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Executive brief

1. Background and key issues

2. Latest developments
   - The overall CAP reform process
   - Improving the functioning of food supply chains
   - Enhancing the agricultural product quality policy
   - Prospects for EU agriculture
   - The EU Food Facility Initiative

3. Implications for the ACP
   - The external dimensions of CAP reform
   - Cross-cutting issues
   - Sector-specific issues

CAP reform

1. Background and key issues

The process of 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 (e.g. tariffs, tariff-rate quotas – TRQs, 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 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 for bulk undifferentiated commodities;
- the elaboration of new policy initiatives and use of broader policies to deal with 'adverse' consequences of more 'market-based' processes of price formation.

The debate on the future of the CAP after 2013 has been taking place since the end of the CAP mid-term review of 2008, although the formal launch of the process of policy deliberation did not take place until November 2010. The EC favours a range of measures building on past reforms, with the aim of:

- ensuring that real crises do not cause excessive damage to the EU's agricultural production base, by establishing effective safety nets;
- equipping European agriculture to respond robustly to market signals by focusing on

quality-differentiated production and improving price competitiveness;

- increasingly diversifying the economic base of rural areas and improving rural living standards.

Key issues under discussions within this reformist option include:

- the future of the direct aid payment scheme;
- the future role of market management tools (including production quotas and export refunds);
- the redefinition of existing policies (food safety and SPS policy, and agricultural product quality policy);
- the development of new policy initiatives designed to address unforeseen consequences of reform (e.g. a policy to strengthen the functioning of food supply chains to the benefit of all stakeholders).

There is however a body of opinion in the EU pushing for more fundamental reforms based on a more free market-based approach to CAP reform. This approach calls for a more efficient targeting of financial resources on clearly articulated public policy objectives, a transition away from subsidisation to support for the provision of 'public goods', a progressive abolition of direct aid payments to farmers and their replacement by social expenditures more clearly targeted on the rural poor.

Since 2008, the EU's agricultural product quality policy has been subject to review. The purpose of this review has been to more clearly articulate quality standards and ensure that EU producers are better placed to secure the full commercial value of quality-differentiated production. The EC sees agricultural product quality as a key cornerstone of the future CAP.

In 2009 a formal initiative was launched to strengthen the functioning of food supply chains. This was undertaken in the light of significant tensions in contractual relations between actors in certain supply chains stemming from inequalities in bargaining power. Work on elaborating specific policy proposals in this area continued into 2010.

The EU continues to expand the scope of its rural development spending, in part to address new priorities (such as climate change concerns) and in part as a means of investing in future competitiveness. Future competitiveness is increasingly seen as being based on serving quality-differentiated, 'luxury purchase' markets in the EU and across the globe. However difficulties are still faced in effectively operationalising this policy dimension.

How the EU redefines the use of existing policy tools and elaborates and applies new policy tools will impact on ACP countries both directly and indirectly – directly through their effects on prices, production and general market consequences, and indirectly through the scope created for the EU to offer increased market access opportunities to non-traditionally preferred trade partners under FTA agreements designed to promote the EU's wider non-agricultural trade objectives.

2. Latest developments

The overall CAP reform process

2010 was a good year for European agriculture. Real agricultural incomes increased by 9.9% as a result of a strong increase in agricultural commodity prices, with only a 1.1% increase in agricultural input prices. The value of EU exports of food and agricultural products grew by 21%, while the value of imports grew only 9%. While farmers continued to express concerns in particular areas, the high world market prices of agricultural commodities is providing a favourable economic background for the implementation of further agricultural reforms (e.g. the abolition of production quotas in the sugar sector).

In the course of 2010, a public consultation process on the future of the CAP was launched, culminating in a public debate on the future of the CAP in July 2010 (see *Agritrade* article 'Outcome of July 2010 "Future of the CAP" conference', September 2010). Following the leaking of a draft communication in October 2010 (see *Agritrade* article 'The CAP towards 2020: Draft communication published by Commission', November 2010), a final version of the communication on the future of the CAP to 2020 was tabled in November 2010. This communication set out the basis for the elaboration of specific CAP reform measures, with the aim of:

- supporting farm income and limiting farm income variability;
- improving the competitiveness of agriculture and enhancing farmers' share of value from within the food chain;
- supporting farmers facing particularly difficult natural constraints;
- ensuring sustainable production practices and securing the provision of environmental goods;
- fostering greener growth through innovation and pursuing climate change mitigation actions;
- supporting rural employment and maintaining the social fabric of rural areas;
- promoting diversification of rural economies, while allowing for structural diversity in European farming systems.

