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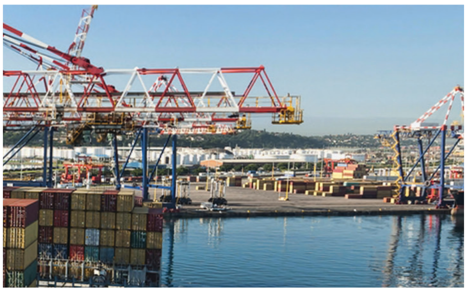
Executive brief



Market access

1. Background and key issues

The EU remains by far the world's leading trader in food and agricultural products, with the ACP (including South Africa) collectively representing the second largest source of EU imports, and the EU's third largest market for exports. In 2012, the EC published a new trade and development strategy which reflected the major trends in EC policy.

ACP states currently export to the EU under three trade regimes:

- Economic Partnership Agreements (EPAs) – interim or full;
- 'Everything But Arms' (EBA);
- Standard Generalised System of Preferences (GSP).

Proposed revisions to the EU Market Access Regulation No. 1528/2007 (MAR 1528/2007) and to the EU GSP scheme will increase this to four regimes by 2014, if some ACP countries lose duty-free, quota-free access by not completing the EPA process and are graduated out of GSP to Most Favoured Nation (MFN) treatment as a result of their classification as upper-middle income countries. The EC maintains however that there is sufficient time to resolve outstanding contentious issues and conclude the EPA negotiations process prior to the deadline on 1 January 2014. In addition, there is as yet no consensus within EU institutions on the EC proposal.

The process of erosion of the value of ACP trade preferences through the EU's conclusion of free-trade area (FTA) agreements with third countries continues. This can intensify competition for some ACP exporters on particular markets. This however is dependent on the similarity between the export structures of ACP and non-ACP countries. It requires detailed analysis before highly targeted responses can be developed to the specific processes of preference erosion.

In the coming period, in regions such as the Caribbean, new trade policy challenges will emerge in the implementation of EPA provisions, in relation to the use of 'para-tariffs' – a wide array of taxes, charges and levies that are not described as tariffs by the government imposing them. This could become an area of controversy.

The evolution of EU implementation arrangements and standards continues to be an ongoing challenge for ACP exporters, from changes in sanitary and phytosanitary (SPS) and food safety standards to standards related to quality and production processes. In some sectors, new challenges are emerging (e.g. in relation to standards on animal welfare), while in other areas new opportunities could emerge where ACP suppliers are better able to meet the standards than their competitors (e.g. if sustainability requirements for palm oil production were extended to food uses).

Market access issues faced by countries trading with the EU also need to be seen in the context of expanding ACP trade relations with Asian and other strongly growing emerging economies (including in Africa). For example, in 2012 China is projected to emerge as Africa's single overall largest trade partner (i.e. for all exports). However, this trend raises important questions for ACP producers over how to ensure that they can support a structural transformation, moving their products up the value chain to take advantage of the developing markets.

2. Latest developments

Proposals for the modification of Market Access Regulation No. 1528/2007

On 30 September 2011, the European Commission adopted a proposal 'to amend the Market Access Regulation … 1528/2007', which provides transitional duty-free access to ACP countries whose governments have initialled an interim EPA. This proposal calls for the EC to be empowered 'to amend the list of countries that benefit from the preferences … by removing those which have still not taken the necessary steps towards ratification of an EPA'. The EC would be empowered to reinstate countries on the list where the governments concerned 'have since taken the necessary steps towards ratification of their respective agreements after removal from Annex I'.

