update October 2013

agritrade
Informed Analysis, Expert Opinions

Executive brief

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1. Background and key issues

The process of EU Common Agricultural Policy (CAP) reform, which has been under way since 1992, has radically altered the level and structure of EU support. Market support interventions have been largely replaced by various forms of direct aid to farmers. There has been a major reduction in the most trade-distorting form of support (export refunds), and intervention measures have been converted into instruments that provide financial safety nets for farmers. The process of reform has been greatly helped by rising global food prices, linked to evolving patterns of global demand. CAP reform, along with the rise in global food prices, has contributed to the attainment of a major EU policy objective – the development of a globally oriented and competitive value-added food and drinks industry. Since 2010, the EU has emerged as a major net exporter of food and agricultural products as a result of this successful transition.

By 2012 to 2013, the effects of previous CAP reforms were still working their way through the EU agro-food economy, with EU corporate responses to policy changes acting as an important transmission belt for the external effects of CAP reform. Specific aspects of this corporate dimension have led the EU to develop new policy tools, including regulatory mechanisms for strengthening the functioning of agricultural supply chains, including those parts within the retail sector.

A major focus of the 2012–13 CAP reform discussions was on refining the structure and distribution of direct aid payments and linking them to the adoption of more sustainable farming practices, strengthening safety net measures and further elaborating new policy tools. The process of CAP reform, although now well advanced, remains ongoing: its production and trade effects need to be carefully monitored and evaluated in order to reconcile underlying EU policy objectives for the promotion of its globally oriented EU food and drink industry with ACP aspirations to move further up food and drink value chains.

The trade success enjoyed as a result of CAP reform and rising global prices has not fed into trade liberalisation at the most favoured nation (MFN) level. The EU maintains in place a sophisticated system of protective measures through bilateral and multilateral concessional trade arrangements, under which most food and agricultural imports into the EU take place. This enables the EU to manage trade in sensitive sectors in ways that protect the interests of EU producers while at the same time responding to evolving patterns of EU demand.

Potentially important lessons can be drawn by ACP policy makers from the EU's CAP experience, in particular:

- the use of traditional agricultural trade policy tools in support of agro-food sector development;
- the design and utilisation of new policy tools to strengthen the functioning of agro-food supply chains, in order to consolidate and expand the agricultural basis of production;
- the design and implementation of measures to insulate domestic producers from the adverse effects of price instability in an era of rising input costs.

2. Latest developments

The evolving context of CAP reform and CAP implementation

Anticipating changing global demand

The process of CAP reform has been designed in large part to reposition the EU agro-food sector in the light of changing global patterns of demand for food products. While some developments have taken EU policy makers by surprise (particularly the level of price volatility within the overall trend of rising prices), the rise in food demand in Asia and Africa was anticipated and built into the reform process.

"The process of CAP reform has been designed to reposition the EU agro-food sector in the light of changing global patterns of demand"

A range of basic reforms introduced were intended to improve the competitive position of EU exporters of quality-differentiated and value-added food and drink products.

The degree of success of this policy was highlighted in the European Commission's (EC's) May 2012 review of the EU's evolving agricultural trade profile. Since 2012, the EU has reversed its traditional agricultural trade deficit, becoming a growing net exporter of food and agricultural products.

"Since 2012, the EU has reversed its traditional agricultural trade deficit to become a growing net exporter"

In 2012, the value of EU agro-food exports reached a record high of €114 billion, having grown by 12% compared to 2011 (following a 17% increase in 2011). This reflected "strong growth in demand for EU food and agricultural exports (particularly in developing countries), with export markets performing far better than depressed EU national markets". Significantly, the bulk of the EU's agro-trade exports are final consumer-ready products.

This growing trade surplus has emerged despite the EU remaining by far the world's biggest importer of agricultural goods (EU imports reached €102 billion in 2012, compared to €85 billion for the US), and by far the largest importer of products from developing countries, with 72% of EU agro-food imports coming from developing countries between 2009 and 2011. This compares to a 43% share for the other five major OECD importers (see *Agritrade* article 'The EU's evolving food and agricultural trade profile', 24 June 2013).

