The initial TQ levels are said to be derived from the best figures for total LDC exports "in the recent past". They will then be increased by 15 percent each year during the interim period.[3] The size of the TQs is set out in Table 3.2, which takes the initial level set out in the Official Journal and applies the agreed 15 percent growth rate to these base figures. According to the Regulation in the Official Journal, the initial TQs are set at the level of the best annual exports "in the recent past" increased by "a significant growth factor" which should "continue to be applied cumulatively every year until full liberalization" (EC, 2001b: 43, para. 10).

There is a safeguard mechanism incorporated into EBA. A Commission statement to the members of the GSP Working Party indicated how this is likely to work (EU Council, 2001). The Commission proposes automatically to examine whether safeguards (i.e. withdrawal of EBA preferences) need to be applied whenever imports from LDCs of sugar, rice or bananas exceed or are likely to exceed the level of imports in the previous marketing year by more than 25 percent.

The potential impact of EBA

The main limitations of EBA are that:

- it suffers from the institutional shortcomings of the GSP compared with the Cotonou Agreement (mainly that it is non-contractual, and therefore can be changed at the EU's whim);
- the initiative is subject to the special safeguard clause;
- the Rules of Origin are less favourable than those of Cotonou, especially with respect to cumulation.
- Its impact on LDCs (and competitors) will depend upon two factors:
- the extent to which the initiative represents an improvement on their current terms of access to the EU market;
- their capacity to increase their exports of the newly favoured products.

Changes to market access

The EBA initiative has had a direct effect on LDCs only in cases where previously there were restrictions on their access to the European market. Before EBA the LDCs already received highly preferential access to the EU market. The 40 that are part of the ACP group otherwise obtained access under the Cotonou Agreement, and the remaining nine benefited for some years from a special tranche of the GSP that provided them with additional preferences over those available to most developing countries. Since the LDCs already received relatively favourable access to the European market, many of their exports were already free of restrictions and so would not had been affected by EBA.

How great will the gain be resulting from the simple fact that the EU will no longer impose an import tax on LDC exports, and to whom will it accrue? The Commission has estimated that in 1998 these import taxes totalled €7 million (EC, 2001a). Henceforth, the loss to the European treasuries of this €7 million will be the gain of the suppliers.

But who in the supply chain will receive this €7 million? Unfortunately it is not possible to determine this across the board. It will depend upon relative negotiating power, which will vary between products, countries and firms. Hence, for example, the removal of customs duties could simply mean that importers or retailers make a larger profit or reduce retail prices. On the other hand, it could mean that the supplying countries or the producers therein receive higher prices. Alternatively, it could most likely be some combination of these two.

Nevertheless, in any event, it is likely to result in some improvement for LDCs. Obviously, if LDC suppliers gain the full benefit of the tax relief, they will earn more. But even if the entire windfall gain were to be absorbed by importers or retailers, this would increase their incentive to buy from LDCs, rather than from other suppliers on whom import taxes are still levied, and so would result in some (diminished) gain for LDCs in the form of an increase in their export volume.

[3] Excluded from the TQ are any imports from LDCs of, *inter alia*, raw cane sugar not for refining (CN 17011190), refined cane sugar containing added flavouring or colouring (CN 17019100), white sugar (CN 17019910), or cane sugar in solid form (CN 17019990).

Supply capacity

If LDC producers earn more, they may be able to afford to increase the volume of their exports, and then the ultimate impact of EBA could be much greater. If, for example, Bangladesh or Mozambique were able to divert some of their existing exports from lower-priced markets to the EU, or even to increase production so that they could export more *in toto*, the additional export revenue would be a dynamic gain from the EBA change.

While it is unrealistic to expect the EBA to have a major absolute impact on the volume of imports into the EU market – most LDCs do not have a large exportable surplus – there could be some export growth. The impact of EBA could be significant for competitors for one or both reasons. First, even an absolutely small increase in exports could be important in relative terms. The costs to competing developing countries could be relatively high if exports were concentrated in products of particular sensitivity or in intricately regulated EU markets. This may be the case with sugar.

Second, LDCs may increase their exports to the EU above current levels by:

- diverting sales from other markets;
- increasing imports for domestic consumption to allow a higher proportion of production to be exported; or
- in the longer term, by increasing total production.

All three ways, but especially the first two, are more likely to occur if EU prices are significantly higher than those elsewhere. This is even more likely to be the case for products in which EU protectionism from which LDCs will be relieved is high. The extreme case is provided by sugar, with EU prices over three times above the world market level.

Illegitimate effects

What follows provides a broad guide to the potential scale of legitimate exports, but what if non-least developed states attempted to pass off their production as if it were of LDC origin? EBA contains provisions outlawing fraud, such as the re-labelling of produce from non-LDCs in order to obtain EBA treatment, but there are legitimate reasons that other exporters might consider these to be inadequate. The first reason is that policing the system depends upon the EU's anti-fraud personnel and/or interested parties. The Commission needs to take steps to provide reassurances that the former will be as assiduous as competing exporters would wish. This is because if domestic public and private actors in the EU choose not to stamp out fraud, there is little that competing exporters can do; their interests are not under their own control. Moreover, fraud negates the objective of assisting LDCs. If fraud is identified and action taken, it must have a quick effect; otherwise, by the time the fraud is stamped out, much damage may have been done to legitimate trade.

The products likely to be affected

The EBA will affect LDC trade only for products on which:

- LDCs currently pay an import tax in the EU;
- LDCs have a supply capacity.

This section identifies the items on which the EU levied an import tax prior to EBA and in which LDCs are known to have a supply capacity because they already export them to the EU. Table 3.3 provides a detailed list of the very small number of items that are pre-2000 LDC exports to the EU and for which EBA will effect a change in the import regime. The broader product groups into which these fall, half of which face delayed implementation, are beef, cheese, maize, bananas, rice and sugar.

TABLE 3.3: THE LDCS' CURRENT EXPORTS TO THE EU THAT WILL BE AFFECTED BY EBA

CN_1997	Description	Current import restrictions (1999)	
		non-ACP LDCs	ACP LDCs
02023090	frozen bovine boned meat	9.8%+€332.6/100kg	0%+€332.6/100kg; Protocol K0%+€28.8/100kg
04069021	cheddar (excl. grated or powdered and for processing)	No preference	K€63.9/100kg
07099060	fresh or chilled sweetcorn	No preference	€10.1/100kg
08030019	bananas, fresh (excl. plantains)	No preference	€508/1 000kg (K0)
10059000	maize (excl. seed)	No preference	€75.19/tonne [b]
10062017	Long-grain husked brown rice, length/width ratio >=3, parboiled	Bangladesh K€109.82/1000kg; no preference	P€75.57/1 000kg b
10063098	wholly milled long-grain rice, length/width ratio >= 3, (excl. parboiled)	Bangladesh K€232.09/ 1000kg; no preference	P€160.51/1 000kg
17011110	Raw cane sugar, for refining (excl. added flavouring or colouring)	No preference	K0; Protocol 0
17011190	Raw cane sugar (excl. for refining and added flavouring or colouring)	No preference	K0; Protocol 0
17019910	white sugar, containing in dry state>= 99.5 % sucrose (excl. flavoured or coloured)	No preference	K0; Protocol 0 (for 1 item out of 2)
17031000	cane molasses resulting from the extraction or refining of sugar	No preference	K0

Note: "K" denotes rate within quota; "P" denotes ceiling.
Sources: Eurostat 1998; Taric 1999.

The small number of products affected directly is not surprising. Prior to EBA, all of the LDCs received duty-free access to the EU for all of their industrial exports and for most of their primary product exports other than those covered by the CAP or Common Fisheries Policies. Hence, the EBA has resulted in a change in access only for the limited number of temperate agricultural products that were restricted in 2000. On the other hand, the potential competitive advantage that EBA would confer on LDCs could be substantial. In all cases, the import regime facing LDCs and other suppliers is highly protectionist. Which LDCs will see the greatest improvement in market access? The answer is that the gains from the EBA are greatest for the non-ACP LDCs because the status quo is less favourable for them than it is for the ACP states. For eight out of the 11 items, non-ACP LDCs received no preference prior to EBA over the standard tariff payable by industrialized countries (the EU's MFN tariff), and for two items only one non-ACP LDC – Bangladesh – obtained a preference. Some or all of ACP LDCs already received preferences on all 11 items, but these were in most cases less favourable than under the EBA. The principal difference is the record of TQs and elimination of some preferential but positive tariffs. However, not all ACP LDCs currently receive a preference on all items under Cotonou. In the case of sugar and beef, only those countries that are parties to the Sugar and Beef Protocols benefit under Cotonou.[4]

The comparison between relative benefits for the ACP LDCs of the Cotonou regime for sugar and bananas with the EBA is complicated. ACP Sugar Protocol beneficiaries obtain duty-free access. This benefit is quota-limited, whereas the EBA is not. On the other hand, the Sugar Protocol provides that ACP beneficiaries will receive prices related to those applying within the EU. Under EBA the price received by LDCs could be subject to negotiation with importers, in which case it could be much lower since the world price is one-quarter to one-third of the EU level.

The case of bananas is nominally the same – the Cotonou regime provides duty-free entry, but only for a quota. In practice, however, for all of the ACP banana suppliers save Cameroon and Côte d'Ivoire, the quota matches or exceeds their supply capacity. Therefore, in practice they have duty-free access for all they can supply. EBA would represent an improvement only for ACP LDCs that might emerge in future as significant exporters.

[4] All the ACP least developed exporters of the sugar items identified (Madagascar, Malawi, Tanzania and Zambia) are Sugar Protocol beneficiaries. Of the beef item exporters, only Madagascar benefits from the Beef Protocol; the others do not, but in any case, probably cannot meet the EU's SPS requirements.

TABLE 3.4: EU SUGAR IMPORTS FROM LDCS, 1996–2002 (CN 17011110 ONLY)

Country	Imports							Increase		
	1996	1997	1998	1999	2000	2001	2002	2001/ 2000	2002/ 2001	2002/ 2000
					€ thousand					
Zambia	6 039	23 151	11 006	1 384	5 849	6 675	13 834	826	7 159	7 985
United Republic of Tanzania	6 298	7 002	11 792	6 405	8 458	6 635	11 175	-1 823	4 540	2 717
Malawi	7 533	6 103	6 232	6 552	8 815	6 053	10 997	-2 762	4 944	2 182
Sudan	–	–	–	–	–	–	8 430	–	8 430	8 430
Mozambique	–	–	–	–	–	–	8 237	–	8 237	8 237
Ethiopia	–	–	–	–	–	–	7 534	–	7 534	7 534
Burkina Faso	–	–	–	–	–	–	3 682	–	3 682	3 682
Total	**19 870**	**36 256**	**29 030**	**14 341**	**23 122**	**19 363**	**63 889**	**-3 759**	**44 526**	**40 767**
Subtotal Sudan–Burkina Faso	–	–	–	–	–	–	27 883	–	27 883	27 883
					Tonnes					
Zambia	13 513	43 352	24 788	3 000	12 427	14 513	27 044	2 086	12 531	14 617
United Republic of Tanzania	12 273	12 692	21 200	12 282	16 648	13 247	22 055	-3 401	8 808	5 407
Malawi	16 518	13 659	14 199	14 308	18 599	13 125	21 242	-5 474	8 117	2 643
Sudan	–	–	–	–	–	–	16 802	–	16 802	16 802
Mozambique	–	–	–	–	–	–	16 753	–	16 753	16 753
Ethiopia	–	–	–	–	–	–	14 555	–	14 555	14 555
Burkina Faso	–	–	–	–	–	–	7 113	–	7 113	7 113
Total	**42 304**	**69 703**	**60 187**	**29 590**	**47 674**	**40 885**	**125 564**	**-6 789**	**84 679**	**77 890**
Subtotal Sudan–Burkina Faso	–	–	–	–	–	–	55 222	–	55 222	55 222

Source: Eurostat 2002 and 2003.

Performance so far

EBA has not been in place for long and, given the lag in the EU's production of trade statistics there is not yet a great deal of independently verifiable evidence available on the take-up of the scheme.

However, a review produced by the European Commission (EC, 2004a) provides some guidance. It confirms that non-ACP states have made the most use of EBA. In 2002 some €2.5 billion of the €14.1 billion EU imports from LDCs received an "effective preference" under EBA. Of this total, only €66 million came from ACP LDCs; the great bulk came from Bangladesh, Cambodia, Laos, Nepal, Yemen and the Maldives, with Bangladesh on its own accounting for 78 percent of the total.

The term "effective preference" means that EBA treatment was requested and granted. There are three reasons that an item might not be accorded an EBA preference. One reason is that the EBA regime is no more preferential than the alternative, because MFN tariffs are set at 0 percent. In such circumstances there is no point in the importer claiming EBA treatment. The other two relate to cases where a preference exists, because without EBA treatment the importer would have to pay a positive tariff. It may not be claimed – either because of an oversight or deliberate choice by the importer. Alternatively, it may be claimed but not granted by the customs authorities, for example, because they deem the imports not to satisfy the EBA Rules of Origin.

The greater part of the EBA imports were in the area of knitted clothing, where the preference margin over standard GSP levels is 6.4–9.6 percent. These accounted for 57 percent by value of imports from LDCs that obtained EBA treatment. Seventy-three percent of EU knitted clothing imports from LDC actually received the EBA preference. The second most important category was woven clothing followed by fish (the highest ranking non-manufactured product), footwear, other textile items, hides and skins, carpets and sugar.

Neither the dominance of clothing in EBA imports nor the concentration of EBA preferences on non-ACP states is surprising. As the EC report itself notes, there is little reason for ACP LDCs to alter their administrative practice of seeking Cotonou preferences (on the EUR1 form) unless they are exporting an item that does not receive duty-free treatment under Cotonou. This is most likely to be the case for sugar.

Sugar is overwhelmingly the most important EBA import from ACP LDCs (EC, 2004a). It accounted for almost one-third of all the EBA imports (by value) from ACP states in 2002. According

to the EU's figures, some €21.1 million out of the €63.68 million EU imports of sugar from ACP states (i.e. one-third) received EBA treatment.

One would expect all of the EU's imports from countries that did not receive a sugar preference prior to EBA, and all or most of the increase in exports from previously preferred LDCs to have flowed via the EBA regime. This is because the MFN tariff is sufficiently high to suffocate non-preferential imports. Yet, the value of imports in 2002 from Sudan, Mozambique, Ethiopia and Burkina Faso alone exceeds the Commission's figures for "effective preferences" on this sugar item. If one adds the increase in exports over 2000 for Zambia, The United Republic of Tanzania and Malawi, the excess of imports over the Commission's figure rises to almost €20 million. It would appear that the Commission's figures are missing up to half of the EU's EBA imports, or that the imports received a preference but have not been classified as EBA,[5] or that some LDC exports paid the MFN tariff.

3.5 The WTO Doha Round

The Doha Round is relevant to both sides of the equation in calculating the costs and benefits of an EPA and designing it to support food security for the poorest. The incremental effect of EPA reciprocity for ACP states will be determined partly by the changes to which they agree in Doha. The impact of CAP reform on them – both as exporters and importers will also be affected by whether or not it happens in isolation or forms a part of global trade liberalization. If the latter, then the adverse effects on exporters noted above could be mitigated by improved access to non-EU markets, although research suggests that SPS and security barriers are a more serious constraint for African agricultural exports to the non-EU Quad than are market access barriers (Stevens and Kennan, 2004).

As far as ACP imports are concerned, the conventional wisdom is that if and when significant liberalization occurs, the impact of OECD production cuts on world prices would be mitigated by increases in output from those states that are not able to afford such heavy subsidies, e.g. the members of the Cairns Group. Consequently, total world output would not fall by very much and prices will not rise very substantially. However, if this increased output does not occur during the period in which OECD subsidies and trade barriers remain significant, there could be a larger than expected surge in world prices. Hence, the progress or lack thereof on substantial multilateral liberalization will have a significant influence on the extent and direction of the impact that CAP reform has on ACP countries.

The extent of protectionism

The 1994 AoA began a process of reinforcing rules and liberalizing trade in temperate agricultural goods, but this still has a long way to go. In return for accepting rules that could become constraining after further rounds of negotiation, members were allowed to defer major pain by setting import restrictions and subsidies at high initial levels.

There has been much analysis of who would win or lose from a substantial liberalization of Northern agriculture. What would a more liberal agricultural regime look like?

Liberalization in the textbook sense means reducing government taxes and subsidies and amending protectionist rules that stop high-cost domestic producers from losing market share to lower-cost imports. It implies that the global location of production will change over time, with lower-cost producers increasing output and higher-cost producers declining.

An absolutely essential part of this process is the removal of OECD barriers to imports from developing countries. While tariff slashing would not in principle prevent OECD governments from subsidizing their farmers sufficiently for them to be able to compete with imports, the fiscal cost would be very high, making a continuation of current production levels improbable. Without the tariff cuts, it will remain feasible for governments to avoid production relocation through the payment of subsidies.

The Institute of Development Studies (IDS) has undertaken a comprehensive analysis of the agricultural tariff peaks[6] imposed by the Quad states[7] following the Uruguay Round. This has involved calculating AVEs for a large number of specific duties, and also removing from the list any items for

[5] This might have arisen, for example, if the reallocated quotas for special preferential sugar to LDCs were not treated as an EBA, even though the reallocation only occurred because of the EBA.
[6] The operational definition of a tariff peak is over 15 percent.
[7] Canada, the EU, Japan and the United States.

which trade preferences available to the generality of developing countries offer a much lower market access barrier. No fewer than 19 out of the 33 Harmonized System (HS) chapters covered in whole or in part by the AoA include tariff peaks in at least one Quad state. In most cases the peaks are applied by two or three of the states: six of the 19 include tariff peaks in three of the Quad states.

The chapters that include tariff peaks tend to be relatively more important for developing country exporters than for those from the OECD states. Further, these barriers are not systematically offset by preferences available to most developing countries: of the 6 643 agricultural tariff lines analysed by IDS, 16 percent faced tariff peaks, involved products that were important exports from developing countries, and were not subject to GSP schemes.

The products that most frequently encounter tariff peaks in the Quad under the current regimes are:

- beef: Canada and the EU;
- dairy products: the EU, Japan, the United States;
- vegetables, fresh or dried: the EU, Japan, the United States; fresh fruit: the EU, Japan, the United States;
- cereals and products: the EU and Japan;
- sugar: Canada, the EU, Japan, the United States;
- prepared fruit and vegetables: Canada, the EU, Japan, the United States;
- wine: Canada, the EU, Japan, the United States;
- spirits: the EU, Japan, the United States;
- tobacco: Japan, the United States.

Of course, due to the Cotonou Agreement the ACP face fewer tariff peaks in their most important agricultural export market, the EU. But they still face some peaks. Assessing precisely how many is a tricky task since it is difficult or impossible to establish accurate AVEs for specific duties and complex ones, such as so many €per degree of alcohol per hectolitre. Moreover, some tariff peaks are mitigated but only for a TQ of very small size, such as 400 tonnes for poultry meat.

TABLE 3.5: ITEMS NOT COVERED BY ACP PREFERENCES (2000)

HS/tariff line	**# tariff lines**	**Description**	**Bound AV/AVE**	
			max.	**min.**
ex 0210	2	Meat of sheep and goats: salted, dried or smoked	204.4	146
02109031	1	Edible pig livers: salted, dried or smoked	42.5	
ex 0709/0710	2	Olives: fresh or frozen	21.1	15.2
07119040	1	Mushrooms: provisionally preserved	217.6	
ex 0714	2	Manioc, sweet potatoes	83.8	15.9
ex 1006/1007	2	Broken rice and grain sorghum	72.4	51.5
ex 1509/1510/1522	6	Olive oils, soapstocks and residues	132.3	45
ex 1602	2	Prepared/preserved beef offal	163.4	130
ex 1701/1702	6	Cane and beet sugar, fructose	143.6	83.9
ex 1704/1806	3	White chocolate, chocolate flavour coating, preparations containing cocoa	18.9	18.7
19030000	1	Tapioca and substitutes	35.9	
19059045	1	Biscuits	20.7	
ex 2003	2	Prepared/preserved mushrooms	180.9	158.2
ex 2007	3	Jams and purees	40.5	27
ex 2008	6	Prepared/preserved fruit	31.0	25.6
ex 2009	5	Fruit juices	81.1	35.1
ex 2204	6	Wine and vermouth	?[a]	?[a]
ex 2207	2	Ethyl alcohol	?[a]	?[a]
ex 2208	6	Vodka, liqueurs and cordials	?[a]	?[a]
ex 2209	4	Wine vinegar, vinegar substitutes	?[a]	?[a]
23069019	1	Olive oilcake	39.0	
ex 2307/2308	2	Wine lees and grape marc	?[a]	?[a]
35021190	1	Dried egg albumin	24.1	

Notes:
Where this column is blank, the rate shown in the "max." column is applicable to all tariff lines in the aggregate.
[a] AVEs could not be calculated for any of the tariff lines within this product group.

What effect will Doha have on OECD market access?

The Harbinson proposal

The first significant attempt to forge a consensus in the agricultural negotiations was made in February and March 2003 by the Chairman of the special session, Stuart Harbinson. IDS research has shown that the application of the Harbinson proposal to the Quad's current tariffs would leave many of these product groups largely immune to imports. Tariffs would come down, but would remain at insurmountable levels. The principal product areas that would have retained tariff peaks of over 50 percent post-Harbinson were:

- the EU: beef, dairy products, bananas, prepared meat, sugar and grape juice;
- Japan: meat, dairy products, cereals, sugar, coffee/tea essences and silk;
- the United States: peanuts and tobacco.

In addition to these ultra-constrained products, those that would face 25–50 percent tariff post-Harbinson, which would reduce if not suffocate trade, include:

- the EU: meat (other than beef), fruit, vegetables, cereals, fruit juices, food industry residues, and tobacco;
- Japan: cereal preparations, miscellaneous food preparations;
- the United States: dairy products, sugar, butter substitutes.

The initiative failed to get much support even though its proposals were located in the middle of all the other major proposals (Matthews, 2003, footnote 4). Some further proposals during the months leading up to Cancún suggested that progress might be made at the Ministerial, but this turned out not to be the case.

The Derbez draft[8]

Although it was not adopted at Cancún, the Derbez draft was the most recent attempt at a consensus that was available until the Decision adopted by the General Council on 1 August 2004. From an ACP perspective, the key question is what the Derbez draft suggests in terms of how far Quad markets in general, and EU markets in particular, will be opened up as a result of the current round. The Derbez text suggested a blended approach, which would have subjected some tariff lines to the Swiss formula but others to the Uruguay Round (UR) formula (subject to there being a minimum simple average tariff reduction for all agricultural products), except for a limited number of items that could be dealt with separately on the basis of non-trade concerns. The Derbez draft also left the issue of special safeguards for further negotiations under which those countries that have reserved the right to do so, mainly the OECD states, can increase tariffs to deal with sudden import surges.

The August 2004 Decision

The Decision adopted by the WTO General Council on 1 August 2004 for the Doha Work Programme (WTO, 2004) notes that "special attention" is to "be given to the specific trade and development related needs and concerns of developing countries". Among these it refers specifically to "food security, rural development, livelihoods, preferences, commodities and net food imports…". Annex A to the 1 August 2004 Decision elaborates the framework for SDT and includes a number of innovations not present in the current AoA. These innovations include the designation of "Special Products" ("based on criteria of food security, livelihood security and rural development needs") and the establishment of a Special Safeguard Mechanism (SSM) to be used by developing country members.

These innovations are useful and could be developed within an EPA, but the assumption must be that whatever is undertaken will operate within a world agricultural market that remains distorted. The clear inference to be drawn from both the Derbez draft and the 1 August 2004 Decision is that many tariff peaks will remain after the closure of the current round of negotiations. If this is so, then there will not be the global re-distribution of genuine agricultural trade liberalization production assumed in the forecasts. On the one hand, this means that ACP importers of products that have been affected by the export and domestic subsidy negotiations will tend to have higher import bills. On the other hand, it will remain the case that some EU agricultural product markets will still be "managed" in the broad

[8] This sub-section draws heavily on Matthews (2003).

sense of the term, with limitations on the extent to which imports can be allowed to push down domestic prices. Under such circumstances there would be ample scope for providing trade preferences to ACP countries if the EU is willing to do so and if it can be squared with WTO obligations.

