, leather, fur-skins and articles); XIII (articles of stone, plaster, ceramics, glass, etc.); XVIII (photographic/precision/medical/surgical, etc. instruments); XX (misc. manufactured articles); XIX (works of art, collectors' pieces and antiques).

Source: Commonwealth Secretariat, 2008, Table 4.

Of potentially greater importance in the short to medium term (during the period when only relatively low tariffs are being cut) is the limitation on quantitative import restrictions, even on goods that are excluded from liberalisation. In most of the (I)EPAs, these are subject to a blanket ban, but the Pacific accord includes some flexibility. Nevertheless, quantitative restrictions can be employed only for safeguards on a maximum of 3% of tariff lines or 15% of total import value (Article 21). Other permissible forms of infant-industry support are only reactive (i.e. countries can impose safeguards if a threat arises to an infant industry) rather than proactive. Tariff surcharges can be applied for up to 10 years (and longer for any LDCs that accede) within the first 20 years of the IEPA – a lengthier timescale than in the other (I)EPAs. To date, little progress has been made in addressing the concerns of PACP states around these and other contentious issues (e.g. the standstill provision, the MFN clause and the scope of commitments on trade in services).

PNG, uniquely among the ACP, is liberalising – at least on paper - everything that is to be liberalised (some 88% of its imports) on day one: entry into force of the IEPA. Without a recent *Trade Policy Review* and in advance of data on the applied level of tariffs in 2008 and 2009, it is not possible to determine whether this has yet happened. But, even when it does, it may not create the 'shock' that might be imagined, since most of the goods involved are either already duty-free or are not imported. Of the 4,796 products to be liberalised, 4,491 are already duty-free. Of the 305 products that face positive tariffs, many are not imported from the EU – in total, imports of these goods accounted for just 0.07% of the total value of imports.

The goods being excluded from liberalisation include a high proportion (just under 40%) of agricultural items, notably animal products, followed by other agricultural products plus processed food items. A full 89% of the excluded items currently have tariffs of 15% or more, although only five are in the highest (70%) tariff band.

Table 4 Summary of PNG exclusions

Description	Number of lines
Total	1,048 at national tariff line level
Covered by WTO Agreement on Agriculture	399
In highest applicable tariff band	5 (= 70%)
Specific duty only	61
Tariff 15% or more	982
Tariff less than 15%	–
Duty free	–

Source: Commonwealth Secretariat, 2008, Table 7.

Table 5 Broad composition of PNG exclusions

HS section*	Description	Share of total excluded lines (%)
I	Live animals; animal products	9.3
II	Vegetable products	14.1
III	Animal or vegetable fats/oils	3.1
IV	Prepared foodstuffs; beverages; tobacco	17.2
V	Mineral products	0.4
VI	Chemical products	3.1
VII	Plastics/rubber and articles	3.1
VIII	Hides/skins, leather, fur skins and articles	0.8
IX	Wood and articles	6.8
X	Wood pulp/paper & articles	4.9
XI	Textiles and clothing	21.9
XII	Footwear, headgear, umbrellas, walking sticks, etc.	2.2
XIII	Articles of stone, plaster, ceramics, glass, etc.	1.3
XIV	Precious/semi-precious stones/metals and articles	1.3
XV	Base metals and articles	5.6
XVI	Machinery and mechanical appliances	1.0
XVII	Vehicles/aircraft/vessels and associated transport equip.	0.5
XX	Misc. manufactured articles	3.5

*There are no exclusions in the following HS sections: XVIII (photographic/precision/medical/ surgical, etc. instruments); XIX (arms and ammunition); XXI (works of art, collectors' pieces and antiques).

Source: Commonwealth Secretariat, 2008, Table 6.

The same limitations on the use of quantitative restrictions and safeguard duties are applied in the case of PNG as in the case of Fiji.

In addition to tariff-elimination commitments, the IEPA may require the removal of taxes other than tariffs. This depends on whether or not they have a differential effect on imports. Article 7 of the Pacific IEPA defines as 'customs duties and charges' any charge 'of any kind imposed on or in connection with the importation of goods, including any form of surtax or surcharge …'; these must be removed immediately. It exempts only anti-dumping, countervailing or safeguard measures, and charges limited to the approximate cost of services rendered that do not 'represent indirect protection for domestic products or a taxation of imports for fiscal purposes'. Such fees and charges may 'not be applied on an *ad valorem* basis'.

Judging whether or not a tax bears more heavily on imports than on domestic production is the responsibility, in the first instance, of the country that applies the tax. But if the EU considers that some Pacific taxes are wholly or partly trade-related and they are not removed, it can take the matter to dispute settlement. In judging the potential impact of the IEPA, therefore, it is wise to assume that all taxes that have a differential impact on imports may be subject to whatever rules have been agreed.

On the other hand, flexibility for both countries (and any future signatories) is built into Article 13 of the main text, which allows them to modify their tariff-liberalisation commitments in case of serious difficulties if the Joint Trade Committee (representing all IEPA parties) agrees. But modifications must not result in the agreement failing to comply with GATT Article XXIV (which requires the liberalisation of 'substantially all trade' within a period of time that must be 'reasonable'). The IEPA also allows countries to halt liberalisation in the case of serious balance-of-payments difficulties or the threat thereof. It is the only one of the IEPAs that contains this provision. Another feature (unique among the IEPAs) is its provision on the consequences of natural disasters which might result in serious revenue decline (Article 45).

2.1.3 EU aid to regional integration and the agricultural sector

The Pacific Plan, endorsed by members of the Pacific Islands Forum in October 2005, outlined the region's vision on regional integration and cooperation. It provides a platform for regional cooperation on different dimensions of development and regional integration. This is being reflected in the 10th European Development Fund (EDF) Regional Indicative Programme (RIP). Under this programme, some €95 million has been allocated, with the primary focal sector being regional economic integration, to which €45 million (47%) of available funding is allocated, and the second focal sector being 'sustainable management of natural resources and the environment', to which €40 million (42%) is allocated. Some €10 million is allocated to the focal sector of good governance and security.

In terms of the actual utilisation of these funds, a restricted call for concept notes was issued in November 2008. Some 28 concept notes were received with a total budget of €200 million. These concept notes then needed to be distilled down to operational programmes. This exercise was undertaken in the course of 2009.

On 4 March 2010, a €22 million programme for three fisheries-management programmes was signed. It is expected that an agreement for a €30 million programme of assistance for the implementation of a regional aid-for-trade strategy will shortly be signed. One of the activities under discussion within the focal sector is assistance to improving and harmonising regional customs and quarantine services, and building harmonised trade standards and conformance. A further €10 million is expected to be committed to a programme to combat climate change. This will account for 70% of the available 10th EDF RIP resources.

Even though there has been very little progress in negotiating a full EPA, work has continued on regional integration and cooperation. For instance, Tuvalu and PNG announced their commitment to start trading under the Pacific Island Countries Trade Agreement (PICTA) by July 2009. Kiribati, Nauru and Tonga are likely to follow soon. There has also been ongoing discussion on including French and US territories in PICTA.

A major potential source of assistance to agricultural restructuring was the sugar protocol accompanying measures programme envisaged for Fiji. While it was initially agreed to allocate €8 million to programme development in Fiji, the total amount would have been substantially more had political developments not led to the suspension of this programme. With the first phase of the sugar protocol accompanying measures programme coming to an end in 2011 and unutilised funds having been reallocated to other sugar-protocol member countries, the overall volume of aid likely to be made available to Fiji to support sugar-sector restructuring is likely to be substantially reduced, even if a rapid resolution of the political impasse that gave rise to the suspension of the programme is reached.

2.2 Implications for the PACP countries

Negotiations have continued on extending the IEPA to a full EPA and bringing other PACP states on board. Neither element has yet made significant visible progress.

2.2.1 Extending IEPA membership

Given the limited 'costs' for other PACP states of the termination of the CPA trade regime (see Section 1 above) and the relative unimportance of Europe as an export market, they appear to consider the reciprocity requirements of the IEPA to be 'a price not worth paying'. A WTO *Trade Policy Review* of Solomon Islands (1 April 2009) notes that China has been established as the main export market (with 55% of the total in 2007, up from 13% in 2000). The EU is an important export market only for palm oil (Italy) and fish, in particular tuna.

PACP concern is sharpened by fear that provisions in the IEPA and in PACER could produce an escalating circle of commitments. The PACER agreement with Australia and New Zealand (both in the top four import sources of the Solomon Islands, according to the WTO report) which foresees free-trade area negotiations (notionally by 2011), also provides that the commencement of free-trade negotiations with any other party will advance this date so that parallel negotiations should take place. If there were a parallel free-trade area with Australia and New Zealand, the implications of the IEPA would be scaled up; whereas the 27 EU states account for only about 9% of Pacific trade, Australia alone accounts for 23%. Furthermore, three of the Pacific states, Palau, the Republic of Marshall Islands and the FSM, are in a similar situation with regard to the USA.

Agreements with these countries could, in turn, trigger the IEPA MFN clause (Article 16). Under this the Pacific states must extend to the EU (and *vice versa*) any more favourable treatment that they grant to other major trading economies except where this simply reciprocates better treatment than offered by the EU, in which case the parties will consult and 'jointly decide' what to do.

2.2.2 From an IEPA to an EPA

Preferences on services are of much greater interest to the non-signatory PACP states than are those on goods, so the EPA negotiations on trade in services are of particular interest (arguably close, or on a par with, tuna and sugar). Of particular interest is labour mobility. Their hope is to see progress in 'Mode IV' liberalisation by the EU, which would be of particular value for the tourism sector, cultural exchanges and sports. Although Mode IV liberalisation by Australia and New Zealand under the PACER Plus would be of more direct value (as these markets are closer and already operational), the region believes that inclusion of concessions in an EPA would strengthen their negotiating position with these neighbours.

To date, the PACP interests appear to have received very little traction, with limited progress having been made.

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Executive brief

Caribbean–EU agricultural trade relations

Contents

About this executive brief

CTA's *Executive brief: Caribbean–EU EPA negotiations* was published in October 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. With the conclusion of the EPA in October 2008, the focus of this new executive brief shifts to the implementation of the agreement.

The new executive brief, from April 2010, consists of:

1. Background: outlining the EPA and the context of Caribbean–EU agricultural trade relations;

2. Agricultural provisions and specific provisions related to exports: reviewing the provisions made for agriculture and for CARIFORUM food and agriculture exports;

3. CARIFORUM food and agricultural liberalisation commitments and development assistance provisions: examining the implications of liberalisation commitments and how development assistance provisions can best be employed.

The executive brief of October 2008 is available on request from: agritrade-mail@cta.int.

1 Background

The Caribbean Economic Partnership Agreement (EPA) negotiating configuration is the only ACP region to have concluded a comprehensive EPA to which all the initial negotiating parties have signed up. While Haiti signed only in December 2009, all other Caribbean parties had signed the agreement by October 2008. This meant that by 1 January 2010, full duty-free, quota-free access had been granted (with transitional quotas having been discontinued). The only remaining restrictions are in the sugar sector, where a pan-ACP safeguard clause will remain in operation until 1 October 2015. The principal restrictions on Caribbean food and agricultural exports to the EU now relate to the restrictive rules of origin (particularly for sugar), special provisions on exports to the EU overseas territories of the Caribbean, and sanitary and phytosanitary (SPS) and food safety requirements.

The government of Guyana continues to express its concerns over these issues, and the possible implications of the EPA provisions for intra-regional integration processes in the Caribbean. In response to these concerns, the EC has agreed to a comprehensive review of the EPA after 5 years 'to determine the impact of the agreement, including costs and consequences of implementation', with a view to amending its provisions and adjusting its application if necessary. Guyanese concerns need to be seen in the context of President Jagdeo's observation, at the FAO World Food Summit in Rome in November 2009, that greater 'political will' is needed if agricultural development is to be promoted in the Caribbean. President Jagdeo has specifically called for the establishment of concrete policy measures such as 'incentives and budgetary allocations for drainage and irrigation and research and development' in order to 'meet food demand and capitalise on export opportunities'.

The statements by President Jagdeo in November 2009 highlight the need for a clear policy lead in, and commitment to, redefining the role of the food and agriculture sector in the Caribbean in a context of evolving global production and trade. This raises a number of important issues.

- What types of private–public sector dialogue on agro-food sector strategies are needed to establish a clear vision of the future for the food and agriculture sector in the Caribbean?
- What lessons can be drawn from existing successful restructuring and adjustment processes such as those successfully under way in the Caribbean rum sector?
- What policy tools can best be deployed in support of sector-specific, market-led, private-sector-based restructuring processes in the Caribbean region?
- What should be the role of the state in the future restructuring of the Caribbean food and agricultural sectors, as a driver of change or as a facilitator of largely private sector-driven processes of transformation?

Caribbean private-sector bodies have broadly welcomed the conclusion of the comprehensive EPA, although in the sugar sector, concerns have been expressed 'over the slow pace of disbursement of funds by the EU', under the sugar protocol accompanying measures programme. This echoes similar concerns from the Caribbean Council for Europe, which described past EC financial support as 'virtually inaccessible' to the private sector. This, it has been argued, is generating a 'deep cynicism about the real meaning of the EPA'. This is likely to be an important issue for the Caribbean sugar, bananas, rice and even the rum sector, where the highly successful EC-financed Integrated Development Programme for the Caribbean Rum Sector is seen by many industry stakeholders as being brought to a disappointingly premature conclusion.

Understanding the complex nature of the CARIFORUM–EU EPA

An analysis undertaken by the Overseas Development Institute (ODI) for the Commonwealth Secretariat presents a complex picture in terms of the basic tariff liberalisation commitments entered into under the CARIFORUM–EU EPA. It argues that 'whilst the CARIFORUM EPA has been portrayed as a region-to-region document, the reality is that it provides an umbrella for separate and partially different national trade policies on goods', with '40 separate services liberalisation schedules' – one for each of the 27 EU members and one for each of the 13 CARIFORUM states.

In this context, it argues the CARIFORUM–EU EPA is not so much a single region-to-region agreement as a multiplicity of bilateral tariff-elimination commitments on the part of Caribbean member states, with 'such significant differences between the individual country liberalisation schedules that have been agreed under the CARIFORUM EPA that the regionally coordinated element to the exercise is less apparent than the national element'. The analysis points out that even by 2033, there will not be a single external tariff in the Caribbean, since 6.5% of goods currently imported from the EU will still face different tariffs in different CARIFORUM member states. Before this date, the differences will of course be much larger.

Against this background, the ODI analysis maintains that the country-specific impacts of EPA commitments could vary considerably between CARIFORUM member states, with detailed, in-depth, country-by-country and sector-by-sector analysis being necessary to get to grips with the likely impact of the agreement in individual CARIFORUM states. Such analysis, which would then be subject to thorough discussion with concerned stakeholders, is seen as desirable in order to avoid any 'undesirable (and possibly unforeseen) effects' emerging in the course of the implementation of the agreed EPA commitments.

Source: Commonwealth Secretariat/ODI.

With the conclusion of a comprehensive Caribbean–EU EPA, the focus has shifted to discussions about implementation of the agreement. A detailed 'road map' under preparation is designed to set out:

- the legislative actions required in follow-up to the agreement;
- the policy actions required to ensure the consistency of national policies with the commitments entered into through the agreement;
- the flanking measures required at national and regional levels to reduce the adjustment costs associated with EPA implementation and to facilitate the exploitation of new opportunities created under the EPA;
- the time-lines for the accomplishment of various actions in each of these areas;
- the resources required for the implementation of EPA commitments;
- the possible sources of funding available to support EPA-related adjustments and implementation.

However, with no comprehensive country or sectoral analysis yet undertaken of the implications of the diverse commitments entered into under the EPA, progress in the detailed elaboration of the 'road map' is proving difficult.

Several CARIFORUM member states have established, or are in the process of establishing, national EPA implementation units. In addition, a number of governments have launched dialogues with the private sector on how best to exploit opportunities and deal with the adjustment challenges arising under the EPA. This ranges from the establishment in Barbados of a Private Sector Trade Team to help companies exploit opportunities arising under the EPA (initially focusing on trade opportunities with French overseas territories in the Caribbean), to the convening of the first Caribbean–EU Business Forum (November 2008).

Putting CARIFORUM–EU food and agricultural trade relations in context

Overall, the EU accounts for 19% of total Caribbean exports and 13% of total Caribbean imports. The EU is not therefore the region's major trading partner. However, this is not the case for the region's traditional agricultural exports, where the EU market is far more important than is suggested by the general overall trade picture.

The importance of food and agricultural products in total exports from CARIFORUM member states to the EU varies considerably from country to country. At the time of the conclusion of the EPA negotiations, the Dominican Republic was exporting €268.6 million of food and agricultural products per annum to the EU across seven sectors (accounting for 33.7% of total exports to the EU). With the opening up of new market opportunities under the EPA for exports of sugar and bananas from the Dominican Republic, a further expansion of these exports is anticipated. In contrast, St Kitts & Nevis was exporting only €132,000 of food and agricultural products to the EU, and had discontinued sugar production for export in response to the implementation of EU sugar sector reforms. In between these extremes were:

- four countries exporting between €79 million and €152 million of food and agricultural products to the EU (Bahamas, accounting for 19% of its total exports to the EU; Guyana, 73.1%; Jamaica, 20.8%; Belize, 78.3%);
- three countries exporting between €20 million and €25 million of food and agricultural products to the EU (St Lucia, accounting for 42.2% of its total exports to the EU; Barbados, 52.8%; Suriname, 10%);
- six countries exporting between €1 million and €13 million of food and agricultural products to the EU (Antigua & Barbuda, accounting for 0.8% of its total exports to the EU; Grenada, 34.7%; Haiti, 11.3%; Dominica, 63.8%; St Vincent, 9.4%; Trinidad & Tobago, 1.2%).

Nine CARIFORUM countries have food and agricultural exports to the EU concentrated in sectors facing the erosion of both the value and margins of traditional trade preferences (accounting for 17% of the region's total exports to the EU), with eight of these countries facing serious restructuring challenges in some of the affected sectors. The significance of exports of food and agricultural products to the EU thus varies considerably across CARIFORUM member states.

The role of food and agricultural production in CARIFORUM member states also varies considerably, as does the size and commercial attractiveness of local markets to EU exporters. As a consequence, the commercial challenges arising for domestic producers serving local and regional markets from the implementation of the trade liberalisation commitments in the EPA are likely to vary greatly. Specific challenges in specific sectors, under specific circumstances, are likely to arise from the implementation of the EPA and the evolution of EU policies in response to market changes and the evolution of market conditions. Utilising the various provisions of the CARIFORUM–EU EPA in response to these specific challenges will be one of the most demanding tasks faced in implementing the EPA.

In terms of wider institutional arrangements for dealing with EPA-related adjustment and EPA implementation, an intense debate is under way regarding how this should best be structured, in terms of both the main regional institutions that should be involved, and the relative weight to be given to national- and regional-level adjustment strategies.

The issue of the institutional arrangements for dealing with EPA-related adjustments is a critical area for discussion, particularly as it relates to support to sector-based economic adjustment processes, where highly variable experiences exist within the region. Two major issues that need to be addressed can be identified:

- the balance to be struck between regional coordination and resource mobilisation on the one hand, and the national design and implementation of targeted, market-led restructuring initiatives on the other;
- the role of the private sector in the design and management of sector-based production and trade adjustment processes.

Restructuring trade negotiations structures in the Caribbean

According to a special update issued by the Office of Trade Negotiations (OTN) of the CARICOM Secretariat, 'at the end of the first quarter of 2009, the CARICOM Heads of Government took a decision to incorporate the Caribbean Regional Negotiating Machinery (CRNM) into the CARICOM Secretariat as… [the] Office of Trade Negotiations'. This transition had come into effect by the end of 2009. The OTN 'reports to the Council of Trade and Economic Development, which gives guidance and defines its negotiating mandate as authorised by the CARICOM Heads of Government'. The OTN now has formal responsibility for all external trade negotiations.

In this context, following the signing of the Caribbean–EU EPA in October 2008, the agreement formally came into effect on 29 December 2008. Overall responsibility for EPA implementation lies with the CARICOM Secretariat, with the OTN following up on implementation issues in certain areas during 2009. In February 2009, an EPA Implementation Unit was established in the CARICOM Secretariat to take responsibility for overseeing implementation of the commitments made.

2 The agriculture-related provisions and special provisions related to CARIFORUM food and agriculture exports

2.1 Overview of agriculture-related provisions

According to the CRNM, the inclusion of a specific chapter on agriculture in the EPA (Chapter 5, Title 1, Part II) is intended to encourage the sustainable development of the CARIFORUM agricultural sector. Specifically, the provisions were designed to contribute to food security, poverty eradication and diversification, through the enhancement of competitiveness and innovation. On the export side, the major advantages identified for CARIFORUM food and agricultural producers included:

- the preservation of traditional Cotonou trade preferences;
- an expansion of duty-free, quota-free access, attaining by 2010 full duty-free, quota-free access (with the exception of the application of a pan-ACP safeguard arrangement in the sugar sector until 1 October 2015);
- improvements in the rules of origin designed to expand the range of CARIFORUM food and agricultural products benefiting from full duty-free, quota-free access (since only 'originating' products benefit from these provisions);
- commitments from the EU to consult with CARIFORUM before taking policy initiatives (including concluding third-country trade agreements) which could affect the competitive position of CARIFORUM exports.

It was argued that, through these provisions, the EPA provided possibilities to exploit market opportunities previously unavailable to CARIFORUM food and agricultural producers.

On the import side, it was argued that the provisions of the EPA protected sensitive food and agricultural sectors through:

- maintaining tariff protection on products accounting for 74% of the value of food and agricultural imports from the EU over the 2002–04 period;
- including safeguard provisions tailored to the needs of CARIFORUM food and agricultural producers;
- securing a commitment from the EU to eliminate export subsidies on all agricultural products for which CARIFORUM has agreed to eliminate tariffs.

The EPA also contained a multiplicity of commitments to enhancing cooperation on a number of food- and agriculture-related issues, and on deploying available development assistance in a variety of food- and agriculture-related areas.

The European Commission, for its part, in its review of the Caribbean–EU EPA, had highlighted the asymmetrical nature of the tariff liberalisation commitments agreed, with the EU granting virtually immediate and complete duty-free, quota-free access (with the exception of certain transitional quotas for sugar and rice, which had lapsed by January 2010), and the Caribbean having up to 25 years to phase down and eliminate duties on the products covered by the agreement.

2.2 Impact of preference erosion

2.2.1 The importance of preference erosion

The issue of the short- and long-term value of the preservation and extension of duty-free access to the EU market will be critically affected by how the issue of preference erosion is addressed within the framework of the EPA, and the extent to which meaningful improvements in the rules of origin are brought about. This will be strongly affected by developments beyond the formal CARIFORUM–EU relationship, given the vast network of bilateral and region-to-region free-trade area (FTA) negotiations in which the EC is currently engaged. An October 2009 review of the range of FTA negotiations beyond the ACP in which the EU was involved revealed five region-to-region and 21 bilateral FTA negotiations under way, some reaching the conclusion phase.

In December 2008, particular concerns had been expressed in the Caribbean over the implications for Caribbean agricultural exporters of the EU's negotiations with the Central American, Mercosur and Andean Pact group of countries. It was argued by some commentators that, despite the language contained in the EPA text relating to consultations on policy developments affecting the competitive position of CARIFORUM food and agricultural exporters, in reality there is no actual requirement for the EC to consult before it enters into any new trade agreements. The most critical recent test in this regard, however, has occurred in the context not of bilateral FTA negotiations, but of the resolution of the long-running WTO banana dispute.

At the time of initialling the EPA, the CRNM took the view that, as a consequence of the granting of duty-free, quota-free access to the EU market under the EPA, 'the recent ruling of the WTO dispute-settlement panel against the EU's preferences granted to ACP banana exporters will no longer be applicable, since the duty-free preferences … are now protected under WTO rules governing free-trade areas'. The CARIFORUM position in the banana sector was seen as being further protected by the Joint Declaration on Bananas, which recognised the need for the EU to maintain 'significant preferences' for CARIFORUM bananas.

2.2.2 The banana sector: what future value will preferential access hold?

The EU–Latin America bananas agreement will see the most-favoured nation (MFN) tariff for 'dollar bananas' cut immediately by €28 to €148 per tonne once all parties sign the deal. Then, starting on 1 January 2011, 'the tariff will … fall again at the start of each year for seven years, in annual instalments (to €143, €136, €132, €127, €122, €117, €114)', until the tariff has been reduced from €176 to €114 in 2017. Thus, while tariff preferences will still be in place, the margin of tariff preference will have been reduced by 35%. Whether these tariff preferences are still held to be 'significant' will be determined by the ability of individual Caribbean banana exporters to maintain profitable exports to the EU under the new market conditions.

The successful utilisation of the banana accompanying measures funding (€200 million), the establishment of which was consistent with commitments made on this issue under the Joint

Declaration on Bananas attached to the EPA, will of course have some bearing on the ability of Caribbean banana producers to maintain a profitable presence in the EU market. Announcements of recent programme allocations under earlier banana accompanying measures programmes in the Caribbean suggest that these funds are increasingly being used for economic diversification rather than banana-sector restructuring. This needs to be seen against the background of studies which suggest that serious challenges will be faced by traditional Caribbean suppliers as access to the EU market is improved for traditional competitors, and new competitors enter the international banana trade. It is projected that the volume of ACP banana exports could fall by as much as 14%, with traditional Caribbean suppliers likely to be worst affected, while imports of bananas from Latin American suppliers are expected to increase 17%, as prices fall by at least 12%. This led Renwick Rose of the West Indies Farmers' Association to describe the deal as 'a disastrous blow against not just the banana industry, but economic and social development in general'. This needs to be seen in the context of 'Dominica, St Vincent and St Lucia having lost more than 20,000 of their 25,000 small-scale banana producers' since 1992.

However, as has been the case with previous modifications to the EU banana regime (see Annexes 1–3 on the volume and price trends for Caribbean banana exports), not all Caribbean suppliers are likely to be equally adversely affected. The general manager of the Banana Growers Association of Belize said that while the deal was 'not positive news', its impact on 'Belize's fledgling banana industry' was not expected to be great. This reflects the success that Belize has had in expanding its banana exports. The Dominican Republic has enjoyed similar success, with exporters increasingly 'focusing on the production and export of organic bananas, mainly produced on medium- and small-scale farms'. This has enabled Dominican banana exporters to maintain the same recorded prices in 2006–07 as were obtained in the 2001–02 period (while other Caribbean suppliers have seen the recorded value of banana exports decline by between 6.4 and 45%).

Given the trends in the volume of Caribbean banana exports, the Dominican Republic, Belize and Suriname (which has undertaken a major restructuring of its banana sector) look best placed to be able to sustain the volume of banana exports, while, provided fair-trade banana prices can be sustained and are not undermined by general price declines on EU banana markets, St Lucia, St Vincent and Dominica may be able to sustain some level of exports. However, this will be critically determined by demand and price trends for fair-trade bananas. Concerns have been expressed that the MFN tariff reductions, combined with the relaunching of supermarket 'banana wars' in the UK (where, according to the shopping comparison website moneysupermarket.com, prices were slashed by 22.5% at the beginning of 2010 from 98p to 77p per kg), could put pressure on the fair-trade model of price formation, even giving rise to a 'race to the bottom' among fair-trade suppliers, as supermarkets chase cheaper fair-trade bananas.

It has been suggested that within the context of the World Banana Forum, an initiative could be launched to promote the broader use of 'sustainable cost' pricing as developed for fair-trade bananas, as the basis for price formation in the banana sector. However, it is argued that this would require a review of the current retailer practices which, it is maintained, are 'stripping value out of the whole chain from the top down'.

Against this background, recent EC work on the functioning of food supply chains could be relevant. While EU member states have traditionally used competition investigations to rein in the market power of the big banana companies, the power relationship in banana supply chains appears to have shifted in recent years with, according to some analysts, the buying power of the supermarket chains eclipsing the power of the big banana companies. Against this background, it has been argued that EU competition law and practice 'has not yet evolved to contemplate abuses of buying power at the top of the supply chain'. It is in this context that the launching of a joint Caribbean–EU investigation into the functioning of the banana supply chain could well prove to be of value.

2.2.3 The sugar sector: what future value will preferential access hold?

Sugar accounts overall for 5.9% of CARIFORUM's total exports of goods to the EU market, with the importance of sugar in total exports ranging from a low of 1.2% (Trinidad & Tobago) to a high of 50.9% (Guyana) (see Annex 1). From 1 October 2009, the ACP sugar protocol no longer provided the framework for Caribbean sugar exports to the EU. Instead, sugar protocol access and the additional transitional market access agreed under the Caribbean–EU EPA (+60,000 tonnes) was replaced by full duty-free, quota-free access to the EU market, subject to an ACP-wide automatic safeguard clause (trigger level 3.5 million tonnes), applicable solely to non-LDC ACP sugar exporters. The abolition of the sugar protocol saw the end of traditional price guarantees for Caribbean sugar exports to the EU. Under the new duty-free, quota-free market access arrangements, EU importers of ACP sugar are required to pay not less than 90% of the EU sugar reference price, which by 1 October 2009 had fallen to €335 per tonne. This means that the minimum guaranteed price for imports of sugar from Caribbean suppliers is now €301.5 per tonne.

However, the strength of the world market sugar price has so far prevented the full effects of EU sugar price reductions being felt in the supply contracts negotiated by Caribbean sugar exporters. The impact of the EU sugar price reductions has also been ameliorated by the global economic downturn, which has substantially reduced freight rates for sugar shipped from the Caribbean. This is likely to prove a temporary gain for the region, with economic recovery driving up freight prices towards the pre-recession trend.

As early as May 2008, Agriculture Commissioner Mariann Fischer Boel had indicated that 'it is very unlikely that the sugar sector will be able to sit out' the 2013 round of EU common agricultural policy (CAP) reform. In May 2009, further indications were given of what this might entail, with Commissioner Fischer Boel's head of cabinet telling European sugar beet growers to 'think about a future without quotas'. The process of EU sugar sector reforms is thus set to continue. A number of questions arise from the possible future evolution of the EU sugar regime.

- How will the transition to a quota-free EU sugar regime be managed?
- What impact will a quota-free EU sugar regime have on EU market prices for sugar?
- What impact will a quota-free EU sugar regime have on overall EU production?
- What impact will a quota-free EU sugar regime have on the distribution of production across the EU?
- What impact will the lifting of EU production quotas have on the EU sugar trade regime?

The most important questions from a Caribbean perspective relate to the impact of further reforms of the EU sugar regime on the market price they are able to negotiate with EU importers, and the impact of the reforms on the trade regime applied to imports of sugar and sugar-based products from LDC suppliers that are not in the ACP. This is particularly important in the Caribbean, which includes some of the most vulnerable ACP sugar exporters.

Seven Caribbean countries export sugar to the EU: six traditional sugar protocol suppliers, plus the Dominican Republic. A number of the traditional Caribbean suppliers are highly vulnerable to the ongoing process of price adjustment in the EU market, with three of the traditional suppliers projected to have cost structures after the implementation of programmes of cost reduction in excess of the EU sugar reference price. Two of these traditional suppliers, St Kitts & Nevis and Trinidad & Tobago, have opted to exit the sugar export trade, while Barbados (where sugar accounts for 39.2% of total exports to the EU) is restructuring its use of domestically produced sugar to target premium-priced markets (through the Plantation Reserve brand and through expanded use in high-quality rum production).

Table 1 Caribbean sugar protocol beneficiaries: costs of production and transport after restructuring to lower costs (2009)

Country	Production cost (€/t)	Transport cost (€/t)	Total cost (€/t)	Pre-reform EU price (€/t)	EU ref. price 2010 (€/t)	Possible 2015 price (€/t)
Guyana	211	76	287	523.7	335.00	261.85
Belize	211	92	303	523.7	335.00	261.85
Jamaica	264	56	320	523.7	335.00	261.85
Barbados	352	60	412	523.7	335.00	261.85
St Kitts	440	80	520	523.7	335.00	261.85
Trinidad	440	80	520	523.7	335.00	261.85

Source: Extrapolated from Draft Report 'Safeguarding the benefits of the ACP-EU Sugar Protocol in the context of the EPA negotiations', 20 February 2007. The possible 2015 sugar price specified in the final column assumes that following the 2013 round of CAP reforms, the sugar reference price is reduced to 50% of the pre-reform level.

Jamaica (where sugar accounts for 14.2% of total exports to the EU), for its part, is looking to privatise its sugar industry within a framework of diversification of revenue streams from sugar cane production. With the economic downturn, difficulties were faced with the initial privatisation process. Subsequently, two local companies have taken over a number of the government-owned estates under long-term leases, while efforts to sell off the remaining government-owned estates to the Italian sugar company Eridania collapsed in December 2009.

Both Belize (where sugar accounts for 34.6% of total exports to the EU) and Guyana (where it accounts for 50.9% of total exports to the EU) are looking to reduce the costs of sugar production in order to remain competitive suppliers of sugar to the EU market. In the case of Belize, this is to be supported by the conversion of national production to serving the fair-trade sugar market, where price premiums can be obtained. New marketing arrangements have been negotiated with Tate & Lyle, which is committed to converting the whole of its direct-consumption sugar range to fair trade in the coming years. However, disputes over utilisation of the fair-trade premium have generated divisions among cane producers, which could hold back the process of fair-trade certification and the competitive supply of fair-trade sugar. Substantial investments are also needed in the refinery to assist in efficiently diversifying revenue streams from cane production. The global financial crisis has complicated this process of investment mobilisation. In Belize, considerable divergence of views exists on how best to utilise EU accompanying measures funding, with industry players focusing on direct cost-reduction and revenue-enhancement measures, and the EC and government apparently favouring general road infrastructure interventions and capacity building within state institutions.

The Dominican Republic is the Caribbean country with the most to gain from the granting of duty-free, quota-free access, with substantial EU investment having been attracted to expand and improve the efficiency of sugar production.

A major area of potential concern to Caribbean sugar exporters (notably Guyana) is the process of reform-induced corporate restructuring that is taking place in the EU sugar sector. This is seeing a process of consolidation of European sugar companies as they compete for market share in those EU member states where sugar beet production has been discontinued or substantially reduced. It is also seeing the globalisation of the activities of European sugar companies, with new strategic alliances being built (Mauritius and Suedzucker, Illovo and Associated British Foods) to provide direct access for restructured ACP sugar exports to an evolving EU market. At the present time, the Guyanese sugar sector has not yet identified its long-term corporate partner for maximising revenue flows from sugar sales on the EU market, in the new market context created by the process of EU sugar sector reform. This could potentially leave the Guyanese sugar sector locked into the supply of raw sugar to traditional refiners, and hence vulnerable to the full effects of reform-induced market-price reductions.

2.2.4 The rice sector: what future value will preferential access hold?

The granting of expanded transitional quotas for rice (29% in 2008 and 72% in 2009) and then full duty-free, quota-free access needs to be seen against the background of a decline of between 17.3 and 19.7% in the recorded unit price of Guyana's and Suriname's rice exports between 2000 and 2007. It also needs to be seen in the context of the implementation of the €24 million regional Caribbean rice programme, established to support improvements in the competitiveness of regional rice production.

In the first 6 months of operation of the new arrangement, the combined rice exports from the traditional Caribbean suppliers of Guyana and Suriname fell some 11.3%, with the latter's rising and the former's declining more markedly. It also, however, saw the first exports of rice from the Dominican Republic to the EU in the 2007/08 season, some 25,038 tonnes of husked rice, and the despatch of two consignments of 12,000 and 20,000 tonnes for arrival after October 2008.

Table 2 Caribbean rice sector: ratio of imports to consumption

	2005/06 (%)	2006/07 (%)	2007/08 (%)	2008/09 (%)	2009/ Nov 10 (%)
Ratio of imports to consumption	64.15	52.76	55.18	47.21	52.29

Source: Extracted from USDA FAS *Grain: World markets and trade*, Circular series FG 01-10, January 2010.

The current impact of the phasing in of full duty-free, quota-free access needs to be seen against the backdrop of EU market prices largely following world market price trends, with there now being no significant price advantage to be gained from supplying the EU market as opposed to regional or world markets. Given the region's import dependence for rice, there is clearly considerable scope for the expansion of domestic rice production for regional markets. The question arises as to whether the current relationship between EU and world market prices of rice are temporary or structural: if structural, then freight rates and exchange rates are likely increasingly to play determining roles in the choice of export markets for as long as the current high world market prices prevail.

With the introduction of less restrictive import-licensing arrangements, which allow the export of a wider variety of types of rice, new opportunities for marketing rice exports to the EU appear to be opening up. The Dominican Republic looks best placed of all CARIFORUM rice exporters to exploit such opportunities, with its capacity for more consistent supply. With significant price differentials for different types of rice, depending on the nature and quality of the rice produced, shifting production patterns to serve 'luxury purchase' rice varieties favoured by EU consumers could well be necessary to ensure a profitable rice trade with the EU in the long term. Pump-priming, publicly financed support to bring about the necessary trade and production adjustments could well be needed, if this challenge is to be met.

Table 3 ACP husked rice exports to the EU (tonnes)

	2004/05	2005/06	2006/07	2007/08
Guyana	109,068	80,210	117,597	98,679
Suriname	21,694	14,437	13,642	19,699
Dominican Republic	–	–	–	25,038
Sub-total for CARIFORUM	*130,762*	*94,647*	*131,239*	*143,416*
ACP exports as a percentage of total EU imports (%)	19,54	14,19	15,90	15,08
Total EU imports	**688,689**	**698,177**	**857,022**	**989,449**

Source: Extracted from tables in 'Complementary data to the report from the Commission to the Council on the operation of the agreement concluded in the framework of the GATT Article XXVIII procedure in the rice sector, CEC, Brussels 30 June 2009, http://ec.europa.eu/agriculture/markets/rice/publi/com2009_314_workdoc_en.pdf

2.2.5 The rum sector: lessons from successful restructuring

The experience of adjustment in the Caribbean rum sector, however, highlights the scope for moving beyond trade preferences in trade relations with the EU. The design and management of the Caribbean rum programme was delegated to an accountable and well managed industry association, which, in dialogue with its members, had developed a strategic vision for the market-led repositioning of the Caribbean rum sector in the light of evolving global rum markets. In support of this strategy, a comprehensive and integrated programme of support to production- and trade-adjustment initiatives was designed and set in place under the management of an industry-led body. The design and management of the programme was put in place in close consultation with CARIFORUM regional structures and national governments, and with the active support of the European Commission service, which, along with all other parties, was committed to making this innovative initiative work.

As the programme draws to a close, the success of its marketing strategy, the capacity-building support put into product design as well as programme management and implementation, and the capital mobilised in support of production adjustment, cost reduction and competitiveness enhancement measures through an efficiently managed, cost-sharing grant scheme, have all laid the basis for the Caribbean rum industry to look to a profitable future beyond the lifetime of traditional trade preferences.

Important lessons can be drawn from this experience for other Caribbean food and agricultural sectors facing either the erosion of the value of traditional trade preferences, or production- and trade-adjustment challenges arising from the programmes of trade liberalisation initiated through the signing of the CARIFORUM–EU EPA. These relate to:

- the conceptualisation and design of market-led, private sector-based proactive strategies for the repositioning of Caribbean production in the light of changing global market realities;
- the necessary redefinition of the roles of public and private sector within the adjustment process, with the public sector increasingly playing a facilitating rather than a leading role;
- what needs to be done to place the private sector in the driving seat in terms of programme design and implementation, while at the same time maintaining effective engagement of public authorities in the region, and the European Commission;
- how to effectively manage production- and trade-adjustment support programmes, including through the establishment of effective support mechanisms for both programme implementation and the promotion and realisation of the wider strategic vision;
- how to deal with the most common problems under such programmes (related to tendering and procurement), through prior initiatives to address these issues comprehensively and in advance.

2.3 The rules of origin issue

In terms of rules of origin, while some improvements have been made for certain food and agricultural products, such as biscuits, jams, jellies, fruit juices and other beverages, these have not necessarily been in line with the initial expectations of Caribbean negotiators (see box below). Nevertheless, Caribbean food product manufacturers are hoping that they will now be able to export duty-free a slightly wider range of value-added food products than previously.

Negotiations on rules of origin

From the outset, CARIFORUM negotiators felt that the EPA negotiations should provide scope for a review of the rules of origin applied in order to address the concerns of CARIFORUM exporters and promote the increased export of CARIFORUM goods under preferential market access conditions. This, it was thought, could be achieved within the structure of the rules of origin used under the Cotonou Agreement, which was based largely on a 'change in tariff sub-heading' approach.

The EC, for its part, presented a proposal for a substantial and far-reaching change in the structure and detailed requirements of the rules of origin, on the basis of across-the-board value-addition criteria and the discontinuation of certification of origin, with the substitution of registration of exporters and changes in the verification procedures.

In the end, the rules of origin in the CARIFIORUM–EU EPA maintained the structure of the rules of origin in the Cotonou Agreement, with some relatively minor adjustments. One significant change, however, is that the rules of origin now apply to production and trade in both directions.

For a range of sugar-containing products and for rice, no 'cumulation' will be allowed between CARIFORUM states until after 1 October 2015. Raw materials used must originate in the country from which the final product is exported in order to 'originate', and hence benefit from duty-free access. However, a commitment is included to review the rules or origin 'within the first five years of the entry into force of this agreement, with a view to simplifying the concepts and methods … in the light of the development needs of the CARIFORUM States' . This offers scope for further elaboration of the rules of origin in specific areas where Caribbean food and agricultural product exporters may face restrictive rules of origin and hence lose the benefits of the duty-free, quota-free access granted under the EPA.

Table 4 Products excluded from 'cumulation' until 2015

Sugar	Cocoa products	Coffee-based preparations
Specified food preparations of flour, groat, meal, starch and malt extract (CN 19019099)	Food preparations falling under CN 21069098	Preparations used in the drinks industry falling under CN 33021029
Tea-based preparations	Flavoured or coloured sugar syrup	

CN, Combined Nomenclature (see Glossary).

Source: European Commission.

2.4 Sanitary and phytosanitary issues

Under Chapter 5, Title 1, Part II, which deals with agriculture and fisheries issues, a number of provisions are included linked to SPS issues. According to the CRNM briefing on 'Agriculture and Fisheries sectors in the EPA', in the area of SPS measures 'the EPA does not require CARIFORUM to assume any commitments additional to those under the relevant WTO agreements'. However both sides are committed to 'early warning' notification of any 'contemplated measures that could affect trade between them' and of problems that are emerging in the field of SPS and technical barriers to trade.

CARIFORUM is committed to designating a 'competent authority' in each member state and channelling all relevant information through a representative regional body. The EC, meanwhile, has committed itself to assisting CARIFORUM in harmonising technical standards, building capacity in specific technical areas, sharing expertise, and supporting CARIFORUM participation in international standards-setting bodies. The EC has also made specific commitments to cooperation in the area of 'the adoption of quality standards relating to food production and marketing' and in terms of support to compliance with various standards. What is unclear is whether these EC development assistance commitments will extend to the provision of public-financed assistance to private-sector companies in achieving compliance with the requisite EU standards. The extension of such public assistance is a complementary component to the application of increasingly strict SPS and food safety standards within the EU itself. Indeed, EU member state governments see the provision of such publicly financed assistance to private-sector operators as essential in order to avoid undermining the cost competitiveness of EU producers on both EU and international markets.

3 CARIFORUM food and agricultural liberalisation commitments and development assistance provisions

3.1 Product exclusions

In term of product exclusions, some 65% of all six-digit tariff lines excluded from CARIFORUM's tariff liberalisation commitments are food, agriculture and fisheries products (amounting to 45% of the relevant food, agriculture and fisheries product tariff lines). As a consequence, according to the CRNM some 75% of the value of food, agriculture and fisheries products imported from the EU over the period 2002–04 'will continue to attract duties'. The major food and agricultural products excluded from the process of tariff dismantling include:

- live, fresh, chilled and frozen poultry;
- live, fresh, chilled and frozen beef, pork and lamb meat;
- processed and prepared meats of these and some other animals;
- animal fat;
- dairy products;
- eggs;
- a wide range of fresh, chilled and frozen fruit and vegetables (including processed tomatoes);
- coffee;
- maize and maize products, and wheat and wheat products (including pasta);
- olive oil, palm oil and sunflower oil;
- sugar and sugar substitutes; sweets, confectionery and chocolates;
- jams and jellies, and preserved fruit;
- frozen and preserved fruit juices;
- ketchups, soups and sauces;
- mineral water;
- beer, wines and spirits;
- cigars, cigarettes and tobacco products.

The bulk of EU exports to the region are value-added food product exports, the main EU food exports being dairy products (when cruise ships and yachts are excluded, dairy products are the third largest EU export to the Caribbean, accounting for approximately a quarter of all EU food and agricultural exports) and wheat-based food products (HS 1901). Despite their value-added nature, these products are significant recipients of EU export subsidies (under the non-annex I provisions), and since these products are excluded from tariff liberalisation commitments, they are equally excluded from any commitments on the elimination of EU export refunds on products destined for Caribbean markets. This is unfortunate as the dairy, poultry and meat-product sectors have been identified as potential areas for increased competition from the EU under the EPA.

Table 5 CARIFORUM tariff phase-down commitments for food, agriculture and fisheries products

	Number of tariff lines	Agro tariff lines as a percentage of total
Total of tariff lines 1–24 (including fish)	721	100
– of which excluded	324	45
– of which phased out after:		
0 years	34	5
5 years	18	2
10 years	156	22
15 years	50	7
20 years	69	10
25 years	70	10

Source: Caribbean-EC EPA: Agriculture and fisheries sectors in the EPA, CRNM Brief No. 3200.3/EPA-01(08).

The principal market for EU food and agricultural exports is the Dominican Republic, which takes around 31% of total EU exports to the region, followed by Trinidad & Tobago (around 13%), Jamaica, Haiti and Suriname (all around 9–10%). A number of these countries also have significant production of potentially competing products, where EU export subsidies and systems of direct aid payments continue to sustain EU production and exports at higher levels than would be the case in the absence of these programmes of public assistance.

3.2 The basic CARIFORUM tariff elimination commitments

The tariff elimination commitments that have been made are being phased in over a long period, in line with the highly defensive position taken by CARIFORUM in the negotiations. According to the CRNM, 'products that are to be liberalised in the initial period (after a moratorium of three years) are essentially those on which applied tariffs are already zero or low'. The liberalisation of tariffs on food and agricultural products is thus 'heavily back-loaded', with most tariff reductions only being completed after 10 years, while for certain products up to 25 years is allowed before tariffs have to be completely eliminated.

Across a range of sectors, there are likely to be certain market components where the EU poses no major competitive threat, and certain market components where a significant market threat could arise. A major challenge now is to identify which locally produced food and agricultural products fall in which category, and to restructure local production to shift away from those market components where competition is likely to intensify as a consequence of the EPA (or evolving EU agricultural support policies), towards parts of the market where the competitive threat is likely to be less pronounced. For example, in the poultry-meat sector, competition could increase in low-quality frozen chicken parts, given the European consumer's preference for chicken breast, with a restructuring of local production to focus on value-added chicken meat products, offering a more secure long-term market.

3.3 The safeguard provisions

In terms of the safeguard provisions, while separate special agricultural safeguard provisions had initially been sought by CARIFORUM negotiators, given the high level of exclusions and long tariff phase-down schedules agreed in the EPA, it was accepted that the safeguards for agricultural products should be dealt with in the general safeguard provisions. The CRNM, however, argued that these provisions still recognised the peculiar circumstances under which agricultural products were traded. This was achieved by the inclusion of a broad definition of the circumstances under which the safeguard measures could be invoked. The type of safeguard measures that may be taken include: suspension of further tariff reductions; an increase in duties to a level no higher than the MFN rate; or the introduction of tariff quotas for the product concerned. Such measures may be maintained for up to 2 years, with a possible further 2-year extension.

In its analysis of the CARIFORUM–EU EPA, the UN Economic Commission for Latin America and the Caribbean has argued that while 'there are numerous clauses in the agreement that can be used to safeguard domestic producers', serious problems are likely to be faced in effectively invoking these clauses to prevent injury to producers serving the domestic market in the face of import surges. It therefore remains to be seen how useful these safeguard provisions will prove to be in practice in protecting CARIFORUM producers from surges of food and agricultural products in an era of increased price instability on global food markets.

3.4 The commitment on elimination of export subsidies

While the EU has made a commitment to the elimination of export subsidies on all agricultural products for which CARIFORUM has agreed to eliminate tariffs, many of the products excluded from the CARIFORUM tariff elimination commitments are major recipients of EU export subsidies (notably dairy products, where EU export subsidies were increased for a time in 2008/09 in response to low world market prices).

In addition, commitments on the elimination of export subsidies on products covered by the EPA are likely to prove difficult to implement as regards value-added food products falling under non-annex I provisions (processed food products containing raw materials covered under the EU CAP, prices for which may be above world market prices). From an administrative point of view, it is very difficult to withhold export refund payment on these products based on country of final destination. In addition, this category of EU food and agricultural product exports is enjoying one of the highest export growth rates in the EU, with the trajectory for EU policy being towards encouraging the expansion of such value-added food product exports.

Against this background, it is far from clear what value these specific EU commitments will have in reducing EU exports of products in receipt of export subsidies, which compete with existing or emerging CARIFORUM industries.

3.5 The treatment of non-tariff trade-policy tools

The CARIFORUM EPA also places restrictions on the use of a range of non-tariff trade-policy tools, which have traditionally been deployed in support of food and agriculture sector development. For example, the EPA agreement commits CARIFORUM members to the elimination of export duties within 3 years of signature of the agreement. This will primarily affect Guyana, where export duties are applied to unrefined sugar and molasses.

The article dealing with the 'prohibition of quantitative restrictions' requires the elimination of import-licensing arrangements from the 'entry into force of this agreement'. As with other aspects of the EPA agreement, the impact of these provisions will vary considerably across countries. For example, the government of the Dominican Republic is committed to the elimination of trade restrictions and to a transparent tariff system, with government support increasingly focusing on targeted financial assistance programmes. In contrast, the governments of the Organisation of Eastern Caribbean States make more extensive use of import-licensing arrangements to monitor and regulate agricultural trade flows. The implications of the application of this provision thus differ considerably. It may well be the application of these provisions, dealing with quotas and import licences, rather than tariff elimination commitments *per se*, that first has an impact on the food and agricultural sector in CARIFORUM countries.

Under the CARIFORUM–EU EPA, there are no specific infant industry protection provisions, with governments being restricted to the use of general safeguard provisions that can only be applied in the first 10 years of operation of the agreement and which, if applied, may be continued for a maximum of 8 years. This contrasts with efforts under other interim EPAs to link the duration of specific infant industry protection provisions to the date of establishment of the infant industry concerned.

Agreement has also been reached on extending geographical indication (GI) protection to other food and agricultural products, not just wines and spirits. However, this covers only GIs that are protected in their country of origin. The EC has committed itself to assisting CARIFORUM governments to develop their own GIs, with interest being expressed in seeking GI protection for Guyanese demerara sugar and Jamaican Blue Mountain coffee.

3.6 The development assistance provisions

Finally, in terms of assisting with EPA-related adjustments in the food and agricultural sector, a research report from the European Parliament (EP) has argued that potentially there is enough EU assistance available to meet EPA-related adjustment needs (implementation costs, fiscal adjustment, export adjustment and domestic economic adjustments), despite the absence of any binding financial commitments in the EPA. This research report maintains that 'at least €580 million are earmarked to support the CARIFORUM EPA', drawn from the regional indicative programme (RIP), the national indicative programmes, sugar protocol accompanying measures programme assistance, and unutilised funds under the Special Framework of Assistance to ACP banana producers. To this, the allocations to be made to Caribbean countries under the newly announced €200 million banana accompanying measures programme need to be added.

However, the EP research report notes that this is the case only if these financial resources are effectively targeted to EPA-related priority areas. In this context, three country case studies reviewed by the EP research service suggest that there may be a mismatch between targeted areas for support and the high-priority needs of Caribbean economies. This led the EP rapporteur to conclude that under current arrangements, 'there is no guarantee' that available aid resources 'will be applied in an appropriate and timely way'. This appears particularly to be the case when it comes to assistance in support of market-led, private sector-based production and trade adjustments for Caribbean producers serving international, local and regional markets.

While some €72.6 million of the €165 million allocated to the Caribbean RIP under the 10th European Development Fund (EDF) is earmarked for 'EPA support', this appears to be focused primarily on capacity building for regional institutions and EPA implementation. It is unclear to what extent funds will be made available under the 10th EDF RIP to sector-focused, market-led, private sector-based production- and trade-adjustment support programmes. In addition, according to locally accredited EC representatives, 'the CARIFORUM/CARICOM Secretariat has been unable to come up with a viable proposal to start implementing these funds', with CARIFORUM coming up only with 'a preliminary proposal that is now being assessed' in December 2009. This is why, according to the EC delegate to Jamaica, the Jamaican government has allocated €11.25 million of its own nationally allocated funds to EPA implementation (5.3% of the total resources available to Jamaica in the current programming period).

This forms part of a more generalised trend towards using part of the nationally programmed funds in support of EPA implementation, with (according to the 10th EDF regional strategy paper) some three programmes being elaborated to address EPA-related adjustments in the sphere of governance and public administration reform; three programmes being elaborated related to EPA general infrastructure needs; and five programmes being elaborated to target competitiveness issues. To this needs to be added the ongoing programmes supporting food- and agriculture-related adjustment needs in the rum, sugar, banana and rice sectors, as well as general private-sector and trade-development programmes (see Annex 4).

As the CTA/European Centre for Development Policy Management workshop on 'Strengthening agricultural trade strategies: towards a Caribbean agenda' of November 2008 concluded, there is a need to ensure that adjustment support needs in the food and agricultural sector are integrated fully into aid programming processes. This needs to be based on a clear definition of:

- the priorities and specific objectives of restructuring assistance extended to market-led, private sector-based, sector-specific programmes;
- the respective roles of governments and the private sector in the design and implementation of production- and trade-adjustment support measures, with governments playing primarily a facilitating role;
- the respective roles of national and regional authorities, within a recognition of the primacy of sector-based adjustment processes that are close to those who produce and trade;
- the role that publicly financed assistance programmes can legitimately play in supporting market-led and private sector-based production- and trade-adjustment processes;
- a fundamental review of aid-delivery mechanisms used in support of production and trade adjustment, to build on best practices in the region and ensure aid-delivery mechanisms are more private sector-friendly.

Moving forward, this constitutes a substantial agenda for action in effectively deploying available EC assistance in support of food- and agriculture-sector-related production and trade adjustments in the Caribbean.

Annexes

Annex 1 Share of food and agricultural products as a percentage of total exports to EU27 (2007)
(in order of highest value of food and agricultural exports to the EU market)

Country	Percentage of total (%)	Value of total € '000	Main products exported
Dominican Republic	33.7	121,581	15.5% Bananas (0803)
		54,730	6.8% Undenatured ethyl Alcohol (2208)
		43,452	5.4% Cocoa beans (whole/broken/raw/roasted) (1801)
		23,120	2.9% Cigars, cheroots, cigarettes etc (2402)
		9,961	1.2% Dates, figs etc (0804)
		6,786	0.8% Other vegetables, fresh or chilled (0709)
		4,799	0.6% Coffee, whether roasted or not (0901)
		4,130	0.5% Cocoa butter, fat & oil (1804)
		Total 268,559	
Bahamas	19.2	**151,663**	19.2% Undenatured ethyl Alcohol (2208)
Guyana	73.1	102,980	50.9% Cane sugar (1701)
		36,028	17.8% Rice (1006)
		6,667	3.3% Undenatured ethyl Alcohol (2208)
		2,234	1.1% Fruits, Nuts (2008)
		Total 147,909	
Jamaica	20.8	72,638	14.2% Cane sugar (1701)
		15,581	3.1% Undenatured ethyl Alcohol (2207)
		9,984	2.0% Undenatured ethyl Alcohol (2208)
		7,470	1.5% Bananas (0803)
		Total 105,673	
Belize	78.3	34,101	34.6% Cane sugar (1701)
		32,462	32.9% Bananas (0803)
		10,015	10.2% Fruit juices (2009)
		1,582	1.6% Molasses (1703)
		601	0.6% Citrus fruit (0805)
		Total 78,761	
Suriname	10.0	18,312	7.5% Bananas (0803)
		4,481	1.8% Rice (1006)
		1,740	0.7% Other vegetables, fresh or chilled (0709)
		Total 24,533	
Barbados	52.8	15,914	39.2% Cane sugar (1701)
		5,505	13.6% Undenatured ethyl Alcohol (2208)
		Total 21,419	
St Lucia	42.2	19,200	40.4% Bananas (0803)
		319	0.7% Other vegetables, fresh or chilled (0709)
		271	0.6% Melons (0807)
		257	0.5% Fresh strawberries, raspberries etc (0810)°
		Total 20,047	
Trinidad & Tobago	1.2		1.2% Cane sugar (1701)
		Total 12,289	
St Vincent	9.4	**9,023**	9.4% Bananas (0803)
Dominica	63.8	4,889	43.9% Bananas (0803)
		752	6.8% Cocoa butter, fat & oil (1804)
		553	5.0% Undenatured ethyl Alcohol (2208)
		341	3.1% Sauce and preparations thereof (2103)
		242	2.2% Other vegetables, fresh or chilled (0709)

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Country	Percentage of total (%)	Value of total € '000	Main products exported
		230 75 **Total 7,082**	2.1% Essential oils (3301) 0.6% Citrus fruit (0805)
Haiti	11.3	2,050 526 514 205 **Total 3,295**	7.0% Coffee, whether roasted or not (0901) 1.8% Cocoa beans (whole/broken/raw/roasted) (1801) 1.8% Peel of citrus (0814) 0.7% Plants and parts thereof (1211)
Grenada	34.7	1,191 189 86 49 28 25 **Total 1,568**	26.4% Nutmeg, mace & cardamoms (0908) 4.2% Cocoa beans (whole/broken/raw/roasted) (1801) 1.9% Other vegetables, fresh or chilled (0709) 1.1% Undenatured ethyl Alcohol (2208) 0.6% Fixed vegetable fats & oils, Jojoba oil (1515) 0.5% Dates, figs etc (0804)°
Antigua & Barbuda	0.8	**1,108**	0.8% Live horses (0101)
St Kitts & Nevis	2.9	62 42 28 **Total 132**	1.4% Beer made from malt (2203) 0.9% Coffee, whether roasted or not (0901) 0.6% Leguminous vegetables, shelled or unshelled (0708)

Source: Extracted from country pages from http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138666.pdf

Note: While these specific exports are referred to in the EC statistical profile of trade between the Caribbean and the EU, it has been suggested by informed observers in the region that these may be re-exports or statistical anomalies.

Annex 2 Trends in Caribbean banana exports to the EU in selected years (tonnes)

	1992	1996	2001	2002	2004	2005	2006	2007	Percentage change 1992–2007 (%)
St Lucia	122,066	106,670	34,727	49,313	42,874	28,243	36,733	30,497	–75.0
St Vincent	71,320	44,176	30,829	32,522	23,969	15,895	17,239	11,249	–84.2
Dominica	51,606	39,307	18,062	17,802	12,401	13,182	13,591	7,458	–85.5
Grenada	6,015	2,007	591	557	406	–	–	–	–100.0
Jamaica	74,827	89,610	42,985	40.600	28,660	11,654	31,866	18,372	–75.4
Suriname	29,950	27,160	28,731	7,000	19,277	35,261	45,153	54,353	+81.5
Dom. Rep.	38,516	61,371	86,064	97,227	101,000	145,000	176,752	206,212	+435.4
Belize	28,494	54,109	51,609	38,178	80,000	74,000	73,207	61,175	+114.7
Total	**422,804**	**424,410**	**293,598**	**283,199**	**308,587**	**323,235**	**394,541**	**389,316**	**–7.9**

Source: Extracted from country pages at http://trade.ec.europa.eu/doclib/docs/ for various years.

Annex 3 Recorded unit value of Caribbean banana exports (2001–2007) (in euros per tonne)

	2001	2002	2003	2004	2005	2006	2007
St Lucia	695.0	710.4	645.1	650.9	650.5	653.5	629.6
St Vincent	695.4	710.7	644.4	656.6	651.4	652.5	654.2
Dominica	684.0	705.4	634.3	656.0	618.9	642.2	655.5
Belize	580.7	597.8	501.4	438.0	641.3	483.9	530.6
Jamaica	774.8	733.3	521.4	394.3	395.4	413.7	406.6
Suriname	679.0	607.7	–	311.3	357.6	368.4	336.9
Dom. Rep.	587.9	628.2	532.7	566.7	582.7	623.3	604.1

Source: Extracted from country pages at http://trade.ec.europa.eu/doclib/docs/ for various years.

Annex 4 EC support to production and trade adjustment in the Caribbean

Sector-specific programmes	**€**
The Caribbean Regional **Rum** Programme	70,000,000
The Caribbean Regional **Rice** Programme	24,000,000
Sugar protocol accompanying measures programme (2006–10)	
Barbados (2007–10)	34,677,000
Belize	45,147,000
Guyana	84,170,000
Jamaica	77,547,000
St Kitts & Nevis	42,286,000
Trinidad & Tobago	41,643,000
Special framework of assistance to banana producers (1999–2006)	
St Vincent	40,510,000
St Lucia	56,805,810
Dominica	41,810,000
Grenada	4,000,000
Belize	21,770,000
Jamaica	33,640,000
Suriname	17,470,000
Subtotal	**635,475,810**
General programmes	
Caribbean Export Development Agency	10,500,000
Caribbean Trade and Private Sector Development Programme	2,600,000

Source: Compiled by the author from assorted internet sources.

Note: To these programmes should be added ongoing allocations to the Sugar protocol accompanying measures programme 2009–13 and the Caribbean country allocations under the newly established banana accompanying measures programme.

Annex 5 Caribbean sugar protocol accompanying measures programme priorities

Country	Objective	Support	Total support 2007–10 (€ million)
Jamaica	To develop a sustainable private sector-led sugar industry, in part through diversifying revenue streams from sugar cane production and privatisation of the industry; to diversify rural income-earning opportunities; to support social adjustments in the sugar sector	General budget support (50%) and sector budget support (50%)	77.547
Guyana	To reduce costs and enhance competitiveness of sugar production and diversify revenue streams from sugar cane	General budget support	84.17
Belize	To increase the efficiency of sugar production, processing and transportation, and support alternative income-earning opportunities in rural areas	Project-based interventions	45.147
Barbados	Restructuring of the sugar sector and diversification of the economic base; EU accompanying measures funding focused on diversification of the economic base, with only limited technical support extended to restructuring of the sugar sector	Targeted budgetary support	34.677
St Kitts & Nevis	To promote economic diversification and reduce poverty in sugar-dependent areas	General budget support	42.286
Trinidad & Tobago	To enhance the competitiveness of a private-sector led sugar industry, to promote economic diversification in sugar-dependent areas and address broader social and environmental impact of sugar sector adjustment. EC accompanying measures support is focused exclusively on economic diversification, social adjustment and environmental impact amelioration.	Non-targeted sector budget support	41.643

Source: Summary compiled from the multi-annual indicative programmes of the countries concerned.

Annex 6 Caribbean: rice consumption, production, imports, ending stocks (tonnes)

	2005/06	2006/07	2007/08	2008/09	2009/Nov. 2010	Percentage change
Domestic consumption (annual change)	1,732,000	1,829,000 +5.6%	1,863,000 +1.9%	1,737,000 –6.8%	1,922,000 +10.7%	+11
Production (annual change)	685,000	798,000 +16.5%	796,000 –0.25%	882,000 +10.8%	938,000 +6.3%	+36.9
Imports (annual change)	1,111,000	965,000 –13.1%	1,028,000 +6.5%	820,000 –20.2%	1,005,000 +22.6%	–9.5
Ending stocks (annual change)	225,000	178,000 –20.9%	134,000 –24.7%	109,000 –18.7%	106,000 –2.75%	–52.9

Source: USDA FAS *Grain: World markets and trade*, Circular series FG 01-10, January 2010
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Information sources

Caribbean documents

Point of access to the website of the Office of Trade Negotiations (OTN, formerly the Caribbean Regional Negotiating Mechanism [CRNM]), providing access to the full text of the Caribbean–EU EPA
www.crnm.org/

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Executive brief: Update

WTO agreement on agriculture: Implications for ACP countries

Contents

About this update

CTA's *Executive brief: WTO agreement on agriculture: Implications for the ACP* was published in January 2009 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in April 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2009) is available on request from: agritrade-mail@cta.int.

1 Background and key issues

The World Trade Organization (WTO) provides the international framework for both the European Union (EU)'s and the African, Caribbean and Pacific (ACP)'s wider trade relations, including tariff policy and the use of export promotion measures. It also establishes disciplines for the deployment of domestic support to the agricultural sector not only in the EU, but in other Organisation for Economic Co-operation and Development (OECD) countries whose policies have a severe impact on ACP countries. As a consequence, a range of issues in the WTO have a bearing on both ACP–EU agricultural trade relations and the value of the preferential market access that ACP countries enjoy. Development in the WTO can also have a bearing on ACP members' efforts to promote regional integration and diversify their trading partners. For these reasons, developments in and around the WTO Agreement on Agriculture have both a direct and an indirect bearing on ACP–EU agricultural trade relations.

Traditionally, ACP agricultural concerns have been divided into five areas: preserving the right to use certain traditional trade-policy tools; domestic support; export competition; market access (including preference erosion); and cotton-sector issues. In the course of 2007/08, the issue of high food prices was added to this list, with concerns in this area having evolved since then towards a call for targeted initiatives on commodity issues.

On the use of traditional trade-policy tools, ACP governments want to retain the policy space to be able to use such policy tools as import licensing and export taxes as an integral part of targeted, sector-specific agricultural development strategies. The focus of these discussions has increasingly shifted to the Economic Partnership Agreement (EPA) context at the level of ACP–EU relations, although the issue of export taxes has also been taken up by the EU in a case against China as part of the WTO dispute-settlement process.

Green box and blue box support measures in the WTO

Key to understanding the WTO negotiations is the concept of 'green box' and 'blue box' issues.

Green box:	agricultural subsidies that are government-funded and do not involve price support; they need not be reduced or eliminated (e.g. payments under environmental programmes)
Blue box:	subsidies or direct payments to agricultural producers that are part of programmes aimed at limiting agricultural production; these payments do not need to be reduced or eliminated

On domestic support, the ACP group has called for:

- a real and substantial reduction in the use of domestic support that has an impact on trade outcomes, including a review and clarification of the green box criteria, in order to ensure no or minimal trade distortion;
- the end of *de minimis* support for developed economies;
- the introduction of disciplines on blue box support at a product-specific level.

On export competition, the ACP group has called for:

- a credible end date for the complete elimination of export subsidies;
- arrangements for food aid that accommodate the needs of net food-importing developing countries and food-aid recipients;
- provisions on state trading enterprises that allow ACP governments to continue to use such institutions, given the critical role they can play in addressing food security and poverty issues.

On market access, the ACP group has called for:

- the issue of preference erosion to be concretely and comprehensively addressed through longer tariff phase-downs and the provision of trade-related adjustment support;
- the granting of full duty-free, quota-free access to all OECD and advanced developing country markets;
- full access to the special safeguard mechanism (SSM) through procedures that allow effective protection against import surges;
- all least-developed countries (LDCs) to get the 'round for free'.

On cotton issues, the ACP has called for:

- the immediate elimination of export subsidies;
- the immediate reduction of production support in the cotton sector and its rapid phasing out;
- complete duty-free access for LDC cotton and cotton products to all OECD markets;
- the establishment of development-assistance programmes for the cotton sector to compensate for losses incurred by the trade-distorting policies pursued by OECD countries in the cotton sector.

On the issue of fluctuating food prices, the ACP has called for specific measures to address instability in commodity prices. The ACP has also fallen in behind calls for the needs of small and vulnerable economies to be addressed fully within all relevant provisions of a Doha Development Round agreement. This constitutes the broad agenda of ACP concerns in the WTO negotiations.

The EU's approach to the WTO agricultural negotiations is based on the process of EU common agricultural policy (CAP) reform, and seeks to secure WTO acceptance of those trade-policy tools that are central to the reformed CAP (notably decoupled payments). The shifting balance between trade-policy tools and financial support instruments within the CAP sets the parameters for the EC position in the Doha Development Round. Critical to the EU position is securing tolerance for EU's interpretation of the blue box and green box concepts (see box above), which provide the WTO cover for the new decoupled forms of EU agricultural support.

Looking beyond the Doha Round negotiations, the EU agenda in the WTO is shifting. For the EU exporters, the main barriers to trade are no longer seen as tariffs, but rather a range of non-tariff barriers and so-called 'behind-border' issues. In future, the EC wants to see the WTO increasingly addressing issues related to the elimination of non-tariff barriers to trade and behind-border barriers to trade. This is an agenda that the EC has been actively pushing within the EPA negotiations with ACP governments.

2 Latest developments

2.1 WTO agricultural negotiations

2.1.1 Progress in 2009/10

The 2008 revised draft modalities consolidated the agreements reached at the July 2008 mini-Ministerial meeting. The document set out the chair's assessment of what might be agreed for cutting tariffs, trade-distorting agricultural subsidies and other agricultural provisions. It proposed:

- an 80% cut in EU trade-distorting support, to around €22 billion, but leaving green box support unaffected;
- a 75% cut in top-level tariffs of developed economies, but with numerous opt-outs which would mean that 'tariffs on [sensitive] products such as beef, dairy or sugar are likely to remain high';
- that developing countries be allowed to classify up to 5% of tariff lines as special products that would be exempt from any cuts so long as the overall cut for a country's special products was 11%.

Some suggestions were made regarding how to deal with the SSM; however, this fell far short of a basis for consensus. The text also included 'new flexibilities for net food-importing developing countries and proposed disciplines on export restrictions', as well as a proposal for the phasing out of the 'special agricultural safeguard' over a 7-year period, a measure used extensively by the EU to protect its sugar sector. The text provided no further clarity on the way forward on cotton issues. According to the International Centre for Trade and Sustainable Development (ICTSD), the new draft was 'notable for the number of country-specific exceptions and opt-out clauses', with one developing country observer questioning 'whether it effectively provides special and differential treatment for developing countries'.

While the revised agricultural modalities were 'generally well received', there were a multiplicity of outstanding issues. The EC, however, maintained that these issues were all 'solvable' if ministers focused on 'the small handful of contentious outstanding points and [decided] if and how middle-ground solutions [could] be found'. This provided the background to efforts to carry the negotiations forward in 2009.

Throughout 2009, the commitment to concluding the negotiation was reiterated, yet despite extensive consultations and exchanges of technical information, a consensus on major outstanding issues proved elusive. Given these difficulties, a proposal was floated in May 2009 to skip the 'modalities' phase of negotiations and move 'directly into scheduling countries' specific commitments on cutting tariffs and reducing subsidy levels'. Developing country governments, however, were firmly opposed to such a move, fearing that it would leave systemic issues unaddressed (for example, the trade effects of agricultural support programmes in OECD countries). Partly in response to this debate, WTO Director-General Pascal Lamy issued a call for the adoption of a twin-track approach to concluding the WTO negotiations speedily. He called for a continuation of technical negotiations, but proposed that 'members would start some sort of outcome testing', to provide 'greater clarity on the use of flexibilities' and ultimately greater clarity on the 'value of the deal' to individual members.

As part of this twin-track approach, the chair of the agriculture negotiations has convened small-group consultations on a set of controversial issues related to market access, including 'the conditions under which members might be allowed to establish new tariff quotas; rules on the 'sensitive' products that importers would be allowed to shield from tariff cuts in exchange for expanded market access through quotas; tariff simplification, and tariff caps'. These discussions followed earlier talks on domestic support 'which focused on production-limiting blue-box payments and on cotton'. While some of the small-group discussions yielded results, notably with regard to the banana dispute, concerns have arisen among the broader WTO membership that the outcomes generated by this process can be significantly at variance with collectively agreed texts.

