BEYOND CANCUN

EU AGRICULTURAL TRADE POLICY AND THE MAJORITY WORLD

PAUL GOODISON

WITH DEIRDRE O'CONNOR

development workers in global solidarity
comhlámh

Prepared for Comhlámh Action Network by Dr Paul Goodison

with section 2.1: Impact of the Luxembourg CAP Reform Agreement on Irish Agriculture *by Deirdre O'Connor*

Dr Paul Goodison is Research Director of the European Research Office (ERO), a Brussels-based NGO specialising in research into the impact of EU policies on Southern Africa. Since its establishment in 1988 ERO has developed an in-depth knowledge of how EU policies impact on Southern Africa.

Deirdre O'Connor is a lecturer in agricultural and development economics at the Department of Agri Business, Extension and Rural Development, University College, Dublin

Published by and Available from

Comhlámh, 55 Grand Parade, Cork. Tel: 021 4275881 E-mail: comhcork@iol.ie

Comhlámh, 10 Upper Camden Street, Dublin 2. Tel: 01 4783490 E-mail: info@comhlamh.org

www.comhlamh.org

A Note on Terminology

Throughout the report the author uses the phrases, 'developing world' and 'developing countries' to describe the countries of Africa, Asia and Latin America. We recognise and encourage a vibrant debate on the issue of terminology. Comhlámh Action Network has chosen to use the phrase Majority World in its work.

Acknowledgements

Comhlámh gratefully acknowledges funding by Ireland Aid through the National Committee for Development Education, Trócaire and ActionAid Ireland. This document has been produced with the financial assistance of the European Community. The views expressed herein are those of the authors and can therefore in no way be taken to reflect the official opinion of the European Community.

Comhlámh

Established in 1975 'Comhlámh, Development Workers in Global Solidarity: Ireland' is an organisation of volunteer members committed to working for sustainable development. It does this through supporting, empowering and training development workers, development educators and campaigners, and engaging with these in action for just, equitable and sustainable development. The particular contribution of Comhlámh stems from being an organisation of volunteer members, being informed by the experience of Irish development workers worldwide, not being involved in delivering aid overseas, and approaching development and social justice in an integrated way.

Comhlámh seeks to act in solidarity and partnership with people struggling for economic and social justice everywhere. Volunteer members of Comhlámh are active in raising public awareness on a number of development and justice issues:

· promoting good practice and equality in aid delivery;
· welcoming immigrants to Ireland and promoting a multi-cultural Ireland;
· seeking equitable trade relations between industrialised countries and the South;
· supporting people seeking to engage in development work overseas and in Ireland;
· providing skills training to development educators and campaigners;
· welcoming home returned development workers;
· involvement in a range of issue-based programmes including work relating to the integration of refugees, health and anti-racism

CONTENTS

1
UNDERSTANDING EU AGRICULTURAL TRADE POLICY

1.1 Foundations in the CAP

The EU's approach to agricultural trade negotiations cannot be divorced from the EU's vision of a reformed agricultural policy and the progress made towards this vision. Since the 1992 McSharry Common Agricultural Policy (CAP) reforms[1] the European Commission has been seeking to bring about a fundamental shift in the orientation of EU agriculture.

Formerly, the main objective of the CAP was ensuring adequate supplies of food for EU countries in the context of on-going Cold War confrontation. The main instrument for promoting this was the maintenance of high producer prices either through the establishment of intervention prices[2] to provide a floor below which market prices could not fall or through a minimum grower price system, whereby growers were guaranteed a minimum price. This required the maintenance of high levels of tariff protection. One of the consequences of this policy was to over-stimulate European production, which generated surpluses that either had to be stored at considerable cost to the public purse or exported with the benefit of export refunds, also at considerable cost to the public purse.

By 1991, it was becoming clear that the financial burden of storage and disposal of EU surplus production was getting out of hand. Reform was seen as essential. This was greatly facilitated by the end of the Cold War and stimulated by the impending conclusion of the Uruguay Round of world trade talks. Thus, in 1992, a fundamental shift in the nature of the EU's Common Agricultural Policy began.