While few details are provided in the 1 August 2004 Decision on these innovations, there is some scope for believing that they could be useful to this process. The fact that it is specifically left to the negotiation phase to establish criteria and treatment is both an opportunity and a limitation. While certain possibilities are not definitively "ruled in", many are not "ruled out". The argument in this section is that the ACP must work backwards from their food security, livelihoods and rural development needs to identify the modulations in trade rules, both multilateral and within an EPA, that are required to facilitate the achievement of their goals in these areas.

Linking TRQs (sensitive products) and preferences

A literal interpretation of the wording in Annex A of 1 August 2004 Decision would appear to offer a potential way of linking measures in preference-giving countries that might be useful for preference-receiving states. An obvious area in which such flexibility might be useful is in the design of TRQs. Annex A para. 34 states that details of TRQs are to be negotiated. A link could be drawn between para. 41, especially the second sentence, and para. 34 on TRQs. This is because TRQs might help preserve some elements of preferences for some recipients.

At present, preference-recipients obtain two related advantages in different proportions depending upon the product concerned. One is that they are sold into an artificially high-priced market. Sugar under the EU–ACP Sugar Protocol is the extreme example of this, since not only is the EU sugar market price artificially inflated, but ACP beneficiaries are entitled to receive a price directly related to that prevailing on the European market. Horticultural preferences would be at the other end of the spectrum. The other advantage is that preference-recipients obtain a commercial advantage over other potential suppliers of the market. In the case of the Beef Protocol, for example, there is no possibility of substituting purchases from Namibia with, for instance, purchases from Argentina; if EU importers do not wish to buy the Namibian beef, they have to forgo that quantity of reduced-tariff import.

If the Doha Round fails to result in substantial cuts to EU market access restrictions on products covered by preferences, then EU prices will continue to be artificially high, although they may be lower than they are at present. Some preference-recipients might be able to continue to cover their production costs at these "artificially-high-but-lower-than-before" prices. However, if they face unbridled competition from other exporters who are able to sell at a lower price, they may not get the chance to do so. Such unbridled competition could occur if the EU opens TRQs for the products allocated globally (i.e. on a first come, first served basis) and that are sufficiently large relative to the Cotonou quotas, which importers would prefer to buy at a lower price under the TRQ than under the higher Cotonou.

If such circumstances occur, then some ACP preference-recipients would be squeezed out, although they would have been able to survive if the EU had opened country-specific TRQs. If the EU's TRQs were country-specific and allocated on the basis of past exports, an importer of beef, for example, would not be able to increase its purchases from Brazil above that country's sub-quota, even if a better price were offered than by Namibia or Botswana. Since one aspect that remains to be negotiated is whether they should be global or country- specific, there is scope for concerted EU–ACP action on this point. Other areas in which Special Products might be relevant may become apparent as the Doha negotiations progress.

3.6 Sanitary and phytosanitary standards (SPS)

The nature of the problem

ACP countries can benefit from agricultural preferences in the EU market only if they are able to supply the items competitively. Although most have exported agricultural goods to Europe for many years, the rapid evolution of SPS requirements means that a continuation of past flows – still less diversification into new items by new countries – is by no means a foregone conclusion.

This section reviews recent changes to EU SPS regulations to determine whether or not they appear to pose an insuperable or merely a difficult challenge to continued trade.

SPS pose a substantial challenge to the ACP countries and have done so for some time, but they relate particularly to EPAs in two respects: EPAs may provide a vehicle to help the ACP meet SPS requirements and they might provide a framework within which to develop "development-friendly" SPS.

As a framework designed specifically to better integrate ACP countries into the world economy, EPAs offer an obvious vehicle for helping deal with the challenges that the ACP countries face. Many such challenges involve resources, both financial and human. There is a huge need for both financial and technical assistance to allow more ACP countries to participate more extensively and effectively in international trade on a wider range of agricultural goods. The EPAs should make specific provision to provide some of this support.

A World Bank study of the needs of five African countries for improved SPS infrastructure to allow them better to participate in international trade, for example, reveals a wide range of measures that need to be taken (Wilson and Abiola, 2003). The costs of complying with SPS requirements in the Kenyan horticulture industry, for example, are put at US$2 000 per month at the farm level and US$123 000 for quality controls from the farm to port of export (idem xlv). In Uganda, while there are 28 government gazette custom entry/exit points that should have inspection units, only 11 are served. Four domestic laboratories are still seeking international recognition as testing centres, and the overall estimated cost of their restructuring is US$12 million. Also, in Uganda, ISO certification is estimated to cost US$3 000, and training an average of US$7 000 – to be repeated every three years (ibid. l li)!

Nonetheless, it is clear that some, albeit far too few African producers are able to meet international SPS. The very fact that Botswana, Cameroon, Côte d'Ivoire, Ethiopia, Kenya, Ghana, Mauritius, Namibia, Senegal, Swaziland, Uganda, Zambia and Zimbabwe are all able to export fresh, chilled or frozen agricultural goods successfully to the EU is evidence that they have achieved the minimum level of competitiveness in terms of quality, timeliness and price. The preference simply provides an additional margin to the value chain that sources in Africa (compared with a non-preferred source), and thus facilitates diversification.

But will new SPS regulations bring this trade to a halt, and how might this be avoided? This introduces the second aspect that relates SPS to EPAs. The EU's SPS are evolving rapidly – and this is creating additional challenges. Given that one explicit aim of EPAs is to foster the integration of ACP countries in the world economy, they offer an obvious framework for modulating these changes to reflect ACP conditions while not compromising on health standards.

Non-EU suppliers of fresh agricultural products must already comply with rigorous certification schemes that allow each carton to be traced back to a certified grower. Not only must phytosanitary and hygiene standards be acceptable in the EU, but also toxic residue levels, as well as the labour, social and environmental conditions of production (Lambert, 2002, p. 8).

There can be no question of the EU adopting lower SPS for ACP producers, and in principle such standards, if applied to all suppliers, should not necessarily be a particular problem in EPAs. Some of the health issues that arise from intensive and artificial production methods could be less difficult for ACP than for industrialized countries to avoid.

Further, even to the extent that SPS compliance imposes costs, these will apply in principle to all suppliers and hence not alter relative competitive conditions.

In practice, however, there are four sets of problems that could be associated with the ever-changing SPS requirements of major markets, some of which could be alleviated either through modulations to the regime in EPAs or through aid in support of trade. They are requirements that:

- are inappropriate to ACP circumstances;
- skew the distribution of gains from trade;
- are disproportionately onerous for small exporters;
- change too rapidly.

Evidence concerning the EU

The EU has a complex and overlapping series of Regulations and Directives on various aspects of SPS that have been introduced over a long period of time. Within this body, a core of 24 Regulations and Directives provide the principal source of impact on ACP agricultural exporters (Cerrex, 2003, p. 10).

This corpus is in the process of being revised and harmonized, partly to reduce barriers to trade within the single market. Much of the concern is associated with the changes introduced through this process.

Inappropriate standards

The argument is made that when SPS regulations in respect of, for example, pesticide residues are framed, they only consider the circumstances prevailing in the agricultural sector of the imposing country. There may not be any deliberate attempt to bias the detailed provisions against ACP circumstances and practice. Still, at the very least, there is an absence of the technical information required to modulate the detail of the regulation so that it takes full account of the husbandry practices and available agro-chemicals in the ACP.

This has been a particular problem with the EU's Harmonization Programme on minimum residue levels (MRLs) for pesticides. This Programme aims to establish common and obligatory MRLs for all active ingredients approved for use within the EU. Under its Pesticide Approval Review Programme, the EU is systematically reviewing the registration of 823 active ingredients approved within the EU prior to 25 July 1993. The continued registration of a pesticide depends on appropriate data being generated and submitted by interested parties (Cerrex, 2003, p. 12). If a pesticide fails to have its MRL renewed, the maximum acceptable residue will be set, by default, at the "limit of detection".

It has been estimated that approval will be withdrawn for at least 350 active ingredients:

> *Market opinion is that in the absence of agro-chemical companies investing in generating data to defend registration of MRLs of older, out-of-patent pesticides, many developing countries will be unable to complete the necessary dossiers to enable the continued use of many significant pesticides which are mainly relevant to use in tropical regions (Cerrex, 2003, p. 13).*

A report to the United Kingdom Tropical Agriculture Association considered that due to poor communications and a lack of understanding of the real consequences of the changes, insufficient work had been done to support the setting of MRLs for imported tropical and sub-tropical crops (Cerrex, 2003, p. 33).

The situation is considered particularly serious for post-harvest fungicide treatments, essential for sea-freight exports and where residues are most likely to remain on the surface of a product up to the point of retail.

EU has provided €25 million in funding to the Europe, Africa, Caribbean, Pacific Liaison Committee (COLEACP) Pesticide Initiative Programme (PIP). The PIP team in Brussels is processing applications from companies or groups of companies for PIP interventions (Lambert, 2002, p. 21).These include conducting trials in tropical regions to generate data to support the establishment of MRLs that are relevant to good agricultural practice in fruit and vegetable crops.

Distribution of gains

Two examples illustrate the issues over the influence of SPS on "who gains" from trade – and the extent to which changes to "trade policy" might affect the outcome. The first concerns the effect of United Kingdom "name and shame" provisions on pesticide residues on the buying strategies of British supermarkets. It is argued that this has accelerated a trend towards sourcing from large producers, who can provide the paper-based guarantees of standards compliance, and away from smallholders (Humphrey and Dolan, 2000; Dolan and Tewari, 2001). The problems that small producers face in demonstrating compliance with the paper- and process-based systems that underlie many ISO codes have been well documented and do not only apply to agriculture (Nadvi and Halder, 2002). The standards for horticulture and livestock set by EurepGAP, a group of 29 European retailers, increasingly represent the level to which exporters must aspire if they are to continue to find buyers. Not only does this create problems for small producers, but it discourages new entrants. EurepGAP is specifically aimed at the existing suppliers of its members (FAO, 2003b: 39).

TABLE 3.6: SUMMARY OF OIE GUIDELINES FOR MEAT EXPORT WITH RESPECT TO FMD STATUS

Status	Description of FMD control	Meat export requirements
1. Infected country or zone with no FMD control	No official control programme (private vaccination may be undertaken to protect herds)	Export of processed (canned) product only to any country from an approved abattoir Ante- and post-mortem inspection Avoidance of FMD contamination of product
2. Infected country or zone with official control programme	Compulsory systematic vaccination of cattle Cattle residency requirements Cattle sourced from areas with no FMD within 10 km for 30 days	Export of de-boned beef to FMD-clean or infected countries from an approved abattoir Ante- and post-mortem inspection Carcass maturation, removal of bone and lymph nodes
3. FMD-free country or zone where vaccination is practised	Cattle vaccinated Effective disease surveillance and reporting No outbreak of FMD for 1–2 years	Residency requirements Slaughter at approved abattoir Export of de-boned beef to all markets Unrestricted meat export to infected markets or those with similar FMD virus strains Export of fresh pork and other meats from animals that have not been vaccinated
4. FMD-free country or zone where vaccination is not practised	No vaccination permitted in free zone Free zone separated from others by surveillance zone or other barriers Measures to prevent FMD entry Effective disease surveillance and reporting No outbreak of FMD for 3 months	Residency requirements Slaughter at approved abattoir Unrestricted meat exports

Source: Perry *et al.* 2003: Table 2.1.

Since the requirements are commerce-led and the underlying trend appears to be in the same direction (towards a concentration of supply), it is not clear that there is a great deal that importing governments can do through their trade policy to influence the situation. To the extent that the trend is considered adverse for development, however, there may be steps that can be taken in the producer country (with donor support where appropriate) to assist small producers to make themselves attractive to the buyers and to increase the developmental gains from wage labour in the sector (McCulloch and Ota, 2002).

The other example comes from Botswana in relation to beef exports. This lies more centrally within the remit of importing-state governments. The conditions under which FMD-free countries may restrict imports are laid down by the Office International des Epizooties (OIE), which provides the technical advice in WTO disputes, and are summarized in Table 3.6. The EU's beef imports under Cotonou have generally come from regions of countries that satisfy Status 4, "FMD-free country or zone where vaccination is not practised." As an additional and unchallenged precaution, the EU further restricts the type of product that can be imported. Instead of allowing unrestricted imports, which would be permissible from a Status 4 region, it allows only imports of de-boned beef, the norm from Status 3 regions. This is to remove the risk of the disease being transmitted in bone marrow. Possibly, this could be challenged in the WTO, but the exporting states have not considered it to be in their interests to do so.

Southern African beef exporters have satisfied these requirements by applying the traditional method from which both small and large cattle producers can benefit. Essentially it involves the construction of physical barriers between the FMD-carrying buffalo and protected cattle, together with externally inspected abattoirs within the FMD-free zone. Anyone raising cattle of the appropriate quality standard within the FMD-free area is able to participate in the export trade – and the gains have been considerable (Perry *et al.*, 2003).

The alternative system of shifting to Status 3 would involve vaccination and cattle passports. This would tend to limit participation to the more organized and larger farmers. So would new requirements, possibly, introduced under the heading of "Good Agricultural Practice" (GAP), requiring greater traceability within the controlled area. It is therefore a matter of concern that the

Government of Botswana has felt obliged to introduce the tagging of cattle (placing a bolus in each beast which can be "read" by an external monitor) to demonstrate the origin and movement of cattle in order to meet EU veterinary requirements. The concern is that it will limit small-farmer participation, especially if it becomes the norm in other countries with more limited scope to fund the costs from government resources.

Onerous administration and rapid change

There is evidence that the problem is institutional rather than technical; SPS rules as such do not create the problem. Firms involved in exporting agricultural products are reported not to attribute their greatest difficulties in dealing with SPS issues to be either the WTO SPS Agreement provisions or consumer concerns in the EU. Rather, they assert that the primary cause of their problems derives from "structural deficiencies that exist within their "single home" countries" (Cerrex, 2003, p. 44).

These problems include slow communication of new rules by the public to the private sector and confused lines of communication and responsibility within government. A case in point is the SPS problem Kenya experienced in exporting fish from Lake Victoria to the EU in 1997 and 1999 (Cerrex, 2003, p. 39). The EU indicated an intention to impose an import ban as a result of concern over hygiene standards, and later with respect to special food safety problems such as cholera and fishing with pesticides. Kenya was unable to react within the 60 days allowed for comment largely because of a diffusion of responsibility between different ministries. Responsibility is divided between the Ministries of Trade, Agriculture and Health.

New EU regulations on pest control designed primarily to promote trade within the Single Market are a particular concern for the horticulture and floriculture industries. A new Regulation will merge, harmonize and simplify 16 existing product-specific Directives and the General Directive 93/43.

> *The effect of this "tidying up" operation will be increased by its introduction as a Regulation which is directly implementable by EU member states as opposed to a Directive that allows variation by member states in the way it is translated into national legislation (Cerrex, 2003, p. 11).*

The substantial shift towards more uniform practice within the EU was heralded by a Council Directive of 8 May 2000 (CEC, 2000). This was subsequently amended by a Commission Directive of 19 March 2002 and a further Council Directive of 28 November 2002 (CEC, 2002a, 2002b).

Under the new regulations, which came into effect from 1 January 2005, all plants and plant produce imported into the EU are liable to inspection by plant health inspectors on arrival, whether or not they require a phytosanitary certificate. Among the changes has been the definition of plants to include "leaves", bringing cut flowers fully within the purview of the new system. The inspected plants will require a "plant passport" before further movement within the EU is permitted.

There are three causes of concern for the exporters. The first is the sheer speed with which events have taken place. The period for making representation to the Commission before the Directives were published was felt to be too short, as is the period before full implementation. It is inherently plausible that information flows from Brussels to producers in the ACP, especially the less well established, will tend to be partial. To the extent that this is the case, considerable scope would appear to exist for EPA institutions to assist the information and communication flow.

A second problem concerns the cost of meeting inspections. The EU regulation is quite clear: it states that "member States shall ensure the collection of fees … to cover the costs occasioned by the documentary checks …" (CEC, 2002b: Article 13d, 1) and that "No direct or indirect refund of the fees provided for in this Directive shall be permitted (ibid.: Article 13d, 4). This is presumably to avoid any hidden subsidies. The regulation allows member states to make their own calculations of costs, but it also sets out standard fees, which will always be taken to be "cost covering".

One important point to note is that these fees were published only on 28 November 2002, i.e. just two years before they come fully into effect. The second point is that they are generally composed of a base charge for consignments up to a certain volume, with supplementary charges for units above this minimum, and a maximum charge. This system, which reflects the reality that there are fixed costs in inspecting a consignment regardless of its size, nevertheless will bear disproportionately on small consignments, for example, the base "standard charge" for cut flowers, which is €17.5 for up to 20 000 stems.

What is the relative tax burden? For imports from Kenya in 2002 of chrysanthemums, for example, this charge would be equivalent to 4.3 percent of the value of 20 000 stems. If the consignment were fewer than 20 000 stems, the proportionate cost would rise. In May 2002 Kenya exported only 9 050 stems to Sweden, and in April, just 5 000 stems. Even if all the flowers had been concentrated in a single consignment in each of these months, the standard charge would have been nearer to 9 percent in May and as much as 16 percent in April. These are extreme cases, but in the two months of 2002 that Kenya exported to Germany, the total was around 30 000 stems per month, and in the other two months of supply to Sweden it was 22 500 and 36 690 stems (Eurostat, 2003). Given the probability that these monthly sales are divided into several consignments, it appears likely that the proportionate charge will often be greater than 4.3 percent. At the very least, it will discourage diversification to new national markets and the emergence of new ACP suppliers that do not sell the quantities that Kenya has achieved.

These problems are causing particular concern because they are being accompanied by a change in the frequency of inspection. In the past, the frequency has varied between national markets. Now, all plants specifically identified by the EU will be subject to "meticulous inspections" of "each consignment" (CEC, 2002b: Article 13a, 1(a)). In addition, plants that are not specifically listed will also be subject to "supervision" to ensure that they are not host to prohibited pests (ibid, Article 13, 3).

There is provision for inspection to occur at a lower rate of frequency in cases where an inspection was "already carried out in the consignor third country" (ibid., Article 13a, 2). This raises the question as to whether it would be appropriate to locate EU inspectors in ACP air and seaports.

3.7 Lessons from Relevant EU Trade Agreements

The EU–South Africa TDCA

In addition to the possibility of preference erosion emanating from multilateral liberalization, there is the probability that the EU's sub-multilateral trade agreements will remove or reduce the commercial value of the ACP's preferences. This section reviews the TDCA with South Africa, and the next section looks at the EU–Chile Agreement. On the horizon is the EU–Mercosur accord, which is expected to be finalized soon. If this moves ahead, it could have a substantial impact on ACP preferences, not least those on beef.

Although the TDCA came into effect in 2000, many of its more substantial improvements to South African access to the EU market have either only just come on stream or are not yet implemented. Table 3.7 sets out in broad terms the implementation schedule for agricultural products that are exported by ACP states. Most of the items that were fully liberalized by 2003 (top two rows) already faced low tariffs. For example, 14 of the 19 items exported by ACP states to the EU (to a value of €5 million or more in 2002) that were to be fully liberalized by 2003 are items for which the GSP tariff in 2002 was under 5 percent.[9] Further, none of the items (apart from cane and molasses – CN 17031000) had GSP rates exceeding 10 percent. Hence, the "preference erosion" that has already happened is very modest.

Among a second group of products in Table 3.7 – those for which liberalization began in 2000 but will not be completed until 2010 – there are a small number for which the ACP margin of preference over GSP levels (and those currently applicable under the TDCA) is substantial. Hence, by 2010 there will have been a significant erosion of ACP preferences, but this has yet to occur.

The fourth row of Table 3.7 lists the items for which liberalization did not begin until 2003 and for which it will be completed by 2010. Most of these are items on which the ACP states currently have a significant margin of preference over GSP tariffs, and for which, therefore, there will be a significant change in their relative competitiveness compared to South African exporters over the next six years. Finally, the table lists two items for which liberalization will not begin until 2005.

Missing from Table 3.7 are two groups of products, one of them fish. Unlike Cotonou, which provides for the possibility of ACP states negotiating FPAs with the EU but also provides preferential access to states that do not do so, the TDCA only provides for preferences if South Africa and the EU negotiate an FPA.

[9] These items are aggregated in Table 3.5 into broader commodity groups.

TABLE 3.7: IMPLEMENTATION OF THE TDCA: EU LIBERALIZATION SCHEDULE FOR ITEMS EXPORTED BY ACP [a]

Implementation period	Items	GSP tariff range % (2002)
2000	Vacilla	2.1
2000–2003	Capsicum and pimento	2.9
	Cloves	2.8
	Groundnut, coconut, palm kernel, babassu, vegetable oils	2.2–2.9
	Cane molasses	b
	Cocoa (paste, butter and powder)	2.8–6.1
	Tobacco and cigars	3.9–9.1
2000–2010	Peas	4.5–10.1
	Pineapples	2.3
	Avocados	0–1.6
	Table grapes (1 January to 31 May, excl. Emperor variety)	8
	Tobacco	7.7–14.9
2003–2010	Cut flowers (1 November to 31 May)	5
	Beans	6.9–10.1
	Vegetables nes	8.9
	Arrowroot, salep and similar roots and tubers	9.5€/100 kg/net[c]
	Prepared and preserved beans	15.7
	Prepared and preserved pineapples	14.1–15.7
2005–2010	Navels and sweet oranges (1 June to 15 October)	3.2c
	Table grapes (Emperor variety and excl. 21 July to 31 October)	4.5–MFN

[a] to a value of €5 million or more in 2002.
[b] This item is not covered by the GSP, and the MFN rate is not available.
[c] MFN rates, as the items are not covered by the GSP.
Sources: Eurostat 2003; UNCTAD TRAINS; EC 1999.

At present, negotiations on the FPA have been stalled and, hence, there is no immediate prospect of any improvement in South African access to the EU for these items that is more preferential than the GSP. Nonetheless, the GSP for many fishery items is relatively liberal with tariffs of less than 5 percent.

The second group of exemptions are agricultural products that are not scheduled for liberalization under the TDCA at present. These include sugar, beef, rum, some flowers and those citrus and vine fruits sub-categories not covered by the bottom pane of Table 3.7. While the TDCA leaves open the possibility of future negotiations, and often establishes that there will be a "periodic review" these have not yet resulted in any agreement to grant South Africa preferential access.

It must be emphasized that Table 3.7 only covers products that are both in the TDCA and exported at present by the ACP to significant values. It follows that there could be preference erosion on other agricultural items that are not yet exported (or only in trivial amounts) by the ACP. But it is in the nature of the issue that such level of detail on erosion can only really be identified through country-level analysis.

Similarly, it should not be assumed that South Africa has a supply capacity in all of these items (e.g. cocoa). Table 3.8 takes this into account by identifying from among the products summarized in Table 3.7, those that were actually exported to significant values by South Africa either to the EU or to elsewhere in 2002. Table 3.8 also identifies the principal ACP exporters to the EU for each of these products. The extreme right-hand column also shows the tariff payable by South Africa in 2004. In most but not all cases, this tariff will be reduced to zero by the end of the implementation period.

The list is quite short, only 20 eight-digit items in total. In 9 of these (cut flowers, miscellaneous vegetables, pineapples, groundnut oil, vegetable fats and oils, and various types of tobacco), South Africa is a relatively small supplier of the EU market despite having faced only moderate tariffs in the past. There is no reason to assume, therefore, that the TDCA will significantly alter the level of competition experienced by ACP states. The main items in which South Africa has a demonstrated supply capacity and where the TDCA will result in significant improvement in its access to the EU, at least by 2010, are grapes and preserved pineapples, with the principal ACP competitors being Namibia, Kenya and Swaziland.