Despite this new approach, given the notable lack of concrete progress that followed it, the focus of the scheduled November/December 2009 WTO Ministerial meeting was re-oriented to look more at systemic issues related to the functioning of the WTO against the background of the global economic slowdown. A commitment, however, was made to convene a 'stocktaking' meeting in early 2010. This stocktaking exercise was initially planned as a Ministerial-level meeting, but was subsequently convened at the level of senior officials. On the eve of the stocktaking meeting in March 2010, the ICTSD suggested that the end-of-year deadline for the conclusion of the negotiations '[seemed] to have already slipped out of reach', since it would take 9 months from the date of Ministerial approval of the modalities to draw up concrete schedules of tariff reduction commitments.

Addressing the stocktaking meeting, the chair of the agriculture negotiations noted that 'members have not been in a position to substantively resolve matters'. This view was reiterated by Director-General Lamy, who noted an air of 'disappointment', but took solace from an evident commitment to 'weaving all strings of the negotiations into an overall package'. Director-General Lamy noted, in reference to the agricultural negotiations, that the remaining gaps in negotiating positions were now known, leaving scope for 'trade-offs', which, it was argued, would require a mix of technical and political preparations.

2.1.2 Concerns over the benefits of the Doha Round

In the light of the reduced ambition of the Doha Round and the impact of the global economic downturn, questions have been raised about who will be the principal beneficiaries of the Doha Round. WTO and World Bank analysis has highlighted the importance of the round to limiting the scope of protectionism, a view endorsed by Director-General Lamy. As the International Food Policy Research Institute (IFPRI) has pointed out, under the current conditions some governments could double agricultural tariffs 'while remaining within the boundaries of their WTO commitments'. This, it is argued, would result in an 8% contraction in world trade and a global welfare loss of up to US$350 billion. It is this kind of development that the conclusion of the Doha Round could help to prevent. An agreement would also limit the use of export subsidies and constrain the ability of OECD countries to increase domestic support (while, of course, not actually reducing current levels of actual domestic support).

A contrasting perspective is provided by the November 2009 South Centre policy brief, 'Is development back in the Doha Round?' This analysis argued that currently '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'. Specifically with reference to the agricultural dimension of the agreement, the South Centre brief argued for:

- the US and Europe to honour WTO rulings on cotton and sugar in order to deliver tangible benefits to West African and Latin American farmers;
- more attention to be paid to African concerns over 'taming the highly concentrated and volatile global commodities markets';
- greater flexibility for poorer countries to exempt staple foods from tariff cuts to guard against import surges;
- a reassertion of the principle of special and differential treatment;
- a moratorium on north–south preferential trade agreements, since these 'curtail the ability of developing countries to deploy effective policies for development'.

A substantial range of issues thus need to be addressed if ACP countries are to benefit fully from a Doha Round agreement. Yet, as indicated by the World Bank analysis, there is a body of opinion that argues that 'contentious issues should not be allowed to prevent a deal'. Against this background, ACP governments in various fora sought, over the course of 2009, to articulate their concerns clearly.

2.1.3 EU trade policy and the WTO: developments in 2009

The WTO, in its 2009 review of the EU's trade policy, called on the EU to further liberalise its agricultural sector through a simplification of its agricultural tariff structure and a reduction of applied tariffs (not simply reducing bound tariffs). However, from an ACP perspective, any accelerated reduction of agricultural tariffs by the EU would simply serve to accelerate the process of preference erosion, which is a major concern for the ACP. The WTO review expressed concern at the intensified use of export subsidies in response to difficult market conditions created by the global economic slowdown. Some WTO members even went so far as to suggest that the EC's increase in the use of export subsidies was a 'throwback to the past' and a step that sent 'the wrong signal at the worst possible time'. The EC, for its part, sought to highlight the WTO's acknowledgement that CAP reform was creating a more market-oriented system, as well as the WTO's praise for the EU's stance in supporting the multilateral trade system and its efforts to support the integration of developing countries into the world economy.

However, some commentators have argued that the WTO has yet to get to grips with the impact of the EU direct aid payment system on the production decisions of farmers and the consequent trade outcomes. It has even been suggested that, in the light of the WTO's appellate body ruling in the US cotton case, the EU's single payment scheme should not be viewed as green box support. It may well be these types of concern, alongside the EU's ongoing use of more traditional trade-distorting policy tools in response to the current economic difficulties, that are contributing to the ongoing impasse in the WTO agricultural negotiations.

Looking to the future of the WTO negotiations, in June 2009 the EC trade commissioner argued that in future, WTO negotiations 'will not involve the classic tariff reduction rounds' but will be 'more relationship centred'. Specifically, 'future gains will come from identifying the non-tariff barriers that stifle trade in goods' and in services. In this context, the EC sees WTO negotiations in the future being more about 'tackling non-tariff barriers – regulations, rules and behaviour that stifle trade', rather than the traditional tariff negotiations.

These non-tariff and behind-border issues, highlighted by the EC trade commissioner in June 2009, reflect the trajectory that has developed within the interim EPA (IEPA) negotiations process. Non-tariff barriers and behind-border issues have become the principal point of contention in a number of the IEPAs, highlighting the kind of difficulties that the EC will face when it tries to take up these issues in a WTO context.

2.2 Progress in specific areas of ACP concern

2.2.1 Domestic support: flexibilities and impacts

The issue of increased flexibility in the use of domestic support by developed countries is a multi-faceted issue. It has taken on increased significance in the past 18 months as the EU has resorted to expanded levels of direct support in an effort to insulate EU farmers from the worst effects of the economic downturn, a course of action wholly consistent with WTO commitments, given the 'level of water' (i.e. the difference between current levels of support deployed and the higher WTO limitations on the support that can be made available within WTO rules) in the EU's existing commitments.

Analysis from the ICTSD, posted in September 2009, noted that in response to pressure to cut back trade-distorting forms of support, governments have been increasingly shifting their subsidy spending to green box forms of support, which are classified as non-trade-distorting and hence subject to no quantitative ceilings. However, the paper noted growing evidence that 'green box payments can affect production and trade, harm farmers in developing countries and cause environmental damage'. The paper argued that existing studies suggest that 'green box subsidies encourage agricultural production by creating a guaranteed income stream and a lower perceived income risk for farmers, which raises the potential for overproduction'. It also highlighted the element of 'cross-subsidisation' within the system 'when subsidies on a certain crop indirectly finance losses on another crop or on total production'. This, it was argued, 'creates an exit deterrence effect' such that farmers are 'encouraged to produce what they otherwise would not'. These concerns were brought into sharp focus by the EU decision in

January 2010 to authorise a further 500,000 tonnes of out-of-quota sugar exports (see Section 2.3.2. for further information).

These views need to be seen against the background of growing calls in 2009 for 'the green box to be amended so as better to reflect developing countries' concerns', notably the concern that 'green box programmes may be causing more than minimal distortion to production and trade'. Such moves, however, have been resisted by the EU, USA and import-sensitive G10 members.

It should be noted that there is a considerable divergence of views between the EU and the African Group on green box issues, the only obvious area of convergence being over the need to allow scope under green box measures for addressing new non-trade concerns. It is against this background that ACP governments are looking for progress in addressing domestic support issues in the WTO agricultural negotiations.

At the March 2010 stocktaking meeting, the chair of the agriculture negotiations made a number of observations on the issue of the flexibilities on domestic support allowed to developed economies. In terms of blue box support, the agriculture negotiations chair argued that 'no further technical preparation is required for the eventual decision to be taken with respect to agreements within the framework of the draft modalities'. The implication was that agreement was needed only on the figures included in the bracketed text (i.e. text where implementation of commitments is suspended until outstanding areas of contention have been resolved). On the issue of the flexibilities granted to developed economies in the treatment of sensitive products, it was noted that Japan and Canada are seeking a ceiling higher than 4% of tariff lines for the limit on the number of products which can be designated 'sensitive products'. It remains unclear whether other members would agree to this, and if so, what payment would be required in terms of expanded tariff-rate quota (TRQ) access.

Significantly, underlying concerns about 'box shifting' (the movement of public support from one box which faces restrictions under WTO to a box on which no restrictions or more limited restrictions are placed), the production and trade effects of green box payments, and the cumulative effect of different types of subsidies on farmers' production decisions, were not substantively taken up in the March 2010 stocktaking exercise. Securing a consensus on these underlying issues is likely to prove extremely difficult in the current difficult economic circumstances.

2.2.2 Eliminating all forms of export subsidy

The parameters for an agreement on the elimination of export subsidies are in place, provided this agreement covers all aspects of export support currently used, and that this forms part of a wider WTO agreement. While EC Agriculture Commissioner Mariann Fischer Boel had said earlier that she saw no place for export subsidies in the CAP beyond 2013, the consequences of the economic downturn for some products of importance to the EU agricultural sector have been such that the EC has renewed its use of export subsidies. In this context, with pressure increasing for a maintenance of traditional market management tools in a future CAP, it now seems unlikely that the EU will abandon its use of export subsidies outside a wider WTO deal.

2.2.3 Market access: preference erosion; the special safeguard mechanism; duty-free, quota-free; and the 'round for free'

The debate intensified during 2009 on how to reconcile conflicting proposals on the treatment of 'tropical products' and 'preference erosion' products (e.g. bananas and sugar). In the course of 2009, the World Bank issued a report looking specifically at the issue of preference erosion. It reviewed the current value of preferential access, the implications of preference erosion under different scenarios, and the possible policy responses to the challenges faced. Overall, the report highlighted the importance of the EU preferential arrangements to LDCs and certain other developing countries (notably the ACP), with the EU accounting for 40% of Quad countries'

(USA, Japan, Canada and EU) trade preferences for developing countries. It noted that, while at the aggregate level for all developing countries the losses from preference erosion are outweighed by the trade gains of multilateral liberalisation, 'for a limited number of preference-dependent countries, deep global reforms will have significant costs', with all these developing countries being ACP members (although not all ACP members are equally affected). The worst-affected countries are a limited number of often island economies dependent on a limited range of products, notably sugar and bananas. However, the World Bank noted that domestic agricultural reform in the EU and the spread of reciprocal free-trade agreements were also eroding the value of preferences.

In terms of the policy response to preference erosion, the World Bank paper suggested a four-pronged approach:

- addressing the negotiating priorities of preference-dependent countries in other areas of the WTO negotiations, rather than holding back the process of multilateral trade liberalisation;
- the adoption of certain trade-based solutions, such as improving rules of origin, in order to enhance the use of preferences in ways that offset the economic impact of preference erosion;
- the implementation of new preferential market-access arrangements by non-OECD importers;
- 'aid for trade' to help countries with adjustment processes and to exploit remaining and emerging trade opportunities.

At the end of 2009, as part of the banana deal, the EU, ACP and Latin American governments agreed to 'jointly promote' an approach to 'tropical products' and 'preference erosion products' in the ongoing Doha Development Round negotiations. This proposed to defer tariff cuts in 'preference erosion products': instead, 'the EU, the ACP and countries pushing for faster opening of trade in Tropical Products will present plans for these cuts to the WTO'. If agreement is reached as part of a wider WTO deal, then the agreed cuts will be implemented.

Agreement was reached at this time by these parties – the EU, Latin American and ACP governments – on how to draw up a comprehensive list of 'preference erosion products', which would be subject to 'gentler and slower tariff cuts' (phased in over 10 rather than 5 years). A letter setting out this agreement was sent to WTO Director-General Pascal Lamy and Agriculture Negotiations Chair David Walker on 15 December 2009. Specifically with regard to sugar, the commodity of greatest shared interest across the ACP, the letter proposed to treat sugar either as a 'sensitive' product or as a 'preference erosion' product. If sugar were treated as a sensitive product, tariff reductions and the new TRQs would both be implemented in annual instalments over a 7-year period. If sugar were treated as a preference erosion product, tariffs would be reduced over an 8-year period, with the first 2 years free from any reduction.

There remains some disagreement on the specific products to be treated as preference erosion products. Beyond bananas and sugar, it has been suggested that products such as flowers, fruits and their juices, arrowroot, peanut oil and tobacco should also be classified as preference erosion products. Some WTO members are reported to be 'irritated' by the products selected for inclusion, 'due to the significant divergence from the December 2008 WTO agriculture modalities'. One official described the preference erosion agreement as 'a plurilateral agreement that needed to be multilateralised'. Equally, there is also no agreement on which countries should be designated 'preference-granting country members' and hence be eligible to make use of such provisions. The March 2010 stocktaking exercise provided an opportunity to 'multilateralise' the 'plurilateral' agreement concluded in mid-December 2009, however some members continued to express concern over the impact that the existing agreement could have on their interests. Further technical consultations were therefore held to be necessary.

The nature of the SSM for agricultural products to which developing countries should have recourse, particularly its operational effectiveness in addressing the problem of 'import surges and price declines', is an area of particular concern to the ACP. It was this issue of the SSM that nominally led to the 2008 suspension of the WTO negotiations. However, according to analysis posted in *The Estey Centre Journal of International Law and Trade Policy*, while the application of the SSM in some sectors would lead to 'sizeable additional duties', these are 'not very trade distorting, even when pre-Doha bound rates are breached'. The analysis notes that in many developing countries 'applied and bound tariffs are very similar, which makes it almost impossible not to exceed pre-Doha bound tariffs when the SSM is triggered'. It further notes that 'least developed countries that are not making tariff cuts and have even larger gaps between bound and applied tariffs will gain a lot of policy flexibility with the SSM'. The analysis maintains that ultimately 'the question of whether or not developing countries should be allowed to exceed their pre-Doha bound tariffs depends fundamentally on the product being traded, the extent to which bound tariffs will be cut, and the gap between applied and bound tariffs'. This means that the significance of the SSM for developing countries, including the ACP, will ultimately be determined by the outcome of the hard negotiations which are still ongoing, although it can be argued, given the limited economic consequences of allowing developing countries greater flexibility, that this is one of those areas where 'contentious issues should not be allowed to prevent a deal'.

Addressing the stocktaking meeting in March 2010, the chair of the agriculture negotiations noted that a substantial number of contributions had been received on the technical aspects of the SSM issue, including on the flexibilities to be allowed to small and vulnerable economies, seasonality issues, price and volume cross-checks, and a solely price-based SSM. This is seen as reflecting the complexity and 'politically charged' nature of this issue. Despite all these submissions, the agricultural chair concluded that further technical discussions were needed in order to move towards a consensus on the SSM.

Regarding the extension of duty-free, quota-free access to LDCs by all OECD and advanced developing countries, this has already been agreed in principle. The main debate is over the extent to which this principle should be qualified. In this context, it should be noted that the exclusion of even a handful of tariff lines, if carefully selected, could largely undermine the benefits of duty-free, quota-free access.

In terms of LDCs getting the 'round for free' and not being required to make any tariff cuts, this principle had been broadly accepted. However, in the case of the EU, this principle is simply not applied in the development of bilateral relations with ACP LDCs. In the (I)EPA context, the EC has insisted that LDCs should participate fully in tariff-elimination commitments agreed at the regional level.

2.2.4 Cotton-sector issues

While the SSM provisions were the issue that nominally led to the suspension of the WTO negotiations in 2008, many suspected that cotton-sector issues were the real cause, and that the USA was reluctant to move on this politically sensitive issue in an election year. This was despite the fact that the July 2008 modalities text would have affected only a 'small part of American support', since notified US support 'represents only a small share of their total subsidies'. Analysis posted by the ICTSD in November 2009, exploring the impact of the cotton provisions of the December 2008 revised draft modalities text under six different scenarios, noted that 'reform of cotton subsidies and tariffs in the Doha Round could potentially have significant impacts on price, production and trade patterns and ultimately contribute to economic development in the global south'. However, such an outcome depends on the depth of domestic policy reforms adopted by the USA and EU: the paper noted that to date, 'unilateral domestic reforms in the EU and US have had limited if any impact on world cotton markets', with decoupling having left EU farmers' production decisions unaffected. The paper

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concluded that 'The WTO membership must address the urgent need to rebalance existing trade rules that permit developed countries to highly subsidise domestic production, depress world prices, push farmers elsewhere out of production and impair prospects for economic development in the developing world. The adoption of ambitious domestic support reforms for cotton would be a significant step towards the establishment of a fair and market-oriented trading system.' This provides the context in which ACP cotton producers are looking for progress in the WTO agricultural negotiations.

In March 2010, at the stocktaking meeting, the agricultural chair noted that the question of cotton subsidies remains controversial, adding that members have failed to contribute any new 'technical or substantive' proposals on the matter.

However, there appeared to be some movement on cotton issues in April 2010, with the USA and Brazil negotiating an agreement that may avert retaliatory sanctions from Brazil authorised by the WTO in its 2009 ruling on the US–Brazil cotton dispute. This agreement has three components:

- an offer to Brazil of US$147.3 million per year in a 'technical assistance' fund;
- a commitment to making changes to an export credit programme that supports buyers overseas to purchase US cotton;
- a commitment to begin opening up the US market to imports of Brazilian meat products.

2.2.5 The need for provisions on commodity issues

ACP concerns over commodity issues focused at first on high food prices. However, this has evolved into a general concern about price volatility in agricultural commodity markets. In general, the issue of commodity price instability is not currently a major focus of discussion in the WTO. The situation of particular commodities, such as cotton, or commodities that fall within the 'preference erosion products' versus 'tropical products' debate, such as bananas and sugar, are the subject of intense discussions. However, these are quite separate issues compared with discussions and actions related to the regulation of commodity markets in general in an era of heightened price instability.

2.2.6 Addressing the needs of small and vulnerable economies

Discussions have continued on the need to address small and vulnerable economies' needs throughout the various provisions of the modalities text. However, since this relates primarily to building flexibilities into a wide range of provisions, progress in this area is contingent on progress towards agreement on the specific provisions where flexibilities need to be built in (e.g. on the application of the SSM in the case of small and vulnerable economies). To date, progress on these issues is being held back by the lack of progress overall.

2.3 Developments in the WTO dispute-settlement process

2.3.1 The resolution of the EU–US beef hormone dispute

On 6 May 2009, the EU and the USA reached a provisional agreement to resolve the long-running beef hormone dispute. This agreement established a quota for high-quality, traditionally raised (hormone-free) beef, and neatly side-stepped the issue of whether the growth-promoting hormone oestridiol-17 is harmful to human health. A number of beef exporters, however, have criticised the deal, claiming that it 'would unfairly discriminate against their exports' by creating a quota defined in ways that make it available only to US exporters. The EC has claimed that 'the new TRQ is 'non-discriminatory' and 'open to any country that can meet the requirements', a view endorsed by the USA.

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2.3.2 The re-emergence of a sugar sector challenge

The EC announcement on 27 January 2010 of its intention to allow the export of a further 500,000 tonnes of out-of-quota sugar in the marketing year to 31 July 2010, above and beyond the 1.35 million tonnes for which export permits had been issued, has reignited the debate about the cross-subsidisation effects of basic EU agricultural support schemes. The Brazilian, Australian and Thai governments have objected to this EU decision, arguing that these exports are *de facto* cross-subsidised and as such are in violation of the WTO's 2005 ruling. Against this background, the Brazilian, Australian and Thai governments are considering filing a joint case against the EU at the WTO.

The EC, for its part, argues that 'the current situation on the world market is exceptional', with world market prices 'currently at record levels, well above the market price for EU quota sugar'. This, it is argued, allows EU out-of-quota sugar to be exported without any need for export subsidies or cross-subsidisation, and means that EU exports can take place above the WTO ceiling for export-refund-supported exports 'without violating the EU's WTO subsidy commitments'.

To date, the three governments most concerned, although they have taken the issue to the WTO, are holding back from taking retaliatory action against the EU, preferring to continue negotiations with the European Commission with the aim of resolving the issue. This arises in part from the realisation that the Commission is not technically in violation of the WTO panel ruling. It is, however, leading to questioning by sugar producers in Brazil, Thailand and Australia of the production effects of EU direct aid payments, which are increasingly seen as sustaining EU sugar production at higher levels than would be the case without these payments. It is further leading to questioning of the classification of such payments within the green box, despite EC insistence on the WTO consistency of such payments. The 32% decline in raw sugar and 26% decline in white sugar prices that occurred on world sugar markets following the announcement of the additional 500,000 tonnes of EU out-of-quota exports are seen by Brazil, Thai and Australian sugar exporters as illustrative of this underlying reality.

This issue raises the thorny issue of the production and trade effects of EU domestic support programmes, which are currently classified as non-trade-distorting green box measures. This can be seen as major unresolved issue in the WTO negotiations, and one that has profound implications for the ACP, given the intensity of their agricultural trade relationship with the EU.

3 Implications for ACP countries

3.1 The domestic support issue

While green box reform remains on the agenda of the Doha negotiations, its focus has been increasingly limited. Restrictions on the use of green box support seem more likely to emerge from the process of panels and litigation within the WTO, rather than the process of negotiations.

The fundamental issue of whether green box measures should be a 'temporary adjustment tool' or should perform a 'permanent function of correcting market failures and delivering public goods' would appear to have a resonance beyond the WTO negotiations. If green box measures are a temporary adjustment tool, then a case can be made for linking the phasing out of the use of trade-policy tools (import tariffs, import licensing, etc.) by ACP governments to the phasing out of the use of green box measures by the EU, since, given the inability of most ACP governments to finance such green box measures, the equivalent measures are trade-policy tools.

3.2 The export subsidies issue

Given the renewed use of export refunds in response to the global economic downturn, ACP governments can make the case not only for excluding such products from tariff elimination commitments, but also for retaining the right to take special safeguard measures against import surges. However, such rights should be asserted independently of the debate on export refunds, since this policy tool is becoming less significant as the gap between EU and world market prices is closed as a result of the implementation of agreed CAP reforms and the medium-term upward pressure on global agricultural commodity prices. Increasingly, it is the production effects and consequent trade outcomes of direct aid payments that are causing concern (e.g. in the sugar sector).

3.3 Market access: preference erosion; the special safeguard mechanism; duty-free, quota-free; and the 'round for free'

The issue of preference erosion arises not only in the context of a Doha Round agreement, but also as a result of the resolution of WTO trade disputes and the conclusion of bilateral preferential trade arrangements between the EU and a multiplicity of advanced developing countries. These developments are reducing the margins of tariff preference enjoyed by ACP exporters far more rapidly than the stalled WTO negotiations. The most recent case in point is the free-trade area agreement concluded with Colombia and Peru, which saw the granting of annual quotas for sugar exports to the EU of 62,000 and 22,000 tonnes, respectively (with a 3% annual increase), and a reduction in the tariff on bananas to €75 per tonne by 2020 (€29 more than in the December 2009 deal to resolve the banana dispute after only a further 2 years). Similar agreements with Central American countries are envisaged by May 2010 (granting a further 250,000 tonnes of access for sugar exports) and negotiations with the Mercosur group are ongoing, meaning that preference erosion in areas of core interest to the ACP is increasingly taking place outside the WTO context.

This gives added importance to the need for the adoption of a comprehensive approach to preference erosion. While the World Bank has advocated a four-pronged approach to addressing preference erosion, there is little evidence that the development of such an approach is imminent. There is no momentum towards the adoption of preferential rules of origin for preference-dependent economies, and indeed the pressure from the EU is towards the harmonisation of rules of origin across all trade agreements. Equally, there is no evidence of an acceleration of the granting of preferential access to preference-dependent economies by other OECD and advanced developing countries. In addition, while bilateral adjustment support is being extended by the EU to ACP countries where exports are subject to preference erosion (notably in the sugar and banana sectors), there is little evidence that this is being targeted at specific production and trade adjustment measures. These are measures that would, for example, assist ACP suppliers in getting to grips with increasingly strict agricultural product quality standards, or which would strengthen the position of producer organisations within supply chains characterised by acute inequalities in commercial power relations. Against this backdrop, a more joined-up approach would appear to be necessary if ACP concerns over preference erosion are to be addressed.

3.4 Cotton-sector issues

The conclusions of the chair of the agriculture negotiations at the March 2010 stocktaking meeting suggest that a resolution of cotton issues remains as distant as ever, even though members have reiterated their commitment to addressing cotton issues 'ambitiously, expeditiously and specifically'. This is despite suggestions that Ministerial-level consultations 'have been useful in enhancing understanding of respective perspectives'. As noted in the November 2009 ICTSD analysis, the adoption of ambitious domestic support reforms in the cotton sector is an essential prerequisite for ACP cotton producers to be able to gain significant benefits from the Doha Round.

The conclusion of a US–Brazil agreement to avert retaliatory sanctions is unlikely to yield the early harvest sought by ACP countries, since the systemic issue of the production and trade effects of cotton-sector subsidies can be substantively addressed only in the 2012 review of the US Farm Bill. More noteworthy, however, is the 'buying off' of complainants through a combination of technical assistance and market-access concessions in other areas, as a means of averting further challenge on systemic issues. Such arrangements will largely leave systemic issues of concern to ACP governments unaddressed.

3.5 Commodity issues

While internally in the EU, considerable policy attention is now being paid to how best to insulate EU farmers from the worst effects of global price instability, in order not to 'fundamentally undermine the production base', far less attention is being paid to this issue in ACP–EU agricultural relations and at the WTO level. In order for this lacuna to be addressed, the EU could usefully extend its evolving policy on the functioning of food supply chains to the international level. Discussions are currently under way in the EU on a sector-specific basis to determine how best to address 'significant tensions in contractual relations between actors in the chain, stemming from their diversity and differences in bargaining power' and a 'lack of transparency of prices along the food chain'. The adoption of such an approach internationally appears to be appropriate in those commodities where a handful of multinational companies dominate the global trade, and where the scope for abuse of a dominant market position is considerable. Building on the current initiatives taken by the EU in the dairy sector, this could look at matters such as contractual relations, bargaining power and transparency in price formation.

3.6 The needs of small and vulnerable economies

The lack of progress in the general agricultural negotiations on the details of contentious provisions has held back the elaboration of specific provisions and measures to address the needs of small and vulnerable economies. However, it should be noted that momentum in a particular area of negotiations need not necessarily lead to the needs of small and vulnerable economies being addressed. This suggests a need for continued vigilance on the part of these economies to ensure their specific concerns are addressed wherever progress is made in building a consensus around specific provisions.

3.7 Implications of the beef hormone dispute

The resolution of the EU–US beef hormone dispute potentially carries systemic implications, as access to the quota is based on the production system in use. This production system-based approach to defining which producers are eligible for access to the quota could, in principle, be applied across a wide range of sectors. For example, it could be used to create a special duty-free TRQ for fair-trade bananas, with the system of production used being the defining criterion for securing access to the TRQ. However, given that virtually all ACP countries now enjoy full duty-free, quota-free access to the EU market under either the (I)EPAs or the 'Everything but Arms' initiative, this would benefit exclusively non-ACP suppliers. ACP governments may therefore need to pay close attention to developments of this nature, if such developments are not to add to the process of preference erosion that is under way.

3.8 Implications of the re-emergence of the sugar challenge

Securing acceptance of the non-trade-distorting nature of the EU's green box measures is one of the EU's most important 'red lines' in the Doha Round WTO negotiations. To date, the EU has successfully kept any questioning of the production and trade effects of its green box-classified single payment scheme off the negotiating table. However, concerns over the market impact of the EU decision to export a further 500,000 tonnes of out-of-quota sugar have once again raised the question of the production and trade effects of the EU's decoupled single payment scheme, a scheme of paramount importance to the underlying trajectory for CAP reform. Against this background, the stark reality faced by the ACP is that, in order to avert any challenge at the WTO to green box measures such as the single payment scheme, the EU is likely progressively to extend preferential market-access arrangements to potential complainants. Such a course of developments could serve to exacerbate yet further the process of preference erosion that is under way. This highlights the vital importance of proactively getting to grips with production and trade adjustment challenges in those sectors of ACP economies most profoundly affected by the process of preference erosion.

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Executive brief: Update

EU Common Agricultural Policy reform: Implications for ACP countries

Contents

About this update

CTA's Executive brief: *CAP reform: Implications for the ACP*, was published online in June 2008, and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. It was followed in August 2009 by *Executive brief: The implications of the CAP reform for ACP-EU agricultural trade*, published on CTA's *Agritrade* website. This brief, updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive briefs (2008 and 2009) are available on request from: agritrade-mail@cta.int.

1 Background and key issues

The process of EU Common Agricultural Policy (CAP) reform has been under way since 1993. It has involved major rounds of CAP reform (1992, 2000 and 2005), mid-term reviews and ongoing sector-based reforms. Key outcomes have included:

- a gradual shift from price support to direct aid to farmers;
- a gradual move from administratively determined prices and regulation of production (production quotas, intervention stocks) to more 'market'-determined prices and production levels;
- a gradual shift from the use of trade-policy tools (tariffs, tariff-rate quotas, import licences, export subsidies) to the use of expanded programmes of financial support to farmers' organisations, private storage, etc.;
- a progressive expansion and development of rural development policy programmes, with a focus on support for investment, rather than subsidisation;
- a shift in the focus of production from quantity to quality, creating policy space for progressive import liberalisation, but at much lower EU prices;
- the elaboration of new policy initiatives and use of broader policies to deal with adverse consequences of more market-based processes of price formation.

These outcomes represent a structural adjustment programme for the European food and agricultural sector, implemented over an extended period (18 years and still in progress) and aimed at transforming the basis of its engagement with the global economy to reflect an era of trade liberalisation. The ultimate aim of the reform process is to attain parity between EU and world market prices while insulating EU farmers from price instability, yet equipping them to exploit rising global food prices. It is a policy that is being implemented cautiously, with the EU maintaining traditional policy tools and measures in place until EU producers are in a position to survive without the use of such policy tools.

The process of CAP reform has had, and continues to have, important implications for African, Caribbean and Pacific (ACP) countries. Key factors in terms of ACP exports are that:

- while allowing increased duty-free, quota-free access to the EU market, the reform process is reducing the value of these trade preferences by lowering previously high internal EU agricultural prices, and in some cases even driving ACP suppliers out of the EU market (e.g. exporters of low-quality beef);
- through its emphasis on quality and food safety, the process is increasing the costs for ACP producers of exporting to the EU market, in some cases eroding net income earned by ACP exporters (e.g. in the horticultural sector);
- the reform process is having important implications for the distribution of export-oriented agricultural production across the ACP and for different modes of production within the ACP, with some smallholder farmers struggling to remain in export-oriented supply chains;
- the process is also increasingly raising questions relating to the functioning of supply chains, notably regarding the impact of the unequal power relationship in the distribution of revenues along the supply chain.

Key factors in terms of ACP production for domestic and regional markets are that:

- the reform process is enhancing the export-price competitiveness of EU agricultural and, more importantly, value-added food products, to the detriment of ACP producers seeking to develop local value-added processing activities (e.g. for cereal-based food products);

- the process is transforming EU policy on the use of traditional trade-policy tools in support of the maintenance and promotion of agricultural production, giving rise to a range of 'contentious issues' in the interim European Partnership Agreement (EPA) negotiations (for example, over the continued tolerance or abolition of the use of import licences);
- the process may even be contributing to global price instability by reducing the level of publicly held food stocks, thereby reducing the global stocks-to-use ratio and fuelling price speculation, to the detriment of both producers and consumers in Africa.

External effects of the CAP: differing perspectives

In June 2008, the EC issued a memorandum setting out its perspectives on the external effects of the CAP. It argued that the CAP no longer 'encourages overproduction of unwanted commodities', with surpluses being 'a thing of the past'. The CAP is now held to be much more trade-friendly, with 90% of direct aid payments classified by the World Trade Organization (WTO) as non-trade-distorting. The memorandum rejected suggestions that the CAP was to blame for the food crisis, arguing that CAP reform had increased the market orientation of EU agricultural production. It acknowledged that the EU 'cannot compete with the likes of Brazil on bulk commodities', but argued that the EU has advantages 'in the provision of high-value processed foods'. Against this background, it was pointed out that the EU is committed to maintaining 'healthy two-way trade'. The memorandum rejected suggestions that 'CAP export subsidies destroy farmers' livelihoods in developing countries'. It pointed out that the budget for export refunds was only 3.5% of what it was 15 years ago, with the main destination for exports supported by export refunds being 'the Mediterranean basin and the rest of Europe'. Accordingly, 'only a minimal proportion of subsidised goods find their way to Africa'. It pointed out that export subsidies 'are less and less needed, as our prices are now aligned with world market prices', and described export subsidies as 'yesterday's policy'.

A contrasting view is provided in analysis by the Groupe d'Economie Mondiale (GEM – World Economy Group at the French National Foundation for Political Science) of the external effects of the CAP. In a paper in November 2009, GEM argued that the CAP: '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'; leads to 'production of cereals in parts of Africa' that is 'smaller than it would be without the CAP'; and reduces 'global welfare by about US$45 billion', at the expense of 'mostly developing and least developed economies which protect their farm sector much less than the EU'.

2 Latest developments

2.1 CAP reform 2013: policy concerns and debates

The formal process of discussion of the 2013 round of CAP reform will begin with the presentation of a 'communication in 2010 (in summer or early autumn) launching a public debate'. This will be followed by 'legal proposals in mid-2011, together with Financial Perspective proposals'. Discussions on the options for reform are, however, already under way. A distinction needs to be made between improving the existing trajectory for CAP reform, and fundamentally rethinking the purpose and instruments of the CAP. Many of the Commission proposals to improve the effectiveness of the CAP within its existing trajectory need to be seen against the background of the radical free market-based options being discussed in some quarters.

Within the reformist option, three issue clusters can be identified. The first involves ensuring that 'real crises don't cause excessive damage to our production base'. This issue took on growing prominence in 2009 during the economic downturn. The agriculture commissioner argued that if the EU allowed its production base to be damaged by periodic crisis in global food and agricultural markets and allowed '[too] much of global food production to be concentrated in a few areas of the world', then it would be 'giving a hostage to fortune', whereby a serious outbreak of disease or bad weather in these production zones could 'send the world's food markets into meltdown'. This needs to be seen in the context of an expected 70–100% increase in global consumer demand for food products in the coming years. The EC maintains that a future CAP should continue to have an important 'safety net' function, in order to ensure the maintenance of the EU's domestic production base in the face of increased price instability and periodic market crises. The major implication drawn from this by the EC was that 'complete deregulation' of the agricultural sector would simply not be appropriate.

The safety net function, however, needs to be balanced against the desire to give farmers the freedom to 'respond competitively and creatively to market signals'. The second major cluster of policy concerns regarding how to take forward the reform of the CAP centres on how to effectively support 'the ability of European agriculture to respond robustly to market signals' and [enhance] the competitiveness of EU food and agricultural producers on EU and international markets. Direct aid payments are seen as the main instrument at the level of farm production to address this policy concern, but additional targeted measures (including under certain 'axis 1' rural development programmes) and policy tools (such as a more clearly articulated agricultural product quality policy) are also thought to be necessary.

The third cluster of policy concerns relates to addressing new challenges as regards promoting 'care for the countryside and the environment', raising 'the quality of life in rural areas' and responding to 'crucial developing challenges such as climate change'. This has given rise to the concept of 'green growth', which is to be a growing focus for EU rural development policy interventions (notably under the additional CAP health-check expenditures).

Discussions around these three issue clusters are leading to an important policy conclusion –that while 'markets play an essential role in providing food', policy must continue to 'shield our productive base against crises and physical damage'. This is not a policy in favour of food self-sufficiency, but is rather about maintaining an 'insurance policy'. This, then, is essentially about the nature of the policy tools set in place and how they are used in practice.

This emphasis, however, does not mean the pursuit of a more restrictive trade policy, as the EU maintains that it is committed to 'an open approach to trade'. This is fundamental to the basic trajectory for the ongoing process of CAP reform, where the focus is not just on promoting quality agricultural production, but is also on supporting increased value-added processing of both domestic and imported agricultural raw materials, for both EU and international markets. This is reflected in the preponderance of value-added food products in the EU's total food and agricultural product trade.

Beyond the reformist-based option for CAP reform is a radical, free market-based approach to CAP reform. This radical perspective argues for more efficient targeting of financial resources on clearly articulated public policy objectives, and a fundamental shift away from the traditional subsidisation of agriculture and towards supporting the provision of 'public goods'. It calls for the progressive abolition of direct aid payments to farmers, and their replacement by social expenditures which are much more clearly targeted on the rural poor, as well as calling for a much clearer definition of what should be done at the national and EU levels. This view was most clearly articulated in a declaration from leading agricultural economists issued in November 2009.

Within this perspective, it has been argued that 'European farmers should join industrialists in asking for a massive shift of the post-2013 European budget to research and development investments'. However, there is no evidence to date that such an alliance is likely to emerge: the EU farmers' and agri-cooperatives' organisation COPA-

COGECA has reacted strongly to the declaration by agricultural economists, arguing that food security concerns should not be neglected and calling for the maintenance of both direct aid payments and traditional market management tools within a reformed CAP. The agriculture commissioner has also responded negatively to this radical approach, pointing out the potential 'technical insolvency of many farmers because of the importance the support has for farmers' income' as a consequence of abolishing the CAP.

2.2 CAP reform 2013: the debate on policy tools

One of the major issues under discussion is the future of direct aid payments. Since its introduction in 1993, the system of direct aid payments has been progressively reformed to remove the link between direct aid payments and production levels (so-called decoupling). The principal vehicle for this shift has been the single payment scheme, which has been progressively extended to cover more and more agricultural products, with so-called 'coupled payments' being progressively phased out.

Moving forward, a key question is whether or not direct aid payments should be exclusively linked to the provision of clearly defined public goods, or whether they should continue to have an income-support function. The agricultural commissioner favours their use as a 'basic income safety net', since this avoids more costly and 'more distorting forms of income support'. In this context, the debate is largely about the level of direct aid payments and the nature of the 'public goods' to be delivered. From the Commission perspective, key public good objectives include ensuring that farming is sustained in large areas of the EU and avoiding the 'further intensification and industrialisation of farming'. Against this background, it is felt that the system of direct aid payments should continue to have a future within the CAP beyond 2013, but with a rebalancing of direct aid support among member states and better targeting of support on key policy objectives.

The Commission takes the view that there should continue to be 'a place for market instruments in the CAP', as 'market instruments must provide a safety net for times of crisis'. In this context the Commission has argued for 'something similar to our current intervention system'. The use of support to private storage is being greatly expanded within this framework. For the EC, the policy challenge is to ensure that such 'safety nets' do not 'influence day-to-day expectations in the market' and become the basis for price-setting.

With regard to export refunds, the EC takes the view that this directly trade-distorting policy tool should be phased out, and it is willing to make commitments to this effect in the WTO, with 2013 set as the date for their elimination. However, it should be noted that in January 2009, in response to low global market prices, export refunds were reintroduced for butter, cheese, and whole- and skimmed-milk powder (having been set at zero since June 2007 in the face of buoyant global prices), at a cost of an additional €600 million (for export refunds and increased support to private storage combined). This demonstrates the EU's continued willingness to use trade-distorting policy tools in support of European agriculture where it considers that market conditions give rise to such a need. Pragmatic considerations rather than ideological dogma clearly inform EU policy decisions in this regard.

The EC is also reviewing the use of production quotas as a tool for regulating the market. Following the CAP health check, the EU is committed to the abolition of milk production quotas in 2015, phased through the expansion of existing quotas in five annual instalments of 1% between 2009/10 and 2013/14 (with a special arrangements for Italy, consisting of an immediate 5% increase). The Commission has also raised the prospect of the abolition of production quotas in the sugar sector, with this likely to form part of the 2013 round of reforms. Such a step could have a direct impact on ACP sugar exporters, as it may require a further reduction of the EU reference price for sugar, a measure which, given the abolition of the guaranteed price for ACP sugar from 1 October 2012, could influence the process of price formation in the sugar sector to the detriment of ACP sugar exporters.

Looking beyond these traditional policy tools, the EC is also looking to expand or explore the use of new policy tools within the framework of an approach categorised as 'helping farmers to help themselves'. This could, for example, include:

- helping producers' organisations to make better use of futures markets to improve price predictability;
- more tightly focusing 'axis 1' rural development expenditures on interventions that have the highest economic returns;
- developing and consolidating agricultural product quality policy, as well as expanding and more sharply focusing associated promotional activities on third-country markets;
- developing policy instruments to address new policy challenges – promoting environmental protection and care of the countryside, improving living standards in rural areas, and considering how agriculture can contribute positively to climate change preparedness and management.

Overall, the Commission favours the maintenance of the current trajectory for the CAP, but with the use of policy tools being more carefully defined and rebalanced, whereby new policy tools may be developed to address new challenges. The concept of 'rebalancing' needs to be seen at a number of different levels: at one level it is straightforward enough, and relates to rebalancing distribution of the benefits of policy measures across EU member states. However, a more fundamental rebalancing is under way, namely the rebalancing of the use of trade-policy tools and financial-policy tools within the overall policy package that makes up the CAP.

Finally, it is increasingly recognised that the shift away from price support may also require other policy initiatives to address power imbalances within food supply chains, in a context of increasingly market-based processes of price formation. This has emerged as a major new EU policy area in 2009.

2.3 Consolidation of rural development policy

The EC is looking to continue to expand rural development spending as part of the shift away from subsidisation of EU agriculture towards investment in the future competitiveness of the EU food and agricultural sector. These concerns about competitiveness, however, also need to be balanced against growing concerns over climate change and the environmental impact of agricultural activities. Against this background, the EC is seeking to promote investment in technology, innovation and skills aimed at getting 'the most out of all resources used in the production process', which is seen as falling under the new proposed approach of 'green growth'.

There has been a growing emphasis on supporting investment in the restructuring of EU agriculture and food production towards serving the 'luxury-purchase' components of EU and global markets since 2000. Reviews of the implementation of EU rural development programmes, however, reveal difficulties in the operationalisation of this strategy. Indeed, a Court of Auditors' report published in 2006 found that insufficient attention was being paid to 'what was financed and what was achieved'. Accordingly, in April 2009, the agriculture commissioner launched a call for more targeted deployment of rural development funding on 'active measures that support modernisation and restructuring', with member states being urged to adopt 'a more selective, priority-based approach which channels the funding to where it can make the biggest difference'.

The July 2008 EC review of rural development programmes found that certain types of measure were 'inherently more or less likely to disburse funds quickly or predictably'. This was giving rise to a situation where programme administrators at member-state level were designing rural development programmes primarily in ways that could be swiftly implemented and disbursed. This, in turn, was causing sight to be lost of the underlying objectives of support for the structural transformation of the local food and agricultural sector. This suggests that the EC, under its rural development policy, is facing difficulties in effectively deploying pump-priming public aid in support of market-led production adjustments, despite a very clear policy focus in this regard.

According to a Court of Auditors' report published in July 2009, similar difficulties were also being faced under programmes designed to promote trade adjustment via support for information and promotional measures. Nevertheless, the EC is looking to significantly expand support to promotional activities for food and agricultural products on third-country markets, particularly where this emphasises quality-related aspects of European production (whether relating to hygiene or food-safety standards, nutritional benefits, environmental or animal-friendly production techniques, geographical specificities, or other aspects of quality differentiation). The EC is also looking to apply more rigorous programme selection criteria to clearly incentivise certain types of trade and associated production adjustments. This is, to a certain extent, already under way, with only 50% of projects submitted in the 2006–08 period being approved for funding, compared with 100% during the 2001–02 period.

These emphases and plans constitute a substantial implementation reform agenda for the EC and EU member states to get to grips with in the coming years. The extent to which this agenda is addressed will determine the pace at which the EU completes the process of transition from the production of large volumes of bulk agricultural commodities, sustained by high levels of subsidy, to the production of quality-differentiated food and agricultural products supported by high levels of pump-priming investment.

2.4 Sharpening EU agricultural product quality policy

For many years now, as part of the ongoing process of CAP reform, the EC has been trying to promote a fundamental shift in the pattern of European food and agricultural production, from 'quantity' to 'quality'; from serving 'necessity-purchase' markets to serving 'luxury-purchase' markets. In so doing, the EC is seeking to follow consumer trends as, with rising incomes, the strongest demand-growth trends for food and agricultural products are in the so-called luxury-purchase components of the market, the vast majority of which are differentiated on quality grounds from price-sensitive, necessity-purchase products. This focus on quality is designed to allow European producers to sidestep the price-competitiveness challenge posed by advanced developing country suppliers, as EU producers simply cannot compete on price in bulk agricultural commodities in an era of agricultural trade liberalisation. Agricultural product quality policy is therefore seen as a cornerstone of the future CAP; indeed, the agriculture commissioner described quality as 'our farmers' and food producers' strongest weapon in the arena of international competition'.

This transition in the structure of EU production is largely financed via 'axis 1' rural development expenditures. However, recent reviews have found that in order to be effective, these expenditures needed to be guided by a much more rigorous agricultural product quality policy. The quality dimension of EU policy is therefore now undergoing systematic review and development. This began on 15 October 2008 with the launch of a consultation process on agricultural product quality policy, and was consolidated on 28 May 2009 with the issuing of a formal communication. Specific proposals included:

- extending labelling to include identification of the place where a product was produced;
- creating a register of all geographical indications (GIs), while preserving the specificities of the different systems currently in use;
- improving the functioning of the single market under various labelling schemes, particularly labelling of organic products;
- improving international protection of GIs and international recognition of EU quality schemes in non-EU countries;
- promoting the development of international standards for marketing and organic products;
- developing 'good practice' guidelines for private certification schemes in order to reduce consumer confusion and to reduce red tape for farmers.

One of the primary aims of EU policy in the period ahead will be to communicate more effectively the value of quality production to EU and global consumers, so that they are willing to pay more for products meeting these quality standards. This is seen as a means of differentiating EU products from similar imported products, prices of which may be substantially lower than those required by EU producers. The Commission takes the view that 'in the long run, the success of the EU's agri-food sector will be built to a large extent on high-quality production'.

2.5 Emergence of concerns on the functioning of the supply chain

With various bilateral and multilateral trade deals pending, the EU is moving towards greater agricultural trade liberalisation. In this context, global price developments across a range of sectors are increasingly likely to transmit themselves onto EU markets in the coming period. With greater price instability on global markets predicted in the coming years, the recent 'stickiness' in consumer prices in response to sharp declines in agricultural commodity prices has raised concerns about the functioning of food supply chains in the EU. Against this background, the EC launched a review of the functioning of food supply chains, giving rise to a Commission communication in October 2009. The review found 'significant tensions in contractual relations between actors of the chain stemming from their diversity and differences in bargaining power' and a 'lack of transparency of prices along the food chain'.

While the timing of the EC reaction has been driven by the depth of the global economic downturn and subsequent divergence of producer and consumer prices, the above-mentioned review and communication deal with issues that have emerged as matters of policy concern resulting from the implementation of the CAP reform process. Put simply, the dismantling of administratively determined prices, insulated from global price trends, has revealed inequalities in the distribution of commercial power along food supply chains – inequalities in power relationships that, it is feared, could, in the context of an increased 'market' determination of agricultural prices, undermine the production base across a range of agricultural sectors in the EU (including, of most notable concern, the dairy sector). This constitutes the deeper significance of the current EU policy discussions over the functioning of the food supply chain.

It is against this background that the EC communication of May 2009 proposed 'concrete actions to improve the functioning of the food supply chain in the EU' and to improve 'commercial relationships between actors of the chain' to the ultimate benefit of all concerned. Particular importance is attached to boosting 'farmers' bargaining power in the supply chain'. Specifically, the communication has proposed to:

- 'promote sustainable and market-based relationships between stakeholders in the food supply chain', by identifying 'unfair contractual practices stemming from asymmetries in bargaining power' and monitoring 'potential abuses', by working with national competition authorities to monitor the functioning of the food supply chain, and by drafting 'standard contracts with stakeholders from the different sectors';

- 'increase transparency in the food supply chain' by establishing a 'European food prices monitoring tool', improving 'oversight of agricultural commodity derivatives markets' in order to 'contain volatility and speculation', and establishing 'price comparison services' at national level to allow consumers to compare prices of different retailers;
- 'foster the integration of the internal market for food and the competitiveness of all sectors of the food supply chain' by removing measures that 'impede cross-border trade' and 'force' retailers to source locally.

The EC initiative on the functioning of the food supply chain in the EU has been welcomed by EU farmers' organisations, but with a call from these for 'much stronger measures' to be urgently introduced, given the domination of the EU food market by large retailers and the declining share of farmers in final retail food prices.

A report on the effectiveness of these measures is expected by the end of 2010. The findings of the report could then feed into proposals for further action as part of the 2013 round of CAP reforms.

3 Implications for ACP countries

3.1 Policy debates, policy tools and price instability

Over the course of 2009, the EU agriculture commissioner made the case for limiting the extent to which agricultural production is exposed to market forces, in the interest of wider public policy objectives. Particular importance was attached to maintaining the production base, despite periodic crisis on world markets. This 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 development of the domestic and regional productive base in the food and agricultural sector.

While in the EU this concern is increasingly being addressed through the use of financial support instruments, within the framework of moves towards increased tariff liberalisation in the agro-food sector, ACP governments often lack the fiscal capacity to make use of such financial tools, and continue to depend on the use of trade-policy tools. Against this background, a number of critical issues arise.

- 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, which are designed to give greater rein to market forces in the food and agricultural sectors of different ACP economies?

With the EU moving towards agricultural tariff liberalisation in a pragmatic fashion, it is apparent, in the light of its underlying concern to maintain the agricultural production base in the EU and its progressive development of alternative financial and other instruments of support, that a balance needs to be struck between wider domestic policy objectives and broad global trade policies. This is something that many ACP governments would endorse, sharing EU concerns that food and agricultural sector change needs to 'take place over a long transitional period'. Against this background, there appears to be a need to show greater tolerance towards the continued use of trade-policy tools (such as import-licensing arrangements, infant industry protection and special agricultural safeguards) that are deployed as part of wider policy initiatives designed to sustain and promote the development of the food and agricultural production base in ACP countries.

3.2 Pump-priming product differentiation and trade adjustment

Refocusing production on serving quality markets in many respects also offers a means for some ACP producers to sidestep the challenges of advanced developing country agricultural exporters in an era of accelerating preference erosion. However, as the EU's rural development experience highlights, significant problems are faced when launching and implementing innovative programmes in support of the transition to serving quality-differentiated markets. This arises in large part from the need to redefine the roles of the state- and private-sector actors within the transition process: for the EU, the process of redefinition has required a considerable amount of time, and is still in progress.

Many of the lessons drawn from the review of the EU's rural development experience relating to the design and administration of restructuring support programmes are directly relevant to the experience under the EU's sugar protocol accompanying measures programme. Perhaps most important is the need to resist a 'business-as-usual' approach to aid utilisation when seeking to address new trade- and production-adjustment challenges. In the case of sugar sector programmes (and also, to a certain extent, banana sector programmes), a tendency is apparent to deploy assistance in traditional forms (e.g. for road infrastructure projects and budget support), when the nature of the market-led, private sector-based adjustment challenges faced suggests the need for a different approach. However, as the internal EU rural development experience suggests, getting to grips with these new challenges is likely to be inherently more difficult. This suggests a need for far greater flexibility in the time-frames established for the commitment and utilisation of annually programmed funds than is currently being demonstrated under the sugar protocol accompanying measures programme.

The EU's internal rural development experience also suggests a need to review what actually works in terms of bringing the private sector into the process of the design and management of market-led, private sector-based production- and trade-adjustment processes in ACP countries. Within the ACP there is the experience of the highly successful Caribbean rum programme, in which the producers' association played the lead role in both design and management of a €70 million production- and trade-adjustment support programme. The programme has both improved the efficiency of the rum sector and promoted a shift towards the production and export of branded, high-quality rums, rather than the production and export of undifferentiated bulk rums. This is allowing the Caribbean rum industry to sidestep the price challenge from low-cost bulk rum producers by focusing its more limited production volumes on quality-conscious consumers who are willing to pay a substantial price premium for high-quality branded rum products. It is this kind of innovative trade- and production-adjustment support programme that a range of ACP producers and exporters will increasingly need in the coming period, as they adjust both to EU policy changes (such as reform of the EU sugar regime) and to implementation of the EPAs. There is potentially a very important role for EU 'aid-for-trade' assistance in pump-priming this necessary production- and trade-adjustment process.

3.3 Product differentiation and the EU's agricultural product quality policy

In terms of the impact of the EU agricultural product quality policy on ACP countries, the EC has focused on the consequences of private certification schemes. Such schemes, it is argued, 'can act as catalysts for developing-country access to the EU market', in particular by acting as 'an incentive for the modernisation of developing countries' export supply chains' and through improving the quality of goods placed for sale on the domestic market. The EC also acknowledges that 'private scheme requirements can be difficult to meet for some producers in certain developing countries' and argues that 'in the light of compliance costs, international donor assistance plays an important role in securing participation of small and medium-sized businesses and smallholder farmers in developing countries'. Despite these concerns, the EC 'does not support legislation for private and national certification schemes at this stage'.

This, however, is only one dimension of the external effects of the EU's evolving agricultural product quality policy, and more fundamental issues are also at stake. Traditional ACP suppliers whose production constraints do not allow them to compete on price with advanced developing country exporters will need to pay close attention to the evolution of the EU's agricultural product quality policy, to ensure the standards established under this evolving EU policy do not create barriers to ACP suppliers serving high-value, high-quality components of the EU market. With new agricultural product quality regulations scheduled to be tabled in 2010, a detailed analysis of the likely impact on ACP producers of the various EU policy options in each of the areas under consideration (marketing standards, GIs, traditional specialties guaranteed, and certification schemes such as organic farming) appears to be required. This analysis might address the following questions.

- What are the implications of a 'place of farming' labelling approach as opposed to the use of a label indicating that EU requirements have been complied with?
- What will be the implications, for ACP beef producers, of the development of animal-welfare labelling schemes?
- What implications might there be from the potential establishment of an official EU 'carbon footprint' labelling scheme, and what criteria would be used to determine the carbon footprint of a product?
- What will be the implications, for ACP producers and exporters of organic products, of the introduction of an obligatory EU organic logo for all EU-farmed organic products from 2010?
- What will be the implications, for organic producers in ACP countries, of proposals for the mutual recognition of organic standards with non-EU countries?

3.4 Functioning of the agricultural supply chain

EU concerns over the functioning of the food supply chain find a strong echo in ACP countries, where inequalities in power relationships can mean that ACP agricultural producers obtain only a tiny percentage of the final sale value of the food and agricultural products they grow. For ACP governments, this may be an issue both in the functioning of national/regional food supply chains and in international food supply chains.

In the case of international supply chains, a case in point is the functioning of the banana supply chain. In December 2009, the EC confirmed that it 'had sent a statement of objection under anti-trust rules to a number of companies active in the import and marketing of bananas' concerning their 'alleged participation in a cartel'. In January 2010, press reports announced the outbreak of another banana price war in supermarkets, with the retail price of bananas being cut by some 22% in stores across the UK. With the buying power of the supermarket chains reported to be eclipsing the former power of the big banana companies, the position of ACP banana suppliers looks increasingly precarious in an EU market subject to the erosion of traditional margins of ACP tariff preferences.

While the EU has traditionally used competition rules to address abuse of a dominant market position by banana importers, it is argued that 'competition law has not yet evolved to contemplate abuses of buying power at the top of the supply chain'. Against this background, there appears to be a strong case for certain ACP governments at a regional level (such as CARIFORUM states) to seek a joint investigation with the EC into the functioning of the banana supply chain, with a view to identifying measures that could be taken to strengthen the market position of ACP banana suppliers within supply chains serving the EU market.

With similar processes of erosion of the value of traditional tariff preferences under way in the sugar sector, and a growing concentration of market power in the hands of a small number of EU sugar companies, similar investigations into the functioning of supply chains and their impact on price formation may also need to be considered in the coming years in the sugar sector.

EU investigations of, and policy responses to, inequalities in power relationships along supply chains at the national and regional levels may also carry important lessons for ACP countries in their own efforts to strengthen the negotiating position of agricultural producers in national and regional supply chains. However, it needs to be recognised that ACP governments tend to face severe budgetary restrictions on the types of policy tool they can use to address inequalities in power relationships in the various supply chains in which national producers are engaged. This means that trade-policy tools, such as the use of import licences, are often the only means available to address inequalities along the supply chain. A case in point is the use of import licensing in the Namibian horticulture sector, where this tool has been effectively used as part of a wider sector-development policy to encourage greater local sourcing of fruit and vegetables by major retailers and traders. This has seen the domestic supply of fruit and vegetables increase from 5% of local consumption to around 25% in only 5 years. Against this background, a far more nuanced approach is needed in the EC's approach to securing the abolition of non-tariff barriers to trade under the interim EPAs, with far greater scope being left for the use of these kinds of policy tool as part of wider sector-development strategies.

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Access to the EU market: Issues for ACP countries

Contents

About this update

CTA's *Executive brief: "Access to the EU market: issues for ACP countries"*, was published in January 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from agritrade-mail@cta.int.

1 Background and key issues

Market access for African, Caribbean and Pacific (ACP) agricultural exports to the European Union (EU) now takes place under three trade regimes:

- the 'Everything but Arms' (EBA) initiative in favour of all least developed countries (LDCs);
- the interim Economic Partnership Agreements (EPAs) and one comprehensive EPA initialled or signed with the governments of certain ACP countries;
- the standard Generalised System of (tariff) Preferences (GSP) regime, applicable to all eligible developing countries, but which now provides the only trade framework for 10 ACP non-LDCs whose governments have not initialled interim EPAs (IEPAs).

Since 1 October 2009, transitional quotas under both the EBA and the various interim and full EPA arrangements have been discontinued. This means that all LDCs and countries whose governments have initialled or signed interim or full EPAs [(I)EPAs] now enjoy duty-free, quota-free access for all food and agricultural product exports to the EU. The duty-free, quota-free access granted is now qualified only by the rules of origin applied, specific restrictions on exports to EU overseas territories, and the various safeguard provisions that have been retained.

In terms of the value of ACP agricultural market access arrangements, the erosion of the value of trade preferences, driven primarily by the process of Common Agricultural Policy (CAP) reform, is continuing. The overall thrust of the EU CAP reform process is towards closing the gap between EU and world market prices. Over time, this will greatly reduce the attractiveness of the EU market relative to other third-country markets, particularly as overall EU tariff protection is reduced after the gap has closed between EU and world market prices (as, for example, happened in the rice sector following the implementation of reforms). In the short term, significant margins of tariff preference may remain, but these will progressively disappear beyond 2013. In this context, the significance of the market access preferences granted to ACP suppliers will decline markedly. This is well illustrated by the current situation in the sugar sector, where very high world market prices, at the same time as the introduction of the final round of EU reference price reductions, mean that some ACP suppliers have found 'it doesn't pay in the short term to sell to Europe'.

While the effects of the CAP reform-led process of preference erosion are of primary significance, it should be noted that the EU is conducting a multiplicity of negotiations for free-trade agreements and preferential market access arrangements. These negotiations embrace the following non-ACP countries and regions: India, South Korea, Canada, Egypt, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Israel, the Palestinian Authority, Ukraine, Belarus, China, Iran, Iraq, Kazakhstan, Russia, Serbia, Vietnam, the Association of Southeast Asian Nations (ASEAN), Central America, the Andean Pact group, Mercosur, and the Gulf Cooperation Council. With World Trade Organization (WTO) negotiations at a standstill, the outcome of these bilateral processes of free-trade area (FTA) negotiations may well be the principal source of the erosion of margins of tariff preference of ACP suppliers in the food and agricultural sector in the coming years. Each of these negotiation processes will need to be carefully assessed to identify the likely impact on particular areas where individual ACP exporters enjoy trade preferences.

In addition to issues related to the erosion of the value of ACP preferential market access, there are important non-tariff barriers to trade with the EU, including those related to the particular trajectory that CAP reform is following as regards quality production and food safety. The commercial barrier to trade constituted by sanitary and phytosanitary regulations is an area of increasing concern to ACP exporters. A further area of concern relates to the growing importance of private voluntary standards in determining access to the commercially most advantageous components of EU markets. Closely linked to this are concerns over the impact of such private voluntary standards on commercial relationships along the supply chain, particularly in the context of a growing concentration of market power within food supply chains.

2 Latest developments

2.1 Market access

2.1.1 The EU's wider agro-food trade strategy

The EU is now pursuing an agro-food strategy that is 'defending Europe's openness to imports while taking a more "activist" approach to opening markets' abroad. This policy sees a growing role for imports of low-priced, basic agricultural raw materials, which then feed into a globally oriented, quality-focused, high-value EU food and drinks industry. Thus we find the EU increasingly exporting value-added food products, while demand for imported agricultural raw materials is increasing. While on the export side, the EU's market share of bulk agricultural commodity exports is declining, its value-added food-product exports are increasing. Value-added food-product exports now account for over two-thirds of EU food and agricultural product exports. On the import side, the EU remains the world's largest importer of agricultural products, accounting for 20% of world imports of agricultural products in the period 2006–08.

This situation underlies the EU's emerging 'openness' to trade in food and agricultural products. It also accounts for the EU's more active approach to securing primary raw materials, including the introduction in IEPAs of provisions that seek to restrict the use of export taxes aimed at promoting local value-added food-processing activities. It further accounts for the growing policy focus on promoting international recognition of various types of EU agricultural- and food-product quality standards, from geographical indicators to animal welfare labels.

Questions related to the value of traditional ACP preferential market access therefore need to be seen against the background of this new, 'ambitious' FTA policy, where the EC is seeking extensive commitments on trade-related areas, trade in services, and investment regulations from advanced developing countries, which have so far declined to negotiate these issues in the WTO context. Improved access for advanced developing country exports to EU markets is likely to be part of the price that the EU is willing to pay for progress on these broader trade-related issues. This is likely to be at the expense of traditional ACP trade preferences.

According to the former EU trade commissioner, Catherine Ashton, in future, 'multilateral trade negotiations will not involve the classic tariff reduction rounds' but will be 'more relationship-centred', with the main gains from multilateral trade negotiations coming from 'identifying the non-tariff barriers that stifle trade in goods' and services. The future of multilateral trade is therefore, in ex-Trade Commissioner Ashton's view, 'about tackling non-tariff barriers – regulations, rules and behaviour that stifle trade'. These are precisely the areas that have emerged as 'contentious issues' in a number of ACP regions in the final stages of the IEPA negotiations. A number of these 'contentious issues' have a direct impact on the use of agricultural trade-policy tools by ACP governments in support of local food and agricultural sector development. These range from provisions dealing with import licences and infant industry protection to the provisions limiting the use of export taxes. This provides the wider context for the EC's approach to the development of agro-food sector relations with ACP countries.

2.1.2 Impact of duty-free, quota-free access

Under both (I)EPAs and the EBA initiative, the quantitative restrictions on ACP LDCs' food and agricultural exports to the EU were discontinued on 1 October 2009 (except for rice, discontinued on 1 January 2010). Subject to certain safeguard provisions (most notably in the sugar sector), governments that have initialled or signed (I)EPAs now enjoy full duty-free access for all food and agricultural exports. A similar situation applies to all LDCs, as the EU has now fully delivered on the commitment made in the 2005 WTO Hong Kong Ministerial Declaration '[to] provide duty-free and quota-free market access on a lasting basis for all products from all LDCs … in a manner that ensures stability, security and predictability'.

The EC, announcing the introduction of full duty-free, quota-free access, noted that in 2008 almost €25 billion of products were imported from LDCs by the EU, with EBA preferences generating savings in import duties for LDC exports of approximately €657 million in 2008. However, the main beneficiaries of the EBA preferences have been non-ACP LDCs, most notably Bangladesh and Cambodia, with imports from Bangladesh under the EBA having 'more than doubled' since 2001 (+117%). In addition, the figures provided show that 62% of these imports would have entered duty-free under the most-favoured nation (MFN) regime (no import duties are applied on these items), while 6% would have entered duty-free under the (I)EPA arrangements. Surprisingly, 7.4% of imports still paid MFN duties, with the cost of utilising the preferences presumably exceeding the tariff advantages gained under the EBA regime. Some 23.2% of total LDC exports to the EU *de facto* benefited from the new EBA preferences introduced progressively since 2001.

Looking beyond the trade effects of the EBA regime, it is important to acknowledge the investment-stimulating effects that the announcement of a clearly defined transition period for the introduction of full duty-free, quota-free access has had in certain sectors. The investment-stimulating effects have been most significant in the sugar sector. Two of out of the three major sugar companies in South Africa have launched substantial investment and acquisition programmes to expand sugar production in LDCs, not only in eastern and southern Africa (Mozambique, Malawi, Zambia and Tanzania), but also in west African LDCs such as Mali. While in west Africa this investment is mainly to serve national and regional markets, in eastern and southern African LDCs it is primarily to take advantage of the expanded market-access opportunities available under the EBA. This investment not only has stimulated an expansion of sugar production in LDCs, but also has served to improve physical infrastructure and management capacities, in ways that are serving to effectively prepare LDC sugar exporters to compete in the EU market beyond the lifetime of traditional sugar-sector trade preferences.

Beyond the activities of these major corporate players, investments in sugar production are also under way in Uganda, Ethiopia and Sudan, mainly on the basis of investment from the Gulf States. While much of this investment is designed to secure supplies of raw materials for value-added processing activities in the Gulf States, the prospect of full duty-free, quota-free access to the EU market has also been a factor in the investment location decisions.

With the granting of full duty-free, quota-free access under the IEPAs, investment has also stimulated sugar production in certain non-LDCs, most notably at this point in Swaziland, where in the coming years sugar exports to the EU are expected to expand to around 300,000 tonnes. Any loss of IEPA access would be likely to jeopardise this new investment.

Looking beyond the sugar sector, the granting of full duty-free, quota-free access under the EBA has also seen new investments taking place in banana production in land-rich LDCs such as Mozambique and Angola. This comes on top of the long-standing impact of duty-free, quota-free access under the EBA on investment patterns in the horticulture and floriculture sectors in eastern and southern Africa.

2.1.3 Evolution of the GSP regime

On 22 July 2008, the EU Council adopted a regulation extending the GSP scheme to 31 December 2011. The regulation had three minor modifications, dealing with:

- graduation and de-graduation of countries from the scheme;
- the procedures for securing GSP+ treatment (with a deadline for application of 31 October 2008);

- bringing sugar access under the EBA in line with revisions of the EU sugar marketing season and the minimum-price commitments made in the context of the EPA negotiations.

This revision provided an opportunity to review the market access arrangements set in place for ACP non-LDCs that had not initialled or signed an (I)EPA. However, no action was taken on this issue. Similarly, on 9 December 2008 the EC announced the revised GSP+ scheme for the period 2009–11. This scheme grants duty-free access for 6,400 tariff lines. According to the EC, 'GSP+ provides an important incentive to developing countries to ratify and effectively implement a broadly defined set of international standards in the fields of human rights, core labour standards, sustainable development and good governance'. Three new beneficiaries were added to the scheme, and some 16 developing countries are now eligible under it: Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Paraguay, Peru, Sri Lanka and Venezuela. However, once again no steps were taken to accommodate ACP non-LDCs (notably Nigeria) that had not initialled or signed an (I)EPA. The only impact of these developments from an ACP perspective will be to exacerbate further the erosion of traditional ACP trade preferences that is under way.

2.2 Market developments in the EU

2.2.1 The EU's agricultural product quality policy

As part of the process of CAP reform, the EC has been seeking to promote a fundamental shift in the pattern of European food and agricultural production from 'quantity' to 'quality', from serving 'necessity-purchase' markets to serving 'luxury-purchase' markets. This is seen as a fundamental aspect of a reformed CAP. According to former Agriculture Commissioner Mariann Fischer Boel, with the emergence of strong new players on world agricultural markets, 'competing on product quality is not an optional extra ... [but] … essential to our strategy in the future'. Former Trade Commissioner Peter Mandelson subsequently acknowledged that 'Europe simply cannot compete in the long run with third-country producers in Brazil, Argentina or elsewhere'. Quality considerations are therefore now considered central to the CAP.

The quality dimension of EU policy is undergoing systematic review and development. This began on 15 October 2008 with the launch of a consultation process on agricultural product quality policy, covering three main areas:

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

The consultation process covered such issues as: the use of logos and marketing standards; the future development of the EU's GI policy and its policy on organic production; and the future development of food-quality certification schemes, including how EU policy should deal with private voluntary standards. In consolidation of the consultation process, a formal communication on 'agricultural product quality policy' and an accompanying staff working paper assessing the impact of various options under consideration were issued on 28 May 2009. Specific proposals included:

- extending labelling to include identification of the place where a product was produced;
- creating a register of all GIs, while preserving the specificities of the different systems currently in use;
- improving the functioning of the single market under various labelling schemes, particularly organic labelling;

- improving international protection of GIs and international recognition of EU quality schemes in non-EU countries;
- promoting the development of 'international standards for marketing standards and organic products';
- the development of good practice guidelines for private certification schemes in order to reduce consumer confusion, and red tape for farmers.

The current discussions in the EU on its agricultural product quality policy need to be seen in the light of the growing competitive challenge from advanced developing country suppliers, which EU producers face in an era of tariff reductions and global agricultural trade liberalisation. One of its primary aims is to communicate effectively the value of quality production to EU consumers, so that they will be willing to pay more for products meeting these quality standards. Domestically, this is seen as a means of differentiating EU products from similar imported products, prices of which may be substantially lower than those required by EU producers. The aim is to enable EU producers to compete on quality, not on price.

Traditional ACP suppliers whose supply position does not allow them to compete on price with advanced developing country exporters will need to pay close attention to the evolution of the EU's agricultural product quality policy, to ensure the standards established do not create barriers to ACP suppliers serving high-value, high-quality components of the EU market.

2.2.2 Market trends for organics

The EU market for organic products constitutes one of the components of the so-called luxury purchase market. There are now two distinct components to the EU market: necessity purchases and luxury purchases. Necessity purchases are those products where purchase decisions are made exclusively on the basis of price considerations. For luxury purchases, in contrast, purchase decisions are based not primarily on price, but on some perceived quality attributes of the product. According to an EC-funded study, the EU's underlying demographic means there will be no expansion of overall EU demand for food and agricultural products in the coming period. Rather, as EU citizens become more affluent, patterns of food consumption will change, with consumers increasingly favouring high-quality products and convenience foods (luxury-purchase products).

Luxury-purchase products are less prone to price declines and tend to face stable or buoyant price trends. In contrast, in the face of a progressive liberalisation of imports of basic agricultural products, it is expected that prices of undifferentiated agricultural commodities in Europe (necessity-purchase products) will fall in real terms in the coming years. It is in the face of these very different market trends that the EU is seeking to shift European food and agricultural production from serving necessity-purchase markets to serving luxury-purchase markets.

According to a report from the Food and Agriculture Organization before the economic downturn, the organic component of European food production had been experiencing annual growth in sales of between 15 and 20%, with annual growth in demand for organic products as high as 30% in some EU countries. While the economic downturn has slowed this rate of growth, the organic sector as a whole has proved surprisingly resilient (although certain sectors in certain national markets have faced dramatic declines in sales), with growth still occurring in sales of organic products across the EU as a whole, though at a single-digit level. There are, however, a number of important developments taking place within the organic sector.

First, according to press reports carried on FoodNavigator.com on 3 June 2009, food firms involved in marketing organic products are increasingly looking for 'organic plus' certification, which includes 'ethical sourcing, traceability, the carbon footprint, sustainability and corporate social responsibility'. The market analyst Organic Monitor suggests that 'savvy food firms are marketing their organic products on these principles', thereby enhancing the willingness of consumers to pay premium prices. This suggests that, in future, health-conscious consumers are likely to be looking beyond just the organic nature of the production process towards compliance with a range of other environmental and social standards.

Closely linked to this development is a second major trend: the increasing role of commercial bodies in marketing organic products as part of wider corporate strategies. The emergence of 'organic-plus' strategies highlights the commercial advantages being sought by mainstream companies through ethical sourcing and monitoring the 'carbon footprint' of products. It further raises questions about the distribution of consumer price premiums along the supply chain. Is it only the 'savvy food firms' who benefit from these consumer price premiums, or are price premiums shared with producers, who have to invest in meeting the various standards? The emergence of such strategies provides the backdrop against which the ongoing review of the EC's agricultural product quality policy needs to be seen.

Another important context in which organic production needs to be seen from an ACP perspective is the likely resumption of dramatic increases in input costs, once the global economy emerges from the current severe economic downturn. In such a situation, organic production for export could begin to provide a more sustainable basis for the ACP export trade, according to analysis by the UN Conference on Trade and Development. However, if ACP exporters are increasingly to develop organic production for export, it needs to be recognised that this will require pump-priming support for the establishment of cost-effective systems of certification. Attention will also need to be paid to the 'food miles' debate, which could potentially undermine the prospects of ACP producers successfully serving this particular luxury-purchase market component. In this context, development NGOs such as Oxfam and environmental bodies such the International Institute for Environmental Development are now advancing the concept of 'fair miles', which involves recognising that there are also social and ethical aspects to choices about where food comes from.