This reflects an important underlying element of the CAP reform process, namely the growing focus on exports of value-added food and drink products produced from either domestic or internationally sourced agricultural raw materials. This is potentially in contradiction with ACP aspirations to move up agro-food sector value chains. While EU exports have largely focused on non-ACP markets (e.g. the US, Russia, China and the Middle East), for some products such as poultry meat and prepared cereal products, ACP markets are of growing significance (see *Agritrade* articles 'South African poultry sector problems compounded by rising EU exports', 15 April 2013 and 'Poultry exports to Africa on the rise', 9 December 2012). In addition, given the volume of EU exports and the scale of individual ACP markets (e.g. in the dairy sector), even relatively small volumes of EU exports can have important market effects in ACP countries.

EU corporate response to CAP reform

"EU agro-food sector companies have become increasingly globally oriented"

As the focus of the CAP has shifted, so EU agro-food sector companies have become increasingly globally oriented. Since the launch of sugar sector reforms, EU beet sugar companies have expanded their operations internationally (including in the ACP) to secure raw sugar supplies for their newly installed co-refining sugar operations (an additional 1.85 million tonnes of new raw cane sugar refining capacity – see *Agritrade* article 'The future of EU sugar production quotas', 23 September 2012). This has been most pronounced in southern and eastern Africa, where British Sugar, through its investments in Illovo, now has a major stake in cane sugar production in South Africa, Swaziland, Zambia, Malawi and Mozambique. These countries supplied fully 45% of ACP sugar exports to the EU from October 2011 to September 2012. The French company Tereos also has interests in Mozambique, while the German sugar company Südzucker has a long-term supply agreement with Mauritius for the marketing of Mauritian refined sugar products (18.4% of ACP exports to the EU in 2011/12 – for details of EU corporate restructuring, see *Agritrade* special report 'Corporate restructuring in the EU sugar sector: Implications for the ACP', 30 April 2010).

With the pending abolition of EU dairy production quotas, a number of EU dairy companies (notably Arla and Friesland Campina) are showing a growing interest in trade and investment opportunities in the dairy sectors in both West and Eastern Africa (see *Agritrade* article 'End of dairy quotas leads to greater external focus of EU dairy companies', 4 March 2013, 'Expanding Dutch corporate involvement in local milk procurement in Nigeria', 15 April 2013 and *Agritrade* interview, 'A Danish perspective on investment in African dairy sector development', 24 February 2013).

The EU's evolving agricultural trade policy

As the 2013 WTO EU trade policy review pointed out, changes in EU agricultural policy have not yet led to any significant reductions in MFN agricultural tariffs.

> *"The EU continues to maintain a sophisticated agricultural trade regime"*

The EU continues to maintain a sophisticated agricultural trade regime, designed to hold the line against disruptive imports while a fundamental reorientation of the EU agro-food sector takes place (see *Agritrade* article 'TPR provides useful summary of situation of EU farm policy', 26 August 2013). Thus, in the cereals sector, where reforms were first introduced back in 1992, the EU retains considerable flexibility in the duties applied, enabling it to respond effectively to volatile world market prices by varying the import duty. Import duties may even be set at zero when global cereal prices are very high.

The WTO has identified 117 separate tariff quotas notified by the EU. This enables the EU to use tariff rate quotas (TRQs) to manage market access in sensitive sectors (e.g. poultry meat), protecting EU producers while responding effectively to evolving consumer demand (see *Agritrade* 'Executive Brief 2012 Poultry sector', 1 August 2012). The EU has also "reserved the right to use special agricultural safeguards (SSGs) on 539 tariff lines". While safeguard measures are actively used on far fewer products, in sensitive sectors they are extensively used – the WTO notes that price-based special agricultural safeguards have "been made operational for chicken, turkey and sugar products almost continuously".

While average MFN duties are higher for agricultural products than non-agricultural products (8.6% compared to 6.5%), this masks considerable variation between products, some of which are subject to high non-ad-valorem duties or seasonal duties. However, relatively few of the EU's agricultural trade partners export under MFN conditions. Changes in market access arrangements have primarily occurred through bilateral agreements and GSP reforms (notably the 'Everything But Arms' initiative).

The fiscal constraints on CAP reform

An important contextual factor in the 2012–13 CAP reform discussions was the ongoing fiscal crisis facing a number of EU member states. While this featured prominently in the discussions, it is unclear to what extent it actually influenced the outcome of the 2012–13 CAP reform negotiations.