TABLE 3.8: TDCA: THE "AT RISK" ACP COUNTRIES

CN8	Brief description	Exporter	Exports to EU (€000) 2002	Share of EU total 2002 (%)	Change in share 2000–2002 (%)	EU tariff 2004
Liberalization by 2003						
15081090	Groundnut oil	South Africa	1 477	1	195	0
		Senegal	62 246	61	-5	0
		Gambia	10 588	10	485	0
		Sudan	6 010	6	8	0
59059	Vegetable fats and oils	South Africa	500	2	-15	0
		Ghana	3 178	16	178	0
		Togo	2 164	11	276	0
		Nigeria	514	3		0
17031000	Cane molasses	South Africa	8 180	4	-5	0
		Sudan	9 333	5	-14	0
		Guyana	2 021	1	151	0
		Senegal	1 988	1	-16	0
24011070	Dark air-cured tobacco not stemmed or stripped	South Africa	4 003	6	40	0
		Dominican R.	5 460	8	22	0
		Ghana	307	0	-16	0
		Caribbean	53	0		0
Liberalization 2000–2010						
07081000	Peas	South Africa	400	1	19	3.7–9
		Kenya	15 214	40	-9	0
		Zimbabwe	6 258	16	4	0
		Zambia	2 248	6	31	0
08043000	Pineapples	South Africa	5 510	2	1	2.9
		Côte d'Ivoire	103 990	31	-17	0
		Ghana	41 688	13	12	0
		Cameroon	1 539	0	-28	0
08044000	Avocados	South Africa	51 500	35	1	0-2.1
		Kenya	12 331	8	-8	0
		Swaziland	432	0	100	0
		Dominican R.	342	0	-22	0
08061010	Table grapes (1 January to 31 May excluding Emperor variety)	South Africa	260 013	44	7	5.3-5.8
		Namibia	12 630	2	69	0-11.5
		Kenya	2	0	-41	0-11.5
		Dominican R.	1	0		0-11.5
24011010	Flue-cured Virginia-type tobacco	South Africa	–	–		8.9
		Kenya	2 754	11	244	0
		United Rep. of Tanzania	1 692	7	79	0
		Zimbabwe	450	2	-62	0
24011041	Flue-cured Kentucky-type tobacco	South Africa	–	–		8.9
		Mozambique	2 654	13	39	0
		Uganda	1 325	6	6	0
		United Rep. of Tanzania	1 189	6	18	0
24012010	Flue-cured Virginia-type tobacco partly or wholly stemmed or stripped	South Africa	293	0	118	8.9
		Zimbabwe	173 134	21	13	0
		United Rep. of Tanzania	22 052	3	2	0
		Uganda	9 851	1	-2	0
24012020	Light air-cured Burley-type tobacco partly or wholly stemmed or stripped	South Africa	123	0	-25	8.9
		Malawi	62 752	17	19	0
		Uganda	5 817	2	-9	0
		Mozambique	5 477	1	163	0
Liberalization 2003-2010						
06031080	Cut flowers (1 November to 31 May) a	South Africa	7 437	3	3	5.4-6.3
		Kenya	45 433	21	17	0
		Zimbabwe	27 562	13	4	0
		Côte d'Ivoire	3 638	2	20	0
07099090	Vegetables nes	South Africa	1 785	1	5	6.9
		Kenya	57 127	37	12	0
		Ghana	8 586	6	-18	0
		Zambia	7 691	5	230	0
20082059	Preserved pineapples added sugar but no added spirit sugar content of =< 17 %	South Africa	1 383	3	22	11.6
		Kenya	5 586	13	91	0
		Swaziland	757	2	10	0
		Nigeria	12	0		0

CN8	Brief description	Exporter	Exports to EU (€000) 2002	Share of EU total 2002 (%)	Change in share 2000–2002 (%)	EU tariff 2004
20082079	Preserved pineapples added sugar but no added spirit sugar content of =< 19 %	South Africa	5 731	5	88	12.7
		Kenya	25 887	25	7	0
		Swaziland	2 273	2	61	0
20082099	Preserved pineapples no added sugar or spirit	South Africa	1 841	4	-3	12.2
		Kenya	12 230	24	-6	0
		Swaziland	2 122	4	27	0
		Somalia	24	0	64	0
Liberalization 2005-2010						
08051030	Oranges –navel naveline navelate etc. (1 June to 15 October) a	South Africa	95 292	34	2	3.2
		Zimbabwe	9 285	3	3	0-0.6
		Belize	2 698	1	61	0-0.6
		Swaziland	2 607	1	-22	0-0.6
08051050	Sweet oranges (1 June to 15 October) [a]	South Africa	20 653	65	-3	3.2
		Zimbabwe	5 208	16	37	0-0.6
		Swaziland	3 170	10	40	0-0.6
		Dominican R.	96	0	-15	0-0.6
08061010	Table grapes (Emperor variety and 1 November to 20 July) [a]	South Africa	260 013	44	7	5.3% to (14.4%+€9.6)[b,c]
		Namibia	12 630	2	69	0% to
		Kenya	2	0	-41	(14.4%
		Dominican R.	1	0		+€9.6) [c]

Notes:
[a] The full specific duty is payable if the respective entry price is not reached.
[b] per 100 kg net
[c] The export values shown are for the whole year not for the specific period indicated in the implementation schedule.
Sources: Eurostat 2002 and 2003; EC 1999; UK Tariff.

The EU–Chile Agreement

Similar considerations apply to the EU's FTA with Chile. When fully implemented it may well erode significantly preference on agricultural goods that the ACP currently export to the EU. But implementation is back-loaded, so this effect has not yet been observed. With the exception of beef, which could be an important competitive product for the ACP, the tariff paid by Chile prior to the FTA on items for which liberalization has been fully completed was generally low (Table 3.9). For beef Chile has a small TQ starting at 1 000 tonnes and increasing by 10 percent on this base level per year. Moreover, Chile has duty-free access to the European market for its TQ, unlike the ACP states that pay a reduced, but not eliminated, specific duty on their quota.

Even by 2007 most of the areas of liberalization will be on products where Chile previously faced relatively low tariffs. The principal items where this is not the case are roses, carnations and other cut flowers, peas, other vegetables and winter table grapes. In all of these Chile was previously excluded from the GSP and therefore paid tariffs of between 8 and 14 percent.

The most substantial erosion will not occur until around 2010–2013 (as indicated in the bottom panes of Table 3.8). ACP preferences on grapes, chilled fish, citrus, prepared beans and pineapples will be particularly heavily eroded.

As in the case of South Africa, however, this list does not indicate whether or not Chile is a competitive supplier of the products for which ACP preferences will be eroded. The main difference is that the right-hand column is split into two: the column for 2002 shows the tariff payable by Chile before implementation of the agreement, while the 2004 column indicates not only the current tariff but also the "end tariff" for those items that were fully liberalized in 2003. While the list appears much longer, this is because it includes fishery products, which have been excluded from the TDCA.

While quota-limited, the preference to Chile on beef is particularly noteworthy. Alone among EU suppliers it has complete duty-free access. At the very least, this fact could be used in the EPA negotiations to support ACP arguments in favour of more liberal access to the EU market for their exports. At present Chile exports nothing to the EU, although it does have small frozen beef exports to the world.

TABLE 3.9: IMPLEMENTATION OF THE EU–CHILE AGREEMENT: EU LIBERALIZATION SCHEDULE FOR ITEMS EXPORTED BY ACP [a]

Implementation period	Items	MFN tariff range (2002) [b]	GSP tariff range (2002)
2003	Beef	12.8%+221.1–€304.1/100 kg/net	Not covered by GSP
	Saltwater fish, shark, cuttlefish, squid, octopus		2.5–15 [c]
	Capsicum and pimenta	6.4	2.9
	Pineapples	5.8	2.3
	Avocados	4 or 5.1	0 or 1.6
	Navels and sweet oranges (1 May to 15 Oct.)	3.2% to (4.8%+€7.1/100 kg/net)	Not covered by GSP
	Chocolate		4.8+EA
2003–2007	Freshwater fish, sole, swordfish, crawfish tails, shrimps, prawns		2.6–9 [c]
	Roses, carnations, other cut flowers	8.5 or 12	5 or 8.5
	Peas	8 or 13.6	4.5 or 10.1
	Vegetables nes.	12.8	8.9
	Table grapes (1 November to 14 July)	8% to (14.4%+€9.6/100 kg net)	4.5% to (14.4%+€9.6/100 kg net) [c]
	Vanilla		2.1
	Cloves		2.8
	Groundnut, coconut, palm kernel, babassu, vegetable oils		2.2–2.9
	Cocoa (paste, butter and powder)		2.8–6.1
	Coffee extracts		3.1
2003–2010	Frozen hake fillets/meat		4
	Navels and sweet oranges (April)	10.4% to (10.4%+€7.1/100 kg/net)	Not covered by GSP
	Table grapes (15 to 20 July)	14.1	10.6
	Cigars		9.1
2003–2013	Hake, flatfish, tuna, monkfish, saltwater fish	15–22	10.5–22 [c]
	Navels and sweet oranges (16 October to 31 March)	16% to (16%+€7.1/100 kg net)	Not covered by GSP
	Table grapes (21 July to 31 October)	14.1% to (17.6%+€9.6/100 kg/net)	Not covered by GSP
	Prepared and preserved beans		15.7
	Prepared and preserved pineapples and pineapple juice		11.7–15.7

Notes:
[a] to a value of €5 million or more in 2002.
[b] There are entries in this column only where an item is not covered by the GSP or where Chile is excluded from the GSP, or both.
[c] The upper rate is an MFN tariff, as not all items are covered by the GSP.
Sources: Eurostat 2003; UNCTAD TRAINS; EU–Chile Association Agreement.

The other items where Chile has significant exports, although not necessarily to the EU, and will benefit from a substantial improvement in market access are fresh-cut roses, carnations and other flowers, table grapes, oranges and fresh, chilled or frozen hake, monkfish and fish fillets. The main improvements to access for oranges have not yet been fully phased-in: the two varieties that were liberalized in 2003 still face significant specific duties if the entry price is below €35.4 per 100 kg (other than between 1 June and 15 October, when access is duty-free); the "liberalization" related only to the *ad valorem* element of the tariff which was quite low.

The ACP countries likely to be affected are Kenya, Zimbabwe, Namibia, Swaziland and Senegal. Botswana, Namibia and Swaziland would also be affected if the beef preference were to result in a change of market conditions in the EU – but with a TQ of only 1 000 tonnes any direct impact is likely to be very limited.

TABLE 3.10: CHILE: THE "AT RISK" ACP STATES

CN8	Brief description	Exporter	Exports to EU (€000) 2002	Share of EU total 2002 (%)	Change in share 2000-02 (%)	EU tariff	
						2004	2002
Liberalization in 2003							
02023050	Frozen bovine boned crop chuck and blade and brisket cuts	Chile	-	0		0	12.8%+ €221.1[a]
		Namibia	6 397	32	-5	17.6€[a]	
		Botswana	4 157	21	2	17.6€[a]	
02023090	Frozen bovine boneless meat	Chile	-	0		0	12.8%+ €304.1[a]
		Botswana	4 559	2	-31	24.3€[a]	
		Namibia	1 482	1	26	24.3€[a]	
		PNG	28	0		304.1€[a]	
03026999	Fresh or chilled saltwater fish	Chile	632	15	-39	0	5.2 or 15
		Senegal	40 345	23	-11	0	
		Mauritania	16 305	9		0	
		Guinea	4 978	3	0	0	
03037998	Frozen saltwater fish	Chile	1 046	1	3	0	5.2
		Mauritania	7 400	7		0	
		Seychelles	7 314	7	200	0	
		Senegal	4 843	5	-11	0	
03075910	Frozen octopus (octopus spp.)	Chile	2 584	1	1	0	2.8
		Senegal	53 620	14	1	0	
		Mauritania	39 564	10		0	
		Ghana	4 340	1	341	0	
08044000	Avocados	Chile	3 448	2	475	0	4 or 5.1
		Kenya	12 331	8	-8	0	
		Swaziland	432	0	100	0	
		Dominican R.	342	0	-22	0	
08051030	Oranges-navel naveline navelate etc. (1 May to 15 October)[b]	Chile	321	0	68	0% to 7.1€[a,c]	3.2% to (4.8%+€7.1[a])
		Zimbabwe	9 285	3	3	0.9% to	
		Belize	2 698	1	61	0.9%+	
		Swaziland	2 607	1	-22	7.1€[a]	
08051050	Sweet oranges (1 May to 15 October) [b]	Chile	-	0		0% to 7.1€[a,c]	3.2% to (4.8%+€7.1[a])
		Zimbabwe	5 208	16	37	0.9% to	
		Swaziland	3 170	10	40	0.9%+	
		Dominican R.	96	0	-15	7.1€[a]	
Liberalization 2003-2007							
03037987	Frozen swordfish (xiphias gladius)	Chile	1 031	2	-18	2.4	4
		Togo	3 621	7	236	0	
		Namibia	3 297	7	59	0	
		Seychelles	1 878	4		0	
06031010	Fresh-cut roses	Chile	-	0		5.1	8.5 or 12
		Kenya	139 060	46	12	0	
		Zimbabwe	37 015	12	-8	0	
		Zambia	21 671	7	10	0	
06031020	Fresh-cut carnations	Chile	3	0		5.1	8.5 or 12
		Kenya	8 974	8	-17	0	
		Dominican R.	3	0		0	
		United Rep. of Tanzania	1	0		0	
06031080	Fresh-cut flowers	Chile	79	0	227	5.1	8.5 or 12
		Kenya	45 433	21	17	0	
		Zimbabwe	27 562	13	4	0	
		Côte d'Ivoire	3 638	2	20	0	
08061010	Table grapes (1 November to 14 July) [b]	Chile	120 806	21	-9	4.5% to (8.6%+ 9.6€[a,c])	8% to (14.4%+€9.6[a])
		Namibia	12 630	2	69	0% to	
		Kenya	2	0	-41	(14.4%	
		Dominican R.	1	0		+9.6€[a])	

CN8	Brief description	Exporter	Exports to EU (€000) 2002	Share of EU total 2002 (%)	Change in share 2000-02 (%)	EU tariff	
						2004	2002
Liberalization 2003-2010							
03049047	Frozen meat of hake (merluccius spp.)	Chile	6 505	16	6	3	4
		Namibia	16 531	41	-6	0	
08051030	Oranges – navel naveline navelate etc. (April) [b]	Chile	321	0	68	7.8% to 7.8%+ €7.1 [a,c]	10.4% to 10.4%+ €7.1[a]
		Zimbabwe	9 285	3	3	2% to 2%+€7.1[a]	
		Belize	2 698	1	61		
		Swaziland	2 607	1	-22		
08051050	Sweet oranges (April) [b]	Chile	-	0		7.8% to 7.8%+ €7.1 [a,c]	10.4% to 10.4%+ €7.1[a]
		Zimbabwe	5 208	16	37	2% to 2%+€7.1[a]	
		Swaziland	3 170	10	40		
		Dominican R.	96	0	-15		
08061010	Table grapes (15 to 20 July) [b]	Chile	120 806	21	-9	10.5	14.1
		Namibia	12 630	2	69	10.6	
		Kenya	2	0	-41	10.6	
		Dominican R.	1	0		10.6	
Liberalization 2003-2013							
03026966	Fresh or chilled hake	Chile	41	0	-76	12	15
		Namibia	23 568	27	-23	0	
		Mauritania	451	1		0	
03037811	Frozen hake	Chile	27	0	4	12.3	15
		Namibia	34 520	49	-10	0	
		Senegal	170	0	227	0	
03037981	Frozen monkfish	Chile	-	0		12.3	15
		Namibia	27 647	60	3	0	
		Senegal	229	0	70	0	
		Gabon	116	0	-11	0	
03041038	Fillets of saltwater fish fresh or chilled	Chile	653	1	-10	14.7	18
		Senegal	13 842	17	-3	0	
		United Rep. of Tanzania	2 064	3	30	0	
		Seychelles	2 040	3	-5	0	
03042095	Frozen fillets of saltwater fish	Chile	11 898	7	60	8.6 or 12.3	10.5 or 15
		Senegal	25 276	14	-1	0	
		Namibia	5 314	3	64	0	
		United Rep. of Tanzania	3 952	2	51	0	
08051030	Oranges – navel naveline navelate etc. (16 October to 31 March) [b]	Chile	321	0	68	13.1% to 13.1% + €7.1 [a,c]	16% to 16%+€7.1[a]
		Zimbabwe	9 285	3	3	3.2% to 3.2%+€7.1[a]	
		Belize	2 698	1	61		
		Swaziland	2 607	1	-22		
08051050	Sweet oranges (16 October to 31 March) [b]	Chile	-	0		13.1% to 13.1%+€7.1 [a,c]	16% to 16%+€7.1[a]
		Zimbabwe	5 208	16	37	3.2% to 3.2%+€7.1[a]	
		Swaziland	3 170	10	40		
		Dominican R.	96	0	-15		
08061010	Table grapes (21 July to 31 October) [b]	Chile	120 806	21	-9	11.5% to (14.4% +€9.6 [a,c])	14.1% to (17.6%+ €9.6[a])
		Namibia	12 630	2	69	14.1% to (17.6% +€9.6[a])	
		Kenya	2	0	-41		
		Dominican R.	1	0			

Notes:
[a]per 100 kg net
[b]The export values shown are for the whole year, not for the specific period indicated in the implementation schedule.
[c]Liberalization concerns *ad valorem* duty only; specific duty linked to the entry price is maintained.
Sources: Eurostat 2002 and 2003; EU–Chile Association Agreement; UK Tariff.

3.8 Conclusions

There is a great deal on agriculture and food security to negotiate on within the EPAs. Neither a satisfactory nor an unsatisfactory outcome is yet pre-ordained. The most critical task is for ACP countries to frame their current agricultural and livelihoods strategies in ways that make the link to EPAs, on both the export and import front, explicit and to establish the food security objectives that they need to achieve from any agreement.

Once established, the means to attain the objective can be developed. Much remains unclear on what would be in an EPA, but there is sufficient knowledge to allow quite extensive and detailed preparations to be made. It is known that the EU will require some liberalization by ACP members, wanting this to apply intra-regionally as well as in relation to trade with Europe). But only "substantially all" imports will be affected (which could be as low as 80 percent by value), and there will be a transition period that could be back-loaded.

The first step is for each country to identify its list of items to be excluded and back-loaded. Only then can the similarities or differences of potential EPA members be identified, and the implications noted of extending liberalization to intra-EPA trade. For example, an agreement by all EPA members to focus on agricultural products for which increased intra-regional trade could boost food security might be a very positive outcome from the negotiations.

On the export side, it is clear that ACP preferences will be eroded – but not all will disappear for all countries immediately. Moreover, there are possibilities (partly to be negotiated with the EU and partly in the WTO) that would extend the shelf-life of some preferences for some countries. As preferences are eroded, so the relative financial attractions of different agricultural activities will change. Food security plans need to take this into account. Even the process of retaining preferences for as long as possible may alter the impact of trade domestically, for example, by shifting it increasingly to the most competitive producers. The EPA negotiations provide both an institutional framework within which to develop these issues and an alarm bell to ACP food security strategists that policy may need to change in order to deal with the new emerging circumstances.

Preference erosion comes from many sources. EBA will be fully implemented by the time most EPAs get under way. The CAP is being reformed. The EU has enlarged. Doha continues to rumble away, and in the meantime, the EU is busy negotiating RTAs with the ACP's competitors. In addition to all of these, however, the current patterns of trade are challenged by developments in the private sector. These involve the introduction of new SPS requirements that may be difficult for some countries to fulfil and that certainly bias production in favour of larger enterprises capable of supplying the paper-based compliance trail that is increasingly necessary in order to sell in the premium markets.

FAO is engaged proactively helping producers in developing countries not only to meet SPS requirements in major markets, but also to take advantage of them, for example in relation to organic food market niches (See FAO, 2001 and 2002). It is also heavily involved in the evolution of the GSP approach so that it can better support sustainable agriculture and rural development. It is providing an international and neutral platform for intergovernmental, private sector and civil society dialogue on the development of a GAP (FAO, 2003c). There may be considerable scope for using EPAs as both an institutional framework and a source of funds to continue both processes.

Once again, the EPAs both provide an institutional framework for addressing such concerns and need to take account of what is happening on the ground. FAO may have a substantial role to play helping individual ACP countries and producer groups within them to meet the public and private sector SPS and to foster global development of these standards in such a way as to make them development-friendly. All in all, there is a substantial amount of work to be done. The two years before the current Cotonou trade regime is due to end is not a long period within which to achieve all of this.

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Chapter 4
The impact of CAP reform on the EPAs

Introduction

The EU portrays its CAP reforms as an exercise in "liberalization". They have little in common with the concept of liberalization as understood by economists, however, which underpins the many analyses that aim to estimate the global effects of agricultural liberalization. Hence, there is no reason for which implementation of the CAP reforms should have the effects predicted in the economists' models.

Liberalization in the textbook sense means changing the government rules, taxes and subsidies that stop high-cost domestic producers from losing market share to lower-cost imports. It implies that the global location of production will change over time, with lower-cost producers increasing output and higher-cost producers declining. EU "liberalization", by contrast, aims to sustain European production but to reshuffle the subsidies and taxes to make them less costly to the European budget and more easily defensible in the WTO. They will have very limited effects on the EU's overall agricultural trade since they will neither decrease production nor increase market access. But they could erode ACP preferences.

The key structural change (see below) is a shift in the manner of supporting European farmers. There is a tendency to reduce the element of support that is provided through artificially high market prices, and to offset this decline, in whole or part, by income transfers. The problem for the ACP is that when their exporters benefit from the CAP, it is only from the artificially high prices; they have no access to direct producer subsidies. Hence, a change that maintained the level of subsidy at its current level but shifted its delivery from market prices to income transfer would tend to have an adverse effect on ACP exporters.

If there is no change to the terms of preference agreements, then the adverse effect would be felt particularly severely by exporters of products that are subject to TQs under Cotonou, e.g. sugar, beef, rice, other meats and some arable crops. In such cases, the architecture of the Cotonou Agreement would prevent even the most efficient ACP exporters from offsetting any decline in unit prices through an increase in the volume of exports.

The value of these trade preferences is also affected by complementary trade policy changes, such as the granting by the EU of preferences to other countries in the framework of RTAs, by the accession of new countries to the EU (see Chapter 5) and by internal EU policy changes. The most valuable preferences are for those commodities for which, paradoxically, the EU has the highest level of protection against third countries. These are generally agricultural products protected under the EU's CAP. In recognition of the value of these agricultural preferences to the ACP states, Article 1 (d) of Annex 5 dealing with the trade regime applicable during the preparatory period specifies:

The implications of these changes will depend partly on the level of costs in each ACP exporting state. Those producers with high costs may go out of business altogether even as a result of very small decline in EU domestic prices. There have long been fears, for example, for the long-term future of Caribbean sugar exports to Europe. More efficient suppliers may remain in business, but with lower profits for investing in the domestic economy. Mauritius is the best example of the productive use of trade policy rents. Profits from sugar have been invested in clothing since the 1970s and 1980s; profits from sugar plus clothing have been invested, first in tourism and now in other services.

Where CAP reforms affect the volume and price of EU exports, the tendency will be for world prices to rise. The absolute impact on world prices may not be great, but could be substantial for some ACP states. To the extent that ACP states have purchased cereals from the EU at "grey" prices, for example, they have benefited from a substantial additional subsidy although the goods do not qualify technically as food aid. If they are required in the future to obtain their imports from other sources, the price increase up to a "real" world market price level could be steep. On the other hand, there would be less competition for ACP exporters on their domestic and regional market.

The net effect, therefore, will be a complex set of losses and a number of potential gains. The balance of these effects will vary not only between countries, but often between socio-economic

groups within countries. Many countries may be affected both positively and negatively at the same time. It is clearly important to try to start assessing the potential scale and incidence of these effects.

This chapter describes the background to the recent CAP reforms and the implications that these reforms will have for ACP states. These reforms are relevant to the EPA negotiations because they affect the value of the preferential access, which the ACP states are trying to safeguard through these agreements. Also, the Cotonou text clearly puts the commodity protocols "into play" in the negotiations, by agreeing to review them in the context of the new trading arrangements, while recognizing the special legal status of the Sugar Protocol. Finally, to the extent that the EPAs are seen as development instruments and not just trade instruments, their negotiation provides the ACP states with the opportunity to seek compensation for the loss of preferences arising from unilateral CAP reform, based on the commitment in Article 36 of the Cotonou Agreement where in the event of CAP reform, the EU ensures that ACP states continue to enjoy an advantage comparable to that previously enjoyed in relation to third countries.

4.1 The nature of reform

In the course of the past two to three years, the EU has undertaken considerable reform of the CAP, first in June 2003 with the MTR of the Agenda 2000 CAP reform and then in April 2004 when it adopted a package of reforms affecting Mediterranean-type products. In July 2004 the EU Commission proposed a major reform of the sugar regime. The legislative proposal setting out the reforms is now force starting from the 2005/2006 marketing year.