According to the EC information note that accompanied the proposal, 18 countries 'have not even signed their agreement or are still not applying it'. For these 18 countries, the current duty-free, quota-free access enjoyed under MAR 1528/2007 would be lost from 1 January 2014. However, least-developed countries (LDCs) which do not sign an EPA will continue to benefit from the duty-free, quota-free access granted under the EBA scheme. Seven 'low-income or lower middle income countries (Cameroon, Fiji, Ghana, Côte d'Ivoire, Kenya, Swaziland, Zimbabwe)' would revert to GSP treatment, while two upper-middle income countries, Botswana and Namibia, 'would not qualify for preferential access under the proposed revision to the Generalised System of Preferences'. (Nigeria and Gabon never initialled an EPA, so never benefited in the first place from MAR 1528/2007.)This would imply the application of MFN duties to imports from Botswana and Namibia, two of only five ACP countries to have an FTA with the EU fully in place by 2014 (as a result of applying the tariff elimination provisions of the EU–South Africa Trade, Development and Cooperation Agreement/TDCA to the whole of the territory of the Southern African Customs Union).

Table 1 sets out the EC assessment of the volumes of trade that would be affected by this process, and the value of the current tariff preferences enjoyed.

The EC argues that recent developments should allow the countries concerned to 'conclude ongoing regional negotiations in time' (see *Agritrade* article 'EC proposes January 2014 as deadline for completion of EPA process', 20 October 2011). To date, Zimbabwe has ratified and begun implementation, while the governments of Ghana, Côte d'Ivoire and Cameroon are committed to completing the process before the deadline. Regional factors complicate the situation of Kenya, Swaziland, Namibia, Botswana and Fiji. As of 1 May 2012, the EC proposal was still under discussion in the EU Council and European Parliament, with no consensus yet emerging around the EC's proposed deadline.

In terms of the likely impact on agricultural trade, a report published in 2007 by the Overseas Development Institute (ODI) allows the products primarily affected to be identified so that the likely market consequences can then be extrapolated (see Table 2). In the case of Kenya, the imposition of duties would affect mainly horticulture and floriculture exports, with a relatively moderate average level of additional duties. Some exports may be able to absorb the higher duties, or the companies concerned may be able to adjust their product mix to target markets where EU GSP duties are lower. The greatest impact may be felt in terms of future investment flows, with potential new investors favouring investment in neighbouring LDCs which would continue to enjoy duty-free, quota-free access to the EU market.

Table 1: Overview of the impact of a reimposition of duties (€ '000)

Country	EU imports	Dutiable imports	Percentage of imports dutiable (%)	Preferences under Reg. 1528/2007 (%)	Preference value of duties
Botswana	370,707	35,639	9.6	81.7	29,111
Cameroon	1,741,473	333,724	19.2	14.9	49,858
Fiji	92,402	89,986	97.4	75.3	67,782
Ghana	1,087,880	376,548	34.6	10.3	38,654
Côte d'Ivoire	3,051,022	1,029,512	33.7	10.3	105,662
Kenya	1,075,563	751,792	69.9	5.8	43,804
Namibia	585,765	298,663	51.0	19.5	58,156
Swaziland	130,656	125,764	96.3	52.0	65,427
Zimbabwe	234,992	167,459	71.3	30.1	50,365

Source: 'Proposal for a regulation of the European Parliament and of the Council amending Annex I to Council Regulation (EC) No 1528/2007 as regards the exclusion of a number of countries from the list of regions or states which have concluded negotiations', COM (2011) 598 final, 30.9.2011. http://www.ipex.eu/IPEXL-WEB/dossier/dossier.do?code=COD&year=2011&number=0260

In Namibia, beef exports would be severely affected by the imposition of MFN duties. This would probably result in the commercial closure of the EU market to beef exports (Botswana would be similarly affected). While the imposition of MFN duties would be likely to result in loss of earnings on grape exports, this is unlikely to lead to a major contraction of the sector, although it could affect further investment in the absence of equivalent transportation links to alternative markets.

For Côte d'Ivoire, Ghana and Cameroon, the sector worst affected would be banana exports. With new EU tariff preferences being extended to a range of Latin American banana exporters, there would be little prospect of passing on tariff increases to EU consumers in major markets such as the UK, given the fierce 'banana price wars' that characterise the retail sector. Reversion to GSP treatment for Côte d'Ivoire and Ghana could also hold back efforts to move up the cocoa value chain, given the tariff escalation that is a feature of the cocoa sector.