The European Parliament (EP) Secretariat analysis of the 2014–2020 financial perspectives in the agricultural sector maintained that "committed expenditure to direct payments and market measures in 2020 is 13% less than in 2013, while committed expenditure to rural development measures is 18% less" (based on 2011 real prices). However, some analysts have suggested that if an alternative baseline for measuring the changes in the financial allocation is used – for example the 2013 agricultural budget allocations, multiplied by the 7 years of the next financial framework – then "Pillar 1 expenditure falls by 6.4% and Pillar 2 expenditure by 7.5%", a much smaller decline, and one which takes into account the reductions in expenditures already under way over the 2007–13 period (i.e. the planning period set out prior to the onset of the financial crisis). In this context, the financial perspectives for the 2014–2020 period demonstrate a remarkable consistency with the 2007–13 trend towards reduce agricultural expenditures. It is against this background that the June 2013 political agreement on CAP reforms has been described as "a triumph for the Cioloş strategy of legitimising Pillar 1 payments" at a time of severe financial pressure on some member state governments.

Changing policy tools and their use

The changing overall level of EU agricultural support

A number of reviews have been published on the changing structure of EU agricultural support (see *Agritrade* articles 'OECD agricultural subsidies are falling', 5 October 2012 and 'Price volatility financial constraints and declining levels of support set context for CAP debate', 15 October 2012). According to the July 2013 WTO EU Trade Policy Review, "[as] a result of past reforms and higher international prices for agricultural commodities, the total level of support to the agriculture sector has declined over the past few years": the EU's producer support estimates (PSE) – calculated by the OECD –declined from a peak of €105 billion in 1999 (38% of gross farm receipts) to €74 billion in 2011 (17.5% of gross farm receipts). The EC maintains this is "close to the OECD average (19%)", while the EU's Total Support Estimate (TSE), at 0.7% of GDP, is below the OECD average of 1%.

> *"Most EU domestic support is now decoupled from production of specific commodities but EU support for individual commodities varies widely"*

It is also acknowledged that most EU domestic support is now decoupled from production of specific commodities, while the use of export subsidies – the most trade-distorting form of support – fell by 87.6% between 2007 and 2011. The EU maintains that this makes its remaining agricultural support less trade-distorting. However, as noted in the WTO Trade Policy Review, EU support for individual commodities varies widely – considerable support is extended to beef and poultry producers, and levels of support to sugar and dairy producers remain significant, despite recent declines.

The impact of radically altered agricultural support measures in the cereals sector

During the course of 2012–13, the EC published a number of evaluations that highlighted the impact of the changes in the structure and use of CAP tools. The most revealing of these was the review of EU cereals sector reforms published in March 2012. The review highlighted the "radically altered" patterns of EU cereals support since 1992 and the "clear cost reduction" to the EU budget. However, it also noted that "the nominal value of coupled plus decoupled aids per hectare barely changed from pre- to post- reform years."

The level of total producer incomes derived from market prices has also changed, as a result of the elevated levels of global cereals prices. Nevertheless, despite high global cereals prices, "there are still member states in which… producers, on average, would have earned very low incomes if coupled and decoupled aids had not been provided." This strongly implies that, in the absence of the combination of coupled and decoupled aids, a number of EU cereals producers would have left the sector (see *Agritrade* article 'Impact of reforms on the EU cereals sector', 12 May 2013).

The analysis in the March 2012 review also noted that "the decision not to offer export refunds helped to overcome the constraints on subsidised exports under the WTO, and this generated a rise in the share of EU net exports in total world cereals exports between 2000–03 and 2007–10." Significantly, "the EU maintained or raised its share of imports in most traditional regional export markets that are relatively close to the EU..., mainly in North and sub-Saharan Africa and the Near East." This suggests that, despite the nominally less trade-distorting effects of reformed CAP instruments, these instruments nevertheless have important consequences for the EU's external trade competitiveness and patterns of trade.

