NGO-Netværket for EU's udviklingspolitik
CONCORD
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Moving Towards Eliminating Adverse Development Impacts of CAP Instruments:

Establishing Monitoring Mechanisms for Trade Flows in Sensitive Sectors

'Policy Coherence and the CAP Series'
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1. Understanding the EU's CAP Tool Box

The use of EU agricultural trade policy tools[1] has an impact on the level and composition of EU agricultural production and trade. Specifically it has an impact on: the area under production and the numbers of animals under production and consequently prices on EU markets for the agricultural products concerned, patterns of exports and imports and even in some sectors, international price formation. These impacts vary from sector to sector and even product to product within specific sectors (e.g. within the dairy sector).

The consequences of the evolving use of EU agricultural policy tools in individual sectors and sub-sectors carries important implications for the EU's agricultural trade with individual African countries. Understanding the external 'knock-on' effects of the use of domestic EU agricultural policy tools, would appear to be important in making effective the EU's legal commitments to policy coherence for development.

Successive waves of CAP reform have transformed not only the range of agricultural policy tools available in the EU but also how particular policy tools are used. The most fundamental of these changes has been the shift from **price support** (involving the maintenance of incentive prices to stimulate EU production and secure European food security) to **direct aid** to farmers. Alongside this shift, certain traditional policy tools have been eliminated, the use of some policy tools has been reduced, while the purposes to which other policy tools are deployed has been transformed. In addition, more recently, a range of new policy tools are being introduced to 'modernise' the systems of market management used by the EU. Significantly this process of reform has taken place against the background of a protective trade policy, consisting of high levels of tariff protection and various import restrictions.

The process of CAP reform has involved a shift in policy focus away from European agricultural self-sufficiency, towards serving a globally orientated, value added food and drinks industry. The aim of this process of reform has been to make EU food and agricultural products more competitive vis a vis third country producers both on domestic EU markets and increasingly internationally. The attainment of this objective has been facilitated by rising global food prices, in large part driven by expanding consumer demand in rapidly growing advanced developing countries (mainly in Asia).

This development came as no surprise to the EC, which had long projected the shifting pattern of global consumer demand. What came as a surprise was the levels of price volatility. This has stimulated the EC to rethink further certain aspects of the use of evolving CAP policy tool and led to the emergence of new policy initiatives. At the beginning of 2012 the EU had available a

[1] For more details on the use of the EU's tool box in different sectors, see Agritrade special report 'The EU's Agricultural Policy Toolbox: A Sector by Sector Review', December 2011.

sophisticated array of policy tools (see box), deployed in a wide variety ways across different sectors with differing effects on production levels and trade outcome.

Box 1: The EU's Evolving CAP Tool Box

Traditional Market Management Tools	**Traditional Agricultural Trade Policy Tools**
• minimum price arrangements; • processing aids; • intervention buying and storage; • withdrawals; • export subsidies; • set aside; • production quotas.	• import tariffs; • tariff rate quotas; • seasonal tariff rate quotas; • the entry price system; • import licences; • export licences.
Direct Aid Payments • Coupled direct aid payments; • Partially decoupled direct aid payments; • Decoupled direct aid payments	**Transitional and Emergency Measures** • dedicated restructuring funds (e.g. the €8 billion sugar sector restructuring fund) • emergency measures in response to sector specific crisis (the October 2008 €600million dairy sector initiative)
National Support to Agriculture • National aid payments to farmers; • Tax breaks; • Subsidised loans.	**Investments Support Tools** Rural Development Investment - axis 1 (€53 billion 2007-2013). • 'restructuring and modernization of the agriculture sector'; • improving integration in the agrifood chain'; • 'facilitating innovation and access to research and development'; • 'encouraging the take-up and diffusion of information and communication technologies'; • 'fostering dynamic entrepreneurship'; • 'developing new outlets for agricultural …products'; • 'improving the environmental performance of farms' . Horizontal Programme of support to veterinary and plant health measures; Horizontal Programme of Support for the Promotion of products on EU and international markets.
New Policy Initiatives • consolidating and more clearly defining agricultural product quality policy; • improving the functioning of food and agricultural supply chains; • consolidating internal policy on EU regulatory and quality standards and securing international recognition and protection of EU quality and regulatory standards.	

