



## Getting to Grips with the Coherence Realities of CAP Reform

### *'Policy Coherence and the CAP Series'*

#### **EC Perspectives on the CAP and Coherence<sup>1</sup>**

While the EC recognises the formal legal commitment in the Lisbon Treaty to '*take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries*' and emphasis is placed on the centrality of '*complementarity and coherence of trade, development and other policies at national and international level*', a notable lacuna in the EC's approach to policy coherence are the establishment of operational mechanisms for taking into account the impact of the ongoing process of CAP reform and the routine deployment of CAP instruments on developing countries.

Given the importance of the agricultural sector in most Sub-Saharan African countries, the extent to which export orientated agricultural investments have taken place to serve EU markets and the challenges posed by volatile commodity prices within a general rising trend, this can be seen as a significant omission on the part of the EC in its effort to get to grips with policy coherence issues

Why the CAP reform process receives so little formal attention can be deduced from the August 2011 interview given by EC Agricultural Commissioner Dacian Ciolos on the future of the CAP and its external effects<sup>2</sup>. Commissioner Ciolos stressed the '*fundamental changes*' which have occurred as a result of the CAP reform process. He argued the direct link between the level of subsidy payments and the level of production had largely been broken. He highlighted how the most trade distorting forms of EU agricultural support, export subsidies, now accounting for less than 0.5% of the total CAP budget. In this interview Commissioner Ciolos rejected suggestions that stricter EU SPS and food safety controls were undermining the benefits of DFQF market access granted LDC/ACP countries and any suggestion that such measures '*represent a form of hidden protectionism*'. Commissioner Ciolos maintained such measures were taken purely on grounds of consumer protection, with standards being applied equally to imports and domestic production.

This broad perspective was reflected in the EC's review of the CAP and development included as an annex to the proposals for further reform of the CAP tabled in October 2011. This analysis recognised the importance of agriculture in developing countries (70% of the world's poorest people live in rural areas, with 80% of these dependent on small scale farming) and the importance of investment in smallholder agriculture to poverty eradication in developing countries. It also acknowledged '*the agricultural policies of industrialised countries can have an impact on the trade and development opportunities of developing countries*'. However it went on to highlight the problems faced in identifying the specific effects of particular CAP policies via their transmission through world market prices and their effects on price volatility.

Against this background the EC analysis highlighted the ongoing process of CAP reform has:

<sup>1</sup> For details see, European Commission, 'Impact assessment common agricultural policy towards 2020' Commission Staff Working Paper, Annex 12 – the Common Agricultural Policy and development, draft, 2011, [http://ec.europa.eu/agriculture/analysis/perspec/cap-2020/impact-assessment/annex12\\_en.pdf](http://ec.europa.eu/agriculture/analysis/perspec/cap-2020/impact-assessment/annex12_en.pdf)

<sup>2</sup> Fortune (Addis), 'Common approach to boosting food security', 7 August 2011 <http://addisfortune.com/Common%20Approach%20to%20Boosting%20food%20security.htm>



- ensured that direct aid payments are now less distorting of production and trade;
- reduced substantially the level of export subsidy support which has traditionally been seen as the most trade-distorting form of support (from €5.6 billion in 2000, to €166 million in 2010);
- ensured that its SPS and TBT measures are consistent with WTO rules;
- resulted in a gradual opening up of access to EU food and agricultural markets.

While acknowledging the importance of harnessing '*the potential growth of small farmers and small agricultural enterprises*' in developing countries, the EC analysis maintained that '*it is essential that the EU agriculture and food industries contribute to global food security by remaining important suppliers of high quality and safe agricultural and food products in a growing world market*'. Nevertheless the EC maintains '*the EU's commitment to PCD puts the principle of no harm high on the EU's domestic policy making agenda*'. Against this background it reiterates the main components of the EU's efforts to support agriculture in developing countries, closing with the conclusion that '*the proposals for the future CAP, alongside the EU's multilateral trade negotiations, are in the spirit of continued market orientation*' and therefore '*impacts on agriculture in developing countries will be further reduced*'.

The overall impression created was that the negative external effects of the CAP were largely a thing of the past. However it needs to be recognised that **the CAP reform process hasn't eliminated or even necessarily reduced the external effects of EU agricultural policies, rather it has changed the nature of the external effects of CAP policies and the deployment of CAP policy tools.**

In seeking to get to grips with policy coherence issues arising from the common agricultural policy it is necessary to understand the new external realities being created as a consequence of the ongoing changes brought about by CAP reforms. This requires getting to grips with **the specific external effects of the deployment of specific CAP policy tools on the economic development of specific food and agricultural sectors of individual developing countries**.