Fiji and Swaziland would also face very high tariffs on raw sugar exports, which would profoundly undermine their competitiveness on the EU market.

Substantive policy change pending in the Caribbean

In the Caribbean, efforts continue to strengthen EPA implementation:

- EPA implementation units have been established at the national level.
- A financing agreement for development assistance has been concluded, in the form of a three-pronged programme worth €46.5 million for capacity building in relation to EPA implementation – see *Agritrade* article 'SPS and food safety issues a major constraint on Barbadian exports to EU', 28 May 2012).

Academic analysis has highlighted how in the case of the Caribbean, a range of 'non-trivial policy change will start to happen' from 2014, when 'EPA rules on para-tariffs kick in'. The term 'para-tariffs' covers a wide array of taxes, charges and levies that are not described as tariffs by the government imposing them (and so are not included in the tariff reduction or exclusion schedules), but which are levied only on imports and not on domestic output (or are levied at a differential rate), and exceed the real cost of providing any

> *"In the Caribbean, para-tariffs are scheduled to be eliminated between 2014 and 2017"*

services for which they are notionally a charge (such as customs documentation). Para-tariffs are scheduled to be eliminated between 2014 and 2017 (Years 7 to 10 of the implementation schedule), coinciding with moves towards the dismantling of some significant tariffs. This could begin to generate tensions and disputes, since it is up to individual ACP states to determine whether a particular levy or tax is a para-tariff and hence needs to be removed. It remains to be seen whether any of these national decisions will be contested by the EC, whether any of these cases will go to arbitration, and whether the EC invokes equivalent sanctions.

Table 2: Products and countries affected by a reimposition of duties under the EU proposal

CN code	Product description	Maximum changes in tariff levels	Countries affected
		Very high tariff jumps	
17011110	Raw cane sugar for refining	€339/1,000 kg	Swaziland, Fiji, Kenya Zimbabwe
17011190	Raw cane sugar	€419/ 1,000 kg	Swaziland, Fiji, Kenya Zimbabwe
02013000	Fresh or chilled bovine meat, boneless...	12.8% + €303.4/1,000 kg	Namibia, Botswana
08030019	Bananas, fresh	€176/1,000 kg	Côte d'Ivoire, Cameroon, Ghana
24012010	Partly/wholly stemmed flue-cured virginia tobacco...	14.9% max €240/1,000 kg	Zimbabwe
		Large tariff jumps	
16041418	Prepared or preserved tuna and skipjack	+20.50%	Côte d'Ivoire, Ghana
16041411	Tuna prepared or preserved in vegetable oil	+20.5%	Côte d'Ivoire, Ghana
03026966	Fresh or chilled cape hake…	+15.0%	Namibia
03037811	Frozen cape hake…	+11.5%	Namibia
03037981	Frozen monkfish	+15.0%	Namibia
		Moderate tariff jumps	
20055900	Unshelled beans prepared and preserved	+15.7%	Kenya
20082079	Pineapples prepared and preserved…	+15.7%	Kenya, Swaziland
20082090	Pineapples prepared and preserved…	+14.9%	Kenya, Swaziland
20083090	Citrus fruit prepared and preserved…	+14.9%	Swaziland
20094930	Pineapple juice…	+11.7%	Kenya
08051020	Sweet oranges	+12.8%	Swaziland, Zimbabwe
20082071	Grapefruit segments, pre-served and prepared…	+10.6%	Swaziland,
07081000	Fresh or chilled peas, shelled or unshelled	+10.1%	Kenya, Zimbabwe
07082000	Fresh or chilled beans, shelled or unshelled	+10.1%	Kenya

Source: Extracted from 'The costs to the ACP of exporting to the EU under the GSP', ODI, Final Report, March 2007

The EU's revision of its GSP regime

In May 2011, the European Commission (EC) published its proposals for a new GSP regime. This is the first stage in the approval process, involving the EU Council and European Parliament. While the EU's current GSP regime expired at the end of 2011, it has been temporarily extended, with the new GSP regime scheduled to enter into force in 2014.