Given the EU's legal commitment to policy coherence for development, understanding how the deployment of these various tools impact on trade with individual African countries and regions in

specific 'sensitive' sectors would appear to be an important task.
This raises the question: **what mechanisms can be set in place to monitor trade flows in 'sensitive' sectors to 'sensitive' countries and regions, so as to avoid adverse external consequences from the application of CAP policy tools?**

2. Following the impact of the use of CAP Policy tools

Probably the best example of the impact of the evolving use of CAP policy tools was the trade consequences of the use of 'safety net' policy measures in response to the 2009 EU dairy crisis. In addition to a range of other policy measures, this saw a lifting of the ceiling on purchases of skimmed milk powder into intervention stocks (with the removal of the 109,000 tonnes ceiling, purchases into intervention stocks rose to 282,587 tonnes). These purchases into intervention subsequently gave rise to a dramatic increase in EU exports of skimmed milk powder. These export levels were subsequently sustained by the recovery in global dairy prices and the gradual expansion of EU milk production quotas. This saw a sustained and dramatic expansion of EU skimmed milk powder exports (see table 1).

Table 1:Projected Trends in EU Skimmed Milk Powder Exports – '000 tonnes (2009-2020)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
231	378	486	491	412	419	412	418	418	430	438	443

Source: EC, 'Prospects for Agricultural markets and Income in the EU 2011-2020', December 2011
http://ec.europa.eu/agriculture/publi/caprep/prospects2011/fullrep_en.pdf

These trade effects of the EU's use of expanded 'safety net' measures did not impact on all African countries in the same way. Rather the effects were concentrated in individual countries and regions (notably West Africa), where it is likely they are having an impact on the development of supply relationships between milk producers and dairy processors (for more details see companion brief 'Building Development Coherence into the EU's Expanded 'Safety Net' Policy').

The adverse effects of the deployment of CAP policy tools are thus often not only sector specific but also country/region specific. Against this background if the adverse external effects of the deployment of CAP policy tools are to be addressed then this requires ***a careful monitoring of trade flows in 'sensitive' products to 'sensitive' countries/regions***.

In identifying how such monitoring systems could be set in place to avoid the deployment of CAP policy tools undermining agri-food sector development in African countries, important lessons can be drawn from a review of current administrative practices used by the EU managing markets a time of structural reform in an era of heightened global price instability.

3. The purpose and administrative arrangements for the management of CAP tools

A increasing focus in the management of CAP tools is managing the transition underway in the EU towards a more competitive, globally orientated value-added food products sector. Currently, managing increased price volatility to ensure 'down cycles' do not undermine the agricultural production base in the EU, is a growing policy concern. While direct aid payments and emergency measures play a fundamental role, the use of trade policy tools is also important.

Thus, for example, the use of variable tariffs within tariff rate quota's (TRQs) in the cereals sector has enabled the EC to ensure access to international cereals markets for food and feed producers at

reasonable prices during the heights of global price swings, while protecting EU cereals producers during times of downward price swings. Equally TRQs in the rice sector are used to allow markets to respond to rising consumer demand without undermining the basis for rice production in the EU.

Systems of import licensing are central to the management of these various TRQs (of which according to the WTO the EU had in place some 114 separate arrangements in 2009). Export licensing arrangements also play an import role in managing markets in sensitive sectors such as the EU sugar sector. In recent years export licenses have been used as an integral part of EU market management measures, with on occasion allegations arising that this has profoundly impacted on short term global sugar price trends.[2]

How import and export licenses are used varies from sector to sector in the EU. For example, linked to the deployment of export refunds, export licenses in the ***beef sector*** are not only product specific but also ***country (export destination) specific***. While given the sensitivity involved ***import license applications*** in the ***sugar sector*** are ***monitored*** by the EC on a ***weekly basis***[3]. In addition, for many years, access to sugar import licenses were ***limited to only certain types of operators*** ('traditional refiners'), with similar enterprise-specific restrictions on access to import licenses also existing in the dairy sector (limited to so called 'approved undertakings', i.e. registered EU dairy companies).

In particularly sensitive sectors such as sugar the use of import and export licenses to manage EU markets is complemented by ***industry dialogue structures*** which assist the EC is managing the European sugar market[4]. These dialogue structures include arrangements for dialogue with representatives of sugar exporting nations, who are encouraged to participate in a managed trade relationship so as to prevent excessive instability on EU sugar markets.