2.2.3 Development of the fair-trade market

Fair-trade goods constitute a further component of this luxury-purchase market. Since 1999, there has been a 70-fold increase in the size of the fair-trade market in the EU, with this market component now worth €1.5 billion per annum. The fair-trade market in Europe is thus no longer a small niche market, but part of a wide range of ethically- or quality-differentiated market components that are playing an increasingly important role in consumer spending patterns.

The strong growth in the fair-trade market in the EU is in part attributable to the establishment of a recognisable fair-trade certification mark. Against the background of this growth, the EC on 5 May 2009 adopted a communication on the role of fair trade and non-governmental trade-related sustainability-assurance schemes. The communication identifies a number of different types of fair-trade labelling scheme operating in the EU. These include: fair trade proper; other niche, certified products not participating formally in fair trade (e.g. Rainforest Alliance); products covered by baseline industry-wide standards (e.g. Ethical Tea Partnership); the rest (unbranded commodity suppliers). What all these schemes have in common is that they require compliance with 'a broad set of issues and conditions that impact on the producers in developing countries, including in particular a minimum price for the producer and a premium paid to the community of the producer'.

The communication recognises the essentially voluntary nature of fair trade and sustainability-assurance schemes, and expresses the view that 'such schemes should apply standards and criteria in a transparent manner to allow informed consumer choice'. This should be supported by independent monitoring. However, emerging EC policy is that 'regulating criteria and standards could limit the dynamic element of private initiatives in this field and stand in the way of the further development of fair-trade and other private schemes'.

This hands-off approach, favoured by the EC, leaves issues related to the distribution of benefits along fair-trade supply chains unaddressed. Given the growing interest of multinational companies in marketing fair-trade products, this is an increasingly important issue. The most noteworthy example in this regard is perhaps the UK-based sugar company Tate & Lyle, which on 23 February 2008 announced its decision to progressively convert its entire retail sugar range to fair trade, beginning with its granulated white-cane sugar brand at the end of 2009. This corporate decision, described as the biggest ever fair-trade switch by a UK company, needs to be seen in the context of increasing product differentiation and intensifying competition in EU sugar markets.

While the immediate beneficiaries of Tate & Lyle's move will be the 6,000 smallholder sugar farmers in Belize, it raises the issue of risk of abuse of the reputation of the established fair-trade label, if large-scale commercial companies are seen to be securing major commercial advantages from the expanded marketing of fair-trade products. Critical in this regard will be the distribution of the 'price premium' paid by consumers for fair-trade sugar along the supply chain. The consumer expectation will be that the vast majority of any price premium paid will be going to sugar cane growers. If this proves not to be the case, and the price premium paid by consumers substantially exceeds the price premiums paid to sugar cane growers, then the whole integrity of the fair-trade movement could be undermined in the eyes of consumers. Current strategies for addressing this issue include insistence by the fair-trade movement that no fair-trade price mark-up occurs on the supermarket shelf. However, this is likely to prove a tricky issue in the sugar sector, where reductions in the EU guaranteed price for ACP sugar are likely to see commercial prices paid to ACP sugar cane growers in the coming period decline markedly. Clearly, in engaging with major corporate players to develop fair-trade exports, ACP sugar producers will need to pay close attention to the commercial contract negotiations regarding the price to be paid. It is here that inequalities in the distribution of power along the supply chain could potentially result in abuse of a dominant market position.

Given the current policy discussions in the EU on the functioning of the EU food supply chain, and the ongoing elaboration of the EU's agricultural product quality policy, there appears to be a potential role for EU policy guidelines in this area.

Despite these emerging challenges, it has been argued that 'farmers who follow certification requirements stand to be rewarded with substantial improvements in farming systems, premium prices and better market access'. This is indeed the case, given the massive growth that has occurred in this market in the past 10 years. However, the reality remains that, outside a limited number of areas, there has been no major breakthrough in terms of fair-trade exports from African ACP countries.

Against this background, the call for public-sector support to 'harmonis[e] standards, [build] up the capacity of certifiers' and develop infrastructure that will help agricultural producers to access fair-trade markets appears to be an area for immediate follow-up – particularly given that returns to farmers tend to be realised more quickly under fair-trade labelling schemes than under organic-certification schemes, which often require extensive transition periods.

2.2.4 Private voluntary standards

While private voluntary standards can facilitate access to premium-priced markets by assuring consumers of the quality of imported products, price benefits can be eroded where these private voluntary standards become the industry norm. ACP suppliers may find themselves facing higher compliance and certification costs while gaining little or no price premium. Yet non-adherence to these private voluntary standards may result in effective exclusion from this market component. In such a situation, the cost of certification and verification, and overlapping demands from different importers and retailers, can take on considerable importance.

However, it is difficult to generalise – studies suggest that the impact of private voluntary standards varies considerably from one supply chain to the next, and according to the geographical coverage of the supply; for example, a major distinction exists between anglophone and francophone supply chains as a result of the structure of the retail sectors in the UK and France. According to research undertaken by the Pesticides Initiative Programme published in May 2009, firms supplying the anglophone chain were under more pressure and experienced more problems than those supplying the francophone chain, with over half of the firms surveyed seeing 'increased buyer demands' as reducing profitability. It was noted that 'over the longer term, some companies reported reduced profits due to the lack of price premium as well as the increased costs of maintaining certification'. In addition, some 20% of companies involved with smallholder out-growers reported that 'some had chosen not to renew their certificate, despite the fact that they had the infrastructure, procedures and knowledge in place'. Significantly, smallholder growers who did not renew their certification were concentrated in countries where compliance with standards has been established for some years, and where the full impact of recurrent costs was known (such as Kenya). In this context, the question arises as to whether smallholder out-growers can cost-effectively sustain certification over the long term.

This survey suggested a need for:

- 'continued technical assistance both from national and international agencies';
- 'improved routes of engagement with those who set and implement the private voluntary standards, as well as mechanisms to adjust them, in order that they can be better adapted to local circumstances';
- 'improved dialogue […] with EU buyers in order to ensure that their policies create and enhance opportunities to trade';
- 'the fairer apportionment of costs along the supply chain';
- a more proactive approach from developing countries to achieving compliance and defining how this is to be achieved.

Looking beyond this issue of costs of private voluntary standards, in some farmer forums it has been argued that private voluntary standards (particularly for animal products) can undermine the standard-setting work of internationally recognised and mandated bodies, effectively excluding ACP and developing country governments from the whole process of standard-setting.

2.2.5 Functioning of the supply chain

In February 2009, a Fairtrade Foundation report highlighted concerns about the growing concentration in agro-food supply chains, with the 10 leading food retailers controlling around a quarter of the world food market, and just three companies controlling 90% of the world grain trade. Given the EC communication of October 2009 on 'a better functioning food supply chain in Europe' and associated analysis of price transmission and competition issues within major supply chains, a case can be made for the EU extending its proposed programme of concrete measures to major ACP–EU agricultural supply chains. This could include identification of 'unfair contractual practices stemming from asymmetries in bargaining power', and monitoring potential abuses through the establishment of intensified cooperation with competition authorities in ACP countries. In key sectors, where inequalities in power relationships are acute, it could even extend support for the development of standard contracts.

2.2.6 The trend towards long-term price convergence

The most profitable markets in the EU for ACP exporters have traditionally been those markets for products falling under the CAP, where high tariff protection and administrative decisions sustained high prices. The dominant trend in the EU, however, is towards narrowing the gap between high EU and lower world market prices. This process will be accelerated by the projection of a general increase in world market prices for agricultural commodities once the global economy comes out of the current economic downturn.

A second major trend on agricultural commodity markets is towards increased price volatility. This will make attaining parity between EU and world market prices a constantly moving target (as will variations in the euro–US dollar exchange rate). Sometimes EU market prices for bulk commodities will be above world market price levels, while on other occasions there will be little or no difference. What is clear is that EU markets will be likely to enjoy greater price stability than world markets, given the 'safety net' function that EU agricultural policies are increasingly intended to perform.

A third major trend relates to growing product differentiation (alluded to above), which will increasingly require ACP exporters to develop their marketing capacity, not simply their capacity to trade. This will be essential if price premiums on the EU market are to be secured.

All of this suggests that, in the coming period, ACP exporters will face many difficult short- and medium-term challenges when seeking to maximise export revenues. This may require targeted programmes of sector-specific capacity-building support to help ACP agri-food exporters deal with increasingly complex markets both in the EU and beyond. The EU has some experience of success in supporting this type of programme under the integrated programme for the development of the ACP Caribbean rum sector. The lessons to be derived from this programme appear to be important for a wide range of ACP agricultural exporters as they seek to adjust to radically changing market conditions.

3 Implications for ACP countries

3.1 EU offensive market interests

EU exporters of food and agricultural products are insisting that EC negotiators should focus on securing the removal of non-tariff barriers to trade and resolving 'behind-border' issues, as these are increasingly being seen as the main obstacles to EU exports. This also applies to ACP countries, for while ACP markets overall are not of major significance for EU food and agricultural product exporters, in certain subsectors (for example, wheat flour and wheat-based value-added products) ACP markets are of major economic significance, with the EU sectors concerned having major offensive interests in these areas under the EPA negotiations. This has given rise to a range of contentious issues in the IEPA negotiations, since EC efforts to remove these barriers can impinge directly on the use of such policy tools within national strategies for agri-food sector development (for example, the use of import licences, infant industry protection provisions and export taxes). Given the limited fiscal scope for the use of financial support instruments within food and agricultural sector development strategies (a tool increasingly favoured by the EU), ACP governments need to focus on maintaining the policy space for the use of such tools where these demonstrably assist in the promotion of agri-food sector development.

3.2 Duty-free, quota-free access

The granting of full duty-free, quota-free access from 1 October 2009 needs to be seen against the background of the progressive erosion of the value of traditional trade preferences through the implementation of CAP reform (particularly in the sugar, beef and banana sectors, but also in the horticulture sector). However, this process of erosion of the value of traditional trade preferences does not have the same effect on all ACP suppliers. Some ACP exporters are able fully to exploit the increased access to the EU market, despite the decline in EU prices.

Swaziland's sugar exports provide a case in point. Here, the granting of full duty-free, quota-free access is allowing the volume of exports to be expanded in ways that compensate for price declines, as sugars that previously went to lower-priced non-EU markets are now increasingly being directed to the EU market. Similarly, changes in the rules for the allocation of import licences for ACP sugar are allowing some ACP exporters to find new routes to market for value-added sugar products (for example, in Mauritius), thereby reducing dependence on raw sugar exports and enhancing total revenues earned. Duty-free, quota-free access and associated changes to import licensing arrangements are thus opening up opportunities for some ACP exporters to identify new, more profitable routes to market for sugar products that have greater value added. This, however, depends critically on the strategies adopted by individual ACP exporters, including the new corporate alliances being made.

Similarly, in the banana sector, new opportunities are arising for ACP exporters under the duty-free, quota-free provisions, but in this instance with wider trade-policy changes (linked to the resolution of the WTO banana dispute) profoundly changing the competitive market position of ACP suppliers. Here again, the impact on individual ACP exporters of the granting of full duty-free, quota-free access varies according to their underlying competitiveness and the marketing strategies being adopted. This highlights the importance of ACP exporters differentiating their products from those of more price-competitive, advanced developing country suppliers. Where this can be done successfully, a long-term future for profitable export to the EU can be built, and, in some country-specific instances, can allow full exploitation of the duty-free, quota-free access granted.

These examples highlight how important it is to analyse the impact of duty-free, quota-free access at the sector and country levels. They also highlight the importance of accessing pump-priming support (whether 'aid-for-trade' finance or nationally mobilised funding) for the necessary production- and trade-adjustment processes required to reposition ACP exporters within the evolving market context.

3.3 The GSP+ alternative

Despite the fact that the EU's GSP+ is open to all eligible beneficiaries, no ACP non-LDC country that has declined to sign an interim EPA has been added to the list of beneficiaries. On 17 November 2009, the EC issued guidelines on the process to be followed for a country to be added to the GSP+ regime beneficiary list from 1 July 2010 (the scheme runs until 31 December 2011). Governments of ACP non-LDCs that have been relegated for trading under the standard GSP regime may wish to look at how, under these guidelines, they can make the case for being added to the list of beneficiaries of the EU's GSP+ scheme from 1 July 2010.

3.4 Agricultural product quality policy

The EU's agricultural product quality policy raises a fundamental issue for ACP agri-food exporters whose production constraints do not allow them to compete on price with advanced developing country exporters – how can the elaboration of the EU's agricultural product quality policy avoid creating barriers to ACP suppliers seeking to serve high-value, high-quality components of the EU market? With specific EC proposals scheduled to be tabled in 2010, a detailed analysis of the likely impact on ACP producers of the various EU policy options in each of the areas under consideration (marketing standards, GIs, 'traditional specialties guaranteed' and certification schemes such as organic farming) will be required. This analysis could consider the price competitiveness of ACP suppliers seeking to serve luxury-purchase components of the EU market, and might address the following questions.

- What are the implications of a 'place of farming' labelling approach, as opposed to the use of a label indicating that EU requirements have been complied with?
- What will be the implications, for ACP beef producers, of the development of animal welfare labelling schemes?

- What implications might there be from the potential establishment of an official EU carbon footprint labelling scheme, and what criteria would be used to determine the carbon footprint of a product?
- What will be the implications, for ACP producers and exporters of organic products, of the introduction of an obligatory EU organic logo for all EU-farmed organic products from 2010?
- What will be the implications, for organic producers in ACP countries, of proposals for the mutual recognition of organic standards with non-EU countries?

3.5 Functioning of the supply chain

Recent EC work on the functioning of the food supply chain could usefully be extended to an assessment of the functioning of ACP–EU food supply chains. In the case of international supply chains, a case in point is the functioning of banana supply chains. In December 2009, the EC confirmed that it 'had sent a statement of objection under anti-trust rules to a number of companies active in the import and marketing of bananas' concerning their 'alleged participation in a cartel'. In January 2010, press reports announced the outbreak of another banana price war in supermarkets, with the retail price of bananas being cut by some 22% in stores across the UK. With the 'buying power of the supermarket chains' reported to be eclipsing the former power of the big banana companies, the position of ACP banana suppliers looks increasingly precarious in an EU market subject to the erosion of traditional margins of ACP tariff preferences. Against this background, certain ACP governments (such as the CARIFORUM states) may wish to consider requesting a joint investigation with the EC into the functioning of banana supply chains, with a view to identifying measures that could be taken to strengthen the market position of ACP banana suppliers within supply chains serving the EU market. With similar processes of erosion of the value of traditional tariff preferences under way in the sugar sector, and a growing concentration of market power in the hands of a small number of EU sugar companies, similar investigations into the functioning of supply chains and their impact on price formation may also need to be considered in the coming years in the sugar sector.

3.6 Rules of origin: an unresolved issue

While improvements were made to rules of origin for fisheries and textile products, no fundamental revision has taken place of the rules of origin applied to ACP exports, despite ACP aspirations to move to a tariff subheading system (rather than the current value-added system) for calculating 'origin'. Scope exists under various (I)EPAs for revisiting rules of origin issues, and these opportunities may need to be explored. However, to date the EC has shown a marked reluctance to make concessions in this area, given its overall concern to move towards rules-of-origin systems that are compatible across the EU's various FTA agreements.

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Executive brief: Update

Food safety: Implications for ACP countries

Contents

About this update

CTA's *Executive brief: Food safety* was published online in January 2008, and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. It was followed in June 2009 by *Executive brief: The food safety issue in ACP-EU trade relations*. This brief, updated in April 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive briefs (2008 and 2009) are available on request from: agritrade-mail@cta.int.

1 Background and key issues

Food safety has been a feature of EU policy for many decades. Since the mid-1990s, however, in response to major food crises, EU food safety policy has been more vigorously defined and implemented. This has included: application of the precautionary principle under the 2002 general food law; harmonisation of regulations across the EU; introduction of 'traceability' systems within food chains; implementation of a comprehensive package of regulations on hygiene; and establishment of a comprehensive food and feed control regulation. This last regulation may prove to have the greatest impact in ACP countries, as it places the responsibility for the control and verification of compliance with EU standards upon the governments of the exporting countries. This *de facto* bestows on public authorities a central role in the export of ACP food and agricultural products to EU markets.

More recently, the line between EU food safety and EU food quality policy has become blurred. For example, while rules relating to animal transport and animal slaughtering practices may have food safety dimensions, they also have strong elements of 'quality' differentiation, designed to yield price premiums to producers that meet certain standards. This is even more the case for any regulations dealing with animal welfare labelling, where the explicit aim is to allow consumers to make more informed choices in their purchase decisions, with this yielding, it is hoped, significant price premiums for products meeting high animal welfare standards.

The emergence of private voluntary standards is seen as an important issue in ACP countries, since it has a direct bearing on the functioning of the supply chain and the distribution of revenue along the supply chain. In the EU, there is an emerging debate about the extent to which private voluntary standards (PVS) should be regulated, and the need for harmonisation both between public and private standards, and between various private standards, in order to reduce costs of compliance and verification. The European Commission, for its part, has supported calls for greater coordination of private labelling schemes, but is reluctant to play an interventionist role in this area, preferring to play a facilitating or coordinating role.

Given the importance of agriculture in most ACP countries and the importance of the EU as a destination for agricultural exports, the implications of the EU's stricter food safety control regime cannot be overestimated. All food and agricultural products must comply with EU food safety standards before they can be placed for sale on the EU market. This compliance needs to be verified demonstrably, since the EU importer has a legal responsibility for ensuring the safety of food placed for sale on the EU market, and can be fined heavily for a failure to comply with this responsibility.

In this context, both the private sector and national policy-makers in ACP countries need to understand the different trade policy issues arising from the EU's new food safety policy, and to develop appropriate policy responses to address these issues. This is particularly the case given that the financial aspects of food safety compliance can be commercially significant. The investments required to ensure compliance can also affect the distribution of power along supply chains to the disadvantage of primary producers. The food safety compliance requirements can constrain the possibilities for the structural development of certain subsectors, making it harder to move up the value chain in response to the process of preference erosion that is under way. They can also have an adverse impact on the development of regional trade in food and agricultural products, as the quest for recognition of 'equivalency' with EU standards in one country closes off its domestic markets to regional suppliers (this is a particular problem in, for example, the dairy sector). The food safety compliance requirements can also periodically lead to the disruption of trade with the EU because of shortcomings in national control systems. Ultimately, they may even lead to the *de facto* closure of the EU market to exports of food and agricultural products, either because of a failure to meet EU standards or because the costs of compliance have come to exceed the profits secured from the export trade.

Stricter EU food safety standards can have important implications for government finance, as national food safety control systems need to be established and maintained to meet EU requirements. The EC is extending assistance in this area, both through dedicated programmes (such as the Europe–ACP Liaison Committee [COLEACP] Pesticides Initiative Programme [PIP] and the €30 million pan-ACP food safety compliance initiative) and through a multiplicity of initiatives implemented at the national level; however, overall the level of resources currently available is unlikely to be sufficient, given the scale of the challenge faced.

In getting to grips with food safety issues, five distinct areas need to be addressed: setting standards; technical compliance; financial costs of compliance; financial costs of verification and control systems; and the nature of transitional arrangements. These challenges need to be seen in the light of broader considerations linked to product differentiation on quality grounds. Against this background, six specific areas of policy response can be identified:

- establishing an effective dialogue on the application of standards;
- assisting enterprises with the upgrading process to meet EU standards;
- meeting information needs related to standards compliance and facilitating technical assistance in attaining compliance;
- supporting the establishment and upgrading of effective national food safety control capacity in ACP countries, via the establishment of a dedicated food safety control financing facility;
- establishing systems for the financing of recurrent costs of national food safety control authorities;
- greater use of temporary derogations.

An additional area of concern that has emerged in some ACP regions, notably West Africa, has been the emergence of an export trade in fruit and vegetables from Europe that do not comply with EU market standards. Since these products have no commercial value in the EU, their sale price tends to periodically undermine local fruit and vegetable markets. In other sectors, this trade has in some instances given rise to food safety concerns in Africa. This is requiring targeted assistance in building food safety compliance capacities in Africa, not only for the export trade, but also for food products placed on local markets.

2 Latest developments

2.1 Food safety and trade relations

A working paper published in 2009 by the Danish Institute for International Studies (DIIS) sought to identify the legal measures under the EU food safety policy that 'cause the most problems for developing [country] exporters', with a view to identifying possible solutions. It highlighted the fact that food safety requirements have been identified as 'one of the foremost issues affecting exports of agricultural and food products from developing countries', with shortcomings in compliance estimated to cost African exporters alone over US$1 billion per annum in lost exports. The paper maintains that the basic structure of the EU approach to food safety 'do[es] not take into account the consequences of the food safety regime which go beyond the Community's borders'. Specifically, EU standards do not take into account the different conditions of production and certification existing in developing countries.

There are concerns that EU food safety standards and sanitary and phytosanitary (SPS) regulations can be used as a form of trade protection in an era of tariff liberalisation and price instability. This is a particular concern for small developing countries, as food safety investments – with basic overhead costs often very high regardless of the volume of production involved – fall particularly heavily on countries with limited export volumes. In addition, for small-scale exporters, problems with individual consignments can have commercial implications industry-wide. In this context, the costs of compliance with food safety and SPS regulations can come to constitute an insurmountable barrier to new entrants. This, it is argued, periodically gives rise to barriers to exports that are not justified on purely food safety grounds.

The DIIS working paper proposes three specific sets of measures 'to make the barriers more easily surmountable':

- 'strongly increased harmonisation of the industrialised countries' food safety standards';
- comprehensive reviews of each new proposal's 'likely consequences […] on developing countries', including a review of possible 'alternative measures' that would reduce negative impact on developing countries;
- 'continued (and preferably increased) provision of technical assistance to the developing countries to enable them to comply with the food safety standards'.

2.2 Completion of the pesticide review

On 12 March 2009, the EC announced the completion of its pesticide review. Of approximately 1,000 substances available before 1993, 'about 250 have passed the harmonised EU safety assessment. All reviewed pesticides have undergone a detailed risk evaluation with respect to their effects on humans and on the environment'. The EC has now created a consolidated list of approved substances that member states may authorise for use in plant protection products. Only 70 substances failed the review process and were removed from the market. The remaining 680 products were 'either not submitted, or were incomplete or were withdrawn by the industry'.

On 24 September 2009, after much controversy and debate, the EU Council adopted the new regulation on plant protection products. The EC Commissioner for Health claimed that the new regulation would 'establish the most modern and protective system for the health of consumers worldwide'. However, concerns continue to be expressed over the impact of the new regulation on global agricultural productivity. The UK Crop Protection Agency has argued that the new regulations, which are no longer based on an assessment of the risk to health from absorption of plant protection products, but rather on 'hazard-based cut-off criteria' (the intrinsic chemical properties of the pesticide), could result in 'some 15 to 20% of currently approved crop-protection products' being lost to farmers. According to press reports, 'experts have warned that the new rules will reduce crop yields and quality, and increase the cost of food to consumers'. The Crop Protection Agency's chief executive, Dominic Dyer, has argued that the new EU rules are 'at odds with the urgent demands placed on modern, productive agriculture'.

Against the background of these concerns, the UK government has launched a £13 million programme of support to research and development for crop protection products. The aim of the programme is to 'help meet new and existing EU regulations on pesticide approval and use' by helping growers '[to] respond to the dual challenges of increasing the productivity of crops while reducing the environmental impact of crop protection'. This initiative has been welcomed by UK horticulture producers, given that 'the funds will mostly be allocated to applied R&D'.

In April 2009, COLEACP undertook a first assessment of the likely impact of the new EU pesticide regulation on ACP suppliers. The report noted the shift to 'hazard-based cut-off criteria'. This is seen as a significant policy shift, as it raises the bar for the level of tolerance of pesticide residues. The assessment made a distinction between short- and longer-term impacts of the new regulations. It argued that although 'several pesticides currently used on export crops may be withdrawn in Europe, the new regulation is not likely to have a major impact in ACP countries in the short term', since 'substances will remain authorised until they come up for review when their annex I listing expires'. Even at this point, however, derogations can be sought to allow time to develop alternatives. It notes that where a pesticide is no longer authorised for use in the EU, 'continued use on ACP export crops will still be possible provided that the product is registered locally, and EU minimum residue levels (MRLs) and Import Tolerances are complied with'.

However, the report did note that in the longer term the use of some less expensive substances may need to be phased out, with 'consequent increases in production costs'. This, it is maintained, could have a particular impact on the smallholder sector. The report further noted that certain elements of the regulation remain unclear, and these clarifications could have an impact on ACP exporters, for example regarding the actual thresholds established for tolerance of substances found in imported products that have been scheduled for withdrawal. In this context, it should be noted that in its first annual review of pesticide residues in food, using tests conducted in 2007, the European Food Safety Agency found that 'MRLs are more often exceeded in samples imported from third countries than in EU products (2.31% of surveillance samples with EU origin and 6.84% [...] from third countries)'. This suggests that scrutiny of imports may be stepped up in the coming period, given the higher incidence of risk associated with imported products.

2.3 The impact of private voluntary standards

Private voluntary standards need to be seen in the light of the legal responsibility of importers for the safety of food they place for sale on the EU market and the increasing market fragmentation in EU food markets, with strong demand growth in the quality-conscious luxury-purchase component of the market, and stagnant demand growth in the price-sensitive necessity-purchase component. In the latter context, private voluntary standards form part of a wider process of 'product differentiation' designed to 'protect and gain market share when competing in national and regional markets'. As a consequence, these private standards are often 'higher and more demanding than the minimum standards enforced by governments' and the international standard-setting bodies.

While stricter private voluntary standards 'can create an incentive for producers to invest in modernising their production processes and output' and can help exporters 'maintain and improve their market access', they can pose problems, particularly for smaller producers, whether considered nationally or in terms of the production system. While some ACP producers in some sectors have successfully risen to this challenge (for example, certain Namibian beef product exporters and certain Kenyan vegetable product exporters), others struggle to meet these standards in a cost-effective way, which leads over time to these producers falling out of the supply chain. It has been suggested that 'development strategies postulated on smallholder production of high-value agricultural products for export' may be unrealistic in the absence of targeted and sustained support.

Concerns have also been expressed that the rise of private voluntary standards is actually undermining the functioning of the international system for establishing food safety and health standards (such as the Codex Alimentarius), marginalising ACP countries from discussions and debates which have an increasingly important bearing on their food and agricultural exports to the EU. After all, why should producers seek to meet international standards when these are insufficient to secure access to the most commercially attractive components of the EU market?

In the course of 2009, a number of reports were published assessing the commercial impact of food safety standards. The CUTS Centre for International Trade, Economics and Environment (CUTS-CITEE) published a report looking specifically at the impact of private voluntary standards on trade with developing countries. This report argued that, despite the theoretical benefits of international standards in the food sector, 'stringent food safety standards, imposed over and above CODEX standards and inter-country difference of standards in importing developed countries, are now impeding the export performance of developing countries'. This is linked both to internal financial, technical and infrastructural constraints in developing countries, and to the precise modalities for implementing, monitoring and verifying compliance applied by importers. External constraints on compliance identified include an absence of 'timely dissemination of requisite information' on new standards in developed country markets, and the emergence of a tendency towards the use of some of these standards as trade barriers.

The CUTS-CITEE study argued that private voluntary standards place particularly onerous requirements on poor producers. Significantly, the study argued that where 'private standards become industry norms' and where 'a small number of food retailers account for a high proportion of food sales', then 'the choice of whether or not to comply with a voluntary standard becomes a choice between compliance and exit from the market'. This, it is argued, raises the question: who carries the financial burden of compliance with private standards, some of which are only loosely based on scientific grounds? In this context, the CUTS analysis highlighted the importance of ensuring that 'regulatory barriers are not misused to achieve protectionist objectives', and of the need for financial and technical assistance with compliance attainment and verification.

A more detailed survey carried out within the framework of the COLEACP PIP initiative has also been carried out, with its accompanying report published in May 2009. This focused on the impact of changing buyer requirements on the supply chain for fruit and vegetables, and looked exclusively at companies already receiving technical assistance with standards compliance under the PIP initiative. While the survey noted 'an appreciable growth' in aggregate exports between 2000 and 2006 through distinct supply chains serving different national EU markets, it also noted that firms found private voluntary standards 'difficult or very difficult to meet'. However, these difficulties varied according to the supply chain being served. The anglophone supply chain linking suppliers in Kenya, Zambia, Uganda and Ghana with supermarkets in the UK, Germany, Netherlands and Switzerland generated more problems of compliance than the francophone supply chains that linked producers in Madagascar, Mali, Burkina Faso, Benin, Senegal and Côte d'Ivoire to wholesalers, catering companies and others in France, Italy and Switzerland.

The survey found 'distinct differences […] between companies supplying these value chains in terms of the demands and pressures they face from buyers, as well in the adaptations they make in order to meet them'. In terms of the anglophone supply chain, over the longer term some companies reported reduced profits due to the lack of a price premium and increased costs of maintaining certification. Of particular concern was that some 20% of companies involved with smallholder out-growers reported that some smallholder growers 'had chosen not to renew their certificate despite the fact that they had the infrastructure, procedures and knowledge in place'. Significantly, companies experiencing this were concentrated in countries where compliance with standards has been established for some years and where the full impact of recurrent costs was known (such as Kenya).

Despite these trends, overall the survey concluded that earlier fears of a generalised exodus of smallholder out-growers from export value chains in response to stricter food standards had not yet been realised. The volume of products sourced from out-growers from 2000 to 2007 had changed little. Yet there were marked differences between countries, with evidence emerging in Kenya that 'very small-scale out-growers are being excluded from high-value retail supply chains due to the demands of PVS'. The report concluded on a cautionary note, arguing that while 'the future trends for sourcing from small-scale growers are unclear … there is a risk that the pattern seen in Kenya will be repeated elsewhere as demands of PVS become more widespread and tightly enforced'.

Against this background the PIP report argued for:

- 'continued technical assistance both from national and international agencies';
- 'improved routes of engagement with those who set and implement the PVS, as well as mechanisms to adjust them, in order that they can be better adapted to local circumstances';

- 'improved dialogue […] with EU buyers in order to ensure that their policies create and enhance opportunities to trade';
- 'the fairer apportioning of costs along the supply chain';
- a more proactive approach from developing countries in achieving compliance and defining how this is to be achieved.

A number of these recommendations have a bearing on EU policy discussions over the functioning of food supply chains. It is envisaged that in the course of 2010 these discussions and deliberations will give rise to recommendations, which will then feed in to proposals for the 2013 round of CAP reform. This appears to be area of EU policy where a clear development dimension could usefully be added while policies are still under development, particularly regarding the functioning of fruit and vegetable supply chains: according to the PIP survey, 'fresh fruit and vegetables sourced from Africa [… are] not high risk when compared to [fresh fruit and vegetables] from other sources'. On this basis the survey questioned 'the proportionality of some EU retailer policies which, assuming higher risk, […] apply more stringent controls on developing country suppliers'. Clearly some form of guidelines dealing with the proportionality of PVS control systems in the light of actual risks faced appears to be warranted.

EU agricultural product quality policy and private voluntary standards

As part of the consultations on EU agricultural products quality policy, launched in October 2008, the impact of food quality certification schemes was reviewed. The review, published in early 2009, found that private standards dealing with food quality certification were more flexible and responsive to new demands and trends, and could create value for producers, particularly where efficiently managed, with costs kept to a minimum. However, the danger of too many such private quality schemes was highlighted, as this could confuse consumers and multiply costs. It was felt that clear EU guidelines could contribute to a more coherent development of private quality standards, although some contributors to the consultation felt that this could equally well be achieved through greater private sector-led coordination.

The review highlighted the fact that private quality standards can lead to additional costs, while non-adherence can effectively exclude products from the market. Ensuring that producers gain real value is therefore seen as vitally important. Against this background, suggestions for reducing the cost burden of private quality schemes included the introduction of mutual recognition, group certification, combining the audits required under different schemes, and financial assistance with the establishment of private quality schemes.

Submissions to the consultation process from third countries highlighted the need to ensure that the elaboration of EU quality standards did not give rise to discrimination against third-country producers, and emphasised the need for mutual recognition of food quality certification schemes and the ongoing debate over geographic indications. In addition, the need for support to developing countries, in the form of financial and technical assistance helping them to comply with private certification schemes, was thought necessary.

In the Commission's communication of 28 May 2009 on agricultural product quality policy, it was argued that 'private certification schemes can act as catalysts for developing country access to the EU market' by acting as 'an incentive for the modernisation of developing countries' export supply chains' and by improving the quality of goods placed for sale on the domestic market. Equally, it was acknowledged that 'private scheme requirements can be difficult to meet for some producers in certain developing countries', and in this context it was argued that 'in the light of compliance costs, international donor assistance plays an important role in securing participation of small and medium-sized businesses and smallholder farmers in developing countries'. Overall, however, the position was adopted that the EC 'does not support legislation for private and national certification schemes at this stage', although it did recognise a need for the development of 'good practice' guidelines for private certification schemes, in order to reduce both consumer confusion and red tape for farmers.

2.4 EU support for food safety initiatives

In 2009, a number of training programmes took place in Africa linked to the 'Better Training for Safer Food' initiative. While this programme, launched in 2006, had focused primarily on the staff of 'competent authorities' of EU member states, in 2009 it was extended to include a distinct 'Better Training for Safer Food in Africa' component. This Africa-focused initiative was launched in April 2009 at the African Union headquarters in Addis Ababa, under the auspices of the Health and Consumer Affairs Directorate-General of the European Commission, and is set to run for 2 years. The overall aim of the programme is 'to keep participants up to date with Community law in these areas' and to promote 'more harmonised and efficient controls'. Specific objectives include:

- extending support to strengthening human capacity through training of trainers, in particular for veterinary and laboratory services;
- helping to improve national and regional legal frameworks towards harmonised systems;
- strengthening the capacity of small and medium-sized enterprises to enhance their access to local, regional and EU markets;
- strengthening the capacity of the African Union on SPS issues.

Additional priorities include: sharing information and policy advice; strengthening official feed and food control systems; and the modernisation and rehabilitation of testing and certification laboratories.

Some €10 million is to be spent over the next 3 years in seven programme areas. The four areas to be implemented through the World Organisation for Animal Health (OIE), at a cost of €5.4 million, include:

- an evaluation of the performance of veterinary services in 15 countries and a gap analysis of the needs and priorities of each of these veterinary services departments, with follow-up evaluations and accompanying measures envisaged in some 40 countries;
- support for improvement of the national and/or regional legal framework relating to animal health and food safety in 15 countries;
- support for strengthening laboratory capacities through fostering twinning arrangements between laboratories in Africa and OIE reference laboratories;
- support for strengthening the capacity of national delegates to the OIE, chief veterinary officers and national focal points in all African countries in relation to international sanitary standards.

The two programmes to be implemented through Agriconsulting Europe, at a cost of €3.9 million, include:

- training of trainers in five Economic Partnership Agreement (EPA) regions;
- strengthening the capacity of small and medium-sized enterprises via targeted and sustained missions and *ad hoc* assistance, largely involving the secondment of experts to address shortcomings identified by the EC Food and Veterinary Office in national food safety control systems.

A programme to be implemented through the AETS Consortium at a cost of €0.22 million involves:

- intensive training for officials from the African Union Commission and regional economic communities on food safety issues.

The development of direct cooperation links between African governments and the EC departments responsible for specific policy areas potentially offers an opportunity for improving the targeting and quality of EC assistance. However, with many elements of the programme being subcontracted out to international organisations and consultancy companies, it is important that these programmes nevertheless encourage the establishment of direct links for the exchange of information and technical advice between EU and African food safety authorities beyond the lifetime of the 2-year programme.

3 Implications for ACP countries

3.1 Food safety and trade relations

From an ACP perspective, when considering the impact of food safety controls on trade in food and agricultural products, it is important to distinguish between the challenges faced in complying with EU standards, and the challenges faced in verifying compliance with EU standards. Specific policy responses are needed in each of these areas. The 'GLOBALGAP' decision to recognise the equivalence of 'KENYAGAP' standards is an example that should be followed in other areas of standard setting, as this ensures that EU standards are respected in ways consistent with local realities. Such practice keeps the focus on the achievement of the underlying policy objective, not on the modalities through which it is achieved.

It should be borne in mind, however, that innovations in this area need to be country-specific, depending on the nature of the production system and the institutional framework in place. Overall, the emphasis should be on demonstrably ensuring compliance, not on how verification is achieved.

There appears to be considerable scope for cost savings in the sphere of compliance verification and certification through harmonisation and coordination. However, initiatives by public authorities appear to be needed in order to promote such coordination and harmonisation. Building on the suggestions of the study of the DIIS, this could take the form of the establishment of a distinct development dimension to EU food-safety and SPS policies. This would seek to bring together existing EU policy initiatives in this area (such as the Better Food Safety in Africa and PIP initiatives) and link them to a strengthening of the policy dialogue. Such a policy dialogue would extend to new areas of EU policy that are currently under elaboration, and that have a bearing on food safety, SPS, quality standards and supply-chain issues. The aim of such an initiative would be to promote greater coherence between EU 'aid-for-trade' support initiatives in the area of food safety and these new emerging policy initiatives.

3.2 Getting to grips with the pesticide review

From an ACP perspective, while the short-term impact of the regulation is likely to be limited, close attention will need to be paid to the elaboration of aspects of the new EU pesticide regulation that are as yet unclear (such as the import tolerance limits), and clear strategies will need to be developed to minimise cost-increasing effects in the longer term. In addition, with the incidence of samples exceeding the MRLs three times higher for imported products than for products with an EU origin, intensified testing and compliance enforcement on imports of food and agricultural products can be expected in the coming period.

The question arises, however, as to whether this would be justified for many ACP fruit and vegetables. Studies conducted under the PIP initiative have found that imports of fruit and vegetables from Africa show lower risks of pesticide contamination than imports from other sources. Against this background, it will be important to ensure arrangements for compliance enforcement take into account the actual risks associated with imports from individual ACP countries.

The types of initiative launched by the UK government to support research and development for crop protection products could usefully be extended to ACP producers of horticultural products. This is particularly the case with regard to 'applied research and development'.

Regional horticulture associations in the ACP potentially have an important role to play in promoting such applied research and development partnerships.

3.3 Getting to grips with private voluntary standards

The PIP survey found that while 'traceability emerged as one of the most significant requirements requested by buyers in recent years […], surprisingly it was not generally considered as difficult to meet'. Most companies, with the benefit of external support, 'have risen to the challenge by installing traceability systems', illustrating 'the capacity of ACP exporters to adapt and meet new technical requirements'. This highlights the importance of pump-priming public sector assistance to help ACP producers and exporters meet private voluntary standards, and suggests a need to expand such support. Recent examples include cooperation between the German government and the Food and Agriculture Organization in assisting west and central African farmers to meet EU standards, secure organic and other certification standards, and build the capacity of producers in commercial negotiations.

As the PIP survey pointed out, in order to sustain smaller-scale producers in the supply chain, the formation of alliances with larger exporters or major importers is often required. Potentially, there could be a role for public sector pump-priming support to foster the development of such relationships. The public sector role, however, may need to extend beyond such 'aid-for-trade' support and examine how private voluntary standards are developed and applied in practice in ACP countries, ensuring that cost-increasing effects are kept to a minimum and that the specific needs of smallholder producers are accommodated. Certainly the elaboration of KENYAGAP standards to apply equivalent GLOBALGAP standards in a locally relevant manner appears to warrant replication. However, this is likely to require a deepening of the dialogue over the design and application of private voluntary standards, a process that is likely to need some level of public sector support. This issue could usefully be taken up in the context of the elaboration of specific proposals under the EU's agricultural product quality policy, with a clear development dimension being added to this essentially domestically focused policy.

Equally, there may well be a need to look at the impact that private voluntary standards have on the distribution of power along food supply chains. The issue of the functioning of supply chains is receiving increasing attention within the EU. There may well be a case for this initiative to be extended in the context of the implementation of the free-trade area agreements being concluded in the form of interim EPAs, to include research into the functioning of major food supply chains, where private voluntary standards and other food safety and SPS regulations are having an impact on the distribution of commercial power along food supply chains.

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Executive brief: Update

Fisheries market access:

Tariff and non-tariff aspects

Contents

About this update

CTA's *Executive brief on the "Fisheries market access: tariff and non-tariff aspects"* was published in October 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in October 2009, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for the ACP: reviewing developments that have taken place since the publication of the original executive brief;

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key fisheries market access issues for ACP countries

Almost 40% of total world fisheries production, from both aquaculture and capture fisheries, enters international trade. The contribution of aquaculture to fisheries production and to the international trade in fishery products has grown rapidly in recent years. In a context of declining catches in wild fisheries, increasing attention, including in African, Caribbean and Pacific (ACP) countries, is being given to the potential of aquaculture to meet the gap in fish supplies for both local consumption and export markets.

The European Union (EU) as a bloc is the world's largest market for fish, and provides ACP countries with their most lucrative market for fish. Since 1975, ACP exports to the EU have benefited from special, non-reciprocal, tariff-free arrangements: first under the successive Lomé Conventions (Lomé I–IV), and since 2000 under the Cotonou Agreement. These non-reciprocal trade-aid arrangements are being replaced by fully reciprocal, World Trade Organization (WTO)-compatible Economic Partnership Agreements (EPAs).

Those ACP countries that have not signed or initialled an EPA before 31 December 2007 benefit from the General System of (tariff) Preferences (GSP), which offers preferential access to imports into the EU market from developing countries. Following approval of the Council Regulation on 22 July 2008, a new scheme of generalised tariff preferences will apply for the period from 1 January 2009 to 31 December 2011. In response to the desire expressed by users of GSP to ensure continued stability, predictability and transparency, the scheme remains broadly unchanged, and comprises three different arrangements:

- the general arrangements (GSP);
- the special arrangements for least-developed countries (LDCs), the so-called 'Everything but Arms' arrangement (EBA), which since 2001 provides duty-free access for almost all products from LDCs;
- the special incentive arrangement for sustainable development and good governance (also known as GSP+).

In terms of market access, the EBA regime and the EPAs are both providing duty-free, quota-free access for fisheries products and therefore are more advantageous than the GSP. This explains why some non-LDC ACP countries decided to 'break ranks' with their regional group and initial an EPA in December 2007 in order to maintain their preferential access to the EU market (Papua New Guinea, Ghana, Côte d'Ivoire, Seychelles, etc.).

The main benefits enjoyed by ACP fish exporters under the EBA initiative and/or the interim EPAs are the margins of preference provided over their competitors. These are gradually but inexorably being eroded due to two main factors:

- international trade liberalisation under the WTO, where tariff and non-tariff barriers to trade are to be lifted – already, the advantages enjoyed by ACP countries in the EU have been successfully challenged by two ASEAN countries in the case of canned tuna;
- the new special GSP provisions for LDCs, and the special incentive arrangement for sustainable development and good governance, under which a number of Latin American and Asian fish-exporting countries benefit from tariff reductions on fish and fishery products.

Restrictions imposed by the rules of origin have long been a source of contention in EU–ACP fisheries relations, in particular with respect to the valuable tuna fishery. The way 'originating fish' is defined effectively forces ACP processors to purchase from high-priced EU suppliers (as they do not have their own tuna fleets, and fish from third-country vessels is not originating), in order to produce originating-tuna products. Restricting their possible sources of raw material limits the development of ACP processing activities. It also creates an incentive for ACP countries to grant EU vessels preferential access to their Exclusive Economic Zones (EEZs) so as to ensure their tuna canneries are supplied with originating tuna. Currently, the rules of origin applicable under the protocols deriving from a new market-access regulation include a series of changes from the situation under the Cotonou Agreement.

While ACP fish exporters enjoy duty-free, quota-free access to the EU market for their fisheries products, they are, however, facing increasing quality-related standards. Issues of food safety (sanitary and phytosanitary [SPS] standards), product identification (species, origin, etc.), traceability (from catch to consumption), and private eco-labels (for sustainability of fish stocks and organic aquaculture) are becoming increasingly important issues facing ACP fish exporters in accessing the EU market. The SPS standards in fish-processing plants and throughout the chain of custody (from vessel through to consumer) must be complied with. It is also important to note the growing power of international retailers, who have been able (sometimes more efficiently than governments) to impose increasingly stringent safety and quality standards for fish imports, but also requirements related to eco-labels on producers.

While some of these, like the SPS standards, may be important measures to protect European consumers, they also act as non-tariff barriers to trade, providing considerable constraints on market access for ACP fish producers and exporters, particularly the small- and medium-scale enterprises. Realising the full potential from EU export earnings in ACP countries is therefore severely constrained by non-tariff barriers, which, for ACP fishery products include:

- EU standards for SPS measures;
- EU legislation on residue levels and heavy metals in fishery products;
- EU legislation on labelling;
- EU future regulation on the fight against illegal, unregulated and unreported (IUU) fishing, in particular the catch-certification scheme (to enter into force on 1 January 2010).

An area in which ACP countries are keen to attract European investment is on-shore processing, such as tuna-processing facilities, to provide jobs and create ‘spin-off’ economic benefits. Another area involving cooperation with ACP fish producers is the EU’s IUU catch-certification scheme.

2 Latest developments and implications for ACP countries

2.1 International context of EU–ACP trade in fishery products

Food and Agriculture Organization (FAO) figures show that globally about 40% of total fisheries and aquaculture production are exported, confirming fish as one of the most highly traded food and feed commodities. However, FAO figures for 2009 show that some weakening in demand was registered in early 2008 as turmoil in the financial sector started to affect consumer confidence in major markets.

Many analysts feel that the economic crisis in Europe (and elsewhere) will endure. ACP fish-exporting countries therefore need to integrate this into their marketing strategies, to assess what kinds of products are likely to bring more added value to their fish, and also to ensure that the main barriers to trade – health and hygiene regulations and traceability – are properly addressed.

Developing countries account for half of the total value of fish-product exports, with China now the world’s largest exporter following an increase of almost 10% in 2008. China’s increased imports result partly from out-sourcing, as Chinese processors bring in raw fish material from other regions, including the EU, for reprocessing and export.

Stagnation and decline in fish catches, and concern over the status of stocks, have focused attention on the potential of aquaculture to meet the growing needs of international trade and domestic food security. A 2008 Globefish report shows that aquaculture now accounts for 45% of the world's food fish and this proportion is expected to reach 50% in 2015. China is responsible for about 70% of aquaculture production, with the main farmed products exported being shrimps, tilapia and catfish. Some regions lag behind, and in ACP countries in particular, aquaculture currently represents less than 2% of total fisheries production. Various schemes are under way, particularly in African countries following the New Partnership for Africa's Development (NEPAD) 'Fish for All' initiative, to boost aquaculture production. For ACP countries, currently two of the most important species groups for export trade are tilapia and shrimp/prawn, although some are advocating the development of other types of aquaculture (such as molluscs), which require less care and have higher survival rates, and where international competition, particularly from low-cost Asian farmed products, may be less intense.

In 2006, the FAO published technical guidelines on aquaculture development to promote good practice as part of its programme of implementing the code of conduct for responsible fishing. This identifies the main challenges for aquaculture development in developing countries as 'operating fish farms in a more socially and environmentally responsible manner and making a tangible contribution to rural development and poverty alleviation in coastal areas'.

The distribution of profit along the value chain is becoming a crucial issue for ensuring that ACP fisheries sectors benefit from international fish trade. Inputs for ACP fish producers are becoming more expensive, fuel and freight costs in particular. ACP fishers, fish farmers and fish producers are 'price-takers' rather than 'price-makers' – they cannot pass higher costs to the fish buyers, particularly when these are large European retailers. Better prices for fish products are critical if sustainable development, based on the precept 'fish less, earn more', is to occur. Recently, several ACP countries have emphasised that developing the processing side can help to realise greater benefits from fish resources.

However, this is true only if all conditions are met to produce high-quality products, particularly complying with SPS regulations, and if mechanisms are in place to ensure sustainable levels of resource exploitation and socio-economic benefits (especially the number and quality of jobs).

2.2 Significance of the EU market for ACP exporters of fish and fishery products

A 2009 EC study shows that the EU represents a market for fisheries and aquaculture products of 12 million tonnes worth €55 billion annually. It is both the world's largest fish exporter, with 26% of total exports, and also the largest importer, with 43.5% of total imports. It imported US$20.75 billion worth of fish and fisheries products from non-EU suppliers in 2007, an increase of 11% over the previous year. Six EU countries are among the world's top 10 fish importers: Spain, with imports from non-EU suppliers worth US$4.37 billion in 2007, followed by the UK (US$2.2 billion), Denmark (US$2 billion), Germany (US$1.9 billion), Italy (US$1.8 billion) and France (US$1.77 billion).

The study also shows the EU's declining self-sufficiency from catches in its own waters, estimated to be only just over 30% in 2007. Overall EU fish supplies depend on imports to a level of 69%, but for some categories the dependency on imports is as high as 90%, as for white fish in 2007.

This situation, together with the enlargement of the EU from 15 to 25 and 27 member states in 2005 and 2007, provides ACP exporters with significant opportunities, so long as they can comply with the rules of origin and the non-tariff barriers represented by the EU's hygiene and other relevant standards.

A 2007 study shows that, while the nominal value and the overall volume of developing-country fish exports have increased in recent years, their relative value has declined: in 1984 a tonne of developing-country fish exports was worth 28.4% more than the value of developed-country exports; in 2004, they were worth 10.4% less per tonne. This highlights the fact that ACP and other developing countries have the opportunity significantly to increase their export earnings from fish and fishery products through adding value and raising quality.

But there is also a need for caution. The rapid growth in international trade to meet market demand is putting pressure on fishery resources. This can cause overfishing where fishery management is weak, and where the use of fish-catching technologies that damage the environment is permitted. There are also concerns that international trade in fishery products may have negative consequences for local food security. A 2008 Organisation for Economic Co-operation and Development (OECD) analysis shows that these concerns are not substantiated, but also reveals that no demonstrable relationship exists between fish trade and economic growth or poverty alleviation. The authors argue that this is due to the poor 'trickle-down mechanisms' that fail to redistribute the revenues generated by fish exports to the poorest segments of the population.

Table 1 Importance of EU markets for ACP fish exports

ACP region	ACP fish exports to the EU27 (av. value 2004–06 in US$ '000s)	Total ACP fish exports (av. value 2004–06 in US$ '000s)	Relative importance of EU market (%)
Africa	1,241,172	2,178,036	57
Caribbean	100,783	204,526	49
Pacific	42,654	188,425	23

Source: FAO statistics, fish trade flows by region, 2008.

For all ACP regions, the EU is the most important export market for their fisheries products. Other main markets for ACP fish products include the USA, south-east Asia and regional markets.

2.3 Significance of ACP fish and fishery products for the EU market

As a group, the ACP is an important fish-trading partner for the EU. EU trade statistics Eurostat show that in 2006, the value of EU imports of fish from ACP countries was around €1.4 billion, i.e. about 12% of the total value of extra-EU fish imports (€13.3 billion). The following table shows the top ten ACP fish exporters to the EU (by value), the value and quantities of fish exported, the type of products exported, and the average value per tonne for 2008.

Table 2 Fish trade between the EU and its main ACP trading partners

Country	Value of fish exports (€ '000s)	Volume of fish exports ('000 kg)	Main fish products exported (by order of importance)	Average value per tonne (€ '000)
Namibia	232,168	71,213	White fish fillets/frozen white fish	3.4
South Africa	215,725	58,593	Fresh white fish/frozen white fish/white fish fillets	4.0
Senegal	142,596	35,096	Fresh white fish/white fish filets/frozen white fish	4.1
Tanzania	111,083	28,013	White fish fillets (frozen)	3.6
Uganda	79,572	19,695	White fish fillets (fresh)	3.9
Madagascar	95,146	12,930	Crustaceans (shrimps and prawns)	8.0
Mauritania	94,708	20,454	Molluscs (octopus)/fresh fish/frozen fish	4.1
Mozambique	44,270	6,562	Crustaceans (shrimps and prawns)	7.2
Nigeria	35,822	4,509	Crustaceans (shrimps and prawns)	7.1
Seychelles	14,633	7,871	Canned tuna	1.6

Source: EU Export helpdesk, statistics 2008.

Although other factors, such as the fish species concerned or the level of integration between EU and ACP operators, may play a role, Table 2 suggests that export earnings may be increased if certain products, such as high-quality fresh fish, are given priority. Contrary to the common belief that processing always adds value to fish, this table shows that for some processing, such as canning of tuna, the value of fishery products may be reduced. In a context where many ACP fish stocks are either fully exploited or overexploited (which means that it will be difficult to increase benefits by increasing production), the way in which resources are exploited and processed has a bearing on the extent to which ACP countries can maximise the benefits from them.

2.4 Prospects for ACP fisheries exports to the EU market

2.4.1 Investment

In August 2005, African governments meeting around the 'Fish for All' initiative organised by NEPAD stated that: 'Strategic investments are needed urgently to safeguard the future contribution of Africa's fish sector to poverty alleviation and regional economic development'. Broadly, investment is needed to:

- improve the management of natural fish stocks;
- develop aquaculture production;
- enhance fish trade in domestic, regional and global markets.

Interim EPAs and EPAs include provisions on investment that could help meet these objectives while improving ACP competitiveness, which is crucial in countering the consequences of preference erosion. ACP countries should use this opportunity to secure EU investment and development support to improve their fish-landing, transport and processing infrastructures, and to improve the capacity of their fish-processing-and-export sector to comply with international traceability and sanitary standards. At the same time, there is a need for caution: improving competitiveness through the promotion of EU investments should not be at the expense of local enterprise, labour standards, quality of life, and the local environment.

An area in which ACP countries are keen to attract European investment is on-shore processing, such as tuna-processing facilities, to provide jobs and create 'spin-off' economic benefits such as investments in port and transport infrastructure and new businesses related to tuna-processing. Using this rationale, several ACP countries have secured on-shore processing facilities, often by promising valuable fishing licenses in exchange. However, there have been some concerns expressed that on-shore investments have been secured without fully assessing the net benefits of the projects relative to the stresses that they are likely to place on tuna resources and local communities and environments. There is concern that governments are granting fishing licences based on promised facilities that might not materialise to the extent promised. In the case of tuna processing in the Pacific, unexpected conflicts have arisen between coastal communities and the processing facilities (disputes over working conditions, land rights and pollution). Such conflicts not only have a negative impact on the long-term success of the investments, but also call into question the overall net benefits of on-shore investment without ensuring socio-economic returns. ACP countries need to develop a strategy for fully benefiting from such projects. This should include:

- developing a methodology for avoiding overcapacity in the fishing sector;
- developing accountability measures for investors to ensure facilities deliver the promised benefits;
- calculating net foreign-exchange benefits;

- assessing how such developments will affect local communities, and developing mechanisms to avoid and mitigate conflicts before they arise;
- assessing the levels of benefits to workers in the processing facilities.

As investment is also a key component of the Fisheries Partnership Agreements (see the Executive brief *ACP–EU fisheries relations and FPAs*), a coherent approach should be developed by ACP and EU to ensure there is synergy between investments promoted through FPAs and EPAs, and that they are in line with sustainable fisheries development in ACP countries.

2.4.2 The IUU catch-certification scheme

In July 2008, EU fisheries ministers found political agreement on a new regulation to fight IUU fishing, which includes a catch-certification scheme for certifying the legal origin of the product. This scheme, which is likely to be based on the model used for ensuring compliance with SPS standards, raises several issues.

The system proposed will not work if it is not supported by, or based on, at-sea observations. Where certification of catches is not supported by efficient and appropriate monitoring, control and surveillance systems in countries where catches are made, there is a high risk that such certificates will be tampered with, negating any impact on the fight against IUU fishing. On the other hand, the catch-certification scheme, by imposing an additional burden on ACP authorities, producers and exporters, may become an obstacle to legal ACP fish imports.

Issues arising from the implementation of the IUU catch-certification scheme have been explored in a series of country case studies (including Namibia, Senegal and Mauritania) published in July 2009.

Based on these, the EC has already expressed its wish to introduce some degree of flexibility in certification requirements for artisanal fishing vessels, where the catch certificate would lie in the hands of the exporter, who will be required to provide information on supplies from individual vessels to the validating authorities. In the absence of an internationally agreed definition of small-scale fisheries, the implementing rules would be based on the main cumulative characteristics: maximum length or no superstructure, landing in the flag state, short fishing trip, export consignments built up from supplies from several vessels, etc.

2.4.3 Rules-of-origin issues

Since January 2008, the preferential origin for ACP exports is established by Annex II to Council Regulation 1528/2007 (Market Access Regulation applicable to 35 ACP states that have initialled WTO-compatible agreements with the EC) and by Articles 66–97 of Commission Regulation 2454/1993 (GSP/EBA scheme applicable to the 43 remaining ACP countries).

The Market Access Regulation has been introduced as a transition measure, and will be replaced by the origin protocols annexed to the EPA agreements as soon as they provisionally start to apply.

Restrictions imposed by the rules of origin have long been a source of contention in EU–ACP fisheries relations, in particular with respect to the valuable tuna fishery. The way ‘originating fish’ is defined effectively forces ACP processors to purchase from high-priced EU suppliers (as they do not have their own tuna fleets, and fish from third-country vessels is not originating) in order to produce originating-tuna products.

Restricting their possible sources of raw material limits the development of ACP processing activities. It also creates an incentive for ACP countries to grant EU vessels preferential access to their EEZs to ensure their tuna canneries are supplied with originating tuna.

A 2007 EC-commissioned study states that the rules of origin provide the EU tuna fleets with a captive market able and willing to pay the premium required by the EU fleets to operate viably.

That the higher exploitation costs of EU fleets are passed on to ACP tuna buyers raises questions about their capacity to compete in such a highly competitive global market as that for canned tuna. According to some observers, the preferential margin offered to the ACP countries for originating canned tuna could therefore be considered as a form of upstream subsidy to EU vessels via fishery-access agreements rather than as a trade concession to ACP countries.

Currently, the rules of origin applicable under the protocols deriving from the Market Access Regulation include a series of changes from the situation under the Cotonou Agreement:

- deletion of the crew, masters and official requirements from the 'vessels rules';
- simplification and redrafting of the ownership requirement;
- change of the main rule for several products of Chapters 3 and 16 – instead of the wholly obtained requirement with regard to materials of Chapter 3, now 15% of non-originating input is allowed.

There is a specific derogation for Pacific ACP countries (Papua New Guinea and Fiji) in the context of the EPA signed/initialled with them in July 2009. This offers these countries 'the possibility of sourcing their fish raw material for processing globally'. This global sourcing can be applied only under certain conditions, such as notification by the Pacific country providing concrete information about the species concerned, products to be manufactured and quantities involved under the relaxed rule. For Pacific ACP states, this relaxation of the rules of origin may represent the only way for canneries to remain economically viable. It may already be showing its effects in terms of job generation and poverty reduction. Although the EU insisted on the fact that this concession was due to the specificities (geographical, etc.) of the Pacific ACP countries, it shows how relaxing rules of origin could benefit other ACP groups, provided that other EU conditions (hygiene standards, etc.) can be met.

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OXFAM study 'Weighing the options', August 2007
www.oxfam.org.nz/imgs/whatwedo/mtf/onz_briefing_weighingoptions_jul07.pdf

Useful websites

NEPAD 'Fish for all' initiative
www.fishforall.org/ffa-summit/africasummit.asp

ATUNA
www.atuned.biz

The EU Common Fisheries Policy: Implications for ACP countries

Contents

About this update

CTA's *Executive brief: "The EU Common Fisheries Policy: implications for ACP countries"* was published in June 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in December 2009, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key issues

The European Union (EU) is a major world fishing power. For about 30 years, the national fisheries of EU member states within community waters have been governed by the Common Fisheries Policy (CFP), as have many aspects of their distant-water activities. The appropriate level for analysing distant-water fishing by the EU is therefore at the Community level, rather than at the individual member-state level.

The CFP is composed of measures agreed by EU member states, and is constructed on four main policy pillars:

- conservation policy – to protect fish resources by regulating the amount of fish taken from the sea, by allowing young fish to grow and reproduce, and by ensuring that conservation measures are respected;
- structural policy – to help the fishing and aquaculture industries adapt their equipment and organisations to the constraints imposed by scarce resources and the market;
- market policy – to maintain a common organisation of the market in fish products and to match supply and demand for the benefit of both producers and consumers;
- international policy – to set up fisheries agreements and to negotiate at the international level within regional and international fisheries organisations for common conservation measures in high-seas fisheries.

Many EU member states have long traditions as distant-water fishing nations, most notably Spain, Portugal, UK, France, Poland, the Baltic states, and more recently the Netherlands. Currently, EU fishing fleets are active throughout all of the Food and Agriculture Organization (FAO) regions of the Atlantic Ocean, as well as the western and southern parts of the Indian Ocean, and increasingly in the Pacific region. The policy and programmes that the EU adopts with respect to its fishing fleet are thus of importance not only for the domestic industry, but also for fisheries in many other areas of the world, including the African, Caribbean and Pacific (ACP) countries.

For about 30 years, the CFP has dealt with the EU's policies on fisheries both within its own waters and externally (international and third-country waters), including ACP waters. The internal problems of EU fisheries and policies arising, such as overexploitation of fish resources and the EU fish market's increasing reliance on fish coming from outside, have important consequences for the development of ACP fisheries. This is particularly so in the areas of resource management, food security, and the development of value-added activities. The CFP is reviewed, and necessary reforms are undertaken, every 10 years.

During the most recent reform of the CFP in 2002, new sets of regulations were adopted to enable conservation and sustainable exploitation of fisheries resources, some of particular relevance to ACP countries, in particular:

- the Council conclusions on an integrated framework for partnership agreements with third countries;
- the EU regulation to combat illegal, unreported and unregulated (IUU) fishing and the control regulations;
- the European Fisheries Fund;
- the EU regulation on the improvement of the scientific advice.

In July 2009, the EC launched a public consultation for the next reform of the CFP, planned for 2012. Two issues are of particular relevance to ACP countries in the context of the reform of the CFP: the overexploitation of fish stocks; and the increasing fish-supply deficit on the EU market.

2 Latest developments and implications for ACP countries

2.1 Changes to regulations

Some regulations of the current CFP have particular relevance for ACP countries, including those concerning:

- Fisheries Partnership Agreements (FPAs);
- IUU fishing;
- the new control regulation;
- the European Fisheries Fund (EFF);
- data collection.

2.1.1 Fisheries Partnership Agreements

Some 500 EU fishing vessels (20% of the EU fleet) now fish under the various bilateral fisheries agreements (currently there are 15 in place) with ACP countries. In 2004, the EU adopted a new approach and now concludes FPAs that supposedly contribute to responsible fishing in the mutual interest of the parties concerned. These are the subject of the CTA Executive brief *EU–ACP fisheries relations and FPAs*.

2.1.2 The IUU regulations and the Control regulation

The new EU regulation to combat IUU fishing was adopted at the end of 2008 and entered into force on 1 January 2010. The system will apply to both EU and non-EU fishing vessels. Of particular importance for ACP countries is the catch-certification scheme, which will guarantee the legal origin of the fish. Strong emphasis is placed on checking, inspection and verification activities to be carried out according to common criteria governed by risk management and assessment, allowing better targeting of the trade flows to be controlled.

It is important to note that the EU proposes to provide assistance for developing countries to control unlawful fishing to help them to comply in full with the undertakings they will make under the FAO International Plan of Action to prevent IUU fishing. For the ACP, these undertakings may be implemented with the means provided by the FPAs, or through specific projects to establish monitoring, control and surveillance programmes.

In October 2009, the EU also adopted a new regulation dealing with fisheries controls in the EU. Control and inspection will be focused where it is most effective through an approach based on systematic risk analysis. Inspection procedures will be standardised and harmonised for all stages in the market chain, including transport and marketing. This new control regulation is meant to complement the IUU fishing regulation and the Council Regulation on fishing authorisations for vessels fishing outside EU waters, including through FPAs. Together, these three regulations will form the pillars of the EU control system. Adoption of the EU control regulation, in particular its article on traceability (Article 50), will help to set up a level playing field between imported fish products – where traceability will be ensured through implementation of the IUU regulation, also starting on 1 January 2010 – and EU products.

2.1.3 The European Fisheries Fund

In June 2006, the EU Council adopted the EFF to provide the necessary financial assistance to implement the proposed CFP reforms and to support the development and restructuring of the EU fisheries sector. The Spanish sector is the main beneficiary from the fund, with €1,005 million for the period 2007–13 from the EFF, 26% of the total. The EFF provides for five priorities:

- to adjust the EU's fishing fleet to the available resources;
- to promote the acquisition and use of gear and methods that reduce the impact of fishing on the environment;
- collective action;
- sustainable development of coastal fishing areas;
- technical assistance.

In response to the fuel crisis affecting the EU catching sector, the regulation provides aid for engine replacement on grounds of safety and fuel efficiency. High fuel costs have a significant bearing on the economic viability of the European fleet and its ability to operate in distant waters. At the same time, differences in fuel costs and the availability of subsidies to install more fuel-efficient engines in the EU may increase the competitive advantages already enjoyed by the EU fleet in ACP waters.

Initiatives for energy saving in the fisheries sector can also be supported. A 2009 EC study shows that some segments of the EU fleets remained profitable even with high fuel prices. This applies particularly to passive gears for boats of less than 12 metres and the (large) pelagic trawlers.

2.1.4 Improvement of scientific and technical advice

The EU adopted a regulation in 2008 establishing a framework for the collection, management and use of data in the fisheries sector and support for scientific advice regarding the CFP. The new framework introduces provisions to meet the move towards fisheries- or fleet-based management as opposed to managing fish stocks and the shift towards an ecosystem-based approach.

The new data-collection system covers the entire process, from the collection of data in ports or at sea, to its use by the end-users (the scientific community and advisory bodies). The new framework also places more emphasis on social and economic data so as to provide a basis for impact assessment of new legislation, and to allow monitoring of the performance of the European fleet. This new regulation also applies to EU vessels fishing outside EU waters, including in ACP Exclusive Economic Zones. This could help to reduce the substantial under-reporting of catches, particularly for tuna, observed for some segments of the EU tuna fleet fishing in the east Atlantic and Indian oceans.

2.2 The 2012 reform of the CFP

In July 2009, the EC launched a public consultation for the next reform of the CFP, planned for 2012, and published a green paper highlighting issues to be addressed in the reform. From the EC point of view, some objectives are key to the reform of the CFP:

- to make ecological sustainability a priority;
- to move towards a situation in which decisions can be taken at a level much closer to the people they most immediately affect;
- to involve the industry more intimately;
- to secure robust scientific knowledge and data to feed into the decisions taken.

These issues are discussed in the green paper, as well as other issues, including compliance, possible alternative systems for allocating fishing rights, and subsidies. The EC proposes a progressive ban on subsidies, and insists that subsidies must be used to adapt to the crisis context or to finance innovative actions, but should not be used to reinforce overcapacity.

2.2.1 Degree of overexploitation of EU fish stocks

An issue of particular relevance to ACP countries in the context of the reform of the CFP is the overexploitation of EU fish stocks. In 2008, the EC highlighted the fact that 88% of fish stocks in EU waters are overfished, compared with 25% on average globally. This situation of overexploitation has come about for technical as well as political reasons. For example, the promotion of more selective fishing techniques, including for fleets fishing outside EU waters, has not yet been implemented.

This has implications for the sustainable exploitation of ACP fish stocks, particularly in places such as the Gulf of Guinea, where by-catch contains a high level of juveniles. There are also implications for the value of the catches being made by the EU in ACP waters, as some of the by-catch species are in fact high-value commercial species sold in the market.

The CFP has also encouraged overcapacity. The current EU fleet is much too large for the resources available in community waters. Technological advances in vessel and gear design, in fish finding and navigational equipment, and in telecommunications all contribute to increasing the EU fleet capacity. This is of particular relevance for ACP coastal countries where EU boats are operating under fisheries agreements. Over the years, while the declared EU capacity may have remained constant, in reality fishing effort has actually increased due to technological factors.

More resources are being fished than planned (sometimes leading to, or aggravating, overfishing), and the financial compensation does not reflect the real value of the fish being caught. This has serious implications for management of the resources in ACP countries by causing overfishing and increasing competition with local fleets. By using inappropriate measurements of capacity, ACP negotiators may be systematically underestimating the catch and impact of the EU fleets in the agreements that are signed.

2.2.2 Impact of EU demand for fish

Another issue of relevance to ACP countries that is also at the root of the 'failure of the CFP' is the increasing supply deficit on the EU fish market. EU reliance on imports for all fishery products was estimated to be about 70% for 2009, and for some categories such as white fish it has reached 90%. It is also important for the ACP to note that fish caught in EU waters are mainly destined for the fresh-fish market, while imports mainly comprise fish as raw material for the processing industry. This has significance for any strategy for marketing value-added processed fish in the EU.

In order to be competitive, the EU processing industry needs to import fish at competitive prices, where the granting of tariff reductions plays an important role. The EU has concluded a number of agreements with, or granted tariff preferences to, several third countries. The trend, for the short to medium term, will be for the present system of tariffs to be reduced or eliminated altogether, this being a central objective of the WTO. In parallel, all the other requirements applicable to imports (e.g. concerning rules of origin, health-and-hygiene standards and traceability requirements) are becoming increasingly difficult to comply with.

In conclusion, the internal problems of EU fisheries and policies arising have important consequences for the development of ACP fisheries. This is particularly so in the areas of resource management, food security, and the development of value-added activities. There is a need for a careful analysis of the evolution of the EU's fisheries sector in order to evaluate the kinds of fisheries relationships on offer (be they through fisheries agreements, partnership agreements, or market-access conditions). An assessment then needs to be made as to whether or not these are likely to provide the benefits that ACP countries seek with regard to the development of their fisheries sectors and the maximisation of the contribution of fisheries to the objectives of national food security, job creation and government revenue-generation.

Information sources

Key sources

European Commission Fisheries website
http://ec.europa.eu/fisheries/index_en.htm

Green paper for the reform of the CFP
http://ec.europa.eu/fisheries/reform/index_en.htm

Reform of the fisheries control system – an overview'
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Conservation and sustainable exploitation of fisheries resources
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Communication from the Commission to the Council and the European Parliament on improving fishing capacity and effort indicators under the CFP
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Report on the role of flags of convenience in the fisheries sector, European Parliament 2001 (1). Committee on Fisheries, 2001
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Executive brief: Update

ACP–EU fisheries relations and FPAs

Contents

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1 Background and key issues

The main formal fisheries relations between the European Union (EU) and African, Caribbean and Pacific (ACP) countries fall either within the framework of the Cotonou Agreement or within the framework for bilateral Fisheries Partnership Agreements (FPAs) between a single ACP country and the EU. The former are mostly funded through the European Development Fund (EDF).

Anticipating the UN Convention on the Law of the Sea, in the mid-1970s an increasing number of coastal states established Exclusive Economic Zones (EEZs) by extending their jurisdiction out to sea from 3–12 to 200 nautical miles. This brought almost 90% of the world's exploitable fish resources under the control of coastal states. To ensure continuity of access for their fleets, fisheries agreements were concluded between the EU and third countries, including ACP countries. These are an integral part of EU distant-water fisheries policy. They include a component of access for EU fleets to ACP resources, and a financial contribution. These bilateral fisheries agreements provide the EU with security of fish supply through EU access to ACP resources. Through the financial contribution, they may support ACP countries' efforts to implement sustainable exploitation of resources (particularly in terms of research and control).

Such 'cash for access' fisheries agreements have led to a number of criticisms concerning the sustainability of EU access to ACP resources, particularly in cases where resources are fully exploited or even overexploited, and where EU fishing activities lead to competition with the local ACP sector for access to resources or markets. To answer these criticisms, the EU has shifted since 2004 towards FPAs, in which issues of sustainability are prominent. The main changes introduced in FPAs relate to the operations of EU fleets, the financial contribution, the inclusion of a social clause, and the use of *ex-ante*, *ex-post* evaluations.