> *"Despite the nominally less trade-distorting effects of reformed CAP instruments, these instruments nevertheless have important consequences for the EU's external trade"*

Shortcomings in the price transmission effects of sugar sector reforms

In October 2012, the EC published a review of price transmission in the sugar sector since the 2006 reforms. The price transmission effects were not as anticipated. Prices remained above the reference price from October 2009, while retail prices "did not seem to be influenced by policy events", with the pricing behaviour of retailers tending to be "independent… from the dynamics of ex-works sugar price". In addition, the expected "convergence of price transmission proper between EU domestic sugar markets and the international sugar market has not yet occurred". What was clearly identified was the "acceleration of the ongoing process of concentration of the sugar industry" – it was suggested that "EU sugar producers might again be exerting remarkable market power" (for details see *Agritrade* article 'EC review of the impact of 2006 reforms on price transmission in the sugar sector', 7 July 2013). This appears to have informed both the decision to abolish EU sugar production quotas from 1 October 2017, and also the accompanying measures being set in place to strengthen the functioning of internal EU sugar supply chains.

The impact of quality-based product differentiation and current trends

"A central element of the process of CAP reform has been the emphasis on the quality and safety of EU food production"

A central element of the process of CAP reform has been the emphasis on the 'quality' and safety of EU food production. The EU's Agricultural Product Quality Policy, a key element of the CAP reform process, is explicitly designed to both differentiate EU food and agricultural products from third-country products and yield significant price premiums for EU producers. This takes a wide variety of forms, from corporate branding strategies, through quality differentiation related to production processes (e.g. organic, fair-trade or sustainability certification) to geographical indications (GI) designations (for more details see *Agritrade* Executive Brief 'Product differentiation', forthcoming 2013).

The economic significance of support to product differentiation strategies was highlighted by the October 2012 EC report on the benefits of GI labelling. It estimated that the "average value premium rate" for GI-designated "agricultural products and foodstuffs" in the EU27 was 1.55. This means that GI-protected "agricultural products and foodstuffs" on average attract over one and a half times the price of the same volume of comparable but non-GI-protected products. The total value premium of EU27 GIs for "agricultural products and foodstuffs" was estimated at €5.6 billion in 2010, with the sales value for GI-protected agricultural products and foodstuffs having grown by 19% between 2005 and 2010.

On 15 January 2013, the EC launched a public consultation on the future of its organic products regime. These consultations will feed into EC "proposals for a renewed political and legal framework for organic agriculture in Europe", scheduled for the end of 2013 (see *Agritrade* article 'EU launches public consultation on organic production', 24 February 2013). As part of the CAP reform process in June 2013, it was agreed that organic producers should be automatically eligible for the 30% of direct aid payments that are linked to "greening" requirements.

The growing influence of non-tariff measures on trade flows

The issue of the quality and safety of imported products is increasingly coming to the fore, with the EU looking to strengthen food and feed controls through a new Feed and Food Control regulation. This is of concern to ACP producers for two reasons: first, because ACP producers do not enjoy the public sector support extended to EU producers in financing investments in compliance with EU requirements. Second, because the EU is increasing the number of mandatory controls and moving towards recovery of full costs for inspections carried out. This could potentially increase the costs of access to the EU market for a wide range of ACP exporters, with the burden falling particularly heavily on small-scale producers. While within the EU provision is made for exemptions for micro-businesses from the recovery of the full costs of inspection fees, there are currently no plans to extend this to ACP suppliers (see *Agritrade* article 'New EU food and feed controls to include full cost recovery', 7 July 2013). This is despite the profound consequences that changes in the application of EU food safety and SPS measures can have for ACP exporters (see *Agritrade* articles 'New EU maximum residue levels hit Kenyan vegetable exports', 28 April 2013, 'SPS approval open US market to Kenyan French bean exports', 19 August 2013 and 'Tightening of Citrus Black Spot controls could pose challenges', 28 April 2013).

With financial constraints being felt in terms of the levels of EU agricultural support, EU farmers have been particularly vocal in calling for the stricter application of SPS and food safety controls to "level the playing field" between EU and third-country producers. This can be seen as a logical extension of the CAP policy focus on agricultural product quality.