It was argued that these objectives will require the maintenance of public support to the agricultural sector and rural development. The EC expressed the belief that pillar 1 'should contain the support paid to all farmers on a yearly basis', while pillar 2 will give greater flexibility to EU member states to respond to specific concerns and problems.

The EC takes the view the introduction of direct aid payments has enhanced 'the competitiveness of the agricultural sector by encouraging farmers to adapt to market conditions'. Nevertheless a number of principles are advanced to guide a redefinition and rebalancing of the direct aid payment scheme:

- basic income support should be provided but with an upper ceiling;
- payments should be linked to 'greener' measures, but with cross-compliance rules simplified;
- additional support should be provided to areas with 'specific natural constraints';
- voluntary coupled support should be allowed within clearly defined limits;
- support should be targeted on more clearly defined 'active farmers'.

While it was proposed that the basic architecture of market management tools should be maintained, it was considered that traditional market management tools should increasingly be viewed as providing 'merely a safety net' in cases of 'significant price declines'.

Developing policy initiatives to improve the functioning of the food supply chain through addressing 'the current imbalance of bargaining powers along the chain …promoting greater transparency and addressing the functioning of agricultural commodity derivatives markets', were all seen as potentially new areas for policy action. A further strengthening and simplification of agricultural product quality policy and promotional measures were also seen as necessary.

While three policy options were initially advanced (an 'enhanced status quo' option, a 'more balanced, targeted and sustainable support' option, and the 'abolished market and income support option'), all stressed the importance of 'ensuring greater efficiency of interventions', linked to clearly identified policy outcomes. Emphasis was also placed on the importance of elaborating the future CAP in the context of 'sound economic policies and sustainable public finances', while equipping the EU food and agricultural sector to enable it to take advantage of expanding global food demand, in the context of ongoing agricultural trade liberalisation. The importance of ensuring food safety, SPS compliance, respect for animal welfare standards and the promotion of high-quality food and agricultural production were also more strongly emphasised in the final communication (see *Agritrade* article 'Release of EC communication on the future of the CAP to 2020', December 2010).

On 17 March 2011 the EU Agricultural Council met in what was described as the last chance for ministers to make inputs prior to the formal tabling of proposals by the European Commission. According to press reports, this highlighted the division within the Council with the UK, Swedish, Danish, Greek, Latvian, Lithuanian and Estonian governments all feeling unable to endorse the compromise Council conclusions. This arose from concerns that the Council conclusions were 'not ambitious enough' and were putting 'the reform orientated direction that the Council had previously taken at risk'.

The French Agriculture Minister, Bruno Le Maire, welcomed the Council conclusions as 'a strong political signal of support by governments for the CAP. He argued that the principal division in the EU on agricultural policy was not an East–West divide, but 'a difference between those that want a strong CAP and those that are ready to reject a strong CAP'. Agriculture Commissioner Dacian Cioloș for his part claimed that the Council conclusions 'revealed a broad consensus on the main principles of CAP reform, and backed many of the proposals made by the Commission in a policy paper in November'. He played down the abstention of the seven governments, claiming that this was often a result of 'a word here or there' on which agreement couldn't be reached.

Overall the conclusions of the Council in March 2011:

- endorsed better targeting of CAP support on active farmers and on enhancing the competitiveness of smallholder farmers;
- reiterated the importance of the continued 'greening' of the CAP;
- highlighted the broad agreement on the need to continue with coupled support in certain sensitive sectors;
- reaffirmed the policy commitment to greater market orientation and competitiveness, but noted that 'existing market measures continue to constitute a necessary safety net';
- noted the opposition of some member states to an 'upper ceiling for direct payments';
- welcomed proposals to develop and improve risk management tools.

