

EU Common Agricultural Policy reform: Implications for the ACP

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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 update 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 the ACP:** examining the implications of recent developments for the ACP countries concerned.

The original executive briefs (2008 & 2009) are available on request from: info@agritrade.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 (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 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 of time (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 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 on 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 (e.g. over the continued tolerance or abolition of the use or 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 African producers and consumers.

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 in the 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 common agricultural policy. 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 therefore 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 by the EC from this 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 (e.g. 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, namely 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 in fact 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 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 a more efficient targeting of financial resources on clearly articulated public policy objectives and a fundamental shift away from the traditional subsidisation of agriculture 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 of 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, since 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 giving rise to a situation where sight was being 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 to 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 to 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 subsidisation, 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 on 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;
- the development of 'good practice' guidelines for private certification schemes, in order to reduce consumer confusion, and red tape for farmers.

One of the primary aims of EU policy in the period ahead will be to more effectively communicate 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, with this 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, their 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 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 which ‘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 the 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 the 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, most notably:

- What policy tools can ACP governments realistically deploy to shield and support the development of the productive base in the food and agricultural sector, given the limited revenue base of most ACP governments?
- What policy tools are most appropriate to shield and promote the food and agricultural sector in the very different circumstances of individual ACP countries in the various regions of the ACP?
- What policy tools should ACP governments be allowed to continue to use in order to shield and develop the productive base of their food and agricultural sectors?
- What does this mean for the free-trade agreements currently being negotiated, that are designed to give greater rein to market forces in the food and agricultural sectors of different ACP economies?

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 would appear 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 the 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 (e.g. the reform of the EU sugar regime) and to the 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. Private certification 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 that 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. Indeed, 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) would appear to be required. This analysis might address questions such as:

- 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 would appear to be a strong case for certain ACP governments at a regional level (e.g. 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 tools that 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 five 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.

Information sources

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

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

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