The CAP reform process and outcomes

The 2012–13 CAP reform discussions were the first to take place under the new institutional arrangements set up under the Lisbon Treaty. This gave a greater role to the EP in policy formulation. In the first quarter of 2013, it became apparent that there was a lack of consensus on the details of the EC proposals. This gave rise to a difficult process of trilateral dialogues (so called 'trilogues') – between the EC, the EP and and the EU Council. These negotiations on the detail of CAP reform proposals were complicated by the absence of an agreement on the multi-annual financial framework (MFF) for the overall EU budget for the 2014–2020 period (see *Agritrade* article 'The current state of CAP reform negotiations', 17 June 2013).

On 26 June 2013, a political agreement on the 2013 round of CAP reforms emerged from this trilogue process. In broad terms this included agreement on:

- a fairer distribution of direct aid payments between member states and among farmers;
- the limiting of direct aid payments to active farmers;
- the linking of 30% of direct aid payments to agreed greening measures, and recognition of the equivalence of certain national schemes with the required greening measures (e.g., the 30% payment will automatically be made available to certified organic farmers) and punitive fines for non-compliance with greening requirements;
- a moderate expansion of the scope for "coupled" support;
- a revision of the existing system of public intervention and private storage to make it more responsive and efficient;
- the establishment of new safeguard provisions backed up by an annual "crisis reserve" of €400 million, for use in response to market disturbances (financed from deductions from direct aid payments, with these being reimbursed the following year if unutilised in any given year);
- increased support to producer organisations, broadened out beyond the fruit and vegetable sector;
- additional measures to strengthen the position of producer organisations in the supply chain (particularly in the dairy sector), with certain specific exceptions to EU competition rules;
- abolition of sugar production quotas from 1 October 2017 and introduction of measures to strengthen the functioning of the sugar supply chains;
- a broadening out of the range of tools available to regions and member states under the rural development budget (including some new risk management tools).

The political agreement "reserved" a number of issues for future discussion, largely linked to the allocation and deployment of funding. In addition, the EC still needs to prepare detailed legislative texts operationalising the agreement (see *Agritrade* article 'Political agreement on CAP reform reached', 11 August 2013).

Analysts have suggested that the June 2013 political agreement "represents no more than some minor fine-tuning of the status quo CAP regulations, in return for greater flexibility of implementation by member states and a considerable increase in administrative complexity". While the 2013 reform package did not lead to a "decisive paradigm shift", it did successfully resist pressure to reintroduce greater market regulation.

> *"The 2013 reform package did not lead to a decisive paradigm shift but resisted pressure to reintroduce greater market regulation"*

A number of the changes introduced potentially carry implications for ACP agricultural producers and agro-food processors.

3. Implications for the ACP

The impact of the abolition of EU sugar production quotas

According to the EC, the abolition of EU sugar production quotas "will ensure improved competitiveness for EU producers on the domestic and world market alike". A EC report in December 2012 maintained: "the expiry of the sugar quota will lead to a reduction of the domestic sugar price in the EU, and make imports less attractive". Indeed, with the EU projected to "move even closer to self-sufficiency and indeed from time to time be a net exporter", overall EU sugar imports are projected to decline markedly from an average of 3.63 million tonnes per annum from 2009 to 2011, to 1.55 million tonnes p.a. by 2020–22 (for details see *Agritrade* article 'EU sugar sector developments and projections', 7 April 2013). The 2-year deferment of quota abolition to October 2017 will only slightly delay the onset of these projected changes in EU sugar import levels.

> *"Reduced EU import demand will carry profound implications for ACP sugar exporters"*

This will carry profound implications for ACP sugar exporters, particularly given the expansion of EU sugar TRQs currently under way as part of new EU FTA agreements. This reinforces the long-term trend in the declining significance of EU sugar sector preferences for ACP sugar exporters.

Given the move to market-determined prices in the ACP–EU sugar trade and the inequalities in power relationships along many ACP–EU sugar supply chains, ACP countries that continue to export sugar to the EU will find that the benefits derived will increasingly be determined by the specific nature of contractual relationships established between ACP exporters and EU importers. The EC's growing emphasis on developing the regulatory framework for strengthening the functioning of sugar supply chains could therefore potentially take on considerable significance for ACP governments. This relates both to the regulation of the functioning of sugar supply chains within ACP countries and the functioning of ACP–EU sugar supply chains.