This involved moving from **systems of price support** to **systems of direct aid to farmers.** This was to result in the reduction in administratively determined prices of basic EU agricultural products (with these reductions serving to lower market prices) and the introduction of direct payments to farmers in compensation for these price reductions. The immediate aim was to **reduce internal EU prices of agricultural products, without undermining farm incomes**. This commitment to the maintenance of farm incomes in the EU is a central element of the process of CAP reform, with an explicit commitment to maintaining farm incomes being a cornerstone of the reform process.

The ultimate aim of this policy is to provide at world-market prices primary agricultural inputs into a European food-and-drinks industry orientated towards competitively serving world markets.

Contrary to popular belief, this process of reform has not involved reducing EU agricultural expenditures (indeed between 1991 and 2002, EU agricultural expenditures rose 46%, from

€30,551 million to €44,481 million) or reducing EU agricultural production. It has, however, involved a growing shift in EU agricultural trade away from the export of basic agricultural commodities towards the export of a growing volume of value-added food products.

This fundamental re-orientation of EU agricultural policy forms the backdrop to the EU's approach to agricultural negotiations. It informs the EU approach to both multilateral (at the level of the WTO) and reciprocal agricultural tariff liberalisation (under bilateral trade negotiations with either individual countries or groupings of countries), and WTO disciplines on export subsidies and trade-distorting domestic agricultural support.

Products Falling Under the CAP

cereals	seed
rice	flowers and live plants
milk and milk products	cotton
sugar	oilseed
wine	fibre flax and hemp
beef and veal	silkworms
olive oil	tobacco
hops	animal feed stuffs
poultry meat and eggs	honey
pig meat	sheep meat
seed flax	goat meat
fruit and vegetables	dried fodder
peas, field beans, sweet	tobacco
lupin potatoes	

1.2 Varying Pace Requires Flexibility

However, the situation is complicated by the varying pace of agricultural reform across different sectors within the EU, and the extended time frame for the reform process which is underway (twenty-five years-plus). In some sectors, such as the arable sector, the extent of reform is advanced, with the vast majority of payments being in the form of direct aid to farmers and with a large part of this being scheduled for 'de-coupling' from actual production. This will serve to remove these agricultural payments from any kind of

THE IMPORTANCE OF THE EU FOOD AND DRINKS INDUSTRY

A September 2002 United States Department of Agriculture, Foreign Agricultural Service GAIN report highlighted how the EU food-and-drink industry is the '*leading industrial sector in the EU, accounting for 15% of the total production value in the manufacturing sector*.'[3] It has a total production value of €593 billion and an added value of €133 billion. It is in addition the third largest employer in the EU, employing over 2.6 million people in those enterprises employing more than 20 people (and substantially more if smaller enterprises employing less than 20 people are included).

The post Uruguay Round[4] period saw a phenomenal increase in EU value-added food-product[5] exports. According to a June 2000 European Parliament report, '*Value added food products now account for almost 75% of European trade in agricultural and food products (€33.9 billion out of 46.5 billion – 1996–98 average) and exports in such products have risen by 117% over the last 10 years as compared with an increase of 34% for exports in basic agricultural* >

***products.'*[6] **Most of this expansion, however, took place in the four years from 1994 to 1998 when the tariff reductions agreed under the Uruguay Round took place, and when the impact of the first round of cereal-price reductions began to feed through into lower raw-material costs for cereal-based food products. With lower EU prices, lower export refunds were required per tonne of exports.[7] As a consequence, a higher volume of product could be exported per million euro of export refunds provided (with WTO rules for export refunds on value-added food products only limiting the total value of export refund provided and not the total volume of such exports). Overall, the process of CAP reform is playing a major role in promoting this expansion in EU value-added food-product exports.**

WTO expenditure disciplines (by making it so-called 'Green Box' support). In a growing number of sectors (e.g. dairy and beef), the shift from price support to direct aid is well underway and the foundations are being laid for substantial de-coupling after 2007. However, until such time as this transition has been completed, the EU will remain dependent to a large extent on WTO-disciplined forms of agricultural support (so-called 'blue box' measures). In still other sectors, most notably the sugar sector, administrative price setting (and its associated raft of policy measures) remains the principal policy instrument, with no steps having yet been taken to make the shift from price support to direct aid (although in September 2003, a Commission staff paper on sugar-sector reform was put forward containing four options for reform). In the sugar sector, this means a continued high dependence on export refunds with, in 1999 (the year of the sugar price collapse), some 71% of total expenditures in the sugar sector being deployed in the form of export refunds. The lack of movement towards sugar-sector reform will ensure that the EU continues to need export refunds to clear EU markets given current levels of domestic sugar production.