Related issues include the World Trade Organization (WTO)-compatibility of subsidies, EU investments, particularly joint enterprises and vessel transfers, the importance of acting at regional level, and the promotion of good governance. Different considerations take priority in mixed fisheries and tuna fisheries.

The 2009 EC green paper for the reform of the Common Fisheries Policy (CFP) highlights that 'the main objective for activities under the external dimension of the CFP should be to extend the principles of sustainable and responsible fisheries internationally. Other objectives that currently guide the external dimension of the CFP, such as maintaining the presence of an EU fleet internationally and ensuring that this fleet supply the EU market, may be less relevant today'.

Four main areas of discussion have recently been identified by the EC (see section 4 below) concerning the reform of the EU's external component of the CFP, which could form a basis for a dialogue between the EU and ACP countries on the issues arising from reform of the EU external fisheries policy. To address these issues, the following elements will need to be considered in future ACP–EU fisheries partnerships:

- Regionalisation – ACP countries insist on the need for a regional approach, including through the harmonisation of minimum-access conditions for distant-water fishing fleets such as the EU.
- Introducing conditions for access to ACP resources – the prevention of overfishing is a key concern for the ACP as well as the EU, 'in particular for stocks of importance to local people'. This commitment raises a number of issues concerning the setting up of the level of access, the estimation of the fishing effort, catch reporting, monitoring, control and surveillance (MCS), etc.

- EU investments in ACP fisheries – the FPAs contain provisions for supporting EU investments in ACP fisheries, particularly through joint ventures. Currently, however, EU investments in ACP fisheries sectors, particularly through setting up joint ventures based on vessel transfer, are stagnating. For the future, there is a need to address new challenges such as those posed by:
  - the development of regional markets;
  - the setting up of joint ventures for the purpose of adding value (on-shore processing in particular);
  - support to ACP small- and medium-sized fishing enterprises (SMEs).
- Improving coherence – both ACP countries and the EU recognise the need for increased coherence between bilateral approaches developed through FPAs and the regional approach developed through Regional Fisheries Management Organizations (RFMOs) and Economic Partnership Agreements (EPAs).

2 Latest developments

2.1 The various types of ACP–EU fisheries relations

2.1.1 Fisheries sector cooperation within the framework of the Cotonou Agreement

Through DG Development, the EU is financing fisheries initiatives in ACP countries, mostly under the EDF, with a total financial envelope of around €140 million. The most important initiatives concern programmes and projects financed under regional programmes or through so-called 'all-ACP funds' (sector-wide programme funds, not allocated at national or regional level). In addition to these rather large projects, there are several projects at national or regional ACP level.

The first ACP Council of Fisheries Ministers in June 2009 proposed to put in place a 'ministerial mechanism for ACP coordination and cooperation on fisheries issues', a proposal that was subsequently approved by the ACP Council of Ministers in November 2009. ACP countries are also proposing, within the existing framework of cooperation in fisheries in the Cotonou agreement, to establish a joint ACP–EU ministerial fisheries committee, which would help to create the conditions for the sustainable development of ACP fisheries.

Fisheries-sector cooperation activities can also be financed from other European sources, including the European Investment Bank, the Centre for the Development of Enterprise and Proinvest.

2.1.2 Bilateral fisheries agreements

In November 2009, there were 19 Community fisheries agreements with ACP countries, most of which were tuna agreements. All of the 'cash-for-access' type of fisheries-access agreements have been replaced by FPAs based on a sustainable development approach. Some ACP countries have an agreement without a protocol in force, for example, Angola, Mauritius and Senegal.

2.2 Issues arising from ACP–EU fisheries partnership agreements

Traditionally, the main interests of the EU in signing fisheries agreements included: supplying fish as raw material to the EU processing industry, maintaining fishing capacity outside EU waters, and maintaining EU employment. However, the 2009 green paper on reform of the CFP emphasises that 'the main objective for activities under the external dimension of the CFP should be to extend the principles of sustainable and responsible fisheries internationally. Other objectives that currently guide the external dimension of the CFP, such as maintaining the presence of an EU fleet internationally and ensuring that this fleet supply the EU market, may be less relevant today'.

The new ACP–EU FPAs raise some issues of key concern for ACP countries, as described below.

2.2.1 Regionalisation/harmonisation of FPAs

A report on the EC's 2006–08 action plan for simplifying and improving the CFP emphasises the need to 'finalise a standard agreement for the negotiation of FPAs'. Already, technical conditions governing tuna partnerships have been revised to take into account the specific regional aspects of these highly migratory species: the presence of regional observers, the recommendations of regional fisheries organisations, etc. In 2009, ACP countries from West Africa and the Pacific region insisted on the need for a regional approach, including through the harmonisation of minimum-access conditions for distant-water fishing fleets such as those of the EU.

2.2.2 Conditions of access to ACP resources

The prevention of overfishing is a key concern for the EU, 'in particular for stocks of importance to local people'. However, in 2009 some crucial issues remain unresolved, in particular the fact that some FPAs, such as the EU–Mauritania FPA, still provide access to resources that are already fully exploited or even overexploited.

The use of satellite-based vessel-monitoring systems, now systematically introduced in the agreements, partly addresses the issue of reporting by locating where fishing boats are and whether they are fishing or not. The effectiveness of the system is highly dependent on the capacity of the coastal state to back up such systems with patrol vessels and the ability to monitor catches directly, and in the latest agreements considerable efforts have been made to improve ACP countries' capacities in terms of MCS.

Another problem arises from ACP misreporting of local catches. A 2009 study estimates that the statistics provided to the FAO in the past 50 years, including by ACP countries, have failed to show fully quite large volumes of fish being caught by small-scale fisheries. The study provides examples of ACP countries having used statistics that underestimated local catches to justify selling permits to European boats to fish for high-value species – further depleting stocks for the local community.

2.2.3 Definition of the financial contribution

Given the important ACP needs in terms of 'scientific and technical evaluation of the fisheries, monitoring and supervision of fishing activities, hygiene requirements, etc.', the required level of EU investments to address those needs implies that costs will rise. The other side of the coin is that if the EU asks only for access to stocks that are not fully or overexploited, overall fishing possibilities may decrease in the short term.

In this context, it is worth noting that in the latest Mauritania–EU FPA, signed at the end of 2008, an explicit linkage is made for the first time between funds disbursed under the FPA and EDF funding. A footnote specifies that, in addition to the FPA financial compensation agreed, in the event of a positive overall performance at the time of the mid-term review of the 10th EDF in 2010, including the sectoral fisheries policy, an increase in the programmable allocation under the 10th EDF may be considered.

This means that, if conditions are fulfilled (accountability, good governance, and performance of the sectoral fisheries policy), the global budgetary support provided to Mauritania through the EDF will be reviewed and increased after the mid-term review of its National Indicative Programme in order to 'compensate' the losses due to the diminution of the FPA financial compensation.

On one hand, this kind of linkage can be seen as a way to put pressure on an ACP country, Mauritania in this case, to sign an agreement providing access to its resources, and to tailor its fisheries policy to suit EU needs. On the other hand, involving more EDF funds in overall ACP–EU fisheries relations may also contribute to decreasing the influence of the access component of the agreement and thereby shifting the emphasis onto development needs.

3 Implications for ACP countries in the fisheries sector

3.1 Issues arising from EU investments in ACP fisheries

The FPAs contain provisions for supporting EU investments in ACP fisheries, particularly through joint ventures. A 2009 report on policy coherence for development highlights that EU investment in ACP fisheries sectors are stagnating, regardless of the existence of an FPA. It needs to be emphasised that, all too often, European investment in ACP fisheries sectors has been made on the basis of very limited knowledge of the state of fish stocks and ecosystems, and with a poor understanding of the dynamics of fishery sectors and coastal communities. These may explain in part the stagnation of EU investments in ACP fisheries sectors.

3.1.1 Strategic importance of joint enterprises for the EU

Joint ventures involving EU capital are operating in ACP countries including Namibia, Mozambique, Angola, Mauritania, Senegal, Gambia, Guinea-Bissau, Guinea-Conakry and Gabon. At the end of 2008, the 'Cluster of EU joint enterprises' set out how their activities were beneficial for the EU. From their point of view, joint enterprises ensure:

- the strategic supply of high-quality marine products to the EU market (10% of the imports and 5% of the total consumption);
- the creation of 7,000 jobs (over 86% of which were in third countries);
- an important contribution to the EU fleet's efforts at capacity reduction and sustainability of the activities in the fishing zones where the joint ventures operate;
- the reduction of illegal immigration thanks to the jobs created in third countries with EU-level salaries.

As would be expected, EU operators are often reluctant to lose control of the operations, for a variety of reasons, including the lack of security for investments in third countries.

3.1.2 Strategic importance of joint enterprises for ACP countries

The starting point for European investment in ACP fisheries should be based on the development needs of ACP countries: job creation, food security, export revenue, etc.

The ACP SMEs, particularly small-scale fisheries, processing and exporting businesses, are effectively addressing many of these explicit needs, and a priority for EU investment should therefore be the SME sector.

New challenges must also be addressed, such as those posed by regional markets or by the setting up of joint ventures for the purpose of adding value (on-shore processing in particular). One of the main direct benefits from EU investment in on-shore processing facilities is employment generation, not least because firms are generally given significant tax breaks or tax holidays, thereby reducing government revenue generation, such as in export processing.

To speed up investments for on-shore processing, some ACP countries, particularly Pacific-island countries, have proposed to link shore-based investment to access to fishing grounds. However, in a 2009 FFA report, concerns are expressed 'that governments are granting fishing licenses based on promised facilities that might never materialise to the extent promised and that plans do not include comprehensive analyses of resource sustainability or the net socio-economic returns that the plants will gather'.

3.2 The 2012 CFP reform: implications for FPAs

Speaking to the European Parliament's fisheries committee on the reform of the CFP, the Fisheries Commissioner highlighted on 10 February 2009 that one aim of the CFP review concerns the policy's external dimension. Four main areas of discussion were identified by the Commissioner:

- 'strengthening the role of the EU on the international stage in improving and developing good governance of seas and oceans;
- 'finding with our partners ways of giving RFMOs the means to become more effective in combating IUU activities and protecting the marine environment in the areas under their stewardship;
- 'improving the use of bilateral agreements to promote EU investment in third countries and to strengthen capacity in developing countries to better manage their maritime natural resources;
- 'establishing greater consistency between the regional and bilateral approaches of our external policy by linking together our bilateral interests in a given region under an integrated regional approach.'

The four areas of discussion highlighted here could form the basis for a dialogue between the EU and ACP countries on the issues arising from reform of the EU external fisheries policy. In particular, it is important to point out the need for increased coherence between bilateral approaches developed through FPAs and the regional approach developed through RFMOs and EPAs.

Given these challenges, it is possible to draw up a list of priority areas and demands that need to be discussed as part of future FPA negotiations, as follows.

The objectives of the Cotonou Agreement should form the basis for the establishment of FPAs. They should therefore be the result of a political dialogue.
In order to conserve ACP natural capital for both current and future generations, it is important that access of EU boats to ACP waters be made conditional on:

- flexible adjustment of fishing possibilities on the basis of annual resource assessments, taking into account the best available scientific information (in particular, the results of international or regional scientific committee meetings) and in accordance with the needs of the local fishing sectors;
- promotion of good governance, with a clear distinction between fishing access and the monies allocated for investing in sustainable fisheries development – under no circumstances should the reduction of fishing access lead to a reduction in monies allocated for investment in sustainable fisheries development;
- promotion of a regional approach to partnerships in ways that strengthen systems and capacities for collecting, processing and sharing data on catches, fish stocks, ecosystems, fishing effort, and the economic and social importance of the fishery sector – in particular, FPAs should support and build on existing regional research initiatives involving both national research centres and international bodies such as the FAO;
- promotion of transparency;
- data collected should be publicised, in their aggregated form, to promote transparency, public debate and public control over the process;
- full transparency, information and well prepared participation of the local ACP fisheries sector in the negotiating process can only reinforce the ACP countries'

position in favour of a sustainable, 'poverty-reducing' development of ACP fisheries sectors.

3.3 Monitoring, control and surveillance: a priority in ACP–EU fisheries relations

In order to be able to better assess the value of their natural capital, ACP coastal states have pushed for an improvement of their MCS capacities. This ACP demand coincides with the EU's proposed regulation to fight IUU fishing, which will enter into application as from 1 January 2010. Adopted measures include:

- introduction of an EU 'blacklist' of non-complying vessels, with detailed rules on drawing up such a list, the consequences of being included thereon, and in certain cases the consequences for third countries harbouring such vessels;
- establishment of a certification scheme designed to cover all imports of fishery products, with the exception of products derived from inland fisheries and aquaculture.

In 2009, the EU also adopted a regulation updating the system for authorising the fishing activities of Community fishing vessels outside Community waters. EU fishing vessels should be considered eligible for authorisation for any fishing activity outside Community waters, only insofar as a number of criteria are satisfied: vessels already carrying out fishing activities under the agreement concerned should have fulfilled the conditions under the agreement in the previous year; vessels should not be included in an IUU list, etc.

These new regulations are an important step taken by the EU to fulfil its responsibilities as flag state, port state and market state.

3.4 Promoting good governance

On a visit to the Seychelles in 2009, the EU Fisheries Commissioner emphasised that, in the context of reform of the CFP, the final objective should be 'to improve fisheries' governance, for the benefit of both the coastal states and the entire region'.

In the case of EU tuna FPAs, moving towards a regional approach would clearly help to promote good governance. It is also important to improve the transparency of the negotiating process and to raise the participation of stakeholders.

Some steps have recently been taken, such as the constitution of the EC Long-Distance Fisheries Advisory Committee (LDRAC) in 2007, as a tool to ensure greater stakeholder involvement in the policy-making processes of fisheries management. This committee is made up of representatives of the fisheries sector and other groups, including NGOs, and prepares recommendations and suggestions on questions concerning fisheries agreements with third countries and relations with the regional fisheries organisations of which the EU is a signatory. The information provided by the LDRAC is interesting for ACP stakeholders, inasmuch as it provides some insights into the nature of EU stakeholders' concerns regarding the future of fisheries relations with ACP countries. Ultimately, a better understanding of these concerns by the ACP could facilitate a fruitful dialogue between the two parties. On the other hand, it would be useful to find a way for ACP stakeholders to interact with this new body so as to provide their points of view and positions on the issues discussed there.

3.5 Coherence between FPAs and EPAs

There is a fine line in ACP–EU fisheries relations that divides the interest of the EU in resource access on the one hand, and the ACP's interest in tariff-free access to EU markets on the other. ACP negotiators need to be aware that the EU may push for ACP access to EU markets to be made conditional on EU fleet access to ACP waters. An issue of even greater concern is that post-Cotonou, and within the framework of EPAs, ACP market access may also be made conditional on direct foreign investment for EU enterprises in the ACP fishing sector.

In 2007, an EC representative declared that 'EPAs negotiated with ACP countries will be the main tool of economic, financial and political cooperation', as they concern the entire fishing sector, service, marketing, processing and market access, as well as the programming of part of EDF resources. The issue of combating illegal fishing and the importance of regional action within the framework of these EPAs will also be discussed, as well as coordinated action at the level of regional fishing organisations.

It is true that EPAs could help to achieve such ends, provided fisheries are treated as a priority in the negotiations. However, the absence of any reference to resource-access issues, or to FPAs, is noticeable in the discourse of the EC representative. This is markedly different from the approach proposed by several ACP groupings, such as the Pacific ACP countries, where access to resources forms an integral part of the EPA discussions.

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Executive brief : Update

WTO aspects of ACP–EU fisheries relations

Contents

About this update

CTA's *Executive brief on the "WTO aspects of ACP–EU fisheries relations"* was published in August 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in January 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief;

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Key issues of WTO interaction with ACP–EU fisheries relations

Fisheries and fishery products are not part of the agricultural negotiations in the World Trade Organization (WTO), but are dealt with as industrial products. As such they are included in the non-agricultural market-access (NAMA) negotiations.

They are currently dealt with by the WTO at four different levels:

- market access for non-agricultural products (NAMA) – reduction and elimination of tariffs and non-tariff barriers, particularly on products of interest to developing countries;
- the Agreement on Subsidies and Countervailing Measures (ASCM);
- trade and the environment, particularly as regards Multilateral Environmental Agreements (MEAs);
- dispute-settlement procedures.

The international trade in fishery products has also been affected by two other areas of WTO jurisdiction, under:

- the anti-dumping agreement (the agreement on the implementation of Article IV of the General Agreement on Tariffs and Trade, GATT);
- the agreement on safeguards.

Lastly, under the General Agreement on Trade in Services (GATS), services incidental to fisheries may be liberalised.

Fisheries are also dealt with under trade and environment negotiations, and dispute-settlement procedures have been invoked in several cases. Also important are anti-dumping measures and the agreement on safeguards. Issues arising from non-tariff barriers (NTBs), including sanitary and phytosanitary (SPS) questions and technical barriers to trade, are highly relevant. A related aspect includes the increasing attention afforded to the use of eco-labelling.

Subsidies negotiations have highlighted the need to differentiate between harmful and beneficial subsidies to the fisheries sector, and the need to allow exceptions for developing countries through special and differential treatment (S&DT), particularly artisanal fisheries.

Fisheries agreements between the European Union (EU) and African, Caribbean and Pacific (ACP) countries were a particular source of concern, as many payments that were nominally for access rights or to aid the development of local fisheries have been construed as subsidies to the EU fleet.

The EU has adapted its fishery agreements to be WTO-compatible. So far it has adopted a middle position regarding subsidies between the hard-line anti-subsidy ‘Friends of fish’ group and the ‘Friends of fishing’ group, but tending towards the latter.

ACP participation in the subsidy negotiations has been fairly low key, with some notable exceptions (linked to the small, vulnerable coastal states, and in their own right), one of their main concerns being that fisheries-access fees should be exempt from any new disciplines on fisheries subsidies. The draft text, released by the Chair of the negotiating group on rules on 30 November 2007, explicitly states that access fees shall not be deemed to be subsidies within the meaning of this agreement, subject to certain conditions.

The vulnerable situation of ACP canned tuna on the EU market has also been highlighted, given the boost that the anticipated tariff reductions could give to non-ACP imports.

The dispute-settlement procedures of the WTO have been invoked, notably by Asian competitors of ACP canned tuna, focusing on the preferences given to ACP tuna-canners in the EU market.

Since the breakdown of the Doha Round negotiations in July 2006, it has been questioned whether there is the necessary political will to see the Doha Mandate through. In parallel, the EU and other major players are signing up to bilateral trade agreements that go beyond WTO commitments, indicating that they favour a bilateral approach to trade liberalisation over a multilateral approach through the WTO.

2 Latest developments and implications for ACP countries

2.1 Negotiations on market access for non-agricultural products

Exports of fish and fishery products from developing countries are making an increasingly important contribution to their export earnings. Food and Agriculture Organization (FAO) figures in 2009 highlight the observation that developing countries (including China) are accounting for 50% of all fish exports.

Under the trade provisions of the Cotonou Agreement and subsequent EPA and interim EPA agreements, ACP fish exporters still enjoy significant margins of preference in the EU, their most important market. However, this competitive advantage continues to be eroded, in particular by the WTO NAMA negotiations.

The NAMA negotiations have so far adopted two distinct approaches:

- the 'critical mass approach', which would require that a critical mass of major fish-producing, importing and exporting countries establish a sector-specific agreement (to make fisheries a special case) to liberalise fish trade, that is, to take fisheries out of the NAMA negotiations;
- the 'formula approach', which would require agreement on a formula to be applied to current tariff regimes, so as to reduce them to zero over time.

The EU is advocating a formula approach, which is the route most likely to be adopted. Being responsible for 30% of global fish trade, the EU's backing is necessary if the critical mass is to be reached. Given the slow rate of progress in the NAMA negotiations since Doha, it is likely that current tariff regimes will remain in place until after the EPAs currently under negotiation enter into force.

Non-tariff trade measures may restrict trade inadvertently or incidentally to their primary purpose. Two WTO agreements deal with NTBs:

- the agreement on the application of sanitary and phytosanitary measures (the SPS agreement);
- the agreement on technical barriers to trade (the TBT agreement).

In 2009, the importance of the TBT agreement was illustrated by the follow-up of Mexico's complaint against US rules on tuna labelled as 'dolphin safe'. Mexico claims that the criteria for the 'Dolphin Safe' logo, which is administered by the US department of commerce, discriminates against its tuna exports. In 1991 the GATT condemned the US import embargo of tuna caught in association with dolphins, but ruled that requiring tuna products to be labelled dolphin safe did not violate GATT rules. The USA argues that the case should be arbitrated under the North American Free Trade Area rather than at the WTO. In April 2009, the WTO established a dispute-settlement panel. This case marks the first time that such a panel will examine the WTO compatibility of voluntary product labelling, albeit one administered by a government.

2.2 The WTO Agreement on Subsidies and Countervailing Measures

The Doha Round of WTO negotiations on subsidies and countervailing measures broke down in 2006. Negotiations on fisheries subsidies were further set back in mid-2008 by the collapse of the Doha Round. But in December 2008, the Chair of the WTO negotiating group on rules circulated a conceptual 'road map' on fisheries subsidies. The road map identifies the key questions that the negotiating group will need to address to reconcile participants' different approaches to disciplining subsidies that contribute to overcapacity and overfishing, while formulating appropriate and effective S&DT that addresses the interests and concerns of developing-country members. It is intended to provide a platform for further discussions.

During the meetings held in 2009, members remained divided into two broad camps on how to structure rules aimed at curbing fisheries subsidies. Japan, Korea, Taiwan and the EU want a 'bottom-up' approach that would ban specific types of subsidy payment, such as those that directly contribute to increased fishing capacity. They contend that this would make for clear, workable and effective fisheries regulations.

In contrast, several countries, the so-called 'Friends of fish' – Australia, Chile, Ecuador, Iceland, New Zealand, Peru, Philippines and the USA – advocate a 'top-down' approach. This would ban all fishing subsidies save for some negotiated exceptions. Supporters of this approach argue that a comprehensive prohibition represents the best option for halting overfishing.

In the EU, until recently subsidies pervaded almost every aspect of its fisheries:

- grants for vessel construction;
- grants for training;
- tax breaks (e.g. on fuel);
- infrastructure development;
- subsidised loans;
- market support;
- third-country fishing-access fees.

Such subsidies gave EU enterprises unfair competitive advantages over other fishing sectors.

On the issue of fisheries agreements access fees, the Africa Group proposed in September 2009 that any new rules should not explicitly include fishing-access agreements within the definition of subsidies, as most African as well as ACP states negotiate access fees at the state level. Such payments are state-to-state transfers and therefore do not constitute a subsidy within the meaning of the ASCM. The African Group therefore favours the explicit exclusion of government-to-government transfer of funds from the Chair's first draft text, which provides the necessary clarity and legal security and predictability in the treatment of access fees.

Meanwhile, the debate on S&DT for developing countries has progressed to the level where serious attention is being given to the possible exemption of:

- the access fees paid to developing countries;
- small-scale and artisanal fisheries, where this would require arriving at acceptable definitions of these sectors;
- development-cooperation programmes.

In the current Chair's text (December 2008), S&DT provisions are linked to fisheries-management conditionalities. The Chair's road map posed a question regarding suggestions for other conditions upon which S&DT could be based instead of fisheries management. So far, no members have responded to the question, which suggests unanimous support for some form of fisheries-management conditionality for S&DT exemptions. Small-scale fisheries and S&DT are potentially a major stumbling block on reaching agreement in the fishery-subsidy negotiations. In particular, defining the size and scope of small-scale fishing operations is a highly contentious issue, especially if physical size is taken as the main criterion.

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Executive Brief: Update

Banana: Trade issues for ACP countries

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2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

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1 Background and key issues in the banana sector

In 2008, some 10.5% of bananas consumed in the European Union (EU) were produced within the EU (Canary Islands, Guadeloupe, Martinique, Madeira, Azores, Algarve, Crete, Lakonia and Cyprus). In 2007, the EU banana regime was reformed and brought into the mainstream of the reformed EU Common Agricultural Policy (CAP) by incorporating the sector into the single payment scheme. This saw EU direct support to banana producers increase from €280 million to €338 million per annum with payments, according to US Department of Agriculture estimates, rising from 18 euro cents/kg to 33 c/kg.

African, Caribbean and Pacific (ACP) banana suppliers traditionally enjoyed high margins of tariff preferences under a system of quota-restricted access for both ACP and Latin American banana exporters. From October 2004, this was replaced by a tariff-only system, with the tariff subsequently being reduced from €230/tonne to €176/tonne from 1 January 2006. Despite the maintenance of tariff preferences, while ACP banana exports have expanded, the ACP's share of the EU banana market has declined. In addition, the geographical origin of ACP banana imports into the EU has changed dramatically since 1992. Three major trends can be identified:

- a decline in the share of traditional Caribbean suppliers, falling from 52.3% in 1992 to 12.5% in 2007;
- an increase in African banana exports from 37.4% of the ACP total in 1992 to 60.5% in 2004 (falling back to 48.8% in 2007);
- an increase in exports of bananas from the Dominican Republic and Belize from 9.8% of ACP bananas in 1992 to 32.5% in 2007.

EU responses to the ongoing banana dispute have seen first the abandonment of quota-based management systems, and then the progressive erosion of ACP margins of tariff preference. National quotas for individual ACP banana suppliers were replaced by full duty-free, quota-free access for all ACP and least-developed country (LDC) banana suppliers (under the interim and full Economic Partnership Agreements [EPAs] from 1 January 2008 and the 'Everything but Arms' [EBA] initiative from 1 January 2007); however, these developments took place at the same time as 'substantial increases in production and exports from some of the lower-cost ACP producers', while traditional suppliers have continued to lose market share. This period of change has seen a major downsizing of banana production in traditional ACP banana exporters (notably the Windward Islands and Jamaica). In the case of the Windward Islands, the number of registered banana producers fell from over 24,000 in 1993 to under 5,000, while Jamaica ended exports to Europe in 2009.

Since 1994, the EU has extended a total of €450 million in restructuring assistance to ACP banana exporters. These funds have been used for investments to increase competitiveness and to support diversification, often in the latter case through general transport infrastructure projects. In the smaller island economies, major problems have been faced in committing and disbursing banana-sector restructuring assistance. Strengthening the role of the private sector in the design and implementation of both competitiveness programmes and diversification programmes is seen as an important priority for the future.

Since 2006, Latin American suppliers have continued to increase their share of the EU banana market. Some ACP suppliers have sought in response to target 'luxury-purchase' banana markets (both fair-trade and organic banana markets) as part of their response strategy. According to press reports, targeting fair-trade markets can 'boost revenues by 11 to 12%'. The decision by a number of UK supermarket chains to move over to 100% fair-trade bananas has served to greatly expand market opportunities in this area.

2 Latest developments

2.1 Global developments

2.1.1 Banana consumption, production, trade and prices

Across the globe, bananas are one of the most commonly eaten fruits. Bananas are the world's fourth most important crop (after rice, wheat and maize) and make a major contribution to food security. However, in most banana-producing countries, production is exclusively for the domestic and occasionally regional markets, with only 21% of global production being traded internationally. Only a limited number of banana-producing countries are involved in the international trade in bananas. Control of the banana trade is concentrated in the hands of only a few companies, with just five major multinationals (Dole, Del Monte, Chiquita, Fyffes and Noboa) controlling more than 80% of all internationally traded bananas. In recent years, however, the power of the banana multinationals has been eclipsed by the power of the supermarkets in some key EU markets, notably the UK. Three domestic EU territories and some 18 overseas countries are currently engaged in producing bananas for the EU market.

According to the Food and Agriculture Organization (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 4.0%, US consumption down 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%), 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% over the course of 2010 (compared with +2% for all tropical fruit).

In the coming period, a number of large banana producers (notably India and possibly Brazil, which together grow almost double the volume of bananas currently traded worldwide) could emerge as major banana exporters. In India, 'three state governments, Gujarat, Maharashtra and Kerala, are all actively encouraging farmers to upgrade their technology and enter the export market'. This could have a serious impact on the markets targeted by these new exporters, given the scale of production involved.

In addition, a number of major multinationals in the banana sector are reported in the press as being interested in expanding banana production in Africa. Chiquita has reportedly concluded partnership agreements to invest in export-oriented banana production in Mozambique and Angola; Mozambique was hoping to export as much as 700 tonnes of bananas to European markets in the last quarter of 2009; and Dole has been exporting bananas to the EU from Ghana since 2006. In the case of Mozambique and Angola, this is seen as responding to the full duty-free, quota-free access now available to these countries under the EU's EBA initiative in favour of LDCs. Press reports indicate that Ethiopia is also looking to begin exports of bananas after receiving technical support from Cameroon. These trends could serve to intensify intra-ACP competition on EU banana markets, regardless of the development of Latin American banana exports or the emergence of non-traditional banana exporters.

Background documentation to the launch of the World Banana Forum shows that in the past 3 years, 'while import prices for bananas have been relatively high, […] exporter and producer prices have only increased marginally and much less than input prices, putting pressure on small farmers, workers and natural resources'. Overall, 'overproduction […] combined with intense downward pressure on prices from highly competitive retail chains' is generating low returns to producers, and generating growing pressure on suppliers. In addition, 'prices are expected to contract again in the medium term' as temporary disruptions of supply are overcome. There are growing fears that this could lead to a 'race to the bottom' that is 'detrimental to farmers, workers, the environment and eventually the entire economy of the producing countries'.

Alongside these global trends, there is a multiplicity of initiatives under way to promote a major expansion of African banana production, primarily for domestic and regional markets, in response to food security concerns. While this will largely be driven by actions at the local level, including action by African governments regarding setting an appropriate policy framework and addressing capital and infrastructure constraints on the development of local banana production and trade, a number of areas for joint action can be identified.

These include increased research and analysis on the causes and patterns of major banana and plantain diseases, in order to combat disease which, it is projected, could lead to economic losses of around US$4 billion by 2010 if left unchecked; and an intensified dialogue on the measures needed to promote increased intra-regional trade in bananas.

The shifting pattern of global supply and demand suggests that targeted programmes of trade (marketing) adjustment assistance potentially could play a role in assisting ACP countries to adjust to the new market realities in the post-banana deal marketplace.

2.1.2 Launch of the World Banana Forum

December 2009 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'. The initiative to launch the World Banana Forum was supported by Banana Link, a UK NGO campaigning for a fair and sustainable banana trade, and coordinated by the FAO with the financial assistance of the UK Department for International Development. Background documents to the process that led to the establishment of the Forum highlight issues such as: trade union rights; occupational health and safety; environmental concerns; the plight of small farmers; the growing power of supermarkets; the importance of informed consumer choice; the role of voluntary standards; the use of trade policy to promote sustainable banana production (including via the introduction of 'differentiated tariffs'); and the management structures for the Forum.

The World Banana Forum has adopted a work programme for 2010–11 with a focus on activities that can be achieved in the short run and will benefit a wide range of stakeholders. Thematic working groups have been set up to 'undertake joint field research on best practices in specific areas where key improvements can be achieved rapidly for more sustainable production and trade'. The working groups will report to the Forum and its secretariat on a regular basis, with the Forum meeting every 2 years. Banana Link will provide regular updates on developments within the World Banana Forum.

2.2 Resolution of the banana dispute

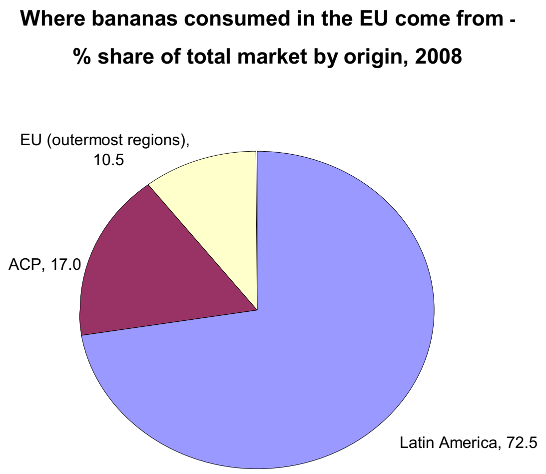
2.2.1 The banana deal

On 15 December 2009, an agreement was reached which concluded the long-running banana dispute. The agreement reached enjoys the endorsement of the EU, concerned Latin American banana exporters, the US government and, if somewhat reluctantly, the ACP. The agreement consists of three basic components:

- an agreed schedule of tariff reductions for most-favoured nation (MFN) banana exporters;
- agreement on how to deal with 'tropical products' and products subject to 'preference erosion' in the wider WTO negotiations;
- a financial package, amounting to €200 million, of assistance to ACP banana exporters, to be known as the Banana Accompanying Measures (BAM) programme.

In terms of the basic tariff reduction package, the EU will cut tariffs from €176/tonne to €114/tonne by 2017 at the earliest. The first tariff cut of €28 per tonne will take place in the first year and will 'apply retroactively from the date when all parties initialled the agreement'. 'The tariff will then fall again at the start of each year for seven years in annual instalments (€143, €136, €132, €127, €122, €117, €114), starting on 1 January 2011'. Should there be no agreement in the Doha Round negotiations, then 'the EU will freeze its cuts for up to two years'. This means that should there be no agreement 'once the EU cuts its tariffs to €132 per tonne, it will make no further cuts for up to two years, until the end of 2015 at the latest, then from 2016 at the latest, the EU will continue cutting its tariff each year, as agreed […] until the tariff reaches €114 per tonne on 1 January 2019 at the latest'. In addition, 'once the WTO certifies the EU's new tariff schedule, Latin American banana-supplying countries will drop all their disputes on bananas with the EU at the WTO, and any claims they made against the EU after new member countries joined the Union, or when the EU changed its banana tariff in 2006'.

Figure 1 Origin of bananas consumed in the EU

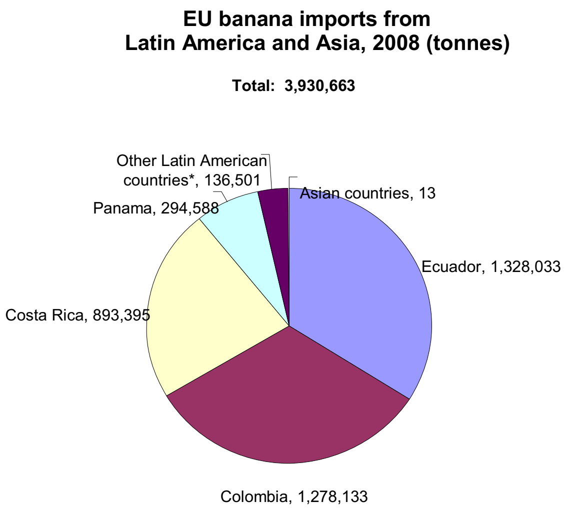


Source: EC memorandum, MEMO/10/83, 17 March 2010.

In parallel with this basic agreement, the EU, ACP and Latin American countries have agreed on an approach that they will 'jointly promote' in the ongoing Doha Development Round negotiations. This will defer tariff cuts in preference-erosion products, and instead 'the EU, the ACP and countries pushing for faster opening of trade in Tropical Products will present plans for these cuts to the WTO […] Only once WTO members conclude the Doha Round will they implement the cuts'.

In terms of the BAM programme, 'the European Commission will propose mobilising €200 million from the EU budget to support the main ACP banana-exporting countries to adapt'. This will be in addition to existing assistance extended under the European Development Fund and the €450 million in banana-sector related assistance extended since 1994. However, this programme still awaits EU Council and European Parliament approval. According to the EC, 'the programme would be country-specific, build on past support and help tackle the deal's broader consequences'.

Figure 2 Source of EU banana imports from Latin America and Asia



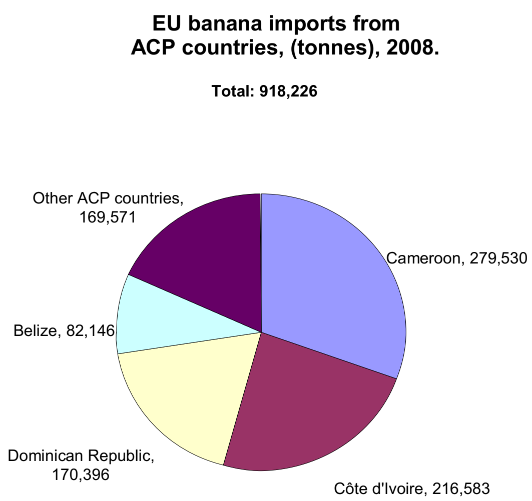
Source: EC memorandum, MEMO/10/83, 17 March 2010.

While the basic deal has been concluded, it still needs to be approved by the competent authorities in each of the countries concerned.

2.2.2 ACP concerns

Traditional ACP banana exporters have been concerned about 'the serious social, economic and political dislocation that could result' from the final resolution of the banana dispute. In March 2009, the ACP had argued that the 'drastic reductions in import duties' envisaged in the likely banana deal would be 'practically sounding the death knell for ACP banana exports, for which preferences are of vital importance'. In their press statement of 22 December 2008, the ACP group had 'rejected any proposals to immediately and drastically reduce the current applied rate of €176/tonne by down-payment and to further reduce the tariff to an unacceptable level after a relatively short implementation period'. The ACP group called on the EU to refrain from 'taking any steps, including in the framework of the conclusion of new Free-Trade Areas (FTAs) with the MFN countries that might render nugatory the market access secured by the conclusion of EPAs'.

Figure 3 Source of EU banana imports from ACP



Source: EC memorandum, MEMO/10/83, 17 March 2010.

According to Renwick Rose of the West Indies Farmers' Association, ACP banana exporters remain 'far from happy with the deal'. He described the deal as a 'disastrous blow against not just the banana industry, but economic and social development in general'. He argued that 'those who will suffer most as a result of today's deal are banana farmers and their dependants in the Windward Islands'. This, however, needs to be seen in the context of 'Dominica, St Vincent and St Lucia having lost more than 20,000 of their 25,000 small-scale banana producers' since 1992.

Pre-agreement ACP concerns and demands

The ACP, at their Ministerial meeting of 19 November 2009, adopted a resolution which:

- reaffirmed 'the serious social, economic and political dislocation that could result from the destruction of the banana industry in ACP countries';
- reiterated the ACP view that bananas should have 'a separate tariff treatment in the Doha development agenda modalities on agriculture' and should not be subject to treatment as a 'Tropical Product', and that the EU and ACP should 'jointly agree on the modalities for addressing preference-erosion products/tropical products in the agriculture negotiations';
- stressed that the banana deal should be implemented as an integral part of the Doha Round package;
- argued that the current EU offer to MFN suppliers exceeded what was necessary to 'fulfil the EC's obligations under Article XXVIII of the General Agreement on Tariffs and Trade (GATT) and for complying with the WTO Appellate Body's ruling';
- called for the 'implementation of tariff cuts in instalments spread over at least 10 years', a 3-year moratorium following the first reduction in the tariff, and the allocation of €250 million to the banana accompanying measures programme, with a review of the situation of ACP banana suppliers in 2013 to determine whether additional resources are required.

However, despite a strong 'rearguard action' on the level of tariff reductions to be introduced, ACP expectations regarding EU policy positions increasingly came to focus on the level of targeted assistance required to assist ACP producers to enhance their competitiveness and restructure their production and trading activities, and accommodate the new market realities created by any final resolution to the banana dispute. While initially arguing for additional support of €500 million, in the face of an initial EU offer of €100 million in assistance, the final allocation of €200 in additional assistance can be seen as a significant gain (although less than the €250 million the ACP was seeking in November 2009). However, the actual value of this restructuring support will be critically determined by how efficiently and effectively BAM programme support will be deployed. Farmers' leaders from the Windward Islands have insisted that any EU BAM programme support should be 'not only simple and flexible, but that farmers' organisations should have direct access' to the funding available.

In this context, in designing and implementing programmes under the BAM, it will be important to learn lessons from existing experiences under previous banana-sector support programmes, the ongoing sugar protocol accompanying measures programmes and, in the case of the Caribbean, the highly successful Integrated Programme for the Development of the Caribbean Rum Sector.

2.2.3 Possible effects

Press analysis agrees that 'the deal is likely to reduce prices for consumers, increase competition in the banana market and strengthen the hand of low-cost Latin American exporters' on EU banana markets. While EU banana imports overall are projected to increase by 6%, analysis by Giovanni Anania of the University of Calabria, commissioned by the International Centre for Trade and Sustainable Development, suggests that 'this will consist of a 17% increase in imports of bananas from Latin American and a 14% decline in imports of bananas from ACP suppliers'. In addition, it is estimated that prices of bananas from countries such as Guatemala 'could drop by as much as 12%'. Assessments of the impact of the banana deal on ACP banana exporters, commissioned by the ACP, have suggested a revenue loss of €350 million between 2009 and 2016.

However, the impact of the agreed deal will not be spread evenly across the ACP. Trends in banana imports to the EU since 1992 suggest that the agreed deal is likely to pose the greatest threat to traditional Caribbean suppliers, most notably the Windward Islands, where exports to the EU since 1992 have either terminated (Grenada) or have declined by between 75 and 86% (see Annex for an overview of trends to the end of 2007). This is despite efforts to shift production to serving differentiated markets – notably, but not exclusively, the fair-trade market.

Despite trying to develop fair-trade production and major efforts at cost reduction, Jamaica initially saw an 80% reduction in exports to the EU before the announcement in 2009 that banana exports to the EU would be terminated. Greater priority is now being given to the development of local markets for value-added banana products. Suriname, for its part, after having withdrawn from the trade in 2003 for a period, has successfully restructured production and restored exports to unprecedented heights. However, press reports at the beginning of 2010 indicate that prices offered by Dutch importers have been 'unacceptably low' for the past 2 years, despite quality improvements.

Other Caribbean banana exporters appear to face a less severe threat from the agreed banana deal. The general manager of the Banana Growers' Association of Belize said that while the deal was 'not positive news', its impact on Belize's 'fledgling banana industry' was not expected to be great. This reflects the success Belize has had in expanding its banana exports (+186% increase in volume between 1992 and 2008). The Dominican Republic has enjoyed similar success, with banana exports to the EU market expanding 342% between 1992 and 2008. More recently producers in the Dominican Republic have been 'focusing on the production and export of organic bananas, mainly produced on medium- and small-scale farms'.

While Cameroon and Côte d'Ivoire saw their exports to the EU grow substantially between 1992 and 2008 (+153% and +50%, respectively), major concerns exist over how their large-scale banana producers are to sustain their competitiveness in the new market context, particularly as major banana-sector multinationals start investing in banana plantations in fellow African countries, such as Mozambique and Angola, both of which enjoy full duty-free, quota-free access to the EU market under the EBA initiative. The emergence of new, non-traditional African banana exporters is likely to be a growing trend in the coming period. The impact of the banana deal therefore needs to be seen in a context where, despite the strong growth in EU banana imports, ACP suppliers have seen their market share slump to 19% of EU imports (17% of EU consumption).

These overall trends tell only part of the story. In reality, the EU banana market is becoming increasingly fragmented, with product differentiation opening up new opportunities for traditional Caribbean suppliers. According to the synthesis report of the multi-stakeholder roundtable on bananas held in Paris in March 2009, considerable scope now exists for product differentiation in the banana sector. At the global level, in 2007 fair-trade, organic and 'rainforest alliance' bananas accounted for 14.5% of total global banana exports. In certain European markets, this trend is even more pronounced, with organic and fair-trade bananas now accounting for 30% of total UK banana consumption and 60% of Swiss banana consumption.

Table 1 Estimated exports and sales of bananas certified to selected sustainable agriculture standards in 2007

Standard	Estimated global exports (tonnes)	Estimated share of exports (%)	Estimated sales (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**

Source: unknown.

The further development of these consumer trends and their replication elsewhere in the EU could offer opportunities – for Caribbean suppliers in particular – to differentiate their product in ways that enable Caribbean producers to secure substantial price premiums and hence sustain production in the face of price declines for 'bulk', undifferentiated banana exports.

How the banana supply chain functions in the new post-banana settlement context will be an important determining factor of the impact that the banana-dispute settlement deal will have on individual ACP banana exporters. With only five companies controlling 80% of all internationally traded bananas, and supermarket chains in some markets using bananas as a 'loss leader', careful attention will need to be paid to precisely how the banana supply chain functions and whether any anti-competitive practices exist, particularly with regard to abuse of 'dominant market position'. Concern has grown in recent years over the increased commercial power of supermarkets within the banana supply chain. There is considerable volatility in retail prices for bananas, with the outbreak of periodic 'price wars' between major multiple retailers generating considerable price volatility and, in the view of some, 'stripping value from the banana chain'. Press reports stated that banana prices, reduced by 22% in December 2009, rose by 29% in January 2010. The fear is that in the new post-deal market context, this could lead to lower prices being offered for ACP bananas when contracts come up for renewal, resulting in a 'race to the bottom'.

3 Implications for ACP countries

3.1 Reducing costs and combating disease

In terms of cost reduction, if appropriate assistance is provided in the right framework, there appears to be considerable scope for implementing successful cost-reduction measures. According to the synthesis report of the multi-stakeholder roundtable on bananas held in Paris in March 2009, formerly high-cost Caribbean banana producers such as Jamaica and Suriname have successfully implemented programmes of measures that have enabled them to reduce costs. However, in the case of Jamaica this appears to have been insufficient to sustain exports to the EU market. Successful cost reduction is, however, enabling these Caribbean producers to explore other markets, notably national and regional markets.

Considerable scope also appears to exist for market diversification in Africa, where there is currently an emphasis on promoting greater African banana production for African markets. However, sanitary and phytosanitary concerns could potentially serve to restrict regional trade in bananas, given the potential economic damage that outbreaks of banana diseases could cause. Against this background, a major research programme to combat the spread of banana and plantain diseases appears to be a priority for African banana producers, both those involved in the export trade and those producing exclusively for the local market, given the importance of bananas to food security. Funding under the BAM programme potentially could contribute to such an initiative, although other sources of funding would also need to be drawn upon, given the limited number of BAM programme beneficiaries in Africa.

3.2 Differentiated marketing

Efforts have been under way for some time to shift banana production in the Windward Islands over to fair-trade production, with some 3,500 of the remaining 4,000 banana farmers now certified fair-trade producers. The Jamaican government is also encouraging movement in this direction, while banana producers in the Dominican Republic are increasingly trying to focus on organic banana production. However, fully exploiting this market potential is likely to require pump-priming support to provide hard-pressed producers with an incentive to innovate.

Funding under the EU BAM programme potentially could be used to extend support not only to restructuring production to meet multiple standards, but also to defray the costs of certification and verification of compliance. In addition, public funds could also usefully be provided to enhance the marketing of 'differentiated' bananas. However, whether the BAM programme will prove flexible enough to provide timely support in these areas remains to be seen. If not, a case exists for using other sources of public funding to pump-prime urgent banana sector adjustments, with BAM programme funding, when it becomes available, being channelled into budgetary support or publicly financed infrastructure programmes. Here important lessons can be drawn from the experience of the Caribbean rum programme with regard to the design and management of production and trade adjustment support programmes. Understanding market trends, how to exploit them effectively, and how to sequence change with investments in production and trade adjustments is likely to have an important influence in the ability of ACP producers to adjust to the new post-banana-deal realities.

3.3 Addressing supply-chain issues

In the banana supply chain, a limited number of large companies dominate the distribution and wholesale marketing of bananas. In addition, in the UK – the major market for Caribbean banana exports – the policies of large retailers have a strong influence on the functioning of the banana market. In the past decade, the economic power of the supermarkets in the banana supply chain has increased dramatically, with supermarkets reportedly now being the only players in the banana supply chain consistently to make profits from bananas. This is despite the banana 'price wars' in which they periodically engage.

According to press reports, the pricing policies of supermarket chains for bananas are primarily designed to bring consumers through their doors so that they can sell them a variety of other products. This phenomenon has an important impact on the retail price of bananas in the UK. Between 2002 and the end of 2007, UK retail prices of bananas fell by 41%. While prices recovered in 2008, buoyed by the general commodities boom, between November 2008 and November 2009 banana prices fell by 36% according to the retail journal *The Grocer*, despite an average price decline of only 9.9% for the fruit and vegetable sector as a whole.

While supermarket representatives in the UK claim that these pricing policies have had no impact on the price paid to ACP banana producers, it remains to be seen whether this will continue to be the case in the context of the new banana arrangements, which are expected to promote a 17% increase in Latin American banana exports to the EU market and a 14% contraction in ACP banana exports to the EU market. Given the vast inequalities in market power that exist in the banana supply chain, a strong case appears to exist for the launching of a joint EU–ACP investigation into the functioning of the banana supply chain. This would be wholly consistent with the EU's recent policy focus on enhancing the functioning of food supply chains serving the EU market.

A collaborative investigation into the functioning of the banana supply chain may need to look at the scope for a greater role for competition policy in regulating relations within the chain. In

December 2009, the EC issued a 'statement of objection' under EU anti-trust rules 'to a number of companies active in the import and marketing of bananas' concerning their 'alleged participation in a cartel'. According to press reports, these unidentified companies were in southern Europe, with this action following on from 'surprise inspections' carried out by the EC in November 2007. The issuing of the 'statement of objection' follows on from actions in 2008 which saw the EC impose fines on banana importers Dole and Del Monte 'for running a cartel', while Chiquita 'escaped fines because it blew the whistle on the illegal price-fixing in northern European nations'.

Actions in these areas could usefully be complemented by the launching under the BAM programme of specific initiatives to strengthen the commercial position of banana growers within the various supply chains serving ACP banana exporters. This type of intervention is one of the principal policy tools used by the EU internally in the fruit and vegetable sector in order to try and rebalance power relationships within the supply chain, given the growing commercial power of supermarket chains.

A final supply-chain issue that needs to be addressed relates to the increasing role of private standards in regulating access to the market. While these private standards can greatly facilitate product differentiation, to the benefit of ACP supplies, it is important that they be developed in such a way as to reduce the additional costs imposed on ACP producers and exporters. EU guidelines on the development and harmonisation of private voluntary standards could play a role in this regard.

3.4 Developing strategies at the global level

Campaigning groups such as Banana Link are looking to the World Banana Forum to 'provide a long-awaited platform to tackle the various social, environmental and economic issues and improve conditions for workers and small farmers on the ground'. With the erosion of the margins of ACP preferences in the banana sector, ACP governments will need to look carefully at how they can coordinate their engagement with the World Banana Forum, in order to stay on top of the various developments taking place and ensure ACP interests are protected and promoted.

With a view to promoting better labour and environmental standards in the banana sector, it has been suggested that governments in banana-importing countries should consider introducing a tariff system for bananas that differentiates between bananas based on their production practices. This suggestion has been given increased credence by the opening of a beef quota by the EU, designed to resolve the EU–US beef hormone dispute, which uses the characteristics of the production system to determine access to the tariff-rate quota. This issue could well be raised in the World Banana Forum. However, from an ACP perspective, given the granting of duty-free, quota-free access for bananas under the interim and full EPAs and the EBA initiative, such a scheme would only benefit current MFN suppliers of organic and fair-trade bananas that are already exporting to the EU, to the detriment of those ACP suppliers that target these markets.

One potential initiative of interest is to promote the use of 'sustainable cost' pricing as the basis of price formation in banana value chains. This is potentially of significance to ACP suppliers, as the banana deal, along with increased global supplies and retailer price wars, are all likely to put downward pressure on ACP banana prices, even for fair-trade bananas, as competing supermarkets chase ever-cheaper fair-trade bananas. The fair-trade certification agency Fairtrade Labelling Organizations International (FLO) is looking to organise roundtables in 2010, designed to promote the idea of 'sustainable cost' pricing. ACP banana exporters may well need to engage with these initiatives to ensure that ACP interests are protected.

Annexes: Trends in ACP banana exports to the EU market

Annex 1 Evolution of Windward Island banana exports to the EU market for selected years (in tonnes)

	St Lucia	St Vincent	Dominica	Grenada	Jamaica	Suriname	Total ACP
1992	122,066	71,320	51,606	6,015	74,827	29,950	**680,362**
1993	113,303	57,608	52,699	6,720	77,393	28,001	**748,617**
1994	91,544	32,055	43,117	5,325	76,418	32,739	**728,701**
1995	101,494	47,673	33,437	4,558	83,824	28,988	**766,643**
1996	106,670	44,176	39,307	2,007	89,610	27,160	**801,596**
….	….	….	….	….	….	….	….
2001	34,727	30,829	18,062	591	42,985	28,731	**727,414**
2002	49,313	32,522	17,802	557	40,600	6,557	**723,235**
2003	32,520	20,919	10,823	448	41,784	….	**787,931**
2004	42,874	23,969	12,401	406	28,660	19,277	**782,167**
2005	28,243	15,895	13,182	0	11,654	35,261	**760,025**
2006	36,733	17,239	13,591	0	31,866	45,152	**881,892**
2007	30,497	13,792	7,458	0	18,3722	54,353	**804,246**

Source: for 1992–96, 'External Trade of the European Union with the ACP Countries and Overseas Countries and Territories (OCTs)1992–1996'. For 2001–07 see http://europa.eu.int/comm/trade/issues/bilateral/regions/acp/stats.htm

Annex 2 Evolution of other Caribbean banana supplier exports to the EU market for selected years (in tonnes)

	Belize	Dominican Republic	Total ACP
1992	28,494	38,516	**680,362**
1993	38,516	62,104	**748,617**
1994	46,980	86,482	**728,701**
1995	42,033	75,119	**766,643**
1996	54,109	61,371	**801,596**
….	….	….	….
2001	51,609	86,064	**727,414**
2002	38,178	97,227	**723,235**
2003	73,806	109,440	**787,931**
2004	80,292	101,355	**782,167**
2005	74,189	144,744	**760,025**
2006	73,207	176,752	**881,892**
2007	61,175	206,212	**804,246**

Source: as for Annex 1.

Annex 3 Evolution of African banana supplier exports to the EU market for selected years (in tonnes)

	Côte d'Ivoire	Cameroon	Somalia	Total ACP
1992	144,356	110,419	181	**680,362**
1993	161,261	146,901	501	**748,617**
1994	149,536	158,230	4,634	**728,701**
1995	160,486	165,294	21,734	**766,643**
1996	180,827	166,180	25,121	**801,596**
….	….	….	….	….
2001	217,886	215,930	0	**727,414**
2002	210,727	229,722	0	**723,235**
2003	205,485	292,706	0	**787,931**
2004	210,866	262,067	0	**782,167**
2005	183,495	253,362	0	**760,025**
2006	227,885	259,476	0	**881,892**
2007	190,069	222,318	0	**804,246**

Source: as for Annex 1.

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Executive Brief: Update

Beef: Trade issues for ACP countries

Contents

About this update

CTA's Executive brief: *Beef: Trade issues for the ACP*, was published in June 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key issues in the beef sector

For many years, the European Union (EU) was a significant surplus beef producer. Extensive use was made of export refunds to clear EU stocks, giving rise to the periodic 'dumping' of beef stocks on a number of African, Caribbean and Pacific (ACP) markets, notably in southern Africa. At its peak, the EU was exporting over 1 million tonnes of beef a year. However, ongoing improvements in milk yields in Europe in the context of quota restrictions on overall dairy production have seen the EU dairy herd shrink considerably. With two-thirds of all EU beef production coming from it, this has served to reduce EU beef production. Along with concerted efforts to dispose of beef intervention stocks and the reform of the EU support system for beef producers since 1993, this has seen the EU's beef-trade position transformed. Indeed, since 2003 the EU has become a net importer of beef. The EU still exports beef, but no longer in such volumes as to swamp markets. Having fallen by over 81% from peak levels by 2006, EU beef exports are projected to decline by a further 66% by 2015, compared with 2006 levels. In this context, the EU is expected to be a minor exporter of beef in the coming period. It will, however, still export low-quality beef cuts, largely as a consequence of an imbalance between production and demand for these low-quality cuts. Depending on the evolution of demand for low-quality EU beef in Russia, these exports of low-quality beef could increasingly focus on African markets. An additional new phenomenon has been the participation of EU beef traders in a triangular trade in low-quality beef, with imports from low-cost producers being re-exported to traditional EU markets.

In the context of quota-restricted preferential access for certain specified ACP suppliers (Botswana, Namibia, Swaziland, Zimbabwe, Kenya and Madagascar), the EU's traditional high-price policy, which sustained prices substantially above world market prices, made the EU market very attractive to ACP beef exporters. However, the shift from price support (via a reduction in intervention prices for beef cattle) to systems of direct aid payments to farmers, made through the decoupled single-payment scheme, allowed EU market prices for beef to fall. Thus the attractiveness of the EU market to traditional ACP beef exporters fell, particularly for low-quality, low-priced beef carcasses. What is more, this process of price reduction was accompanied by the introduction of stricter food-safety controls following major food-safety scares in the beef sector. This served to increase the costs of supplying ACP beef to the EU market at the level of both private-sector producers and the local public authorities responsible for ensuring the integrity of food-safety controls throughout the supply chain. Declining prices and increased costs have served to generate a profitability squeeze for ACP beef exporters.

These developments have been compounded by a growing EU policy focus on the promotion of quality beef production and the establishment of quality standards, which enable consumers to clearly differentiate quality beef production from undifferentiated beef production. It is hoped that this clearer quality differentiation, however defined, will secure significant price premiums for EU producers. With a devaluation of the euro against the local currency of a number of ACP beef suppliers in the second half of the 1990s, some ACP suppliers (such as Swaziland) stopped supplying beef to the EU market as it was no longer commercially attractive to do so, while other suppliers saw a reduction in the numbers of cattle offered for sale for local processing for export of beef carcasses to the EU.

These trends imply that, if a profitable trade in beef is to be maintained, ACP beef exports will increasingly need to target 'luxury-purchase' markets in the EU, market components that are growing as EU consumers increasingly favour beef products differentiated by quality and animal-welfare assurances. If such trade adjustments are not brought about, the danger exists that the net returns on beef exports to the EU will no longer justify the investments required to sustain access to the EU market. In at least one ACP beef-exporting country, the process of redefining its marketing strategy so as to target luxury-purchase markets, not only in the EU but elsewhere, has been under way since the end of 2007.

Given the large under-fill of beef quotas under the previous tariff-rate quota arrangement (the beef protocol), it was never foreseen that the granting of duty-free, quota-free access from

1 January 2008 would have a significant impact on the volume of beef exports from traditional ACP beef suppliers. Also, the high costs associated with setting in place the necessary food-safety, sanitary and phytosanitary (SPS) and animal-welfare compliance regimes in non-traditional beef-exporting countries are such that it seems highly unlikely that any non-traditional suppliers will emerge from within the ACP group. This is corroborated by the experience under the 'Everything but Arms' (EBA) regime, where duty-free, quota-free access has been in place for least-developed countries (LDCs) since 2001, and where to date no new beef exporters have emerged. Thus, at the ACP level, the beef trade with the EU is becoming less significant. For the vast majority of ACP cattle producers, local, national, and (in some parts of the ACP) regional markets are far more important than the EU market. With EU production no longer giving rise to huge volumes of subsidised beef exports, the Common Agricultural Policy is having less and less impact on the ACP beef sector.

Significantly, the process of EU beef-sector reform has served to increase the scope for a reduction of tariff protection around EU beef markets, a move now being contemplated both in a World Trade Organization (WTO) context and bilaterally, through free-trade area (FTA) negotiations with major overseas suppliers in the Mercosur region. Any reduction of duties on imports from these major suppliers of beef to the EU market would be expected to have a significant price effect on the components of the beef market primarily served by these imports. To the extent that ACP suppliers continue to serve these same market components, such a development would be likely to have serious implications for the sustainability of such exports to the EU market.

Nevertheless, the cost-increasing effects of the application of stricter EU food-safety, SPS-compliance and animal-welfare standards, in a context of changes in the distribution of global demand for beef, are serving to reduce the attractiveness of the EU market to the major beef exporter, Brazil. This could serve to reduce the volume of Brazilian beef exports to the EU, with the consequent supply constraints serving to sustain EU beef prices at levels that enable ACP suppliers to maintain profitable exports of quality-differentiated beef products.

One major uncertainty in the beef sector in the longer term is the impact of the removal of production quotas in the dairy sector in 2015. Depending on the level of world-market dairy prices, this could serve to slow down or even reverse the decline in the size of the EU dairy herd, with an impact on the volume of domestically produced beef in the EU.

2.1 Developments in the EU beef market

In 2008, total EU meat consumption fell by 2.2%, with per capita beef consumption falling by 2.3%, pig-meat consumption falling by 3.23%, and poultry-meat consumption remaining stable. On a per capita basis, beef consumption fell more in new EU member states than in the EU15 countries. In the beef sector, this decline was a consequence of high prices, resulting from the lower availability of beef following the closure of the EU market to Brazilian beef exports for failure to comply with traceability requirements. Consumption also declined in 2009 but at a slower rate than in 2008. This decline was, however, slower than the decline in production (1.2% compared with 2.3%), resulting in a 13.7% increase in imports in 2009. EU beef prices by December 2009 were some 2% below the price levels of December 2008, but with considerable variation across the EU (from –16% in Slovakia to +1% in Greece). This brought prices back to levels comparable with those reached before the price surge.

This trend of a more rapid decline in production than consumption is set to continue up to 2015, with EU beef production projected to decline by some 4.8% between 2008 and 2015 (–402,000 tonnes) following the structural reduction in the dairy herd and the impact of the decoupling of support payments. Consumption, meanwhile, is projected to exhibit a more modest decrease of 0.8% (some 70,000 tonnes).

As indicated previously, the major development in 2008 was the closure of the EU market to Brazilian exports following a failure to comply with EU traceability requirements; this led to a sharp fall in overall imports. In 2009, imports increased as export restrictions on beef temporarily introduced by the Argentinean government were lifted and supplies from Uruguay increased. Imports are projected to continue to increase up to 2015, with imports increasing by 60% over 2008 levels (+229,000 tonnes). By 2015, this will have taken imports back up to 98% of the level attained in 2006. This trend presents new market opportunities to ACP exporters.

Table 1 Projected EU beef/veal production, consumption imports and exports 2006–15 ('000 tonnes cwe*)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross indigenous production	8,180	8,254	8,293	8,102	8,078	8,010	7,951	7,906	7,908	7,891
Net production	8,133	8,203	8,253	8,065	8,041	7,973	7,914	7,869	7,871	7,855
Consumption	8,566	8,631	8,470	8,386	8,429	8,433	8,430	8,404	8,403	8,400
Imports	619	541	379	431	478	546	594	608	599	608
Exports	186	113	162	110	90	86	79	73	68	63

Source: European Commission.
*cwe = carcass weight equivalent.

However, despite the granting of full duty-free, quota-free access to the EU market under EBA and the various interim Economic Partnership Agreements (IEPAs), the number of ACP countries exporting beef has declined, with the six nominal suppliers under the beef protocol being reduced to only two exporters, Namibia and Botswana. This reflects two major developments: firstly the decline in EU beef-market prices (prior to the food-price surge), and secondly the increasing cost of compliance with EU food-safety and SPS regulations. This saw Swaziland, whose exports had been concentrated on lower-priced beef carcasses, ending its export of beef to the EU market. For its part, Zimbabwe fell out of supplying the EU market as a result of the breakdown of animal disease-control and traceability systems. This, coupled with the increased attractiveness of local cattle markets for Namibian producers, in the face of a temporary devaluation of the euro against the rand, saw a dramatic drop in ACP supplies of beef to the EU market.

Thus, while the granting of duty-free, quota-free access has generated income savings for existing ACP beef exporters (an estimated €1.96 million per annum for Botswana and €1.5 million per annum for Namibia), it seems highly unlikely that any significant increase in the volume of beef exports to the EU will take place in the coming years. However, it is possible that the value of Namibian beef exports could increase, given the move over to differentiated marketing of beef cuts which the main Namibian beef exporter has adopted.

2.2 Developments in global beef markets

Between 1999 and 2007, global demand for beef shifted, with consumption in developed economies stagnating and demand in developing countries showing 'decent growth' (for example, +2.4% per annum in China, +1.9% in Brazil and 11.5% in Argentina). On the production and trade side, the biggest change was the expansion of Brazilian exports, which saw Brazil emerge as the world's main beef exporter. The trade disruptions resulting from Brazilian non-compliance with EU traceability requirements saw a 5.5% decline in global trade in beef in 2008.

In terms of prices, from the spring of 2004 global beef prices appeared to have moved to a higher average level of around US$2.5/kg. However, the commodity-price boom saw beef prices rise to a new peak of US$3.87/kg in July 2008, but the onset of the economic downturn saw a weakening of demand for beef with prices falling to a low of US$2.36/kg in February 2009, 'the lowest level since spring 2004'. Prices have since recovered, reaching US$2.73/kg in August 2009, slightly higher than the level registered before the price hike of 2008 began. Prices have subsequently fluctuated only slightly, reaching US$2.80/kg in December 2009, some 12.9% above December 2008 levels. In the medium term, it is felt that beef prices should be supported by the economic recovery, but with the timing and extent of recovery being uncertain (although projections differ).

In the longer term, both consumption and production are expected to resume the pattern of moderate growth (1.3% per annum) according to projections by the Organisation for Economic

Co-operation and Development and the Food and Agriculture Organization, with production expected to increase from 65 million tonnes in 2009 to 74 million tonnes in 2018. Consumption growth is expected to be concentrated in dynamic emerging economies. This will see the global trade in beef return to its previous growth trend (+2.8% per annum).

This suggests that in the coming period, market developments for beef are likely to be more dynamic outside the traditional EU market, despite the growing EU production deficit and projected growth in imports. This has real implications for the future marketing of ACP beef internationally.

2.3 Meeting the food-safety, SPS and animal-welfare challenges

EU food-safety, SPS and animal-welfare standards are becoming increasingly strict. This reflects not only intrinsic EC concern with these issues, but also the shift in the EU policy focus towards the production of high-quality, differentiated beef cuts. In the past 18 months, three major developments have taken place: the entry into force of stricter animal-feed regulations; the adoption of new standards on the treatment of animals at the time of slaughtering; and moves towards adopting new standards for labelling beef products according to animal-welfare standards.

The entry into force of new feed regulations is, in many respects, simply an extension of the existing food-and-feed control regulations, compliance with which is being routinely assessed by the EU's Food and Veterinary Office through its inspection visits to ACP beef-exporting countries. In the course of 2009, Food and Veterinary Office missions to both Botswana and Namibia were carried out 'to evaluate animal-health controls in place', in particular with regard to the foot-and-mouth-disease control measures in place and the certification procedures applied. In both countries, while 'some shortcomings' were found, overall it was concluded that the competent authorities 'continue to ensure compliance with Community animal-health requirements for fresh bovine meat exported to the EU'. A number of specific suggestions were made for improvements in national SPS and food-safety controls, with it being anticipated that, as with earlier recommendations, these issues would be addressed in ways that strengthen national control capacities.

In the case of Botswana, the large revenue surpluses enjoyed have enabled the government to maintain animal-disease-control systems, despite declining returns on sales of beef to the EU market. However, in a context of increased fiscal stringency, the cost-effectiveness of existing animal-disease-control measures may come under increasing scrutiny, given the limited volumes and declining returns on Botswana beef sales to the EU market, although the political importance of beef to the Botswana rural economy may well serve to insulate livestock services from any expenditure cutbacks.

In the case of Namibia, with marketing arrangements for beef having been restructured to enhance revenue earnings (see section 2.4.), the maintenance of livestock services and animal-disease control and traceability systems appears to be secure. However, in both countries this does represent an ongoing challenge.

Turning to the issue of the new standards on the treatment of animals at the time of slaughtering, the new rules are expected to come into effect on 1 January 2013. The new regulations integrate welfare concerns into slaughtering practices and 'require regular monitoring of the efficiency of stunning techniques'. Killing methods are more restrictively defined, and technical changes are set out relating to the 'construction, layout and equipment of slaughterhouses'. The regulation requires slaughterhouses to appoint specific people as responsible for animal welfare and to ensure staff are 'properly trained and certified' in the implementation of specific standard operating procedures. The approach builds on the current Hazard Analysis Critical Control Point (HACCP) system in place in the EC, and aims to provide a 'level playing field for operators' across the EU 'so that their competitiveness is not affected by discrepancies in their costs of production or their market access'.

The regulation applies equally to slaughterhouses in third countries wishing to export meat to the EU, where it is required that equivalent standards be met. According to a guide to the new regulation, the standards of the World Organisation for Animal Health will be taken into account when assessing equivalency. It should be noted that under the regulation an effort is being made to minimise the costs associated with implementing the required measures. With this in mind, small slaughterhouses are exempt from appointing animal-welfare officers, while other aspects of the regulation (such as redesigning slaughterhouses, and requiring staff to have certificates of competence) have extensive transition periods. Internally, the EC sees compliance with the new standards generating 'positive market values' through improving consumers' perceptions of the quality and standards of EU meat, thereby increasing their willingness to pay a price premium for such meat.

This dimension is already recognised in Namibia, where the standards being applied have sought to anticipate trends and go beyond existing EU standards, with marketing improvements being designed to ensure farmers can gain maximum benefit from the price premiums which consumers are willing to pay for high-quality meat, including meat which is produced in line with high animal-welfare standards. A critical consideration, however, will be how the EU authorities chose to apply the principle of equivalence. For example, a flexible interpretation in line with local realities on such issues as the length of the transition period (linked to existing industry investment plans) could serve to reduce the cost-increasing effects of the new regulation in ACP countries with limited production runs. Close scrutiny will be required to ensure the 'equivalency' principle is not applied in ways that come to constitute an effective barrier to trade.

The ongoing investment required at both government and private-sector levels to sustain access to the EU market under increasingly strict food-safety, SPS and animal-welfare regulations provides an important insight into why no LDC country has developed beef exports to the EU market since the introduction of duty-free, quota-free access for LDC exports in the beef sector in 2001. This also suggests there is little prospect of new ACP beef exporters emerging in response to the duty-free, quota-free access granted under the various (I)EPAs.

The purpose of the initiative for new standards of labelling beef products in the light of animal-welfare standards is to make it 'easier for consumers to identify and choose welfare-friendly products' and hence provide 'an economic incentive to producers to improve the welfare of animals'. It is felt in the EC that higher animal-welfare standards offer the prospect for producers to secure price premiums, by making it easier for consumers who are willing to pay more for animal welfare-friendly meats to identify such products. Options for animal-welfare labelling currently under consideration include:

- 'the establishment of requirements for the voluntary use of animal-welfare claims';
- 'the establishment of a voluntary Community Animal-welfare Label open for all to use, provided they meet the criteria';
- the drafting of guidelines for animal-welfare labelling and quality schemes.

The critical question faced in the elaboration of specific EU animal welfare-labelling regulations is: will they be drafted on the basis of standards that are generic, and hence open to all meat producers regardless of region of origin; or will they be defined and applied in ways that are essentially eurocentric, and hence come to constitute a means of discriminating against imported meat products which, in reality, meet similar animal-welfare standards? It should be noted in this context that during the February 2010 discussions of animal-welfare labelling in the EU Agriculture Council, the importance of non-discrimination was highlighted in order to ensure the WTO-compatibility of any animal welfare-labelling schemes introduced.

A secondary question relates to the certification requirements linked to animal-welfare labelling. Will these certification requirements come to impose additional financial burdens on ACP exporters of quality meat products, produced from animals raised in line with EU animal-welfare standards; or will all producers have equal access to the certification process at equal cost?

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

2.4 Current responses to preference erosion

In the course of 2009, in response to the erosion of the value of traditional trade preferences in the beef sector, the main Namibian beef-exporting company MEATCO continued to develop its efforts to serve 'quality-differentiated' components of the market. This has involved:

- a clear identification of the quality-differentiated luxury-purchase market components to be served, not only in traditional EU markets, but beyond;
- the appointment of overseas representatives tasked with getting to know in-depth final-consumer needs and requirements;
- the development of a distinct brand identity (the 'Natures Reserve' brand, launched in September 2008) to facilitate product identification by discerning 'quality-conscious' consumers;
- investment in new packing equipment (such as vacuum-packing equipment) to ensure customers' requirements are met more effectively.

However, it should be noted that a necessary prerequisite for launching these marketing initiatives was the existence of the Farm Assurance Namibia scheme. This quality-assurance scheme, the foundations of which can be found in initiatives from as early as 1999, came to include, over time, a fully computerised traceability system, and sought not only to promote compliance with existing statutory standards, but also to provide the basis for meeting future consumer expectations and market requirements. This is important from a wider ACP perspective, as it is indicative of the scale of investments required to secure access to the EU market and to ensure remunerative components of the market are served.