The significance of these reforms has not been lost on the ACP states. The Maputo Declaration, issued following the 4th Summit of ACP Heads of State and Government in June 2004, called for the following, inter alia:

> *We strongly urge the EU, in the process of its Common Agricultural Policy (CAP) reform, to examine thoroughly the effects on ACP economies with a view to mitigating any possible deleterious impacts. We are concerned by existing and potential damage to commodity export earnings through changes in the Common Market organization for key products. To this end, we also urge the EU to give due consideration to these adverse effects, in particular, with regard to bananas, sugar, rice and tuna, and responding appropriately to economic and trade interests of the ACP states (sic). Further, the EU should facilitate improved market access for ACP agricultural and value added food exports.*
>
> *We equally urge the EU to honour the provisions of Article 36(4) of the Cotonou Agreement, in particular the safeguarding of the benefits accruing to the ACP States from the Sugar Protocol. We therefore call on the European Union to ensure that under the future EC Sugar regime the ACP Protocol Sugar supplying states are guaranteed the same level of export earnings on a stable and predictable basis as provided to the EU sugar producers under the European Agricultural Guidance and Guarantee Fund (EAGGF).*

For many years, the EU's CAP was resistant to change. Apart from the introduction of milk quotas in 1984, its basic instruments remained largely untouched during the first 30 years of its existence (1961-1992). The CAP was introduced at a time when farming accounted for a much larger share of Europe's GDP and, in particular, greater employment than it does today, Europe was a net food importer and European agriculture was largely unmodernized. As the scientific revolution in farming took hold and partly facilitated by the high and stable prices guaranteed by the CAP, the face of European agriculture changed dramatically. Import deficits turned to commodity surpluses, there was a rapid outflow of labour to jobs in the growing manufacturing and services sectors, and the structure of farming became increasingly differentiated, distinguishing between a minority of large-scale, commercial producers and the larger number of smaller farms, often farmed on a part-time basis.

During the 1980s, the EU struggled with various mechanisms to try to curtail commodity surpluses and reduce the growing budgetary costs of its agricultural policy.

These mechanisms largely took the form of rules to bring about a reduction in the level of support prices whenever production or budget costs threatened to escalate out of control, and were often honoured more in the breach than in practice.

The first major change in the instrumentality of the CAP occurred as a result of the MacSharry reforms proposed in 1992 and eventually implemented in 1994. Ray MacSharry was the EU Commissioner for Agriculture at the time. The core of his reform was a nominal cut of 30 percent in the cereal price, phased-in over three years, complemented by smaller cuts in the institutional prices for beef and butter. The impact on farmers' incomes of these reductions in support prices were compensated by a per hectare payment in the case of cereals, and premium payments for beef cows and cattle. The 1992 reform introduced a set-aside scheme in the arable sector that allowed the Commission to curtail the arable area and gain control of surpluses. The reform also included three accompanying measures, including early retirement, agri-environment and afforestation schemes, designed to reduce production capacity and to improve the structure of farming.

The MacSharry reforms took place during the Uruguay Round of trade negotiations and facilitated its successful conclusion. The AoA led to all types of import protection, including the variable levy system used by the EU, being replaced by bound tariffs that were reduced by 36 percent on average; the binding and reduction of export subsidies by 36 percent in value and 21 percent in volume terms; and a 20 percent reduction in the aggregate level of trade-distorting domestic support over a six-year period. As a result of the Blair House deal with the United States right at the end of the negotiations, the EU's compensation payments were included in the blue box and were thus protected from reduction and challenge within the WTO.

The ink was not long dry on the MacSharry reforms before it was apparent that further reform would be needed. Forecasts of EU production and demand balances indicated that the EU would have difficulty in remaining within its WTO commitments after 2000, and there was a growing realization that the limits on export subsidies would prevent the EU from taking advantage of growth in export markets unless further reform was undertaken. The 1993 European Council meeting in Copenhagen offered EU membership to the countries of central and Eastern Europe, and there were fears that the cost of extending the CAP to the accession countries would be too great in the absence of further changes to the Policy. An Agricultural Strategy Paper produced by the Commission in 1995 put forward three options for continued reform: Status Quo (maintaining support levels and adjusting supply/demand imbalances through supply controls); Radical Free Market (abandoning price support); and Developing the 1992 Process (continuing the MacSharry process of gradual reductions in support compensated by direct payments) (Commission, 1995). The paper opted for the last of these options, which formed the basis for the next reform of the CAP proposed as part of the Agenda 2000 package and agreed on at the Berlin European Council in March 1999.

The Agenda 2000 reform included a reformulation of the aims of agricultural policy to give greater emphasis to environmental policy objectives and the multifunctional role of the European model of farming. It reduced cereals support prices by 15 percent, reduced the beef intervention price by 20 percent while replacing permanent intervention in the beef market by a much lower "safety net" intervention, and reduced dairy support prices by 15 percent, although this was postponed to the 2005/2006 marketing year because of the high budgetary costs of compensation. In each sector farmers were compensated for the revenue losses by an increase in the existing compensation payments and by the introduction of compensation in the milk sector in the form of a dairy premium per tonne of quota.

The Agenda 2000 package also introduced the idea of an integrated rural development policy as a second pillar of the CAP. This brought together the accompanying measures of the MacSharry reform plus compensatory allowances under the less favoured areas measure, as well as rural development measures previously financed by the FEOGA, into a single Rural Development Regulation. The Agreement also established tight budgetary limits on EU agricultural spending in the context of the EU's medium-term financial framework.

TABLE 4.1. THE CHANGING COMPOSITION OF EU FARM SUPPORT (PERCENT)

		European Union	United States
Market price support	1986–1988	57.7	6.3
	1995–1997	32.5	7.5
	2000–2002	30.3	9.3
Direct subsidies	1986–1988	10.3	7.7
	1995–1997	28.6	7.4
	2000–2002	30.1	17.0
Total producer support	1986–1988	68.0	13.9
	1995–1997	61.1	14.9
	2000–2002	60.4	26.3

Source: OECD PSE database, reworked with world prices as the denominator.

The impact of these two sets of reforms on producer support within the EU is shown in Table 4.1. What emerges clearly from the table is that there has been little change in the overall level of support, but a significant change in its composition. While the overall level of support (expressed as a percentage of the value of EU production at world prices) fell slightly from 68.0 percent in 1986-1988 to 60.4 percent in 2000-2002, the significance of market price support fell from 57.7 percent to 30.3 percent. This reinstrumentation of support (in WTO terms, moving support from the trade-distorting amber box to the less trade-distorting blue box) undoubtedly limits the trade-distorting impact of EU agricultural policy compared to the mechanism of open-ended price support that it replaced. But it still left the CAP vulnerable to a further round of trade reform. There was also growing internal dissatisfaction within Europe with the impact of agricultural policy, driven in part by an increasingly powerful environmental movement highlighting the negative impact of intensive agriculture on the natural environment, as well as by a succession of food and animal health scares which undermined consumer confidence in the food supply.

The latest CAP reforms

The Agenda 2000 Agreement was intended to cover the 2000-2006 period but had mandated a mid-term review in 2003. In the event, the Commission proposals went further than a mere fine-tuning of the previous reforms. The MTR agreed on by the Luxembourg Council of Agricultural Ministers in June 2003 has three main elements:

- *the bundling of all existing production-linked payments into a single farm payment that will be paid to farmers on the basis of their historic entitlements and that will be linked to land rather than production, which is the biggest change*. While the final negotiations gave member States more flexibility to retain production-linked payments than the Commission intended, it nonetheless remains a major step in the decoupling of direct aids from production. Eligibility for payments remains subject to cross-compliance with a variety of EU environmental, animal welfare and food safety standards;
- the continuation of the sectoral reform process with changes to the market regimes for problem *commodities such as durum wheat, rice and rye*;
- *the transfer of money between CAP objectives.* Up to 5 percent of the value of the single farm payment to larger farmers will be "modulated" and transferred to rural development measures. There is also a financial discipline mechanism whereby payments can be further reduced to ensure that overall expenditure remains within budgetary objectives.

While the Luxembourg Agreement is the core of the MTR, further reforms have also taken place in April 2004 with respect to a number of Mediterranean products, and the Commission's proposal for reform of the sugar regime was made in July 2004. These reforms also need to be evaluated in the light of the decision of the European Council in October 2002 on the resources to be made available for CAP market expenditure and income support over the period 2007-2013. This chapter explains the content of these reforms and assesses their implications for the ACP group of countries.

Decoupling

The decoupling of production-linked payments to farmers is the centrepiece of the MTR. Its proponents see a number of advantages:

- It will greatly simplify the administrative burden on both farmers and state administrations in making payments to farmers. Instead of receiving money through up to a dozen different schemes, each with its own eligibility requirements and regulations, farmers will now receive a single payment without needing to demonstrate compliance with individual scheme regulations.

However, eligibility for the single farm payment will continue to require demonstration of "good agricultural practice" and farmland cannot be abandoned.

- The introduction of a single farm payment will encourage farmers to pursue a greater market orientation. Instead of production decisions being driven by "envelope farming", or the attempt to maximize the drawdown of subsidies, the only way farmers can increase their income in the future will be from the marketplace, which should give a greater incentive to take into account consumer needs and concerns.
- Because EU subsidies will no longer be linked to animal numbers, there will be a reduced incentive for farmers to intensify production, which should help to reduce the pressure on the environment. This impact will not be felt in cereal-growing areas where arable aid payments were already made on a per hectare basis unrelated to yield.
- There will be an improvement in the efficiency of income transfer to farmers. On some farms, farm income as reported in farm accounts surveys is less than the value of direct payments that the farmer received. Farmers are engaging in production at a loss in order to gain eligibility for the associated production-linked payment. Decoupling the direct payment will ensure that its entire value goes to increase farm incomes.
- Decoupling farm subsidies will make it easier to extend CAP payments to farmers in the accession countries after enlargement. Direct payments to farmers in these countries are being phased-in on an area basis under a simplified scheme intended to last for a transition period until 2006. It will be relatively easy to convert this to the single farm payment after that date.
- Finally, the single farm payment is designed with the criteria for green box supports in the WTO in mind, and it is thus hoped that the reform will make it easier to defend CAP payments in the WTO in the future.

Various flexibilities were allowed to member states as part of the compromises necessary to reach a final agreement. These include:

- The possibility to delay the start date to introduce decoupling from 2005 to 2007.
- The possibility to make the payments on a historic basis to individual farmers, or to pool the payments received, on either a national or regional basis, and to pay farmers on the basis of the national or regional average.
- The option to retain a proportion of the current production-linked payments based on a series of menu choices. Member states can:
- pay 25 percent of the arable aid payment or 40 percent of the durum wheat payment;
- pay 50 percent of the ewe premium;
- pay 100 percent of the suckler beef cow premium and 40 percent of the slaughter premium or 100 percent of the slaughter premium or 75 percent of the special male beef premium.

While France, for example, has opted to take maximum advantage of this last set of flexibilities, other countries such as the United Kingdom and Ireland have opted for full decoupling. In general, it is felt that the advantages of simplification will encourage all countries to move towards full decoupling over time.

The *greening* of the CAP

One of the motives behind the retention of partial coupling of direct payments has been the desire to prevent the abandonment of farmland in marginal farming regions. This is also linked to the growing importance of integrating environmental considerations into agricultural policy formulation. Formal recognition that the protection of the environment should be one of the functions of EU agriculture only dates back to 1985 with the publication of the Commission's Perspectives paper (Commission, 1985). We have seen that the MacSharry reform reforms introduced an agri-environment scheme that was the first attempt to pay farmers for the provision of environmental services. It also strengthened the environmental dimension of the various common market organizations. For example, set-aside in the arable crops regime was partly justified on environmental grounds. In the beef sector, the premia were made conditional on respecting maximum stocking rates, and additional payments were made to encourage further extensification. The Common Market Organization (CMO) for fruit and vegetables was changed to require producers to adopt integrated pest control.

The reformed CAP puts greater emphasis on cross-compliance. Hitherto cross-compliance was voluntary for member states and applied to environmental standards only. Cross-compliance is now compulsory for all farmers receiving direct payments. A "priority list" of 18 statutory European standards in the fields of environment, food safety, and animal health and welfare have been established and farmers will be sanctioned for non-respect of these standards through cuts in direct payments. Beneficiaries of direct payments will also be obliged to maintain all agricultural land in good agricultural and environmental condition in order to avoid land abandonment and subsequent environmental problems. Where a farmer fails to comply with such requirements, reductions in his payments will be applied as a sanction.

Modulation

The modulation rate of 5 percent will result in additional rural development funds of €1.2 billion a year being made available. The reform also extends the scope of currently available instruments for rural development, starting from 2005, to promote food quality, meet higher standards and foster animal welfare. The changes are targeted primarily to help farmers respond to new challenges. It will be for member states and regions to decide if they wish to take up these measures within their rural development programmes.

The new measures will comprise:

- *Food quality measures*: Incentive payments will be available for farmers who participate in recognized schemes designed to improve the quality of agricultural products and the production processes used and to give assurances to consumers on these issues and support for producer groups for activities intended to inform consumers on and promote the products produced under quality schemes will be eligible for public funds.
- *Meeting standards:* Member states may offer temporary and degressive support to help their farmers adapt to the introduction of demanding standards based on EU legislation concerning the environment, public, animal and plant health, and animal welfare. Aid will not be payable where an individual farmer is not respecting standards already included in national legislation.
- *Farm Advisory Service:* Support will be available for farmers to help them with the costs of using farm advisory services.
- *Animal welfare:* There is now provision to support farmers who enter into commitments for at least five years to improve the welfare of their farm animals and that go beyond usual good animal husbandry practice. Support will be payable annually on the basis of the additional costs and income foregone arising from such commitments.

Financial discipline

The need to control agricultural spending has always been one of the main driving forces of CAP reform. It is important, therefore, to examine the financial implications of the current MTR reforms and the extent to which they can be financed. The EU budget is organized on the basis of a medium-term financial perspective (FP). The current FP was agreed on as part of the Agenda 2000 package in 1999 and covers the period 2000-2006. It is agreed on as part of the Inter-Institutional Agreement between the two arms of the EU budgetary authority, the European Council and the European Parliament.

Each FP is characterized by:

- On the revenue side, an overall ceiling on the EU's own resources, currently set at 1.24 percent of EU GNI in the Agenda 2000 FP. The EU's own resources are a combination of "traditional" own resources (customs duties and agricultural levies, and a percentage VAT levy on a harmonized base of consumer expenditure) and the GNP resource (a percentage contribution from each member state based on its GNP).
- On the expenditure side, separate ceilings on commitment appropriations (i.e. commitments or promises to pay which are entered into in a particular year with a view to payment in that year or a subsequent year) and payments appropriations (i.e. actual payments in a particular year arising from commitments entered into in that year or in previous years). Because the EU budget is legally required to balance each year, payment appropriations cannot exceed the agreed ceiling on its own resources revenue.

- A classification of expenditure under a series of headings, each of which has its own expenditure ceiling. In the Agenda 2000 FP, agricultural expenditure is classified under two headings. Heading 1a refers to CAP market measures, including market support and direct payments expenditure, funded by FEOGA. Heading 1b refers to rural development expenditure funded by the FEOGA. The other main expenditure heading refers to the EU Structural Funds, designed to assist in achieving economic and social cohesion within the EU.

The Agenda 2000 FP was the first to make provision for EU enlargement. It also placed a ceiling on CAP Heading 1a market expenditure of €48 billion, increased by 2 percent per annum to allow for inflation. Actual CAP market expenditure has been below this ceiling in each of the years of the FP to date.

In February 2004 the Commission submitted its proposal for a financial perspective to cover the seven-year period 2007-2013. This is now being debated among the member states with a view to the new FP being approved by the European Council in June 2005. The Commission proposal aims to cover the needs of a 27-member state Union, consistent with the objective of allowing Bulgaria and Romania to join in January 2007 if they are ready. Key elements of the Commission's proposal are:

- The Commission proposes an FP with commitment appropriations averaging 1.26 percent of EU-27 GNI over the period. The payment appropriations arising from these commitments (and from the commitments outstanding from the period before 2007) are projected to average 1.14 percent of EU-27 GNI. This level of payment appropriations is consistent with the current own resources ceiling of 1.24 percent of GNI, assuming average GNI growth of 2.3 percent over the period; the Commission is not proposing a further increase.
- The Commission also proposes a reorganization of the expenditure headings to highlight their consistency with the EU's political priorities over the period. Agricultural expenditure would be included in a new Heading, "Preservation and Management of Natural Resources". CAP payments would be separately identified and subject to the October 2002 European Council decision on the ceilings for market expenditure and direct payments for EU-25. This decision was to hold the overall expenditure in nominal terms for market-related expenditure and direct payments for each year in the period 2007-2013 below the 2006 figure for the EU-25 allowed in the Agenda 2000 FP increased by 1 percent per year. Estimated expenditure for Bulgaria and Romania has been added to that figure.
- Rural development measures would be concentrated in a single instrument based on three objectives: increasing the competitiveness of the agricultural sector through support for restructuring; enhancing the environment through support for land management; and improving the quality of life in rural areas through promoting the diversification of economic activities.

The adequacy of these proposals to cover the demands for CAP expenditure over the 2007-2013 period are assessed as follows:

- There are significant differences among the member states in the appropriate level of EU expenditure in the next FP period and the methodology to be followed in agreeing on the FP by June 2005. The Commission proposal, supported by a number of member states, starts from an assessment of the needs of the enlarged EU over the coming period, taking into account the political and policy commitments already assumed by the Council. On this basis, it estimates that required expenditure will average 1.14 percent of EU GNI per annum. A number of other member states propose, instead, a top-down approach in which an overall budgetary ceiling is first agreed on and then policy objectives are prioritized within that ceiling. These member states have called for a 1 percent expenditure ceiling, which would require a paring back of EU expenditure commitments and would call into question the October 2002 agreement on the resources to be made available for CAP market measures.
- The EU has been able to accommodate the cost of extending the CAP to the new member states by introducing direct payments on a phased basis in accordance with the following schedule of increments expressed as a percentage of the level of such payments in the Union: 2004 – 25 percent; 2005 – 30 percent; 2006 – 35 percent; 2007 – 40 percent and thereafter in 10 percent increments so as to ensure that in 2013 the new member states reach the support level then applicable in the current EU. However, the margin between committed expenditure and the CAP market expenditure ceiling is now such that there is very little room to pay more compensation to

EU farmers for further cuts in support prices, for example, the sugar reform proposed in July 2004 or new dairy or beef reform if required by a new WTO trade agreement.

In its original MTR proposal, the Commission had proposed modulating the single farm payment to larger farmers by 20 percent in order to create additional resources for possible compensation in further CAP reform. As discussed above, this proposal was not accepted in the final package. However, the MTR regulation provides for direct payments to be cut if expenditure threatens to overshoot the CAP market expenditure ceiling.

4.2 Implications of CAP reform on selected products and for ACP states

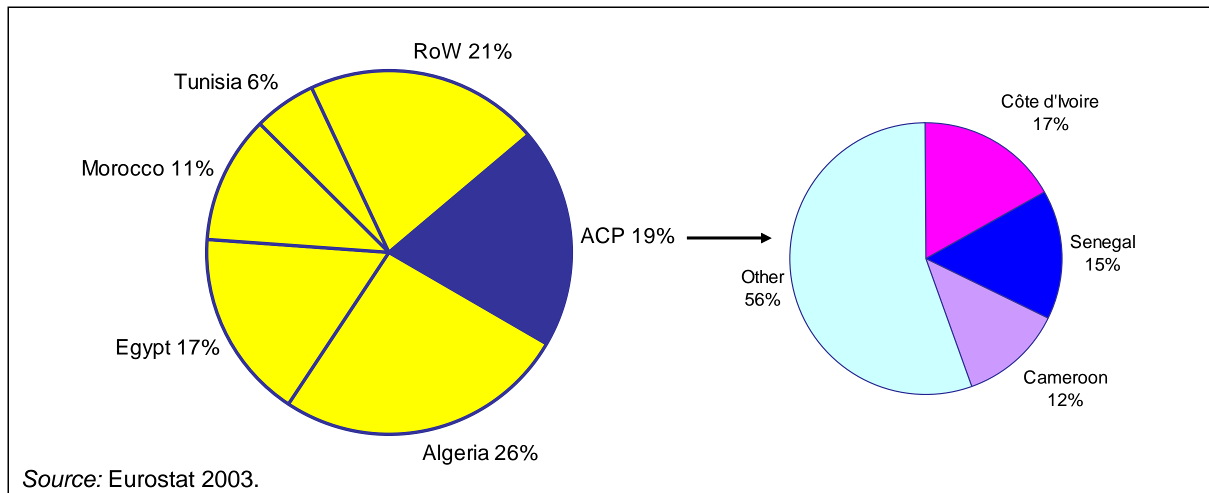
Budget resources currently appear to be adequate for the commitments that the EU has already entered into with respect to CAP market measures (compensation payments to EU farmers and the gradual extension of these payments to farmers in the new member states). The two main uncertainties are whether the agreed ceiling on CAP expenditure will be maintained in the new FP, and if so, whether even that ceiling could accommodate further increases in the single farm payment to compensate for any additional reductions in support prices. It might be argued that the absence of compensation would mean that it would be politically more difficult for the Council to agree to such reductions, thus putting a brake on further CAP reform. As further reform over the 2007-2013 period is likely to be driven largely by new WTO commitments, however, agricultural ministers may not be in a position to reject or soften reform proposals that the Commission might make. If the CAP budget is significantly reduced as a result of the pressures of the net contributor member states, the EU strategy is clearly to make the required adjustment to the single farm payment rather than to market support measures. Any impact on ACP trade flows would then depend on the extent to which the single farm payment is decoupled from production or not.

Cereals

The MTR has limited implications for the EU cereals market. Cereals support prices had been reduced in both the MacSharry and Agenda 2000 reforms, and farmers were compensated by means of arable aid payments, paid per hectare of cereals planted on eligible land. On larger farms, annual set-aside is required to retain eligibility for direct aids. Arable aid payments are thus currently coupled to the area planted, but decoupled with respect to yield.

Including arable aids in the decoupled single farm payment will have the following effects. On the one hand, some cereal farmers may now find it more profitable to switch out of cereals production given that they are no longer required to continue in cereals production to receive their annual payment. This might see a small fall in production. On the other hand, the concept of eligible land is eliminated and, in principle, other farmers can take up or expand cereals production on land not previously used to grow cereals while retaining any single farm payment they may be entitled to on that land. However, the MTR regulation states that member states should ensure that there is no significant decrease in permanent pasture land. While there is some margin of discretion as to how this is interpreted, the regulation will avoid any significant shift of land use from grassland to tillage. In addition, the compulsory set-aside provision on larger farms has been continued. The intervention prices for soft wheat, maize and barley remain unchanged although a 50 percent cut in monthly increments slightly reduces the effective support price. There are more significant changes for the minor crops of rye and durum wheat. In the case of rye, intervention is abolished in 2005 and, for durum wheat, supplemental payments to farmers in “traditional areas” are reduced and a special premium per tonne has been introduced.

FIGURE 4.1: EU EXPORTS OF WHEAT AND MESLIN



Source: Eurostat 2003.

Implications for ACP states

These changes do not have major implications for ACP states, as their consequences for the market balance in cereals within the EU will be minimal. Moving to decoupled payments is thought likely to reduce production by less than 1 percent, which is mostly accounted for by durum wheat and rye, where the accompanying policy changes have a greater impact on marginal production incentives (FAPRI, 2003). The slight fall in the effective support price offsets any small upward pressure on prices arising from reduced production, leaving EU internal prices unchanged. EU net grain exports will be slightly reduced, but the impact on world market prices will be an increase of less than 1 percent. Figure 4.1 shows the main importers of wheat and meslin from the EU. The ACP account for almost one-fifth of total EU wheat exports – a very substantial share given the countries' role in world trade. The three largest importers are the West African countries of Côte d'Ivoire, Senegal and Cameroon. North African countries account for a very large proportion of the rest. Indeed, the four North African countries identified in Figure 4.1 accounts for 60 percent of the total, between them. Africa accounts for almost four-fifths of Europe's wheat and meslin exports.

Rice

EU rice production is supported by an intervention price (currently €298.35/tonne), which increases with small monthly increments as well as significant tariff protection. In addition, compensatory payments differentiated by member state are paid per hectare of rice sown. Rice imports are, as in the case of other cereals, subject to import duty ceilings linked to the prevailing intervention price. In the case of husked indica, this is set at 180 percent of the EU rice intervention price. A ceiling is also imposed on the duty-paid import price of processed (milled) rice at a level of 263 percent of the intervention price in the case of indica rice. Intervention rice stocks have been growing, and there is the potential for the high EU price to attract significant imports from EBA countries once access to the EU rice market is fully liberalized for LDCs. As one of the three sensitive commodities, full liberalization of rice access will be phased-in between 1 September 2006 and 1 September 2009 by gradually reducing the full EU tariff to zero.