1.3 The Differing Interests of Developing Countries

From a developing-country perspective, the external effects of CAP reform and the implications of EU positions in the WTO agricultural trade negotiations vary considerably depending on the basis of their trade relations with the EU and the extent to which they have traditionally enjoyed preferential access to the EU market.

Different groups of developing countries trade with the EU under different trade regimes. The **ACP Group** (which includes the whole of Sub-Saharan Africa except in trade terms South Africa) trades with the EU under the non-reciprocal trade provisions of the Cotonou Agreement.[8] **Least Developed Countries** – LDCs – (which includes forty-two ACP countries) trade with the EU under the provisions of the non-reciprocal (GSP based) 'Everything But Arms' initiative,[9] which by 2008 will allow complete and unrestricted duty-free access for products 'originating' in LDCs.[10]

Other developing countries have **reciprocal preferential trade arrangements** (free-trade areas) with the EU (e.g. South Africa, Mexico, Egypt), while still other non-ACP and non-LDC developing countries trade with the EU under the terms of the EU's standard Generalised System of Preference (GSP) scheme, which is a non-reciprocal preferential-trade arrangement, which grants reductions in the basic MFN (Most Favoured Nation)[11] tariffs applied.

As a consequence of the different EU trade regimes applied to exports from developing countries, these various groupings of developing countries will be affected differently by both EU proposals put forward under the negotiations around the **WTO Agreement on Agriculture** and the internal EU process of **reform of the Common Agricultural Policy**.

There is, therefore, a need to look at EU trade and agricultural policy measures in terms of what it means for different groups of developing countries, depending on each group of developing countries' current production and trade relationship with the EU.

For example, for ACP and LDC countries, agricultural market-access negotiations in the WTO have only a limited impact on their preferential access to the EU market. The vast majority of what ACP and Least Developed Countries export to the EU is either zero-rated in terms of duties – and thus enjoys duty-free access regardless of the trade regime established – or benefits from the preferential access extended to agricultural products under the trade provisions of the Cotonou Agreement or the Everything But Arms initiative. For these countries, EU multilateral tariff reductions simply **erode the 'margins of preference'** which these countries enjoy over other developing countries as a result of Cotonou or EBA trade preferences (the 'margin of preference', which as a trade preference gives exporters from the country receiving the preference, is the difference between the normal import tax paid and the import tax paid (if any) under the preferential trade arrangement).

UNDERSTANDING TRADE PREFERENCES

A trade preference exists where import taxes are normally applied to an import but as a result of the trade arrangement negotiated or unilaterally granted these import duties are:

- **not applied on all imports from the country receiving the trade preference;**
- **reduced on all imports from the country receiving the trade preference;**
- **not applied for a certain volume of exports (tariff rate quota);**
- **reduced on a certain volume of exports (tariff rate quota).**

Where no import taxes are applied to imports from any country then while duty free access may exist, no trade preferences can exist.

MARGINS OF PREFERENCE

The margin of preference, which a trade preference gives exporters from the country receiving the preference, is the difference between the normal import tax paid and the import tax paid (if any) under the preferential trade arrangement.

Similarly, for those ACP countries which have enjoyed duty-free but quota-restricted access to the high-priced EU market, CAP reform involving substantial price reductions and the associated process of tariff reductions brings no benefits but only serves to erode the **value of trade preferences** which they have traditionally enjoyed.

For Brazil and other competitive agricultural producers which only benefit from GSP access, however, multilateral tariff negotiations and even CAP reform (which lays the basis for tariff reductions) can bring real benefits in terms of improved access for their highly competitively priced agricultural and processed-agricultural-product exports.