This more targeted marketing approach and associated investments in production to effectively service the needs of particular luxury-purchase market components has enabled the main Namibian beef exporter to secure a larger share of the premium prices available from the sale of quality-differentiated Namibian beef cuts. This, in turn, has enabled MEATCO to pay Namibian beef farmers price premiums of N$183 million per annum above the prices received by comparable South African farmers. It has also enabled the Namibian beef industry to diversify from its exclusive dependence on overseas EU markets for prepared meat products. This has targeted both other non-EU European markets (e.g. Norway) and regional markets (e.g. South Africa), with these two markets now accounting for a higher percentage of total beef sales of Namibia's main beef exporter than the EU. Overall, this has served to stabilise the number of cattle being offered for slaughter at MEATCO facilities, and has even begun to prompt a small increase in the number of cattle placed for slaughter (+9% in the latest marketing season compared with the previous year).

This experience contrasts markedly with that of Swaziland, where exports of undifferentiated beef products first shrank, and were then discontinued in the face of a profitability squeeze arising from the increased costs of SPS- and food-safety compliance; reductions in the EU reference price for beef, which fell particularly heavily on lower quality beef cuts; and increased competition from advanced developing-country suppliers in Latin America.

Table 2 MEATCO beef exports: percentage sales value by country

Destination	Sales value (%)
EU	39.6
South Africa	29.5
Namibia	12.8
Africa	0.9
Norway	13.5
Switzerland	1.4
Reunion	2.3

Source: MEATCO.

2.5 Emergence of the danger of loss of preferential access

In the course of 2009 and the early months of 2010, an increasing number of statements have been made by EC officials suggesting that the current situation, in which Namibia enjoys duty-free, quota-free access to the EU market but had not yet signed the (I)EPA, was becoming untenable. In July 2009, the spokesperson of the EU Trade Commissioner warned that the Namibian government faced the possibility of a legal challenge to its duty-free, quota-free access. In February 2010, the EC delegate to Namibia argued that the 'continuation of the *status quo* is not a solution', while at a seminar on the Southern African Development Community (SADC) EPA in Maputo at the beginning of March, a senior Commission official dealing with the SADC EPA negotiations told the assembled audience 'the situation is untenable because it is unfair to countries that have signed, and it is an illegal arrangement not permissible under the WTO'. This is causing concern in the Namibian beef sector that, if agreement cannot be reached on the incorporation of the alternative texts of the provisions dealing with 'contentious' issues into the IEPA, and the Namibian government continues to defer signing of the agreement, this could give rise to the EC proposing the withdrawal of Namibia from the list of beneficiaries of the December 2007 EU Council regulation (1528/2007), which granted duty-free, quota-free access to countries whose governments had initialled an (I)EPA.

If such a proposal were made by the EC and approved by the EU Council, the withdrawal of Namibia from the list of eligible beneficiaries would result in the loss of duty-free, quota-free access. The imposition of standard GSP duties to which this would give rise would, to all intents and purposes, result in the *de facto* closure of the EU market to Namibian beef exports. This is thus a vitally important issue for Namibian beef exporters.

3 Implications for ACP countries

3.1 Ensuring standards are met cost-effectively

The main challenge faced in maintaining a profitable beef trade with the EU is to meet, cost-effectively, the required SPS, food-safety, animal-welfare and evolving quality standards required to ensure not only continued access to the EU market, but also access to premium-priced components of the EU market. This challenge has a number of different dimensions. The first relates to the framing of EU regulations. It is important that EU regulations are designed in ways that avoid any form of discrimination, both technical and commercial.

In terms of animal-welfare labelling, EU ministers have recognised the importance of avoiding any form of discrimination that could be challenged in the WTO. Yet this policy commitment has to be followed through in the actual drafting of regulations or the establishment of private voluntary standards. Consultative arrangements established under the IEPA could potentially assist in ensuring that non-discrimination is actually achieved. Indeed, this could be an area where clarification should be sought before signing and ratification.

The related issue then arises of ensuring such measures are commercially non-discriminatory. This means allowing scope for the design of locally relevant compliance systems that are equivalent to the EU systems. Such locally designed systems that achieve an equivalent level of food-safety, SPS or animal-welfare compliance are likely to be far less expensive to implement than systems simply transferred from the European context.

A second dimension relates to the distribution of the burden of financial costs of compliance and compliance verification. In the EU, agriculture ministers come under intense pressure from farmers' organisations for the provision of public funds to defray the costs of implementing new regulations. Such assistance is routinely provided under EU rural-development programmes or, when needed, specific dedicated financial instruments. Against this background, a case can be made for the provision of similar support under EU development-assistance programmes, particularly given the increased policy emphasis on 'aid-for-trade' programmes. This could take the form of grant-financed assistance to public-sector bodies responsible for compliance enforcement and verification, or concessional loans via the European Investment Bank to private companies making investments in meeting EU food-safety, SPS, animal-welfare or quality standards.

This would assist in effectively addressing the two most important dimensions of the food-safety and SPS challenge – ensuring the maintenance of public-sector capacities for the effective verification and control of compliance; and assisting ACP private-sector operators in making the necessary investments in compliance. Without such support, the danger exists that the rising cost of meeting EU standards will drive ACP suppliers out of the EU market (a development already well under way). This would be particularly the case if the evolution of EU trade policy led to a substantial reduction in the tariffs on beef applied to imports from the major non-ACP suppliers, a development that could take place either in a multilateral context through a Doha Agreement, or in a bilateral context through ongoing FTA negotiations.

3.2 Ongoing product differentiation and innovation

Securing remunerative prices for beef exports to the EU will increasingly be about meeting end consumers' needs and expectations more effectively, on the basis of a clear understanding of the differentiated nature of the EU beef markets. While some ACP beef suppliers are actively pursuing strategies to get themselves closer to end consumers, so as to understand and meet their needs better, others are struggling to stay ahead of developments. For these ACP beef producers, targeted programmes of assistance may well be needed. This is particularly the case for suppliers where domestic economic policies and circumstances are not currently conducive to the export of beef to the EU market.

Both EU production requirements and beef markets continue to evolve. In this context, ACP exporters may need assistance at the level of market-information systems and technology transfer in order to stay ahead of the game. It may therefore be appropriate to use some of the cooperation commitments made in the context of the IEPAs to direct development-assistance financing in support of such activities. Certainly, in the context of internal EU rural-development programmes, such public assistance, combining national and EU financial resources, is routinely deployed in support of product innovation, product differentiation and product marketing. In the context of an FTA arrangement, it appears appropriate for producers in the same sector to enjoy access to similar types of assistance, regardless of where production may be located in the FTA. Indeed, this appears to be essential to avoid any distortion of competition within the FTA.

3.3 Export-market diversification

Globally, the structure of demand for beef is shifting, with higher consumption growth in emerging economies than in advanced developed-country economies. This suggests that, in future, new market opportunities for quality-differentiated beef are most likely to arise outside the EU. However, in order to access these markets, tariff and non-tariff issues will need to be addressed. While tariff issues can best be addressed in a multilateral or bilateral context, with regard to non-tariff issues there may be scope for EU–ACP cooperation, with ACP beef exporters 'piggy-backing' on EU efforts to resolve SPS and food-safety issues in major third-country markets for beef (such as South Korea). Specifically, if ACP beef exporters could tap into the technical work being undertaken by the EU on beef-sector issues in the context of its market-access partnership initiatives targeting the market concerned, then this could facilitate their own work with regard to securing access to the third-country market in question.

Once again, cooperation provisions included in the IEPAs could well be exploited to develop cooperation in this area. Complementary targeted 'aid-for-trade' support could also usefully be deployed under EU aid programmes, as part of intensified cooperation on food-safety, SPS and animal-welfare issues internationally.

The shifting pattern of global beef demand and supply, alongside the increasing costs of serving the EU market and declining prices over time (relative to world market prices), means national and regional markets for ACP beef production will be of growing importance in the coming period. SPS and food-safety issues, however, play an important role in formal-sector regional trade in beef and livestock, with substantial external assistance being needed to get to grips with these issues. It is essential, in this context, that programmes for the harmonisation of regional standards be based on regional beef- and livestock-sector realities in line with international standards, rather than the external standards of the EU, the markets of which are likely to become less relevant to the vast majority of ACP beef producers.

In terms of the development of regional markets for beef in the ACP, EU beef production will pose a diminishing threat. However, some EU beef traders may continue to play a role in a 'triangular trade' in low-quality, low-priced frozen beef to ACP markets, and consideration will need to be given to the design and implementation of IEPA provisions with an impact on the beef trade and livestock-sector development policies in beef-producing regions of the ACP.

3.4 The possibility of losing preferential access

The prospects of losing duty-free, quota-free access for Namibian beef exports to the EU market needs to be seen in the context of wider EU–Southern African Customs Union (SACU) relations. By 2012, the EU will be party to a fully implemented FTA agreement (the EU–South Africa Trade, Development and Cooperation Agreement), which, *de facto*, allows duty-free access for substantially all EU exports to the whole of the SACU market (including Namibia). Against this background, the EU Council of Ministers would need to take an explicit decision to withdraw Namibia from the list of countries specified in annex 1 of the December 2007 EU Council regulation (1528/2007) as eligible for duty-free, quota-free access to the EU market, at a time when the EU was *de facto* beginning to enjoy full duty-free, quota-free access for substantially all EU exports to the territory of that country under a WTO-compatible free-trade agreement. To take such a course of action in the name of WTO compatibility appears to be a very difficult step for EU member state governments to take. This is particularly the case when the government of the country concerned has repeatedly reiterated its commitment to signing the IEPA, once outstanding issues on which broad agreement has already been reached have been formally incorporated into the agreed text to be signed.

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Executive brief: Update

Cocoa: Trade issues for ACP countries

Contents

About this update

CTA's Executive brief on *Cocoa sector: Trade issues for the ACP*, was published in May 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief updated in October 2009 consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key issues in the cocoa sector

World cocoa output in 2007/08 was close to a record high of 3.7 million tonnes, but the price, at about US$2,500 per tonne, despite a rise over the previous year of 28%, was only about a third of the 1980 price in real terms. Some 36 African, Caribbean and Pacific (ACP) countries between them have millions of small-scale farmers involved in cocoa growing, and in Côte d'Ivoire and Ghana cocoa accounts for about a third of export revenues. World production and exports are dominated by Côte d'Ivoire, Ghana, Nigeria and Cameroon, with the first two alone producing and exporting over half the world total. Indonesia and Brazil are also large producers, but Indonesia is the only significant non-ACP exporter, with about 10% of world exports.

The London-based International Cocoa Organization (ICCO), an intergovernmental organisation, was established under the auspices of the United Nations in 1973 to administer the first International Cocoa Agreement, which includes both exporting and importing countries. It operated price-support measures in its first decade, but now seeks to maintain a 'sustainable cocoa economy'. The first agreement began in 1972 and successor agreements were negotiated in 1975, 1980, 1986, 1993 and 2001 (entering into force in October 2003). The earlier agreements included provisions for an export-quota scheme, buffer stocks, and a withholding scheme designed to reduce volatility and maintain price levels, but under later agreements such economic interventions were abandoned. Instead, the main emphasis is on a sustainable cocoa economy. 'Through the creation of a private-sector board, the Agreement seeks the active involvement of the private sector in the achievement of its goals. It will also promote transparency in the world cocoa market through the collection, analysis and dissemination of relevant statistics and the undertaking of appropriate studies.' The ICCO supports the World Cocoa Foundation, formed in 2000 by cocoa-using industries 'to promote and coordinate sustainable cocoa community development'. It runs several programmes supporting farmers in various ways, although its coverage (for example, only about 7.5% of cocoa farmers in West Africa) is still quite small.

There are two main types of cocoa beans. Bulk (or basic) beans make up over 90% of output, come mainly from Africa and Brazil, and are mostly of the Forastero variety. Fine and flavour cocoas, which have distinctive flavour characteristics, constitute only 5% of production. Ghana cocoa sets the standard for grading, which is determined by the count of defective beans, with grade I having fewer than 3% mouldy beans, fewer than 3% slaty beans, and fewer than 3% insect-damaged, germinated or flat beans. After shelling and roasting, the resulting 'nib' is ground into cocoa paste (or liquor) and then refined to produce cocoa butter and cocoa cake (which may then be ground to powder). Chocolate is made by mixing cocoa butter, cocoa liquor and sugar.

Cocoa and chocolate manufacture and distribution is oligopolistic, with two or three companies accounting for over 58% of production in each of three different areas.

Table 1 Cocoa and chocolate manufacturers

	Producers of industrial and speciality chocolate in 2003 (%)	Cocoa bean grinding capacity in 2006/07 (000 tonnes)	Producers of consumer chocolate in 2003 (%)	Producers of industrial and consumer chocolate in 2003 (%)
Barry Callebaut	51	440	7	24
Archer Daniels Midland (ADM)	11	500	–	4
Cargill	–	500	–	–
Petra Foods	–	250	–	–
Blommer	–	190	–	–
Nestlé	4	85	27	21
Cadbury	–	85	15	12
Hershey	–	70	13	10
Others	34	1,480	38	29

Source: UN Conference on Trade and Development, based on data from Barry Callebaut for 2003; Oxfam report for 2006/07.
(–), No data or negligible.

In 2006/07, Cargill and ADM, which produce semi-processed products (but rarely industrial chocolate for consumer products), each controlled about 14% of world cocoa bean grinding capacity, with Barry Callebaut next with 12%. Output by Petra Foods of Indonesia (7%) and Blommer of the USA (5%) is increasing rapidly, partly by acquisition of processing plant from chocolate producers such as Nestlé. Barry Callebaut also remains the largest producer of industrial chocolate (see the Oxfam report for further details). Prospects for offsetting this oligopolistic control lie chiefly in the alternative cocoa and chocolate sector, especially the fair-trade movement.

Under the Lomé Convention, cocoa beans and cocoa products have enjoyed non-reciprocal preferential access to the EU market, with a tariff set at 0% and lowered duties for cocoa products containing more than 5% of sugar. Since 2008, this regime has been replaced by free trade agreements (Economic Partnership Agreements, EPAs). For those countries that have signed, all cocoa and cocoa products (now including those containing sugar) enter the EU duty-free, enjoying significant, though declining, margins of preference. Those countries that have not signed benefit from the Generalised System of (tariff) Preferences (GSP) regime and from the 'Everything but Arms' initiative for least-developed countries (LDCs).

Cocoa beans and cocoa products (now including those containing sugar) from ACP countries enter the EU duty-free, enjoying significant, though declining, margins of preference. The decline in cocoa prices in the 1990s made cocoa producers, along with coffee and groundnut growers, the main beneficiaries of STABEX, but payments via its successor, FLEX, were small.

FLEX is a mechanism intended to compensate for shortfalls in total export earnings of ACP countries. Unlike STABEX, it does not compensate for shortfalls in export earnings of any particular commodity. It provides additional budgetary support to countries that have registered:

- a 10% loss in exports earnings (2% in the case of LDCs);
- a 10% worsening of the programmed public deficit.

Experience has already shown that these eligibility criteria have been too stringent: from 2000–02, in only six out of 51 cases have ACP countries been able to meet both criteria. Support from FLEX in the six cases has totalled €35.65 million.

Had these proposed criteria been applied to the 51 cases from 2000–02, ACP countries would have received €255 million through the FLEX system, over seven times as much as they actually did under the existing FLEX instrument. The recent All-ACP Agricultural Commodities Programme (see section 2.3.2 below) offers hope of some progress in this area.

In 2004, the EC put forward a proposal for an EU action plan on agricultural commodities-dependence and poverty. The aim of the plan was to help developing countries enhance their export performance and reduce their vulnerability to price fluctuations in major international agricultural commodities such as cocoa. The key objective was to improve the income of producers and reduce income-vulnerability to price fluctuations.

Fair-trade and organic cocoa production, and more use of geographical designations, offer hope for higher earnings in the face of declining basic prices. The EU could play a role in supporting these possibilities, as well as price risk-management mechanisms and helping producers move up the value chain.

2 Latest developments and implications for ACP countries

2.1 The international cocoa market

2.1.1 Production, exports, consumption and price trends

Total production of cocoa beans in crop year 2005/06 (October–September) was an all-time record of 3.768 million tonnes (more than double the level of the early 1980s), since when output has fallen back somewhat; it is forecast to be about 3.520 million tonnes in 2008/09. The largest producers in 2007/08 were Côte d'Ivoire and Ghana, which grew 37.3 and 19.7% of the world total, respectively, followed by Indonesia, Nigeria, Cameroon and Brazil, with 13.4, 5.3, 5.0 and 4.6%, respectively. ACP countries thus account for over two-thirds of world production.

World exports of cocoa beans in 2006/07 amounted to 2.559 million tonnes, down from 2.774 million tonnes the previous year, and worth US$4.744 billion, the unit value having risen by 20.9% since 2003/04; in 2007/08 there was a further rise of 28.2% to US$2,516 per tonne, but there are forecasts of a decline of about 10% in 2008/09. In addition, there were exports of cocoa paste, cocoa butter and cocoa husks and shells. Africa dominates exports of cocoa as well as production; some large producers such as Brazil consume most of their own output.

Table 2 Net exports of cocoa and cocoa products (000 tonnes)*

	2000/01	2004/05	2006/07
Côte d'Ivoire	1,179.8	1,299.6	1,200.2
Ghana	370.5	613.8	703.6
Nigeria	160.5	200.7	187.0
Cameroon	132.6	187.8	162.8
Total Africa	**1,872**	**2,399**	**2,382**
Indonesia	373.0	467.1	520.5
World total	**2,485**	**3,077**	**3,113**

*Net exports of cocoa beans plus net exports of cocoa products converted to beans equivalent using the following conversion factors: cocoa butter 1.33; cocoa paste/liquor 1.25; cocoa powder and cake 1.18.
Source: ICCO.

World grindings of cocoa beans (a proxy for consumption) reached an all-time high of 3.756 million tonnes in 2007/08, with Europe the main user, although its share fell from 45% in 1999/2000 to 41.3%. The Americas' share also fell over this period from 29 to 22%; meanwhile, Asia and Oceania rose from 13 to 21%, and Africa from 12 to 15% (mostly due to increased processing in Côte d'Ivoire, rather than consumption).

The world price of cocoa is quoted on international exchanges, the principal of which are London and New York, and is determined by supply and demand. It rose sevenfold in the 1970s to over US$3,500 per tonne, stimulating Malaysia and Indonesia into commencing production. Since then, production has doubled and prices have collapsed; in real terms the price in 2007 was only a third of the 1980 price. Both London and New York operate cocoa futures and options on cocoa futures.

Table 3 International cocoa prices

Year	Current prices/lb (US cents)	Real prices/lb (US cents 2005/06)
1981	94.2	212.5
1991	54.2	80.4
2001	49.4	56.2
2006	72.2	72.2
2008	117.1	109.6

Source: ICCO *Quarterly Bulletin of Cocoa Statistics*, Vol. XXXV, No.1.

2.1.2 The International Cocoa Agreement

The ICCO, which in 2007 had about 42 members from 13 cocoa-exporting countries (nine of which are ACP countries) as well as 29 consuming countries (although not the USA) plus the EU, has recently organised a Round Table for a Sustainable Cocoa Economy, which held its first meeting in Accra in 2007 and its second in Port of Spain, Trinidad in March 2009, when 300 participants from 29 countries and all branches of the industry conferred. The 'Accra agenda' contained 10 key elements, which were reaffirmed in Port of Spain, including:

- Element 3: Remuneration for quality cocoa, productivity and improved farmers' income;
- Element 5: Market access and market information.

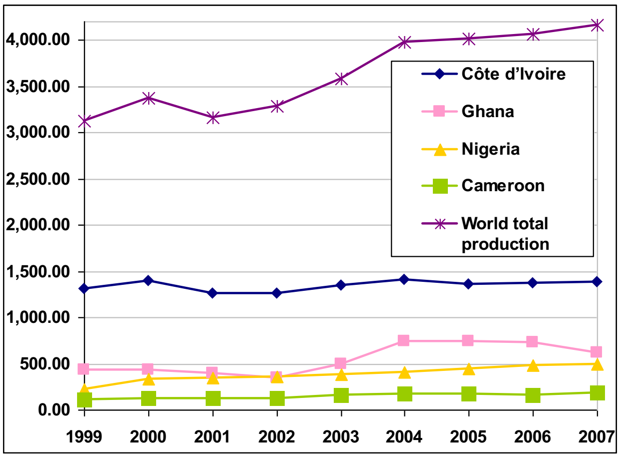
The main outcome of the roundtable was a decision to continue elaborating the 10 elements, but it also agreed to set up a cocoa sustainability fund, primarily for the benefit of producers.

2.2 The ACP cocoa sector

2.2.1 Production trends for ACP countries

Other ACP countries producing less than 2,000 tonnes a year include: Angola, Belize, Benin, Central African Republic, Comoros Islands, Republic of Congo, Costa Rica, Dominica, Fiji Islands, Gabon, Grenada, Guyana, Jamaica, Micronesia, St Lucia, St Vincent, Suriname, Trinidad & Tobago and Vanuatu.

Figure 1 Cocoa bean production (000 tonnes)



Source: FAO.

Table 4 Cocoa bean production in ACP and other countries (000 tonnes)

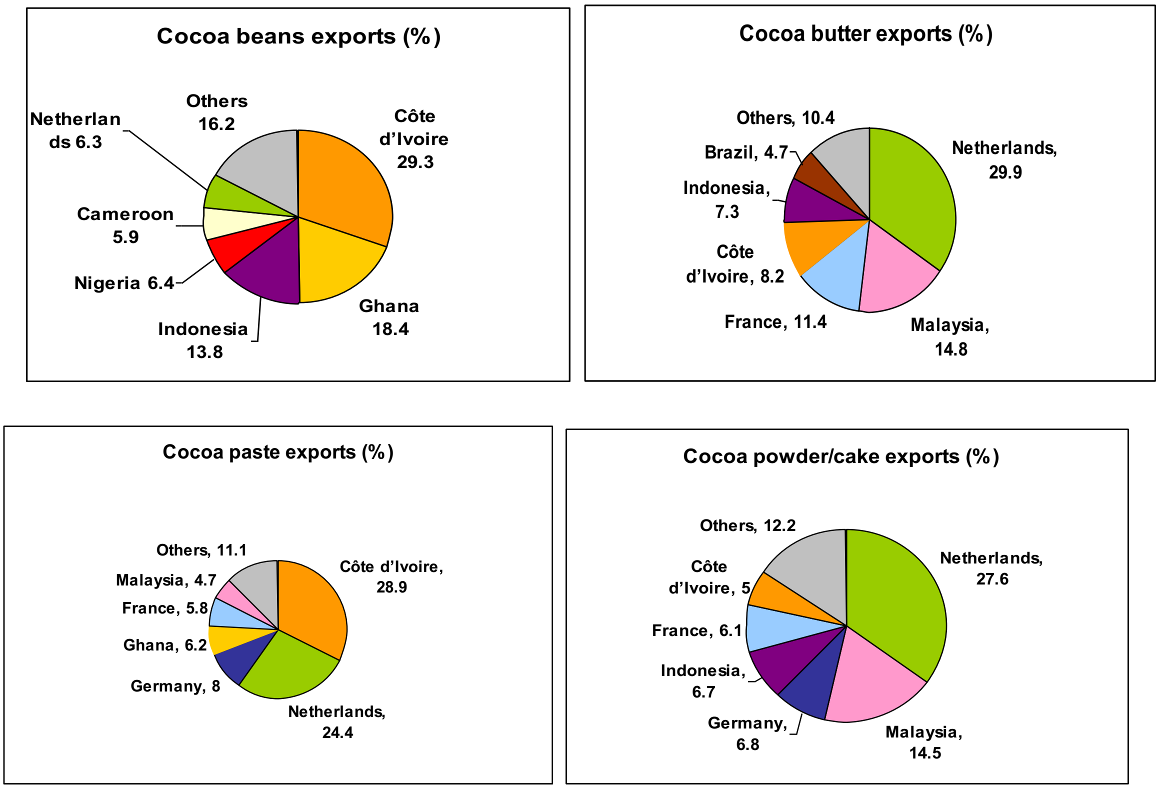
	1999	2003	2007
Côte d'Ivoire	1,306.2	1,351.5	1,384.0
Ghana	434.2	497.0	615.0
Nigeria	225.0	385.0	500.0
Cameroon	116.0	155.0	179.2
Togo	7.0	7.9	78.0
Papua New Guinea	35.6	42.5	47.3
Dominican Republic	25.9	47.4	42.2
Guinea	5.1	10.0	12.5
Sierra Leone	10.9	12.0	14.0
Uganda	3.5	3.8	10.6
DRC	6.6	5.7	5.6
Solomon Islands	2.4	4.6	5.3
Haiti	4.5	4.8	4.5
Madagascar	4.3	4.4	4.5
Tanzania	3.7	4.5	4.5
São Tomé & Principe	4.2	3.5	3.5
Equatorial Guinea	5.5	2.4	3.0
Other major producers			
Indonesia	367.5	572.6	740.0
Brazil	205.0	170.0	201.7
Ecuador	94.7	88.3	85.9
Colombia	51.5	41.7	62.4
World total production	**3,122.3**	**3,582.3**	**4,161.6**

Source: FAOSTAT.

2.2.2 Export trends

With ACP countries growing over two-thirds of the world's cocoa beans, they naturally dominate world trade. In fact as two other big growers, Brazil and Malaysia, consume or process most of their own production, the ACP share is even more important. This applies to a lesser extent in the case of cocoa paste, cake, powder and butter, which in the ACP are only produced to a significant extent by Côte d'Ivoire and Ghana (and Cameroon in the case of cocoa paste).

Figure 2 Exports of cocoa beans and derivatives



Source: FAO.

Table 5 Exports of cocoa and its products in 2007 (percentage of world total)

Countries/products	Cocoa beans (%)	Cocoa butter (%)	Cocoa paste (%)	Cocoa powder/cake (%)
Côte d'Ivoire	29.3	8.2	28.9	5.0
Ghana	18.4	2.3	6.2	2.4
Indonesia	13.8	7.3	0.5	6.7
Nigeria	6.4	1.5	0.2	0.7
Cameroon	5.9	0.3	3.1	0.3
Netherlands	6.3	29.9	24.4	27.6
Belgium	5.2	0.7	0.0	0.3
Ecuador	2.9	0.4	0.6	0.4
Papua New Guinea	1.7	0.0	0.0	0.0
Togo	3.1	0.0	0.0	0.0
Dominican Republic	1.4	0.2	0.2	0.1
USA	0.9	3.0	3.6	3.3
Germany	0.3	2.0	8.0	6.8
Malaysia	0.6	14.8	4.7	14.5
France	0.1	11.4	5.8	6.1
Brazil	0.0	4.7	2.9	4.7
World total (tonnes)	**2,746,970**	**700,073**	**418,903**	**778,898**

Source: FAOSTAT.

2.3 ACP–EU trade relations and ways forward for ACP countries

2.3.1 ACP–EU cocoa-sector trade relations

The EU trade regime

Cocoa beans from all producers now enter the EU duty-free. ACP exporters of cocoa-based products, however, enjoy preferential rates in EU markets. Because of a flat tax on sugar content, the margin of preference falls for products containing more sugar, but after signing an EPA this sugar-content tariff rate falls to zero. On the other hand, as a result of its failure to sign an EPA, Nigeria now faces the GSP rate, unlike the three other major producers, Ghana, Côte d'Ivoire and Cameroon, which signed an EPA (Nigeria is the only main non-LDC cocoa producer that did not initial or sign an EPA). According to a *Trade Negotiations Insights* article, 'about 95% of Nigeria cocoa products are exported to the EU alone, because of the higher freight charges to the US and Asian markets. Estimates from the Cocoa Processors Association of Nigeria (COPAN) show that some $5 million had been lost by the end of March 2008'. Press reports in February 2009 claimed that the Nigerian cocoa-processing sector was on the verge of collapse, as the withdrawal of traditional ACP preferences from processed cocoa exports highlighted the domestic constraints on competitiveness. Earlier reports had suggested that processing plants were relocating to Ghana.

Table 6 Tariff rates as of July 2009

	Most-favoured nation rate (%)	GSP rate (%)	EPA rate (%)	Cotonou rate (%)
1801 Cocoa beans	0	0	0	0
1803 Cocoa paste	9.6	6.1	0	0
1804 Cocoa butter	7.7	4.2	0	0
1805 Cocoa powder	8.0	2.8	0	0
1806102 Cocoa powder containing 5–65% sugar	43 or 8 + €25.2/100 kg	2.8 + €25.2/100kg	0	0 + €25.2/100 kg
1806103 Cocoa powder containing 65–80% sugar	43 or 8 + €31.4/100 kg	4.5 + €31.4/100kg	0	0 + €31.4/100 kg
1806109 Cocoa powder containing >80% sugar	43 or 8 + €41.9/100 kg	4.5 + €41.9/100kg	0	0 + €41.9/100 kg
1806201 Chocolate in slab	43 or 8.3 + EA MAX 18.7 + ADSZ	4.8 + EA MAX 18.7 + ADSZ	0	0

Source: EU Help Desk.

ACP–EU trade trends

Since 2002, several ACP countries have expanded their exports to the EU, most notably Ghana (by over 97%) and Cameroon (by 67%), while even larger percentage increases have occurred from low bases for the Dominican Republic, Guinea, Liberia, Sierra Leone, and especially Togo, which has become the fifth largest supplier. Although exports from Côte d'Ivoire have fallen by about 6%, it still remains by far the largest supplier; overall EU imports from ACP countries have risen by 28% over the period.

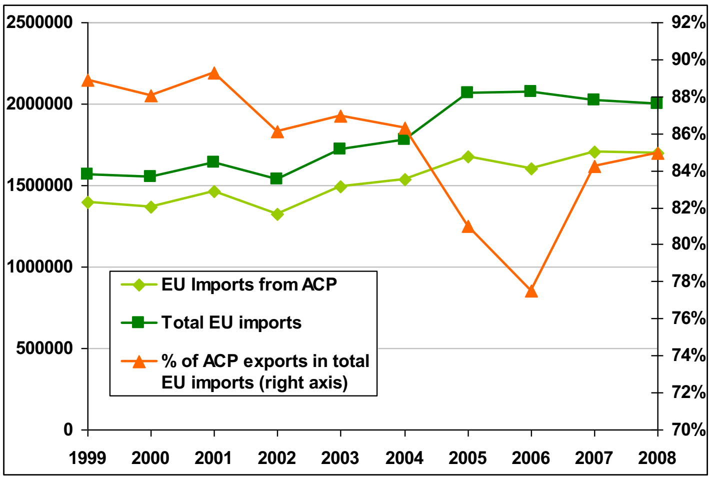
Table 7 Imports by the EU27 from ACP countries 2002–08 (€ million)

	2002	2005	2008
Côte d'Ivoire	1,401.4	1,064.3	1,320.3
Ghana	413.3	544.8	816.2
Nigeria	300.8	323.2	340.1
Cameroon	156.2	197.1	261.4
Togo	12.1	74.6	133.4
Dominican Republic	13.1	21.1	50.5
Sierra Leone	4.3	12.5	17.0
Guinea	2.3	21.4	16.8
Papua New Guinea	16.3	17.8	14.8
Uganda	4.5	6.8	11.9
Madagascar	7.4	6.4	10.5
Liberia	1.2	2.9	7.5
Tanzania	6.7	4.5	6.8
Total ACP	2,359.1	2,310.6	3,028.5

Source: EU Export Helpdesk.

However, if, since 2000, ACP exports as a whole are increasing steadily, their contribution to EU imports is not increasing in the same proportion. While at the beginning of 2000 they accounted for 89% of total EU imports, they now account for 85%.

Figure 3 Cocoa and its preparations, total EU imports and EU imports from ACP countries (tonnes, 1999–2008)



Source: Eurostat.

2.3.2 Ways forward for ACP countries

Policy responses to declining prices

Remunerative prices for cocoa farmers are at the core of 'economic sustainability' in the world cocoa economy. With wide fluctuations in cocoa prices, there are times when prices are no longer sufficiently attractive to farmers to plant new cocoa trees and to maintain their cocoa farms properly. Whenever that occurs, cocoa production is no longer economically sustainable until prices have increased.

Initiatives aimed at promoting an effective policy response to declining prices have been implemented largely through the ICCO. These have focused on improving productivity; enhancing the quality of production; encouraging movement up the value chain in developing countries; and support for risk-management schemes.

A major area where scope for product differentiation exists and where premium prices can be obtained for cocoa and cocoa products is the fair-trade market, which is growing rapidly. For example, the retail sales value of fair-trade cocoa and chocolate in the UK was about £1 million in 1998, since when sales have risen rapidly to reach £29.7 million in 2006 (still, however, representing less than 2% of the market), although the 2008 figure was down to £26.8 million. The UK has overtaken Germany, Switzerland and the Netherlands in consumption of fair-trade cocoa products, increasing 100-fold from 22 tonnes in 1996 to 2,238 tonnes in 2005, three times as much as the nearest rivals, Germany and France. Fair-trade cocoa and chocolate are labelled with the 'Fairtrade' mark, a consumer label operated by the UK-based Fairtrade Foundation. The mark guarantees a better deal for producers in developing countries. There are fair-trade labelling initiatives in 18 countries, mostly in Europe, but also in North America and Japan. An umbrella body, the Germany-based Fairtrade Labelling Organizations International (FLO), coordinates international monitoring and certification of producers and traders. It permits more than 800,000 producers, workers and their dependents in 50 countries to benefit from being labelled 'Fairtrade'.

An additional differentiated market which that be served by ACP suppliers seeking price premiums is the organic market. This is very much a new area for the cocoa industry, although at least 10 ACP cocoa producers already have a foot in this market.

Finally, for specific cocoa species, geographical indication (GI) certification could help producers obtain better prices. The EC would like to see an international register of food-and-drink products that are made from a special recipe, or are from a specific region, that are not allowed to be copied. Such GIs would follow the pattern already established for wines and spirits. The March 2005 World Trade Organization ruling on geographical designations of origin should help ACP countries that want to develop regionally specific cocoas, particularly fine and flavour cocoas.

A notable feature of the policy response to declining prices in the cocoa sector is the relatively minor role being played by the EC, despite the commitments made in the 2004 Commodities Action Plan.

The scope for EU action

Ever since the debate on the abolition of the STABEX scheme in 1997, the EC has been arguing in favour of developing market-based risk-management instruments. These have shown some fruit in the EU's All-ACP Agricultural Commodities Programme (AAACP) (developed in September 2007 from the EC Commodities Action Plan), with a budget of €45 million for all commodities, reviewed in the first quarter of 2009. Three component programmes relate to cocoa:

- commodity policy and price-risk management in Malawi and Mozambique;
- initial training and education on agricultural risk management in the Eastern and Southern African (ESA) region;
- capacity transfer to the ESA region.

There is also a separate programme of support for cocoa producers in Haiti, in which the EU-AAACP is part of a consortium involving several other funders.

There nevertheless appears to be a need for renewed and sustained EC effort in this area, particularly in the light of the importance of cocoa to smallholders, and in order to enhance poverty-eradication efforts in cocoa-producing ACP countries.

In terms of extending support to ACP producers in moving up the value chain, the first area to be addressed was the elimination of any residual tariffs or special duties arising from the application of special duty provisions on value-added food products linked to sensitive agricultural products (such as. sugar); this has been achieved under the EPAs.

The second area, which still needs to be addressed, relates to sector-specific inspection requirements. Some EU regulations (for example, in the dairy sector) require separate inspections by dairy inspectors where dairy products are used in combination with other agricultural products in order to produce value-added products destined for the EU market. This can raise the costs of inspections unnecessarily. These regulatory anomalies should be removed, with inspection requirements being consolidated to reduce costs.

Thirdly, the EC needs to look at what types of financial instruments are required to support investment in moving up the cocoa value chain in ACP countries. This may require reviewing the terms and conditions of grant-financed European Investment Bank-administered loans, to reduce the costs of loans targeted at encouraging investment in movement up the cocoa value chain. Alternatively, it may require the creation of new financial instruments. Both Côte d'Ivoire and Ghana have identified mechanisms to stimulate local processing, in the former by way of imposing a lower export tax on cocoa powder than on cocoa beans.

Overall, what is required is a comprehensive approach to assisting ACP cocoa producers in moving up the value chain so that their dependence on the low basic cocoa price is reduced.

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Executive brief: Update

Coffee: Trade issues for ACP countries

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1 Background and key issues in the coffee sector

The share of African, Caribbean and Pacific (ACP) countries in world coffee exports has almost halved over the past 20 years, partly because of the rise of production in non-ACP countries such as Indonesia and Vietnam. All major ACP producers are in Africa, with the exception of Papua New Guinea. The EU25 countries account for over 50% of total consumption of coffee globally, and remain the dominant market for ACP producers.

The International Coffee Organization (ICO) operated a quota-regulation system until 1989. Since then, production has risen dramatically and has remained over 100 million (60-kilogram) bags every year. Prices fell sharply to the lowest level for a century in the period from 2000 to 2004, but recovered thereafter. Along with a more general commodity-price boom, since 2007 the average ICO composite indicator price has reached, and remained over, the $1/lb mark, for the first time since 1998. In 2008, this average was over $1.20/lb, while in January–July 2009 it was $1.10/lb. Stocks in producing countries are currently at the lowest levels in recorded history. However, farmers' gains resulting from higher coffee prices have been significantly eroded by high oil prices (through increasing costs of farmers' inputs) and the continued weakness of the US dollar.

Along with increasing prices, the coffee industry is witnessing a rapid growth of certified 'sustainable' coffees – organic, fair-trade, Rainforest Alliance Certified, Utz Certified, and other designations. According to recent estimates, the sustainable market accounts for approximately 5.5% of exports, up from 1% in 2003. This follows the rapid development of the speciality coffee market in the 1990s.

The value chain for coffee has gone through some major restructuring in the past two decades. Producer organisations have lost much of their clout due to the end of quota regulation and domestic market liberalisation. Local traders have been put under pressure due to increased involvement by international traders in domestic procurement. International traders themselves have gone through considerable restructuring. Mid-sized traders found themselves too small to compete with larger ones. As a result, they either went bankrupt, merged with others, or were taken over by larger traders. The coffee trade is becoming more concentrated. With some exceptions, there has been little vertical integration between roasters and international traders. And the level of concentration in the roaster market has reached a level even higher than for international traders. Roasters are still able to maintain a relative position of power over retailers, because in many retail markets coffee is offered to consumers at a low margin, or even at a loss. This applies to mainstream coffee. Speciality coffees exhibit higher margins at the retail level, but supermarkets' own brands have not been able to enter the speciality segment in meaningful ways. It is more usual to find 'high-quality' brands dominating the high-end market in retail chains.

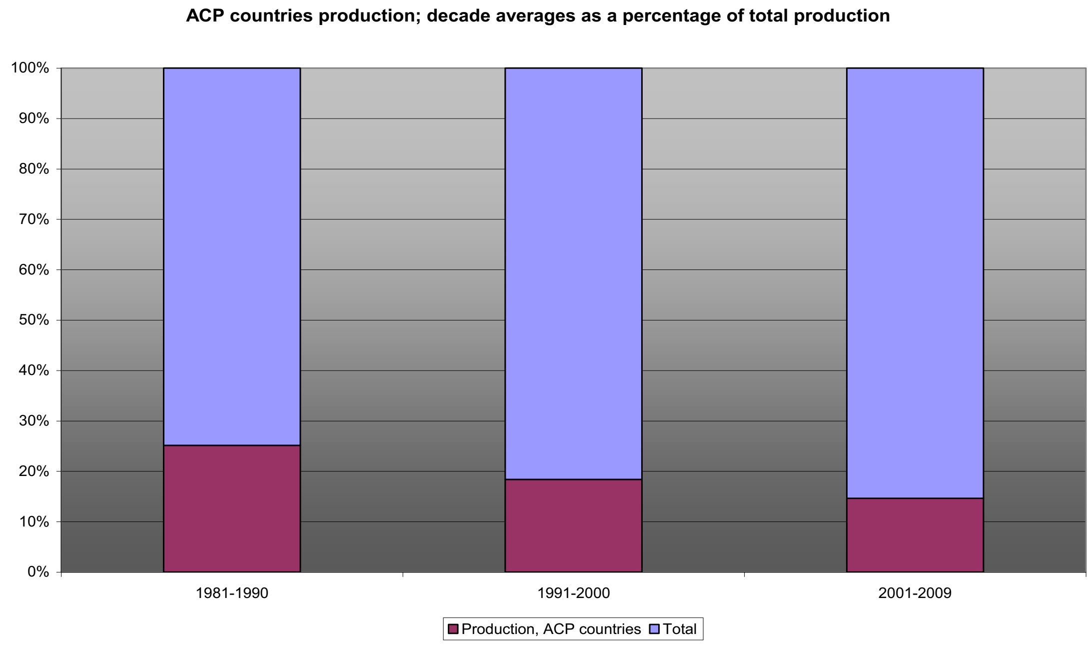
Increasing and sustaining coffee farmers' (especially smallholders') income in ACP countries is an important policy goal. The possibility of achieving this by reasserting some control over the market, as operated by the ICO before 1989, or through other price-support or compensation schemes such as STABEX and now FLEX, does not offer much hope of success. Better prospects are offered by the promotion of speciality and sustainable coffees and the capturing of value-added through systems of geographical indications (GIs).

2 Latest developments and implications for ACP countries

2.1 Production, trade and consumption

ACP countries accounted for less than 15% of total coffee production in 2001–09. This is less than the 18% share they had in the 1990s and their 25% share in the 1980s (see Figure 1). In 2008/09, they accounted for 19.2 million bags out of a world coffee production of over 128.8 million bags. Top ACP producers in 2008/09 were Ethiopia (with over 6.1 million bags and a 25% increase over the previous year), Uganda (3.3 million), Côte d'Ivoire (2.5 million) and PNG (just over 1 million) (Table 1). Only one country, Ethiopia, figures in the top 10 coffee producers worldwide (Table 2).

Figure 1 Coffee production in ACP countries as proportion of global coffee production (by volume)



Source: elaborated from ICO data

Table 1 Top 10 ACP coffee producers and exporters, 2008/09

Rank	Production (2008/09)		Export (2008)	
	Country	(000) bags	Country	(000) bags
1	Ethiopia	6,133	Uganda	3,311
2	Uganda	3,300	Ethiopia	2,852
3	Côte d'Ivoire	2,500	Cote d'Ivoire	1,585
4	Papua New Guinea	1,026	Papua New Guinea	1,094
5	Tanzania	917	Tanzania	818
6	Kenya	883	Kenya	608
7	Cameroon	833	Cameroon	527
8	Madagascar	629	Guinea	335
9	Dominican Republic	500	Rwanda	283
10	Congo, Dem. Rep. of	400	Burundi	251

Source: elaborated from ICO data.

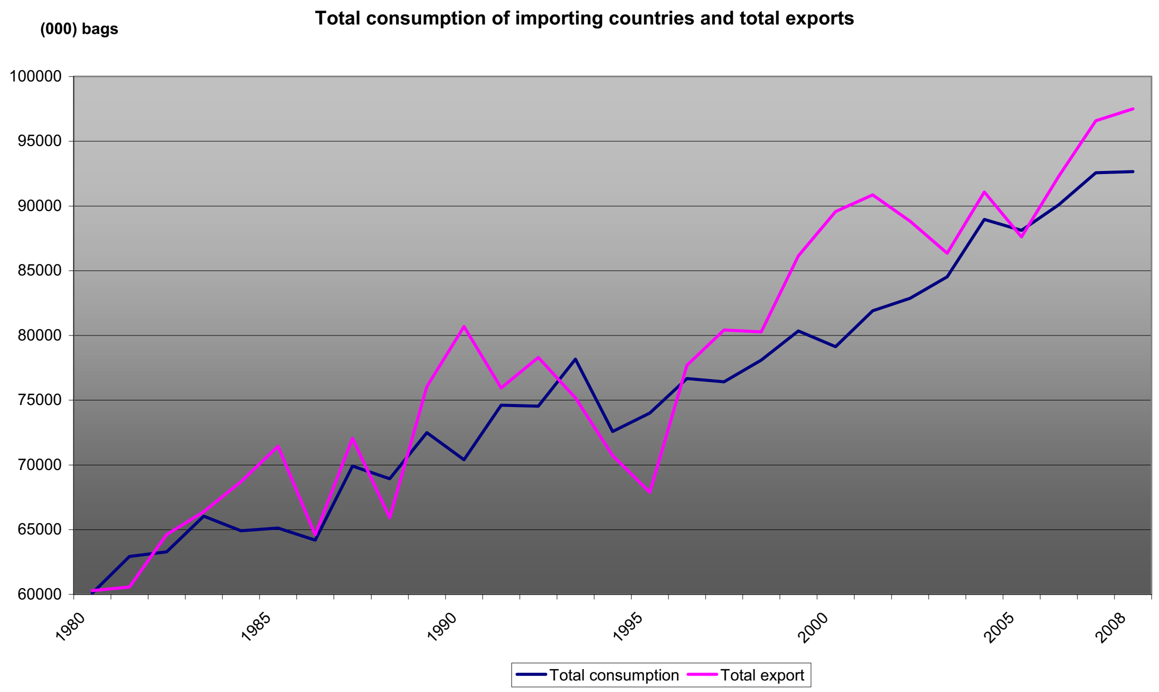
Table 2 Top 10 world coffee producers and exporters, 2008/09

Rank	Production (2008/09)		Exports (2008)	
	Country	(000) bags	Country	(000) bags
1	Brazil	45,992	Brazil	29,495
2	Vietnam	16,000	Vietnam	16,101
3	Colombia	10,500	Colombia	11,085
4	Indonesia	8,638	Indonesia	5,741
5	Ethiopia*	6,133	Guatemala	3,778
6	Mexico	4,650	Peru	3,733
7	India	4,372	Uganda*	3,311
8	Peru	3,868	Honduras	3,256
9	Honduras	3,373	India	3,145
10	Guatemala	3,370	Ethiopia*	2,852

* - ACP country. Source: elaborated from ICO data.

The picture for exports follows more or less the same dynamics as for production, but with a more marked proportional fall for ACP countries in the 2000s. ACP countries accounted for 14.9% of total exports in 2001–08, down from 21.3% in the 1990s and 27.4% in the 1980s. In 2008, they accounted for only 12.8% of total exports. Top ACP exporters in 2008 were Uganda (with 3.3 million bags), Ethiopia (with 2.9 million), Côte d'Ivoire (with 1.6 million) and Papua New Guinea (with over 1 million). Two ACP countries (Uganda and Ethiopia) figure in the top 10 exporters worldwide.

Figure 2 Consumption in importing countries and total exports (1980–2008)



Source: ICO.

Consumption data in importing countries (see Figure 2 and Table 3) show a steady growth in volume, especially in emerging markets (non-ICO importing members). This is compounded by healthy growth in producer countries' own consumption markets – particularly in Brazil, Mexico, Indonesia, Ethiopia, Colombia and India.

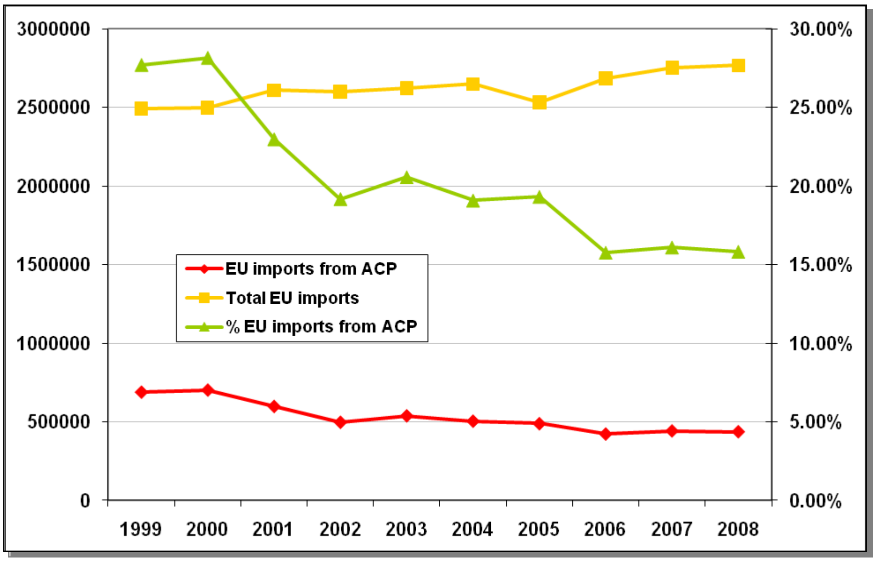
Table 3 Consumption in importing and in producing countries (000 bags) (2000–08)

	2000	2004	2008
Importing ICO members*	64,862	70,713	70,442
EC countries total	38,007	41,193	39,859
Top three EC countries (as of 2008)			
1 Germany	5,402	4,929	5,143
2 Italy	8,770	10,445	9,554
3 France	5,149	5,469	5,937
Other EC countries	18,686	20,350	19,225
Japan	6,626	7,117	7,065
USA	18,746	20,973	21,655
Importing ICO non-members	14,258	18,240	22,198
Consumption in all importing countries	79,120	88,953	92,640
Consumption in producing countries**	26,375	29,999	35,074

*Calendar years, **crop years.
Source: elaborated from ICO data.

Although imports from ACP countries have been falling only slightly over the past 10 years, this is in the context of rising EU imports, so the ACP share has fallen from about 28 to 16%, as shown in Figure 3.

Figure 3 Imports of coffee (tonnes) into the EU 1999–2008 and ACP share



Source : ICO.

As Table 4 shows, tariff barriers on imports of coffee in the main importing countries remain low or zero for green coffee, and a bit higher for roasted coffee.

Table 4 Import duties

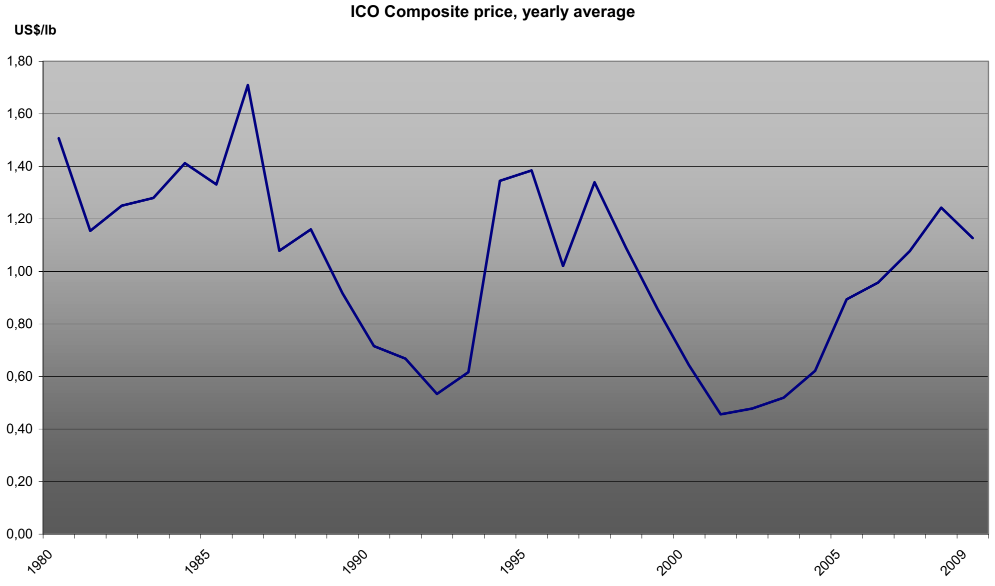
Location		Import duty (%)	
		Green coffee	Roasted coffee
EC	MFN GATT bound	0	7.5
	MFN statutory	0	7.5
	GSP	-	2.6
	LDC	0	0
	EPA	0	0
Japan	MFN GATT bound	0	12
	MFN statutory	0	12
	GSP	0	10
	LDC	0	0
	General	0	20
USA		0	0

Source: ICO, 2008;

2.2 Prices

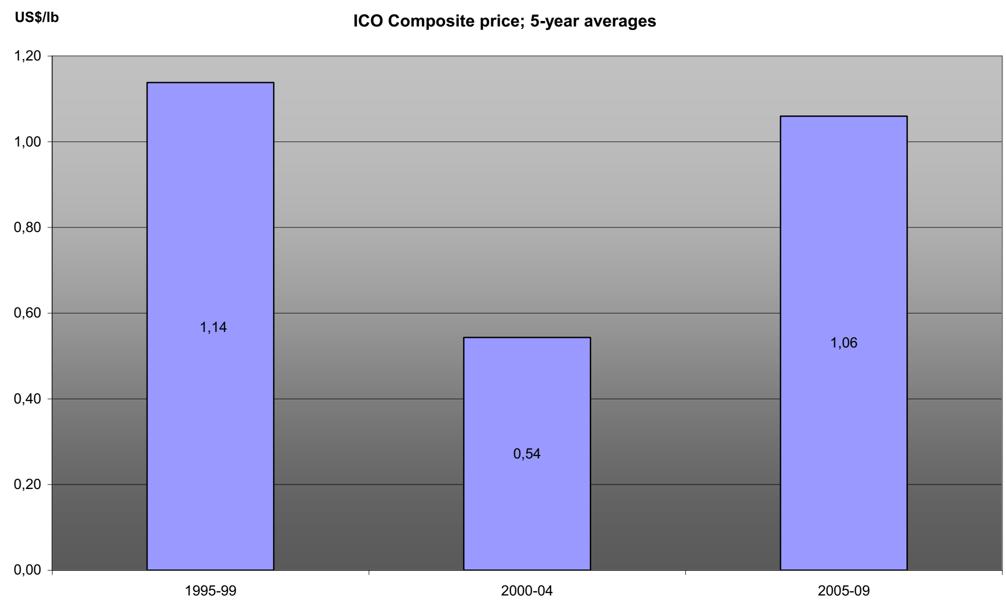
After suffering from the lowest real prices in recorded history in 2000–04, international coffee prices have recovered healthily, especially since late 2006 (Figure 3). The composite ICO price averaged $0.54/lb in 2000–04 and doubled to $1.04 in 2005–08 (Figure 4). It started exceeding $1/lb in 2007 for the first time since 1998. In 2008, it was $1.24 before falling to $1.13 in the first half of 2009. Due to low stock levels, exports have been just sufficient to cover existing demand in importing countries in the past few years (see Figure 2). Since the current crisis does not appear to have affected the volume of demand significantly (see below), the current situation is likely to continue in the short to medium term.

Figure 4 International prices 1980–2009 (ICO composite price)



Source: elaborated from ICO data.

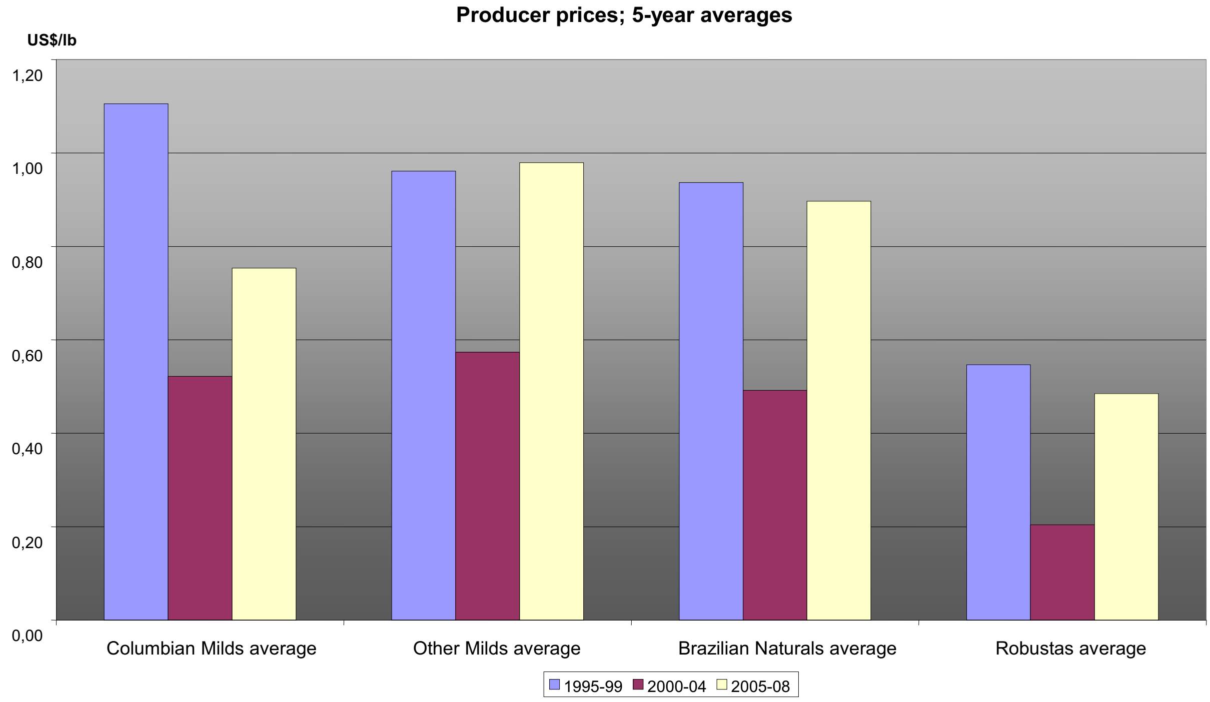
Figure 5 International prices, 5-year averages (ICO composite price)



Source: elaborated from ICO data.

Producer prices (in dollar terms) have increased as well, although at lower rates (with the exception of robusta coffee) than in the case of international prices: for Colombian milds from $0.52/lb in 2000–04 to $0.75/lb in 2005–09; for other milds from $0.57/lb in 2000–04 to $0.98/lb in 2005–09; for Brazilian naturals from $0.49 to $0.90; and for robustas from $0.20 to $0.48 (Figure 6).

Figure 6 Average producer prices in reporting countries



Source: Elaborated from ICO data.

In terms of net incomes for producers, however, these price increases have been moderated by increases in the price of oil (which affects the price of fertiliser and transport) and the steady devaluation of the dollar. Since most ACP countries have currencies that are not pegged to the dollar, this has meant a downward pressure on prices in local currencies.

2.3 The financial crisis and coffee

The financial and economic crisis that started in late 2007 does not seem to have had major repercussions in the coffee market. Coffee consumption overall is holding up well, at least in traditional coffee-consuming countries, although there are indications of switches from out-of-home to in-home consumption, and from consumption of more expensive products to less expensive ones. The picture is less clear in relation to emerging coffee consumption markets.

Market reports suggest that out-of-home consumption is recording movements from fancier locations (Starbucks is slated to close 1000 of its US coffee shops) to cheaper outlets such as McDonald's, which are recording strong sales. At the same time, UK reports indicate that both cheap and upper-end outlets are holding up well, at the expense of middle-range coffee shops.

Consumption in emerging economies, such as eastern Europe, is more at risk as coffee drinking is not as entrenched, and purchasing power may be affected by unemployment and economic instability.

The impact of credit tightening was also expected to lead to problems in accessing trade finance, and in more expensive hedging. Reports from coffee and other agro-food sectors, however, suggest that this has not been a major problem.

2.4 The 2007 International Coffee Agreement and other ICO-related issues

The seventh International Coffee Agreement (ICA) was agreed upon among ICO members in 2007. Once ratified, it will replace the 2001 ICA. Signing and ratification have proceeded somewhat slowly, with the result that the validity of the 2001 ICA was extended by one more year until September 2009. One of the major setbacks for the ICO was the decision by Japan not to be part of the ICA. In contrast to the ICAs that were in force before 1989, both the 2001 and 2007 ICAs do not give any quota-related regulatory powers to the ICO. They focus on promotion and market development of coffee, gathering of statistical information, funding of specific projects for technical assistance, and the creation and governance of special groups and committees. The main new noteworthy features of the 2007 ICA are: (1) specific references to 'sustainability' in the overall objective – formulated as 'sustainable expansion [of the coffee sector] in a market-based environment'; it remains to be seen how this is translated into practice; (2) the creation of a four new bodies, of which the Consultative Forum on Coffee-sector Finance is the most important addition; and (3) stricter obligations for members on reporting of statistical information.

The Coffee Quality-Improvement Programme, initially envisaged as a mandatory mechanism to improve the quality of internationally traded coffee, was introduced in October 2002 under Resolution 407, and revised substantially in 2004 under Resolution 420. It is now a voluntary programme encouraging coffee-exporting members to match certain basic quality requirements. In 2007/08, 28 members indicated the quality of their green coffee in certificates of origin (these countries account for about 70% of total exports). Over 91% of arabica coffee coming from these countries was found to be in compliance with the minimum standard, but only 25% of robusta. It is not clear whether such non-compliance has any effect on prices or reputation, however.

2.5 Latest developments in speciality and sustainable coffees

As explained in detail in the full Executive Brief (see box on page 1) on coffee, sustainable coffee is becoming an increasingly visible part of the market, with spectacular growth in the 2000s. In addition to the growth of certified coffees such as organic, fair trade, Rainforest Alliance and Utz Certified sales, the past few years have seen the establishment of roasters' own private standards on sustainability, first with the Starbucks C.A.F.E. (Coffee and Farmer Equity) Practices and later with the Nespresso AAA Sustainable Quality Programme. The latter originally verified farm practices against a code of conduct, but from May 2009 the programme aims to have all participating farms (approximately 25,000) seeking certification by the Rainforest Alliance label. Another major development has been the establishment in 2009 of a secretariat and regional offices of the 4C (Common Code for the Coffee Community) Association. The Association is structured around three chambers (producers, trade and industry, civil society) and manages an industry-wide voluntary code of conduct, which is based on a list of 28 principles and 10 unacceptable practices. As of June 2009, 4C had verified 48 units in 16 countries against the code of conduct, with another 25 units in the pipeline. A unit is a managing entity that can fill at least one container of coffee (usually, groups of producers, cooperatives, mills or exporters). The total production capacity of these units amounts to 8.8 million bags. 4C has developed a benchmarking scheme with Rainforest Alliance, where a certification against Rainforest Alliance counts as equivalent to matching the 4C Code of Conduct (but not the contrary).

Despite the growth of sustainability certifications and codes of conduct, it is still not clear what kinds of benefits accrue to the target beneficiaries – coffee producers and their communities. A study by Giovannucci and Potts reports the results of a preliminary survey conducted among over 50 coffee farms that are certified against one of the main existing sustainability initiatives: organic, fair trade, Rainforest Alliance, Utz Certified, Starbucks C.A.F.E. Practices and 4C. The main findings of this report suggest that farm performance along social, environmental and economic indicators is highly variable, depending on the location and type of certification. Certified farms overall seem to be better off in terms of net income, although in some cases the difference from conventional farms can be small. Slightly over 50% of farms reported improved market access as a result of certification. So far, there seems to be little evidence that certification has significant effects on the environment, at least in the early years, with the exception of improved pollution management. On social indicators, certified farms appear to have better occupation health and safety, employee relations and labour-rights performance (these apply mainly to estate farms, not to smallholders).

As mentioned in the full Executive Brief (see box on page 1), another tool to add value to coffee in ways that can benefits producers is the development of GIs. An ICO seminar held in May 2008 discussed the potential and challenges of developing GIs for coffee. The main results from this discussion are that GIs:

- can be powerful tools to profile certain areas and can offer considerable benefits;
- should be seen as complementary to trademarks, rather than substitutes for them;
- need long-term commitment of resources;
- can be built upon a considerable wealth of knowledge and experience on the ground in producing countries.

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Useful websites:

4C: Common Code for the Coffee Community
www.sustainable-coffee.net

Fairtrade Labelling Organisations International (FLO)
www.fairtrade.net

International Federation of Organic Agriculture Movements (IFOAM)
www.ifoam.org

International Coffee Organisation (ICO)
www.ico.org

Rainforest Alliance
www.rainforestalliance.com/programs/agriculture/certified-crops/coffee.html

Starbucks' C.A.F.E. (Coffee and Farmer Equity) Practices
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Executive brief: Update

Cereals: Trade issues for ACP countries

Contents

About this update

CTA's Executive brief *Cereals: Trade issues for the ACP*, was published in October 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in April 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key issues in the cereals sector

The process of EU Common Agricultural Policy (CAP) reform began in the cereals sector in 1993, with the consolidation of different cereal, oilseed and protein crops into a single arable regime. This was the precursor of the single payment scheme, which is now the foundation of the EU's system of direct aid payments. In 2008, direct aid payments accounted for 76.3% of all expenditure under Pillar 1 (direct aid and market measures) of the CAP, and by 2010 this had risen to 90%. The process of reform, involving reductions in administratively determined cereals prices in exchange for increased levels of direct aid payments, has allowed EU cereal prices to fall towards world market price levels. Until recently, the weakness of the US dollar against the euro prevented the EU from attaining its underlying policy objective of parity between EU and world market prices. Surging global cereals prices in 2007 briefly allowed the EU to attain this objective and so set at zero both export refunds and import duties for cereals; however, with the subsequent decline in cereal prices, export refunds and import duties for cereals were reintroduced, demonstrating that the EU had yet to attain its structural objective.

This process of internal EU cereals-sector reform has external effects through its consequences for the composition and level of production of cereals in the EU and, of increasing importance, its impact on trade in cereal-based food products and other agricultural products that use cereals as an input. African, Caribbean and Pacific (ACP) countries are thus affected in three main areas by reform of the EU cereals regime:

- direct effects on trade in cereals;
- downstream effects on trade in cereal-based value-added products;
- cross-sectoral effects of cereals-sector reform on agricultural products using cereals as an input, notably the poultry sector, where feed-cost reductions led to significant increases in EU poultry-meat exports during the early stages of the CAP reform process.

The ACP is an increasingly important destination for EU cereal-based food products. As EU exporters face intensified competition on traditional export markets, so there has emerged a tendency to fall back on exporting to African markets of 'last resort'. However, the scale of these exports is now making these markets significant in their own right for distressed sectors of the EU's cereal products industry. This has led to industry calls for the systematic removal of tariff and non-tariff barriers to EU cereal-product exports, most notably through the regionally based Economic Partnership Agreement (EPA) negotiations. This reflects lobbying by the EU cereals industry, and focuses on securing the abolition of import-licensing arrangements and other quantitative restrictions, limiting the scope for infant industry protection, and restricting the duration and nature of special agricultural safeguard measures, which in some ACP countries are seen as essential to respond to continued structural distortions in international agricultural trade relations.

A further issue of concern to some ACP governments in the cereals sector is the implications of the standstill provisions included in some interim EPAs (IEPAs) for applied tariffs, following the policy response to high global food prices in 2007 (suspension of import duties) in the context of subsequent price declines and the consequent need to reintroduce the previous import duties.

The EU policy on the elimination of non-tariff barriers to trade is largely being pursued as a point of principle, given its economic importance in larger, more dynamic markets, rather than as a consequence of the economic importance of individual ACP markets for cereal-based food product exporters. In June 2009, to an audience of the British Bankers' Association, the EC Trade Commissioner argued that in future, World Trade Organization (WTO) negotiations 'will not involve the classic tariff reduction rounds' but will be 'more relationship centred' . Specifically, 'future gains will come from identifying the non-tariff barriers that stifle trade in goods' and in services, and securing their removal. This approach, now advocated at the WTO level beyond the current Doha negotiations, is already a central focus in the IEPA negotiations with ACP countries, with the elimination of non-tariff barriers seen as particularly important by EU's cereal and cereal-product exporters.

2 Latest developments

2.1 Global cereals market trends

With growth in world consumption of cereals (particularly of wheat) outstripping production growth over most of the past decade, global cereals stocks fell to 'vulnerable levels'. This saw the prices of cereals surge in 2007: according to the European Commission's Directorate-General for Agriculture, wheat prices in 2007 were on average 33% higher than in 2006, which were themselves 26% higher than the average wheat prices for 2005 . In the 6 months from October 2007 to March 2008, hard and soft wheat prices rose 36.4 and 21.5%, respectively, peaking at US$482 and US$397. Global maize prices followed similar trends, but peaked later. In 2006, maize prices were on average 13.5% higher than in 2005, and by June 2008 they had risen a further 119%.

These high prices served to stimulate production, a development that posed problems with the onset of the global economic downturn. By July 2009, maize prices had fallen 46% from their June 2008 peak, while hard and soft wheat prices had fallen 51.7 and 54.4%, respectively, from their peak levels. This represented a 'very sharp and remarkable decrease in prices'.

A limited price recovery occurred in the second half of 2009, but, according to DG Agriculture, by December 2009 prices for maize, hard wheat and soft wheat were still 40.6, 52.7 and 47.9%, respectively, below their earlier peaks. However, high levels of cereals production stimulated by the earlier high prices have seen global stock levels increase substantially, with the global stocks-to-use ratio for wheat increasing from 12 to 20%. For coarse grains, while stocks are expected to decline slightly, they will remain at the second highest level since 2001. This is likely to place very real limits on current price increases. With the January 2010 projection of a significant increase in the US maize harvest for 2009/10, maize prices have once again come under pressure.

Projections with regard to short-term developments on global cereals market need to be qualified by the uncertainties generated by non-food economy factors (such as exchange rates, oil prices, interest rates, macro-economic variables and speculative investment), which are increasingly influencing price formation. These non-food-economy factors are such a source of concern that the EC has launched a major investigation into the functioning of the food supply chain, including the role of financial speculation in food-price formation.

In the longer term, there is a general consensus that following the global economic recovery there will be a period of increased price instability on global cereals markets, within an overall trend towards rising prices. Non-food-economy factors will, it is felt, play an increasingly important role.

In terms of the EU's global trade position, this is changing under the impact of CAP reform. In the barley sector, for example, whereas the EU used to dominate global markets with over half of all exports (some 10 million tonnes), the new exporters Ukraine and Russia accounted by 2009/10 for nearly half of global exports (48%) and the EU's share had fallen to 8.9% (some 1.5 million tonnes). At the turn of the century, the EU's dominant position had been sustained by high domestic prices that stimulated production and large export subsidy programmes that allowed EU markets to be cleared. With the implementation of further CAP reforms, both commodity-specific support and export refunds have been reduced. This has served to reduce the EU's market dominance at a time of rising exports from non-traditional suppliers. In future, the elimination of intervention support for barley is expected to reduce the acreage under barley and reduce the exportable surplus still further, with EU exports projected to fall by 500,000 tonnes to the lowest level in 6 years.

The EC-financed evaluation of the hops sector published in December 2009 showed an increase in competition on third-country markets from Chinese and US production. In the maize sector, the EU is also facing similar increased competition, in this case from Brazil and the Ukraine, although so far EU exporters have been able to maintain their market share. In the durum wheat sector, the decoupling of support has seen the gross margins on production diminish and the area under durum wheat decline by a quarter: EU27 production fell from 12.628 million tonnes in 2003/04 to 8.521 million tonnes in 2006/07, and exports fell from 1.4 million tonnes in 2004 to 0.9 million tonnes in 2007. The rise in global cereals prices, however, saw EU durum wheat production (up to 10,156,000 tonnes in the 2007/08 season) and exports (up to a provisional estimate of 2 million tonnes) recover. Subsequent price declines have seen production levels for durum wheat fall back to 8.1 million tonnes.

Overall, these movements suggest a stronger market orientation to cereals production and trade, a development that is wholly consistent with the underlying objectives of CAP reform. There are also indications that a redistribution of production is taking place across the EU, with production being sustained more easily at times of lower cereals prices in new EU member states than in the EU15 countries, with this being particularly evident for coarse grain production. Such a redistribution of production to areas best suited to cereals production is also an important objective of the CAP reform process, as it improves the overall competitiveness of EU cereals production.

However, the figures for EU production trade in cereals give only a small part of the picture. The EU has a far greater interest in the export of value-added, prepared cereal-based products, the value of which has expanded dramatically since 2000, from a combined value of €6,066 million to €9,978 million in 2008. African markets continue to be an important destination for certain of these prepared cereals products, particularly as EU companies face intensified competition from local processors (using cereals imported from non-EU sources) in traditional markets.