As part of the June 2013 reforms, the EC announced that "the organisation of the sugar sector will be strengthened on the basis of contracts and mandatory inter-professional agreements" (for details of the importance of inter-professional agreements in the sugar sector, see *Agritrade* article 'Importance of inter-professional agreements in managing unequal power relationships highlighted', 28 October 2012). This is to include the stipulation of "standard provisions for agreements between sugar factories and growers" (see *Agritrade* article 'Impact of CAP reform agreement on the sugar sector', 6 August 2013).

Similar regulatory provisions could prove of value in ACP sugar producing countries, given the very different experience in ACP countries of the pooling and sharing of revenues between growers and millers derived from non-traditional products of sugar cane production (co-generated electricity, ethanol, commercial alcohol sales, etc.). Regulatory provisions could also prove of value in promoting greater transparency in international sugar trade arrangements, in a context of increased corporate linkages between ACP sugar estates/millers and sugar refining companies in export markets.

In terms of the EU sugar export trade, an important consequence of the removal of EU production quotas is the lapsing of WTO constraints on EU sugar exports. Corporate representatives have spoken of major new opportunities for the export of EU refined and value-added sugar products (although this is not yet reflected in EC projections of likely EU sugar exports up to 2020).

The impact of changes to direct aid payments

A second area of concern relates to the impact of changing patterns of EU direct aid payments. With greater flexibility being introduced into how member states can deploy CAP funding, concerns have been raised about "the potential for distortion" in the functioning of the EU single market. It is argued, for example, that if some member states increase product specific payments ('coupled payments') while other member states do not, this could potentially give recipients of coupled payments a competitive edge on the EU market.

This implicitly raises the issue of the impact of EU direct aid payments on the relative competitive position of EU farmers and farmers in countries that do not receive direct aid payments (e.g., in ACP countries).

> *"EU direct aid payments sustain EU agricultural production at higher levels than would be the case in the absence of such direct aid payments"*

The least that can be said at this general level is that, at any given market price level, EU direct aid payments sustain EU agricultural production at higher levels than would be the case in the absence of such direct aid payments. The EU system of direct aid payments is fully WTO compatible.

There are, however, other effects of the changes introduced. The increase in the scope for EU member states to make 'coupled' payments, if used extensively in the cotton sector, would be likely to further set back the efforts in the WTO of the African cotton producing countries to secure the elimination of cotton sector support payments.

In addition, the automatic nature of the 30% direct aid payment to organic farmers, which would provide a major financial boost to EU organic producers, needs to be seen against the background of EC efforts to both increase mandatory controls on food and feed imports and move towards full cost recovery for all public sector food and feed control inspections. The twin effects of these two policy measures could serve to distort competition between EU and non-EU organic producers, to the detriment of ACP efforts to develop export production to serve this growing market component.

Extending exemptions to full cost recovery on food and feed control measures

Given the need to develop policy responses to the challenge of preference erosion that is facing the ACP–EU agricultural trade relationship, there would appear to be a case for extending to ACP suppliers the planned exemptions for EU micro-enterprises from the application of full cost recovery for food and feed inspections. This could occur either collectively or on the basis of clearly defined criteria linked to the country's development status (e.g., least developed country, island or small economy) or as part of cooperation on sector restructuring initiatives.

Monitoring the external effects on ACP countries of expanded EU safety net policies

The revision of the use of public intervention and private storage support to provide safety nets at times of market crisis, along with the creation of the new annual €400 million crisis reserve, is in part intended to cushion EU producers from the worst effects of global market price volatility. While this facility is 20% lower than initially proposed and draws on existing direct aid payment allocations, its use could nevertheless pose problems for particular third countries at particular times of market disturbance in particular sectors, by shifting the burden of adjustment to lower world market prices to the non-EU producers, including those in the ACP.

> *"The external effects of deploying EU safety net measures in ACP countries need to be carefully monitored"*

In this context, a key policy challenge faced in the EU is how to establish effective safety net measures for EU agricultural producers that avoid displacing the burden of adjustment to ACP producers. This suggests a need for careful monitoring of the external effects of deploying EU safety net measures in ACP countries seeking to develop industries in the sectors where measures are being introduced (e.g. in the dairy sector).