1.4 The 'Green Box', 'Blue Box' and 'Amber Box'

In order to qualify for the 'green box', a subsidy must not distort trade, or must cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support. They tend to be programmes that are not directed at particular products, and include direct-income support for farmers that are not related to production. 'Green box' subsidies are therefore allowed without limits, provided they comply with relevant criteria (*for details, see Article 6 and Annex 2 of the Agreement on Agriculture)*. Some countries say they would like to review the domestic subsidies listed in the 'green box' because they believe that some of these, in certain circumstances, could have an influence on production or prices'.

The 'blue box' is an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal ('*de minimis*') levels. It covers payments directly linked to acreage or animal numbers, but under schemes that limit production by imposing production quotas or requiring farmers to set aside part of their land. Countries using these subsidies say they distort trade less than alternative 'amber box' subsidies. At the moment, the 'blue box' is a permanent provision of the agreement. Some countries want it scrapped because the payments are only partly de-coupled from production. Others say it is an important tool for supporting and reforming agriculture, and for achieving certain non-trade objectives.

The 'amber box' consists of all measures likely to distort production and trade (with some exceptions). This is defined under Article 6 of the Agreement on Agriculture as all domestic support except those under the 'green' or 'blue boxes'. This includes measures to support prices or subsidies directly related to the volume of production. 'Amber box' assistance is subject to '*de minimis*' limits equivalent to 5% of the value of agricultural production in developed economies and 10% in developing countries. It is these 'amber box' measures which WTO agreements on the reduction of subsidies seek to reduce.

Source: Press Pack, World Trade Organisation 3rd Ministerial Conference, Seattle, 30 November–3 December 1999, p. 14.

2
EXTERNAL IMPLICATIONS OF THE EU'S CHANGING AGRICULTURAL POLICY

2.1 Impact of the Luxembourg CAP Reform Agreement on Irish Agriculture*

Much of the discussion, analysis and policy response which has taken place in Ireland in recent months with regard to the likely impact of this agreement has been informed by the work of the FAPRI–Ireland Partnership. Its most recent analysis was undertaken in October 2003 and considers the effects of the agreement in terms of agricultural-sector output, input and income, an examination of its farm-level impacts and an analysis of various agricultural policy options in relation to greenhouse-gas emissions from Irish agriculture. (Teagasc, 2003)

One of the features of the Luxembourg Agreement is the degree of freedom that member states have in relation to the timing and the extent of the de-coupling of payments from agricultural production. Therefore, it is worth noting that the final out-turn for Ireland in terms of the impact of the agreement will depend to some extent on the positions adopted elsewhere in the EU. While Ireland's stance on the issue has been made explicit – namely, the full de-coupling of all direct payments for cattle, sheep and arable crops from 2005 – the situation remains to be decided in many other EU countries.

In interpreting the analysis undertaken by the FAPRI–Ireland partnership, it is important to note that the impact of the Luxembourg Agreement is estimated with reference to a baseline scenario outlining how European and Irish agriculture would have evolved in the absence of the Luxembourg Agreement. This scenario assumes the continuation of the Agenda 2000 CAP reforms and the Uruguay Agreement on Agriculture. So, in analysing the impacts of the Luxembourg Agreement, what is important are changes relative to the baseline position.

The baseline position for agricultural commodities in Ireland up to the year 2012 suggests that, in the absence of any further policy changes, milk prices would fall by approximately 15%, with dairy-product prices falling by 22% for butter and 18% for skim-milk-powder (SMP) compared to average prices for 2000–02. For beef, the baseline scenario assumes almost no change in cattle prices or production levels between 2002 and 2012, while suckler cow numbers are predicted to decline by 6%. For the sheep-meat sector, the baseline position suggests a fall in production of 7.5% by 2012 and a reduction in prices of 9% compared to the position in 2002. For pigmeat, the assumptions are that production will remain practically unchanged over the period, while prices are expected to fall by approximately 8%. With regard to the crops sector, the baseline situation suggests little change for the period 2002 to 2012. At the overall sectoral level, the scenario which evolves is one in

* *by Deirdre O'Connor*

which the value of agricultural output in 2012 shows a fall of almost 8% compared to the average of 2000–02, while the value of inputs increases by 3% over the same period. Agricultural 'operating surplus', which approximates to aggregate farm income, shows a fall of over 9% in 2012, relative to the position in 2000–02.