Of particular importance to the ACP in the Council's conclusions was the emphasis on the need for 'a level playing-field between the EU and third-country producers' in terms of compliance with EU standards. Along with the concerns expressed on climate change, this was the only reference to the external effects of the CAP and the use of CAP policy instruments (see *Agritrade* article, 'Divisions highlighted at last chance for ministerial inputs to EC CAP proposals', April 2011).

Central to these debates has been the issue of the future level of funding for the CAP, with European farmers' bodies and the European Parliament coming out in favour of at least maintaining current levels of spending, with no 'renationalisation' of agricultural spending, given its implications for competition across the EU. However, elements of renationalisation have already emerged in response to crisis situations (e.g. the approval of nationally financed Temporary Assistance Programme payments of up to €15,000 per farmer in response to the dairy sector crisis of 2009). Two trends emerging from the March 2011 Council discussions are noteworthy in this regard. First, the opposition in some quarters to a ceiling on direct aid payments and, second, the apparent abandonment by governments of new EU member states of the idea of a flat EU-wide single farm payment.

Against this background, the June 2011 EC proposals for the multi-annual financial framework for 2014–2020 had opted to maintain (in nominal terms) the overall level of expenditures for 2014–2020 at the same level as for the 2007–13 period. However, it should be noted that market-related expenditures and direct payments (pillar 1) are projected to decline by 10% over the period, from €42,244 million in 2014 to €38,060 million in 2020. Expressed as a proportion of the EU budget, this item will fall from 29.6% of total appropriations in 2014, to 25.25% in 2020.

Table 1: Market-related expenditures and direct payments – Multiannual Financial Framework (€ millions)

2014	2015	2016	2017	2018	2019	2020	Total 2014 –2020
42,244	41,623	41,029	40,420	39,618	38,831	38,060	281,825

Source: 'Proposal for a Council Regulation laying down the multiannual financial framework for the years 2014-2020', Brussels, 29.6.2011, COM(2011) 398 final. Annex.

Within the overall budget, greater flexibility is to be built in, including in the agricultural sector, where this will involve the establishment of the new €500 million new Special Reserve. The increased importance attached to safety-net measures to deal with price volatility reinforces the EU's commitment to ensuring that price volatility does not undermine the basis for agricultural production in the EU. In an era of rising prices at the same time as increased price volatility, these EU payments are likely to play an important role in insulating EU producers from the worst effects of price volatility, while allowing them freedom to exploit rising global market prices.

The June 2011 financial proposal favours an option for the future of the CAP that involves the streamlining of market instruments, encouragement of more collective action by farmers and redistribution of the financial envelope among member states. It is proposed that future direct aid payments be made up of different components, consisting of:

- a basic income support component;
- an area-based payment for areas that have a natural handicap;
- a green payment applicable across the whole of the EU;
- a voluntary coupled support element for specific sectors.

A capping of payments would be envisaged, with exceptions made for small farmers.

While commitments to market-related expenditures and direct payments are projected to decline by 10% from 2014 to 2020, this is consistent with the existing trend towards an expansion of rural development programmes (moving towards what is seen as 'investment support', and away from traditional farm subsidies). Since rural development expenditures are co-financed with member states and reach beyond agriculture and agro-processing activities, it is unclear what the overall impact of the proposals will be on total agriculture- and agro-processing-related expenditures.

The maintenance of sector-specific coupled payments on a voluntary basis is likely to carry implications for the ACP cotton sector in particular, with the actual level of EU support likely to be less immediately transparent. A green payment component may well be deployed to support EU farmers in implementing progressively stricter production standards, and this could become an issue if these production standards were 'internationalised', and became prerequisites for agricultural products being placed for sale on the EU market.

It should be noted that the high level of EU budget allocations to agriculture reflects the fact that the CAP is the only policy area 'financed mainly by the common budget'. Taking into account national budgetary expenditures as well as EU budget expenditures, 'agriculture occupies 11th position in cumulated spending, with only 1.1% of the total' (see *Agritrade* article, 'The centrality of budget questions', March 2011).