While previous EC GSP reforms had tended to widen the coverage of the scheme, the latest proposals go against this earlier trend. These, if approved,

> *"EC GSP reforms if approved will cut the number of countries benefiting from the scheme from 176 to about 80"*

will cut the number of countries benefiting from the scheme from 176 to about 80. This will be done by:

- removing countries which have better or equivalent access under another scheme from the list; or
- graduating out countries that are classified by the World Bank as 'upper-middle income' or 'high-income'.
- This would exclude:
- all non-LDC ACP countries whose governments have signed a full or interim EPA;
- all non-LDC ACP countries whose governments have initialled an interim EPA but not concluded negotiations;
- upper-middle income countries such as Gabon, Namibia and Botswana.

In addition to this basic change, the product graduation mechanism (which withdraws preferences from countries with a relatively large market share) would be strengthened, with more countries expected to be graduated out of the scheme on more products. The criteria for GSP+ eligibility are also to be changed, with stricter implementation of compliance verification. The proposal also retains safeguard provisions on EU Common Agricultural Policy (CAP) products. According to the EC, these changes will allow the benefits of the GSP scheme to be more focused on poorer countries.

Press and academic analysis sees the changes introduced as mainly affecting rapidly growing countries such as India and Brazil, and bolstering 'the EU's push to strike free-trade agreements with individual countries or groups of nations' (see *Agritrade* article 'Commission unveils proposal for new GSP', 10 June 2011).

The EU's expanding network of third-country trade agreements

The EC continues to negotiate and conclude new trade arrangements, many of which could increase competition for ACP exporters in specific

> *"Many of the EU's new trade arrangements could increase competition for ACP exporters in specific product areas"*

product areas. Careful review is required to assess which products are affected. The most relevant developments in 2011–12 included:

- the approval of EU agreements concluded with Morocco and some Central American and Andean Pact countries;
- progress in negotiations with India;
- a stalling of negotiations with Mercosur.

The EC maintains that its agreements with Central American and Andean Pact countries will open up a new era in trade relations. Large gains in fruit, vegetable and nut exports are projected for Panama and Costa Rica, and press reports indicate that European countries are replacing the US as the main export destination of Honduran agricultural exports (bananas and melons) following a 74.9% increase in the value of exports in 2011 compared to the first quarter of 2010. This suggests that some countries in Central America are poised to exploit the new trade opportunities that these agreements will generate.

In terms of the agreements with Andean Pact countries, attention has focused on the impact of banana and sugar sector tariff concessions, including in market components such as fair-trade, and organic bananas. However, as in Central America, a range of horticultural product markets of export interest to ACP suppliers could be affected.

Analysis from the Peruvian Ministry of Agriculture suggests that the EU FTA could increase agro-exports by a third by 2016 (from US$1.5bn to US$2bn), particularly for bananas, fresh flowers, a range of fresh and frozen fruit and vegetables, cereals and tea (see *Agritrade* article Progress in third country negotiations continues to cause concern to EU farmers', 10 June 2011).

> *"Detailed analysis of new tariff concessions will be required to assess the level of direct competitive threat to individual ACP exports to the EU"*

In order to assess the level of direct competitive threat posed by each agreement to individual ACP exports to the

EU, detailed line-by-line analysis will be required of new tariff concessions and current and evolving patterns of exports from individual ACP countries. In addition, individual ACP governments will need to assess the areas in which they should be focusing policy support in order to develop trade, in view of wider national and regional development aspirations (see *Agritrade* article 'New EU trade agreements entering into force', 6 September 2011).

During 2011 and into 2012, EU farmers fiercely contested the approval of the EU-Morocco agricultural trade agreement, given its projected impact on six sensitive products (tomatoes, courgettes, cucumbers, garlic, citrus fruit and strawberries). However, the agreement was approved at the February 2012 plenary session of the European Parliament. The final vote was informed by wider political considerations linked to supporting the integration of North African countries into the EU's economic sphere.