Under the Luxembourg Agreement, the FAPRI–Ireland analysis suggests that milk prices in Ireland will decline by approximately 5.5% compared to the baseline scenario for 2012, reaching a level of approximately €22 per 100 kilogram by 2012, with de-coupled compensation rising to 16 cent per litre available to offset the reduction in milk price. Overall, the value of output of the sector is projected to decline by almost 5%.

With regard to the beef sector, the outcome for both the EU overall and Ireland is strongly influenced by the assumptions made about the extent of de-coupling adopted by member states. Under the maximum de-coupling scenario for both Ireland and other EU states, the suckler-cow herd is predicted to decline by approximately 18% relative to the baseline position with an associated decline in beef production of approximately 7%.

Beef prices are projected to rise by approximately 10%, compared to the baseline position. However, the combined effects of the reduced level of production and the price increase means that the value of the output of the sector is at a slightly lower level compared to the baseline position.

With regard to the sheep-meat sector, under a full de-coupling scenario, the Irish ewe flock is projected to decline by almost 6% relative to the baseline position, while sheep prices increase by almost 13% relative to the baseline position and the value of the sector increases by almost 7%.

For the pigmeat sector, the impact of the Luxembourg Agreement is not significant, with marginal changes in output and prices leaving the value of output in the sector practically unchanged in relation to the baseline scenario.
For the crop sector, the de-coupling of direct payments has a negative effect on the cereals area harvested and on production levels. Under a maximum de-coupling scenario, production of wheat and barley is projected to decline by almost 7% compared to the baseline position, with little or no price change anticipated.

The effect on overall sectoral output, input and income is that under the Luxembourg Agreement, under a full de-coupling scenario, the overall value of agricultural production falls by 1% compared to the baseline scenario, while input expenditures are lower by 8%. Consequently, sectoral income is higher than that which prevails under the baseline scenario, with income levels remaining almost unchanged from their average 2000–02 position.

2.2 A Fundamental Shift: The June 2003 CAP Agreement

The EU's agricultural trade policy has been undergoing a slow and profound process of reform since 1992. The impact of this change has not yet been fully felt, since it has been a gradual and variable process, involving step-by-step change. However, the EU Council agreement of 26 June 2003, despite the compromises required to secure an agreement, marks a watershed in EU agricultural-policy reform, particularly vis-à-vis the WTO framework for the regulation of agricultural support.

While the European Commission has been unable to secure as large a shift towards a system of single de-coupled farm payments as initially proposed, the new system of single-farm-payments has been accepted **in principle** by EU member states. The Commission's longer-term objective, involving a shift from product support to producer support through '***the introduction of a de-coupled system of payments per farm, based on historical references and conditional upon cross compliance to environmental, animal welfare and food quality criteria***', has thus been firmly established as the basic trajectory for future reform.

Nominally, the key to this de-coupled single-farm-payment scheme is that it will no longer be linked to production of individual agricultural commodities. When fully implemented after the current round of agreed reforms have been implemented, EU farmers falling under the scheme will be free to determine what they will produce and how much they will produce of the various products falling under the scheme. These products will include wheat, maize, rye, barley, oil seeds, protein crops, rice, milk, beef and veal. Ultimately, the aim is to include all products subject to the CAP under the system of single de-coupled farm payments.

While some have argued that this could lead to farmers being paid for doing nothing and lead to land abandonment, it should be borne in mind that the single-farm-payment entitlements will be linked to environmental, food-safety, plant-health and animal-welfare standards, as well as a requirement to keep all farmland in good agricultural and environmental condition. This 'cross compliance' will ensure that farmers need to continue to produce in order to be entitled to the single-farm-payment.

IMPACT OF CAP REFORM ON IRISH BEEF FARMING

Irish beef farmers were compensated for the Agenda 2000[12] round of intervention price reductions (a 20% reduction over a three-year period) by an increase in the various aid payments applied under the beef regime. This included a 30% increase in the special premium for bulls and a 27% increase in the suckler-cow premium, a threefold increase in the slaughter premiums, the introduction of an extensification premium and the establishment of a €31.4 million national envelope for Ireland for discretionary interventions within the framework of community rules.