The issue of the policy coherence implications of the CAP cannot be addressed at the aggregate level of the general category of 'developing countries'. In this context particular emphasis should be paid to the situation of ACP countries where over the past 37 years agricultural investments in export orientated agriculture have in large part taken place to serve EU food and agricultural markets.

That the CAP continues to have very real external effects was highlighted by the WTO Secretariat EU Trade Policy Review discussed in July 2011.

### **The Agricultural Dimensions of the WTO EU Trade Policy Review**

The WTO secretariat review report<sup>3</sup> noted that EU '*support to agriculture ...remains considerable in both absolute and relative terms*', at '*just over €100 billion*' in 2009, equivalent to 1/3 of the

<sup>3</sup> WTO, point of entry for the WTO trade policy review of the EU, [http://www.wto.org/english/news\\_e/news\\_e.htm](http://www.wto.org/english/news_e/news_e.htm)



value of EU production. It further noted that as a major importer and exporter, EU '*agricultural policies can have a significant impact on other countries...whose economies depend on agriculture*', most notably of course those of sub-Saharan Africa.

On the basic issue of cutting the link between public sector support to agriculture and production levels, to which so much importance was attached by Commissioner Ciolos, the WTO Secretariat noted that while there has been a shift from market support to producer support '*market price support...continues to represent a large, though declining portion of transfers to producers*'.

More generally, the WTO Secretariat noted that since 2000/01 EU '*Blue and Amber Box support have both declined by three-quarters, to about €5.2 billion and €12.4 billion respectively*', but that EU '*Green Box support has increased nearly three-fold, to €62.6 billion*'. The WTO analysis pointed out that '*in total, during the ten years to 2009, taxpayers and consumers in the EU have transferred nearly €1 trillion to agricultural producers*'. This it was noted constitutes '*a high level of support*'. More significantly it was maintained that this '*high level of support...keeps production and exports higher, and imports lower, than would otherwise be the case*'. On this basis it is concluded the reality is that after 20 years of reform the CAP '*continues to have negative effects both within and outside the EU*'.

In terms of the use of specific agricultural trade policy instruments the WTO Secretariat notes the EU retains the right to use special agricultural safeguard arrangements for 539 tariff lines (out of a total of 1,988 agricultural tariff lines). Although it is acknowledged that the use of these special agricultural safeguard arrangements has been more limited, the WTO Secretariat analysis noted: '*the price-based SSG has been made operational for chicken, turkey, and sugar products almost continuously*', while the EU '*has calculated trigger volumes for fruit and vegetables on a regular basis*'.

The EU also makes extensive use of TRQ arrangements in managing trade in sensitive products. Indeed the WTO Secretariat notes some 114 separate TRQs in operation in 2009 under various EU trade arrangements. The WTO Secretariat report maintains the EU's use of TRQs is complex with multiple TRQs applying in some sectors, and highly variable fill rates. It further notes the use of TRQs expanded with the process of EU enlargement. This was necessary to accommodate the complexities of the expanded regional integration process in Europe, arising from pre-existing trade policy commitments of new member states.

A further feature of EU policy noted by the WTO Secretariat was the use by the EU of the 'water' in its bound agricultural tariff commitments. This has allowed the EU to adjust applied tariffs in the light of price movements on highly volatile global agricultural commodity markets. Duties may be raised or even lowered to zero, depending on prevailing global price levels. According to the WTO Secretariat analysis '*such changes in duties in response to world market prices can reduce predictability and exacerbate fluctuations in world market prices*'.

This exploitation of the 'water' in the EU's bound tariffs to manage global price volatility appears somewhat incoherent with EU demands in the EPA context for ACP governments to adhere to 'tariff standstill' commitments in an EPA context. The EU's use of policy tools such TRQs, import licences and special safeguards also sits uneasily with demands being placed on ACP governments in the context of the EPA negotiations. This is particularly the case in regard to EC efforts to limit



the use of special safeguard arrangements and to eliminate the use of import and export licensing arrangements from the date of entry in force of the EPA agreement.