Indeed, given that processes of agricultural reform in OECD countries interact with many other factors and developments in terms of how they impact on ACP countries, there would appear to be a need for an ongoing process of monitoring the specific effects of the application of policy tools on specific sub-sets of producers, if negative external effects on ACP agricultural producers are to be minimised.

The challenge is to establish independent institutional mechanisms appropriate to this task. To date, it can be argued that insufficient attention has been paid to this dimension of the agricultural reform process in OECD countries.

The possible extension of the use of new EU policy tools in the ACP context

A potential area of interest to ACP governments in the CAP reform process relates to the possible application in an ACP context of some of the new EU policy tools being developed to strengthen the functioning of markets at a time of market liberalisation. In the EU it has been recognised that in a context of market liberalisation, inequalities in power relationships along supply chains can lead to unfair trading practices, which over time can undermine the production base in some agricultural sectors. In a context of rising input costs and rising but volatile agricultural commodity prices, ending unfair and abusive practices in food supply chains is seen by EU farmers' organisations as a critical part of the CAP reform process. This has led the EC to develop policy measures designed to strengthen the functioning of specific supply chains, to better insulate stakeholders from the adverse effects of market price volatility.

EU policy responses range from moves to expand support for producer organisations and relax competition rules (see *Agritrade* article 'Report on improving functioning of food supply chain released', 11 March 2013) – through the establishments of regulatory frameworks for relationships along the supply chain and the drawing up of framework contracts for relations between producers and processors (see *Agritrade* article 'Emerging consensus on new EU rules to regulate dairy sector relations', 16 January 2012 and 'Stress on EU dairy markets reveals shortcomings in functioning of supply chains', 18 June 2012) – to the adoption on 31 January 2013 of a European Retail Action Plan and a Green Paper on unfair trading practices (see *Agritrade* article 'EC policy developments on addressing unfair trading practices', 4 March 2013).

In an era of agricultural market liberalisation, this constitutes an increasingly rich body of regulatory experience which ACP governments could draw on to strengthen the functioning of specific agricultural supply chains, where inequalities in power relationships potentially undermine the development and consolidation of domestic agricultural production and agro-food sector development. It potentially constitutes an important new area for ACP–EU cooperation. This applies both in terms of the policy measures required to strengthen the internal functioning of agricultural supply chains in ACP countries and in terms of strengthening the functioning of ACP–EU agricultural supply chains.

Recognising and managing evolving trends in the interest of ACP structural development

In the context of trade negotiations and the formulation of domestic and regional agricultural trade policies, special attention will need to be paid to monitoring trends in EU food and agricultural exports and the process of global expansion of EU agro-food sector firms, and to evaluating the implications of these trends for ACP governments' aspirations to structurally transform the basis of engagement of their agro-food sectors with global supply chains. Carefully defined, sector-specific policies will be required, if growing EU corporate interest in specific ACP agro-food sectors is to be translated into the structural development of individual ACP agro-food sectors.

The formulation of regional strategies for sector development is likely to prove particularly challenging, where governments and corporate players in neighbouring ACP countries have divergent interests in terms of the import patterns they develop and the engagement they seek with EU agro-food sector companies. (For example, in recent years, dairy sector companies in South Africa have used imports of EU skimmed-milk powder to increase their regional trade in value-added dairy products, to the detriment of neighbouring countries' dairy sectors.)

Establishing a structure for dialogue in order to get to grips with these issues could then help other ACP regions to develop their own regional agricultural policy frameworks.

Allowing ACP governments to use the agricultural trade policy tools available to the EU

The EU retains the right to use a wide range of agricultural trade policy tools to manage markets and insulate sensitive EU agricultural sectors from the adverse effects of global price volatility. Many ACP governments potentially have an interest in retaining similar rights to flexibly deploy available agricultural trade policy tools (special agricultural safeguards, import licensing arrangements, TRQs, etc.)

> *"The EU retains the right to use a wide range of agricultural trade policy tools"*

Several ACP governments have called for the right to use the types of agricultural trade policy tools that the EU retains the right to deploy: this constitutes an important test case for the EU's commitment to policy coherence for development.

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About this update
This brief was updated in October 2013 to reflect developments since June 2012. 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.

It does this by providing access to information and knowledge, facilitating policy dialogue and strengthening the capacity of agricultural and rural development institutions and communities in ACP countries.

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