In the meantime, LDC rice can enter duty-free within the limits of a TQ. The quota will grow by 15 percent every year, from 2 517 tonnes (husked-rice equivalent) in 2001/2002 to 6 696 tonnes in 2008/2009 (September to August marketing year). Once the quota restrictions are removed, it is feared that rice imports from LDCs would put downward pressure on milled rice prices within the EU, while paddy rice prices would remain supported at intervention levels, leading to an unacceptable build-up in intervention stocks.[1]

Rice was therefore one of the few sectors where changes in the market regime were proposed in the MTR, following the failure to agree to a reform of the rice market in 2001. The changes agreed on

[1] For a review of the EU rice sector and the implication of reforms for ACP states, see http://www.agritrade.cta.int/rice/executive_brief.htm.

include a 50 percent reduction in the intervention price to €150/tonne to be applied from 2004/2005, the abolition of monthly increments and a limit on intervention purchases of rice to 75 000 tonnes per year. Compensation will be paid for this price reduction, more than half of which is to be included in the single farm payment. Because the reduction in the intervention price has the effect, given the tariff rules outlined above, of also reducing the applied tariff rate that can be applied to imported rice, the EU has sought to open negotiations in the framework of the WTO for the modification of the bound duties for rice with the EU's trading partners.

Implications for ACP states

The Commission's market forecasts for the period 2003-2010 project a 14 percent decline in rice production compared to the level that would have prevailed in the absence of reform. However, this implies an increase of some 2 percent compared to current levels of EU rice production attained in 2001 and 2003, but a reduction by 3 percent compared to production levels attained in 2002) (CTA, 2004a). EU rice imports are projected to increase significantly as EU rice consumption responds to the lower prices.

The main immediate effect will be felt by those ACP states that benefit from the preferential access arrangements for rice established under the Cotonou Agreement, which provide for a reduction in tariffs of 65 percent on amounts imported within specified TRQ. Guyana and Suriname are the two principal beneficiaries. These countries will clearly lose from the erosion of the value of their trade preferences in rice. It is of little comfort to learn that much of this fall would likely occur in any case once the rice market would be fully liberalized to LDC exporters after 2009. Compensatory trade measures, such as eliminating the remaining 35 percent share of the duty that ACP exporters must pay on in-quota exports, or increasing the size of these quotas would be a way of offering compensation to those ACP exporters adversely affected by the reform.

Beef

Coupled payments are more important in the beef sector than in the crops sector, and thus the decoupling of these payments in the MTR will have a corresponding larger effect on production. In many countries, payments make up almost the entire gross margin in the beef enterprise, suggesting that there could be a significant fall in production once the payments are decoupled. Considerable flexibility was left to member states on the degree of decoupling they could pursue. Member States can retain 100 percent of the suckler cow premium and 40 percent of the slaughter premium or 75 percent of the special male beef premium as coupled payments.

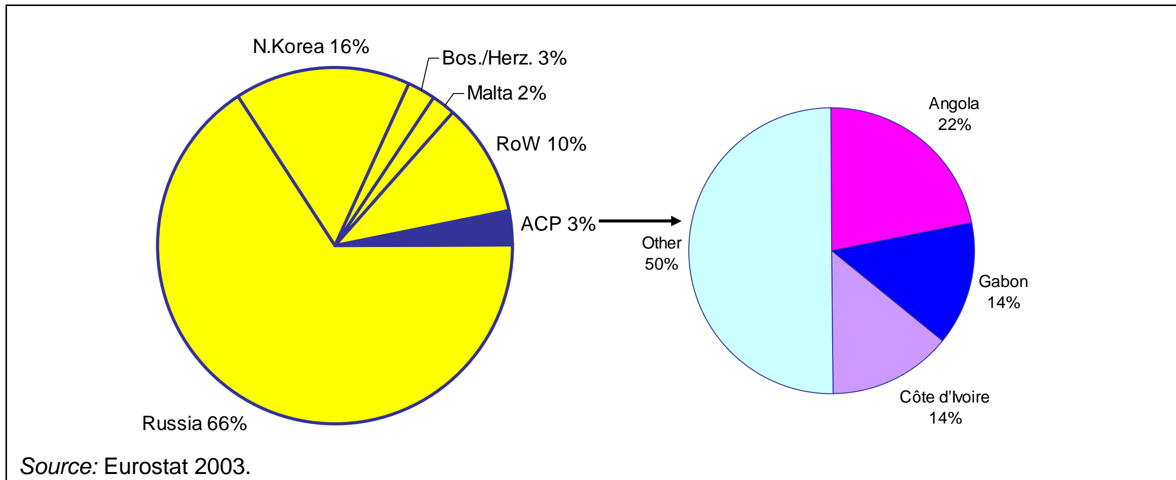
Estimates of the impact on beef output must take into account herd dynamics, which imply that the longer-term effects are likely to be considerably greater than in the short-term. Indeed, there could even be increased output and a dip in beef prices in the immediate term as farmers adjust their cattle inventories to the new incentive structure.

The Commission forecasts that internal beef prices could rise (on the assumption that imports remain limited by TRQs) by around 6 percent, while FAPRI project a smaller price increase of around 1 percent rising to 4 percent by 2012 (Commission, 2004a; FAPRI, 2003). Part of the difference might be accounted for by different assumptions on Commission behaviour in setting export refunds. The Commission could decide to react to rising internal beef prices by reducing the size of export refunds in compensation.

Implications for ACP states

The implications of the MTR should be separated from the longer-term implications of the Agenda 2000 reforms in the beef sector. The latter saw a reduction in beef support prices and the removal of the previous system of intervention support and its replacement by a “safety net” intervention system, which was expected to put downward pressure on producer prices of between 12 percent and 20 percent (see Commission, 2000). The expected slight fall in production and greater stimulus to consumption was expected to lead to a fall in net exports. Therefore, to the extent that the MTR might put some upward pressure on internal beef prices, this must be seen against the backdrop of the much larger reduction arising from the Agenda 2000 package. This is of importance to those ACP states that

FIGURE 4.2: EU EXPORTS OF FROZEN BEEF



Source: Eurostat 2003.

benefit from the Beef Protocol under the Cotonou Agreement. The ACP is a very modest market for Europe (two-thirds of its frozen beef exports going to Russia). Angola and Gabon, however, are the two largest ACP markets and their geographical proximity to the major beef-producing regions of the ACP makes it legitimate to question whether ACP export interests have been adversely affected by European supplies that are often sold at an extraordinarily low price.

In the case of EU exports of products that are mainly imported by ACP states, there is no such tension between the impact of CAP reform on exporter and importer interests. Here the immediate effect of any change is likely to be an adverse movement in the terms of trade of ACP importing states. While the Agenda 2000 reform led to erosion in the preferential margin enjoyed by ACP exporters, the MTR reform will, if anything, slightly increase it. The further fall in net exports of beef that will follow from decoupling will also be welcomed as removing a competitive source of beef supplies on international markets.

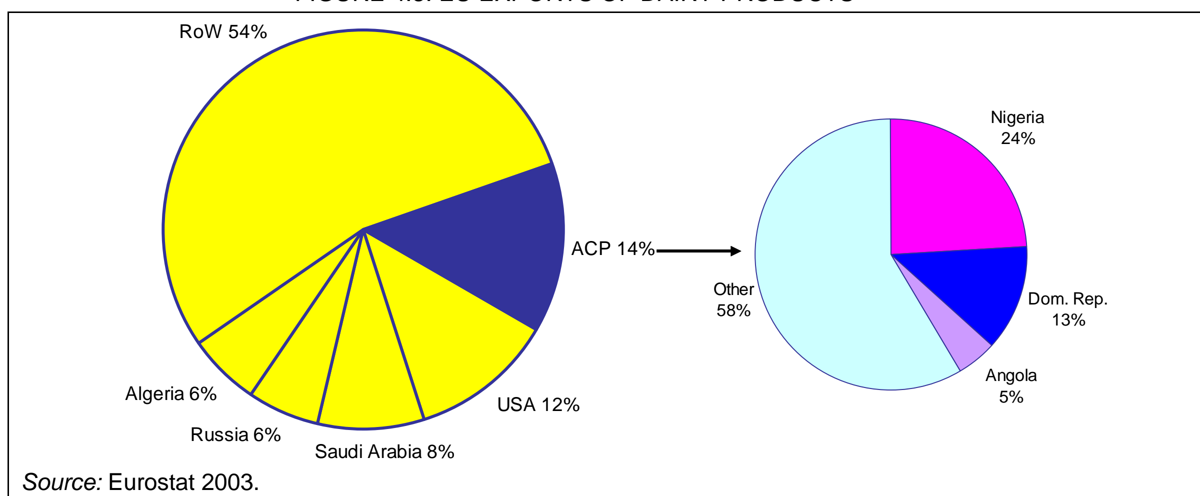
Dairy

The MTR confirmed that milk quotas will be kept until 2014/2015, and that there will be an increase of 0.5 percent per year in 2006, 2007 and 2008. The main thrust of the dairy reform is to reduce internal EU prices for dairy products towards world price levels. Dairy sector reform had already been agreed on in the Agenda 2000 package, which foresaw a reduction in the intervention prices for butter and SMP by 15 percent in three equal steps over the period 2005–2007. In the MTR the reduction in the butter intervention price was increased to 25 percent, to be phased-in over four years (7 percent in each of 2004, 2005 and 2006, and 4 percent in 2007), and the reductions were brought forward one year to start in 2004. In addition, the amount of butter that will be allowed to go into intervention automatically will be subject to a ceiling, which will fall from 70,000t in 2004 to a level of 30 000t from 2008 onwards. After the fixed amount of butter has been purchased into stores, the EU can operate a tender system and take in more butter, but this will probably operate at a lower intervention price, if it operates at all. This will effectively reduce the amount of support available in the market place. The target farm-gate price for milk has also been removed, which implies that export refunds will now be set on the basis of a tender system, which will further weaken support for the dairy market. Farmers will be compensated for this fall in market returns by means of a dairy premium that will be paid to them on the basis of quota held on March 2004. This payment must be decoupled and included in the single farm payment by 2007 at the latest.

Implications for ACP states

The changes made in the dairy sector are small, and it is likely that the milk quota will continue to determine production over the next decade in the absence of further policy change. Therefore, there will be no change in total milk production, but internal demand will be stimulated a little by the reduction in butter prices, which will lead to some small reduction in EU net exports. But while the aggregate effects will be small, the reduction in the butterfat price to farmers and the incorporation of the dairy premium into the single farm payment will lead to widespread restructuring of production in

FIGURE 4.3: EU EXPORTS OF DAIRY PRODUCTS



Source: Eurostat 2003.

many countries. The impact will be small on ACP states, which tend to be net importers of butteroil and milk powder. The ACP share of EU dairy product exports (Figure 4.3) is only slightly smaller – at 14 percent. For the first time in any of these charts, a non-African ACP country appears as a significant market – with the Dominican Republic taking one-eighth of the ACP share. But Nigeria is the main importer, and together with Angola, accounts for almost 30 percent of the ACP total. Only Algeria among the North African countries is a sufficiently large importer to be identified separately in the figure.

The "Mediterranean crops" reform of April 2004

At the Luxembourg Council in June 2003, the Council invited the Commission to submit a communication in autumn 2003 on the reform of the common market organizations for olive oil, tobacco and cotton based on the principles of the June CAP reform. The Commission submitted its Communication in September 2003 (Commission, 2003). It proposed transferring a significant part but not all of the current production-linked direct payments in these sectors to the single farm payment scheme, as from 1 January 2005. This would imply that these payments would have to respect the statutory EU environmental and food safety standards through cross-compliance and rules of good agricultural practice, and would be subject to the modulation and financial discipline mechanisms. The proposal for cotton is examined below as a case study of this approach.

The cotton sector proposals had become very politically sensitive given the high profile of the case made at the WTO Ministerial meeting in Cancún by four West African cotton exporters for direct and immediate action to eliminate the distortions caused in world cotton markets by the direct subsidies paid to cotton growers in developed countries. The EU currently contributes around 2.5 percent to total world production. The EU cotton regime does not use export subsidies and provides for duty-free access, so the only support to EU production has taken the form of direct payments. These take the form of a direct aid per tonne of unginned cotton, subject to a National Guaranteed Quantity for each member state. The level of the aid, which is granted to processors who agree to pay a minimum price to producers, is fixed periodically on the basis of the difference between a "guide price" and the world price.

In its Communication, the Commission proposed to transfer the expenditure on cotton during the reference period (2000-2002) into the funding of two producer-support measures. Sixty percent would be transferred to the single farm payment and the remaining 40 percent to a new production aid, granted as an area payment. The proposal would thus replace a deficiency payment-type mechanism by a mix of non-trade-distorting (green box) and less trade-distorting (blue box) forms of support which, according to the Commission, would minimize the already marginal impact of EU cotton on world markets. In the final agreement reached in April 2004, the proportion going to the decoupled single farm payment was actually increased (to 65 percent) and the proportion destined for the area aid was reduced (to 35 percent), with the introduction of the change delayed until 2006.

Similar mixed reforms were undertaken in the tobacco and olive oil sectors. In the case of tobacco, at least 40 percent of the current tobacco premia must be transferred into the single farm payment

immediately, but member states can decide to retain up to 60 percent as a coupled payment for a maximum period of four years. After 2010, tobacco aid will be completely de-linked from production. Fifty percent will be transferred to the single farm payment, and the remaining 50 percent will be used for restructuring programmes under the rural development policy.

In the case of olive oil, a minimum of 60 percent of the average current production-linked payments during the reference period 2000-2002 will be converted into entitlements under the single farm payment scheme from 2006. For holdings smaller than 0.3 ha, 100 percent of payments must be decoupled. The remaining aid (40 percent) can be paid to producers as an olive grove payment.

Implications for ACP states

World cotton prices have been depressed by government support to cotton producers, especially in the United States, China and the EU. Prior to the meeting in Cancún, four West African cotton exporters proposed a Cotton Sectoral Initiative. This called for the establishment of a mechanism for phasing-out support for cotton production with a view to its total elimination and for financial compensation to LDCs as long as cotton subsidies continued. In the July 2004 Framework Agreement Establishing Modalities in Agriculture in the WTO negotiations, the vital importance of cotton for a number of developing countries was recognized. Members agreed to address the problems “ambitiously, expeditiously and specifically”, but within the context of the agriculture negotiations. A subcommittee on cotton was established in late 2004 to ensure that cotton is given due priority in the ongoing negotiations on the three pillars of support.

The impact of United States subsidies attracted most of the attention, partly because of their absolute size. In 2000/2001, United States assistance to its domestic cotton producers amounted to $2.3 billion, Chinese assistance amounted to $1.2 billion and EU assistance amounted to $700 million (ODI, 2004). This is also because United States subsidies were successfully formally complained about by Brazil to a WTO dispute panel. A recent ODI study argues that EU subsidies may be more damaging to developing countries and to West and Central Africa in particular, than its share in total subsidies would suggest because EU cotton production in Greece and Spain actively competes with cotton production from developing countries in third country markets (ODI, 2004).

If this is the case, then the EU cotton reform should considerably reduce the adverse effect of its policy on world markets and developing country exporters. The conversion of two-thirds of the current subsidy into a decoupled payment, which does not require farmers to grow cotton to receive this payment, and the conversion of the remainder into an area payment, should reduce the direct incentives for cotton production in southern Europe. However, the extent to which production will in fact fall will depend on the profitability of alternative crops, and even one-third of the current subsidy paid as an area payment may be sufficient to retain much of the existing area in cotton production. The key question is whether the EU has done enough in this reform to meet any specific disciplines that emerge from the remainder of the Doha Round negotiations designed to provide a satisfactory outcome to the cotton issue as mandated in the July 2004 Framework Agreement.

Sugar

Sugar briefly became part of the “Mediterranean crops” reform package when it was included in the Commission Communication on further CAP reform in September 2003. The EU had extended the sugar regime in 2001 for five years while asking the Commission to prepare a report on the sector with appropriate proposals in 2003. This Communication fulfilled the Commission’s obligation. While reforms for the other three crops included in the Communication (cotton, tobacco and olive oil) were agreed on in April 2004; however, the formal consultation on Commission proposals on sugar with various stakeholders that followed, were not published until July 2004. As well as setting out various options for reform, the Communication was accompanied by a summary of the Extended Impact Assessment of the various options considered.

The Commission Communication drew attention to a number of criticisms and drivers of change with respect to EU sugar policy:

- By encouraging non-competitive EU sugar production which must be disposed of on the world market, it distorts international trade and damages the development prospects of poor countries.
- The high internal EU price favours producers at the expense of consumers and processors.

- The allocation of quotas to member states leads to low market integration and inherently favours non-competitive production.
- High prices have encouraged producers to seek higher yields with negative environmental impacts.
- The unilateral import concessions awarded to the LDCs through the EBA initiative and to the Balkan countries have the potential of disrupting the balance of the EU sugar market.2 Further preferential imports may arise in the context of international negotiations with MERCOSUR or in establishing EPAs with the ACP states.
- The successful legal challenge to the EU sugar regime within the WTO by Brazil, Australia and Thailand will undermine the current export subsidy arrangements in the sector.

The Commission Impact Assessment examined four sets of options:

- *Status quo option.* This option would imply extending the current regime beyond 2006, but it would nonetheless embody some necessary changes, in particular, to accommodate the various preferential agreements that the EU has entered into, as well as respecting, current and future WTO disciplines. The continuing high EU internal market price relative to the world price would stimulate production expansion, especially in the favoured preference-receiving EBA countries. Production supported by EU intervention would depend on the actual volume of preferential imports and the allowed volume of subsidized exports. Some reduction in domestic “A” and “B” quotas would be necessary even under this option. As the WTO panel requested by Brazil, Australia and Thailand has already ruled against the EU sugar regime, the required reduction in sugar production in Europe is likely to be quite drastic. However, the essential features of the current regime, including the partition of the EU market into national quotas and the high cost imposed on EU consumers, would continue. There would be scope for reducing the EU beet price without affecting beet farmers’ incomes because there would be effective compensation in the form of abolished levies due to the reduction in “C” quota sugar exports.
- Fixed quota option. This option is similar to the first one except that it envisages reintroducing quotas on EBA and western Balkan preferential imports. It therefore has the drawback of requiring the EU to renege on an international commitment, which has been an important part of its negotiating position in the Doha Round. On the other hand, LDCs are themselves calling for negotiations to continue the orderly marketing arrangement now in force for EBA imports. The ACP states that are signatories to the Sugar Protocol have also come out in favour of returning to fixed quotas. If this option were introduced, the Commission foresees the possibility of encouraging greater mobility of quotas between member states, while maintaining a delicate balance between the principle of cohesion and an allocation of quotas according to comparative advantage.
- Fall in prices option. The principle behind this option is that EU market prices (supported by tariffs) would be allowed to fall to the point where internal EU consumption would be met by EU and preferential supplies. The tariff on non-preferential sugar, including safeguard duties, would be reduced to ensure parity between the entry price of non-preferential sugar and the EU market price. Implicit in this option is that high-cost producers both within member states and among ACP states would exit the market. EU beet farmers would be compensated by an increase in the single farm payment.

TABLE 4.2: MAIN CONSEQUENCES OF ALTERNATIVE SUGAR OPTIONS

	Present situation	**“Status quo” option**	**“Fixed quota” option**	**“Fall in prices” option**	**“Liberalization” option**
EU price [a] (€ per tonne)	725	600	600	450	350
EU production (million tonnes)	20.0	16.0	16.0	14.0	6.0
EU imports (million tonnes)	1.9	4.0	3.5	2.5	10.0
EU exports [b] (million tonnes)	5.3	4.0	3.5	0.5	0.0
Fall in ACP revenues (€ million)		150	150	300	350

Notes:
[a] price of white sugar
[b] including “C” quota sugar
Source: Commission Staff Working Paper SEC 2003.

2 Imports from Serbia and Montenegro were suspended for a period, but this suspension is now lifted.

- *Liberalization option.* This option would mean abolishing domestic price support for sugar and beet, as well as ending production quotas and quantitative and tariff restrictions on trade. In the absence of any protection, domestic sugar prices would fall into line with world market prices. The EU would become a major net sugar importer, but imports would come from competitive exporters, such as Brazil, rather than preferential exporters, as in the other options. The EU impact assessment highlights the potential dangers from a reduction in source of supply, with much greater exposure to the weather and economic and political risks of a single large supplier.

Implications for ACP states

Any option leading to a reduction in the internal market price will have a significant impact on the countries benefiting from the Sugar Protocol under the Cotonou Agreement. Furthermore, it would greatly reduce the potential benefits that LDCs might expect once quotas on preferential EBA imports are removed after 2008/2009.

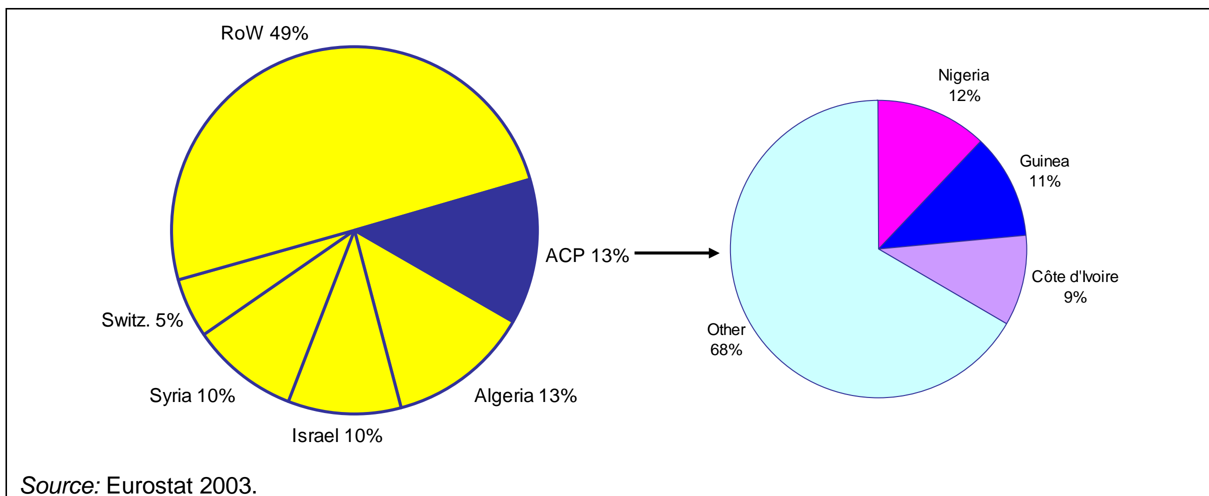
The expected fall in ACP export earnings under each of the options is shown in Table 2. (What is not clear from the text is whether these are net losses that include the offsetting impact of gains due to higher prices for non-EU exports.)

The implications for ACP states have been discussed in the CTA Executive Brief on the EU sugar regime (CTA, 2004b). The impact on individual countries will vary, depending on:

- the extent of their preferred access to the EU market;
- the extent of their access to other preferred markets;
- the extent of their exposure to world markets;
- their underlying costs of production;
- the scope for the expansion of low-cost sugar production to serve non-distorted world sugar markets.

The Commission Communication proposes an indicative two-stage scenario for the “fall in prices” option, which would result in a fall in the price offered for ACP sugar to €435 per tonne under phase I and to €290 per tonne under phase 2. In the first phase, it suggests that the Democratic Republic of the Congo, Jamaica and Madagascar would cease exports to the EU. Following the second phase, the Commission believes that only Zimbabwe, Zambia, Sudan, Ethiopia and Mozambique would continue exporting to the EU, and that the amounts supplied would be relatively small (around 0.2 million tonnes). CTA (2004b) argues that the Commission estimate of the revenue loss to ACP states of €300 million may well be an underestimate, and could be as high as €356 million. (In any case, the exact figure would depend on the level of world market prices assumed at the time of the calculation.) In addition, it points to the further losses to LDC sugar exporters. While these would be relatively modest on the basis of current export flows, which are limited by quota, if LDC sugar exporters under the current EBA preferences would reach as high as 2.4 to 2.9 million tonnes as suggested by some agencies, then the losses in terms of benefits foregone to LDCs could be as high as €600 million.

FIGURE 4.4: EU EXPORTS OF SUGAR



Source: Eurostat 2003.