In relation to this agreement, arising from the deepening of EU trade integration with North African countries, ACP horticultural exporters may need to build into their investment plans an increase in competition in certain horticultural products. This will require a detailed analysis of current trade flows from and investment plans in North African horticulture, with the aim of identifying clearly the particular product areas where an increase in competition with existing or planned ACP exports is likely (see *Agritrade* articles, 'Spanish farmers lobby the EP over Moroccan agreement, but wider political concerns are likely to dominate', 22 January 2012, and 'Tomato exports cause heated debate around the approval of the EU–Morocco agricultural trade accord', 11 March 2012).

In terms of pending agreements, an EC study published in April 2011 on the impact of the Mercosur agreement on EU agricultural sectors found that the overall impact would be negative for the EU farming sector but with considerable variation across agricultural products and regions. While particular concerns have been expressed in the EU over the impact of the Mercosur deal on the beef sector, the possible impact on the sugar sector is of greater concern to ACP exporters. This needs to be seen in the context of EU imports of sugar from Brazil more than doubling to over 1.1 million tonnes in 2010/11 (see *Agritrade* article 'EU sugar market developments in 2011', 28 May 2012).

Other fruit and vegetable sectors of interest to ACP producers and exporters could also be affected by an EU–Mercosur agreement, depending on the structure of the final agreement. However, it became evident in 2011/12 that the Mercosur process was largely stalled, reducing any imminent competitive threat to ACP exporters.

The pending EU agreement with India is potentially of greater concern. Press reports indicate substantial progress in negotiations, with a final agreement expected by the end of 2012. The Indian government is planning 'to develop clusters of growers who will be trained in producing high quality, export standard vegetables'. It has even been suggested that the Indian government intends to establish 'a minimum export price … to encourage the best producers to join the export clusters'. This needs to be seen against the background of a resurgence in certain Indian horticultural exports that were previously affected by the stricter application of SPS and food safety controls (see *Agritrade* article 'Indian government prepares to capitalise on new EU preferences', 15 April 2012).

Given the scale of Indian production, initiatives by the Indian government to support horticultural exporters in getting to grips with EU SPS, food safety and general market requirements, in order to be able to capitalise on market opportunities arising under an FTA, are potentially a major area of concern to a range of ACP exporters. (For example, India is by far the world's largest banana producer.)

The EU's trade and development strategy

In January 2012 the EC published a new Communication, 'Trade, growth and development', updating its 2002 Communication on trade and development. The EC stressed the need to increasingly differentiate among developing countries in its trade preferences. It maintained that while trade is a necessary condition for development, it is not sufficient, and underlined the importance of domestic policy reforms and the benefits of 'locking in' domestic reforms through bilateral or regional trade agreements.

The Communication set out a range of practical, widely accepted proposals, emphasising the need to support small operators in developing countries (including farmers and agro-processors), since these 'form the backbone of the economies of many developing countries'. Proposals included:

> *"In January 2012 the EC's new communication on trade set out a range of practical, widely accepted proposals emphasising support for small operators in developing countries"*

- extending practical information on trade policies and market information;

- helping small producers to differentiate their outputs, for example through geographical indications or fair-trade labelling;

- making better use of diaspora populations in Europe as marketing agents;

- the more proactive use of 'aid for trade' to help small producers take advantage of new export opportunities created by trade agreements.

The Communication also committed the EU to '[promoting] the elimination of tariff and non-tariff barriers on goods and services that can deliver environmental benefits.' More controversially, the Communication extended the argument made in its proposal for a new GSP system implying that trade policy is a zero-sum game, with poorer countries directly gaining if preferences are removed from less poor countries (see *Agritrade* article 'European Commission unveils trade and development strategy', 3 March 2011).

The focus of commentaries on the communication ranged from those noting the shifting EC focus towards poorer countries, small business and 'good governance', to criticisms that key elements of the communication excessively reflected EU corporate interests.