Improving the functioning of food supply chains

In December 2010 the EC tabled their 'milk package' proposals on improving the functioning of the supply chain, focusing on 'contractual relations in the milk and milk product sector'. The proposal provides for 'written contracts between milk producers and processors [and] the possibility to negotiate contract terms collectively via producer organisations' in order to 'balance the bargaining power of milk producers relative to major processors'. The aim of such written contracts would be to encourage all dairy chain stakeholders to:

- 'be more aware of the state of the market';
- 'respond better to signs of changes in the market';
- 'keep wholesale and retail prices more in line with prices paid to farmers';
- 'adapt supply to demand';
- 'end unfair commercial practices'.

Overall the proposals are designed to address the 'important imbalances in the supply chain' identified by the High-Level Experts' Group on Milk. However the proposals are also seen as an important contribution towards preparing for 'a soft landing when quotas come to an end in 2015'. These measures would remain in place until 2020, with two intermediate reviews in 2014 and 2015. The 'milk package' measures were endorsed by EU Ministers in mid December, but subject to an in-depth examination by Council structures.

The EC proposals were broadly welcomed by EU farmers' organisation Copa-Cogeca, which maintained that they would enable EU dairy farmers to 'get a fair revenue from the market'. In this context, the specifying of 'minimal conditions for a contract' in the EC proposals was particularly welcomed (see *Agritrade* article, 'EC "milk package" proposals may hold lessons for other sectors', December 2010).

Significantly, the conclusions of the EU Agriculture Council on 17 March 2011 underlined the importance of seizing the opportunity of the CAP reform process 'to improve the functioning of the food supply chain' in order to 'reverse the steadily decreasing trend in farmers' share of the value-added generated by the food supply chain'.

This suggests an openness to extending the policy work on strengthening the functioning of specific supply chains to beyond the dairy sector.

Enhancing the agricultural product quality policy

In December 2010 the EC also tabled proposals for operationalising the refocused agricultural product quality policy. The package of measures tabled consisted of:

- a proposal for a new 'agricultural product quality schemes regulation';
- a proposal 'to streamline adoption of marketing standards by the Commission';
- new guidelines on 'best practices for voluntary certification schemes and on the labelling of products using geographical indications as ingredients'.

The proposed regulations cover Protected Designations of Origin, Protected Geographical Indication, Traditional Specialities Guaranteed and 'optional quality terms', which 'inform consumers of value-added attributes and characteristics of products'.

Many of the EU certification schemes are designed to promote value addition, while others provide 'assurance to traders and retailers about the way in which standards and buyers' requirements have been met'. According to Agriculture Commissioner Dacian Cioloş, this package of measures is 'a first step on the path of building a stronger and more dynamic farming sector', in the context of the pressures farmers face from 'the economic downturn, concentration of retailer bargaining power and global competition'.

These proposals were also welcomed by Copa-Cogeca, but with a warning over the possible dilution of 'definitions and conditions' for protected designations of origin and protected geographical indications (see *Agritrade* article, 'EC quality package tabled', February 2011).

Prospects for EU agriculture

The December 2010 EC report 'Prospects for agricultural markets and income in the EU 2010-2020' provides an informational basis for the development of proposals for the future of the CAP. It notes the uncertainties over wider economic developments which will influence the future outlook for European agriculture. These uncertainties arise from:

- the evolving global supply and demand situation for agricultural commodities;
- uncertainties over the outcome of the WTO Doha Round;
- the impact of climate change and
- the evolution of the euro–US dollar exchange rate.

The analysis notes that while 'expected demand growth … should support production expansion, … the expected increase in input costs would limit the profitability of production' in the EU. Internally, with the exception of skimmed-milk powder (SMP), EU 'commodity markets are expected to remain balanced' up to 2020, limiting the need for market intervention.

In the cereals sector, tight market conditions and low stock levels are expected to ensure that prices remain above the long-term average. A modest increase in EU production of cereals is projected, based on a slowing down of yield improvements. EU demand for cereals meanwhile will increase due to expanding bio-ethanol demand. This will increase the demand for imported cereals (see *Agritrade* article, 'EC projections for EU cereals markets', April 2011).

In the oilseeds sector, strong demand and hence high prices are projected, driven by growing bio-diesel demand. However increased imports will be required to meet biofuels targets (see *Agritrade* article, 'EC projections for EU oilseed markets', April 2011).