CTA (2004b) also points out that the ACP states could be adversely affected even if the "status quo" option were implemented. It was pointed out above that some reduction in domestic "A" and "B" quotas would be necessary even under this option. If the EU continued to adopt the policy of a pro-rata reduction in the "maximum supply needs" for cane sugar imports, in line with the reduction of EU "A" and "B" quotas, then ACP preferential sugar importers would not only be affected by any EU decision to reduce the internal price of sugar, but also by decisions to reduce the size of domestic quotas.

A final point highlighted by CTA (2004b) is that the process of reform could progressively relax the constraints on EU exports of sugar-based value-added foodstuffs imposed as a result of WTO disciplines on export refunds for these products (known as "non-Annex 1" products). Despite the fact that these refunds are intended to compensate food manufacturers for the higher cost of domestic sugar rather than confer a direct economic advantage to the processing sector, that a product is subsidized immediately brings it within the ambit of the WTO disciplines. If domestic EU sugar prices fall, this could result in an expansion in exports of non-subsidized simple value-added foods to African ACP states.

A number of United Kingdom development NGOs have pointed out that the value of the export refunds paid on the re-export of ACP sugar to the world market is around €800 million per annum, which is paid for from the CAP budget. If this is compared to the estimated €356 million loss to ACP producers from the "fall in prices" option,[3] it highlights the relatively inefficient way in which this mechanism transfers development finance to the recipients (Oxfam, 2004). The development NGOs also point out that the distribution of current ACP preferences has no poverty focus, in the sense that those few ACP states that benefit from the current Sugar Protocol are arguably not those with the greatest development needs. Nonetheless, a significant sugar policy reform is likely to lead to the collapse of the sugar industry in the relatively high-cost and small-island ACP states, which currently benefit from the Sugar Protocol.

In the light of these impact assessments, both the ACP group and LDCs have called for support for the status quo or fixed quota options in the Commission's September 2003 Communication. In March 2004, the LDCs submitted a proposal that the EU would defer the liberalization of sugar market access under the EBA proposal until the period 2016 to 2019[4] and would substitute instead gradually increasing quotas, both for raw and refined sugar. On the EU side, it would agree to maintain the value of access for preferential sugar at a remunerative level during this period. Following that period, the EU would be free to opt for any of the options included in the Commission's September 2003 Communication, including presumably full liberalization. The LDCs' proposal is based on the belief that LDCs have the potential to be low-cost exporters of sugar in the medium-term, but that their industries need a period of sustained investment to be able to compete with the well-established industries in Brazil, Australia and Thailand.[5]

The Commission's July 2004 proposal, however, recommended the "fall in prices" option, with an even larger price cut than envisaged in the September 2003 document (Commission, 2004b). The main features of the Commission proposal are:

- reduction of the institutional support price from €632/tonne to €421/tonne in two steps over three years;
- reduction of the minimum price for sugar beet from €43.6/tonne to €27.4/tonne in two steps over three years;
- abolition of public intervention, to be replaced by a private storage scheme;
- reduction of the EU-25 production quota by 2.8 million tones, from 17.4 tonnes to 14.6 tonnes over four years;
- new decoupled payment for sugar beet farmers to partially compensate (60 percent) for their income losses;

[3] Oxfam put the premium received by ACP states by exporting to the EU rather than to the world market slightly higher, at around €433 million.

[4] The EU proposes to reduce the CCT on sugar products from 100 percent to 0 percent for imports from EBA countries between 1 July 2006 and 1 July 2009.

[5] See www.sugartraders.co.uk/proposal0304.pdf.

- compensation to be funded by the substantially reducing in export refund expenditure and from abolishing the production refund for the chemical and pharmaceutical industries and of the refining aid;
- quotas transferable between factories in different member states;
- conversion scheme of €250/tonne for factories leaving the sector whose quota is not purchased by operators elsewhere, with the resulting quota extinguished;
- provision for review of the sugar regime in 2008, owing to the uncertainty of the outcome of the WTO Doha Round and the real effects of the EBA Agreement when the sugar market is fully opened to LDCs.

The Commission projects that the 33 percent cumulative reduction in the white sugar intervention price plus the reduction in production under quota will lead to a reduction in EU-25 subsidized exports of 2 million tonnes. The Commission also foresees that imports from preferential partners will increase by the relatively small amount of 0.5 million tonnes over the four years 2005/06 to 2008/09 (from 1.9 to 2.4 million tonnes), mainly because of the impact of the zero tariff arrangements under the EBA for LDCs. It is important to recall that EBA imports are still restricted to TQ amounts throughout this period. The Commission further expects a reduction in production under quota as a result of the quota cuts of 2.8 million tonnes.

Thus, the net reduction in internal supply is of the order of 2.3 million tonnes, but as domestic sugar consumption is expected to continue to fall by 0.2 - 0.3 million tonnes, the expected reduction in subsidized exports is just 2 million tonnes. The Commission proposal fails to discuss the likely impact on “C” sugar or unsubsidized exports, which amount to around 2.7 million tonnes. The WTO panel on the complaint brought by Brazil, Australia and Thailand in its interim report has apparently ruled that these exports are effectively cross-subsidized by quota sugar production. It has also apparently ruled that the EU is contravening its WTO commitments by subsidizing the re-export of an amount equivalent to imports of sugar from the ACP states and India of 1.6 million tonnes (Oxfam, 2004). If these findings are upheld in the final Panel Report and on appeal, and then if the EU wishes to maintain the lower price level of €421/tonne, even more drastic cuts in quota would be required.

Even a 33 percent reduction in the internal support price would have a significant adverse effect on ACP preferential exporters. The Commission estimates that the lower intervention price would translate into a raw sugar price of €329/tonne, compared to the current price of €523.7/tonne. On 1.3 million tonnes of Sugar Protocol imports, this amounts to a revenue loss of €253 million. In addition, there would be further losses to preferential exporters who benefit from the special preferential sugar arrangements. The Commission has suggested that, in time, after unlimited access is provided to EBA countries after 2009/2010, the Maximum Supply Needs instrument would no longer be needed, which will effectively lead to the demise of the SPS scheme. Non-LDC exporters in southern Africa who currently benefit from this scheme will lose out as a result.

In its July 2004 proposal the Commission recognizes that its implementation would imply adjustments in the sugar sector of ACP states and India. It has put forward some guidelines of an action plan which defines (although vaguely) appropriate accompanying measures, which will include both trade and development measures. On the trade side, the Commission points out that the Cotonou Agreement foresees the review of the Sugar Protocol in the context of the EPA negotiations, and that the Sugar Protocol should be integrated into the EPAs in such a way “that does not prejudge the EU’s commitment to LDCs for full market access for sugar from 2009 and that ensures full compatibility with WTO rules.” As regards development measures, the Commission intends to propose the introduction of specific measures to help Sugar Protocol countries/India to adapt to new market conditions.

Such programmes “would focus on improving the competitiveness of the sugar sector where it is viable, and on supporting diversification where improvements in competitiveness in the sugar sector are not sustainable.”

4.3 Implications of CAP reform for the EU's WTO commitments

A potentially important indirect effect of CAP reform from the viewpoint of the ACP states is its implications for the EU's negotiating stance in the Doha Round. To what extent does the reform make it easier for the EU to propose and agree to significant reductions in domestic support, market access barriers and export subsidies? This issue is explored in a recent FAPRI analysis of the MTR, and its conclusions are summarized here (FAPRI, 2003).

The principal element of the MTR is the introduction of the single farm payment, which is constructed to fit within the current definition of green box support. Therefore, the main effect of the reforms will be to transfer a sizeable portion of EU agricultural payments from the blue box (payments which are currently exempt from disciplines on the grounds that they are production-limiting) to the green box. The small changes to the dairy, rye and rice market regimes will result in only a small reduction in amber box (trade-distorting) support. The FAPRI classification of projected payments is shown in Table 4.3. (Recall that the assumption underlying this analysis, which was undertaken in September 2003 before countries had clarified what use they would make of the flexibilities available in the regulation, was that the single farm payment would be introduced from 2005 on.) Two scenarios are modelled, one where it is assumed countries would choose the minimum permissible level of decoupling (LEAST) and one where countries fully decouple (MOST). In the LEAST scenario, blue box spending falls to €7 billion annually by 2007, and in the MOST scenario, to €0.4 billion annually. In both scenarios, annual amber box spending falls slightly, to around €32 billion. In the baseline scenario based on pre-2003 CAP reform policies, FAPRI estimates that amber box spending would amount to around €34 billion, while blue box spending would rise to around €27 billion.

These figures suggest that the EU could afford to make a generous offer on domestic support without needing to go beyond the policy structure just approved in the MTR. Projected amber box levels are approximately 52 percent below the Aggregate Measurement of Support (AMS) limit, and this is very close to the EU offer to cut trade-distorting (amber box) support by 55 percent in the Doha Round. Also, the projected level of blue box support, even under the LEAST scenario, is below the limit of 5 percent of the value of production suggested in the joint United States-EU framework proposal in August 2003.

CAP reform will have a significant effect on EU domestic support measures, but has much less impact on reducing EU export subsidies or import barriers. Both the Commission market forecasts and the FAPRI analysis suggest only small net changes in EU net trade, domestic prices or world prices for most commodities. FAPRI points out, for example, that EU net trade in wheat and coarse grains is only around one million tonnes lower in the CAP reform scenarios than in the baseline, and both EU and world prices change by less than 1 percent.

There are three specific exceptions to this generalization: in beef, EU market prices rise but exports, and therefore the need for export subsidies, fall; further, the fall in EU butter prices reduces the tariff level necessary to protect the EU market, while EU rice prices also fall sharply and net imports are lower than in the baseline.

TABLE 4.3: EU-15 DOMESTIC SUPPORT LEVELS, MILLION EURO

	2001/2	2002/3	2003/4	2005/6	2008/9
Permitted AMS	**67 170**	**67 170**	**67 170**		
Current AMS					
Baseline	40 081	34 814	34 687	34 332	33 520
MOST			34 687	32 972	32 121
LEAST			34 687	33 059	32 208
Blue box					
Baseline	23 064	24 018	23 989	25 020	27 033
MOST			23 989	367	379
LEAST			23 989	26 976	7 089

Source: FAPRI 2003.

4.4 Conclusions

The latest steps in CAP reform confirm the direction that the EU has been taking since the MacSharry reforms in 1993. Market support prices have been reduced, with at least partial compensation provided to EU producers by means of direct payments. In the latest reform step, these direct payments have now been largely but not totally decoupled from production.

The consequences of these changes for ACP states will occur through four channels:

- Insofar as these changes affect the net export position of the EU compared to what it would have been in their absence, the latest CAP reforms will impact on the ACP through their position as net exporters or importers of the relevant commodities.
- Insofar as some ACP states benefit from preferential access to the EU market, the reforms will diminish the value of this access.
- While EU farmers have been compensated for the loss of revenue arising from the reforms, ACP states with preferential access have not. The Cotonou Agreement makes it clear that the EU undertakes to ensure that ACP states continue to enjoy an advantage comparable to that previously enjoyed in relation to third countries. The EPA negotiations provide the opportunity to press the EU to fulfil this commitment.

While not a direct result of CAP reform, the EPA negotiations must also address the future of the commodity protocols. The CAP reform influences both the future value of these protocols and the EU's room for manoeuvre to improve them.

In examining the impact of the latest CAP reforms on the net export position of the EU, a key issue is the extent to which the decoupling of direct payments will in fact lower production incentives to EU farmers. The fact that EU farmers will no longer have to produce particular crops or animal products in order to be eligible for these payments could also lead to a restructuring of the overall level of production. Although the new single farm payment is not directly linked to either production levels or market conditions such as prices, farmers must continue to hold land and to keep it in good agricultural condition in order to retain eligibility for these payments. It is not realistic to assume that farmers' production decisions are wholly uninfluenced by the level of these payments (even leaving aside that, for some years, a number of member states have opted to retain partial coupling to output levels in any case). On the other hand, it would be wrong to draw the conclusion that because the overall level of payments to EU farmers is unchanged, they will continue to produce exactly the same amount as they would have done in the absence of decoupling. Over time, production levels in the EU will be driven increasingly by the level of market prices and not by the effective price including the compensation payments.

Based on an assessment of the market effects for individual products, this chapter concludes that the largest impacts of reform will be felt in the sugar and rice sectors, followed by the beef and cotton sectors, and with only limited effects for milk and cereal products excluding rice. The largest effect will be felt in the sugar market because here the proposed reform includes both a significant price reduction (33 percent) and a sharp fall in production induced by a quota reduction. The large impact in the rice sector is because of the 50 percent cut in the support price for rice, and the fact that half of the compensation payment will be decoupled.

The impact on the cotton market is due to the fact that two-thirds of the current output subsidy will be decoupled, and the remainder paid as an area subsidy. The impact on the beef market also arises entirely because of the decoupling of the compensatory payments in the beef sector, which will raise the domestic EU beef price above the level that it would otherwise achieve. The limited impact on the dairy market is due to the fact that production will remain limited by quota, and the limited impact on the other cereal markets is because the existing arable aid payments are area-based and thus largely decoupled in any case.

The implications of these changes will affect ACP states, in the first instance, depending on whether they are net importers or net exporters of the relevant products. Further, those countries which benefit from preferential access will be worse off because of the changes in the sugar and rice regimes, although those countries benefiting from the Beef Protocol could be slightly better off as a result of the CAP reform. In the same way that compensation for EU farmers can be calculated, it is easy to assess the loss of revenue that ACP beneficiaries will experience as a result of the loss in the value of their

preferences. These figures should provide the starting point for negotiations with the EU on appropriate forms of compensation.

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Chapter 5
Implications of EU enlargement for ACP agricultural trade

Introduction

In Copenhagen, in December 2002, the EU completed negotiations with ten potential new members – eight Central and Eastern European (CEE) countries – Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania – and Cyprus and Malta. All of these countries became EU members on 1 May 2004. EU enlargement will have an impact on agricultural commodity markets in both current and new member states. The consequent changes in production and consumption will influence trade flows both within the enlarged EU and between the EU and the rest of the world. This chapter discusses the context for these changes, their likely magnitude and the possible opportunities and threats for ACP countries.

The chapter has three objectives:

- to describe the agricultural trade policy and other changes that resulted from the accession of the ten new member states to the EU;
- to discuss the channels and mechanisms by which third countries, including ACP countries, might be affected by these changes;
- to identify specific ACP commodity trade flows that may be influenced by these changes, either positively or negatively.

The agricultural dimensions of enlargement to include the ten CEECs are well known. The EU population will increase by 28 percent, arable land area by 38 percent and livestock output by around 20 percent. Economic reform during the 1990s transformed the volume and mix of these countries' production, consumption and trade. Agricultural production fell by up to 30 percent in many countries, as the heavy state supports to farm production under the centrally planned regimes were removed, markets in the Newly Independent States (NIS) of the former Soviet Union disappeared, the terms of trade moved unfavourably against farmers. Further, it has taken time to replace the input supply and marketing chains disrupted by the restructuring of farms (Pouliquen, 2001; Leifert and Swinnen, 2002).

TABLE 5.1: BASIC INDICATORS OF THE ACCESSION COUNTRIES, 2001

Country	Population ('000)	Per capita GDP as percent of EU average (%)	Agricultural land ('000 ha)	Arable land ('000 ha)	Agricultural share of GDP (%)	Agricultural share of employment (%)
Cyprus	790	83	117	72	4.0	4.8
Czech Republic	10 2260	61	4 278	3 076	4.2	4.6
Estonia	1 337	37	1 433	1 120	5.7	7.1
Hungary	9 917	52	5 865	4 614	4.3	6.1
Latvia	2 406	30	2 480	1 841	4.8	15.1
Lithuania	3 689	28	3 487	2 930	7.2	16.5
Malta	392	n.a.	10	9	2.6	2.3
Poland	38 577	38	18 392	13 974	3.8	19.2
Slovakia	5 403	50	2 450	1 450	4.5	6.3
All 2004 candidates	74 796	n.a.	38 479	28 496	n.a.	n.a.
EU-15	375 346	n.a.	142 614	74 470	1.5	4.7

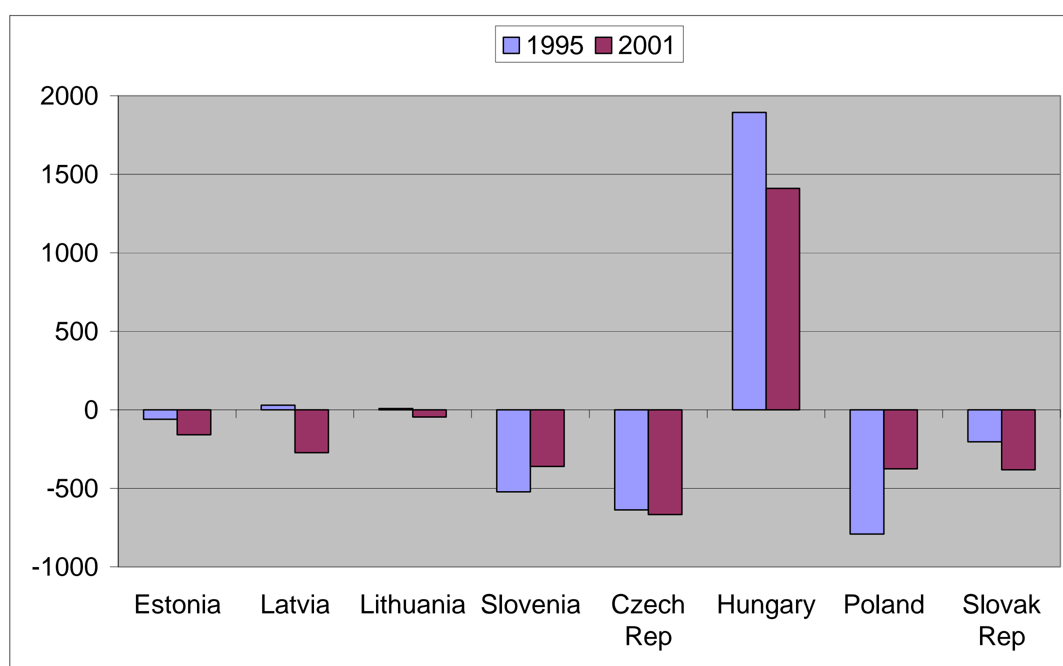
Source: Cochrane 2004b.

5.1 EU Policy framework in an EU-25 Context

Pre-accession trade relations

In all accession countries, the share of agriculture and food exports in total exports has declined since the early 1990s. The shares are highest for the Baltic countries, such as 12.3 percent for Lithuania in 2001, followed by Poland and Hungary around 7-8 percent. The share of agro-food imports in total imports showed some increase in the mid-1990s, but has since begun to decline. Shares are again highest in the Baltic countries; Latvia has the highest proportion at 12.8 percent. Among the new member states, only Hungary shows a net exporter position in agri-food products (Figure 5.1). For the eight larger accession countries, excluding Cyprus and Malta, the region was self-sufficient in food in 1994. A large deficit of €1.9 billion opened up in 1996, and the deficit fluctuated around €1.5 billion during the remainder of the 1990s.

FIGURE 5.1: AGRICULTURAL AND FOOD TRADE BALANCES IN THE CEECs IN 1995 AND 2001



Source: OECD 2002. The figure for Slovak Republic is for 2000 rather than 2001.

The accession countries already have significant agri-food trade links with the EU. For example, the EU accounted for around 50 percent of the exports of Poland and Hungary in 2001. Although the EU market is becoming more important for the Baltic countries, its share of the agri-food exports of the other accession states has been falling. There is a clear trend for the importance of the NIS as an export market to decline, while inter-CEEC trade, already important for most countries, has been growing over time.

The EU signed a succession of agreements during the 1990s designed to promote integration with the new member states. Trade protocols attached to Association Agreements provided a means for steadily increasing mutual market access. Reciprocal tariff concessions were offered on agricultural goods, although sensitive CAP products were not included in the early stages. In 2000, the EU signed "double zero" agreements with all the candidate countries. The idea was to provide duty-free access, within TQs set at a level covering traditional trade volumes, in return for the abolition of export subsidies.

As a result, almost two-thirds of traditional trade in agricultural producers was exempt from import duties (Commission, 2002). TRQs opened for some agricultural products under these agreements were increased from July 2001. Further tariff concessions for processed products were extended at various times between August 2001 and February 2002. These were followed by the "double profit" agreements signed in 2002, which opened duty-free quotas for the most sensitive CAP products, such

as wheat, corn, beef and dairy products excluded from the first round of agreements, and which allowed nearly free trade in fruits and vegetables. At the same time, progress was made in reducing and removing TBT and SPS barriers to trade, which, for example, restricted the ability of milk and meat processors in some of the accession countries to export to the EU during this period. As a result of these agreements, much of CEEC-EU agricultural trade has already been liberalized.

Simultaneously, trade barriers on agri-food trade between the CEECs themselves were reducing. The three Baltic States were members of the Baltic Agricultural Free Trade Agreement (BAFTA), while the Central European Free Trade Agreement (CEFTA) provided the framework for regional trade between the rest of the CEEC-10. The trend towards more liberal trade under these agreements was occasionally interrupted as governments re-introduced import tariffs and other trade barriers as a result of import surges from neighbouring countries.

Accession arrangements

The EU first set out its accession strategy in the Agenda 2000 plan adopted by the Berlin European Council in 1999. This was based on a two-stage strategy, with an initial six CEECs expected to join in 2002. Under the EU's medium-term financial framework for the period 2000-2006, sums were allocated for regional development and agriculture in the new member states during this period. Importantly, no provision was made for the extension of direct payments to farmers in the accession countries. The candidate countries began the process of adopting the Community acquis, a complex process of planning, screening and reporting on their progress in implementing the legislative changes and introducing the institutional structures to implement EU agricultural policy. This has been a massive effort, including the establishment of financial controls and databases, and the management of border controls, animal identification and land parcel registration essential for the operation of the CAP (Jensen and Frandsen, 2003).

In October 2002, EU leaders reached an agreement on a financial ceiling for CAP market expenditure for the medium-term. In the Agenda 2000 package, it had been agreed to stabilize CAP market expenditures (excluding rural development) at €40.5 billion (at 1999 prices) over the period 2000-2006, plus a 2 percent annual allowance to adjust for inflation. This agreement was extended in October 2002 to cover the period 2007 to 2013, but with a lower inflation adjustment figure of 1 percent. This then set the framework within which the EU had to finance the extension of the CAP to the new member states.

In March 2002, the European Commission proposed a comprehensive financial plan for the agricultural aspects of enlargement. The CEECs never agreed to their exclusion from direct payments. The Commission plan accepted their position but met the financial constraint by proposing a long phasing-in period. Direct payments would be set initially at 25 percent of the EU level in 2004, gradually increasing over a ten-year period to parity. The plan also set out the Commission's views on the appropriate levels of reference quantities, quotas and reference yields, etc.

These were generally related to recent production levels in the CEECs, in contrast to the proposals of the CEECs themselves, which tended to be based on the higher levels of output realized before transition began and the presumed potential for the existing higher output.

In November 2002, the EU introduced the idea that CEECs would be permitted to "top up" their direct payments from their national budgets, as well as use funds being made available under EU rural development programmes. This would permit payments up to 40 percent of the level of payments to farmers in the existing member states in the first year, with gradual increases thereafter. This proposal was prompted in part by the realization that some new members states could otherwise become net contributors to the EU budget immediately after enlargement. Further concessions were made at the Copenhagen Summit in December 2002 where the final accession agreement was reached. The maximum allowable proportion of existing EU payment levels was raised to 55 percent in the first year. CEECs were offered a simplified implementation scheme for direct payments that was not tied to actual production at the farm level; they were not required to introduce a set-aside scheme for arable crops, at least for a limited period after accession. Quota and reference quantity levels were also bargained upwards in the final negotiations, but remained well below what the accession countries had originally sought.

5.2 Implications of EU enlargement for agri-food trade policy

As noted previously, trade integration between the EU and the new member states had already advanced quite far under the Europe Agreements. Nonetheless, some important changes took place on 1 May 2003. All remaining tariffs and export subsidies were eliminated in addition to non-tariff barriers on internal trade within the EU-25. These included remaining tariffs on trade between the CEECs themselves. Actions now that were sometimes taken by CEEC governments would no longer be possible, such as imposing increased import duties and minimum import prices, enhancing export subsidy programmes and tightening veterinary checks as a way of relieving import pressure on domestic markets. Because of food safety concerns, a special "safeguard clause" in the Treaty of Accession (Article 38) provides the EU with powers to seal off a country if a food safety problem occurs. Such measures can be taken up to three years after accession and may remain in force after this period. Transitional periods are in place for some food processing plants in the new member states to give them time to meet the quality and hygiene standards demanded by EU legislation. During this period only sales on the domestic market will be permitted.