Finally the WTO secretariat trade policy review report noted the impact of other EU policies on agricultural markets, particularly the establishment of targets for the use of bio-fuels, which it is held '*impact on world markets, particularly for oilseeds*'.

This analysis throws into considerable doubt EC claims that the external effects of the CAP are now a thing of the past. In this context, the critical issue is to understand the new realities and get to grips with their specific adverse manifestations on individual ACP countries in individual sectors. This calls for a new approach.

### Beyond the WTO Trade Policy Review Analysis

While the WTO trade policy review suggested there are a multiplicity of trade consequences flowing from the implementation of EU agricultural policy tools, this is not a comprehensive review of the impact of EU policies. A range of sector specific effects can be traced which, within the commitment to policy coherence, need to be taken up and addressed as an integral part of the ongoing process of CAP reform (for more details see for example, the companion briefing entitled 'Building Development Coherence into the EU's Expanded 'Safety Net' Policy').

Overall, in the light of the WTO review and the lacuna in the EC's analysis of the CAP and development, from an LDC/ACP country perspective it would appear important to examine the particular effects of specific policy changes on ACP economies producing similar products. For example:

- a) the specific impact of the abolition of sugar production quotas on the market for ACP raw and refined sugar exports to the EU and globally;
- b) the impact of commitment to a continuation of coupled supports to EU cotton farmers on West African cotton producers;
- c) the adjustment displacement effects of the impact of the EU's more comprehensive 'safety net' policy (including the establishment of a €3.5 billion emergency fund) on the sectors concerned in ACP countries, and how the deployment of available 'safety net' policy tools can be managed in ways that minimise negative effects on the ACP sectors concerned;
- d) the impact of the proposal for automatic eligibility for additional direct aid payments of EU organic farmers on the relative price competitiveness of EU and third-country organic producers;
- e) the impact of the methods of application of evolving EU SPS, food safety and agricultural product quality standards on the costs incurred by small scale producers and exporters in ACP countries and hence the overall commercial attractiveness of serving EU markets;
- f) the impact of reduced intervention buying and declining stock levels on global cereal price volatility.



In each of these areas (and more besides), the application of EU policy tools under a reformed CAP will impact on individual ACP economies. These dimensions need to be taken up and addressed in any ‘policy coherence for development’ measures linked to the ongoing process of CAP reform.

Against this background critical questions from a development perspective which arise include:

- what consequences do the trade effects of the deployment of the evolving range of CAP policy tools have on the prospects for sustainable development of individual agriculture dependent ACP countries ?
- what measures can be taken with regard to the management of the routine deployment of these CAP policy tools, so as to minimise the adverse effects of their deployment on the prospects for sustainable development of individual agriculture dependent ACP countries ?
- what implications should current EU policy practice and the ongoing external effects of the CAP have on the ongoing discussions around specific contentious issues in the EPA negotiations (the use of import licences, infant industry protection, special agricultural safeguard arrangements, standstill provisions etc);
- what flanking measures should be set in place to deal with the increasingly important issue of SPS, food safety and agricultural product quality standards, so as to ensure agriculture dependent ACP countries which have traditionally supplied the EU market can continue to maintain a profitable export trade with the EU;
- what lessons can be learnt from the new policy tools the EU is developing and deploying to address food security concerns in an era of rising prices and heightened price volatility?
- what role should ACP country governments and private sector associations play in giving a lead to the EU in getting to grips with the complex issue of ensuring CAP policy tools are increasingly deployed in ways which are coherent with their development policies and aspirations?

In broad terms, these coherence dimensions of the CAP can be addressed at three levels:

- by building mechanisms to address the external effects of the CAP on ACP agricultural dependent economies into the design of CAP reform measures;
- by making use of new policy tools to support ACP agricultural sectors in adjusting to the changes under way (for example, the new policy on strengthening the functioning of supply chains, or risk management tools etc);
- by establishing flanking measures to deal with agricultural sector adjustment challenges (e.g. building on positive experiences under existing programmes in the rum, bananas and sugar sectors).



What is most appropriate will vary from sector to sector and country to country. The critical issue is for the EU to

- a) make a clear political commitments to addressing policy coherence issues at the most appropriate level within these three broad areas of possible policy response;
- b) establish operational mechanisms for addressing specific policy coherence challenges at the sector/country specific level, so as to reduce the adverse effects of CAP reforms on food and agricultural sectors in ACP and to support appropriate adjustment and restructuring processes within the affected sectors and countries.