A modest growth in total EU meat production is projected (+0.3% per annum), reaching a total of 44.4 million tonnes in 2020, 4% above 2009 levels. However this hides a decline in beef and sheep meat production (-7% and -11% respectively) and a growth in pork and poultry production (+7%). This arises from an expansion of consumption of pork and poultry meat of slightly less than +5% and +6% per capita respectively. This will increase EU imports of beef and poultry (+14% by 2020) and decrease EU exports of beef, pig and poultry meat (-23% by 2020) (see *Agritrade* article, 'EC projections for EU beef markets' and 'EC projections for EU poultry markets', April 2011).

While this will create new opportunities for ACP beef exporters, the SPS and food safety challenges faced in ACP countries leave them poorly placed to exploit these opportunities. Reduced EU exports could be expected to reduce competition on ACP markets from EU low-quality meat exports. However this will depend on wider patterns of EU meat exports, with ACP 'markets of last resort' being subject to periodic import surges, if EU exporters face difficulties on other preferred third-country markets (e.g. on the Russian market).

EU milk production is projected to grow, based on a 'fairly optimistic demand outlook', with EU milk production in 2020 being 4% above 2009 levels. This needs to be seen in a context where 5% of EU milk production is exported in the form of dairy products and the EU accounts for around two-thirds of all dairy imports into sub-Saharan Africa.

The EC analysis notes that the abolition of milk production quotas is not expected to lead to a large increase in EU milk production. A particularly favourable outlook for 'higher value-added dairy commodities' is foreseen. 'Production of fresh dairy products (including drinking milk, cream, yoghurt etc) is projected to increase by about 8%' from 2009 to 2020, while cheese production is projected to grow 10%. Prospects for cheese exports are seen as favourable despite the projected appreciation of the euro against the US dollar, 'with the EU maintaining a steady share of global cheese exports above 30%'.

EU whole-milk powder (WMP) production is expected 'to fall marginally below its 2009 level', with EU exports remaining 'firm over the medium term, driven by strong global demand'. Demand for SMP will remain weak, however, and the EU will face strong export competition. EU SMP production is projected to decline as more milk is used for higher value dairy products. This should ease pressure on African milk producers, where the availability of EU milk powders can undermine the development of strong commercial relationships between ACP milk producers and ACP dairy processors.

For butter, EU domestic demand is expected to remain firm at around 2 million tonnes. Increased production in the period to 2015 will lead to 'a temporary increase in EU exports' (see *Agritrade* article, 'EC projections for EU dairy markets', April 2011).

Overall, with the CAP reform process approaching its final stages, EU market developments are increasingly likely to be driven by global price trends, which are seen as having entered a new era of higher average price levels. This is not unexpected. Indeed, the long-term assumption on which much of the CAP reform process was based was that of an increase in average global food and agricultural prices. The aim of the reform was to ensure that the European food and agricultural sector was well placed to take advantage of these rising prices.

More unexpected than this has been the increased volatility of global prices and exchange rates, which potentially expose EU producers to ruinous price fluctuations. It is against this background that an increased policy emphasis has emerged on ensuring effective safety nets for EU agricultural producers. This evolving safety-net policy however needs to be seen in the context of the growing policy focus on the promotion of quality-differentiated, high value food product exports to expanding global markets. This policy requires ensuring access for EU food manufacturers to raw materials at world market prices. This constitutes a fundamentally different policy orientation to the traditional CAP, and carries profound implications for the future of the CAP.

The EU Food Facility initiative

In the course of 2010 the EC continued to roll out programmes under the implementation of its €1 billion Food Facility. Some €228 million of funding has now been committed through FAO programmes. In total, €741.9 million has been committed to country- and region-specific activities, and a further €216.25 million through calls for proposals. ACP countries have received some 60% of funds committed under the Food Facility. These programmes need to be seen in the context of food prices having risen by early 2011 to levels in excess of those attained during the 2007–08 price peaks. These EC-financed programmes thus continue to be relevant. In this context there would appear to be a need for the EC to carry over into its routine programmed aid deployment processes the focus on support to food and agricultural production which characterised the early stages of the Food Facility programme.