As a consequence of these increases in various forms of direct-aid-payment, and despite the intervention-price reductions, the income of Irish beef farmers was largely unaffected. 2002 saw the EU providing some €7,581 million for support to beef sector programmes. This consisted of:
- **€1,977 million in suckler-cow premia;**
- **€1,788 million in special premia on steers and bulls;**
- **€1,184 million in slaughter premia; >**

· €891 million in extensification premia for the extensive production of 13.7 million head;
· €466 million for storage costs of beef bought into intervention;
· €390 million for the systematic slaughter of bovines over thirty months old in the UK;
· €322 million as additional payments granted by member states in line with their own priorities;
· €75 million for compulsory slaughters when BSE cases have been detected;
· €488 million for export refunds.

With Ireland accounting for around 8.6% of European beef production, Irish farmers are substantial beneficiaries of expenditures under these beef-sector support schemes.

In is projected that the mid-term-review reforms in the beef sector consisting of a partial de-coupling of direct-aid-payments will result in:
· a decline in EU beef production of between 3% and 8%;
· a fall in EU beef consumption of between 1% and 3%;
· a rise in producer prices of between 6% and 8% as food quality measures are introduced, raising the average quality and price of EU-produced beef.
In the short-term, EU-15 beef consumption is projected to be higher than production in 2003 for the first time in more than twenty years. This situation is expected to persist until 2010. This could bring particular benefits to Irish farmers, as national consumption in Ireland is expected to buck the general trend in the EU-15 and show some marginal increase. It is this which is expected to sustain higher producer prices and allow a clearing out of EU intervention stocks.

Developments, however, are likely to be somewhat uncertain. Total beef production in the EU-25 will consistently exceed consumption up to 2010. The extent to which this affects Irish farmers will depend on the extent to which meat-processing plants in new EU member states have been able to fully comply with EU food-safety standards. Where full compliance is not achieved, trade into EU-15 markets will be restricted and ultimately these plants may have to close down if they continue to fail to comply. Additional uncertainties arise from the increased availability of both in-quota and out-of-quota beef imports from South America, which have gained market share and which could continue to do so, particularly in the context of a strong euro, which makes imports much cheaper.

Overall, however, the incomes of beef farmers in Ireland are likely to be less severely affected by the process of EU beef-sector reform than beef farmers in Namibia, Botswana and Swaziland, who receive no public aid to insulate them from the income effects of administratively determined price reductions.

The fact that the new system of farm support, when fully implemented will not be linked to the production of a specific product and will in part be designed to promote non-production-related policy objectives has led the EU to conclude that the system will be compatible with WTO rules on non-trade-distorting forms of support and will hence be free from any form of WTO financial discipline.

However, it should be noted that when the scheme is introduced in 2005, the entitlement of individual farmers will be calculated on the basis of the farm-payment entitlements they enjoyed over the 2000–02 period. This will serve to freeze in place the distortions that have arisen out of traditional forms of CAP support. This is likely to be most noticeable in the cereals sector where the reform process has allowed a significant expansion of production (from 167,772,000 tonnes in 1992–93 to 209, 400,000 tonnes in 2002 – a 24.8% expansion) at prices half of those formerly prevailing. These kinds of developments across a growing number of sectors will have important trade implications.

2.3 Implications: The Erosion of the Value of Trade Preferences

The first and most important implication of this process of CAP reform for preferred suppliers, such as those in the ACP and least developed countries, will be to **reduce the value of the agricultural trade preferences they enjoy**. This arises from the fact that by moving over to more efficient direct-aid-payments to farmers, the EU can reduce the intervention price (which supports the market price for EU agricultural products), which allows EU market prices to fall towards world-market-price levels. This reduces the prices that preferred exporters, such as those in the ACP, enjoy for the agricultural products they are allowed to export duty-free to the EU market. This can best be illustrated by briefly considering the situation in the beef, rice and sugar sectors.

In the beef sector, where Southern African suppliers have traditionally enjoyed considerable preferential access to the high-priced EU market (a total of 44,378 tonnes from four countries on which a rebate of 92% of the special duty is granted), the process of CAP reform has seen the value of these preferences eroded. This was the result of the EU decision to reduce the intervention price for beef by 20% in three stages as part of the Agenda 2000 round of CAP reform. This exerted a downward pressure on market prices in the EU. Between 1999 and 2002, Southern African beef exporters saw the price of their exports to the UK market fall between 28% and 30%. EU Agricultural Commissioner Fischler has noted how fully two-thirds of these price reductions were the result of the Agenda 2000 reforms in the beef sector and only one-third of these price reductions were accounted for by the market effects of the BSE and foot-and-mouth-disease crisis.