From an agricultural perspective, reference was made to the desirability of excluding food aid shipments from export controls, and a commitment was made to building on the Vulnerability Flex Mechanism. However, no reference was made to other important agricultural trade issues identified in the ten-agency report prepared as part of the 2011 G20 Ministerial initiative. No reference was made to tackling food insecurity problems, addressing 'large country trade policies' that 'increase world price volatility and create negative externalities for smaller countries', or reducing the impact of biofuel policies on food markets (see *Agritrade* article 'G20 task force recommends wide-ranging action to reduce impact of world price volatility', 5 July 2011).

Long-term implications of evolving EU production standards

In the course of 2011–12, discussions on the application of EU production standards raised the profile of a number of market access issues. The first of these related to the evolution of EU animal welfare standards. On 19 January 2012, the EC adopted a new 4-year animal welfare strategy aimed at improving the welfare 'outcomes' for animals, through better training and education of those involved in handling animals. Under the new strategy, operators are given flexibility in how they attain the necessary welfare standards.

An evaluation prepared as background to the new strategy found that welfare standards have imposed additional costs of around 2% of the value of production, but that there was no evidence that this threatened the sustainability of EU livestock production. However, the EC takes the view that there is 'no point in improving EU welfare standards if it has the effect of increasing imports from third countries with lower standards'. As a consequence, the EC aims to continue to include animal welfare provisions in bilateral trade agreements, to increase opportunities for bilateral cooperation and to remain active in the multilateral arena in promoting the internationalisation of EU animal welfare standards (see *Agritrade* article 'EU launches new animal welfare strategy', 3 March 2012).

> *"The EC aims to continue to include animal welfare provisions in bilateral trade agreements and promote EU standards in international forums"*

A further area where the development of EU production standards could affect market access is through the possible extension of sustainability criteria to palm oil used in the food sector. Currently the European Renewable Energy Directive applies sustainability criteria to oil crops used in biofuel production. Questions arise in relation to this:

- In the coming years, will the EC seek to extend such sustainability criteria to the production of oil crops for use in food products?

- Would this then be linked to tariff concessions for sustainably produced palm oil?

While such moves could benefit PNG palm oil production – by supplying sustainable palm oil to the New Britain Palm Oil company (the largest single sustainable palm oil supplier), it is unclear what effects it would have on palm oil production elsewhere in the ACP (see *Agritrade* article 'Policy challenges related to slow take-up of sustainable palm oil production', 7 January 2012).

ACP third-country market access negotiations

Africa's external trade relations are rapidly evolving. According to analysis from Standard Bank South Africa, 2012 is likely to see China emerge as Africa's single biggest trading partner. Given that in 2008 Africa's exports to China stood at half those of the US, this represents a dramatic development. China

> *"2012 is likely to see China emerge as Africa's single biggest trading partner ... China is also emerging rapidly as a major source of imports"*

is also emerging rapidly as a major source of imports (see *Agritrade* article 'China's growing role in African trade', 13 May 2012). Similar trends are also apparent in trade with India, where annual trade with Africa has increased by a factor of 15 in the past 10 years (see *Agritrade* article 'South Africa diversifying its trade away from the EU', 6 October 2011). According to Standard Bank, these trends are 'putting pressure on more established partners such as the EU and the US to strengthen their commercial ties with Africa'.

From a structural development perspective, however, this trend is less dramatic than it appears. Significantly, 'fuels, ores and metals account for almost 90% of all Chinese imports from Africa', a far higher dependence on basic commodity exports than is the case in trade with the EU and US. (For example, minerals, base metals, precious metals and stones account for 83% of South Africa's exports to Asia, but only 55% of its exports to the EU and 58% of its exports to the USA).

In terms of trade negotiations between Africa and non-EU countries in 2011, there was progress in both the SACU-Mercosur and SACU-India negotiations. While these agreements are likely to see some reductions in tariffs levied on food and agricultural trade, analysts have stressed the 'trade-lite' nature of these agreements. Unlike the EU's EPAs, these agreements:

- involve tariff reductions rather than tariff elimination;
- have a more limited product coverage;
- allow the exclusion of a wider range of sensitive products, most notably agri-food products (see *Agritrade* article '"Trade-lite" agreements pending between SACU and emerging economies', 7 January 2012).