3. Implications for the ACP

The external dimensions of CAP reform

The process of CAP reform affects the ACP in many ways, some obvious and some less obvious. The shift from price support policies to a policy based on direct aid payments to farmers, by allowing EU market prices to fall, clearly affects the value of the trade preferences extended to ACP country exporters and the relative attractiveness of the EU market (e.g. in the rice and sugar sectors). Equally the policy emphasis on stricter SPS and food safety standards clearly carries cost implications for ACP producers seeking to export to the EU, given the additional investments required ensure compliance with EU standards.

The process of CAP reform can give stimulate EU production and exports in ways which may disrupt specific ACP markets. Equally the deployment of internal EU market management tools can impact on world market prices. For example, the EC decision to licence an additional 500,000 tonnes of out-of-quota sugar exports in February 2010 was followed immediately by a decline in average world market prices, totalling 31% between February and May 2010.

Even less obvious are the effects of reforms, such as the dismantling of public storage as a basic policy tool, on the functioning of global markets in cereals. For example, it appears that the reduction of publicly held stocks in the EU has provided increased scope for speculative investments in cereals markets. While the impact of financial speculation on price volatility is of major concern to both ACP and EU governments, the causal links are contested, and hence the policy response has been uncertain.

Finally there are the lessons of relevance to the ACP that can be drawn from new EU policy initiatives and tools designed to deal with unforeseen consequences of policy change. These include, for example, policy initiatives to strengthen the functioning of food supply chains to policy development within individual ACP countries and sectors, where inequalities in power relationships along supply chains can lead to abuse and undermine the basis for agricultural production.

Overall, while the process of CAP reform is far advanced in many sectors, with the major effects already having been felt (e.g. the disappearance of preferential prices on the EU market relative to world market prices in the rice and sugar sectors), the process of CAP reform is ongoing, and there are still dimensions under discussion which will have an impact on ACP producers and exporters.

It is against this background that there is felt to be a need to accommodate the external effects of CAP reform on traditionally preferred partners. Accommodating these effects might include:

a. an integration of ACP concerns into the ongoing process of CAP reform, where this is necessary and practical at the operational level;

b. the establishment of flanking measures designed to minimise any adverse effects on the ACP countries of the pursuit of essentially domestic EU policy objectives in the food and agricultural sector.

This can be seen to link to a critical policy issue facing the ACP in its trade relationship with the EU, namely successfully making the transition from trading undifferentiated bulk commodities under a system of trade preferences, to marketing differentiated, value-added products into increasingly diverse and sophisticated markets, in an era of moves towards agricultural trade liberalisation, which will progressively increase competition on markets served by ACP food and agricultural producers.

Cross-cutting issues

SPS, food safety and food quality

In an era of duty-free, quota-free access for ACP exporters, SPS, food safety and food quality issues inevitably take on increased importance. In the coming period, EU SPS/food safety standards are likely to be increasingly strictly enforced. Depending on the design of these measures and modalities for implementation, this could significantly raise the costs of exporting to the EU. As part of the CAP 2013 reform process there is a need to minimise these additional costs and make regulatory changes more predictable, so that appropriate responses to regulatory changes can be incorporated into long-term investment planning in ACP countries, thereby reducing the additional investment cost burden of SPS/food safety compliance. It has been suggested this requires the inclusion of a comprehensive development dimension in the EU's food safety, SPS and food quality policies, in order to minimise additional costs and provide a framework for the deployment of targeted development assistance support.

Functioning of supply chains

The EU's emerging policy on strengthening the functioning of certain supply chains, in sectors where inequalities in power relationships exist that could give rise to abuses, could usefully be extended to the ACP–EU level, particularly in the banana, sugar and horticultural supply chains. There would appear to be scope for 'seizing the opportunity of the CAP reform process' to include a comprehensive development dimension to the EU's emerging policy on the strengthening of the functioning of food supply chains. This could be extended still further to include closer policy cooperation on the appropriate range of policy tools that could be deployed to strengthen the functioning of specific supply chains within ACP countries (see *Agritrade* article 'Improving the functioning of the supply chain seen as key to Tanzanian cotton-sector revival', March 2011).