2.2 EU cereals market trends

High cereals prices up to spring 2008 saw the EU reduce tariffs to zero on most cereal imports, set export refunds at zero for cereals, and suspend the requirement to 'set aside' land from agricultural production. This saw the area under cereals in the EU increase substantially by 3.7 million hectares, with good growing conditions resulting in a 'significant' harvest in the EU (313 million tonnes compared with 264 million tonnes in 2006/07). However, with the onset of the global economic downturn, world market prices collapsed, limiting export opportunities for EU exports. In the face of increased competition in traditional export markets, EU wheat exports have declined significantly.

This situation has been compounded by a further good harvest in 2008/09 (although it was down 23 million tonnes to 190 million tonnes), which once again exceeded domestic EU cereals demand. This situation has seen EU cereals prices declining dramatically, in some cases to levels below those preceding the price surge (with barley prices below the intervention price level) and a rapid expansion of EU cereals stocks. The volatile situation in the cereals sector has led EU farmers' leaders to warn that low harvest prices 'could lead farmers to change their sowing intentions this autumn' , leading to a further fall in EU cereals production in 2010/11. This is likely to be compounded by lower average yields resulting from reduced use of fertiliser and plant-protection product by farmers, as low prices and high input costs place a squeeze on profitability.

This is borne out by the latest projections from the EU farmers' and agri-cooperatives' organisation COPA-COGECA (Committee of Professional Agricultural Organisations–General

Confederation of Agricultural Cooperatives), which sees the area under cereals and yields in the EU27 declining (although with variable trends across the EU15 and EU10 and across individual cereals – see Annexes 1–3 for details).

While in the short term, limited growth in cereals demand is foreseen, in the medium term (up to 2015) a more positive outlook is projected to emerge. With moderate prospects for growth in yield, the emerging bioethanol market and more favourable global price trends, resulting from economic recovery and the resumption of advanced developing country-led growth in demand, price pressures are likely to ease, with a 'relatively balanced cereals market' likely to emerge in the EU in the medium term. However, 'cereal prices are expected to exhibit greater price fluctuations than observed in the past'.

In terms of exports, total EU cereals exports by 2015 are projected to be 12.9% higher than in 2007, but 17% below their 2008 peak, while EU wheat exports are projected to grow 24% between 2007 and 2015, although remaining 21.7% below their 2008 peak. Overall, a steady decline from the 2008 peak levels of exports is expected up to 2015 (except for a slight increase in 2013 relative to 2012; see Annexes 4–5).

Looking beyond 2015, developments in the cereals sector will be strongly influenced by the future trajectory for CAP reform. The EC's Scenar 2020-II study, published in December 2009 and updating the 2006 study, explores the impact of three scenarios for the future of the CAP :

- a 'conservative scenario', which broadly maintains the CAP as it is, with trade arrangements based on a WTO settlement within the framework of the December 2008 Falconer paper;
- a 'reference scenario', which assumes a 20% reduction in the CAP budget, a 30% decrease in direct aid payments, a 105% increase in rural development pending and, as for the conservative scenario, trade arrangements based on a WTO settlement within the framework of the December 2008 Falconer paper;
- a 'liberalisation scenario', which assumes a 75% reduction in the CAP budget, the elimination of direct aid payments and market instruments and the removal of all trade-related measures.

Under the reference scenario, the study projected cereals production to increase by 13% between 2005 and 2020 (equivalent to a 36 million tonne increase), with wheat growing 16% (+22 million tonnes) and the growth in coarse grains being driven by biofuel policies. In contrast, under the liberalisation scenario 'cereal production declines, mainly because of the withdrawal of decoupled payments' and 'the complete reduction of trade policy measures'. Under both these change-based scenarios, production growth is driven by technical progress increasing yields. Under the liberalisation scenario, ethanol production in the EU would virtually disappear (it is uncompetitive at world market prices without public assistance) and biodiesel production would be lower than under the reference scenario. This has a significant impact on cereals demand. Under the reference and liberalisation scenarios, price levels by 2020 are projected to be significantly lower for soft wheat, barley and maize.

Table 1 Projected changes in producer prices in EU27 under different scenarios

	Reference scenario, 2004/05 to 2020: price change (%)	Liberalisation scenario relative to reference scenario by 2020: price change (%)
Soft wheat	–8.9	–7.8
Barley	–14.7	–9.8
Corn	–6.5	–3.4

Source: EC, DG Agriculture, Scenar 2020-II, final report, Dec 2009: European Simulation Model (ESIM) results.
Note: The price changes in the liberalisation scenario are additional to any price reductions that may occur under the reference scenario.

Thus it can be seen that policy choices in terms of the future of the CAP and with regard to EU biofuels policy will have a significant impact on the future of EU cereals markets.

2.3 Changing use of support instruments

Since 2006, the main instrument of support in the EU cereals sector has been the single payment scheme. While certain 'coupled aids' continued to be allowed for a transitional period, these are being phased out. Coupled aids for durum wheat and hops were terminated from 1 January 2010, while those for fodder crops will be phased out by April 2012. The single payment scheme now represents the principal means of public assistance to the EU cereals sector.

The EU continues to maintain in place a minimum floor-level price support as a safety net, but this is set at a level such that it no longer has a major influence on price formation in the cereals sector. As part of efforts to ensure the intervention price does not affect market price formation, the EC introduced real limits on the volume of purchases into intervention stocks (for 2009/10 set at zero for most cereals, except for soft wheat, set at 3 million tonnes). However, this policy tool continues to be available for use in response to any deterioration in the EU market situation. While in 2007 export refunds were briefly set at zero in response to high global cereals prices, export refunds were subsequently increased in response to price declines. Thus export refunds continue to be a feature of EU support instruments available to cereals producers, with their use being determined by the relative level of EU and world market prices (a relationship strongly influenced by the euro–US dollar exchange rate).

The set-aside policy, which involves the compulsory setting aside of agricultural land from productive use, remains a feature of EU policy, although the use of this tool was discontinued in response to high world market prices. Similarly, in response to very high world market prices, the EU also set import duties for certain cereal products at zero, although once again tariffs were reintroduced (in October 2008) following price declines.

It should be noted that discontinuing the use of set-aside and setting tariffs and export refunds at zero is different from abandoning the use of these policy tools. These policy tools have remained available and have been reactivated in response to declines in global and EU market prices (see Annex 6 for recent EU cereal price changes). Despite the retention and reactivation of these policy tools, the general policy thrust is away from the use of such trade-distorting policy tools (tariffs and export refunds) and towards the greater use of financial support instruments and other policy measures. This trend, however, is causing concern to EU farmers, particularly in the face of what has been described by farmers' leaders as a 'disastrous situation' in the cereals sector. Farmers' leaders are calling for improved use of market management measures under the CAP so as to better 'enable farmers to withstand crises' . Farmers' leaders have called on the EC to examine possible measures in four areas: safety nets; market risk management; export promotion; and the functioning of the supply chain, in order to strengthen the position of producers in the market place and maintain cereals production across the EU.

Despite the desire of EU farmers to see a policy established that maintains cereals production across the EU, implicit in the approach being adopted is an acceptance that, over the long term, there will be a reduction in the use of traditional trade-distorting policy tools in the cereals sector and their replacement by a range of other policy instruments. However, it should be noted that the reduced use or abandonment of traditional trade-policy tools is seen as acceptable only if alternative policy instruments are first set in place, which ensure farmers an economic return on their production that is capable of closing the income gap between rural and urban areas.

This needs to be seen against the background of the impact of the process of CAP reform on the EU's global trading position in various cereals markets (see section 2.1 above).

2.4 Debates on the impact of EU support instruments

The shift from product-specific support to decoupled payments has had an impact on the production of individual cereals and the distribution of cereals production across the EU.

Technological progress continues to increase yields, but at a slower rate in EU15 countries than in the EU10. Figures from COPA-COGECA suggest that between 2009/10 and 2010/11, yields in EU15 countries outside the wheat sector are set to decline with the application of fewer inputs, following on from a major cost squeeze . Yields in EU10 countries, however, will continue to increase for most cereals (although with a marginal yield decline of 0.5% for maize), as there is more scope for the adoption of existing innovations. If this decline in yields is to be reversed, a recovery in EU market prices for cereals, or some other vehicle for insulating EU farmers from escalating inputs costs, will be essential. EU projections for future cereals production assume such a resumption in yield growth, with a 17% increase in EU27 cereals production being projected between 2007 and 2015, wheat production increasing 20.3%, and coarse grain production rising a mere 12.9%. This increase, however, is not projected to attain the levels of production which prevailed in 2008, when world market prices were at their peak.

Overall decoupling has made EU production more responsive to price changes, with the transmission of high world market prices onto EU markets in 2008 resulting in a 21% increase in EU cereals production. Similarly, according to farmers' leaders, price declines in 2009 have resulted in lower levels of planting and application of fertilisers and crop protection products, resulting in the 2009/10 season in a projected 8.3% decline in EU27 wheat production, a 8.6% decline in barley production, a 10.1% decline in maize production, a 9.6% decline in rye production, and a 12.1% decline in oats production. However, there appears to be a floor to these declines, with wheat production projected to recover in the 2010/11 season as crop patterns change across the cereals sector. In this context it should be noted that, with decoupling, production has become much more responsive to the relative price levels of different cereals, oilseeds and protein crops. In addition, variations in area, yield and production trends are apparent between EU15 and EU10 countries. This strongly suggests that high global prices will lead to a strong EU production response, while the EU production response to lower global prices will be more limited, given the measures set in place to limit the negative effects of price instability on the production base in the EU.

Clearly, EU cereals production is becoming more responsive to price signals. This is in line with a fundamental objective of CAP reform – ensuring that EU farmers are more responsive to global market price signals and the relative prices of different cereals and their associated input costs. However, this does not mean that EU production decisions are now determined by global market forces: as highlighted by the difference between the price and production outcomes of the reference and liberalisation scenarios under the Scenar 2020-II study , current EU policy instruments serve to sustain EU cereals production at higher levels than would otherwise be the case. As the EC evaluation of the durum wheat sector pointed out, in the absence of support, the area under durum wheat would fall a further 18% if prices reverted back to 2006 levels, or 4% if prices and costs stayed at 2008 levels.

In addition, in an era of increased price instability there is a growing concern over the impact of price declines on the production base, hence the increased EU policy emphasis on safety nets, issues related to new market management tools, and the functioning of the food supply chain. A critical issue arising in this context is what impact the use of these new EU policy instruments will have on ACP cereals sectors, and how these impacts will be transmitted.

2.5 Non-tariff barriers and the cereals product trade

In June 2007, the EU cereals industry called on the EC to systematically remove tariff and non-tariff barriers to the export of EU cereal-based food products, with particular emphasis on the elimination of non-tariff barriers to trade. In the course of the second half of 2007, this saw the inclusion of provisions limiting or prohibiting the use of quantitative restrictions and other non-tariff barriers to trade in a number of IEPAs, notably those in the Southern African Development Community (SADC), East African Community and Eastern and Southern Africa negotiating configurations. In a number of instances, these called for the elimination of all prohibitions and restrictions on imports upon entry into force of the agreement, unless otherwise specified in the agreements.

In an era of heightened global cereals price instability, these provisions are seen as highly problematic in those ACP countries whose governments use import licensing, quantitative restrictions or infant industry-protection mechanisms as a means of ensuring local markets for local cereals production, and/or as a vehicle for promoting greater local value-added processing within the cereals value chain. These provisions are seen as particularly problematic given the absence of specific, dedicated agricultural safeguard measures in the IEPAs (although there is a general safeguard provision in all IEPAs) and the absence of any recognition of and respect for existing infant industry-protection provisions in regional trade agreements.

These provisions therefore give rise in ACP countries to concerns that are perhaps best illustrated by the case of Namibia, where effective use is made of these policy tools to sustain domestic cereals production and promote local value-added processing of cereals for local markets. A 2007 report on the Namibian cereals sector noted that dismantling of the existing policy measures in the cereals sector in Namibia would mean that 'irrigated crop production would cease to exist' . In addition, 'Namibia's national food-security situation would increasingly rely on volatile regional and international supply of staple food commodities, and the end-consumer's vulnerability to regional and world market demand and supply factors and consequent commodity-price fluctuations would significantly increase'. These Namibian concerns bear a remarkable similarity to concerns expressed by EU farmers' organisations in the context of severe price declines since the 2008 price peaks.

It is in this context that the 'prohibition of quantitative restrictions' contained in Article 35 of the draft SADC–EU IEPA has proved so controversial. It is estimated that implementation of this measure would result in an immediate economic loss in the wheat and maize sectors of N$113.7 million and N$96.5 million, respectively (approximately €11.41 million and €9.69 million at April 2010 rates). It is against this background that, in the course of 2009, the Namibian government, in alliance then with South African and Angolan governments, sought a modification of the IEPA draft text to ensure continued use could be made of domestic policy tools for the promotion of food security and agricultural development, specifically the use of import-licensing arrangements and other market regulations for trade in sensitive product chains, which were consistent with Article 29 of the Southern African Customs Union agreement. At an EPA negotiating session in Swakopmund in March 2009, an acceptable agreement was reached on this point of vital interest to the Namibian cereals sector. However, no agreement could be reached on the basis for the integration of a modified provision into the text of the draft agreement prior to signing. The issue thus remains unresolved.

Similar concerns have arisen in other EPA agreements although, with the specific wording of these individual agreements and the circumstances of national cereals sectors varying somewhat, the course of discussions on this issue has varied from region to region and from country to country. There remains, however, a common concern to retain the right to use policy tools that can be useful in preventing any undermining of the underlying production base for cereals production in an era of increased price volatility.

3 Implications for ACP countries

With most ACP countries being net food-importing countries, low cereal prices generally benefit ACP consumers. Conversely, high cereal prices can increase food insecurity and drive millions into dire poverty. On the production side, high prices can serve to stimulate local production, while low cereals prices can undermine cereals production in ACP countries. With higher average prices projected over the coming period against a background of increased price volatility, ACP governments are concerned that they could end up with the worst of both worlds: consumers suffering from rising prices, while the local base for cereals production is periodically undermined by dramatic price declines. There is a major concern to avert such an outcome, particularly given overall projections for population growth and the impact of climate change on African food production, both of which are set to greatly increase food insecurity across ACP regions, though most notably in Africa. While addressing issues of agricultural productivity and competitiveness will be of paramount importance, the trade-policy framework established will also have an important bearing on overall national production and food security.

A similar concern can be detected in the EU, where concerns over the impact of price instability on the cereals production base has given rise to an intensifying debate on how to effectively insulate EU farmers from the worst effects of price instability, given the general policy thrust towards a decreased use of traditional trade-policy instruments and moves towards progressive agricultural trade liberalisation. Given the similar underlying concern of EU and ACP governments with regard to the impact of price volatility on the underlying production base, a critical policy challenge from an ACP perspective is how to ensure EU policies designed to insulate EU farmers from the worst effects of price declines do not simply transfer the burden of adjustment to global markets to ACP cereals producers.

In a context of increased price instability and concerns that this should not be allowed to undermine the national agricultural base of production, there is a need to review the use of traditional trade-policy tools in support of cereals-sector development in some ACP countries. This appears to be particularly important given the growing food-security challenges that will face African governments in the coming period, and the limited capacity of African governments to use the types of financial instrument increasingly favoured by the EU as a vehicle for insulating EU farmers from the worst effects of price declines.

In this context it should be recalled that, while during 2007, in the face of exceptionally high global food prices, the EU set import tariffs and export refunds for a range of cereals at zero, they did not eliminate the use of these policy tools. Indeed, when prices subsequently fell dramatically on the back of the global economic downturn, import tariffs and export refunds were reintroduced and ceilings on national financial aid to farmers were raised. The EU thus continued to use such trade-policy tools despite, in the case of export refunds, a recognition of the trade-distorting effects of their use.

It should be noted that in the current discussions on the future of the CAP, while EU cereal farmers' organisations recognise the move away from the use of traditional trade-policy tools, they are insistent that this should occur only when alternative policy tools that can effectively insulate EU farmers from the worst effects of price instability are in place.

A similar approach appears to be appropriate in ACP countries, given the greater importance of domestic production to food security in many ACP countries, and the fiscal constraints faced by most ACP governments in moving away from the use of traditional trade-policy tools to using the kind of financial tools and other policy measures now increasingly favoured by the EU.

Annexes

Annex 1 COPA-COGECA projections for EU27 cereals production, area and yield in 2010/11 compared with 2009/10

EU27	Production (%)	Area (%)	Yield (%)
Soft wheat	+2.1	+2.3	0.2
Durum wheat	+0.6	–0.7	+1.3
Total wheat	+2.1	+2.0	+0.1
Maize	–1.5	–0.6	–0.9
Barley	–8.2	–5.2	–3.2
Rye	–11.3	–3.3	–8.2
Total coarse grains	–5.3	–3.3	–2.0
Total cereals	–1.8	–1.0	–0.8

Source: Extracted from COPA-COGECA forecasts for EU cereals production, 26 March 2010.
www.copa-cogeca.be/Main.aspx?page=Archive&lang=en

Annex 2 COPA-COGECA projections for EU15 cereals production, area and yield in 2010/11 with 2009/10

EU15	Production (%)	Area (%)	Yield (%)
Soft wheat	+2.9	+4.1	–1.1
Durum wheat	+0.8	–0.4	+1.3
Total wheat	+2.7	+3.3	–0.6
Maize	–2.9	–2.2	–0.8
Barley	–10.4	–7.2	–3.5
Rye	–19.9	–7.4	–13.5
Total coarse grains	–8.0	–6.1	–2.1
Total cereals	–8.0	–1.7	–1.0

Source: Extracted from COPA-COGECA forecasts for EU cereals production, 26 March 2010.
www.copa-cogeca.be/Main.aspx?page=Archive&lang=en

Annex 3 COPA-COGECA projections for EU10 cereals production, area and yield in 2010/11 compared with 2009/10

EU10	Production (%)	Area (%)	Yield (%)
Soft wheat	–0.1	–0.6	+0.6
Durum wheat	0.0	0.0	0.0
Total wheat	–0.1	–0.6	+0.5
Maize	+1.5	+2.1	–0.5
Barley	+2.0	+0.8	+1.2
Rye	–0.3	–0.6	+0.2
Total coarse grains	+0.9	+0.5	+0.4
Total cereals	+0.9	+0.1	+0.4

Source: Extracted from COPA-COGECA forecasts for EU cereals production, 26 March 2010.
www.copa-cogeca.be/Main.aspx?page=Archive&lang=en

Annex 4 Total cereals projections for EU27 production, consumption, imports and exports (million tonnes)

Year	Production	Consumption	Imports	Exports	Net trade
2007	257.7	267.9	26.7	22.4	–4.3
2008	311.9	270.9	9.4	30.5	+21.1
2009	293.0	271.8	8.4	29.9	+21.5
2010	287.7	272.1	11.3	27.4	+16.1
2011	291.0	273.1	9.2	27.2	+18.0
2012	293.6	275.9	9.6	26.3	+16.7
2013	296.2	279.5	9.6	27.7	+18.1
2014	299.0	283.2	10.4	25.6	+15.2
2015	302.0	288.0	10.5	25.3	+14.8

Source: Extracted from 'Prospects for agricultural markets and income in the EU 2008–2015', EC, March 2009.
http://ec.europa.eu/agriculture/publi/caprep/prospects2008/fullrep_en.pdf

Annex 5 Wheat projections for EU27 production, consumption, imports and exports (million tonnes)

Year	Production	Consumption	Imports	Exports	Net trade
2007	119.9	117.4	6.0	12.5	+6.5
2008	150.2	125.5	5.7	19.8	+12.1
2009	137.7	126.4	4.9	17.0	+12.1
2010	136.1	126.0	6.9	16.9	+10.0
2011	138.1	126.1	5.6	17.6	+12.0
2012	139.4	126.8	5.7	17.2	+11.5
2013	140.7	128.8	5.8	17.3	+11.5
2014	142.3	130.9	5.9	16.8	+10.9
2015	144.2	133.9	5.9	15.5	+9.6

Source: Extracted from 'Prospects for agricultural markets and income in the EU 2008–2015', EC, March 2009
http://ec.europa.eu/agriculture/publi/caprep/prospects2008/fullrep_en.pdf

Annex 6 Percentage change in EU agricultural commodity prices (Dec 2008–Dec 2009)

	Soft wheat (%)	Durum wheat (%)	Maize (%)	Barley (%)
EU27 average	–6	–17	+10	–7

Source: Extracted from 'Update on price developments in international agricultural commodity markets', EC, file note, doc. ref. D(2010) agri.I.5(2010) 39821, 22 January 2010.
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Annex 7 Total extra-EU27 exports of food and drink, by main category (million euros)

	2000	2006	2007	2008	Average annual increase 2000–08 (%)	Share in total food and drink 2008 (%)	Share in total EU trade 2008 (%)
04 Cereals and preparations	6,066	5,824	6,716	9,978	6.4	14.6	0.8

Source: 'Statistics in Focus', EUROSTAT, 78/2009.
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Executive brief: Update

Cotton: Trade issues for ACP countries

Contents

About this update

CTA's Executive brief: *Cotton: Trade issues for the ACP,* was published in December 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from agritrade-mail@cta.int.

1. Background and key issues in the cotton sector

Between 1960 and 2008, the cotton sector changed profoundly. World cotton production more than doubled, growing from just under 10 million tonnes in 1960 to almost 26 million tonnes in 2008. Nevertheless, since 2004 world production has stagnated and over the past 2 years has fallen. Countries producing more than 100,000 tonnes of cotton generally account for around 90% of world production; in 2008 China, the USA, India and Pakistan together produced almost 70%. On the other hand, other once-important cotton-producing counties, such as Mexico and Peru, have gradually ceased production. Finally, new market entrants have emerged, such as the EU and certain sub-Saharan African countries (Burkina Faso, Benin, Mali and Zimbabwe).

The lengthy fall in cotton prices on international markets was interrupted during the 2007/2008 season following the increase in the prices of most foodstuffs, which resulted in competition for arable land. The areas traditionally used for growing cotton declined as a result of a switch to more profitable crops, thereby leading to a fall in world production. Because of this fall in supply, prices began to rise in mid-2008. However, as a result of the world economic crisis in 2008/2009, which led to a fall in demand, they began to trend downwards again at the end of 2008.

In the African, Caribbean and Pacific (ACP) countries, cotton production has increased strongly since the mid-1980s. Although the 27 ACP cotton-producing countries represent only 2% of world production, 12 of them account for 90% of total ACP production. West and Central African countries as a whole account for more than 70% of ACP production, and Tanzania, Zimbabwe and Zambia represent 25% of production.

Cotton is a cash crop for the ACP countries, and the bulk of production is exported. In some countries, these exports produce more than 60% of total export revenue, which makes the countries in question particularly dependent on cotton and vulnerable to international price variations. Accordingly, they are 'price takers' on world markets.

Table 1 Share of cotton in the exports of African countries (percentage of value of total exports)

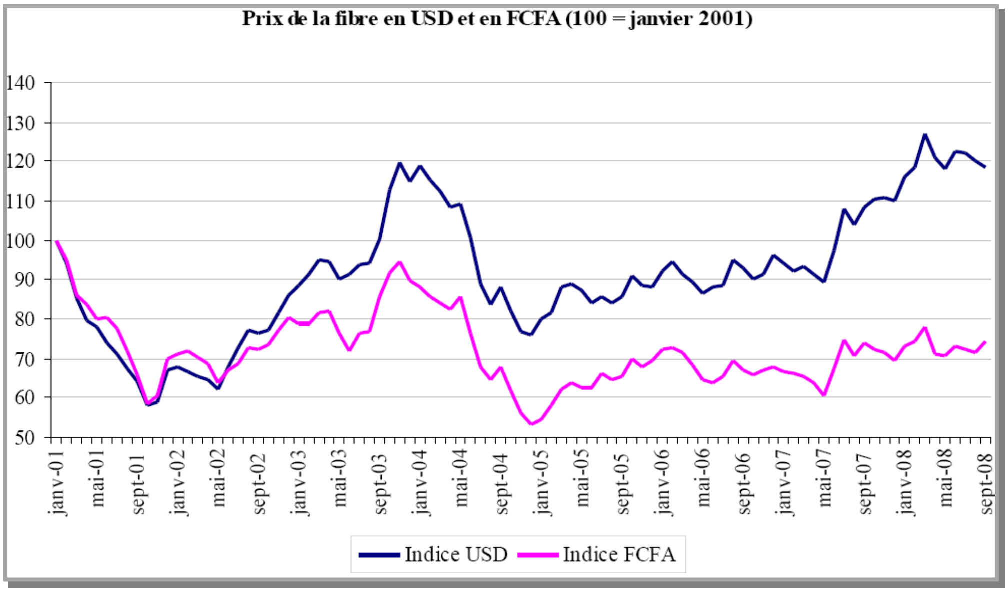
Country	1990–91	2000–01	2005–06
Benin	52.4	66.7	61
Burkina Faso	59.7	56.6	61
Mali	61.9	38.1	16.5
Tanzania	18.41	6.89	6.52
Togo	21.3	15.6	5
Cameroon	3.3	4.6	4.5
Zimbabwe	5.01	8.25	3.41
Zambia	0.28	0.66	3.38
Côte d'Ivoire	5.3	4.1	2
Chad*	85.9	75.6	1.6
Central African Republic	10.3	12.3	<1

* Between 2001 and 2005, Chad's total exports rose 16-fold following the start of oil drilling in 2003, while the value of cotton exports has remained the same.
Source: FAOSTAT, 2008 (latest available data).

As the leading cotton-exporting country, the USA has a major influence on world prices. The massive subsidies offered to American cotton producers have been criticised, in particular by the ACP countries, as being responsible for the weakness of cotton prices on international markets. Even if the true impact of these production subsidies on world prices is difficult to measure, it is certain that without them, world cotton production would be located differently, as production costs in 2004 were around US$0.35/lb in Benin, US$0.45 in Pakistan, US$0.50 in Brazil, US$0.80 in the USA, and more than US$1.00 in the EU, according to the International Cotton Advisory Committee (ICAC). As the EU accounts for only a tiny percentage of the world production of cotton fibre, its internal support regime has a limited effect on the world market.

Despite the increase in cotton prices on world markets between the end of 2007 and 2008, this increase has not been passed on to West African prices, as the dollar's weakness against the CFA franc (linked to the euro) has completely cancelled the increase in international cotton prices (see Figure 1).

Figure 1 Fibre cotton prices in US dollars (USD) and CFA francs (FCFA) (100 in January 2001)



Source: Berti, 2008.

The EU plays a minor role on the cotton market, as it represents only 1% of world production and does not export cotton. However, its Common Agricultural Policy (CAP) provides important support to European cotton producers. The cotton support system was put in place in 1981 when Greece joined the European Economic Community. When Spain and Portugal joined the Community market in 1986, followed by Bulgaria in 2007, this increased the number of countries covered by the Common Organisation of the Market (CMO) in the cotton sector. This production-support system was called into question in 2004, and a system was finally adopted in 2008 that provides for the 'decoupling' of 65% of aids (making them independent of production), with the remaining 35% continuing to be linked to production; a ceiling per country has been fixed for the surface areas eligible for aids (370,000 ha for Greece, 48,000 ha for Spain).

2 Latest developments and implications for ACP countries

2.1 The cotton sector today: what are the issues?

2.1.1 Cotton production

For the 2008/09 season, world production of cotton fibre amounted to approximately 23.4 million tonnes, compared with 26.2 million tonnes during the previous season according to the ICAC. It is dominated by China, which represents more than 25% of world production, followed by India with almost 21%, and the USA (12%), Pakistan (8%), Uzbekistan and Brazil (approximately 5% each), and the African countries of the CFA franc zone, which together account for 2% of world production.

The decline in production noted since the 2007/08 season can be explained in particular by two key factors. First, even if cotton prices on international markets have increased, they have not reached the levels recorded by most other agricultural products, which explains why many producers have stopped cultivating cotton. Second, recent unfavourable climatic conditions need to be taken into consideration.

The 2008/09 economic crisis also weighed heavily on production levels. The weak demand for cotton resulted in a fall in cotton prices. This crisis situation encouraged cotton producers to turn to foodstuffs such as cereals, which are seen as less expensive and more profitable. ICAC expects production to continue to fall during the 2009/10 season (around 22 million tonnes) before increasing again the following season.

Table 2 Annual production of the main cotton-producing countries, 1960–2009

	1960		1980		2000		2008/09	
Country/ region	**Production** (000 tonnes)	**Percentage of world production**	**Production** (000 tonnes)	**Percentage of world production**	**Production** (000 tonnes)	**Percentage of world production**	**Production** (000 tonnes)	**Percentage of world production**
Argentina		1.3			165	0.9	130	0.8
Australia					806	4.2	325	1.1
Brazil	425	4.3	594	4.3	939	4.9	1,189	5.0
Benin							89	0.4
Burkina					114	0.6	184	0.8
China	1,067	10.9	2,700	19.6	4,420	22.8	7,963	34.0
Colombia			116	0.8				
Côte d'Ivoire					125	0.6		
Egypt	478	4.9	529	3.8	200	1	108	0.4
USA	3,100	31.6	2,422	17.5	3,742	19.3	2,777	11.8
India	1,022	10.4	1,322	9.6	2,380	12.3	4,904	20.9
Iran					160	0.8		
Kazakhstan							95	0.4
Mali					105	0.5	76	0.3
Mexico	457	4.7	347	2.5			125	0.5
Uzbekistan					958	5	998	4.2
Pakistan	304	3.1	714	5.2	1,785	9.2	1,953	8.3
Peru	121	1.2	109	0.8				
Sudan	114	1.2						,
Syria	111	1.1	118	0.9	365	1.9	218	0.9
Tajikistan					106	0.5	95	0.4
Tanzania							97	0.4
Turkey	169	1.7	500	3.6	784	4.1	418	1.7
Turkmenistan					180	0.9	283	1.1
EU	140		175	1.3	525	2.7	264	1.1
URSS	1,481	15.1	2,700	19.6				
Zimbabwe					120	0.6	94	0.4
Rest of the world	699	8.6	1,514	11	1,449	7.5	1,015	4.3
World total	**9,812**	**100**	**13,800**	**100**	**19,345**	**100**	**23,400**	**100**

Sources: USDA, ICAC.

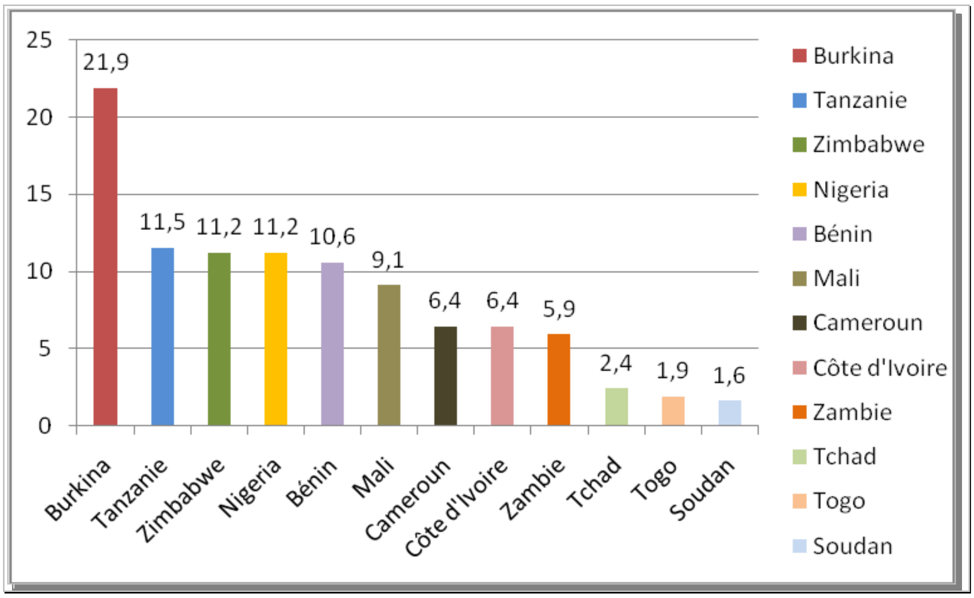
Regarding the ACP cotton-producing countries, the 2008/09 season was marked by a strong decline in production (Table 3). In total, production of the 12 main ACP cotton producers fell by 23.7% between 2008 and 2009; the fall was almost 50% between 2005 and 2009. The surge in food-product prices, together with an increase in the price of the input products needed to cultivate cotton, has favoured the emergence of alternative crops, which are seen as more profitable.

Table 3 Cotton production of African countries (000 tonnes)

Country	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2008	2009
Burkina Faso		3	8	18	23	46	77	64	114	299	207	184
Benin		3	14	8	4	32	59	145	139	131	125	89
Tanzania	34	67	76	42	53	31	48	82	41	120	125	97
Nigeria	57	44	39	61	27	10	36	100	87	91	98	97
Zimbabwe		9	32	58	70	89	73	104	120	76	125	94
Mali		8	20	37	43	67	115	169	105	250	100	76
Cameroon	11	21	14	17	32	46	44	79	94	125	65	54
Côte d'Ivoire		4	12	26	56	82	116	96	125	12	54	54
Zambia			4	1	8	12	25	16	29	76	41	46
Chad	35	31	34	63	31	39	60	62	65	76	38	20
Sudan	114	163	25	111	97	142	83	107	74	81	35	14
Togo		3	2	4	9	27	41	44	49	50	27	16
Total	**405**	**527**	**735**	**578**	**548**	**726**	**884**	**1,206**	**1,176**	**1,654**	**1040**	**841**

Sources: USDA, ICAC.

Figure 2 Breakdown of the cotton production of African countries in 2009 (%)



Sources: USDA, ICAC.

Changes in world cotton production have also been marked in recent years by an increase in the cultivation of *Bacillus thuringiensis* (Bt) transgenic cotton. The volume of land given over to the cultivation of Bt cotton is increasing at an impressive rate. Bt cotton was introduced onto the American market for the first time in 1996, and by 2007 it was grown on 47% of crop areas in the world. After South Africa and Egypt, Burkina Faso is the continent's third country to have officially authorised the cultivation of Bt cotton, and Burkina Faso intends to sow 100,000 ha of Bt cotton in the 2009–10 season. The large-scale expansion of this cultivation, as is now the case in India, could well transform the African cotton sector with the arrival of new operators, in particular seed companies.

2.1.2 Consumption

The main cotton-consuming countries are textile-producing advanced developing countries. China is by far the leading cotton-consuming country. Its consumption more than doubled between 2000 and 2008 because the country has been authorised, since the end of the Multifibre Arrangement, to export textile products without restriction to the USA and the EU. It is followed by India, Pakistan and Turkey. On the other hand, the USA's consumption has fallen by two-thirds in 15 years.

Between 2008 and 2009, world consumption fell by more than 12%. The world economic crisis of 2008/09 has had a strong impact on the textile industry. Demand has fallen in all the major cotton-consuming countries, even in China (–17% in one year) which has supported world consumption since 2000.

Table 4 Main cotton-consuming countries(000 tonnes)

Country/region	1990	1995	2000	2005	2008	2009
China	4,355	4,126	4,997	9,036	10,900	9,000
India	1,951	2,558	2,949	3,701	4,050	3,863
Pakistan	1,251	1,573	1,769	2,564	2,637	2,452
Turkey	547	950	1,125	1,535	1,241	1,030
Brazil	723	818	876	849	1,007	937
USA	1,823	2,324	1,824	1,306	999	781
Bangladesh	98	121	218	393	664	570
Indonesia	336	476	544	512	501	435
Mexico	197	246	463	441	425	400
Thailand	328	310	367	479	435	380
EU	1,221	1,150	983	550	393	318
Russia	1,191	250	348	327	261	200
World total	**18,658**	**18,588**	**19,824**	**24,768**	**26,473**	**23,236**

Sources: USDA, ICAC.

Within the ACP group of countries as a whole, cotton-producing and cotton-consuming countries are not the same. In total, the ACP countries consume less than a quarter of their production. The seven main cotton-consuming countries are, in increasing order of consumption, Côte d'Ivoire, Kenya, Ethiopia, Mauritius, Zambia, Zimbabwe and Nigeria. Together they represent three-quarters of the cotton-fibre consumption of the ACP countries. Only two of them, Nigeria and Côte d'Ivoire, appear among the leading ACP cotton producers. For several of these countries, the end of the Multifibre Arrangement resulted in the end of import quotas in Europe in particular. The most competitive Asian countries have rapidly increased their market share. Textile industries in ACP countries, which already had problems as a result of successive crises and economic restructuring operations, are today in serious difficulties. In Nigeria, 80% of textile companies have gone out of business over the past 7 years whereas previously the sector was one of the drivers of the national economy.

2.1.3 Import–export trade flows

The main cotton-importing countries are advanced developing countries that have an important textile industry. In 2005, China, Indonesia, Pakistan and Turkey accounted for more than half of world imports. Chinese imports can vary considerably from one year to the next, depending on the country's needs and production. This makes China a key operator on the world cotton market. Although Chinese demand fell sharply between the end of 2008 and 2009 as a result of the effects of the crisis, it started to increase again at the end of 2009.

Table 5 Main cotton-importing countries (000 tonnes)

Country/region	1990	1995	2000	2005	2007	2008	2009	2009 (%)
China	480	633	50	3,592	2,510	2511	1523	22.9
Bangladesh	80	105	218	381	610	754	824	12.4
Turkey	46	113	383	751	697	718	629	9.5
Pakistan		27	980	370	827	851	435	6.6
Indonesia	324	466	577	501	501	501	435	6.6
Thailand	354	336	342	468	420	425	349	5.2
Mexico	46	115	406	305	333	294	286	4.3
Vietnam	44	351	87	152	207	218	267	4
Russia	1,152	240	359	327	278	261	236	3.6
South Korea	442	362	309	267	212	212	215	3.2
Taiwan	322	300	226	267	229	218	171	2.6
India		19	341	174	98	174	120	1.8
Japan	642	330	248	158	126	120	109	1.6
EU	1,086	1,039	847	455	324	344	101	1.5
Egypt	53	20	28	125	120	109	93	1.4
World total	**6,658**	**5,878**	**5,707**	**9,143**	**8,187**	**8,392**	**6,629**	**19.2**

Sources: USDA, ICAC, Food and Agricultural Policy Research Institute.

The USA is, by a very long way, the world's main exporter (more than one-third of world exports in 2009), followed by India and Uzbekistan. In line with the fall in production in the USA, ICAC expects that country's exports to decline by 17% in 2010. Western and Central African countries have been major participants in international trade in cotton since the 1990s, but the region's position is under threat from new countries.

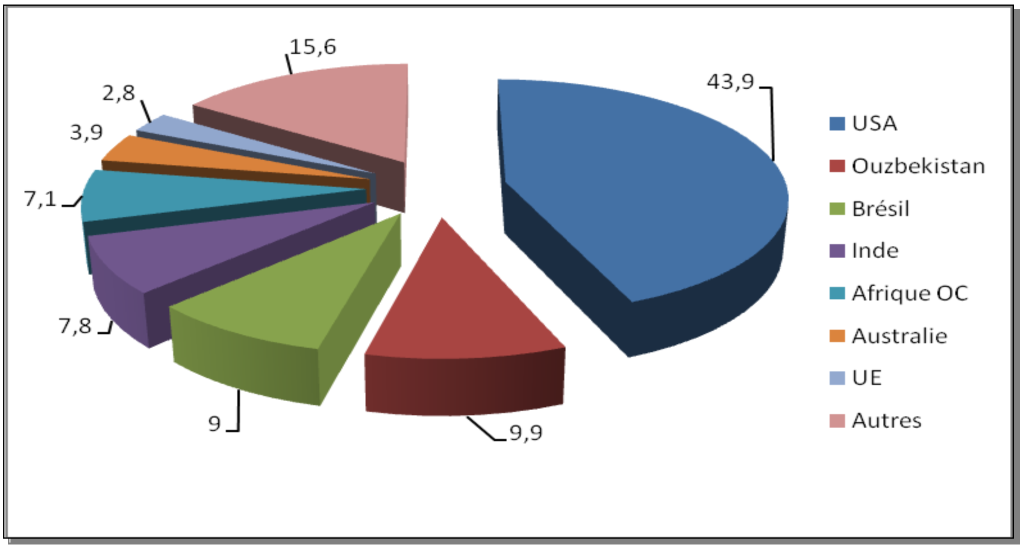
According to some analysts, India will become the main competitor of African cotton. The proactive agricultural policy in favour of cotton and the proximity of the Chinese and South-east Asian markets are two major advantages for Indian cotton. The tripling of its cotton exports between 2005 and 2008 illustrates India's capacity to conquer new markets. However, the fall in exports in 2009 also shows the instability of this production (exports fell by 1 million tonnes between 2008 and 2009). Another emerging competitor, Brazil, is investing massively in cotton, and in 2009 its exports exceeded those of West and Central Africa for the first time.

Table 6 Main world cotton exporters (000 tonnes)

Country/region	1990	1995	2000	2005	2007	2008	2009
USA	1,697	1,671	1,467	3,571	2,833	2,973	2,891
Uzbekistan	1,174	985	751	969	969	936	653
Brazil	156	22	69	435	283	486	596
India	154	123	20	392	994	1,531	514
West and Central Africa	339	496	586	887	924	589	470
Australia	299	319	850	642	464	265	261
EU	154	372	399	428	290	207	184
World total	**6,436**	**5,957**	**5,747**	**9,022**	**8,114**	**8,376**	**6,582**

Sources: USDA, ICAC

Figure 3 Breakdown of the world's main cotton exporters in 2009 (%)



Sources: USDA, ICAC.

2.1.4 Price trends

As for the prices of many agricultural raw materials, world cotton prices were unstable while trending generally downwards up to 2007, before increasing in 2008 (see section 2.1.3). In the context of a world economic crisis, international prices quoted in US dollars fell by more than 20% between September and November 2008, following a strong fall in Chinese imports. During the first half of 2009, prices remained at a level below US$0.60/lb.

From autumn 2009, prices started to climb again. As world production was expected to be below consumption, analysts anticipated a reduction in stocks, which resulted in higher prices. China thus had to sell part of its public stocks at the end of 2009. In addition, the prospects of a recovery in world growth in 2010 suggest that demand for cotton will increase. At the end of 2009, the price of cotton was close to US$0.80/lb. However, ICAC's analysts remain cautious and expect an average price of US$0.70/lb for the 2009/10 season – an increase of 14% compared with the average for the 2008/09 season.

Over and above the price of cotton in dollars, West African countries are affected by the level of the dollar against the euro, and therefore the CFA franc. High international prices do not necessarily affect the price in CFA francs if the dollar remains weak. Because of these relatively low prices, West African producers and cotton companies are in a particularly fragile situation and the outcome remains uncertain. In some West African countries, such as Togo and Mali, producers have not been paid for 1 or 2 years because of the state of near-bankruptcy of the cotton companies.

Another issue related directly to the level of prices – the quality of the fibre – remains important. The quality criteria of cotton fibres are, in general, based on the criteria used in the USA (the Cotlook index). African cotton tends to be regularly classified as good quality cotton (Cotlook A index) thanks to the length of its fibre. Its quality is particularly recognised on the Chinese market, which is the leading world importer. However, Michel Fok of CIRAD (Centre de coopération internationale en recherche agronomique pour le développement) considers that African countries are not obtaining a price in line with the quality of their cotton production, even though it is classified in the Cotlook A index, since the criteria do not take sufficient account of the specific quality aspects of African cotton (particularly regarding the length of the fibre). African countries compete with each other on the international market, whereas if they were to promote collectively the quality of African cotton and harmonise their controls and criteria, they could obtain a better export price.

2.2 Challenges for ACP cotton: towards fairer world trade

2.2.1 The cotton problem and the World Trade Organization

The ACP cotton-producing countries have launched several initiatives in the framework of the WTO to limit the subsidies granted to producers in developed countries accused of artificially repressing international prices. Some progress has been achieved recently.

Brazil's complaint: a relative success for African countries
Brazil filed a complaint in 2002 with the Dispute Settlement Body of the WTO against subsidies granted by the USA to its producers (see Agritrade Executive brief on cotton, 2008). Finally, in August 2009, a ruling of the Dispute Settlement Body determined the amount of Brazil's prejudice and the forms of sanctions against the USA (which can no longer appeal against the ruling). Thus, in application of its calculations, Brazil will be able to impose a surcharge of US$561 million on its imports of American industrial products. In addition to this amount, and up to the authorised amount of US$830 million, thanks to the principle of cross retaliation, Brazil will able to impose sanctions in other areas, such as intellectual property rights and services.

The C4 group of countries (Benin, Burkina Faso, Mali and Chad), which were a third party to the complaint, will not be able to profit directly from this positive outcome to the complaint filed against American subsidies, because they do not have the possibility of implementing sanctions. This ruling, however, sends outs a strong signal in support of the urgent need to make US aids compliant (*IDEAS Information Memo* n° 84). Nevertheless, the C4 countries are concerned about Brazil's increasing lack of interest in continuing the fight against American subsidies.

African cotton and the cotton initiative
In May 2003, the C4 countries submitted to the WTO Secretariat a 'Sectoral initiative in favour of cotton'. Noting the losses suffered by their producers following the fall in world prices, they called for the elimination of support granted by developed countries to their cotton production (see Agritrade Executive brief on cotton, 2008).

In 2004, the WTO members therefore promised to ensure that domestic supports were reduced more substantially and more rapidly for cotton than for other products. On 17 July 2007, the Chair of the (WTO) Committee on Agriculture put forward a new proposal for implementing rules for the Hong Kong Ministerial Declaration, containing notable progress as regards cotton.

The current deadlock in the Doha Round places a major question mark over the capacity and determination of the member countries to conclude the negotiations. Some observers consider that this situation is due in particular to the question of cotton. The USA has negotiated a 70% reduction in its overall domestic supports, and would therefore have to make an additional effort for cotton, that is to say, a significant reduction in its subsidies.

Consequently, since 2007 the cotton negotiations have been put on the back-burner, so much so that the cotton sub-committee has not met since July 2007. At the end of 2009, the C4 Trade Ministers threatened to block the Doha Round negotiations if cotton was not put back on the agenda of the negotiations. This C4 demand was included in the declaration of the ACP countries on the eve of the ministerial conference in Geneva in December 2009. Nevertheless, cotton was not addressed at that conference, which also failed to restart the Doha Round.

2.2.2 African cotton in search of outlets

Alongside the WTO negotiations, African countries are having to contend with increased competition from other developing countries, such as India and Brazil. This situation is encouraging African cotton-exporting countries to try and find new outlets and invest in new market segments. Fair-trade cotton and organic cotton offer a way out.

The promotion of fair-trade cotton

The African cotton sector is based on small, essentially family farms, practising mixed faming/stock farming, with production methods based on limited use of inputs and economical levels of water and energy consumption (therefore consuming less carbon than American or Chinese producers). In addition, the organisation of the sector around state or semi-state bodies makes it easier to monitor farmers and compliance with standards. The development of fair trade could make it easier to capitalise on these advantages among groups sensitive to fair-trade principles.

West and Central Africa could participate widely in fair-trade cotton. As for all fair-trade products, the price paid to the producer is determined in advance, and is sufficient to cover production costs and remunerate the producer's work. For the 2007/08 season, the price paid to producers in West Africa (234 CFA francs/kg of seed cotton) was particularly attractive in a context of contractually low cotton prices (160 CFA francs/kg in Mali and 145 CFA francs/kg in Burkina Faso).

However, there are delays in developing outlets, and world demand remains fairly low. At the beginning of 2010, campaigns are planned in countries of the North to encourage clothing brands to switch to fair-trade cotton.

The promotion of organic cotton

India is the leading producer of organic cotton, but some African countries are starting to play an important role on this market, especially Burkina Faso, the world's tenth largest producer. As a result of the strong demand for organic cotton at world level, the purchase price is interesting for producers (around 30% higher than that of traditional cotton). This situation has boosted the production of organic cotton in West Africa; it doubled between 2007 and 2008.

Because the use of chemical additives is not authorised, the productivity of organic cotton is lower than that of traditional cotton. When converting to organic cotton cultivation, initially the higher purchase price of organic cotton is not enough to offset the drop in production. However, university research carried out in Mali has demonstrated that, over the medium term, the savings achieved and the improvement in soil from which the other crops benefit help to improve the profitability of organic cotton. In addition, organic cotton means that producers do not have to contract loans to acquire inputs, the costs of which can vary widely, at the beginning of the season. Organic cotton is also a credible alternative to the rapid development of genetically modified cotton, which also bases its arguments on the reduction in the use of chemical inputs, but which creates a situation of dependency at the level of seeds.

Nevertheless, the penetration of organic cotton remains very limited. According to Integrated Regional Information Networks (IRIN), organic producers represent 0.1% of cotton producers in Benin and Burkina Faso, which are, however, the two most advanced countries in this segment in West Africa. In recent years, several NGOs, including Helvetas, have launched projects to support the development of an organic cotton sector in West Africa.

Another challenge facing African organic cotton is access to consumer markets. The dispersion of production between several small countries is a disadvantage in comparison with large producer countries such as India and Turkey, with which purchasers prefer to deal. It seems necessary to reinforce aid-for-trade to support this sector in the ACP countries.

Unlike fair-trade cotton, organic cotton does not guarantee a level of remuneration for producers, even if prices remain in general higher than for traditional cotton. The absence of chemical inputs increases the irregularity of output. It is therefore necessary to include organic cotton in diversified cultivation systems that make it possible to limit the risks and benefits from the income drawn from this culture.

It is vital for both fair-trade cotton and organic cotton to reinforce the sectors and support marketing in order to enable the ACP countries to capitalise on their strengths and take advantage of these markets, which – although they are, for the time being, niche markets – are growing rapidly.

2.2.3 Sectoral support: the cotton component of the AAACP

In 2007, the EC and the ACP Group Secretariat launched the All-ACP Agricultural Commodities Programme (AAACP). A budget of €45 million was put in place for the programme, and one-third of the budget is allocated to strengthening the cotton sector in the ACP countries.

Table 7 Support for ACP cotton producers

Region	Finance (euros)	Share of finance (%)
West Africa	7,921,328	65
Central Africa	625,000	5
East and Southern Africa	3,611,328	30

Source: www.acp-cotton.org

The AAACP, which was set up in order to improve and stabilise the income and living conditions of producers of agricultural commodities, mobilises five international organisations (the World Bank, the International Trade Centre, the UN Conference on Trade and Development, the Common Fund for Commodities, and the Food and Agriculture Organization). They are implementing a series of projects intended to develop the ACP cotton sector.

The projects concerning cotton cover not only production techniques, but also support for the sector. The objective of one major project in West Africa is to reduce the contamination of harvests by seeds, as such contamination strongly influences the quality of cotton and therefore the selling price. In general, the main objective is to improve the trade strategy at regional level through the standardisation of tools for testing quality. An evaluation of this component was launched in the first half of 2010 and the results will be published towards the middle of the year.

A mid-term review of the AAACP was carried out in January–March 2009, 18 months after its launch. Some adjustments have been recommended, in particular at the level of the general management of the programme, which is complex because of the large number of participants and the diversity of the programmed actions in a vast geographical region.

Moreover, concerning African cotton, the AAACP falls within the scope of the major guidelines decided at the EU–Africa Forum on Cotton, held in July 2004. A steering and monitoring committee for the EU–Africa Partnership on Cotton had been put in place for monitoring purposes. Following a mid-term review of the EU–Africa Partnership on Cotton, a diagnosis workshop was organised on 19 March 2009 in Brussels. Some 60 participants attended, including, among others, leaders of the African Cotton Association, the African Cotton Producers' Association and the African Cotton and Textiles Industries Federation. The discussions focused in particular on the reorganisation of the steering and monitoring committee. This reorganisation is intended to facilitate far greater ownership of the partnership by field operators and to develop the regional dimension of activities more strongly.

Information sources

Key sources

ICAC (International Cotton Advisory Committee)
www.icac.org/

IDEAS Center
www.ideascentre.ch/trade-cotton.html

Site of the All ACP Agricultural Commodities Programme
www.euacpcommodities.eu/

The updating of the action plan and other information of the ACP group on cotton can be consulted on the site
www.acp-cotton.org/

Site of the US Department of Agriculture devoted to cotton
www.fas.usda.gov/cots/cotton.asp

General information on cotton (production, world market, statistics) on the UNCTAD Infocomm site
http://r0.unctad.org/infocomm/francais/coton/plan.htm

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The WTO sub-committee on cotton
www.wto.org/french/tratop_f/agric_f/cotton_subcommittee_f.htm

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Common Agricultural Policy

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CJEC ruling on cotton, press release of 7 September 2006
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Cotton and the WTO

Publication of the NGO GRET on the implications of negotiations at the WTO on African agriculture: *Agriculture et OMC: Comprendre pour agir*, Lebret MC and Alpha A. (dir.), 2007
www.gret.org/publications/ouvrages/infoomc/fr/accueil_fr.html

Reduction of poverty: sectoral initiative in favour of cotton, WTO document n° TN/AG/GEN/4
www.forum-coton.org/docs/negociationOMC-fr.pdf

Oxfam international publishes regular reports on cotton and the WTO
www.oxfam.org/

ICSTD, 'OMC: coton, le C4 s'offusque et menace', Passerelles vol.11 N°1, 21/01/2010.
http://ictsd.org/i/agriculture/68369/

Action plans:

UE-Africa forum on cotton (with in particular the cotton action plan, DG Agri documents)
www.forum-coton.org/indexflash.html

Update on the EU-Africa cotton partnership, October 2008
www.coton-acp.org/docs/acpue/rapport_mise_jour_partenariat_octobre_2008_Final-FR1.pdf

USAID programme to reinforce the cotton sector in West and Central Africa (WACIP)
www.wacip.org/

Cotton in Burkina Faso

A page on the site abcburkina is devoted to cotton news (only in French)
www.abcburkina.net/content/category/4/17/44/lang,fr/

Fair-trade cotton

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Executive brief: Update

Fruit and vegetables: Trade issues for ACP countries

Contents

About this update

CTA's *Executive brief: Fruit and vegetable: Trade issues for the ACP*, was published in January 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. It was followed in March 2009 by *Executive brief: The EU fruit-and-vegetable regime*. This brief, updated in April 2010, consists of:

1. Background and key issues: briefly summarising the original executive briefs, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive briefs (2008 and 2009) are available on request from: agritrade-mail@cta.int.

1 Background and key issues in the fruit and vegetable sector

Fruit and vegetables account for about one-sixth of the value of European Union (EU) agricultural production. The EU is the second largest producer in the world, the second largest exporter and the largest importer of fruit and vegetables. In line with the earlier EU Common Agricultural Policy (CAP), price support was a major feature of the EU fruit and vegetable regime, implemented largely through the establishment of a minimum grower price for specific products falling under the fruit and vegetable regime. This gave rise to an associated entry price system (operating on the basis of minimum import prices) to regulate trade in fruit and vegetables. However, CAP reforms in 1996, 2001 and 2007 saw the abandonment of price support in favour of increased levels of direct aid to farmers. The incorporation of the fruit and vegetable sector into the single payment scheme was in line with the wider development of the CAP. Within this process of reform, increasing emphasis has been placed on support to producer organisations.

Despite these reforms, the EU, according to the US Department of Agriculture (USDA), continues to operate an external trade regime for fruit and vegetables, regulated through a complex system of import quotas, seasonal restrictions and preferential trade arrangements, guided by the entry price system. For processed products, additional duties are charged based on the sugar content of the product, except for African, Caribbean and Pacific countries that are in the least developed countries group (ACP/LDC), where full duty-free, quota-free access for sugar is now enjoyed.

About 37 ACP countries are involved in exporting fruit and vegetables to the EU, accounting for less than 10% of EU imports. The reform process in the fruit and vegetable sector has, by lowering EU producer prices, reduced the attractiveness of the EU market for undifferentiated fruit and vegetable exports from the ACP. In the case of the ACP, the challenge faced is compounded by increased competition from third-country suppliers, as the EU concludes a growing range of bilateral preferential trade arrangements with competitive suppliers in the fruit and vegetable sector, and the stricter enforcement of food safety standards and the growing role of private voluntary standards (PVS) in determining access to certain components of the EU market.

Against this background, ACP horticultural suppliers are having to show considerable dynamic innovation through raising their quality standards, making greater use of maritime transport wherever feasible, investing in new technology, rationalising costs, exploring economies of scale and using 'intelligent' packaging. The need for a dynamic response to market changes will intensify in the coming years under the influence of:

- the erosion of ACP margins of tariff preferences for fruit and vegetable products through both multilateral and bilateral processes of EU tariff liberalisation;
- EU price reductions induced by the consequences of reform and improved market access for third-country suppliers;
- the emergence of China as a major supplier of vegetables.

Some ACP country producers have responded to preference erosion and declining prices by moving up-market in terms of products, while adding value through various forms of packaging and processing. Others, however, have simply exited the trade.

Since 1 January 2008, all ACP countries whose governments have initialled or signed an interim or full Economic Partnership Agreement (EPA or IEPA), or which are classified as LDCs and so benefit from the 'Everything but Arms' (EBA) initiative, have enjoyed full duty-free, quota-free access to the EU market for all fruit and vegetable exports. The most significant impact of this measure has been the removal of all seasonal and special duty restrictions which formerly applied under Declaration XXII provisions of the Cotonou Agreement. This is of greatest importance to exporters in non-LDCs, which now find themselves with the same market access as LDCs, a development which in some important cases (such as Kenya and the Dominican Republic) makes it easier to attract investment in fruit and vegetable sector development, in the face of increased competition for investment from LDCs. For non-LDCs, analysis by the UK's Overseas Development Institute (ODI) identified the following fresh produce as most likely to gain under the duty-free, quota-free access: fresh table grapes, citrus fruit, some fresh vegetables, apples, pears, plums, tropical fruits and nuts, and fruit jams and juices. Fruit and vegetable products thus account for 38.4% of the likely gains for ACP non-LDCs, arising from the granting of duty-free, quota-free access to the EU market, with a saving in duty paid on imports to the EU in 2006 of €5,043,000 on a total export value of €53,137,000 for the products concerned. Non-LDCs that are not signatories of an (I)EPA have reverted back to standard treatment under the Generalised System of (tariff) Preferences, although no major ACP fruit and vegetable exporter falls into this category.

Table 1 Fruit and vegetable products most likely to generate gains

Harmonised system/ combined nomenclature	Description	Non-LDC exports 2006 (€)	Duty paid 2006	
			(€000)	%
08061010	Fresh table grapes	28,075,000	3,959	14.1
ex 0805	Citrus fruit	17,869,000	599	3.35
ex 07	Some fresh vegetables (e.g. tomato, onion, leek, cauliflower, broccoli, kohlrabi, chicory, carrot, turnip, spinach, salad vegetables excl. lettuce, sweetcorn, manioc, arrowroot/salep)	6,124,000	384	6.27
ex 0808/09	Apples, pears, plums	815,000	77	9.45
ex 2007/9	Fruit jams and juice	194,000	19	9.79
08119011	Tropical fruit and nuts	60,000	5	8.33
	Sub-total fruit and vegetables	53,137,000		
	Value of all products potentially affected	138,354,000		

Sources: Extracted from fuller table in ODI's Project Briefing No. 10, March 2008, p.2: *Duty-free, quota-free access: What is it worth?*

Food safety regulations are a particular challenge in the fruit and vegetable sector, and represent an increasingly important factor in the export trade. These regulations are placing growing demands on private sector producers and public authorities responsible for food safety control and compliance verification. Food safety regulations pose particular challenges for non-traditional exporters seeking to enter the EU market. The scale of this challenge has continued to grow following the completion of the EU pesticide review in 2009.

A growing area of concern that emerged in 2009 was the commercial implications of the proliferation of PVS.

A final area of concern that emerged at the end of 2007 was the implications of certain provisions in the (I)EPAs for the use by ACP governments of trade-policy tools in support of horticultural sector development to serve national markets. This continued to be an area of controversy throughout 2009 and into 2010.

2 Latest developments

2.1 Developments in the EU fruit and vegetable sector

The USDA projects significant impacts from the ongoing process of CAP reform in the fruit and vegetable sector. It notes that the reform process allows partial decoupling of aid payments rather than full decoupling, in order to ease the transition to the new regime (entailing eventual full incorporation into the single payment scheme). It also notes that increased and substantial financial support is now being deployed through producer organisations in support of specific operational programmes intended to 'help improve commodity production, marketing and environmental and phytosanitary conditions' of EU fruit and vegetable producers. This increased support to producer organisations cannot be entirely delinked from a range of producer initiatives now under way designed to improve the market position of EU fruit and vegetable producers in the light of very difficult market conditions.

In terms of recent market developments, press reports at the start of the third quarter of 2009 indicated that the EU fruit and vegetable sector was under enormous financial pressure. This was seen as a consequence of the global economic downturn and the entry onto the market of large volumes of certain key products. European apple producers were expecting 'one of their worst starts to a season in recent memory', while 'Dutch berry producers reportedly stopped harvesting because of low market prices'. In Germany, wholesale fruit prices were reported 'to be around 14% lower than at the same time last year', while in Belgium fruit auction houses were reporting turnover down 25–30% compared with 2008. In France, fruit prices were reported to have fallen by nearly 20% compared with 2008, while in some parts of the Spanish citrus sector a crisis was seen to be emerging, with some fresh produce associations forecasting that '45% of growers could abandon their orchards in the coming years' as a result of poor recent harvests. Across the EU, consumer prices of vegetables between December 2008 and December 2009 saw the largest decline in percentage terms of any food sector in the EU (–4.6% compared with –1% for all food products), with fruit prices seeing an average 1.4% decline, also above the average decline in consumer prices of all foods.

In certain sectors, the crisis situation is being attributed to shortcomings in the operation of the entry price system, with non-payment of duties leading to a depression of prices in certain sectors. Imports of tomatoes from Morocco have been a particular focus of concern for Spanish tomato growers. According to some press reports, farmers' concerns over non-payment of customs duties are shared by the European Anti-Fraud Office. This has generated demands for governments to act more effectively to enforce the entry price system and take action against preferred suppliers who fail to respect minimum import price requirements. The Spanish Federation of Associations of Producers and Exporters of Fruits, Vegetables, Flowers and Live Plants (FEPEX) has even gone so far as to call for a reform of the entry price system in order to curb non-payment of customs duties.

It should be noted, however, that these concerns were raised in the context of preferential trade negotiations with Morocco, which it is felt could do further harm to vulnerable horticulture sectors, given the perceived shortcomings in the operation of the entry price system.

As a result of the overall market situation in December 2009, EU fruit and vegetable producers' associations sent an open letter to the European Commission and European Parliament calling for action to address the 'unprecedented economic crisis' confronting the sector. The letter called for support to be extended to EU fruit and vegetable producers similar to that extended to dairy producers. In justification of such a policy initiative, it cited the:

- current low level of public aid to the fruit and vegetable sector;
- impact that bilateral trade agreements are having on the market;
- abolition of export support, despite the high value (at that time) of the euro;

- concentration of market power in the hands of large retailers;
- cost-increasing effects of sanitary and phytosanitary (SPS) standards, which, it was claimed, are commonly violated by third-country suppliers.

In the course of 2009, the EC had already launched initiatives to try to develop ways of improving the functioning of the fruit and vegetable supply chain. One initiative to this end was a feasibility study on 'the setting up of a European platform for data and information exchange for the European fruit and vegetable market'. The aim of the proposed platform for data and information exchange is to help the EU fruit and vegetable industry to:

- 'reach a higher degree of effectiveness in managing the available resources and preventing market crises, through the sharing of information among the associations of European producers to the widest possible extent';
- 'establish a more balanced competitive position for producers, given their weakness within the fruit and vegetable supply chain with respect to wholesalers, processors and distributors'.

It is argued that improved information management can help avert 'structural market crises' by establishing 'long-term trends of the domestic supply, the import, and the demand in the domestic and foreign markets'. It is also maintained that efficient data analysis can allow actions to be taken to reduce the economic cost of periodic over-supply situations. However, there are seen to be potential problems with such an initiative, particularly in terms of minimising the dangers of collusion on pricing or the partitioning of markets. There is also the issue of the impact of the proposed European data and information platform on the commercial position of third-country suppliers.

Another emerging threat to ACP suppliers in the fruit and vegetable sector is the growing producer pressure for 'buy local' initiatives that encourage consumers to buy products produced near to where they live. If retailers begin to respond to consumer demand stimulated by these EU grower-led campaigns, this could undermine the commercial position of third-country suppliers. This is particularly likely to be the case if such campaigns link into the ongoing debate on food miles.

2.2 Developments on global fruit and vegetable markets

In mid-2009, press reports indicated that the 'current world economic recession has forced prices of horticultural products to fall by 30% on the international market', creating serious difficulties in a number of ACP countries that have developed horticultural exports. In Tanzania, press reports suggested that some 20,000 horticultural workers could face redundancy in the face of a drop in demand for flowers and green vegetables from Tanzania. Against the backdrop of these price declines, the costs of SPS compliance and compliance verification have taken on a new significance.

The reality is that in a time of global recession and declining prices, investments made in SPS and food standards compliance can really begin to bite. Analysis by the Europe–ACP Liaison Committee (COLEACP) suggests both that a number of ACP countries are falling out of supplying the EU fruit and vegetable market, and that within ACP countries poorer farmers are falling out of the supply chain. This suggests that in the coming period, ACP fruit and vegetable production for export to the EU is likely to be concentrated in fewer ACP countries and to involve fewer, larger ACP producers in those countries that remain in the export trade. This is despite the deployment of public assistance to try to ensure that resource-poor farmers can remain involved in export supply chains.

This concentration of production in larger units is also being linked to even greater European ownership within the sector, with certain local Kenyan horticulture companies (such as Homegrown) being sold to major European fruit and vegetable companies.

In the fruit sector (where only a limited number of ACP suppliers are involved), the price situation in the EU market has a direct impact on the prices offered for bulk imports of fruit products from ACP countries. This is demonstrated by the discussions during an electronically organised conference between citrus industry leaders in the northern and southern hemispheres, conducted in June 2009. Here it was recognised that reduced demand following the economic downturn was resulting in a build-up of stocks and price reductions. According to Justin Chadwick, CEO of the South African Citrus Growers Association, 'buyers are reducing risk by reducing stock holdings and buying only when they can move the product. Buyers are also putting pressure on suppliers in terms of price. […] Prices for many commodities have dropped by 20–25% from last year's levels'. South African fruit exporters are also facing demands for smaller shipments and extended credit periods, with payment problems creating cash-flow difficulties.

2.3 The EU fruit and vegetable regime, the WTO and third-country agreements

In terms of the EU's overall trade regime for fruit and vegetables, extensive use is made of the entry price system (EPS), 'a complex tariff system which provides a high level of protection to EU producers'. 'In this system fruits and vegetables imported at or over an established entry price are charged an *ad valorem* duty only. Produce valued below the entry price are charged a tariff equivalent, in addition to the *ad valorem* duty. The tariff equivalent is graduated for products valued between 92 and 100% of the entry price. The *ad valorem* duty and the full tariff equivalent are levied on imports valued at less than 92% of the entry price'.

However, the future of the EPS is now a subject of discussion in the World Trade Organization. Given that most ACP countries enjoy full duty-free, quota-free access to the EU market, any reduction of tariffs arising from a WTO-related reform of the EU's EPS would primarily benefit non-ACP suppliers. Conversely, any increase in basic tariffs arising from a WTO-related reform of the EU's EPS would benefit ACP suppliers, particularly given the current problems in applying the entry price system. However, it should be noted that any WTO-induced reform of the entry price system is more likely to result in a reduction in overall levels of EU tariff protection in the fruit and vegetable sector.

More significantly, however, the EU's growing network of bilateral preferential trade agreements with third countries is likely progressively to erode the margins of ACP tariff preference for fruit and vegetables. The impact of these agreements will vary greatly, depending on the product coverage of individual agreements and the extent of competition with existing ACP suppliers in the areas where tariff concessions are granted under the new agreements. A further area of concern from an ACP perspective is the emergence of Thailand and China as significant exporters of vegetables. In the case of Thailand, the packaging and processing of these vegetables is geared to the supermarket convenience-consumer of prepared fresh products. The combination of these two trends in the longer term could well see the ACP position as a supplier of fruit and vegetables to the EU market progressively eroded. However overall, given the diverse nature of the fruit and vegetable sector, caution should be exercised with regard to any general conclusions at the ACP level; this issue really needs to be addressed at the country level.

This does, however, suggest a need for ACP fruit and vegetable exporters increasingly to keep their production and investment decisions under review, in the light of the changing supply and demand situation on the EU market, and in the context of the EU's evolving trade policy.

2.4 Food safety issues in the horticulture sector

The major food safety development of relevance to the fruit and vegetable sector in ACP countries was the completion of the EC pesticide review in March 2009. As a result of this review, some 750 of the approximately 1,000 substances available for use before 1993 did not pass the harmonised EU safety assessment. However, only 70 substances failed the review process and were removed from the market. The remaining 680 products were either not submitted, or were incomplete or were withdrawn by the industry. In the longer term, this is likely to greatly reduce the plant protection products available for use in the ACP on fruit and vegetables destined for the EU market, and likely also to increase the costs of the products still permitted for use on fruit and vegetables destined for the EU. These longer-term impacts of the pesticide review could fall more heavily on small-scale than on large-scale producers.

In the short term, an assessment by COLEACP suggests that the impact is likely to be more limited, as 'substances will remain authorised until they come up for review when their annex I listing expires'. In addition, even after the use of the product has been reviewed, derogations can still be sought and obtained to allow time to develop alternatives. At this stage, even where a pesticide is no longer authorised for use in the EU, 'continued use on ACP export crops will still be possible, provided that the product is registered locally, and [that] EU [maximum residue levels] and Import Tolerances are complied with'. However, certain elements of the regulation remain unclear, and clarifications in these areas could affect ACP exporters, for example regarding the actual thresholds established for tolerance of substances that have been scheduled for withdrawal, and that are found in imported products. These 'clarifications' could increase the short- and medium-term effects of the pesticide review.

2.5 PVS and improving the functioning of the supply chain

Private voluntary standards need to be seen in the light of both EU importers' legal responsibility to ensure only safe food is sold on the EU market, and the increasing market fragmentation in EU food markets, with strong quality-based product differentiation securing price premiums. In the latter context, PVS form part of a wider process of product differentiation, designed to 'protect and gain market share when competing in national and regional markets'. As a consequence, these private standards are often 'higher and more demanding than the minimum standards enforced by governments' and those drawn up in the framework of the international standard-setting bodies.

While stricter PVS 'can create an incentive for producers to invest in modernising their production processes and output' and can help exporters 'maintain and improve their market access', they can pose problems, particularly for smaller producers, whether considered nationally or in terms of the production system. While some ACP horticultural producers are rising to this challenge, others struggle to meet these standards cost-effectively. Over time, this leads to these producers falling out of the supply chain. It has been suggested that 'development strategies postulated on smallholder production of high-value agricultural products for export' may be unrealistic in the absence of targeted and sustained support.

In 2009, the COLEACP Pesticides Initiative Programme (PIP) carried out a detailed survey of the impact of changing buyer requirements on the supply chain for fruit and vegetables. This survey looked exclusively at companies already receiving technical assistance with standards compliance under the PIP initiative. It found that, while there had been 'an appreciable growth' in aggregate exports between 2000 and 2006 through distinct supply chains serving different national EU markets, some firms found PVS 'difficult or very difficult to meet'. These difficulties varied according to the supply chain being served.

The anglophone supply chain linking suppliers in Kenya, Zambia, Uganda and Ghana with supermarkets in the UK, Germany, the Netherlands and Switzerland generated more problems of compliance than the francophone supply chains, which linked producers in Madagascar, Mali, Burkina Faso, Benin, Senegal and Côte d'Ivoire to wholesalers, catering companies and others in France, Italy and Switzerland. In the anglophone supply chain, 'over the longer term some companies reported reduced profits' due to the lack of a price premium and increased costs of maintaining certification. Of particular concern in the survey was that some 20% of companies involved with smallholder out-growers reported that some smallholder growers 'had chosen not to renew their certificate despite the fact that they had the infrastructure, procedures and knowledge in place'. Significantly, these companies where out-growers were not renewing their certification were concentrated in countries where compliance with standards has been established for some years and where the full impact of recurrent costs was known (such as Kenya).