Enlargement also brought important changes in the external trade policy of the CEECs. The accession states aligned their external border protection on the EU's Common External Tariff (CET). They also took on the obligations of the EU's preferential trade regimes, including duty-free access for the LDCs under the EBA scheme and the trade provisions of the Cotonou Agreement. Like all WTO members, the CEECs had negotiated schedules of commitments in the Uruguay Round AoA. Since these countries were still emerging from central planning at the time of these negotiations, they were given a status similar to that of developing countries. They could set their bound tariffs using ceiling bindings and not necessarily reflecting the difference between the national and the international price. In general, bound duties were set at relatively high levels, although the rates applied in practice were much lower. A particular instance is Romania (not part of the current accession wave), which negotiated average bound tariffs for agri-food products of 143 percent, compared to the Czech Republic average of 18 percent (Chevassus-Lozza and Unguru, 2001).

In general, while adoption of the CET will imply a lowering of the weighted average of the tariffs applied to third countries by the CEECs, this is not necessarily true for all countries and commodities. In their analysis of four countries Chevassus-Lozza and Unguru found that for Poland and Hungary the adoption of the EU tariff would lower tariff protection while the opposite would be the case for the Czech Republic and Slovakia.

Article XXIV.5 of GATT requires that the duties applied by countries forming a CU "shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union". A 1994 Understanding makes it clear that it is the weighted applied tariff average that should be used in assessing conformity with this provision. Article XXIV.6 obliges the EU to enter into negotiations with third countries that have negotiating rights in any of the accession countries to agree on compensation if the adoption of the EU's CET results in an increase in the bound tariff of that country, taking due account of reductions of duties on the same tariff line made by other countries joining the CU at the same time. Compensation can only be claimed by principal suppliers whose share of imports by the accession countries must therefore, by definition, be greater than the EU, or "suppliers with a substantial interest", generally interpreted as exporters with more than 10 percent of the market. The EU has notified the relevant trade statistics to the WTO and is waiting for third countries to lodge claims for negotiating compensation. On the basis of previous experience, the most likely form of compensation for potential losers is the creation of tariff rate quotas within a quota based on past trade flows. Chevassus-Lozza and Ungaru (2001) believe that there will only be a limited basis for compensation claims, mainly affecting bananas (some Latin American suppliers), rice (Asian countries) and mushrooms and fruits (China).

EU enlargement means the harmonization of accession country health, safety, and related standards to EU norms. This process will be on balance favourable to third country exporters that sell to the EU and thus already meet EU standards. For example, a United Kingdom importer of an ACP agricultural export that is approved in the EU may want to sell it in the Czech Republic, but find that the Czech authorities claim that it does not meet the Czech standard. Not having to design, test, and certify products for small national markets in central and eastern Europe will lower costs and open markets

that otherwise might be too small for some third country exporters to tackle. Accession also means acceptance by the candidate countries of EU non-tariff barriers to trade, such as EU directives regarding genetically modified organisms (GMOs) and the ban on imports of hormone-treated beef. Another example is due to a ban on treating carcasses with chlorine, the EU currently bans all poultry meat imports from the United States, which could cost the United States its market for cheap poultry cuts in Poland and the Baltic States (Cochrane, 2004a). There are swings and roundabouts here, because the accession countries gave up previous national regulations that may have been more restrictive on some issues than EU law.

Potential impact

Trade effects of EU enlargement

There are two kinds of trade effects of EU enlargement:

- those resulting from the changes in trade policy described above affecting the level of the trade barriers on intra-EU and extra-EU trade;
- those resulting from the extension of the CAP price and income support policies to agricultural markets and producers in the new member states.

The admission of ten new countries to the EU CU will have classic trade creation and trade diversion effects. *Trade creation* is the replacement of high-cost domestic production in one of the countries of the enlarged EU by lower cost production, either from one of the other member states or from third countries. An example would be if German pork exports increase following enlargement at the expense of pigmeat production in Hungary because the latter is not competitive due to lower feed efficiency. Economists generally see trade creation as welfare-enhancing, although this assumes that the resources created unemployment in Hungary can quickly find alternative employment opportunities. From the point of view of ACP countries, the lowering of tariff barriers in the EU-10, as well as the opening of preferential market access opportunities should also encourage trade creation for export products where ACP countries can become competitive suppliers.

Trade diversion is the second channel through which ACP exports might be affected, this time negatively. Trade diversion is where imports from competitive third countries before enlargement are displaced by higher cost production from another member state of the enlarged EU, simply because of the more favourable access the latter country now enjoys as a member state. For example, during the 1990s the United States built up a market in Poland and the Baltic states for low-cost poultry products. An example of trade diversion would be if as a result of enlargement, this market were now supplied by poultry producers in Germany or the Netherlands. For ACP countries, any danger of trade diversion would arise with respect to current exports to the EU-15, which might potentially face more intensive competition from producers in the new member states. Even where it is shown that ACP countries and the EU-10 both export similar products to the EU-15 (thus raising at least the possibility of trade diversion), the fact that EU-10 producers are likely already to be benefiting from duty-free access to the EU-15 market should be borne in mind.

The next trade effect likely to follow from EU enlargement is also a positive one from the point of view of ACP exporters. This is the *trade expansion* effect that will follow from the expected boost to economic growth rates in the new member states following accession. If their economic growth accelerates, then all existing exporters to their markets will benefit in proportion to their existing market shares. Statistics of trade flows between ACP countries and the EU-10 will be examined later in order to identify which products might benefit from this effect.

Price changes and supply response following enlargement

The second way in which EU enlargement may affect ACP agri-food trade is through the extension of CAP price and income support mechanisms to farmers in the new member states. The conventional wisdom has been that the extension of the CAP to cover agricultural production in the EU-10 would provide a significant stimulus to increased production while tending to dampen consumption. The increased export surplus was expected to lead to increased competition on the markets of the EU-15, as well as increasing the overall net export surplus of the enlarged EU. Fears were expressed that this would put additional pressure on the EU budget and make it more difficult for the EU to remain inside its WTO commitments without further CAP reform.

The reality is likely to be a little different. According to the conventional view, support prices in the CEECs were considerably lower than those in the EU-15, with the implication that enlargement would bring a significant boost in the profitability of farm production.

However, price levels in the accession countries had been converging steadily on the EU price level for many years, for a number of reasons:

- Changes in exchange rates meant that the currencies of the candidate countries gradually strengthened against the euro.
- CAP reform under Agenda 2000 meant reduced EU intervention prices for arable crops, beef and sheepmeat.
- CEE governments during the 1990s deliberately began to align their prices with those in the EU as part of their preparations for EU membership.

For many products, price gaps in the 1990s reflected quality differences rather than policy differences. For example, prices for pork and beef in the EU are reported for the three top grades in terms of lean meat content, whereas CEE statistical offices have historically reported average prices for all grades. As meat quality improved and more beef and pork entered the higher grades in the CEECs, so have their average prices converged on EU levels (Cochrane, 2004a).

Of course, important variations existed at the individual country and commodity level. For example, in Poland, wheat farmers received higher support prices than in the EU, while Slovenian farmers also had high levels of protection for both crop and animal products.

Production incentives are also affected by direct payments. Direct payments to farmers in the CEECs were much less important than in the EU-15, largely because of budget constraints in the former. Because of the lower reference yields and also the phasing-in of the payments over ten years, the per hectare payments received in the CEECs will initially be around one-quarter of those received by the average EU farmer. Payments, of course, will vary by country and by farm size (Cochrane, 2004a). The agreement to extend the Agenda 2000 levels of direct payment to farmers in the CEECs, particularly when the simplified area system came to an end in 2009 and payments were eventually coupled to production, could have provided a powerful incentive to increase production. However, the CAP reforms approved in June 2003 will convert these payments to a single whole-farm payment between 2005 and 2007, so that they will remain decoupled from production decisions. The new payment will not differ very much from the simplified area system currently in place in the CEECs. There is still debate on the extent to which these payments can be considered decoupled, given that they remain linked to the use of land. Some boost to production should therefore likely occur once farmers in the CEECs start to receive these payments.

Another factor likely to limit supply response in the new member states is the additional burden of meeting food safety and production process standards and the high cost of compliance. Grain producers will have to meet minimum quality standards to receive the EU price. Livestock farmers will have to observe animal welfare regulations and follow the record-keeping requirements of the EU. These measures will increase production costs and erode the net returns of producers (Cochrane, 2004a).

5.3 Implications for commodity market balances

In the light of these uncertainties, the likely impact of enlargement on market balances for the main agricultural products in the EU-25 will be examined. For this section, information has been drawn from the most recent set of market forecasts prepared by the Commission for the period 2003-2010 (DG Agri, 2003).

These show that the market surpluses likely to be available in the CEEC-10 following enlargement will remain very small, with the important exception of cereals and particularly coarse grains.

At first sight, therefore, the implications of enlargement for commodity market balances in the EU-25 look fairly minor.[1] The perspective adopted in examining these forecasts is important. One can

[1] At the individual country and commodity level, considerably more "action" can be expected. The most comprehensive study to date to explore this has been prepared by the Danish Food Economics Research Institute (Jensen and Frandsen, 2003). However, the Danish study was undertaken before the CAP MTR, and thus factors in an important stimulus effect from the extension of (coupled) direct payments.

adopt a *before and after* approach, in which the overall level of net exports for the enlarged Union in 2010 is compared to the existing levels for the EU-15 and the CEEC-10 separately in 2003. This indicates the overall change in the level of competition, which ACP exporters of particular commodities might face, or the overall change in the level of market opportunities, which might be available. The development in the market balance for each commodity over the decade is the outcome of all influences affecting consumption and production trends in the old and new member states, including the policy changes due to enlargement. Alternatively, one can adopt a *with and without* approach. Here, the focus is purely on whether enlargement per se makes a difference to the overall EU market balance in 2010 as compared to what it would be for the countries involved without enlargement.

The Commission's market projections are based on a number of assumptions. These include that the EU's WTO commitments will be respected but are not expected to change over the 2003-2010 period. An exchange rate for the euro of around 1.1 to the United States dollar is also assumed as the Commission expects the short-run factors that have contributed to the recent weakness of the United States dollar to reverse over the medium-term. Specifically, in the case of cereals, the projections assume that the reduction in the set-aside rate from 10 percent to 5 percent in the arable crop sector for the 2004/2005 marketing year will be reversed to 10 percent again from 2005 onwards. On this basis, the Commission expects EU-25 **cereals** production to rebound from 230 million tonnes in 2003 to 272 million tonnes in 2004, and to stabilize at this level reaching 277 million tonnes in 2010. It believes that this additional supply will be absorbed by a sustained domestic market, resulting in the stabilization of the marketable surplus in the EU-15, at around 20 million tonnes. Imports of around 11 million tonnes should also remain stable following the implementation of the new import regime for medium and low quality wheat and barley. Thus, the Commission is forecasting EU-15 exports of around 31 million tonnes by the end of the decade. This will be slightly above the annual limit for subsidized EU-15 exports set by the URAA due to some unsubsidized exports of durum wheat, common wheat and malt barley. The projections indicate a further 6-7 million tonnes marketable surplus in the CEE-10. The Commission forecasts that the enlarged EU will increase its internal trade of cereals, with increased markets for barley in the new member states offset by increased imports of maize by the EU-15, particularly from Hungary.

The Commission expects the EU-15 **beef** market to be in slight deficit in the medium term, with imports exceeding exports. The new member states will increase the projected EU-15 levels of production and consumption by approximately 10 percent, adding around 100 000t to the EU marketable surplus. As a result, the Commission expects a decline in average EU beef prices of around €50 to 70€/tonne, compared to the situation without enlargement.

The Commission's projections for **pork and poultry** envisage a steady expansion in production, largely driven by increases in internal and external demand over the period. Pork and poultry consumption will be favoured by the expected increase in beef prices arising from the decoupling of direct payments in the beef sector and by positive demand trends in the new member states.

However, diverging trends are expected in the relative competitiveness of member states in these two sectors. Poultry production is increasingly competitive in the new member states, where there has been significant foreign investment in production and processing. Following enlargement, a growing share of this production will be exported to the current members states. In the case of pork production, the new member states are foreseen to exhibit a comparative disadvantage with respect to quality (lean meat content) and feed efficiency, resulting in a net import flow from the current member states.

The outlook for milk products in the enlarged EU-25 will be affected by CAP reform. Production of bulk products – butter and SMP – is expected to increase in the short term in the new member states because of a significant increase in their prices. In the longer term, however, production of butter and SMP is expected to decline in the current member states. This will help to balance the EU-25 milk market over the medium term despite the structural surplus of bulk dairy products in the new member states. The movement from butter/SMP production in the current member states will be encouraged by the expected strong growth in demand for cheese and fresh dairy products in the new member states. The impact on milk prices will depend on the speed with which the dairy industry in the current and new member states can restructure production towards marketable products.

The focus so far on the impact on the market balances for bulk agricultural commodities overlooks the fact that the most dynamic sector within agri-food trade is likely to be in processed foods. This will be driven by rising consumer incomes in the CEECs and the demand for greater variety. More disaggregated analysis of the trade experience during the 1990s shows that the sudden increase in the variety of goods available to consumers in the accession countries, compared to what was available under central planning, translated into an initial large deficit in differentiated goods, balanced in part by exports of homogeneous commodity products (Pouliquen, 2001). In time, however, we would expect to see an increase in intra-industry trade within food groups as firms in the accession countries compete increasingly on quality and less on price.

One area where producers in the new member states may be able to convert an apparent disadvantage, such as low intensity of production, into a comparative advantage, and achieve premium prices, is by selling some agricultural produce as organic produce. National bodies have been set up in most countries to set organic standards and to take responsibility for the control and certification of organically produced goods under the EU 2091/91 regulation, the law on organic standards within the EU. Since there is very little domestic demand as yet for organic produce in the new member states, organic production will only develop on the basis of export demand in the near future.

5.4 Implications for the ACP countries

The changes described as a result of the recent EU enlargement could have three possible effects on ACP states, which might be combined. Indeed, any one country could experience all three of the effects, with differential impacts on socio-economic groups.

These are:

- increased competition on the EU market and other markets for products that the ACP currently export or might export in the future;
- increased demand on the EU-25 market for goods that the ACP export;
- an increased supply to the world market from EU-25 of goods that the ACP import.

While the incremental trade policy changes that occurred in May 2004 are not major (since, as noted above, many were presaged by earlier transition measures), their impact on Europe's demand and supply for goods is likely to become evident only over time. On the contrary, some of the effects may already have been experienced (resulting from the earlier reforms in the transition period), and others will become apparent (amid a flurry of other changes) over the next five or ten years.

It is premature, therefore, to try to identify precisely which ACP country or socio-economic group has been affected and in which way. Nonetheless, a broad-brush sensitization analysis can show the products where some sort of effect appears to be most likely and the ACP countries for which this might be important, as described in the remainder of the chapter.

Potential export competition

What products are exported by both the EU-10 and the ACP? The answer, in broad terms, is shown in Table 5.2. There are just four: frozen beef, fish (which may of course be of very different varieties), sugar and molasses, and coffee or tea extracts and essences. Of these, beef and sugar would seem to be the most likely areas for direct competition, given the nature of the products and the EU regimes.

The EU regime for enlargement on sugar claims to be "neutral" in the sense that EU-10 will not have a net effect on either EU imports or exports. But net figures can conceal a considerable degree of underlying trade – and it remains to be seen whether or not the terms of accession in relation to sugar produce a desired result. Effectively, the impact of enlargement needs to be fed into the scenario-building around CAP reform.

Potential export demand

Table 5.3 lists the principal areas in which enlargement might result in an increase in demand for ACP exports. These are products that are imported already by the EU-10. The adoption by them of the acquis means that ACP countries will now have improved access to the markets of some new members. The range of products in Table 5.3 provides no surprises, since they are standard ACP exports.

TABLE 5.2: AREAS OF POTENTIAL EXPORT COMPETITION

Product	HS heads	New entrants' exports 2002 ('000€)	ACP exports to EU 2002 ('000€)
Frozen beef	0202	23 885	16 649
Fish	0304, 1604	290 797	380 280
Sugar and molasses	1701, 1703	78 997	15 107
Coffee or tea extracts, essences, etc.	2101	29 847	27 688

Source: Eurostat 2003.

TABLE 5.3: INCREASED DEMAND FOR ACP EXPORTS

Product	HS heads	New entrants' exports 2002 ('000€)	ACP exports to EU 2002 ('000€)
Frozen beef	0202	13 027	16 649
Fish	0304	212 260	197 329
Cut flowers	0603	27 313	313 672
Bananas	0803	249 105	448 660
Citrus fruit	0805	87 100	24 590
Coffee, tea and extracts/ essences	0901, 0902, 2101	294 988	859 787
Sugar	1701	37 579	12 627
Cocoa	1801, 1803, 1804	247 141	2 214 884
Tobacco and products	2401, 2402	242 456	468 879

Source: Eurostat 2003.

TABLE 5.4: INCREASED SUPPLY OF GOODS THAT ACP IMPORT

Product	HS heads	New entrants' exports 2002 ('000€)	ACP exports to EU 2002 ('000€)
Frozen beef	0202	23 885	10 098
Pork	0203	141 234	12 728
Poultry offal	0207	46 307	134 080
Dairy products	0401, 0402, 0405, 0406	564 011	39 987
Potatoes	0701	19 301	25 077
Wheat and meslin	1001	281 291	221 869
Soya bean oil	1507	12 147	114 495
Sugar	1701	52 294	137 474

Source: Eurostat 2003.

The principal question mark will be over the ACP supply capacity. In few, if any, cases do the ACP supply more than a handful of national markets in the EU-15. These markets can absorb all the products that the ACP can supply, except, of course, items that are quota-constrained, and even for beef it is clear that the ACP do not fill the existing TQ. Nonetheless, if increased supply capacity is considered to be part of a revitalization of ACP economies, then the increase in demand is to be welcomed. Even if ACP states do not export directly to the EU-10, some of their competitors may do so, thus relieving pressure on them in the more traditional markets.

Import effects

Table 5.4 shows the products produced in the EU-10 that are imported to a significant extent by ACP countries. An interesting feature of 7 is that some products, such as beef and sugar, appear in all three! This underlines the varied nature of the ACP economies and the fact that even individual countries sometimes import and export the same product. Nevertheless, the presence of wheat and dairy products in Table 5.4, which are significant ACP imports that might be subject to higher prices following CAP reform, should be a slight reassurance that supplies will not necessarily dry up.

5.5 Conclusions

Finally, EU enlargement integrates the agri-food markets of the old and new member states of the EU-25. It sets in train a process whereby production growth in each country will depend on its underlying comparative advantage within the enlarged EU, rather than being influenced by trade barriers of one sort or another. The immediate impacts of enlargement on agri-food trade will be relatively limited. This is partially due to the gradual integration of agri-food markets under the earlier Europe Agreements. It also reflects the gradual convergence of price levels within the new member states to those prevailing in the EU in the years prior to accession. The relatively restrictive allocations of quota

and reference quantities to the new member states, based on recent production levels rather than historic or hypothetical levels, will also help to limit the production impact of membership. Finally, by removing the production incentive of coupled payments that had been due to kick in under the pre-reform regime after 2009, the 2003 CAP reform will limit the market effects of enlargement in the medium term.

TABLE 5.5: AGRI-FOOD EXPORTS AND IMPORTS BY DESTINATION, 1993 AND 2001

	EU	OECD	CEECs	NIS	Other	Total
Agriculture and food exports by destination, 1993						
Estonia	18	0	21	45	17	100
Latvia	10	5	20	66	1	100
Lithuania	16	4	12	66	2	100
Slovenia	36	12	2	5	45	100
Czech Rep.	33	9	32	13	13	100
Hungary	54	n.a.	n.a.	20	n.a.	100
Poland	58	13	6	18	5	100
Slovak Rep.	16	7	57	13	7	100
Agriculture and food exports by destination, 2001						
Estonia	18	7	24	36	14	100
Latvia	23	13	29	33	2	100
Lithuania	32	12	24	29	3	100
Slovenia	30	4	3	2	61	100
Czech Rep.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hungary	48	8	31	10	3	100
Poland	48	5	12	20	15	100
Slovak Rep.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Agriculture and food imports by destination, 1993						
Estonia	50	0	5	9	36	100
Latvia	36	11	17	25	10	100
Lithuania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Slovenia	32	19	11	2	36	100
Czech Rep.	44	11	20	1	24	100
Hungary	54	n.a.	n.a.	2	n.a.	100
Poland	52	20	7	2	18	100
Slovak Rep.	24	10	51	1	14	100
Agriculture and food exports by destination, 2001						
Estonia	52	6	15	7	19	100
Latvia	44	17	30	4	5	100
Lithuania	51	9	27	11	3	100
Slovenia	49	6	16	2	27	100
Czech Rep.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hungary	47	7	17	2	27	100
Poland	53	7	10	3	27	100
Slovak Rep.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: OECD 2002

With the exception of Hungary, the agri-food trade of all of the new member states moved into deficit during the 1990s. EU membership will help to reverse this trend, but the effects for the main commodity markets will not be major. The Commission expects maize exports to EU-15 markets to increase, while barley exports will increase in the other direction. The CEE-10 will export a little more beef to EU-15 markets, and also poultry, but it is expected that pork exports will increase in the other direction. CEE-10 exports of bulk dairy products will increase, but will be offset by increased imports of cheese and fresh dairy products. With greater investment in the food processing sector in the CEECs, including foreign investment, greater two-way trade, particularly of processed food products, will take place. The speed at which this occurs will be influenced by whether the new member states can make effective use of EU structural fund assistance over the next few years.

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Chapter 6
Fish trade issues in WTO and ACP–EU negotiations

Introduction

Total world exports of fish and fishery products grew by 8.5 percent in 2003 to US$63.2 billion with the share of developing countries in fish exports slightly above 50 percent. Net exports earned by developing countries from fish trade in 2003 were US$18 billion, an amount larger than for any other traded food commodity such as rice, cocoa, tea, sugar or coffee.

For many developing nations, fish trade represents a significant source of foreign currency earnings, in addition to the sector's important role in income generation, employment and food security. For LIFDCs alone, net export revenues in 2002 were US$8.2 billion. The LIFDCs account for 20 percent of total exports in value terms.

World imports are more concentrated, with developed countries accounting for over 80 percent in value terms. Japan is the biggest single importer of fishery products, accounting for some 18 percent of the total, but its share is declining. The EU has further increased its dependency on imports for its fish supply and is the largest world market for fish imports (39 percent), when seen together as a group. The United States, in addition to being the world's fourth major exporting country, is the second biggest single country importer (17 percent). Overall, 38 percent of world fishery production is now traded internationally (live weight equivalent). In 2002, for the first time China became the world's largest exporter, overtaking Thailand. China is by far the largest producer of fish in the world, but is also an important fish importer, the eighth largest in 2003.

Among the major issues concerning international trade in fishery products are the following:

changes in quality and safety control measures in the main importing countries;

- introduction of new labelling requirements and the concept of traceability in major markets;
- residues in products from aquaculture;
- the concern of the general public about over-exploitation of fish stocks;
- the sustainability of aquaculture, including its future feed requirements;
- illegal, unreported and unregulated fishing (IUU);
- value-addition and third-country processing in developing countries;
- international trade negotiations in the WTO;
- expansion of regional trade areas and the increasing number of new bilateral trade agreements including those being negotiated by ACP-EU.

6.1 WTO and fisheries

With 148 countries now members of the WTO, virtually all international fish trade is regulated by the WTO trade agreements. The only two important suppliers of fish to world markets that are not yet members, the Russian Federation and Viet Nam, have commenced negotiations to join and could become full members starting from 2005 or 2006. As a result of the Uruguay Round, the previous round of multilateral trade negotiations which took place in 1986-1994, international trade in fish and fishery products was further liberalized with import duties on fish and fishery products in developed countries now reduced to an average 4.5 percent. However, most developing countries maintain considerably higher import tariffs.

The current Doha Round includes a number of issues of particular importance to international trade in fish and fishery products, including improved market access, fisheries subsidies, environmental labelling, the relationship between WTO trade rules and environmental agreements, as well as technical assistance and capacity- building.

Market access

Improved market access for fish and fishery products is linked to reductions in tariffs and in non-tariff barriers. It is important to note that fish and fishery products are not covered by the WTO's AoA. Improved market access for fishery products is therefore linked to progress in the negotiations on "Market Access for Non-Agricultural Products".