Safety-net policy

The EU's policy emphasis on establishing mechanisms to ensure that price volatility does not undermine the basis for agricultural production in the EU in the affected sectors raises the issue of 'adjustment displacement'. If EU farmers are insulated from the worst effects of price volatility, where, in terms of production and trade outcomes, are the effects of price volatility displaced to? The external effects of some EU safety-net measures are obvious (e.g. the effects of increased export refund levels in order to clear EU markets). The effects of other safety-net measures are less obvious (e.g. the impact of expanded export promotion programmes), while still others may only have long-term effects. The implications of these for ACP producers are far from clear (e.g. the external consequences of the overall impact of safety-net measures which sustain EU production and trade at higher levels than would otherwise be the case).

What is clear is the need for an assessment of the external effects of the various safety-net measures open to the EU, in order to ensure that those safety-net measures that are least trade distorting are used in future.

Sector-specific issues

Sugar sector

Future EU policy in the sugar sector is of particular concern to the ACP. This is especially the case as regards the future use of production quotas as a market management tool. ACP sugar sector stakeholders favour the continued use of EU sugar production quotas as a market management tool, since they can be used to ensure a balanced and reasonably remunerative EU sugar market. Similarly ACP sugar producers also favour the continued use of EU sugar reference prices, since these serve to ensure remunerative prices for ACP sugar exporters.

However the continuation of sugar production quotas is inconsistent with core elements of the single farm payment scheme, which is now central to the EU system of support to agricultural producers. As a consequence the EC is considering a managed phasing out of sugar production quotas. The critical issue in terms of the 2013 reform proposals will be how the phasing out of production quotas is to be managed and the impact this will have on price formation on EU sugar markets.

The significance of EU sugar sector reforms for ACP sugar sectors will of course be profoundly affected by the level of world market sugar prices, the global oil price, EU biofuel policy developments, the relative price of other arable crops and EU farm input costs.

In this context it should be noted that ACP sugar sector stakeholders support the EU's aim to build a strong biofuels market, and believe that it can constitute an instrument to foster a stable sugar market. The ACP also believes that innovative safety-net instruments, such as risk insurance schemes, need to be calibrated in order neither to undermine the will to have stable and reasonably remunerative markets, nor to structurally undermine ACP supplier competitiveness.

Cotton sector

The impact of EU 'coupled' domestic support to cotton producers on prices obtained on markets served by ACP cotton producers is seen as an important issue. The EU council recognition in March 2011 of the need to continue with coupled support in certain sensitive sectors, if applied to coupled cotton payments, could undermine ACP efforts to secure the early elimination of domestic subsidies to OECD cotton producers. More work is needed to identify precisely how the demands of the C4 group of West African cotton producing countries (Benin, Burkina Faso, Chad and Mali) in the WTO should be translated into specific proposals under the 2013 round of CAP reform, in order to provide leadership on cotton subsidy reform in the WTO and thereby yield the sustainable price improvements that the C4 countries are seeking.

In the interim, it is felt that more support for ACP trade and marketing adjustments should be provided, in line with some of the initiatives already in progress at the EC and EU member state level. There are thus seen to be two main related issues in the cotton sector:

- reducing EU domestic support; and
- securing compensatory adjustment support.

Horticultural sector

The major issues identified in the horticultural sector linked to the process of CAP reform include:

- the future of the EU minimum import price system;
- the design and implementation of SPS/food safety standards in order to minimise cost-increasing effects and improve the net income position of ACP producers;
- the impact of certain forms of support extended through producers' organisations in the EU on production and trade.

If the current minimum import price system were dismantled, market prices would be likely to fall, to the detriment of ACP suppliers in those sectors where this system is applied. In this context, an impact assessment study on the consequences for the ACP of changes in the minimum import price system would appear to be needed, so that these effects can either be taken on board in the design of policy changes, or can be addressed through the establishment of appropriate flanking measures.

Such flanking measures could range from the establishment of loan financing facilities to fund production adjustments in the light of changing market demand, to the strengthening of ACP access to information on developments in EU horticultural markets.

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CTA

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