Despite these trends, overall the survey concluded that earlier fears of a generalised exodus of smallholder out-growers from fruit and vegetable export value chains, in response to stricter food standards, had not yet been realised. Across African suppliers surveyed, the survey found that the volume of vegetable products sourced from out-growers from 2000 to 2007 had changed little. However, there were marked differences between countries, with evidence emerging in Kenya that 'very small-scale out-growers are being excluded from high-value retail supply chains due to the demands of PVS'. The report concluded on a cautionary note, arguing that while 'the future trends for sourcing from small-scale growers are unclear […], there is a risk that the pattern seen in Kenya will be repeated elsewhere as demands of PVS become more widespread and tightly enforced'.

Against this background the PIP report argued for:

- 'continued technical assistance both from national and international agencies';
- 'improved routes of engagement with those who set and implement the PVS, as well as mechanisms to adjust them, in order that they can be better adapted to local circumstances';
- 'improved dialogue […] with EU buyers in order to ensure that their policies create and enhance opportunities to trade';
- 'the fairer apportioning of costs along the supply chain';
- a more proactive approach from developing countries in achieving compliance and defining how this is to be achieved.

2.6 The food miles debate

For some time there has been growing concern in eastern and southern Africa that food miles campaigners could undermine the market for exported horticulture and floriculture products. Food miles campaigners advocate that consumers buy products that have travelled the fewest miles to their point of sale, as a way of reducing environmental impact. The period 2008–09 saw an intensification of the debate on food miles. In January 2009, the UK Soil Association announced its decision to terminate its support for a campaign to label imported horticulture and floriculture products with an aeroplane sticker designed to highlight the carbon footprint of imported products. According to press reports, the campaign had been encouraging people to buy goods that had travelled a minimal distance to market.

The Kenyan Flower Council welcomed this move, highlighting the findings of its own research, which showed that carbon emissions per capita in Kenya are only 2% of what they are in the UK, and that travelling 6.5 miles to a local supermarket to do your shopping left the equivalent carbon footprint of 'flying a pack of Kenyan green beans to the UK'. With the Soil Association's decision to take a more nuanced approach, involving monitoring the contribution of air-freighted foods to people's livelihoods and communicating the development benefits of organic agriculture in developing countries, concerns in eastern and southern Africa over the food miles debate have been eased. This was particularly welcome as efforts to reduce the carbon footprint of East Africa's fresh produce export by making greater use of sea freight wherever possible are being undermined by piracy in the Gulf of Aden. This has caused the costs of sea freight for fresh produce to double. The situation unfortunately could become worse if insurance underwriters were to declare the region a war zone, as this would make insurance cover impossible to secure and force exporters to use the longer Cape sea route. This would make a range of fresh produce exports non-viable.

The food miles debate was, however, renewed in the run-up to the 2009 UN Copenhagen Climate Change Conference. This saw the emergence of the concept of 'fair miles' as a counterweight to a more narrowly focused debate on food miles. The approach was publicly articulated in a report published jointly by Oxfam and the International Institute for Environmental Development. The report focused on the 'complexities of the food supply chain and its social, political and economic repercussions' and argued for an approach to assessing the environmental impact of production and trade that encompasses these complexities. The report argued that 'western consumer concern over climate change can do more harm than good if it cuts demand for food produced in developing nations'. It pointed out that 'some imported fruit and vegetables are grown in less greenhouse-gas-intensive ways than the same products in the UK', with these savings outweighing the 'potential negative impacts of additional transport', particularly given that at least 60% of air-freighted fresh produce travels on passenger aircraft. The report further pointed out that transport accounts for only 10% of the greenhouse gas emissions associated with food production, marketing and distribution in the UK and USA. The report did not argue against eating locally grown products when in season, but argued that 'farmers in developing nations contribute so little to climate change, they shouldn't be penalised because we emit more in the West'.

The report has been welcomed by the UK Fresh Produce Consortium, in a context where there is growing recognition among UK supermarkets of the need for a more nuanced approach to climate concerns of consumers. Meanwhile, the UK Freight Transport Association joined in the debate, pointing out that 'the distance that a product has travelled is not a reliable indicator of its environmental impact'. It argued that to 'discern the true carbon footprint of a product, one has to measure the mode of transportation and also the production process', since local production based, for example, on heated greenhouses, 'often has a far bigger impact [on the environment] than miles travelled'. This, it was argued, should be reflected in any labelling requirements in order to avoid misleading consumers and harming African producers for little or no environmental benefit.

2.7 EPAs and local horticulture sector development

In the course of 2008–09, more details emerged on the impact of certain IEPA provisions on the use of trade-policy tools for local horticulture sector development in ACP countries. Under the IEPA between the EU and the Southern African Development Community (SADC), a provision has been included that requires the elimination of the use of import licences from the date of entry into force of the agreement. This is a matter of major concern in Namibia, where the use of import licences as a trade-policy tool is a central component of the highly successful Namibian Horticulture Sector Development Initiative. This programme, which aims to increase local horticultural production for the local market, has raised the percentage of locally produced fruit and vegetables consumed in Namibia from 5% to approximately 25%, and aims ultimately to see around 50% of locally consumed fruit and vegetables produced locally.

The use of import licences as part of the Namibian Market Share Promotion scheme proved extremely important at the early stages of the programme. At the design stage of the programme, it was found that while local farmers could produce more, they were uncertain as to whether they would find a buyer, given the orientation of major retailers towards central purchasing through their parent companies in South Africa. The use of import-licensing arrangements to incentivise local procurement thus proved essential at the early stages of the initiative. Subsequently, multiple retailers have become enthusiastic purchasers and marketers of locally produced horticultural products, using it as a strong market-positioning tool.

Current provisions in the SADC–EU IEPA would, however, prevent the future use of import licences as a trade-policy tool to address the issue of the unequal distribution of power along horticultural supply chains. It is not surprising, therefore, that this particular provision of the SADC–EU IEPA has become a matter of contention in the (I)EPA negotiations.

3 Implications for ACP countries

3.1 Issues arising from developments on the EU market

The calls for increased financial support for EU fruit and vegetable producers face the hard reality that financial reserves under the CAP have been used largely to support EU dairy producers in the face of acute market difficulties. Against this background, there is likely to be little scope for expanding assistance to EU fruit and vegetable producers before 2014. If political pressure from EU producers for some kind of policy response builds up, this may well take the form of low-cost initiatives to improve the functioning of the fruit and vegetable supply chain within the EU, and the more rigorous enforcement of both tariff and non-tariff import regulations. This could create some market space to ease the financial pressures on EU horticultural producers, pressures that are otherwise likely to intensify as economic recovery fuels input-cost inflation. The more rigorous enforcement of tariff measures would only affect the competitive position of ACP suppliers adversely if they lowered the overall tariffs effectively applied, as this would erode the margin of tariff preference enjoyed by ACP exporters. However, as a result of the full duty-free, quota-free access enjoyed by ACP exporters under the (I)EPAs and the EBA initiative, ACP exporters would be insulated from the direct effects of any increase in tariffs resulting from the more effective application of the minimum entry price system.

The issue of 'locally grown' campaigns is of far greater concern, as it taps into environmental concerns over food miles. If 'locally grown' campaigns take hold, and retailers respond with food miles labelling, this could have a profound effect on demand for ACP-produced fruit and vegetables. Here the evolution of the EC agricultural product quality policy could have an impact in the longer term, if geographically differentiated labelling schemes were favoured over schemes setting out generic standards open to all producers meeting the standards, regardless of geographical origin. In this context, ACP suppliers will need to keep a close eye on the evolution of the EU agricultural quality policy as the debate moves towards the formulation of specific regulatory proposals.

It should also be noted that, in response to increased pressure from EU producers, ACP exporters could find themselves subject to increasingly strict food safety and SPS inspections, which could have an impact on trade unless national food safety control systems are maintained to the requisite standard. Increased technical assistance support for food safety compliance in the fruit and vegetable sector thus appears to be warranted.

Regarding the EU initiative to establish a European platform for data and information on the EU fruit and vegetable market, from an ACP perspective, the question arises of what impact such an initiative would have on the relative competitive position of ACP and EU fruit and vegetable suppliers, if ACP suppliers are not also given access to the data and information platform. This is particularly important regarding the impact of such a platform on commercial negotiations between well informed EU importers and less well informed ACP exporters. An initiative could usefully be launched to see how ACP fruit and vegetable suppliers could be included in any new European platform for data and information exchange for the European fruit and vegetable market.

3.2 Meeting new food safety challenges

From an ACP perspective, while the short-term impacts of the completion of the pesticide review are likely to be limited, close attention will need to be paid to the elaboration of aspects of the regulation that are as yet unclear (such as the import tolerance limits), and clear strategies will need to be developed to minimise cost-increasing effects in the longer term. In this context, the UK government's initiative to launch a £13 million programme of support to research and development (R&D) for crop protection products should be noted. The explicit aim of this programme is to 'help meet new and existing EU regulations on pesticide approval and use' by helping growers '[to] respond to the dual challenges of increasing the productivity of crops while reducing the environmental impact of crop protection'. Most of the funds under this initiative are to be allocated to 'applied R&D'. This type of government initiative could usefully be extended to ACP producers of horticultural products: regional horticulture associations in the ACP potentially have an important role to play in promoting such applied R&D partnerships.

In addition, with the incidence of samples exceeding the maximum residue levels being three times higher for imported products than for products with an EU origin, intensified testing and compliance enforcement on imports of food and agricultural products can be expected in the coming period. The question arises, however, as to whether this would be justified for many ACP fruit and vegetables. Studies conducted under the PIP initiative have found that imports of fruit and vegetables from Africa show lower risks of pesticide contamination than imports from other sources. Against this background, it appears important to ensure that arrangements for compliance enforcement take into account the actual risks associated with imports from individual ACP countries.

3.3 Getting to grips with supply-chain issues and PVS

A number of the recommendations contained in the PIP survey on the impact of changing buyer requirements on the supply chain for fruit and vegetables appear to be relevant to current EU policy discussions over the functioning of food supply chains. It is envisaged that in the course of 2010, these discussions and deliberations will give rise to recommendations that will then feed into proposals for the 2013 round of CAP reform. Given the relevance of these deliberations to a range of issues currently arising in the fruit and vegetable sector (as well as other major areas of ACP exports), this is an area of EU policy where a clear development dimension could usefully be added. This is particularly the case in the fruit and vegetable sector: according to the PIP survey, 'fresh fruit and vegetables sourced from Africa [… are] not high risk when compared to FFV from other sources'. On this basis, the survey questioned 'the proportionality of some EU retailer policies which, assuming higher risk, […] apply more stringent controls on developing country suppliers'. Clearly, some form of guidelines dealing with the proportionality of PVS control systems in the light of actual risks faced appears to be warranted.

3.4 Ensuring continued engagement with the food miles debate

There is a need for ongoing engagement by ACP fruit and vegetable producers associations with the debate on food miles, given that these concerns can overlap with more narrowly defined commercial concerns. This is particularly important in the context of the ongoing discussion in the EU on agricultural product quality and associated labelling. With regulatory proposals scheduled to be tabled in the course of 2010, there appears to be a need for a high-level ACP–EU exchange on these issues to ensure no EU proposals are put forward that serve to disadvantage ACP suppliers of fruit and vegetable products to the EU market.

3.5 Ensuring EPAs are supportive of horticultural sector development

The debate on the right to retain the use of traditional trade-policy tool needs to be seen in the context of the limited capacity of ACP governments to use alternative financial instruments to address issues related to the functioning of horticulture supply chains. Currently in the EU, problems in the functioning of fruit and vegetable supply chains arising from the unequal distribution of commercial power along the supply chain are being addressed through large-scale programmes of support to strengthen the operation of producer organisations, with this being a major component of the fruit and vegetable support regime. In addition, EU fruit and vegetable producer organisations are calling for increased levels of EU financial support to address the crisis in the fruit and vegetable sector. Put simply, most ACP governments lack the financial means and administrative capacity to implement such ambitious financial support programmes, and as a consequence they rely on a much more limited range of traditional trade-policy tools.

A case exists for allowing ACP governments to retain the right to use import-licensing arrangements as an integral part of horticulture sector development programmes, provided that such schemes are transparently and effectively managed. The EU itself makes extensive use of tariff-rate quota arrangements under preferential trade agreements to regulate access to EU fruit and vegetable markets. All these tariff-rate quota arrangements are implemented through the use of import licences.

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Executive brief: Update

Oilseeds: Trade issues for ACP countries

Contents

About this update

CTA's *Executive brief: "Oilseeds: Trade issues for ACP countries"* was published in December 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This, brief updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int

1 Background and key issues in the oilseeds sector

Oleaginous crops are plants whose fruits or seeds contain a high proportion of oil, such as soybean, rape and sunflower. The seeds containing oil are also rich in protein. Accordingly, they are widely used as animal feed (especially in Europe, particularly since the 1960s with the introduction of oilcake made from oilseeds). On the other hand, oil palm is cultivated above all for the edible oils that are extracted from the pulp of its fruit (palm oil) and its kernel (palm kernel oil). One hectare of oil palm produces between 2 and 7 tonnes of oil a year, compared with 1 tonne for rape or sunflowers grown in a temperate climate. This makes it one of the cheapest oils to produce. Eighty per cent of world production is generated by industrial plantations (2,500 to 10,000 ha per unit). The larger part of this oil production (palm and palm kernel oils) is used for human consumption (margarines, basic vegetable fats and food oils), but it is also increasingly used for energy purposes (biodiesel). Its low production costs give it an advantage over other oils (rapeseed and soybean), which can be transformed into biofuels.

Over the past 50 years, the European Union (EU) has been a major importer of oilseed products. Until the 1990s, this dependency was satisfied almost exclusively by imports from the USA. However, with the emergence of Brazil and Argentina as major soybean producers, European countries now tend to diversify their sourcing in order to ensure their independence in animal proteins. It is worth noting that oilseeds and oils enter the Community market freely, irrespective of their origin. The African, Caribbean and Pacific (ACP) countries do not benefit from any trade preferences.

The EU27 countries produce approximately a quarter of their consumption of protein-rich products, composed mainly of oilseeds. This percentage has declined in recent years: it has fallen from 33% in 1999/2000 to 26% in 2004/05, following the ban on the use of flours of animal origin in animal feed, decided in 2000.

The European crushing industry transforms oilseeds into oil intended for human or industrial use, and into oilcake for animal feed. Up to 2005, the oils produced by crushing (above all soybean, but also rape and sunflower) were exported because there were no outlets on the Community market. The ACP countries figured prominently among these export destinations and the oils imported were often substituted for oils produced locally at a higher cost.

Following the 2003 Common Agricultural Policy reform, the production of oilseeds in the EU has been supported via the single-payment system, which consists of financial aids which are to a large extent decoupled from production levels. Although several studies predicted a decline in European production under the new system, production levels have been more influenced by recent price rises.

In the ACP countries, the main oil producers are in West Africa (Nigeria and Côte d'Ivoire for palm oil; Senegal for groundnut oil) and Papua New Guinea. But these producers have to compete on the European market, which was traditionally their main outlet, and on their own markets, with low-cost palm oil imports from south-east Asia. Papua New Guinea is the only ACP country that has succeeded in maintaining its place among the main suppliers of palm oil to the EU. Although West African countries were leaders on the palm oil market in the 1950s and 1960s, they are now almost totally absent from the market.

Oleaginous plants and cereals were the crops that were most affected by the price rises in 2007 and 2008. The price of palm oil grew rapidly from the beginning of the first quarter of 2006 and increased on an almost continuous basis up to March 2008 (taking 2006 as a base year at 100, the price was then 275). The weakness of stocks was highlighted as being responsible for the overall increase in prices, but as regards oleaginous plants, the impact of the increased demand for biofuels in line with the oil price increases was also an important factor.

2 Latest developments and implications for ACP countries

2.1 The international oilseeds market

2.1.1 Production

During the 2008/09 season, the four main soybean-producing countries were the USA (80 million tonnes), Brazil (57 million tonnes), Argentina (32 million tonnes), then China (15.5 million tonnes). Together, these four countries represent almost 90% of world production. European production is negligible, with less than 1% of the world total.

After the decline in American soybean production in 2007 (as a result of competition from maize for the use of land), production trended upwards again during the 2008/09 season, driven in particular by the record prices on world markets at the beginning of the season.

The main producers of sunflower seeds are Russia (7.3 million tonnes), followed by the EU (6.9 million tonnes), Ukraine (6.3 million tonnes) and Argentina (2.9 million tonnes). Except for Russia, production levels in these countries had stagnated, if not declined since the beginning of the decade. However, the 2008/09 season has seen a sharp trend, with an increase of more than 40% in world production of sunflower seeds, boosted by record price levels at the beginning of 2008 (up to US$900 a tonne, compared with US$300 a tonne in 2006).

The main rapeseed producers are the EU (19 million tonnes), which accounts for 34% of world production, Canada (11.2 million tonnes), China (12.4 million tonnes) and India (5.6 million tonnes) (FAOSTAT).

Indonesia (85 million tonnes) and Malaysia (83 million tonnes) represent approximately 80% of world production of palm fruit. Since 2007, Indonesia has become the world's leading producer, ahead of Malaysia, which had held that position for several years. These two countries are followed, a very long way behind, by Nigeria (8.3 million tonnes), Thailand (7.8 million tonnes), Colombia (3.2 million tonnes), Ghana (2 million tonnes), Papua New Guinea (1.4 million tonnes) and the Ivory Coast (1.2 million tonnes). This fruit is then used to produce palm oil, which is the most consumed oil in the world. Unlike soybean oil, palm oil is directly made in the countries where the fruit is harvested.

Table 1 Main oilseed-producing countries, 2008–09 (millions of tonnes)

Country/region	Soybean	Sunflower seeds	Rapeseed	Palm fruit
USA	80.7	1.4		
Brazil	57			
Argentina	32	2.9		
China	15.5	1.5	12.4	
Russia		7.3		
Ukraine		6.3		
EU		6.9	19	
Canada			11.2	
India	9.1	1.4	5.6	
Malaysia				85
Indonesia				83
Nigeria				8.5
Thailand				7.8
World total	**210**	**33**	**58**	**205**

Source: USDA, FAOSTAT.

2.1.2 Consumption

The main oilseed consumer countries are, at the current time, the EU, the USA, China and Brazil (see Table 2 for soybean, which reflects these trends).

The USA and Brazil obtain their supplies on their own markets, whereas the EU and China consume far more than they produce.

World consumption of the main oilseeds (soybean, rapeseed and sunflower seeds) for human and animal food is expected to increase in the coming years, mainly as a result of the increased demand for meat and therefore the increase in fodder needs in Northern and Southern exporting countries. It also reflects the increased demand in developing countries for edible oils as well as for oils transformed into biofuels.

Table 2 World soybean consumption in 2009 (millions of tonnes)

Country/region	Soybean	Soybean cake	Soybean oil
World	192	152	35
EU	13	31	3
USA	45	27	7
China	41	31	9
Brazil	31	12	4
Argentina	32	1,6	1

Source: USDA (2010).

The bulk of soybean consumption takes place after conversion into oilcake and oil. The consumption of seeds is therefore not necessarily linked to an end use of the product on the territory in question, as oilcake and oil can be exported.

During the previous two seasons, world production of oils and fats has not matched the level of demand, leading to a fall in reserves. During the 2009/10 season, production is expected to be slightly higher than demand, which should allow stocks to recover slightly.

2.1.3 Trade

With more than 40% of production sold on world markets, oilseeds and oils are among the most frequently traded products, far ahead of cereals (Table 3).

Table 3 Quantities of seeds, oilcake and oils of the main oleaginous crops traded in the world in 2009

Crop	Seeds		Oilcake		Oil	
	Millions of tonnes	Share of production traded on international markets (%)	Millions of tonnes	Share of production traded on international markets (%)	Millions of tonnes	Share of production traded on international markets (%)
Soya	76	36	51	33	9	25
Rape	12	20	3.5	40	2.3	9
Sunflower	2	0.5	4	32	4	36
Groundnut	2	0.5	–	–	0.16	3
Palm	–	–	4	62	34	80

Source: USDA.

Trade in seeds and oilcake is dominated by soya

Soya is by far the main oleaginous crop traded on the world market, with 127 million tonnes of soybean and soybean cake. Trade in rape, the second most heavily traded oleaginous plant, is one-eighth of the trade in soya.

Three soybean-exporting countries together account for 90% of world soybean exports. In 2009, the USA was again the leading exporter of soybean, with 35 million tonnes, ahead of Brazil (30 million tonnes) and Argentina (5.5 million tonnes), whose exports have fallen by 60% in comparison with the previous season because of a drought. Trade in soybean cake was also dominated by these three countries in 2007, with Argentina in first place (24 million tonnes) ahead of Brazil (13 million tonnes) and the USA (7 million tonnes).

China imported more than half of the soybean seeds traded in the world in 2009, with 41 million tonnes (a 40% increase in imports over 2 years), and the EU imported 13 million tonnes. As regards oilcake, the EU is the only major trading partner, with 21 million tonnes imported in 2009.

Palm oil dominates trade in oils

Palm oil is the most traded oil on the world market, with 34 million tonnes in 2009. The other oils are traded in far lower volumes (Table 4). The main importers of oil are India and China, where demand is growing, in particular for food uses.

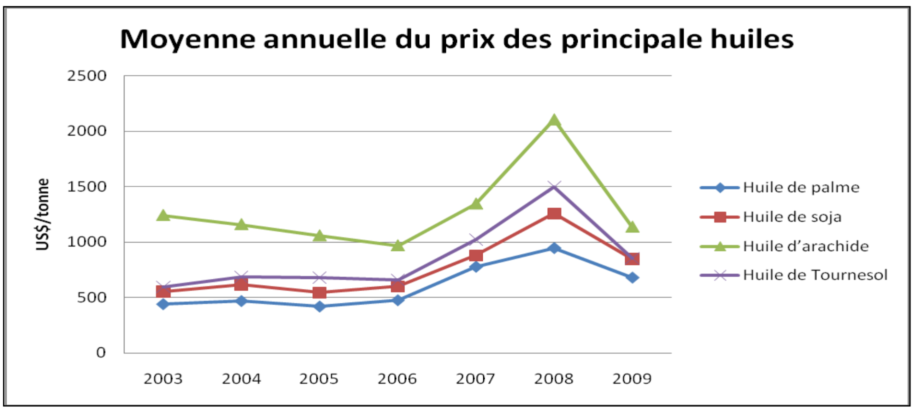
World trade in palm oil has grown rapidly over the past 10 years and the quantities of palm oil traded have tripled, from 11 million tonnes in 1998 to 34 million tonnes in 2009. At the same time, oil production has increased, from 20 million tonnes in 1998 to 42 million tonnes in 2009. The continuing domination of Indonesia and Malaysia as the main producers and exporters is noteworthy; they have accounted for 90% of production over the past 10 years. Nevertheless, some analysts expect this domination to decline due to a lack of new land available to increase production. For investors, countries in Equatorial Africa could rapidly offer new growth possibilities for oil palm cultivation.

The place of palm oil in the world trade in oils can be explained by the fact that it is cheaper than the other oils (Table 4; Figure 1).

Table 4 Average annual price of the main oils (US$/tonne)

	Average annual price ($/tonne)						
Fats and oils	2003	2004	2005	2006	2007	2008	2009
Palm oil	443	471	422	478	780	948	682
Soybean oil	553	616	544	598	881	1,258	848
Groundnut oil	1,243	1,161	1,060	970	1,347	2,105	1,138
Sunflower oil	593	684	677	658	1,021	1,498	854

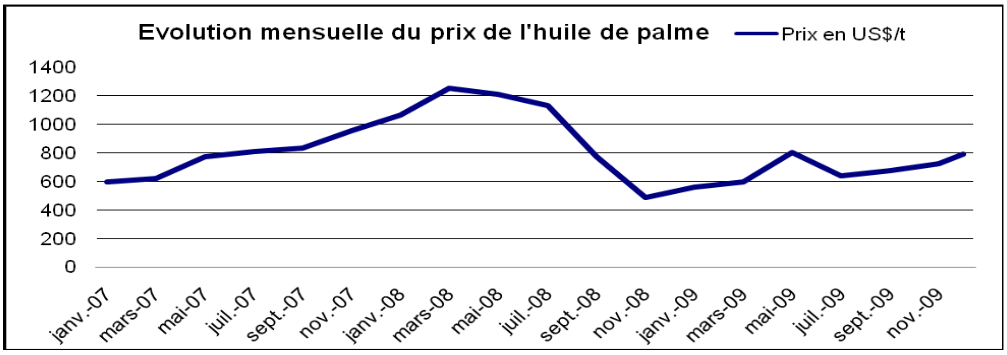
Figure 1 Average annual price of the main oils (US$/tonne)



Source: FAOSTAT.

The changes in palm oil prices since 2007 clearly illustrate the surge in demand for commodities, then the sudden downturn in markets in the second half of 2008. Despite the world economic crisis, demand remained high during 2009, which helped the market to recover.

Figure 2 Monthly evolution of the palm oil price (US$/tonne)



Source: FAOSTAT.

2.2 European market trends

The Community system allows all raw and unprocessed oilseeds to enter the EU duty-free, irrespective of their origin. Therefore ACP countries do not benefit from any trade preferences for these products.

The EU is a net importer of all oilseed products (raw and processed). This dependency on imports has increased during the 2000s due to various biofuel-support measures. Rapeseed oil, which was previously exported (in particular to the ACP countries), has found a profitable outlet within the EU, and the EU has even become an importer to meet biofuel demand.

Table 5 Production, consumption and trade balance of oleaginous crops in the EU, 2009 (millions of tonnes)

Crop	Product	Production	Consumption	Trade balance
Soybean*	Seeds	0.6	13	–12.4
	Oilcake	11	32	–21
	Oil	2	2.8	–0.8
Rape	Seeds	18.8	21	–3.3
	Oilcake	11.6	11.6	0
	Oil	8.4	8.6	–0.4
Sunflower	Seeds	6.9	6.9	–0.6
	Oilcake	3.2	5.2	–2
	Oil	2.3	3.2	–1
Palm/palm kernel	Oil		4.9	–4.9

*Soybean cake is produced from imported soybean.
Sources: COMEXT, USDA.

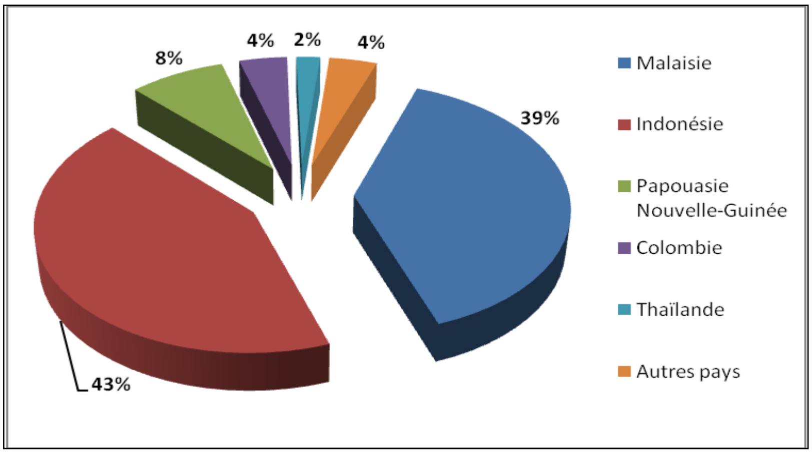
A new trend has emerged in recent years in Latin American countries producing soybean. They are increasingly producing and exporting not only oils, but also meat, mainly poultry at present, taking advantage of the availability and low cost of soybean as a food for animals. These exports of oil and meat cuts and processed meat are, for the countries concerned, a more important source of added value than with oilseed and oilcake exports. There is therefore a risk that the production of meat and oils will be gradually relocated to the most competitive countries in Latin America, which will satisfy the increasing demand for these products from other developing countries. The consequences are already being felt in stock-farming regions, with the recent closure of poultry-slaughtering plants in Brittany because their production costs could not compete with those of Brazil.

2.3 Situation of ACP countries on the European market

While the EU's imports of oil products doubled between 2000 and 2009, increasing from 4.5 to 9 million tonnes, those from ACP countries remained stable at around 500,000 tonnes.

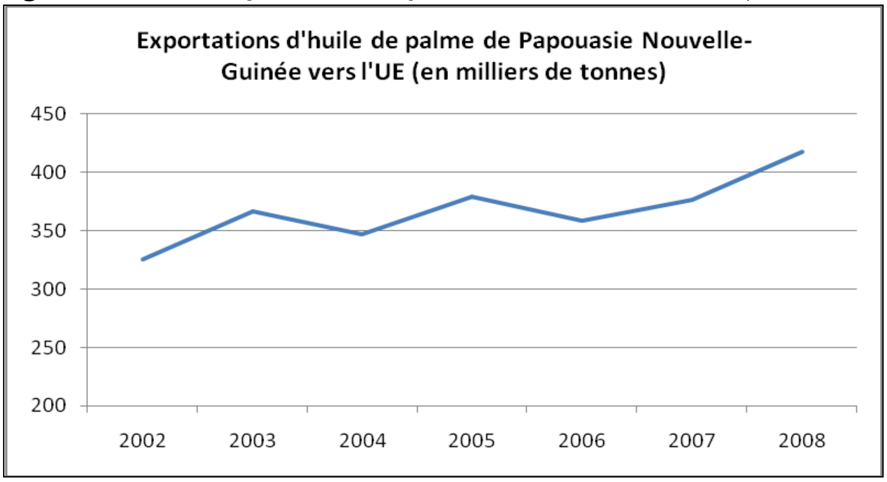
In 2009, the EU imported 4.9 million tonnes of palm oil, up by 10% on the previous year. Although 80% of these imports come from Indonesia and Malaysia, Papua New Guinea manages to satisfy almost 10% of this demand. Imports from the ACP countries have increased continuously in recent years. Papua New Guinea thus exports almost all its palm oil production to Europe, and is therefore the leading ACP supplier of oil products to the EU. Between 2000 and 2008, its share increased from 48 to 80% of total supplies. With less than 20,000 tonnes of (groundnut) oil exported in 2008, Senegal comes behind Côte d'Ivoire, which exported more than 30,000 tonnes of palm oil to the EU in 2008. Several Pacific islands, in particular the Solomon Islands, supply coconut oil, palm oil and palm kernel.

Figure 3 Share of European imports of palm oil (2008)



Source: COMEXT (concerns only fruit pulp-based palm oil imports).

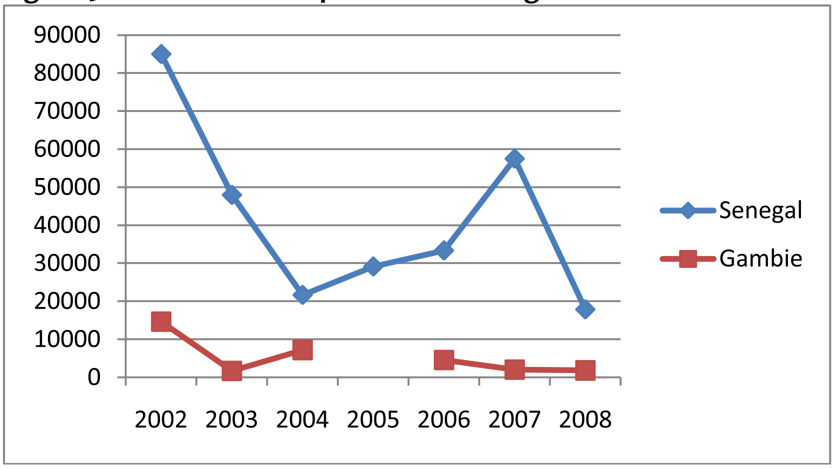
Figure 4 Palm oil export from Papua New Guinea to the EU (000 tonnes)



Source: COMEXT (SH 1511).

On the other hand, imports of groundnut oil, which was for a long time one of the main agricultural products exported by Senegal (and Gambia), are losing ground, falling from 150,000 tonnes in 2000 to less than 20,000 tonnes in 2008. However, Senegal continues to have a dominant place in this trade, and accounts for almost 60% of the EU's imports (COMEXT data). In general, groundnut oil plays a very marginal role on international markets, mainly because of its high price in comparison with other oils (see Table 4).

Figure 5 Groundnut oil exports from Senegal and Gambia to the EU (tonnes)



Source: COMEXT (SH 1508).

2.4 Biofuels and the regional market: issues facing ACP countries

2.4.1 Biofuels in ACP countries

Biofuels are generally derived via two routes: from the oil-based sector (palm, rapeseed, jatropha and castor oil); and from the alcohol-based sector (sugar, wheat, corn, beet and sugar cane), which produces bioethanol. Only the first sector concerns us here.

The production of biodiesel is chiefly concentrated in Europe (Germany, France and Italy). World production capacity of biodiesel was estimated in 2008 at 16 billion litres, including 8.7 billion in Europe, which is small compared with the 65 billion litres of bioethanol produced in the world that year, the bulk of which was produced in the USA and Brazil (Biofuels Platform, 2009).

It is more difficult to assess the production of vegetable oil used directly as fuel, as its production and use are, above all, based on small-scale production units.

In order to combat the greenhouse effect, the EU has decided to increase quantities of biofuels consumed in Europe. European Directive 2003/30/EC provides that the proportion of biofuels in European fuel consumption should rise from 2% in 2005 to 10% in 2020. This will lead to increased demand for oilseeds, even if other technologies are available and can be used to produce oil, such as the pyrolysis of biomass. As the EU's production capacity is limited, it will have to turn increasingly to oil imports.

Because of protests against this target and the uncontrolled impact of imports, the European Parliament has decided to reduce the minimum incorporation threshold to 6% instead of 10% in 2020.

It is therefore tricky to predict how international demand for crops transformed into biofuels will evolve. Several aspects that are difficult to predict enter into the equation: the prices of oil and agricultural raw materials (which condition the relative cost of biofuels in comparison with oil-based fuels), and political support for the sector (which can substantially reduce the production costs of biofuels via tax breaks).

Nevertheless, investors continue to believe in the profitability of biofuels, as can be seen from the massive purchases of land to be used for that purpose.

Regarding palm oil, the dynamism of international markets over the past 20 years has benefited mainly producer countries in South-East Asia. Faced with the gradual stagnation of the expansion of plantations in that region, humid tropical Africa could become a new El Dorado for palm oil production. Major initiatives have already been launched by the sector's giants, with, for example, the partnership between two powerful Singapore-based industrial groups (Olam and Wilmar) and a Côte d'Ivoire holding company, Sifca, which has African interests in the rubber and palm oil sectors. This joint venture intends to invest massively in the production and transformation of palm oil in the Ivory Coast and neighbouring countries. In Liberia, the

Indonesian palm oil giant Golden Agri-Resources is planning to invest US$1.6 billion in oil palm plantations and refineries. There are numerous reports in the press on negotiations between major Asian and European industrial groups and the governments of various African countries (such as Liberia, the Congo, Cameroon and the Democratic Republic of the Congo) concerning massive investment in oil production.

Investors are also interested in jatropha, a plant which is resistant to semi-arid conditions and the oil of which is intended exclusively for non-food use. Competition between jatropha plantations and food production for access to the best agricultural land calls into question the relevance of developing the cultivation of jatropha in areas affected by chronic food insecurity (such as the Sahel).

Despite well known environmental and social risks relating to such plantations, the economic interests seem to be gaining the upper hand. In addition, a transition to industrial plantations would profoundly change the African palm oil landscape, previously dominated by small plantations inserted in the fabric of family-run mixed farms.

2.4.2 Promoting regional oil procurement

The common external tariff (CET) of the various regions that are negotiating Economic Partnership Agreements (EPAs) with the EU should therefore be sufficiently high to protect the oil production of ACP countries against cheap products from other developing countries. In West Africa, where the CET of the Economic Community of West African States (ECOWAS) is currently being finalised, it has been decided to create a fifth band so as to increase the maximum CET level to 35% at the level of the West African Economic and Monetary Union (WAEMU/UEMOA). In the UEMOA countries, imported oils are generally taxed at 10 or 20% depending on whether they are crude or refined oils. In the ECOWAS zone, a country such as Nigeria, a major producer of palm oil, prohibits palm oil imports. Products subject to this fifth band should be those considered as needing to be protected in order, in particular, to stimulate local production. Imported vegetable oils could fall within this category so as to promote the development of local oils to satisfy consumption needs at national and regional levels.

Discussions on the protection of local oils in the framework of customs-union processes and EPAs are linked to discussions at World Trade Organization (WTO) level on special products. It is once again a question of protecting products deemed to be strategic, for reasons of food security, combating poverty and rural development. Local oils in the ACP countries generally satisfy these criteria, and should quite logically be designated as special products by each of the ACP member countries of the WTO.

In the absence of support measures for existing oilseed sectors that are based mainly on family-run farms, there is a risk that the development of the production of oils in Africa for local consumption will be based on the development of large plantations supported by foreign investors.

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Rice: Trade issues for ACP countries

Contents

About this update

CTA's Executive brief *Rice: Trade issues for ACP countries*, was published in June 2008 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; examining the implications of recent developments for the ACP countries concerned.

3. Future issues and challenges.

The original executive brief (2008) is available on request from: agritrade-mail@cta.int.

1 Background and key issues in the rice sector

As with many other products falling under the Common Agricultural Policy, the European Union (EU) rice regime was traditionally based on a wholesale intervention price, in this case established for standard-quality paddy rice. Given the level at which the intervention price was established, which was substantially above world market prices, this required the maintenance of high levels of fixed import duties to maintain a balance on the EU market, extensive payments for the storage of rice, and provision of export refunds to allow the export of surplus rice.

As in other sectors, EU rice sector reform involved a shift from price support to direct aid payments to farmers. Initial reforms in 1995 had little effect on the overproduction of rice within the EU, vast quantities of which were simply being produced for intervention storage. As a consequence, EU intervention stocks continued to grow, peaking at 40% of annual EU rice consumption. Further reforms were therefore necessary. Proposals for reform in 2000 were shelved, however, and it was only following the introduction of the 'Everything but Arms' (EBA) regime, which established a timetable for the introduction of duty-free access for least-developed country (LDC) rice exports, that EU rice-producing member states bit the bullet of reform. The reforms tabled in 2003 involved:

- a reduction of the rice intervention price by 50%, bringing it down to €150/tonne and in line with world market prices by 2004/05;
- the incorporation of the rice sector into the single-payment scheme;
- the introduction of direct aid payments for rice farmers equivalent to 88% of the price reduction, involving an increase of direct aid payments to the equivalent of €177/ tonne;
- the reform of the intervention system with the establishment of a ceiling on purchases of 75,000 tonnes per annum;
- a modification of the EU import regime for cereals and rice.

These reforms saw market prices fall by between 21 and 31% below the peak pre-reform price levels. The reform of the rice regime initially saw prices offered for imports of rice from ACP countries decline by between 17.3 and 19.7% (see Annex 1). It also saw the EU expand tariff-rate quota (TRQ) access for major rice suppliers (see section 2.2.2.). This served to erode the margins of ACP/LDC tariff preferences in the rice sector. These two developments – erosion of the value of traditional trade preferences and erosion of the margins of tariff preferences relative to third-country suppliers – provide the background to the introduction on 1 October 2009 of full duty-free, quota-free access for LDC rice exports and the subsequent expiry of quantitative restrictions on ACP rice exports under the interim Economic Partnership Agreement (IEPA) arrangements.

In addition, by closing the gap between EU and world market prices, the reform process meant that, with the surge in global rice prices in 2007/08, EU market prices for rice began to follow world market price trends, thereby attaining the EU's long-term policy objective.

Turning to the ACP countries, it should be noted that rice production in most ACP countries is for local consumption or regional trade. Only two ACP countries have traditionally exported rice to the EU market: Guyana and Suriname. This trade took place on the basis of quota-restricted reduced-tariff access. This was a matter of complaint from the Caribbean exporters concerned, who consistently sought the removal of these quantitative restrictions. The effects of these restrictions were highlighted by the indirect trade with the EU which emerged through the Overseas Territories of the European Community (OCTs) (where minimal processing would take place to secure duty-free access), and which was subsequently restricted by the introduction of safeguard measures. This saw Guyana's rice exports to the EU fall dramatically to below half their peak levels, with exports via the OCTs falling from 90% to only 19% of total exports. While gradual concessions were granted, it was only in the context of the signing of the Caribbean–EU EPA that restrictive import-licensing arrangements for rice were eased and, after a transitional period during which expanded quota-restricted access was allowed, full duty-free, quota-free access to the EU market was introduced.

For LDCs, rice was one of three major commodities subject to transitional quota restrictions prior to the introduction of full duty-free, quota-free access from 1 October 2009 (quotas began at 2,517 tonnes in 2001/02 and expanded progressively to 6,696 tonnes in 2008/09). At the time of the launch of the EBA initiative, a number of African countries considered developing rice production for export to the EU, but the process of price reductions that followed on from the introduction of rice sector reforms led to the abandonment of any such plans. Current investments in rice production in Africa are thus largely for national and regional markets.

2 Latest development and implications for ACP countries

2.1 Global rice market trends

2.1.1 The rice price surge: its impact and causes

In 2008, global rice prices saw a dramatic increase. The Food and Agriculture Organization (FAO) rice-price index (100 for the base period 2002–04) rose to 137 in 2006 and 161 in 2007, then surged to 295 in 2008, when prices were more than double what they had been in 2006 and almost three times the base level (see Annex 2). This has had a dramatic effect on the underlying objective of EU rice sector reform, namely to close the gap between EU and world market prices. While, prior to the surge in global rice prices, EU market prices were between 140 and 190% above the EU intervention price, by mid-2008 they were 400–500% above the intervention price. These high EU prices saw EU production projected at around 11.5% higher than in the 2005/06 season.

Table 1 EU27: rice consumption, production, imports, ending stocks

	2005/06	2006/07	2007/08	2008/09	2009/10 (Nov)	Change (%)
Domestic consumption	2,651,000	2,911,000	3,185,000	2,970,000	3,100,000	+16.9
Annual change (%)		+9.8	+9.4	–6.8	+4.4	
Production	1,731,000	1,676,000	1,757,000	1,680,000	1,930,000	+11.5
Annual change (%)		–3.2	+4.8	–4.4	+14.9	
Imports	1,221,000	1,342,000	1,520,000	1,350,000	1,400,000	+14.7
Annual change (%)		+9.9	+13.2	–12.6	+3.7	
Exports	144,000	139,000	157,000	140,000	135,000	–6.25
Annual change (%)		–3.5	+13.0	–12.1	–3.7	
Ending stocks	1,181,000	1,138,000	1,126,000	1,020,000	1,115,000	–5.6
Annual change (%)		–3.7	–1.1	–10.4	+12.7	

USDA figures are slightly different from the figures given in the June 2009 EC analysis since they cover the EU27 countries and the EC analysis refers to EU25 countries for the years prior to the formal accession of Bulgaria and Romania.

Source: Extracted from USDA FAS 'Grain world markets and trade', *Circular series* FG 01-10, January 2010 www.fas.usda.gov/grain/circular/2010/01-10/grainfull01-10.pdf

An analysis of the causes of the 2008 surge in the rice price by the Centre for Global Development attributed the price surge to policy developments in India, Vietnam and the Philippines, rather than the underlying supply-and-demand situation. It noted that exceptionally high prices occurred against a background of 'record world production and not especially tight stock levels'. It attributed price volatility to a combination of:

- export restrictions by India and Vietnam, which had previously accounted for 34% of exports in 2007;
- outright bans on exports in Cambodia, Egypt and other countries;
- rising oil prices;

- a weaker dollar;
- ill-considered public-procurement policies in the Philippines;
- self-fulfilling speculation on rising prices.

Of these measures, the critical trigger was held to be the Indian export restrictions in a context where India accounted for around one-sixth of the non-basmati rice trade.

A key consequence of the price surge is that governments that had run down physical stocks and relied on market-based food-security measures found themselves in considerable difficulties. As these governments once more sought to build up stocks in the face of rising prices, this further fuelled the price surge. The analysis concluded that the rice price surge 'was the result of political considerations' and was thus driven by policy decisions and not market fundamentals. According to this analysis, 'natural causes, such as the weather, the strong dollar, high oil prices etc. played only a supporting role' (Table 2, compiled from USDA statistics, broadly supports this analysis).

Table 2 World: rice consumption, production, imports, ending stocks (tonnes)

	2005/06	2006/07	2007/08	2008/09	2009/10 (Nov.)
Domestic consumption	416,000,000	421,700,000	428,500,000	434,600,000	436,500,000
Annual change (%)	–	+1.37	+1.61	1.42	+0.44
Production	418,600,000	420,800,000	433,900,000	446,600,000	434,700,000
Annual change (%)	–	+0.53	+3.11	+2.93	–2.64
Exports	29,100,000	31,900,000	29,600,000	28,800,000	30,800,000
Annual change (%)	–	+9.6	–7.2	–2.7	+6.9
Ending stocks	76,000,000	75,100,000	80,500,000	92,400,000	90,700,000
Annual change (%)	–	–1.2	+7.2	+14.8	–1.8
Stocks to consumption ratio (%)	18.27	17.81	18.79	21.26	20.78

Source: USDA FAS 'Grain world markets and trade', *Circular Series* FG 01-10, January 2010
www.fas.usda.gov/grain/circular/2010/01-10/grainfull01-10.pdf

The EC concurs with this view, noting in its own analysis that the 2007/08 surge in the price of rice occurred despite world rice production exceeding consumption in recent years. The EC attributed the price surge to 'a series of government interventions' in major exporting countries, which limited exports in an effort to reduce domestic price pressures.

2.1.2 Current rice-market developments

The high prices experienced in the 2007/08 period led to a strong expansion in world rice cultivation. According to the FAO's *Rice Market Monitor*, global rice production in 2008 was 4% up on 2007 (USDA gives slightly different figures based on variable seasonality, but of the same order of magnitude). This production expansion saw a downward adjustment in prices, with the FAO rice-price index falling to 237 by November 2009 (from its peak of 295 – see Annex 2 for details). This still left prices 47% above the price levels prevailing in 2007. With unfavourable climatic conditions in northern-hemisphere Asian countries, the expected further expansion of rice production in 2009 did not materialise, with the FAO suggesting that global paddy-rice production in 2009 would be 3% less than in 2008. In the third quarter of 2009, this saw rice prices beginning to creep back up in the face of increased import demand from India and the Philippines.

World rice-market prices thus remain 'still above historical levels'. This has important implications for the EU objectives of transforming the EU rice reference price into a 'safety net' price and ensuring that in future EU prices are guided by world market prices. This, in turn, has implications for the attractiveness of the EU market relative to regional and world rice markets, with there being little commercial benefit from targeting the EU market under preferential trade arrangements when EU prices are following the world market price trends. In this context, exchange-rate issues (such as the strength of the euro and pound relative to the US dollar) and shipping-freight rates are likely to play an important role in determining the relative attractiveness of EU and regional/world markets.

This being noted, a certain 'stickiness' with regard to price reductions is apparent on the EU market, with EU market prices tending to decline later and more slowly than world market prices. In this context, the EU market could well provide greater surety of income over a given period. This could become an important consideration as ACP exporters begin to build up their marketing capacities with a view to maximising the share of revenue which they obtain from exports in a context of more 'market-based' systems of price formation in the rice sector.

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

2.1.3 Future prospects for rice prices

According to a joint FAO/Organisation for Economic Co-operation and Development (OECD) assessment of future prospects for global rice markets, in the coming 10 years, world rice consumption is projected to 'increase steadily over the baseline (by 1% annually), faster than production growth (+0.8% annually)'. Opinions differ, however, between the FAO/OECD assessment and the Food and Agricultural Policy Research Institute (FAPRI) assessment, over the point at which consumption will outstrip production at the global level. Consumption growth is driven solely by population growth as per capita consumption in major consuming countries is declining slightly as diets are diversified.

The rice trade is expected 'to grow considerably' (annually by 2.1% according to FAPRI; 2.2% according to OECD/FAO estimates), as domestic production in major importing countries is unable to meet growth in consumption.

Export prices of rice are expected 'to weaken considerably in 2009/10 and 2010/11 as more exportable supplies become available'. However 'from 2011/12, the export prices will start increasing again, driven by strong consumption and trade', to reach US$526/tonne (FAPRI) or US$412/tonne (OECD/FAO) by 2018/19. 'Average price rises over the baseline will be between 50%–60% higher compared to the average of the past decade'. This is good news for the EU, given the aim of turning the intervention price for rice into a 'safety net' price, with market prices being determined on the basis of what can be termed 'regulated market prices'. The reality is that, in a context where domestic EU production accounts for approximately two-thirds of all rice consumed in the EU, the EC has no intention of wholly liberalising the EU rice market (see section 2.2.2.), even in a context of extensive direct aid payments to EU rice farmers.

Against the background of this EU position and the policy basis of the 2007/08 surge in the rice price, analysts of future prospects for global rice markets have concluded that government interventions are expected to play an increasingly important role in market developments.

2.2 Developments in the EU and ACP EU rice sectors

2.2.1. Developments in the EU rice market after reform

The nature of the EU's managed trade regime for rice is set out in the EC's evaluation of developments in the EU rice sector following reform, published in June 2009. This document highlighted the relatively high applied EU most-favoured nation (MFN) tariffs for various types of rice, the quantity-based triggers to determine the rate of duty applied for certain types of rice, and the complex network of TRQs established for the trade in rice (see Annex 5). These arrangements allow variable tariff rates to be applied depending on the quantity of rice imported in the preceding 6-month period (based on the licences issued). These arrangements (with TRQs for India, Pakistan, the USA and Thailand, among others) offer greater protection to EU markets when import volumes increase, and reduced levels of protection when import volumes decrease.

According to the EC's June 2009 analysis, these new trade arrangements, introduced following the reform of the EU rice regime, had the following effects on the EU market balance:

- imports of basmati husked rice increased by 36% within four marketing years;
- imports of husked rice increased by 38.3%, but with 37% of this being accounted for by enlargement to include Romania and Bulgaria in the EU;
- imports of semi-milled and milled rice 'gradually increased until 2007/08, when there was an abrupt 50% increase (+150,000 tonnes) on the previous year', which resulted in an increase in the duty charged;
- 'imports of broken rice increased from 185,000 tonnes in 2005/06 to a stable 240,000 tonnes in 2006/07 and 2007/08', an increase of 30%, with over 55% of these imports being at 'reduced or zero duty under preferential agreements and TRQs';
- imports of small packages of milled and semi-milled rice fell by 7% from 35,812 to 332,275 tonnes between 2006/07 and 2007/08.

The analysis noted that, following the introduction of the 2005 EU rice reforms, EU25 rice production initially fell from 1.68 million tonnes in 2004/05 to 1.59 million tonnes in 2006/07. However, in 2007/08, rice production in the EU27 recovered to 1.68 million tonnes.

In terms of the market balance in the EU rice sector, 'intervention stocks of paddy rice, which stood at 600,000 tonnes at the beginning of 2004/05, had been totally disposed of by 2007/08'. Overall, the Commission reported that the EU rice industry 'has maintained its level and has not been adversely affected by the different MFN and preferential trade agreements'.

Indeed, 'the substantial increase in milled and semi-milled rice imports in 2007/08 appears to have had no negative impact on the industry'. However, 'in relative terms imports have gained in importance', with total imports of rice, in milled equivalent, increasing from '715,000 tonnes in 2004/05 to 1,077,000 tonnes in 2007/08', with this partly being partly due to EU enlargement. These imports have largely occurred in response to increased rice consumption in the EU and so 'the agreements have had no adverse effect on the EU rice milling industry'.

In terms of the price effects, since the 2003 reform 'EU paddy prices have been well above the intervention price […] and have, globally, followed an upward trend. During the 2004/05 marketing year, prices were relatively stable within a range of €160/tonne to €240/tonne, depending on the origin and type of rice'. However, subsequently there was considerable price variation, with the largest increase in 2008 when, following world market price trends, EU prices for Italian indica and japonica rice reached €480/tonne, 'more than three times the intervention level'.

We thus see that EU rice prices are increasingly following global price trends, even at the much-reduced price levels currently prevailing, which are nevertheless around 40% above historical global rice price levels.

Significantly, the EC assessment concluded that the trade agreements set in place served their purpose of largely insulating EU producers from the effects of price declines, by allowing tariffs to be raised in response to import surges. As a consequence, variations in EU rice production are largely 'related to climatic conditions and producer choices rather than to import flows'. Significantly, this analysis of developments in the EU rice market following reform made no reference to any noticeable impact on imports of rice from the ACP, despite the entry into force of full duty-free, quota-free access in the rice sector under the EPA and EBA arrangements.

2.2.2 Trends in ACP rice production and trade

Figures compiled by the USDA indicate that rice production in sub-Saharan Africa is expanding at a faster rate than consumption, particular following the global price surge (which constrained imports and consumption growth; see Annex 3). This has slightly reduced the ratio of imports to consumption, with three-fifths of rice consumed in Africa now being produced domestically within Africa.

According to the FAO, the outlook is seen as generally positive in Africa. Among the ACP countries where rice production is increasing are Ghana, Madagascar, Mali, Nigeria, Uganda and Zambia. This is expected to be offset by production declines in Burkina Faso, Chad, Guinea, Liberia, Niger, Senegal, Sierra Leone and Tanzania. Most recently, certain rice-producing regions in East Africa have been affected by drought, with an impact on the overall continental picture.

Table 3 Sub-Saharan African rice sector: ratio of imports to consumption

	2005/06	2006/07	2007/08	2008/09	2009/10 (Nov)
Ratio of imports to consumption (%)	45.35	46.11	41.80	42.85	40.94

Source: Extracted from data contained in 'Grain world markets and trade', *Circular Series* FG 01-10, USDA FAS, January 2010
www.fas.usda.gov/grain/circular/2010/01-10/grainfull01-10.pdf

In terms of future trends, according to the FAO, the expansion of domestic rice production in Africa is expected to be insufficient to meet expanding consumer demand for rice. This needs to be seen in a context where declining per capita consumption and increased yield in the main exporting countries will be generating 'increased exportable surpluses'. Thus the FAO is expecting rice prices to fall back from the historically high levels, making it easier for African countries to meet expanding demand.

For the Caribbean (which includes non-ACP countries), following the global surge in the rice price, production has shown strong growth (+36.9% projected for 2009/10 compared with 2005/06), with this exceeding the rate of growth in domestic rice consumption (+11%). However, a slowing down in the rate of consumption growth was noticeable in the face of the dramatic increase in global rice prices, with a dramatic decline in rice imports taking place (see Annex 4). Here again, this has slightly reduced the ratio of imports to consumption, although more than 50% of all rice consumed in the Caribbean is still imported.

Table 4 Caribbean rice sector: ratio of imports to consumption

	2005/06	2006/07	2007/08	2008/09	2009/10 (Nov)
Ratio of imports to consumption (%)	64.15	52.76	55.18	47.21	52.29

Source: Extracted from data contained in 'Grain world markets and trade', *Circular Series* FG 01-10, USDA FAS, January 2010
www.fas.usda.gov/grain/circular/2010/01-10/grainfull01-10.pdf

In terms of trends at country level, the FAO reports that erratic climatic conditions and lower price expectations have depressed production in Guyana.

While the EU is an exporter of rice, and its exports increased in response to the high global prices, it tends to export higher-quality rice, which is not imported in significant quantities into ACP countries. EU rice exports are not therefore seen to pose any threat to ACP rice sector development.

2.2.3 ACP rice exports and duty-free, quota-free access

Since the 2001/02 season, the two traditional ACP exporters of rice to the EU – Suriname and Guyana – were joined by LDC exporters. Under this arrangement, quotas were increased annually by 15% (from a starting point of 2,517 tonnes) and MFN duties reduced, by 20% from September 2006, 50% from September 2007, 80% from September 2008, and 100% from 1 September 2009. With the entry into force of the Caribbean Forum of ACP States (CARIFORUM)–EU EPA, the quotas placed on CARIFORUM rice exports were expanded on a transitional basis (to 187,000 tonnes in 2008 and 250,000 tonnes in 2009), prior to the introduction of full duty-free, quota-free access from 1 October 2009. Figures provided in the EC's June 2009 analysis show this resulting in the entry of the Dominican Republic into the EU market as a supplier of rice. Indeed, the Dominican Republic immediately overtook Suriname as a supplier of rice to the EU market. The expansion in ACP rice exports that has taken place is, however, lower than the overall expansion of EU imports of husked rice, and as a consequence the share of ACP suppliers in total EU imports is falling.

With the phasing-out of quantitative restrictions, CARIFORUM, LDC exporters and all ACP countries whose governments have initialled or signed IEPAs now enjoy full duty-free, quota-free access to the EU market (from 1 January 2010). However, it is unclear what impact this will have on exports to the EU so long as world market prices remain high. It appears that, with high world market prices and EU prices increasingly following world market prices trends, there are unlikely to be any significant price advantages in exporting undifferentiated rice to the EU as opposed to other regional or world markets. However, considerable scope appears to exist for the development of quality-differentiated rice exports to the EU, given the projected expansion of 'luxury-purchase' components of the EU market once the economic recession comes to an end and previous consumption trends are resumed.

Table 5 ACP husked rice exports to the EU (tonnes)

Country/region	2004/05	2005/06	2006/07	2007/08
Guyana	109,068	80,210	117,597	98,679
Suriname	21,694	14,437	13,642	19,699
Dominican Republic				25,038
CARIFORUM sub total	*130,762*	*94,647*	*131,239*	*143,416*
EBA export quotas	3,829	4,403	5,063	5,823
Total ACP	*134,591*	*99,050*	*136,302*	*149,239*
ACP % total EU imports	19.54	14.19	15.90	15.08
Total EU Imports	**688,689**	**698,177**	**857,022**	**989,449**

Source: Extracted from tables in 'Complementary data to the report from the Commission to the Council on the operation of the agreement concluded in the framework of the GATT Article XXVIII procedure in the rice sector, CEC, Brussels, 30 June 2009, http://ec.europa.eu/agriculture/markets/rice/publi/com2009_314_workdoc_en.pdf

3 Future issues and challenges in the rice sector

3.1 Future rice trade with the EU

The success the EU has enjoyed in terms of maintaining a market balance in the rice sector has meant that EU rice market prices have been sustained at relatively high levels to the benefit of traditional ACP rice exporters. However, with EU prices increasingly following world market price trends, in future price premiums will be secured largely by shifting over to the production of 'quality' differentiated rice, within the framework of marketing arrangements which allow ACP producers to secure a greater share of the benefits of price premiums paid by European consumers for quality-differentiated products.

3.2 Policy implications of rice sector developments

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

The experience in the EU rice sector highlights the benefits that can be gained from establishing a managed trade regime when a sector is undergoing restructuring or rapid development. This enabled the EU successfully to manage the process of change, in the context of both the implementation of reform measures and the expansion of market access for third countries. This could potentially offer important lessons for ACP governments currently successfully stimulating an expansion of rice production under favourable market conditions, in terms of how to manage rice trade relations in a context of price instability and a general downward trend from previous peaks levels.

Given the scale of growth in rice consumption in Africa, the question arises as to what policies need to be set in place to stimulate more rapid expansion of rice production in sub-Saharan Africa. While a New Partnership for Africa's Development (NEPAD) initiative has already been launched to support the expansion of rice production, consideration should also be given to what complementary trade regimes are required to support these efforts to expand production, given the increased instability in prices on world rice markets. In this context, the types of trade-policy tools used by the EU to insulate EU producers from the effects of price declines appear to warrant serious review.

However, the administrative capacity to manage such a complex regime transparently should not be underestimated, and may well be inappropriate in the context of many ACP countries currently developing rice production.

In addition, analyses of the causes of the huge surge in the rice price have highlighted the dangers of interventionist government policies in major rice-consuming countries. These policies can drive price trends, which are quite out of line with underlying market fundamentals. This highlights the dangers of relying exclusively on the market to ensure food security, if all global players are not following the same rules of the game. This use of trade-policy tools to ensure food security or maintain a market balance not only occurs in an Asian context, but is also an important characteristic of the EU rice regime, where an explicit aim of the current use of trade-policy tools (TRQs and variable tariffs) is to insulate EU producers from the effects of price declines by allowing tariffs to be raised in response to import surges.

This is an important point for ACP policy-makers to note in the context of IEPA negotiations, where the EC is trying to promote the systematic abandonment of the use of a range of trade-policy tools that allow governments to insulate their producers and consumers from global price instability. The EU has open to it a wider range of financial policy tools and partial trade-policy tools than ACP governments, when it comes to managing agricultural markets. The use of these EU tools has impacts on production and investment decisions that, in turn, carry trade implications that have an impact on the ACP–EU agricultural trade relationship. This needs to be borne in mind in establishing the future trade framework for agricultural trade between the ACP and the EU.

Annexes

Annex 1 Average price per tonne of rice received by Guyana and Suriname

	Guyana		Suriname	
	Tonnage	Unit value per tonne (€)	Tonnage	Unit value per tonne (€)
2000	90,466	318.5	37,786	354.6
2001	99,246	318.6	27,152	341.2
2002	93,083	298.0	40,789	302.8
2003	101,123	258.9	21,194	265.5
2004	131,133	241.4	17,366	257.0
2005	96,613	263.3	25,648	264.3
2006	90,888	270.1	14,759	298.9
2007	133,402	263.3	15,735	284.8
Change 00–07 (%)		–17.3		–19.7

Source: DG Trade-C-2 (BS) 'Agricultural situation in the European Union'.

Annex 2 FAO rice-price indices (2002–04 = 100)

Date	All	Indica high quality	Indica low quality	Japonica	Aromatic
2004	118	120	120	117	110
2005	125	124	128	127	108
2006	137	135	129	153	117
2007	161	156	159	168	157
2008	295	296	289	315	251
2008 Nov	269	239	188	391	237
2008 Dec	265	237	178	388	237
2009 Jan	270	240	192	389	239
2009 Feb	270	240	200	388	218
2009 Mar	269	238	201	388	214
2009 Apr	271	232	204	394	218
2009 May	251	224	195	341	236
2009 Jun	252	225	189	344	243
2009 Jul	251	227	189	338	247
2009 Aug	251	223	190	339	253
2009 Sep	232	221	185	288	234
2009 Oct	228	213	182	289	228
2009 Nov	237	227	207	281	227
2008 Jan–Nov	298	302	299	308	252
2009 Jan–Nov	253	228	194	344	232

Source: FAO, www.fao.org/ES/ESC/en/15/70/highlight_71.html

Annex 3 Sub-Saharan Africa: rice consumption, production, imports, ending stocks

	2005/06	2006/07	2007/08	2008/09	2009/10 (Nov)	Change (%)
Domestic consumption	16,422,000	16,924,000	17,377,000	17,598,000	18,285,000	+11.34
Annual change (%)		+3.1	+2.7	+1.3	+3.9	
Production	8,665,000	9,235,000	9,401,000	10,291,000	10,840,000	+25,10
Annual change (%)		+6.6	+1.8	+9.5	+5.3	
Imports	7,447,000	7,804,000	7,264,000	7,540,000	7,485,000	+0.51
Annual change (%)		+4.8	–7	+3.8	–0.7	
Ending stocks	1,330,000	1,021,000	1,341,000	1,105,000	1,061,000	–20.3
Annual change (%)		–23.2	+31.3	–17.6	–4.0	

Source: USDA FAS 'Grain world markets and trade', *Circular Series* FG 01-10, January 2010
www.fas.usda.gov/grain/circular/2010/01-10/grainfull01-10.pdf

Annex 4 Caribbean: rice consumption, production, imports, ending stocks

	2005/06	2006/07	2007/08	2008/09	2009/10 (Nov)	Change (%)
Domestic consumption	1,732,000	1,829,000	1,863,000	1,737,000	1,922,000	+11
Annual change (%)		+5.6	+1.9	–6.8	+10.7	
Production	685,000	798,000	796,000	882,000	938,000	+36.9
Annual change (%)		+16.5	–0.25	+10.8	+6.3	
Imports	1,111,000	965,000	1,028,000	820,000	1,005,000	–9.5
Annual change (%)		–13.1	+6.5	–20.2	+22.6	
Ending stocks	225,000	178,000	134,000	109,000	106,000	–52.9
Annual change (%)		–20.9	–24.7	–18.7	–2.75	

Source: USDA FAS 'Grain world markets and trade', *Circular Series* FG 01-10, January 2010
www.fas.usda.gov/grain/circular/2010/01-10/grainfull01-10.pdf

Annex 5 Summary of EU MFN rice import duties

Type of rice	Bound duty (€/tonne)	Applied duty (€/tonne)
Paddy	211	211
Husked	65	30–42.5–65*
Wholly milled and semi-milled	175	145–175†
Broken	128	65
Husked basmati		0‡

Source: European Commission.
*Duties for husked rice may be modified twice a year, at the beginning and half-way through the marketing year, depending on the quantities imported during the previous half-year (based on licences issued) for which reference levels are specified.
†Duties for milled and semi-milled rice may also be adjusted twice a year, depending on the quantities imported during the previous half-year (based on licences issued) for which reference levels are specified.
‡Applicable since September 2004 for nine varieties of husked basmati rice from India and Pakistan, with no quantitative limits applied.

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Executive brief: Update



Sugar: Trade issues for ACP countries

Contents

About this update

CTA's *Executive brief on the* sugar sector was published in January 2009 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in March 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments: reviewing developments that have taken place since the publication of the original executive brief;

3. Implications for ACP countries: examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2009) is available on request from: agritrade-mail@cta.int.

1 Background and key issues in the sugar sector

African, Caribbean and Pacific (ACP) access to the European Union (EU) sugar market traditionally took place under the sugar protocol. This was supplemented over the years by the special preferential sugar arrangement and, from 2002, quota-restricted access under the 'Everything but Arms' (EBA) initiative. These arrangements provided not only duty-free access to the EU market, but also a guaranteed price and country-specific export quotas. However, these arrangements also gave traditional EU raw sugar cane refiners preferential access to licences to import ACP sugar. Thus, while there were no formal barriers to ACP exporters delivering a range of sugar products, in reality the role of traditional EU refiners in the import process meant that non-raw sugar exports were the exception.

EU sugar sector reforms were intended to close the gap between EU and world market prices (by shifting from a system of price support to direct aid payments to farmers). The aim was to establish a reference price that provided a 'safety net' but that did not determine market prices on a day-to-day basis. The sugar protocol arrangement was seen by the EC as being incompatible with this new, reformed sugar regime, as with price guarantees having been removed for EU farmers, they could scarcely be maintained for ACP exporters. In this context, on 1 October 2007 the EU formally announced its renunciation of the sugar protocol, providing the obligatory 2 years' notice before its formal termination. This was accompanied by:

- the ongoing phased implementation of reductions in the EU reference prices and the corresponding guaranteed price for ACP sugar, totalling 36% over 4 years;
- the progressive introduction, in the context of the interim or full European Partnership Agreements [(I)EPAs] and the full implementation of the EBA initiative, of full duty-free, quota-free access for ACP sugar exports to the EU. The only restriction on this duty-free, quota-free access was a special safeguard mechanism setting a ceiling on total ACP/least-developed country (LDC) exports of 3.5 million tonnes of white sugar equivalent. (The ceilings for non-LDCs were 1.38 million tonnes in 2009/10, 1.45 million tonnes in 2010/11, and 1.6 million tonnes per season from the 2011/2012 season up to and including the 2015/16 season.)

The implementation of these measures also saw the opening up of access to import licences, although traditional refiners still retain priority access to import licences for 3 months, up to the 2.4 million tonnes set out in the 'traditional supply needs' of these refiners.

Taken together, these changes effectively transformed the long-standing basis for ACP exports of sugar to the EU market by:

- phasing out the guaranteed price that EU importers were obliged to pay to ACP sugar exporters, and replacing it with an obligation on importers to pay not less than 90% of the reference price up to October 2012;
- abolishing the supply obligations and national sugar export quotas, and replacing them with full duty-free, quota-free access opportunities;
- increasing the scope for exporters to find new routes to evolving EU markets that are less dependent on the import preference of traditional refiners, thereby increasing the possibilities for the export of more value-added sugars.

ACP sugar exporters from countries that are LDCs, or have initialled or signed (I)EPAs, now have full duty-free, quota-free access to the EU market, but at guaranteed prices that are currently substantially below world market prices.

Table 1 Evolution of ACP price guarantees for raw sugar, 2005–13

	2005/06	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Price (€/tonne)	523.70	496.80	448.80	Not less than 90% of the EU reference price	Not less than 90% of the EU reference price	Not less than 90% of the EU reference price	Market-related prices

Source: collated from European Commission statements.

The 2005 sugar sector reforms involved moving away from price support and towards direct aid to EU farmers, and the establishment of incentives for the renunciation of national sugar production quotas. The measures agreed by the EU member states to bring this about included:

- a 36% reduction in the sugar reference price, phased in over 4 years;
- establishment of decoupled direct aid payments equivalent to 64.2% of the price cut, with additional coupled payments equivalent to 30% of the price cut on a transitional 5-year basis, plus possible national payments for countries giving up more than half of their production quota;
- a 'voluntary' restructuring scheme for sugar-, isoglucose- and inulin-processing factories, with declining payments (depending on the year of entry into the scheme), aimed at eliminating 6 million tonnes of production quota (with the prospect of compulsory quota cuts if the necessary reductions were not achieved);
- financing of restructuring through a special levy on remaining quota-holders;
- a special scheme for sugar beet producers affected by factory closures;
- a 'diversification fund' for member states giving the highest quotas;
- merging of the 'A' and 'B' production quotas and opening up of possibilities for countries to buy additional production quotas;
- provision for the use of non-quota sugar by the domestic chemical and pharmaceutical industries;
- phasing out of intervention buying over 4 years;
- opening up of import-licensing arrangements after a 4-year transitional period;
- maintenance of most-favoured nation import duties and associated import-licensing arrangements;
- maintenance of export refunds for sugar within World Trade Organization (WTO) limits (the EU is allowed to export 1,273,500 tonnes of sugar supported by €499.1 million in financial support, but is no longer able to export 'C' quota sugar or the amount equivalent to 'ACP and Indian imports into the EU under preferential arrangements') and export-licensing arrangements.

After modification of the original reform measures, the EC succeeded in reducing the volume of EU in-quota sugar production by 5.8 million tonnes of sugar, isoglucose and inulin syrup quota (5.23 million tonnes of sugar). The process of reform has been greatly facilitated by the exceptionally high world market sugar prices, which emerged in 2009. This has supported a rapid return to profitability for the restructured EU sugar sector. Nevertheless, in the medium to long term, if and when there is return to more normal world market prices, the EC will still face the challenge of managing the EU sugar market in order to maintain a balance of supply and demand.

In this context, the maintenance of high levels of tariff protection makes sugar a controversial issue in the WTO Doha Round negotiations, with the final outcome of a deal on sugar likely to have implications for the trajectory of sugar sector reform in 2013. As the EC remains committed in the long term to the sustainable reduction and, where possible, elimination of the gap between EU and world market sugar prices, it may well be necessary to introduce a further round of sugar sector reforms in 2013, possibly involving the introduction of further cuts in the reference price and the abolition of quota restrictions on domestic EU sugar production. The latter move would be consistent with the EU's long-term aim of concentrating sugar production in those areas of the EU most suited to sugar production.

2 Latest developments

2.1 Progress in EU sugar sector reform

By the end of 2009, the sugar sector reforms agreed in 2005 had been fully implemented. These reforms included:

- the incorporation of sugar into the farm single payment scheme;
- a 36% reduction in the reference price for sugar;
- voluntary renunciation by sugar milling companies of 5.8 million tonnes of nationally allocated sugar, isoglucose and inulin syrup quota (5.23 million tonnes of sugar), following modification of the initial incentive package for beet millers and beet farmers.

The reforms saw the end of sugar production in five EU member states, and major production-quota reductions of between 44.6 and 74% of nationally allocated quotas in a further six EU member states. All the other sugar-producing EU member states also contributed to the process of quota reduction, giving up between 4.1 and 24% of nationally allocated quotas. As a consequence, EU sugar production is concentrated in the seven member states with the highest sugar yields, with these countries accounting for 70% of EU sugar production. The exit of the least competitive producers from the sector has improved the average competitiveness of the EU sugar sector, at the level of both beet production and beet processing. It has also seen beet refiners extend their processing of imported raw cane sugar. These trends are wholly consistent with the basic objective of the EU Common Agricultural Policy (CAP) reform process: that of shifting sugar production to the areas of the EU most suited to its production.