From this multiplicity of administrative tools available can be drawn the threads of a tapestry for the pro-active monitoring of trade flows in 'sensitive products' to 'sensitive' countries/regions. These elements include:

- the use of ***country/region specific export licensing*** (as is currently the practice in the beef sector), with this extending, where appropriate, to end user specifications, given the extent of on-ward trade and smuggling in some products within and across African regions (e.g. with regard to SMP);

- the ***weekly monitoring of license applications*** (in this case for export licenses in 'sensitive' products), extending the practice on monitoring import license applications currently in place in the EU sugar sector;

[2] For more details see, Agritrade articles, 'EU sugar market management measures cause controversy', 22 January 2012 and 'EU to expand out-of-quota sugar exports', 2 March 2010.
[3] See for example, the EC power point presentation in EU sugar sector price developments entitled 'Sugar price report', presented at the 12 April 2012 meeting of the Management committee for the Common Organisation of Agricultural Markets at:
http://ec.europa.eu/agriculture/sugar/presentations/price-reporting_en.pdf
[4] see for example see EC, 'Draft report on the Advisory Group on Sugar', 12 March 2012, http://ec.europa.eu/agriculture/consultations/advisory-groups/sugar/2012-03-12_en.pdf

- the ***quarterly monitoring of actual trade flows*** to ensure export volumes with particular countries in sensitive products stay within limits consistent with market stability in the countries concerned (a similar practice is currently applied to the management of EU rice imports under TRQs);

- the ***seasonal adjustment of licensing arrangement*** (similar to the practice applied to imports into the EU in the fruit and vegetable sector);

- the ***establishment of dialogue structures*** with private sector stakeholders to monitor the market situations and prospects in the sector concerned (e.g. as currently in the sugar sector).

While the EU practice varies from sector to sector, looking across all sectors, administrative tools exist which could be used to effectively monitor trade flows in 'sensitive' products to 'sensitive' countries/regions, with a view to ensuring the deployment of EU CAP policy tools do not undermine national and regional efforts to develop production in Africa in the affected sectors. The challenge is to ***bring together useful administrative practices and deploy them in a coherent and targeted manner on trade in 'sensitive' products to 'sensitive countries/regions***. This can best be illustrated through a hypothetical example.

Country/region A establishes a policy commitment to the development of local commercial milk production and bettering linking up farmers with local dairy processing enterprises as part of its efforts to promote rural development and poverty reduction.

As an integral part of this strategy work is initiated to identify the principal constraints on commercial milk production and increased processing of locally produced milk.

On the basis of this analysis a sector development strategy is set in place and investment promotion initiatives are launched.

Initial consultations however reveal concerns amongst dairy producers over the impact of unregulated imports of skimmed milk powder (SMP) on the development of local milk supply chains.

In this context public authorities are looking at the mechanisms which can be set in place to manage the trade in SMP to prevent trade flows disrupting the development of local milk supply chains and to constructively manage trade in SMP so as to promote and facilitate the development of local milk supply chains.

In this context what should the EU be doing to assist, administratively challenged African governments in the achievement of these policy objectives?

Clearly the establishment of country/region specific export licensing arrangements for SMP exports would appear to be useful in pro-actively managing the trade in SMP.

Weekly monitoring of country/region specific export licensing applications could then be undertaken, with the data being shared with the public authorities in the country/region concerned to facilitate the management of imports.

Indeed, given the seasonal nature of milk production, the issuing of export licenses to the country/region in question could be seasonally adjusted to reduce exports during peak production periods.

All of this however would need to take place within the framework of a dialogue with the authorities of the country/region concerned, to ensure that the management of trade with the EU was only one part of a broader trade management arrangement(this could be similar to the dialogue structures the EU has in place with the ACP/LDC sugar group and its commercial arm the ACP London Sugar Group).

This would then need to be supported by the establishment of trade flow monitoring programmes in the affected products in the affected countries/regions, in association with affected stakeholder bodies, to monitor the actual trade flows in SMP (not only from the EU but all sources) and their effects on the functioning of local, national and intra-regional milk supply chains.

Support for such trade monitoring initiatives could from part of 'aid for trade' support in the affected sectors.

This in turn could be complemented by 'aid for trade' support to:

- *the development of producer organisations (as is the practice in the EU fruit and vegetable sector);*
- *the modernization of the regulatory framework for domestic dairy sector relations along milk supply chains (as is currently under way through the 'EU Milk Package');*
- *the extension of policy advice and financial assistance to programmes of measures to strengthen the functioning of local, national. And intra-regional supply chains (an area where at the EU member states level a rich variety of experience is beginning to emerge).*

In addressing the external effects of a 'modernised CAP' in the context of the EU's legal commitment to policy coherence for development establishing mechanisms to pro-actively monitor trade in 'sensitive products' to 'sensitive' countries/regions would appear to be essential. However to be effective such initiatives would need to be product and country/region specific and would need to involve modifications to administrative practices in the management of CAP policy tools, building on 'best practices' already in place within the administrative arrangements for the management of CAP policy tools.