After the completion of the Uruguay Round, average weighted import tariffs on fish products in developed countries were reduced to around 4.5 percent. However, this average hides a number of tariff peaks and cases of tariff escalation for processed or value added fish products in the most important import markets. Import duties in developed country markets continue, therefore, to present a barrier to processing and economic development in the fishery industries in many developing countries.

In the present Round, a proposal has been tabled for sectoral elimination of import duties in a number of sectors of particular importance to developing countries. One of these sectors is fish trade. Although there is no consensus regarding this proposal, one can anticipate that import duties on fish and fishery products in the future will be further reduced. As a consequence, those countries that today benefit from duty concessions and preferences, will see their preferences eroded in the future.

In addition to tariffs in importing countries, non-tariff barriers continue in many markets to present obstacles to imports. Such non-tariff barriers are frequently linked to technical standards or procedures. Although WTO rules include agreements on both "Technical Barriers to Trade and on Sanitary and Phytosanitary" issues (relevant for food quality and safety), capacity-building measures to assist countries and exporters in effectively implementing these agreements are needed.

Subsidies

The role of fishery subsidies has been receiving increasing attention both from governments and civil society due to likely negative impacts of some subsidies on trade of fish and fish products and on the sustainability of living aquatic resources. Before and after the adoption of United Nations Convention on the Law of the Sea (UNCLOS) in 1982, many coastal countries implemented economic support programmes to take full advantage of their recently acquired Exclusive Economic Zones (EEZs). FAO brought the world's attention to fisheries subsidies in 1992 when it published Marine Fisheries and the Law of the Sea: A Decade of Change. From the study it appeared that at the end of the 1980s the value of subsidies was equivalent to a significant proportion of the landed value of the world's fish catch, which were a stimulus to overcapacity and overfishing. Afterwards, a number of mandatory and voluntary international fishery instruments were adopted (e.g. Cancun Declaration (1992); UN Conference on Environment and Development (UNCED), Agenda 21, Chapter 17 (1993); FAO Code of Conduct for Responsible Fisheries (1995); New York Agreement (1995)).

They emphasized the need for the sustainable development of living marine resources. Fisheries subsidies started to be considered not only in relation to their potential distorting effects on fish trade, but also in relation to likely negative effects on the sustainability of fishery resources.

This trend was substantially confirmed in 1996 when the WTO Committee on Trade and Environment (CTE) decided to include fisheries as one of the economic sectors that would be discussed by the Committee in the context of the environmental benefits of subsidy removal. Discussions in the CTE showed important differences of views among groups of countries. At the start of the debate, the differences focused on whether there was consistent evidence to support the view that fisheries subsidies had a negative impact on the status of fish stocks and whether such subsidies should be singled out for special treatment.

In addition to the CTE, the issue is also being discussed in other fora involving IGOs, including FAO, OECD, United Nations Environment Programme (UNEP), Asia-Pacific Economic Cooperation (APEC), etc. and NGOs, in particular World Wildlife Fund (WWF). The FAO voluntary international instruments – The International Plan of Action for the Management of Fishing Capacity (IPOA-CAPACITY) and International Plan of Action to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing (IPOA-IUU) adopted in 2000 and 2001 respectively, called for, inter alia, the elimination of all factors including subsidies, causing overcapacity and IUU fishing, respectively.

Negotiations on subsidies in fisheries have been propelled recently by the Doha Declaration (2001), where Ministers committed to "clarify and improve WTO disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries" (WTO, 2001). Also, the World Summit on Sustainable Development (WSSD) Declaration (UN, 2002) made a call to "eliminate subsidies that contribute to illegal, unreported and unregulated fishing and to over-capacity, while completing the efforts undertaken at the WTO to clarify and improve its disciplines on fisheries subsidies…".

Technical work on fisheries subsides and negotiations in the WTO

The present discussions are taking place at the technical and policy levels mutually influencing each other's outcomes. On the technical side much progress has been achieved from a theoretical and analytical point of view from work in FAO, OECD, UNEP and APEC, etc.[1] There are still some important technical issues where agreement is pending: an operational definition of fisheries subsidies,[2] the identification of categories of subsidies, and how to take due account of the importance of this sector to developing countries. There is also a need to improve the empirical knowledge of the effects of subsidies on fish trade, on overcapacity, on overfishing and on livelihoods of fishing communities.

Some of these technical issues have been addressed in the FAO Technical Consultation on the Use of Subsidies in the Fisheries Sector, which took place in Rome from 30 June to 2 July 2004.[3]

The Technical Consultation worked under the terms agreed on by the Twenty-fifth Session of The Committee on Fisheries (COFI), which established that attention should be given to a practical mandate to consider the effects of subsidies on fisheries resources. These subsidy effects include IUU fishing and overcapacity, and take into account the impact of subsidies on sustainable development, trade in fish and fishery products, food security, social security and poverty alleviation, especially in the context of recognizing the special needs of developing countries and small island developing states as recognized in international instruments. The Technical Consultation agreed that FAO should give priority to its programme of work by carrying out short- and long-term activities. In the short term, FAO should broadly examine the relationship between subsidies, overcapacity and IUU fishing. As part of the short-term work programme, the examination should also consider the situation in developed and developing countries, high seas and EEZs, and the artisanal and industrial sectors.

In addition, FAO should examine the role and impact of subsidies in fisheries development, particularly in the artisanal sector and with respect to food security and livelihoods, and should consider the effects and role of other economic instruments. The long-term task was identified as evaluating the impact of fisheries subsidies on the various fisheries management regimes. In this regard, the Technical Consultation agreed that as a continuing part of its mandate FAO should work on developing related indicators, operational guidelines and capacity-building activities in developing countries. A detailed outline of the short- and long-term work programmes should be presented at the 26th session of COFI for discussion and decision.

At present, the main centre of interest for fisheries is the negotiations on fisheries subsidies in the WTO Negotiating Group on Rules based on the Doha Mandate. Negotiations resumed in March 2004. Several negotiating proposals have been presented. A common element is that they recognize that subsidies that enhance fishing capacity should be prohibited. This recognition is placed in a common "traffic light approach" in the context of different architectures. The EU proposes red and green lights while the United States proposes red and amber lights. As its primary discipline, New Zealand would prohibit all subsidies causing overcapacity and overfishing, as well as other trade distortions with envisaged general exceptions (red light) and transitional provisions (green light). "Small vulnerable coastal developing states" request SDT and the exclusion from the definition of fisheries subsidies of access fees, development assistance and fiscal incentives to the development of domestic and artisanal fisheries. In front of these proposals, Japan sustains the view that trade distortions are not unique in the fisheries sector. It does not agree with the claim that special disciplines are required for fisheries subsidies.

Recently, however, there has been a shift in the debate from the issue of whether there is a need for specific disciplines in the sector to the question of the nature and extent of any such disciplines. The shift has its roots in the change in the position of Japan, which now proposes that the Negotiating Group on Rules should also discuss which subsidies are really problematic in terms of overcapacity

[1] An updated review of this work is presented in the document, "A summary of recent work on subsidies in the fishing sector" FAO 2004. www//ftp.fao.org/fi/DOCUMENT/tc-sub/2004/inf3e.pdf.

[2] The SCM Agreement is WTO's basic subsidy agreement and the definition included therein is the one considered on trade disputes regarding the fisheries sector.

[3] Information on these pending issues can be found in *A Global technical initiative on fisheries Subsidies*. Available at www. ftp.fao.org/fi/DOCUMENT/tc-sub/2004/2e.pdf.

and IUU fishing, and what sort of subsidies should be permitted to ensure the sustainable development of the fishery sector.

The negotiations currently seem to be sustained between two main positions. One is a proposed broad ban on all subsidies, with exceptions defined through the negotiating process and using reduction of fixed or variable costs or enhancement of revenues or incomes as basic tests to be applied within new rules (as proposed by New Zealand and supported by others). Another bottom-up negotiation approach, taking into account various roles of subsidies and their subsequent categorization as implied in Japan's proposal. A possible third area of debate is being opened by a number of developing countries in relation to the SDT to be accorded to such group of countries.

ACP countries in the context of current negotiations

With the exemption of a few fish-exporting countries, developing countries have not participated very much up to now in the current debates and negotiations on subsidies in fisheries. This seems to be changing now, even though the negotiations appear to be in an advanced state. However, it is still difficult to predict how the WTO negotiations on fishery subsidies could affect the ACP-EU fisheries relationship and FPAs in particular. This will certainly depend on how some of the technical issues will be defined and agreed on. The issue of whether or not foreign access payments are considered as subsidies under the current WTO definition of subsidies has been highly controversial. However, it is a fact that those payments have not so far been challenged as subsidies by any party under the WTO procedures. Several of the submissions put forward during the current negotiations propose that government-to-government financial compensation paid for access to surplus resources by Distant-Water Fishing Nations (DWFN) be prohibited and/or heavily conditioned. Also, some types of development aid to the fisheries sector could end up being considered a harmful subsidy.

If agreements on such proposals make progress, government-to-government payments for access to fisheries and the utilization of incentives for domestication and development of fisheries in developing countries may be conditioned and eventually constrained by the new disciplines. The EU proposal for a "new generation" of fisheries agreements, termed "Fisheries Partnership Agreements," has been designed to take into account the critical views concerning the potential harmful impact on trade and sustainability attributed to the traditional format of fishing agreements. Through the partnership itself, they contain provisions aimed at contributing to the conservation of resources and the sustainable development of the coastal country fisheries.

In the face of these potential developments, a key starting point for ACP countries should be to provide technical and policy support to the formulation of their negotiating positions within a national strategic vision for their fisheries development. Regional and subregional exchange of information and cooperation among ACP countries could also be strengthened in this regard. Finally, close attention should be paid to the current WTO discussions to define the reach of the SDT clause.

6.2 Fish quality and safety in the WTO

The SPS and TBT Agreements

Significant implications for food safety and quality arise from the Final Act of the Uruguay Round, and especially from two binding agreements: the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, and the Agreement on Technical Barriers to Trade (TBT Agreement). The SPS Agreement confirms the right of WTO member countries to apply the necessary measures to protect human, animal and plant life and health. But these measures must be consistent with obligations prohibiting arbitrary or unjustifiable discrimination on trade between countries where the same conditions prevail and are not disguised restrictions on international trade.

The Agreement requires that with regard to food safety measures, WTO members base their national measures on international standards, guidelines and other recommendations adopted by the Codex Alimentarius Commission (CAC) where they exist.

This does not prevent a member country from adopting stricter measures if there is a scientific justification for doing so, or if the level of protection afforded by the Codex standard is inconsistent with the level of protection generally applied and deemed appropriate by the country concerned.

The SPS Agreement requires that SPS measures should be based on an assessment of the risks to humans, animal and plant life and health using internationally accepted risk assessment techniques.

Risk assessment should take into account available scientific evidence, the relevant processes and production methods, the inspection/sampling/testing methods and the prevalence of specific illnesses.

The TBT Agreement is a revision of the agreement of the same name first developed under the Tokyo Round of negotiations (1973-1979). Its objective is to prevent the use of national or regional technical requirements, or standards in general, as unjustified technical barriers to trade. The Agreement covers standards relating to all types of products including industrial products and quality requirements for foods, except requirements related to SPS measures. It includes numerous measures designed to protect the consumer against deception and economic fraud.

The TBT Agreement basically provides that all technical standards and regulations must have a legitimate purpose and that the impact or cost of implementing them must be proportional to their purpose. It also states that if there are two or more ways of achieving the same objective, the least trade-restrictive alternative should be followed. The Agreement also places emphasis on international standards since WTO members are obliged to use all or part of them except those that would be ineffective or inappropriate in the national situation.

Both the SPS and TBT Agreements call on WTO member countries to:

- promote international harmonization and equivalency agreements;
- facilitate the provision of technical assistance, especially to developing countries, either bilaterally or through the appropriate international organizations;
- take into consideration the needs of developing countries, especially the LDCs, when preparing and implementing SPS and quality measures.

The Codex Alimentarius Commission (CAC)

Since 1962, the CAC has been responsible for implementing the Joint FAO/WHO Food Standards Programme. CAC's primary objectives are the protection of the health of consumers, the assurance of fair practices in food trade and the coordination of the work on food standards. It is an intergovernmental body with a membership of 165 member governments. In addition, observers from international scientific organizations, food industry, food trade and consumer associations may attend sessions of the CAC and of its subsidiary bodies. An Executive Committee, six Regional Coordinating Committees and a Secretariat assist the CAC in administering its work programme and other activities.

The work of the Codex Alimentarius is divided between two basic types of committees:

- nine general subject matter(s) committees that deal with general principles, hygiene, veterinary drugs, pesticides, food additives, labelling, methods of analysis, nutrition and import/export inspection and certification systems;
- 12 Commodity Committees which deal with a specific type of food class or group, such as dairy and dairy products, fats and oils, or fish and fish products. The work of the Committees on hygiene, fish and fishery products, veterinary drugs and import/export inspection and certification systems are of paramount importance to the safety and quality of internationally traded fish and fishery products.

In the environment of the SPS/TBT Agreements, the work of the CAC has taken on unprecedented importance with respect to consumer protection and international food trade. The Codex standards are meant to be voluntary and adopted by consensus. Yet, under the new SPS/TBT Agreements, the Codex standards cannot be called voluntary, nor are they fully mandatory, falling in an area in between, which resembles "voluntarism under duress". This is why the Codex has been undergoing significant reforms to improve its standards setting and management procedures, and the participation of developing countries to its deliberations.

Eco-labelling

The Doha Mandate also addresses labelling requirements for environmental purposes, or "eco-labels". Its aim is to clarify the impact of eco-labelling on trade and examine whether WTO rules stand in the way of eco-labelling policies. In the fisheries sector, a number of eco-labels exist already. The goal of these eco-labelling programmes is to create market-based incentives for better management of fisheries by creating consumer demand for seafood products from well-managed stocks or from sustainable aquaculture. Although eco-labelled products are not yet prominent in any market, they raise questions concerning the lack of internationally agreed guidelines for labelling and certification

of products, the choice of information and transparency of the process, the role of governments in voluntary labelling and certification, and the special requirements of developing countries in adopting eco-labelling of fishery products. Finally, the relationship between WTO rules and voluntary labelling schemes needs to be clarified.

The FAO Committee of Fisheries (COFI) adopted a set of voluntary guidelines for the ecolabelling of fish products during its 26th session, held 7-11 March 2005. The new guidelines are aimed at providing guidance to governments and organizations that already maintain, or are considering establishing, labelling schemes for certifying and promoting labels for fish and fishery products from well-managed marine capture fisheries. The guidelines outline general principles that should govern ecolabelling schemes, including the need for reliable, independent auditing, transparency of standard-setting and accountability, and the need for standards to be based on good science. They also lay down minimum requirements and criteria for assessing whether a fishery should be certified and an ecolabel awarded, drawing on FAO's Code of Conduct for Responsible Fisheries to do so.

With trade in fishery products at an all-time high and concern over the status of wild marine stocks growing, ecolabelling offers a way to promote responsible fish trade - crucial for many developing countries - while preserving natural resources for future generations.

6.3 The EU-ACP Fisheries Partnership Agreements

The member states of the European Community, following the evolution of the Law of the Sea in the 1970s, agreed to transfer to the Community their competence to concluded fisheries agreements in a Council Resolution of 3 November 1976. Southern Bilateral Fisheries Agreements between the European Union and ACP Coastal Countries have been signed in the last 25 years with 17 countries. These establish the general framework for the access of Community fleets to the waters of these countries. Such agreements have been concluded for the acquisition of tuna, demersal and pelagic fish licences; specifying details such as the number and types of vessels allowed to operate, conditions of fishing operation, and the amount and type of financial support to be provided to the developing states concerned.

The major Agreements have been signed with countries that have significant fisheries resources due, inter alia, to favourable up-welling conditions: Mauritania, Senegal, and Guinea-Bissau on the Atlantic centre-west coast and Angola on the southwest coast.

The ACP has a significant trade surplus in its fish trade with the EU. In 2002, ACP exports were US$ 2.1 billion, of which canned and processed tuna worth US$531 million was the major product (25 percent). Other major items were fish fillets (US$409 million), shrimp (US$355 million) and chilled fish (US$159 million).

Total ACP fish imports from the EU in 2002 were worth US$315 million. They consist mainly of yellowfin (US$57 million) and skipjack tuna (US$53 million) from the EU fleet, which is used as raw material by the tuna canning industry located in ACP countries. In addition, some ACP countries, in particular in West Africa, are major importers from the EU of small pelagic species such as herring and mackerel for domestic consumption (US$97 million). In volume, this import is considerable, with annual amounts reaching several hundred thousand tonnes. For example, in 2002 alone, Nigeria had total imports of small pelagic species of 288 000 tonnes; Cote d'Ivoire, 60 000 tonnes, and Ghana, 94 000 tonnes. For these countries, imports of low-cost protein-rich fish play an essential role in guaranteeing adequate fish supplies for domestic consumption.

Table 6.1 shows the 20 largest ACP fish exporters to the EU in 2002 and Table 6.2 shows the 20 largest ACP fish importers from EU in 2002.

TABLE 6.1: 20 LARGEST ACP FISH EXPORTERS TO THE EU IN 2002 (US$)

Country	Export value
Namibia	222 158 844
Seychelles	218 992 291
Senegal	192 088 183
Madagascar	159 614 294
Cote d'Ivoire	155 642 557
Mauritania	125 739 953
United Republic of Tanzania	114 546 683
Ghana	98 995 850
Cuba	75 323 427
Mauritius	72 321 918
Mozambique	65 714 551
Uganda	60 791 121
Nigeria	55 330 192
Kenya	38 027 565
Angola	37 268 054
Bahamas	31 216 922
Guinea	20 895 819
Suriname	18 229 055
Gabon	14 523 398

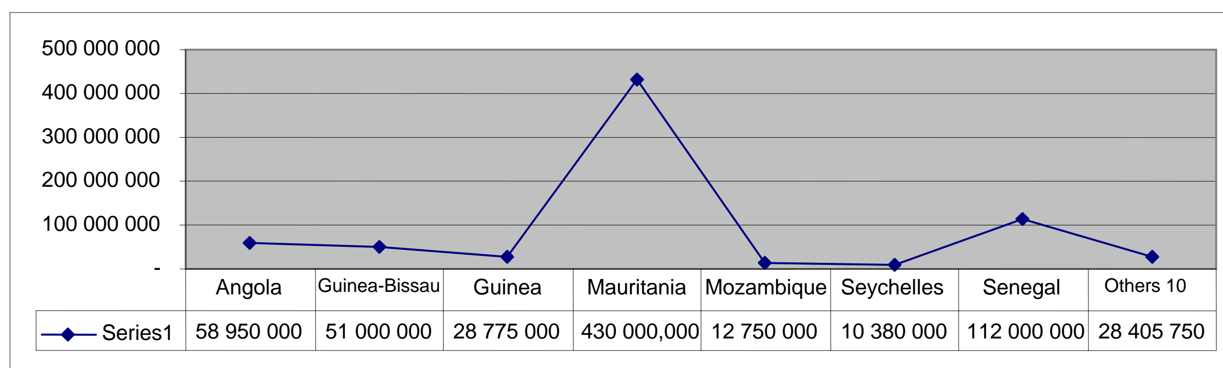
TABLE 6.2: 20 LARGEST ACP FISH IMPORTERS FROM EU IN 2002 (US$)

Country	Import value
Nigeria	119 030 154
Cote d'Ivoire	72 656 082
Seychelles	46 320 858
Mauritius	14 017 535
Madagascar	12 951 547
Saint Kitts and Nevis	9 996 162
Angola	4 893 495
Ghana	3 945 728
Jamaica	3 349 017
Cuba	3 260 705
Kenya	3 196 096
Senegal	2 950 202
Dominican Republic	2 122 677
Haiti	2 068 329
Gabon	1 571 633
Congo	1 566 515
Sierra Leone	1 046 606
Benin	991 115
Equatorial Guinea	442 744
Mozambique	418 652

EU fishery activities and the Fisheries Partnership Agreements

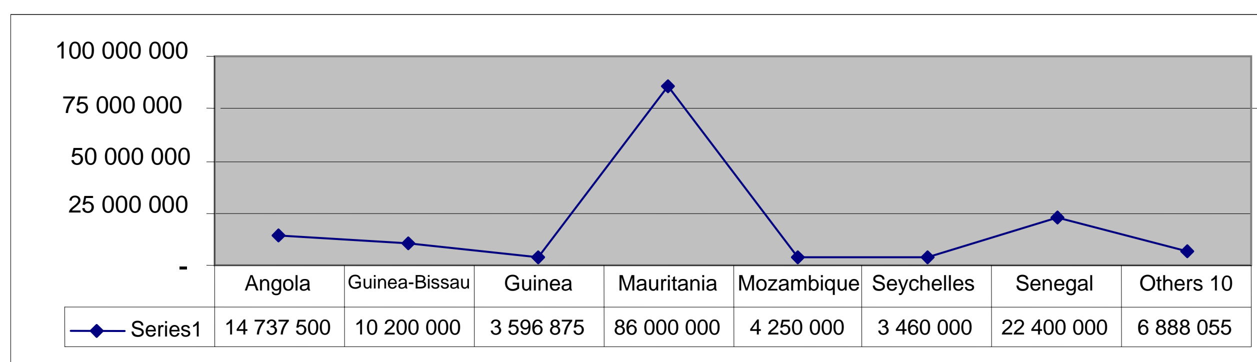
The total amount that will be spent by EU during the period 2000-2007 is presently estimated at €732 26 750. Before the end of this period, the fisheries agreement will be renewed so the final amount will be greater. The yearly average is around €150 million. The main beneficiaries during this period are shown in Figure 6.3. With €430 million, Mauritania is by far the most important for a five-year period. It represents 59 percent value of all agreements.

FIGURE 6.3: TOTAL VALUE (EURO) OF THREE TO FIVE-YEAR AGREEMENTS (2000-2007)



Source: FAO

FIGURE 6.4: AVERAGE VALUE PER YEAR



Source: FAO

The ten other beneficiaries are: Cape Verde, Comoros, Equatorial Guinea, Gabon, Gambia, Côte d'Ivoire, Kiribati, Madagascar, Mozambique, Sao Tome and Principe, and Solomon Islands. These agreements concern mainly fishing tuna in their EEZ.

The countries that can provide access not only to tuna, but also to significant demersal stock (such as: Angola, Guinea-Bissau, the Republic of Guinea, Mauritania, Mozambique and Senegal) can derive significant financial benefits. Among the other countries that offer access to tuna resources, Seychelles is somewhat of an exception. The country has a very large EEZ, important tuna resources and its main port, Victoria, is used as the main base of operation by the Spanish and French tuna seiner fleets fishing in the Indian Ocean.

Targeted actions

The total amount provided under the agreements for actions to promote resource conservation and sustainable development (targeted actions) represents around €122 million. This represents about 17 percent of the total amount disbursed under the agreements. These targeted actions are generally provided in order to sustain the main functions of the local fishery administration and of fishery research institutes (where these have been established). Sometimes targeted actions are also aimed at developing the national fisheries industry.

Activity of the EU fleet

The Spanish fleet has about 200 vessels fishing in the EEZ of five countries: Mauritania, Senegal, Guinea-Bissau

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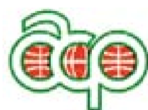
The agricultural dimension of the ACP-EU Economic Partnership Agreements

The African, Caribbean and Pacific (ACP) countries are facing several major sets of closely interlinked forces that are likely to have significant impacts on the development of their agriculture (including fisheries) sectors and their food security situations. The possible conclusion and outcome of both the negotiations for Economic Partnership Agreements (EPAs) under the Cotonou Agreement (with the European Union [EU]) and the World Trade Organization negotiations pose serious concerns on the future of their agricultural trade and development. Furthermore, the ongoing Common Agricultural Policy (CAP) reform, which will determine the nature of EU agriculture over the next few years, and the process of EU enlargement have also created additional challenges for ACP states as to how to address these multifaceted forces so as to reap the maximum benefits for their mostly agrarian economies.

This study is one of the outputs of a programme of assistance provided by FAO to the ACP Secretariat and member states in preparing for the detailed phase of negotiations on EPAs with the EU. It provides an introduction to some of the most critical aspects of the agriculture and fisheries negotiations including feasible approaches and options for the ACP to ensure that their agricultural and fisheries sectors reap maximum and sustained benefits with a view towards enhancing their food security situation.



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