The USA, according to press reports in November 2011, is seeking 'a new trade and investment partnership with the EAC', based on five pillars:

- developing a new trade and investment partnership;
- investing in infrastructure;
- strengthening governance;
- promoting financial integration;
- improving food security.

According to the head of the US delegation in November 2011, the US was 'seeking a full-scale free trade treaty' within the next year, delivering 'some quick wins'. The urgency attached to this US initiative may well be linked to the impending implementation of the EU EPA and China's growing economic presence in the East African region. These negotiations with the US could nevertheless provide opportunities for the East African Community to address certain limitations in the current US African Growth and Opportunity Act (AGOA) framework, from which the Kenyan textile sector has to date been unable to benefit. This in turn could serve to lay a basis for strengthening the functioning of cotton supply chains in the East African region (see *Agritrade* article 'USA seeking new trade deal with the East African Community', 28 November 2011).

In the Caribbean, a discussion paper published by the European Centre for Development Policy Management (ECDPM) in June 2011 suggested that the region's engagement with emerging global trade players was beginning to affect traditional ties with the EU. More recently, the growing Chinese engagement in the Jamaican sugar sector and associated potential reorientation of exports away from the EU, as well as Guyana's growing rice exports to non-EU markets, can be taken as indicative of this change in the agri-food sector (see *Agritrade* articles 'Debate on marketing arrangements for Jamaican sugar', 8 April 2012, and 'Guyana's rice exporters urged not to neglect traditional markets', 23 November 2011). Nevertheless, non-traditional exports from a range of Caribbean countries to the EU continue to grow. Caribbean countries have not discounted the need to maintain strong relations with the EU, particularly linked to addressing the long-term development needs of the food and agricultural sector (see *Agritrade* article 'Caribbean's growing relations with emerging nations affect historical EU ties', 25 October 2011).

In the Pacific, agricultural trade relations (apart from the sugar, palm oil and coffee sectors) focus on non-EU markets.

"In the Pacific, market access issues increasingly relate to non-tariff barriers – notably food safety and SPS requirements"

Here, the market access issues increasingly relate to the application of non-tariff barriers, notably food safety and SPS requirements, with many current 'aid for trade' initiatives aimed at assisting Pacific Island exporters in getting to grips with these challenges (see *Agritrade* article 'Fijian horticulture exports expanding, but facing market access barriers', 9 August 2011). In late 2011, however, the possibility of diversifying sugar trade relations away from the EU began to be explored by the Fiji Sugar Corporation (FSC), although a spokesperson for FSC was keen to stress that this 'would in no way affect existing contractual commitments to supplying Tate & Lyle' (see *Agritrade* article 'FSC reiterates commitment to American Sugars under the Tate & Lyle agreement', 4 December 2011).

3. Implications for the ACP

The future of ACP duty-free, quota-free access

EC proposals to modify MAR 1528/2007 leave the affected ACP governments (since LDCs benefit from the EBA, they are not affected by any changes to MAR 1528/2007) with a number of policy options:

- signing and ratifying existing bilateral interim EPAs before 1 January 2014;
- negotiating, signing and ratifying new comprehensive EPAs by 1 January 2014;
- accepting the loss of duty-free, quota-free access to the EU market through GSP or MFN and focusing on developing trade with non-EU partners in the affected sectors.

Signing initialled EPAs still depends on the ability of both parties to resolve a number of outstanding contentious issues. It is unclear how the current proposed deadline will impact on this. Equally, it is unclear for some specific products how easy finding equivalent alternative non-EU trade partners would prove to be, given the differing structures of demand in EU and advanced developing countries. Markets may be available, but the prices offered may be substantially less attractive than those on EU markets. This requires a product-by-product analysis.