While production quotas were reduced in all EU member states, this did not always result in an actual reduction in the volume of sugar beet harvested and sucrose extracted. In June 2009, Reuters reported that sugar production in Germany, the second-largest national quota-holder in the EU, was 28.6% above the post-reform quota, and exceeded the pre-reform quota level. Biofuel production was the main outlet for this out-of-quota production in Germany. In this context, the EU's biofuel policy will clearly play a role in the future of the EU sugar beet sector.

While the sugar reference price was reduced by 36%, the 'exceptional market conditions' that prevailed in 2009/10 saw the world market price of sugar reach record price levels (up to 30 US cents/lb), which were some 29% above the EU reference price. For the first time since the 1970s, world market sugar prices were not only substantially above the reference price, but also 'well above the market price for EU quota sugar'. This has created a situation where, at least on a temporary basis, the EU reference price is truly a 'safety net' price and has no influence on price formation in the EU sugar sector. Under these exceptional market conditions, EU sugar prices have been determined largely by the world market price of sugar. This allowed the EC to table a regulation on 27 January 2010 for 'the export of an additional 500,000 tonnes of out-of-quota sugar in the 2009/10 marketing year' (up to 31 July 2010), without in its view violating its WTO obligations (since, the EC argues, at current world market prices EU companies can profitably export without any need for cross-subsidisation). It was argued by the EC and the EU beet industry that this measure 'can contribute to easing the tight demand situation on the world market', to the benefit of consumers in poor countries. It should be noted, however, that given the tight corporate control of sugar markets, consumers tend to be the last to benefit from changes in sugar prices. The EC also recognises that 'the present market situation for sugar is very unlikely to occur again in the future'.

As a consequence, the EC is committed to keeping the situation under constant review. While high world market prices have facilitated the EU reform process, it is recognised that the situation is likely to change as global production responds to high global sugar prices. Against this background, the EC remains committed to a managed sugar trade regime, with the success of market management measures being an important determinant of whether preventive withdrawals of production quotas are necessary, and indeed whether reforms including further reductions in the sugar reference price will be required as part of the 2013 round of CAP reforms.

2.2 Available EU market management tools

The EC currently has three basic market management tools available, apart from the production quota system. These are export refunds, the inward processing regime, and the management of tariff-rate quota (TRQ)-regulated imports. In terms of export refunds, extensive use is made of this tool within the WTO constraints. The EC's latest notification to the WTO of its use of export refunds revealed that, while the use of export refunds has declined in other sectors, in the sugar sector their use has risen. In addition, the EC is coming under pressure from both EU beet growers and sugar processors to keep market opportunities open by making greater use of non-annex I export-refund provisions to support the export of sugar containing food and drink products. This is despite an EC policy position in favour of abolishing export refunds by 2013, regardless of the outcome of the Doha Round of WTO negotiations.

In terms of the management of TRQ access, in response to a failure of the sugar and chemical industries to agree on new supply and price arrangements, in June 2009 the Commission took unilateral action by establishing 'an annual tariff-rate quota of 400,000 tonnes of sugar to ease conditions of supply to the chemical industry'. This was designed to address problems that have arisen in securing competitively priced sugar for the EU chemical industry, despite a reform process that was lowering the price of EU-produced sugars. In a related development, the EC is looking to 'develop guidelines to level the playing field' in the national management of inward processing arrangements, intended to enable export-oriented industrial users of sugar to access competitively priced sugar supplies. However, the EC has warned industrial users of sugar that the inward processing regime is dependent on specific economic circumstances to justify its operation, and should not be taken for granted, particularly given the reduction in EU sugar prices under way. Clearly, difficulties are arising within the process of reform, related to price formation within sugar supply chains. It was recognised from as early as 2000 in discussions on sugar sector reform that this could be a problem, and that market access measures could be used as a tool to encourage necessary reforms: the granting of EBA access in 2001 was the first example in this regard. The use of trade-policy tools to facilitate the attainment of fundamental policy objectives continues to be a feature of the EC's management of the sugar regime, with an important fundamental objective of securing competitively priced agricultural raw-material inputs for an increasingly globally oriented EU value-added food and drinks industry. This has important implications for the ACP in terms of their concerns to ensure remunerative prices for ACP sugar exported to the EU market in the post-reform context.

Depending on trends in world market prices, the use of such market management tools as TRQs and inward processing arrangements could potentially create a situation where there are two prices for sugar imported into the EU: the minimum price that importers are required to pay for ACP sugar up to October 2012, and the world market price paid for sugar imports under TRQ and inward processing arrangements (subject, of course, to certain specified tariffs). To date, the current high world sugar prices have prevented the emergence of such a situation, with current projections suggesting that world market prices are unlikely to fall below 90% of the EU reference price before 1 October 2012. Thus there appears to be little immediate prospect of the emergence of a dual-price system for sugar imports, creating pressures for further reform of the EU sugar regime.

Effective management of the EU sugar market, within the framework of the long-term objective of closing the gap between high EU prices and lower world market prices, is critical to the future of the EU sugar regime. Should major market imbalances emerge and stocks of sugar begin to build up in the EU, the EC will look towards a further round of sugar sector reforms, possibly involving compulsory cuts in production quotas and even a further reduction in the reference price.

2.3 EU corporate restructuring

Many European sugar companies are returning to profitability following the trauma of reform, which can be seen as an indication of the success of the reform process, with the EU sugar sector appearing to be in the process of successfully repositioning itself to play an expanded role in the global sugar trade. While this has been greatly facilitated by record high global sugar prices, it is also a consequence of the restructuring which EU sugar companies have been undertaking. This has involved mergers and takeovers of sugar companies, the creation of new joint ventures and the development of marketing alliances, both within the EU and globally, with a number of ACP sugar suppliers intimately involved in this process. This corporate response to EU sugar sector reform represents a significant feature of the post-reform reality, with these changing patterns of corporate investment and corporate alliances likely to have an important bearing on how different ACP sugar sectors are able to position themselves in response to the EU market realities. The restructuring process has seen a further consolidation of ownership across Europe, with over 80% of the EU sugar sector now being in the hands of eight companies, and a growing engagement of EU beet refiners in international trade in cane sugar produced outside the EU.

Associated British Foods, for example, which owns British Sugar, now has almost two-thirds of its sugar production outside the EU, while managers at the French sugar company Tereos (now the second biggest sugar maker in Brazil) expect its business to be 'more and more global' and 'less and less French'. With other major players such as Suedzucker and Nordzucker making similar alliances, a situation may arise in the coming years where the major EU sugar-processing companies could have very different interests from EU sugar beet producers when it comes to the maintenance of tariff protection around the EU sugar market. Potentially, this could lead to a divergence in the positions adopted by EU sugar millers and EU sugar beet producers on the issue of the future liberalisation of access to the EU sugar market, although it should be noted that companies such as Tereos and Suedzucker have an important presence of beet growers on their boards: in the case of Suedzucker, 55% of the shares are held by beet growers.

2.4 The 2013 CAP reform: the future of the EU sugar sector

As early as May 2008, Agriculture Commissioner Mariann Fischer Boel indicated that 'it is very unlikely that the sugar sector will be able to sit out' the 2013 round of CAP reform. In May 2009, further indications were given of what this might entail, with Commissioner Fischer Boel's Head of Cabinet telling European sugar beet growers to 'think about a future without quotas'. In the summer or autumn of 2010, the EC will present a communication containing proposals for further reforms in order to launch a public debate on the issue. This will be followed by 'legal proposals in mid-2011, together with Financial Perspective proposals'. In the sugar sector, these will be based on assessments of the long-term prospects for world sugar prices, the likely euro–US dollar exchange rate, likely oil prices, global prices for other arable crops, the likely competition from other arable crops for land at current EU reference prices, and specific proposals for the abolition of production quotas. The latter dimension is likely to be one of the most significant aspects of any reform proposals, as the overall aim will be to maintain a market balance in the EU, within a trend towards increased access to the EU market for third-country sugars. The market situation in the EU is important for ACP suppliers, as it will have a direct impact on the prices obtained for ACP sugar once price guarantees are abolished from 1 October 2012.

With so many uncertain factors influencing price formation at the global level, the EC is likely to seek to retain considerable policy flexibility in pursuing its longer-term objectives. What is clear is that, with longer-term EU objectives requiring a substantially smaller gap between EU and world market prices, further reductions in the EU reference price cannot be ruled out. In the case of other arable crop sectors subject to reform, the final reduction in the administratively determined floor price was of the order of 50% of the pre-reform price. In this context, it should be borne in mind that the EC's longer-term objective is to turn the reference price into a 'safety net' price (in the context of the direct aid payments made to farmers under the single payment scheme) with no influence on day-to-day price formation on sugar markets. In this policy environment, the functioning of the sugar supply chain, particularly the distribution of commercial power along the chain, is likely to become the critical issue in price formation, and hence a critical issue for ACP sugar exporters.

2.5 From sugar protocol to duty-free, quota-free access

The sugar protocol formally came to an end on 1 October 2009. After that date, all ACP sugar-protocol beneficiaries and LDC sugar exporters then enjoyed full duty-free, quota-free access to the EU market, either under an initialled or signed interim or full EPA, or, in the case of LDCs, under the EBA initiative. This followed the phasing out of transitional quota-restricted access under both these sets of trade arrangements. The only restriction on ACP/LDC exports is the ACP-wide automatic safeguard clause (with a double trigger, including an overall ceiling of 3.5 million tonnes), applicable solely to non-LDC ACP sugar exporters.

The most significant aspect of the abolition of the sugar protocol was the end of traditional price guarantees. Under the new duty-free, quota-free market access arrangements up to 1 October 2012, EU importers of ACP sugar are required to pay not less than 90% of the EU sugar reference price. With 1 October 2009 having seen the full introduction of the agreed reductions in EU reference price for raw sugar to €335, this means that the price guarantee for imports of raw sugar from ACP/LDC suppliers is now €301.5 per tonne. After 1 October 2012, even this price guarantee will fall away, with price paid for ACP sugar being determined by the 'market forces' at play in the EU.

In 2009/10, the strength of the world market price prevented the full effects of EU sugar price reductions being felt in the supply contracts negotiated by many ACP sugar exporters. Indeed, with the entry of beet refiners into the market as major importers of ACP sugar, a situation has been created where an increased number of EU sugar importers are chasing a limited volume of preferential sugar provided by ACP/LDC suppliers. With minimum price guarantees still in place, and, more importantly, very high world market prices, this is creating a situation where a number of ACP suppliers have been able to find new partners for the export of their raw sugar, in some instances with profit-sharing arrangements on the sale of refined products being set in place, which serve to enhance revenue flows to the concerned ACP suppliers. This has encouraged traditional refiners to make similar arrangements. It is also encouraging some ACP exporters increasingly to move out of the export of raw sugar and into the export of speciality and direct consumption sugars, which also serve, despite the EU price reductions, to enhance the revenue streams earned from sugar sales on the EU market. ACP exporters have also benefited from the global economic downturn, which has massively reduced freight rates for sugar. However, this gain is likely to be short-lived, with global economic recovery likely to drive freight prices back up towards the pre-recession trend of rising freight costs.

Despite these positive developments, as of February 2010 the market prices being paid for ACP sugar on a cost, insurance and freight basis were substantially below the prices available on regional and world markets – an estimated €80/tonne lower. This has created a new dilemma for ACP sugar exporters, whereby meeting their contractual commitments to supply the EU market is resulting in short-term revenue losses, compared with prices obtainable on regional and world markets. It should be borne in mind, however, that this development is entirely consistent with the EC's long-term policy aspirations to secure low-price inputs to its increasingly globally oriented value-added food and drinks industry. Given the EC belief that current conditions on the world sugar market are unlikely to be sustained, the EC's aim remains to establish a policy framework that will ensure this underlying policy objective can be attained on a sustainable basis.

Against this background, a fear remains that beyond 1 October 2012, a limited number of EU importers will be able to play ACP/LDC suppliers off against each other, in ways that will result in a deterioration of the price paid for ACP sugar. This might potentially depress the price towards – or even below – the current guaranteed floor price of €301.5/tonne. The evolution of world market prices beyond 1 October 2012 will have a critical bearing on developments in this regard. It should be also noted in this context that the shift to duty-free, quota free access and the abandonment of price guarantees under the sugar protocol will have varying impacts on different ACP regions and countries, depending on the underlying costs of production, the alternative revenue streams that can be profitably opened up, the level of world market prices for sugar (given the influence of current price levels on EU market prices), and the national trade and production adjustment strategies adapted. (More detail can be found in the special report on 'Regional perspectives on the impact of changing EU–ACP sugar sector relations'.) What is clear is that in the new market context, all ACP sugar suppliers will face increasingly complex competitive pressures.

2.6 Managing the EU market

ACP sugar industries remain committed to working with the EU to manage the EU market in order to avoid market imbalances. On 19 November, ACP ministers reiterated their commitment to a 'managed market which ensures an adequate level of remunerative price, which safeguards the interests of all ACP sugar suppliers'. This is seen as essential in a context where price guarantees for ACP sugar will be abolished from 1 October 2012. Governments from both ACP and LDC sugar-exporting countries are seeking to establish new mechanisms for effectively managing sugar exports, in order to avoid the invocation of the pan-ACP safeguard clause, which EU domestic sugar beet interests (the International Confederation of European Beet Growers) is urging the EC to enforce vigorously. Current efforts are greatly facilitated by the high world market prices for raw sugar (a world market price of 27 US cents/lb translates into a free-on-board price of €421.7/tonne, substantially above the guaranteed price for ACP sugar); the surplus of demand over supply; and the high price premiums available for white sugar. This is, in some instances, making regional markets more attractively priced than EU markets, thereby reducing ACP sugar exports to the EU.

However, in the longer term, the collective desire to manage ACP/LDC sugar exports to the EU, in order to avoid the invocation of the pan-ACP safeguard clause, needs to be balanced against the desire of individual ACP sugar exporters to maximise the volume of their sugar exports to the EU as a means of compensating for the reduction in the unit price offered for ACP sugar. It also needs to be seen in the context of the EU's long-term objective of securing low-cost sugar for an increasingly globally oriented European value-added food and drinks industry. This objective may require further reductions in the EU sugar price, depending on trends in world market prices. In this context, it needs to be borne in mind that the EC's objective in managing the EU sugar market is not primarily to sustain traditionally high EU sugar prices; rather, it is to manage the transition to lower, globally competitive pricing of sugar used by European value-added food and drink product manufacturers. However, this objective is not shared by all the EU member states (nor indeed by all departments of the European Commission), with this struggle between the interests of primary producers and processors constituting an important battleground for the future.

A further complicating factor regarding the management of the EU sugar market is the process of bilateral preferential trade-agreement negotiations in which the EU is involved. This relates not only to the Mercosur negotiations, but also to the negotiations with Central American and Andean Pact countries where, according to sugar industry sources, new preferential market access arrangements amounting to 320,000 tonnes have been discussed. It is thought that this could serve to undermine the key ACP policy objective of maintaining preferential access behind a solid wall of EU tariff protection in order to sustain a stable and remunerative price for ACP sugar.

2.7 Sugar protocol accompanying measures programme implementation

For the period from 2007 to 2010, the first multi-annual indicative programming phase of EU sugar sector adjustment support, a total of €615,324,000 was allocated in support of the various national adaptation strategies. The performance in terms of utilisation of funding has varied considerably between countries. In general, countries receiving assistance in the form of budgetary support have enjoyed faster rates of commitments and disbursements than under a conventional programme approach: aggregated across the countries concerned, disbursements as a percentage of funds allocated are four times higher, with total disbursements more than 10 times the volume (see Annex for details).

The most successful country at utilising the sugar protocol accompanying measures funding in the form of budgetary support has been Mauritius: by April 2009, over half of its allocation for the 2006–08 period (€39.8 million out of a total of €74.866 million) had been disbursed. In comparison, other southern and eastern African sugar protocol accompanying measures beneficiaries were able to disburse only 11% of their allocated funding over the same period, largely using programme-based aid-deployment processes. In one case, the secondary commitment rate was not rapid enough to retain the full initial allocation, and some €11.1 million of funds initially allocated were withdrawn from the programme.

The success of the Mauritius programme can be attributed to the existence of a pre-existing restructuring programme, behind which a broad stakeholder consensus had been built. It was characterised by:

- an active policy of diversification of revenue streams from sugar cane production;
- a market-led policy for repositioning Mauritian sugar exports on the EU market, including a redefinition of the routes to market;
- implementation of a rigorous cost-reduction programme at field and factory levels, including a rationalisation of production;
- establishment of mechanisms to distribute the benefits of restructuring across all stakeholders;
- broad stakeholder consensus on the strategies to be pursued;
- effective public administration for the deployment of pump-priming support to the production process;
- strong financial involvement of the private sector in the financing of overall restructuring;
- close coordination of sugar sector restructuring with broader economic adjustment processes;
- maintenance of an ongoing and constructive dialogue between the private sector, governments and the local EC delegation, which greatly aided implementation.

This has facilitated not only a rapid disbursement of available EC assistance, but also its effective deployment in support of a coherent, multi-faceted, market-led production and trade adjustment process. It has also assisted in the mobilisation of additional EU support in the form of loans from the European Investment Bank for the expansion of sugar-refining capacity.

In no other budgetary-support-based sugar protocol accompanying measures programme have all these elements come together in quite the same way. Without a combination of factors similar to those in Mauritius, implementation problems have arisen for other countries receiving sugar protocol accompanying measures assistance in the form of budgetary support. In some instances, this is despite the initial achievement of high initial disbursement rates. In the case of Jamaica, which had disbursed 55.5% of allocated funds by April 2009, further disbursements were suspended when the sugar industry privatisation process was halted. This arose when the favoured bidder could no longer raise the necessary capital in the light of the global financial crisis. This suspension affected €30 million in EU budgetary support. In the case of Guyana, where some 43.8% of allocated funding had been disbursed by April 2009, some €6 million in funding was lost following the late submission of the Guyana Sugar Corporation's (Guysuco's) business plan.

This situation led ACP ministers in May 2009 to criticise the EU sugar protocol accompanying measures programme for the 'slow pace of delivery […] and its strict conditionalities', which are 'restricting disbursement of timely support to countries whose economies are facing severe consequences arising from the 36% price cuts on sugar'. Calls were made for the EU to simplify its approach to the delivery of support to sugar protocol countries affected by the reform of the EU sugar regime and to improve the record of disbursement. ACP ministers have on a number of occasions, most recently on 19 November 2009, called on the EU to extend the implementation period for the accompanying measures programmes beyond 2013, including through the provision of additional assistance to address the impact of preference erosion.

2.8 Developments at the WTO

There are two distinct dimensions to the WTO constraints. The first relates to the current process of negotiations; the second to the possibility of challenges to the reformed EU sugar regime which, according to academic analysis from the University of Barcelona, 'continues to be regulated through institutional prices, quotas and preferential imports, and to provide for export subsidies'. In this latter regard, it should be noted that the Brazilian Sugar Cane Industry Association has objected to the EC decision to allow the export of an additional 500,000 tonnes of out-of-quota sugar, arguing that the EC would be 'sending wrong signals' to EU beet growers by permitting the breach of WTO export ceilings and incentivising higher beet sowings in the 2010/11 season. This is despite the recognition that the current high global sugar prices are unlikely to last. It is argued that this EU policy move is 'short-sighted', as 'EU farmers will be left with additional surpluses to be exported' when sugar prices fall back to historic levels. Against this background, the Brazilian Sugar Cane Industry Association called on the EC to submit the planned measure 'for approval by WTO sugar panel members' before implementing it.

The Brazilian criticism raises implicitly the cross-subsidisation effects of the EU's system of decoupled direct aid payments to farmers, its trade consequences, and its compatibility with WTO rules. However, this is a longer-term issue, with current ACP concerns focusing on the implications of any additional TRQ access to EU sugar markets resulting from the Doha Round negotiations (potentially, between 485,000 and 675,000 tonnes of additional access to the EU market may need to be granted, should sugar be treated as a sensitive product). Such additional TRQ access has not been taken into account in the EU sugar reform process and could well create an imbalance on the EU market, which would require new measures to maintain the market balance, possibly in the long term (beyond 1 October 2012) involving a further adjustment of the EU sugar reference price. More directly, it is feared that expanded TRQ access could lead to increased competition on the EU market, making it more difficult for ACP suppliers to maintain the price paid for ACP sugar through commercial contract negotiations, in the context of the ending of price guarantees from 1 October 2012.

The EC, for its part, has stated that it favours an approach towards the treatment of sugar that involves: treating sugar as a 'preference-erosion' product, not a 'tropical product'; the maintenance of a specific safeguard arrangement for sugar; and possibly seeking the treatment of sugar as a 'special product', although to date no decision has been taken on whether or not sugar should be classified as a sensitive product. However, an agreement had been reached by the EC, the ACP and the tropical product group on the treatment of preference-erosion and tropical products. A letter containing this agreement was sent to WTO Director-General Pascal Lamy and Chair of the agriculture negotiations David Walker on 15 December 2009. Under the proposal set out in the letter, the EU would be allowed to treat sugar either as a 'sensitive' product or as a 'preference-erosion' product. If sugar were treated as a sensitive product, tariff reductions and the new TRQs would both be implemented in annual instalments over a 7-year period. If sugar were treated as a preference-erosion product, tariffs would be reduced over an 8-year period, with the first 2 years free from any reduction. This agreement has yet to be multilateralised. By March 2010 only India, and to a lesser degree Pakistan and China, had voiced objections.

3 Implications for ACP countries

3.1 Implications of CAP 2013 reforms

Current developments and debates on the treatment of the sugar sector under the 2013 round of CAP reforms suggest that the European Commission will propose the continuation of a gradual process of sugar sector reform, with the ultimate aim of substantially closing the gap between EU and world market sugar prices, as an integral part of efforts to secure competitively priced agricultural raw materials for a globally oriented, price-competitive, value-added EU food and drinks industry. The long-term sustainable attainment of this objective contrasts with the current situation, which is dependent on a temporary conjuncture of market influences favourable to the attainment of this EU objective. What this means in practice for the administratively determined EU sugar beet price, and the prices paid for ACP raw sugar once EU price guarantees have been removed, will be determined by developments on world markets for sugar, oil, cereals and other competing crops, and the euro–US dollar exchange rate. An initiative taken by the French agriculture minister, calling for an end to the erosion of agricultural prices, greater emphasis on food security and environmental issues, for farmers' concerns to be paramount in the process of policy formulation, and for the role of farmers to be paramount in these policy directives, has received wide endorsement from 22 agriculture ministers in the other member states (as at March 2010). Whether this is indicative of policy reversal, or merely the opening shots from agricultural ministers in the financial perspectives discussions, remains to be seen.

Assuming that no fundamental policy reversal is being signalled, the process of gradual reform favoured by the EC seems likely to involve:

- maintenance of a managed trade regime for sugar and sugar products up to 2018/20, depending on the end of the implementation period of the Doha development agenda, which would limit the range of non-preferential imports;
- the possible accommodation of expanded TRQ access through its use to open up access to world market-priced sugar for export-oriented EU food and drink industries, in the context of the EU commitment to abolition of the use of export refunds, potentially from 2013;
- efforts to sustain the current beet sugar price in the context of moves towards dismantling of the production quota-management system, with scope being retained for reductions in the administratively determined sugar beet price if market imbalances emerge;
- maintenance or establishment of a range of 'safety net' policy tools (such as extension of coupled payments, increase in scope for national aid, and expansion of support to private storage), to manage the market during the transition away from a quota-managed regime towards the ultimate objective of securing competitively priced sugar for a globally oriented, price-competitive, value-added EU food and drinks industry.

This may or may not be consistent with ACP objectives of ensuring the maintenance of remunerative prices for ACP sugar on the EU market. What needs to be borne in mind is the EU's ultimate objective of using the reference price as a 'safety net' price, while market forces primarily determine the market price. In this context, a growing issue of concern is the process of price formation in the sugar sector, the functioning of the supply chain, and the influences affecting the distribution of revenues along the supply chain. The process of corporate restructuring that is under way appears to have an important bearing on this.

3.2 Corporate restructuring, functioning of supply chain, and price formation

As surviving EU sugar companies seek to win market share in markets formerly exclusively served by national producers, alongside reforms of import-licensing arrangements, the process of corporate restructuring that has taken place in the EU has opened up new routes to market for ACP sugar exporters in the context of the entry into force of full duty-free, quota-free access arrangements. A number of ACP exporters are seeking to exploit these opportunities in ways that enhance their share of revenues within the overall supply chain over the long term. This variously involves:

- profit-sharing arrangements on the sale of white sugars produced either locally or from imported raw sugar;
- the establishment of joint marketing arrangements for the distribution and sale of value-added direct-consumption sugars;
- restructuring of production to serve particular 'luxury-purchase' markets (fair-trade, organic, speciality or simply quality-differentiated sugars, such as Barbados Plantation Reserve), although only small volumes are involved so far).

Those ACP sugar producers actively and effectively pursuing such trade adjustments may well be able to develop a broader range of marketing opportunities that allow them to be more responsive to ongoing market changes. However, the flexibility now available to ACP raw sugar exporters appears to be strengthening their hand in commercial negotiations with traditional refiners as well. The marketing and commercial skills of sugar industry personnel in individual ACP countries are increasingly likely to be a critical factor in the distribution of revenues along the supply chain.

This being stated, the nature of the changing intra-corporate relationships in Europe is also likely to play an important role. The process of alliance formation and corporate consolidation taking place across the EU sugar sector raises important issues about the functioning of the sugar supply chain. Competition authorities have already launched investigations and insisted on the divestment of certain assets in response to industry consolidation. As analysis by the Institute for International Integration Studies (IIIS) has argued, with a limited number of buyers and potentially up to 30 ACP/LDC countries wanting to export sugar to the EU under duty-free, quota-free arrangements, a situation could arise where EU sugar refiners 'will be in a very strong position to play off one supplier against another and to bid the price down, thus extracting the preferential rent'.

Current market realities mean that this is far from the case at present. The current situation is that too many EU processors are chasing too little preferential raw sugar. This is taking place against the background of a diminishing belief in the ambitious production expansion plans in the LDCs and a termination of the earlier 'triangular trade', whereby certain ACP sugar producers exported large volumes to higher-priced EU markets and imported lower-priced world market sugar to meet domestic needs. This situation means that, up to 2012/13, it seems unlikely that the 3.5 million tonne ACP/LDC safeguard ceiling will be breached, and hence unlikely that the IIIS scenario will emerge.

Currently, given the tight supply situation, corporate managers in the EU appear to be acutely aware of concerns over possible abuse of a dominant market position, and are actively seeking to reconcile the interests of ACP suppliers with those of domestic EU producers and policy-makers, in ways that avoid any hint of abuse of a dominant market position. The question arises, however, as to whether this would continue to be the case in a context of declining global prices and increased pressures from policy-makers to deliver the benefits of sugar sector reform to end-consumers in the EU.

Against this background, it should be noted that the issue of inequality in power relationships along food supply chains has been a major focus of attention in 2009 within the EU, with regulatory proposals expected to emerge in the course of 2010. The initial indications are that such proposals will seek to address 'significant tensions in contractual relations between actors in the chain, stemming from their diversity and differences in bargaining power' and a 'lack of transparency of prices along the food chain'.

These developments may have relevance for the future of ACP–EU sugar sector relations. It can be argued that setting mechanisms in place now, to ensure transparency of corporate relationships and associated price formation along the ACP–EU sugar supply chains, should form an integral part of EU efforts to address the diversity in power relationships along sugar supply chains in the context of the moves towards market-based price formation. Such a course of action appears to be wholly consistent with the emerging internal EU policy on the functioning of food supply chains. Against this backdrop, closer ACP–EU collaboration in examining the functioning of the sugar supply chain in the run-up to the termination of price guarantees, in October 2012, would be appropriate.

3.3 The WTO dimension

Developments around the resolution of the banana dispute suggest that the EU is likely to be given an extended period to adjust its sugar regime further as part of the Doha Round. Given the difficulties faced in securing low-priced sugar for the chemical industry and export-oriented EU value-added food and drink manufacturers, there appears to be scope for the EU to accommodate expanded TRQ access by expanding the access of EU industrial users to competitively priced sugar. In this context, it need not require a further round of sugar reference-price reductions as part of the 2013 round of CAP reforms, but may well choose the 'opportunities' offered by free-trade area negotiations.

Whether the 2013 CAP reform process will include further reductions in the sugar reference price is much more likely to be influenced by the level of world market prices for sugar, the price levels of arable crops that compete with sugar for land, the oil price and the development of biofuel policies, and the euro–US dollar exchange rate. However, the expansion of TRQ access is likely to increase the competitive pressure in commercial contract negotiations, which will themselves be strongly influenced by the distribution of power along the supply chain.

Of more fundamental concern at the WTO level would be any successful challenge to the basis of the reformed EU sugar regime, for example, through challenging the cross-subsidy effects of the direct aid payments, as this would once again require further substantive reform. However, while this remains an academic possibility, in reality it seems a remote prospect in the coming 10-year period.

3.4 Sugar protocol accompanying measures: implementation issues

The issue of improving the commitment and utilisation of funds in support of sugar sector adjustments in most of the beneficiary countries of the sugar protocol accompanying measures programme is critical. Without such improvements, additional funding will simply increase the backlog of unutilised funds. A critical policy issue that needs to be addressed by the EC at the operational level is the role that ACP sugar industry organisations should play in the design and implementation of EU-supported adjustment measures. Currently, in a number of sugar protocol accompanying measures beneficiary countries, there appears to be a significant divergence in the priorities of the local sugar industry, where the emphasis is on support for direct cost-reducing and revenue-enhancing measures, and those of the EC and national ACP governments, where the emphasis is largely on traditional physical infrastructure investments (such as road development) and capacity building in government (not industry) structures.

It could therefore be important to consider new industry-designed and -managed, targeted programmes that directly address the particular competitive challenge thrown up by the EU sugar sector reform process. This will require a redefinition not only of the role of the private sector, but also of the role of the state. Experience in other sectors, such as the Caribbean rum sector, suggests that the state should play a facilitating role in supporting market-led, private-sector-based adjustment processes, implemented within policy frameworks that ensure an equitable distribution of the benefits of the restructuring process in ways consistent with broader economic and social development policy objectives. It is this latter dimension that gives legitimacy to the use of public funds in support of what essentially need to be market-led and private sector-based production and trade-adjustment processes.

This being noted, however, the specific circumstances in the Caribbean sugar sector – where governments play a much larger role, given the domestic, socio-economic and political significance of the sector – suggest that the balance between public sector- and private sector-led restructuring will need to be carefully defined to take such industry specificities into account.

Annex: EU sugar-protocol beneficiaries and disbursement rates

Annex 1 Sugar-protocol beneficiaries: costs of production and transport after restructuring to lower costs (2009) (€/tonne)

Country	Production costs	Transport costs	Total cost	Pre-reform EU price	EU price 2010	Possible 2015 price*
Southern and eastern Africa						
Mozambique	141	68	209	523.70	335.00	261.85
Malawi	141	92	233	523.70	335.00	261.85
Zimbabwe	158	84	242	523.70	335.00	261.85
Swaziland	176	76	252	523.70	335.00	261.85
Zambia	141	116	257	523.70	335.00	261.85
Mauritius	229	64	293	523.70	335.00	261.85
Tanzania	211	120	331	523.70	335.00	261.85
Kenya	264	120	384	523.70	335.00	261.85
Madagascar	317	80	397	523.70	335.00	261.85
Caribbean						
Guyana	211	76	287	523.70	335.00	261.85
Belize	211	92	303	523.70	335.00	261.85
Jamaica	264	56	320	523.70	335.00	261.85
Barbados	352	60	412	523.70	335.00	261.85
St Kitts & Nevis	440	80	520	523.70	335.00	261.85
Trinidad & Tobago	440	80	520	523.70	335.00	261.85
Central and West Africa						
Congo	229	104	333	523.70	335.00	261.85
Côte d'Ivoire	264	112	376	523.70	335.00	261.85
Pacific						
Fiji	229	80	309	523.70	335.00	261.85

Source: extrapolated from Table 8 of draft report 'Safeguarding the benefits of the ACP–EU sugar protocol in the context of the EPA negotiations' (20 February 2007).

*Assumes that, following the 2013 round of CAP reforms, the sugar reference price is reduced to 50% of the pre-reform level. Within the EU this is intended as a 'safety net' price and not as determinant of market prices. It is intended that market prices should be well above this level, having been determined by the play of market forces.

Annex 2 Beneficiaries of sugar protocol accompanying measures programme

Country	Multi-annual Indicative Programme allocation 2007–10 (€)
Southern and eastern Africa	
Mauritius	127,541,000
Swaziland	69,895,000
Zimbabwe	22,137,000
Malawi	9,911,000
Madagascar	8,428,000
Kenya	6,230,000
Tanzania	6,000,000
Zambia	6,000,000
Mozambique	6,000,000
Sub-total	*262,142,000*
Caribbean	
Barbados	34,677,000
Belize	45,147,000
Guyana	84,170,000
Jamaica	77,547,000
St Kitts & Nevis	42,286,000
Trinidad &Tobago	41,643,000
Sub-total	*325,470,000*
Central and west Africa	
Congo	6,245,000
Côte d'Ivoire	13,467,000
Sub-total	*19,712,000*
Pacific	
Fiji	8,000,0000*

Source: extracted from Multi-annual Indicative Programmes for individual sugar protocol accompanying measures beneficiaries.

*Annual allocation for 2008 only.

Annex 3 Commitment and disbursement rates under EC accompanying measures programme 2006–08* (April 2009)

	Global allocation*	Secondary commitments	Disbursements	Disbursements as % of allocation 2006–08
Southern and eastern Africa				
Swaziland	37,598,000	7,333,942	1,799,955	4.787
Mauritius (B)	74,866,000	42,500,000	39,800,000	53.162
Malawi	10,578,000	2,812,580	1,075,291	10.165
Mozambique (B)	6,562,000	6,350,000	550,000	8.382
Tanzania	6,562,000	2,694,514	2,283,043	34.792
Zambia	6,562,000	469,943	327,168	4.986
Kenya	502,000	140,130	84,078	16.849
Madagascar	3,895,000	753,554	628,390	16.133
Zimbabwe	2,700,000	2,359,962	753,127	27.894
Sub-total	*149,825,000*	*65,414,625*	*47,301,052*	*31.57*
Caribbean				
Barbados (B)	23,599,000	20,445	20,445	0.087
Belize	18,038,000	4,784,460	1,637,935	9.080
Guyana (B)	57,101,000	31,658,806	25,026,241	43.828
Jamaica (B)	49,022,000	29,966,002	27,229,462	55.545
St Kitts & Nevis (B)	22,735,000	11,640,653	5,879,001	25.859
Trinidad &Tobago (B)	15,974,000	5,576,398	69,838	0.437
Sub-total	*186,469,000*	*83,646,764*	*59,862,922*	*32.103*
West and central Africa				
Congo	2,500,000	345,700	105,510	4.220
Côte d'Ivoire	4,040,000	1,638,596	484,283	11.987
Sub-total	*6,540,000*	*1,984,296*	*589,793*	*9.018*
Pacific				
Fiji	8,000,000†	-	-	-

Source: EC response to European Parliament Written Question P-3433/09.

(B): sugar protocol accompanying measures funding is committed to these countries in the form of budgetary support.

*Funds allocated in 2006, 2007 and 2008, but excluding the allocations made for 2009 and 2010, for which no commitments and payments could have been made by April 2009. The total allocations for 2006–10 for each country are larger than indicated in this table, as the allocations for 2009 and 2010 as well as the initial preliminary allocation made to each country in 2006 are not included in the total global allocation.

†An annual allocation was made to Fiji in 2008, but implementation of the programme was suspended in the light of the political situation in the country.

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Executive brief: Update

Tea: Trade issues for ACP countries

Contents

About this update

CTA's Executive brief: *Tea: Trade issues for ACP countries*, was published in April 2009 and in CTA's *Agritrade: ACP–EU Trade Issues (2009 Compendium)*. This brief, updated in April 2010, consists of:

1. Background and key issues: briefly summarising the original executive brief, and where necessary, updating developments related to key issues;

2. Latest developments and implications for ACP countries: reviewing developments that have taken place since the publication of the original executive brief; Examining the implications of recent developments for the ACP countries concerned.

The original executive brief (2009) is available on request from: agritrade-mail@cta.int.

1 Background and key issues in the tea sector

There are two major types of tea: black and green. Black tea accounts for around 75% of global production and over 90% of the market in Western countries. Black tea results from leaves that are fully oxidised, while green tea leaves are steamed, rolled and dried without any oxidation. Most green tea is grown in China, and it is gaining popularity in the West, partly for health reasons.

Tea is grown in 36 tropical and semi-tropical countries, 21 of them African, Caribbean and Pacific (ACP) countries. The six largest tea-producing countries – China, India, Kenya, Sri Lanka, Indonesia and Turkey (in that order) – account for around 80% of world output. Less than half of production is exported, as China and India, in particular, are major consumers as well as producers.

After some 40 years of declining in real terms, tea prices more than doubled between 2002 and September 2009, rising from 154 US cents/kg in 2003, to 238 cents/kg in 2008, and 318 cents/kg in September 2009.

Blending means that many tea qualities have become exchangeable and are bought wherever they are cheapest. The major companies are not reliant on any one particular source, and can easily freeze out a particular producing country if it does not co-operate with the needs of the company.

A small number of companies dominate the tea industry. They have a presence at almost all stages of the journey from tea bush to tea bag or packet. The companies either grow tea on estates, or buy tea at an early stage of production, and usually carry out the high value-added blending and packaging (which account for 80% of the retail price) at facilities in the European Union (EU) and other Western countries.

The largest of the companies, Unilever, grows 35,000 tonnes of tea a year on its estates in Kenya, Tanzania and India, and buys and sells a much larger quantity – 290,000 tonnes – from other estates and sources. Its major brands, which include Lipton, PG Tips and Red Label, are available in more than 100 countries. James Finlay has tea estates in Kenya, Uganda and Sri Lanka, growing and manufacturing over 50,000 tonnes of tea a year. It is also one of the world's largest tea-trading companies.

The Tata Tea group is the world's second largest global branded tea operation, with a presence in over 60 countries. The prominent companies in the group are Tata Tea and the UK-based Tetley group. The high level of industry concentration raises issues of competition policy.

Tea is sold mainly by auction. There are two auction centres in ACP countries, both in Africa: Mombasa, Kenya and Limbe, Malawi. A rival to the African auction centres, the Dubai Tea Trading Centre, was set up in 2005. The centre trades and processes teas from 13 producing countries, including six ACP countries.

The 21 ACP tea producers are Burundi, Cameroon, Democratic Republic of the Congo, Ethiopia, Kenya, Lesotho, Mali, Malawi, Madagascar, Mauritius, Mozambique, Nigeria, Papua New Guinea, Rwanda, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. All but Lesotho, Mali, Seychelles and Swaziland export tea.

Kenya accounts for over half of the tea output in ACP countries and remains the world's largest tea exporter. Malawi, Uganda and Tanzania are the next largest ACP producers, with Malawi's production just over one-eighth of Kenya's.

Global tea imports in 2007 totalled 1.464 million tonnes, of which the EU imported 335,815 tonnes, 22.94% of the total. The UK imported 157,280 tonnes, 46.8% of EU imports. Germany, with imports of 48,408 tonnes, was the EU's second largest importer with 14.4%. Other major tea importers are Egypt, Pakistan, Afghanistan, Russia, Sudan, Kazakhstan and North America.

The EU's historical relationship with ACP countries lays the basis for co-operation, given that EU countries do not grow tea. It has no restrictions on the import of tea, nor does it have quality standards. The European Commission describes tea as 'a totally liberalised market'. The most-favoured nation (MFN) tariff is zero, and there is no tariff escalation if tea is processed (with a minor exception). According to the EC, the main issue concerning the tea sector is the way its producers are unprotected from 'copycats'.

The March 2005 World Trade Organization (WTO) ruling on geographical designations of origin should help ACP countries that want to develop regionally specific teas. The EU believes that the ruling upholds its system of granting protection to products with a specific geographical origin (geographical indications or GIs).

An increasing number of tea growers and plantation workers are benefiting from selling their tea in the fair-trade system, with a 'Fairtrade' label. In the UK, products are certified by the Fairtrade Foundation, a member of the Germany-based Fairtrade Labelling Organizations International, which sets the certification standards.

2 Latest developments and implications for ACP countries

2.1 The international tea market

World tea prices reached record levels in 2009, mainly due to supply shortages caused by drought in major producing countries, notably India, Sri Lanka and Kenya. The 21 tea-producing ACP countries produced less tea in 2009 than in 2008, but enjoyed record prices for the crop, around 30% higher than in 2008. Tea sales at the Mombasa auction in 2009 totalled 279.3 million kg compared with 303.1 million kg in 2008. Increased demand for tea was an additional factor behind the price rise. Consumption of tea outpaced production between 2005 and 2009 by an estimated 0.8%.

Tea prices would come under pressure from increased plantings and supply. Should producers over-react to the current high prices by planting more crops, then over-supply and much lower prices could again result. Some ACP producers have responded to high tea prices by announcing plans for more investment in the crop.

Given normal weather, world tea prices in 2010 could be a shade lower than in 2009, although, with rising demand, some predictions are for a modest increase.

2.1.1 Global production and consumption

Global tea production reached 3,832,650 tonnes in 2008, a rise of less than 0.3% over 2007. China accounted for 32.8% of world output in 2008, followed by India (24.1%) and Kenya (9.0%). ACP countries account for 29.7% of global tea exports, with Kenya the world's largest tea exporter.

Indications of output figures for 2009 suggest a global fall, with a drop in Kenya and Sri Lanka of about 10%, little or no change in India, and Malawi the only major ACP tea producer to record an increase.

Consumption of tea outpaced production between 2005 and 2009 by an estimated 0.8%, says the Food and Agriculture Organization (FAO). The gap was largest between 2007 and 2009, when consumption growth outpaced production by 3.4%. Consumption is rising in the UK and Ireland, and also in the Middle East, Pakistan and Egypt, with demand remaining strong despite the global recession. The UK buys around half the tea imported into the EU. Russians are also major tea consumers.

Table 1 Tea production

Main world producers and leading ACP producers	Production in 2008 (tonnes)
China	1,257,384
India	922,205
Kenya	345,800
Sri Lanka	318,470
Turkey	198,046
Indonesia	150,851
Malawi	46,000
Uganda	44,923
Tanzania	34,800
Zimbabwe	22,300
Rwanda	19,000
World total	**3,832,650**

Source: FAO and F O Lichts.

2.1.2 How the tea market works

Tea is unusual among major agricultural commodities in that it is sold through auctions or in private deals, increasingly online. Unlike coffee or cocoa, there is no futures market for tea.

A rival to the African auction centres in Mombasa and Limbe, the Dubai Tea Trading Centre, was set up in 2005. The Centre trades and processes teas from 13 producing countries: Kenya, Malawi, Rwanda, Tanzania, Zimbabwe and Ethiopia, plus India, Sri Lanka, Indonesia, Vietnam, Nepal, China and Iran. The centre serves the Middle East, the most important market for Kenya's teas. More than 70 companies, including Unilever, have joined. Tea trade through Dubai fell from 148.6 million kg in 2008 to 112.3 million kg in 2009, following the fall in global output. The Centre is reported to be considering the launch of a tea futures market.

2.1.3 Major trends in the market

There is no single world price for tea but rather differing prices at different auctions. Between 1970 and 2002, the price trend was downward, with World Bank figures suggesting that tea prices fell by 44% in real terms over these years. Prices have since bounced back, more than doubling between 2002 and September 2009. They rose from 154 US cents/kg in 2003 to 238 cents/kg in 2008, and to 318 cents/kg in September 2009 (the FAO tea composite indicative world price for black tea). The rise was due to droughts in Sri Lanka and Kenya, and also to increased demand.

Table 2 FAO composite prices

Year	Price (US cents/kg)	Annual growth rate (%)
2003	152	2.7
2004	166	9.2
2005	164	–1.2
2006	183	11.6
2007	203	10.9
2008	238	18.2
2009 (Sep)	318	33.6

Sources: FAO: Committee on commodity problems - Intergovernmental group on tea- Current situation and medium outlook- May 2008 ftp://ftp.fao.org/docrep/fao/meeting/013/k2054E.pdf
FAO Press Release, 22nd December 2009, http://www.fao.org/news/story/en/item/38315/icode/

Prices therefore increased by more than 50% between 2007 and 2009. But the average price (Table 2) hides important variations between countries. Average auction tea prices in 2009 at the main Sri Lankan tea auction were 332 US cents/kg, in India 290 cents/kg, and in Mombasa 272 cents/kg. Prices reflect quality and speciality.

After taking inflation into account, the real price of tea may still be less than it was 40 years ago. In 2010, the return of normal weather patterns in the main producing regions indicates increased supplies, although demand may help to maintain price levels.

In the first 3 months of 2010, prices at the Mombasa auction seemed to be holding up and even increasing over the 2009 average. From 1 January to late March 2010, the price at Mombasa averaged 287 US cents/kg.

Auction centres could become redundant with technological advances. At present, almost all tea fields are located in regions where land-phone lines intermittently fail or do not exist. With the development of the internet through mobile phones, however, and given that many plantations are financed by large companies, in the future tea estates will be able to post real-time data daily on the internet, enabling a viable futures market.

The global process for bringing buyers and sellers together more directly is already taking place with catalogue sales of premium tea. ACP producers need assistance to access information to enable them to exploit on-line auctions.

2.1.4 The economic significance of tea to ACP countries

ACP countries accounted for about 14.5% of global tea production in 2008, and 29.7% of exports. ACP tea exports to the EU increased by just under 4% in 2008 to 117,377 tonnes, from 113,869 tonnes in 2007, to account for around 40% of the EU's overall tea imports. Uganda's tea exports more than doubled in volume in 2008, while Tanzania's increased by over 170%.

While Kenya's tea exports to the EU fell from 94,034 tonnes in 2008 to 87,357 tonnes in 2009, revenue in 2009 rose to US$920 million, an 11% increase from $826 million in 2008. Kenya exported less tea in volume, but earned more from the crop.

Table 3 Tea production and exports of ACP countries and other major exporters to the EU

Country	Production in 2008 (tonnes)	Exports to EU in 2008 (tonnes)
ACP		
Burundi	7,700	75
Cameroon	4,000	n/a
DR Congo	2,200	n/a
Ethiopia	4,800	n/a
Kenya	345,800	87,357
Lesotho	n/a	n/a
Madagascar	580	n/a
Malawi	46,000	11,918
Mali	135	n/a
Mauritius	1,668	28
Mozambique	16,256	814
Nigeria	n/a	105*
Papua New Guinea	9,000	1,204
Rwanda	19,000	705
Seychelles	137	n/a
South Africa	4,200	6,736†
Swaziland	n/a	n/a
Tanzania	31,300	6,683
Uganda	44,923	227
Zambia	750	n/a
Zimbabwe	22,300	1525
Total ACP	*560,749*	*117,377*
Major non-ACP exporters		
China	1,257,384	33,559
India	922,205	37,339
Sri Lanka	318,470	20,918
Indonesia	150,851	25,361
World total	**3,832,650**	**522,095**

*Jan–Sep 2009; †includes re-exports.
Sources: FAO; F.O. Lichts.

Tea output is increasing in ACP countries, and tea exports account for around 15% of Rwanda's total exports, 13% of Kenya's and 6% of Malawi's. Kenya accounts for 22% of world tea exports. Tea is Burundi's largest hard-currency earner after coffee. A number of ACP countries plan to give tea more prominence in their economics. Ethiopia announced plans in March 2010 to develop strategies to boost tea production. The country currently produces about 7 million kg of tea from three privately run estates. Some 50,000 hectares of land has been identified as suitable for production of the beverage. Kenya has announced more plans to boost tea output. The Rwanda Tea Authority is planning to increase tea plantations by 75% from 12,000 to 21,000 hectares by 2012. Burundi's tea output is forecast to rise by 8.5% in 2010. The expansion plans could, however, exert downward pressure on world tea prices.

2.2 Challenges and opportunities for the ACP tea sector

2.2.1 Main trends: opportunities and threats

World tea prices in 2010 seem poised between rise and fall, although prices fell in the first 3 months of the year. Given normal weather and a return to more normal output (for example, the Tea Board of Kenya forecasts that Kenya's production will rise by more than 15% in 2010), prices could be a shade lower than in 2009. With demand rising, however, some predictions are for a possible 10–15% price rise. By 20 April 2010, the average price of African teas at the Mombasa auction had fallen to 270 US cents/kg compared with 297.7 cents/kg in December 2009.

A positive sign for ACP exporters is that with demand from consumers rising, tea exports are likely to increase. As China and India are trying to increase local consumption of tea, their exportable surplus is reducing. The two countries are likely to consume a growing percentage of the world's tea over the coming decades, leaving more space on global markets for ACP exporters.

The health benefits of tea could be highlighted in order to encourage increased consumption. The tea industry is likely to publicise research showing, for example, that substances found in green tea could help fight eye disease; that green tea is a natural remedy for losing weight; and that men who drink tea have smaller waistlines than those who don't.

Tea will also be put to new uses: 'Trendy tea – tea will come to reflect our life-style choices and values. Hip bars in France, the UK and the USA are already serving champagne teas and Earl Grey martinis'.

But there are threats to tea prices and revenues. While ACP countries should continue to earn good revenues from their teas in 2010, there are doubts about the longer term. Should the current high prices encourage more tea to be planted than the market demands, then prices would fall back. The FAO has cautioned tea producers not to overreact to 2009's price rally by expanding plantings. It takes at least 3 years after planting before the effects of increased output are seen on prices.

Higher-yielding varieties of tea are being developed, which may be technologically sound, but which could lead to lower prices. The Tea Research Foundation of Kenya recently added two new clones to enhance production, saying that it expects to see a sustained growth in quality and production. These clones have the ability to withstand the vagaries of weather and post good returns if managed properly, it says.

Co-operation between tea-producing countries over new plantings would seem beneficial. As countries exported a lower quantity of tea in 2009, but often earned more foreign exchange from the crop, producer agreement on supply management could be a promising way forward. India has announced that it would not be expanding current tea areas beyond what is required for replanting and rehabilitating existing tea gardens.

A wider factor concerns climate change. The increasing impact of climate change is already generating unpredictable harvests, leaving many small-scale tea growers struggling to plan for the future. Tea bushes yield the best-quality tea between 18 and 32°C. Should global warming cause temperatures to rise by 2° C, as is widely predicted, and if these rises occur in ACP tea-producing countries, then bushes in lower altitudes would yield less.

Arid areas could expand due to increased warming, and encroach into areas suitable for tea cultivation, according to the fourth assessment report of the Intergovernmental Panel on Climate Change 2007. If temperatures rise by 2°C, large areas of Kenya currently suited to growing tea would become unsuitable. Sensible planning would avoid planting new bushes in lower altitudes, move tea bushes to higher altitudes where possible, and consider diversification.

FAO projections for the 10 years to 2017 indicate that world production of black tea will grow at 1.9% annually from about 2.5 million tonnes in 2006 to reach 3.1 million tonnes, while world production of green tea is expected to grow at a considerably faster rate of 4.5% annually to reach 1.57 million tonnes.

2.2.2 The need for investment to improve quality and add value

Tea from many ACP countries fetches low prices, showing the need for investment to raise quality. From 1 January to 23 March 2010, ACP teas sold at the prices shown in Table 4.

Table 4 Mombasa auction average price

Country	Average price (US cents/kg)
Kenya	305
Rwanda	292
Burundi	281
Madagascar	231
Uganda	215
Tanzania	176
Malawi	146

Source: Africa Tea Brokers, 22/23 March 2010, Mombasa auction report.

These prices are low compared with tea prices fetched, for example, at Sri Lanka's Colombo auction – an average of 334 US cents/kg in February 2010. This demonstrates the potential for ACP countries to earn more from their tea, by improving quality and by developing single-origin or brand-differentiated teas. These could be combined with Fairtrade. For example, a single-origin tea called 'Lost Malawi Tea' comes from a small Fairtrade estate in the Shire Highlands of Malawi. It is claimed to be 'an old fashioned tea crafted in small batches with great care [...] and quality almost forgotten'.

Consumers are increasingly looking for good-quality and speciality teas. Kenya and Rwanda also produce speciality teas in this category, which attract good prices. The speciality Indian tea Darjeeling has fetched as much as £223/kg, compared with less than £1/kg for ordinary teas.

Tea-producing countries would profit from expanding into upstream activities, adding value in their own country, and generating additional employment, income and revenue. Efforts by producers to enter activities such as blending have been hampered by poor market information and inadequate marketing strategies, aggravated by a lack of funding. New strategies aimed at adding value and reducing production and marketing costs are also needed.

2.2.3 Fair-trade tea: a challenge for the ACP

Fairtrade-certified tea is sourced from tea estates and democratic small-farmer organisations under terms of trade that include:

- fair wages and working conditions for employees;
- payment of a negotiated fair price to producers (estates and smallholder organisations);
- an additional premium for investing in social, economic or environmental programmes.

Cafédirect, a UK-based Fairtrade company, buys most of its teas from east Africa and sells under the TeaDirect label. The minimum price it pays varies between US$1.75/kg and US$1.88/kg, depending on the grade. The price paid to growers rises when auction prices rise. In addition, Cafédirect pays a premium of US$0.60/kg for the social needs of communities. Fair-trade auditors inspect regularly to ensure the money is spent wisely and fairly to benefit local communities. Under a producer partnership programme, Cafédirect also supports the Kiegoi and Michimikuru tea factories in Kenya to assess and minimise their environmental impacts; 'the positive results are astounding', it says.

Another major UK-based company, Traidcraft, buys chiefly from Uganda. There are 93 Fairtrade-certified tea producers, 39 of them in ACP countries. While the system is proving valuable, producers are only able to sell a small proportion of their tea on Fairtrade terms, as there is not enough consumer demand to buy all their output.

Sales of Fairtrade-certified tea are growing rapidly, notably in the UK, which buys over 80% of the fair-trade tea imported into the EU. Sales in the UK increased to 9,618 tonnes in 2009, a rise of 3% from 9,335 tonnes in 2008, to which sales rose from 3,410 tonnes in 2007, a jump of 170%, largely due to the major retailer Sainsbury's switching to fair trade. Fairtrade-certified tea now accounts for 10% of UK tea sales.

The market for Fairtrade-certified tea and ethically sourced tea should grow, and a new market is opening for ethically sourced tea. This follows a decision by Unilever to source all its tea from sustainable 'ethical sources'. The company claims that up to 2 million people will 'benefit from better crops, better incomes and better livelihoods'.

The EU could aid ACP producers by helping them to gain Fairtrade certification for their tea, by encouraging speciality tea, by the use of GIs, by expanding its 'aid-for-trade' financing, and by acting with them to reduce the abuse of dominant market positions by large companies.

2.2.4 The future of ACP–EU trade relations in the tea sector

While there are no tariff issues in ACP–EU trade relations in the tea sector, this does not mean there are no issues that need to be addressed. Internally, the EC has routinely used provisions of its competition policy against 'abuse of a dominant market position' to prosecute and fine EU sugar companies for collusion in setting sugar prices. The question therefore arises: will the EC agree to joint ACP–EU action against international companies that collude in setting prices of major commodities such as tea, thereby abusing a dominant market position?

There also appear to be a number of key 'aid-for-trade' issues in ACP–EU trade relations in the tea sector. We might ask whether the EU will be willing to use:

- 'aid-for-trade' instruments in a structured and systematic way to assist in developing tea production in ACP countries serving the 'quality' end of the EU tea market, thereby improving the prices received for teas, and fair wages and working conditions for employees;
- 'aid-for-trade' support to assist ACP countries in developing production for the fair-trade market and in further promoting this market within the EU;
- 'aid-for-trade' support to assist ACP countries in procuring the technical expertise to be able to move up the tea value chain through developing blending operations to serve EU markets directly.

Initiatives in these areas could greatly help ACP countries increase the value obtained from tea production.

Information sources

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Glossary of terms relating to agricultural trade

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A, B, C sugar quotas	In the framework of the former sugar Common Organisation of the Market (CMO): A: sugar produced for domestic needs, carrying a production levy of 2% B: sugar produced for export with subsidy, carrying a production levy of 37.5% C: sugar exported without a direct export subsidy
acquis (communautaire)	The body of principles, policies, legislation, practices, obligations and objectives included in the various EU treaties
ad valorem equivalent (AVE)	The rendering, as a percentage, of an import tariff based on some other value (such as weight); for example, if a tariff on an import is set at $*n* per product or unit of product, the AVE formula allows it to be expressed as a percentage of the value of the good
Aggregate measurement of support (AMS)	The indicator on which the domestic-support discipline for the Uruguay Round Agreement on Agriculture is based. It is determined by calculating a market-price support estimate for each commodity receiving such support, plus non-exempt direct payments or any other subsidy not exempted from reduction commitments, less specific agricultural levies or fees paid by producers
Amber box	All support measures that support prices or production of agricultural products, thereby distorting trade; examples include US counter-cyclical payments to farmers; to be reduced or eliminated under the Agreement on Agriculture www.wto.org/english/tratop_e/agric_e/agboxes_e.htm
Andean Pact	The Andean Pact (Andean Community of Nations) is a trade bloc comprising the South American countries of Bolivia, Colombia, Ecuador and Peru. The trade bloc came into existence in 1969 with the signing of the Cartagena Agreement, and was called the Andean Pact until 1996.
Article 133 Committee of the EU	Committee that advises and makes proposals to the EC on the negotiation of international trade agreements
Article XXIV	The Article of GATT (1994, adopted by the WTO) relating to frontier traffic in free-trade areas and customs unions www.wto.org/english/docs_e/legal_e/10-24.pdf
Blue box	Subsidies or direct payments to agricultural producers that are part of programmes aimed at limiting agricultural production; these payments do not need to be reduced or eliminated www.wto.org/english/tratop_e/agric_e/agboxes_e.htm
C4 group	Benin, Burkina Faso, Mali and Chad
Cairns group	A grouping of 17 countries that promotes liberalisation in trade in agricultural products: Argentina, Australia, Bolivia, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay www.cairnsgroup.org
Cancun	5th WTO Ministerial Conference in Cancun, September 2003

Codex Alimentarius Commission	Set up in 1963 to develop standards and guidelines of the Joint FAO/WHO food standards programme www.codexalimentarius.net/web/index_en.jsp
COLEACP (Europe–Africa-Caribbean-Pacific Liaison Committee)	An interprofessional network promoting sustainable horticultural trade, gathering together ACP producers/exporters and EU importers of fruit and vegetables, flowers and ornamental plants, and other companies and partners operating in the ACP/EU horticultural industry www.coleacp.org
Combined Nomenclature	Contains the goods classification prescribed by the EU for international trade statistics. The CN is an 8-digit classification consisting of a further specification of the 6-digit Harmonised System. www.cbs.nl/en-GB/menu/methoden/classificaties/overzicht/gn/2009/default.htm http://ec.europa.eu/taxation_customs/customs/customs_duties/tariff_aspects/combined_nomenclature/index_en.htm
COMESA (Common Market for Eastern and Southern Africa)	Angola, Burundi, Comoros, DR Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe www.comesa.int
Committee on Agriculture	The WTO committee that oversees the implementation of the Agreement on Agriculture
Compensatory trade measures	Policy response to the erosion of the value of trade preferences
COREPER (Committee of Permanent Representatives)	The structure of consultations with national governments at the level of officials, which prepares all ministerial decisions within the EU
Counter-cyclical payment	A form of agricultural subsidy used by the USA that compensates a farmer if the price of an agricultural commodity drops below a level deemed to be desirable
Cross-compliance	To make the single farm payments conditional on environmental, food safety, animal welfare, health and occupational safety standards
de minimis	Rules permitting exemption from notification for state aid to farmers, fishermen, and processing and marketing companies, below a certain threshold (currently €3,000 over a 3-year period); the total must make up no more than 5% of agricultural production for developed countries and 10% for developing countries
Decoupling	Of farm support from production, through direct payments
Deficiency payment	Paid by governments to producers of certain commodities and based on the difference between a target price and the domestic market price or loan rate, whichever is less

Derogation	The act of withdrawing from or restricting the application of a rule; under the Cotonou Agreement, the derogation provisions of the rules of origin allow exceptions to the general rules of origin. This allows non-originating products to be used to a greater degree than the normal rules of origin would allow, without losing the benefits of the trade preferences extended
Distortion	When prices and production are higher or lower than levels that would usually exist in a competitive market
ECOWAS (Economic Community of West African States) (= CEDEAO)	Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo www.ecowas.int
Equivalency agreements	Equivalence of sanitary measures associated with food inspection and certification systems
ESA configuration	The grouping of eastern and southern African countries negotiating an Economic Partnership Agreement with the EU (Burundi, Comoros, DR Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe)
EU15	The 15-member European Union up to end 2003
EU25	The 25-member European Union from 1 May 2004
EU27	The 27-member European Union from 1 January 2007
Export credits	Financing arrangement allowing a foreign buyer of exported goods and/or services to defer payment over a period of time, often used also for an insurance or guarantee arrangement
Export subsidies	Government payments to induce exportation by domestic producers
FLEX	EU Facility for Fluctuations in Export Earnings. A mechanism intended to compensate for shortfalls in total export earnings of ACP countries.
G20	Group of advanced developing countries, characterised by their common demand for greater agricultural market access from developed countries: Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela and Zimbabwe
G90	Group of 90 developing countries including the least-developed countries, ACP and African Union member countries
Geographical indications	Place names (or words associated with a place) used to identify products (for example, 'Champagne') which have a particular quality, reputation or other characteristic because they come from that place
GLOBALGAP	A private sector body that sets voluntary standards for the certification of production processes of agricultural products around the world. GAP stands for Good Agricultural Practice, based on the organisation's principle of 'equal partnership of agricultural producers and retailers who wish to establish efficient certification standards and procedures'.
Green box	Agricultural subsidies that are government-funded and do not involve price support; they do not need not be reduced or eliminated; one example is payments under environmental programmes www.wto.org/english/tratop_e/agric_e/agboxes_e.htm

Green room process	Meetings of representatives of a limited number of WTO members specifically selected and invited by the host (often the WTO director-general) in order to work out an agreement among themselves and then present it to the broader WTO membership for general acceptance
GSP (Generalised System of (tariff) Preferences)	A scheme providing for free rates of duty for merchandise from beneficiary developing independent countries and territories to encourage their economic growth
GSP+ (Generalised System of (tariff) Preferences +)	A special incentive arrangement that provides benefits (additional to GSP) for countries implementing international standards in sustainable development and good governance
Gulf Cooperation Council	(Also known as the Cooperation Council for the Arab States of the Gulf.) A political and economic union involving the six Arab states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates
Intellectual property rights	Rights that accrue to the creator of an intellectual property, including: copyrights, trademarks, geographical indications, industrial designs, patents, and undisclosed commercial information or data
KENYAGAP	A private–public sector initiative in Kenya to adapt the GLOBALGAP voluntary standards scheme to local conditions in Kenya, aiming to make the GLOBALGAP standards more consistent with local production realities, while giving equivalence with international standards.
Mercosur (Mercado Común del Sur/Southern Common Market)	Argentina, Brazil, Paraguay and Uruguay www.mercosur.int
Ministerial Conference	The highest policy- and decision-making body of the WTO, composed of the trade ministers of all WTO members
Modulation	The instrument that provides a means to transfer Common Agricultural Policy (CAP) funds from direct aids to farmers and market measures ('Pillar 1' of the CAP) to rural development measures ('Pillar 2'); it applies to all farmers across the EU with the exception of the smallest. In order to finance the additional rural development measures agreed in the reform, all direct payments (single payment scheme and other direct aids) were reduced, by 3% in 2005, 4% in 2006 and 5% from 2007 onwards until 2012
Most-favoured nation treatment (MFN)	WTO members are normally required not to prefer or favour one or some WTO member/s over other WTO members
Multifunctionality	The concept that agriculture has many functions in addition to producing food and fibre (environmental protection, landscape preservation, rural employment, etc.)
National treatment	The obligation to treat domestic and imported goods, services, service suppliers, investments and intellectual property rights equally or in the same way
Non-annex 1	Value-added products produced on the basis of the Common Agricultural Policy's agricultural raw materials, but which were not included in the agricultural products listed in the annex to the Treaty of Rome and subsequent EU treaties

Originating product	A product is considered 'originating' if it is 'wholly' obtained in an ACP country or if it has undergone one of the various stages of processing which grants the status of originating product on 'non-wholly obtained products'. Central to the rules of origin under the Cotonou Agreement
PACER Plus	The Pacific Agreement on Closer Economic Relations (PACER) agreement was signed in 2001 by Pacific Islands Forum leaders. The Pacific Islands Forum consists of the Forum Island countries plus Australia and New Zealand. The negotiations for a new trade and economic agreement, known as PACER Plus, were launched in 2009. These negotiations build on the previous agreement of 2001 and envisage trade liberalisation beyond the trade in goods covered under the 2001 agreement.
Pacific Island Forum	Represents 16 heads of government of all the independent and self-governing Pacific Island countries, including Australia and New Zealand www.forumsec.org.fj
Peace clause	Provision in Article 13 of the WTO Agreement on Agriculture which says that agricultural subsidies committed under the agreement cannot be challenged under other WTO agreements, in particular the Subsidies Agreement and GATT; expired at the end of 2003
Pillar 1 and 2 measures	Pillar 1 covers direct aids to farmers and market measures under the EU CAP; Pillar 2 covers rural development measures
Precautionary principle	Covers cases where scientific evidence is insufficient, inconclusive or uncertain, and preliminary scientific evaluation indicates reasonable grounds for concern that potentially dangerous effects on the environment or human, animal or plant health may be inconsistent with the level of protection chosen by a particular country
Preference erosion	A process in which trade negotiations, by entailing a general reduction in tariffs, erode the value of the preferences granted to developing countries
Programme d'options spécifiques à l'éloignement et l'insularité (POSEI)	Specific measures concerning agricultural products to assist the French Overseas Departments (POSEIDOM), the Azores, Madeira (POSEIMA) and the Canary Islands (POSEICAN)
Quad countries	USA, Japan, Canada and EU
Quint countries	USA, Japan, Canada, Australia and EU
Rules of origin	Laws, regulations and administrative procedures that determine a product's country of origin and affect whether a shipment falls within a quota limitation, qualifies for a tariff preference, or is affected by an anti-dumping duty
SADC configuration	The Southern African Development Community (SADC) countries negotiating an EPA with the EU: Angola, Botswana, Lesotho, Mozambique, Namibia, South Africa, Swaziland and Tanzania
Sanitary and phytosanitary (SPS)	Measures to protect humans, animals and plants from diseases, pests or contaminants

Sensitive products	(a) In the framework of multilateral negotiations: products nominated by WTO members as not subject to full disciplines by mutual agreement; the EU has explicitly stated that sensitive products will not be exempt from tariff cuts, although they will be at a reduced level; any allowance for sensitive products would be wider for developing countries. (b) In the framework of bilateral negotiations (including EPAs): products that are excluded from the agreement
Singapore issues	The four issues identified in the Singapore Ministerial Conference in 1996. The WTO agreed to create four separate working groups to discuss the issues as part of its work programme: (i) relationship between trade and investment; (ii) relationship between trade and competition policy; (iii) trade facilitation; (iv) transparency in government procurement
Single farm payment	From January 2005, replaces most individual scheme payments under the current Common Agricultural Policy regime. This single payment will not be linked to production, but it is conditional: farmers must keep the land in 'good agricultural and environmental condition' (GAEC) and meet cross-compliance requirements
Single Payment Scheme (SPS)	The EU's decoupled annual payment to farmers in the third phase of Common Agricultural Policy reform
Single-desk exporters	Enterprises with responsibility for domestic and export sales (such as state trading enterprises) account for large shares of world trade in certain products: about 40% for wheat and 30% for dairy products
Southern African Customs Union (SACU)	Botswana, Lesotho, Namibia, South Africa and Swaziland www.sacu.int
Southern African Development Community (SADC)	Angola, Botswana, DR Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe www.sadc.int
Special and differential treatment (SDT)	The principle that allows developing countries special terms regarding compliance with WTO obligations in view of their different state of economic development. This includes receiving preferential access to developed country markets without having to provide a similar access to their own markets, and flexibility in the application of domestic support measures
Special products	Products that concern food security, rural development or livelihood security, designated as 'special' with the agreement of the WTO; they enjoy lower tariff-reduction schedules over a longer implementation period, and are exempt from minimum access quota provisions ftp://ftp.fao.org/docrep/fao/005/y4852e/y4852e03.pdf
Special safeguard clause	Refers to Article 5 of the Uruguay Round Agreements Act, which authorises WTO members, when their trade situation justifies such action, to apply additional duties in order to prevent sudden or unpredictable surges in imports or sharp reductions in import prices
STABEX	EU Facility for Stabilisation of Export Earnings. A compensatory finance scheme to stabilise export earnings of ACP countries.

State trading enterprises	'[G]overnmental and non-governmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales the level or direction of imports and exports' (WTO definition). Three trade-distorting practices of STEs – cross-subsidisation, price-discrimination and price pooling – can be identified as 'hidden' export subsidies www.wto.org/english/tratop_e/statra_e/statra_e.htm
Tariff escalation	Occurs when the tariff applied on a product category rises as the level of processing increases
Tariffication	The conversion of quotas or other non-tariff barriers to tariffs that would provide roughly the equivalent level of trade restrictions on imported products
Tariff-rate quota (TRQ)	A defined quota of the import in question (usually a sensitive product) that enters at a certain rate, while imports above that level face a new, higher tariff rate
Trade-related intellectual property rights (TRIPs) agreement	Makes the trade concepts of national treatment and most favoured nation treatment applicable to the protection, application and use of intellectual property rights
Trade-related investment measures (TRIMS) agreement	Requiring national treatment in measures to encourage or regulate foreign investments, prohibiting quantitative restrictions and requiring transparency
Union Economique et Monétaire Ouest Africaine (UEMOA) (= WAEMU)	Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo
Uruguay Round	The negotiations under the auspices of GATT that were launched at Punta del Este, Uruguay in 1986 and concluded at Marrakesh, Morocco in April 1994
Uruguay Round Agreement	The package of trade agreements made at the conclusion of the Uruguay Round. The main agreement is the WTO Agreement, to which are annexed all the other trade agreements, decisions and understandings agreed during the Uruguay Round
West Africa region	16 countries: Benin, Burkina Faso, Côte d'Ivoire, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo
West African Economic and Monetary Union (WAEMU) (= UEMOA)	Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo
WTO Agreement	The main framework treaty creating the World Trade Organization, to which are annexed the various other Uruguay Round agreements. As of 23 July 2008, 153 countries had ratified or acceded to the WTO Agreement

Agritrade

Agricultural and fisheries trade issues for ACP countries

2010 COMPENDIUM

This publication is a compilation of analyses published on the *Agritrade* website (http://agritrade.cta.int) in 2009/2010. It brings together executive briefs that factually and impartially review various developments affecting trade in the agricultural and fisheries sectors of ACP countries.

Launched by CTA (the ACP–EU Technical Centre for Agricultural and Rural Cooperation) in 2001, the *Agritrade* website is dedicated to agricultural trade issues in the context of ACP countries (Africa, Caribbean and Pacific) and the 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 Common Agricultural Policy (CAP) and their implications for ACP–EU trade, as well as for major commodities (bananas, cereals, sugar, cotton, fishery products, etc).

ACP–EU Technical Centre for Agricultural and Rural Cooperation (CTA)

The Technical Centre for Agricultural and Rural Cooperation (CTA) was established in 1983 under the Lomé Convention between the African, Caribbean and Pacific (ACP) group of states and the European Union member states. Since 2000, it has operated within the framework of the ACP–EU Cotonou Agreement.

CTA's tasks are to develop and provide services that improve access to information for agricultural and rural development, and to strengthen the capacity of ACP countries to produce, acquire, exchange and utilise information in this area. CTA's programmes are designed to: provide a wide range of information products and services and enhance awareness of relevant information sources; promote the integrated use of appropriate communication channels and intensify contacts and information exchange (particularly intra-ACP); and develop ACP capacity to generate and manage agricultural information and to formulate ICM (information and communication management) strategies, including those relevant to science and technology. CTA's work incorporates new developments in methodologies and cross-cutting issues such as gender and social capital.

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