The situation of Namibia and Botswana is unique among ACP countries potentially affected by the EC September 2011 proposal. By 1 January 2014, these countries' imports from the EU will fall under the provisions of a fully implemented WTO-compatible FTA arrangement (as the EU–South Africa TDCA will be applied to the whole territory of the SACU).

Evolving EU standards: Animal welfare and sustainable palm oil

Traditionally the EU has never sought to use trade arrangements to enforce compliance in the area of animal welfare standards. However, in the tuna sector the EU is increasingly seeking to apply production standards to the granting of the rights to place tuna products for sale on the EU market. This could be a trend that is eventually extended to the livestock sector, where compliance with various production-related standards becomes a prerequisite for placing products for sale on the EU market. Developments in this direction need to be the subject of an early, carefully structured dialogue with the EU in order to ensure that ACP concerns are addressed in the policy-making process.

Regarding trade in palm oil, recent discussions suggest that the development of sustainable palm oil production is reaching a critical juncture. In terms of ACP–EU trade relations, two important issues arise:

- the possible use of tariffs to favour imports of certified sustainable palm oil;
- the extension of sustainability criteria to the use of palm oil in food products.

The latter could be modelled on the sustainability criteria applied under the Renewable Energy Directive, which deals with the use of oil crops in biofuel production. Policy developments in these areas could stimulate the uptake of the available sustainably certified palm oil, prompt an expansion of sustainably produced supplies, and promote a shift towards systems of certification that progressively eliminate 'unacceptable sources' of supply.

Governments of ACP countries that produce palm oil will need to carefully review whether such a policy evolution, at this point, is consistent with their national palm oil development strategies.

Responding to accelerating preference erosion

While many ACP countries and private-sector associations are fully aware of the potential impact of new EU trade agreements with third countries, in other ACP countries there is a need to systematically support the analysis of the impact of specific new trade agreements on particular agro-food product exports. While existing databases such as the ITC's Trade Map and Market Access Map provide a basis for such analysis, there is a need to support a structured review process that engages with ACP exporters in potentially affected products. The extent of increased competition and appropriate adjustment responses can then be determined. This potentially constitutes an important area for 'aid for trade' support.

Responding to the GSP review

Significantly, all upper-middle income countries will be excluded from the EU's revised GSP scheme, even for products where they are not very competitive. The justification appears to be that graduating these countries out of GSP will ease pressure on less competitive developing country exporters, and hence 'focus the GSP preferences on countries most in need'. However the classification of countries based solely on per capita gross national income (i.e. upper-middle income countries) does not equate with them being among 'the most competitive developing countries'. For example, China, Indonesia and Thailand – seen as being highly competitive – will remain GSP beneficiaries, while Namibia and Gabon will be graduated out of the GSP scheme.

Research by ODI shows that the most likely beneficiaries of the proposed changes are not very poor countries, but high-income states that export the largest quantities of the affected goods. The proposed changes will thus do little to help the poorest LDCs and are unlikely to focus GSP preferences on the countries most in need.

Exploiting new trade opportunities to promote structural change

The critical issue faced in the agro-food sector arising from the ACP's evolving patterns of trade is what strategies Africa governments need to set in place to ensure that the new trade dynamic gives rise to investments that move African production up the value chain. While there are examples of ACP producers successfully repositioning themselves within value chains (e.g. Caribbean rum, Mauritian sugar, Kenyan pre-packed and bar-coded beans), this largely maintains the traditional focus on EU markets. A key challenge for ACP policy makers is how to assist national private-sector operators in making this transition to higher-value products. This could be:

- directly: through new trade relationships with non-traditional partners; or
- indirectly: through stimulating value-added investment from EU sources to prevent trade diversion to emerging partners (e.g. in cocoa supply chains, in view of the impending expansion of Chinese demand).

This potentially offers an important area for 'aid for trade' support.

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About this update
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Other publications in this series and additional resources on ACP—EU agriculture and fisheries trade issues can be found online at http://agritrade.cta.int/

The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP—EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management.

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