Swaziland Meat Industries reported how the UK price of chilled steak cuts fell from £4.05 per kilogram in the 1995–96 season to £2.91 per kilogram in the 2002 season (a 28% decline), while the price of fore-quarter frozen cuts fell from £2.10 per kilogram to £1.40 per kilogram (a 30% decline). Similar price declines are reported on Namibia's and Botswana's beef exports.

For Namibia, the prices received in 2001, compared to their first year of export to the UK, resulted in an estimated income loss of N$60 million (or €6 million). In the case of Swaziland, this resulted in the termination of exports of frozen fore-quarter cuts when the EU price fell below £1.60 per kilogram. This is resulting in an under-utilisation of allocated quotas. It should be noted that, while EU beef farmers have been compensated for these reform-induced price declines, ACP beef exporters have not and must carry the burden themselves.

For other beef-exporting developing countries, the effects of CAP reform are somewhat different. For Latin American suppliers, whose trade preferences in the beef sector are more limited, the CAP-reform-driven price reductions can serve to create conditions for reduction in EU tariff protection. This, then, directly benefits GSP beneficiaries who see the duties they face proportionately reduced as the MFN duty is reduced. However, upon entry into the EU market, these suppliers will obtain lower prices than those previously prevailing.

A similar situation is developing in the **rice** sector. A 50% reduction in the EU intervention price for rice will result in a dramatic reduction in EU market prices. Estimates suggest that by 2004, EU rice prices will be 34% lower than at present, and that by 2009, prices will have fallen to 41% below current levels. This will dramatically reduce the earnings on ACP rice exports from Guyana and Surinam, both of which currently benefit from preferential access to the EU market under Declaration XXII of the Cotonou Agreement. Similarly, it will greatly reduce the value of rice-sector preferences currently being phased in for least-developed countries under the Everything But Arms initiative.

For ACP **sugar** exporters, the extension of the current reform process to the sugar sector will have profound consequences. This can be illustrated by considering the seven Southern African countries that currently benefit from the ACP sugar protocol and the special preferential sugar arrangement.

As a result of high prices obtained on the EU market for sugar sold under these arrangements, 'income transfers'[13] of approximately €315 million per annum are made to Southern Africa (see table below).

Income Transfer (at March 2002 prices)

Mauritius	€208.5 million
Swaziland	€60.1 million
Zimbabwe	€21.2 million
Malawi	€12.2 million
Tanzania	€4.3 million
DRC	€4.3 million
Zambia	€4.0 million

Source: Richard Gibb, Plymouth University

EUROPE'S IMPACT ON GUYANA'S RICE SECTOR

In Guyana, the rice sector is the single largest user of agricultural land and is the second-largest sector (after sugar), accounting for 20% of agricultural GDP and 12% of export earnings. While it employs some 12,000 farmers, the employment created indirectly has been estimated as up to 150,000 jobs. Fully 70% of rice production is exported.

The early 1990s saw a rapid expansion of Guyana's rice production and exports. The spectacular growth during the 1991–96 period was fuelled by favourable indirect access to the EU market (via the neighbouring French Overseas Territories – so-called OCTs) and high export prices. In 1996, Guyana rice exports to the EU – both direct and indirect – totalled over 260,000 tonnes, with 90% going via the OCTs, with the rice undergoing a certain degree of processing in the OCT prior to shipment duty-free to the EU market (in contrast to the 50% levy charged on direct exports). This boom-period saw considerable new investment in the rice sector in Guyana. However, this investment in new production capacity (a necessary prerequisite for
the development of trading capacity) ran into severe difficulties in the face of:

- the introduction of safeguard measures by the EU against rice exported via the OCT route;
- increased competition on regional markets from subsidised US rice exports (mainly in Jamaica);
- a consequent decline in rice prices on the major markets served.

In terms of the EU market, with the introduction of the safeguard measures against rice exported via the OCTs, Guyana's rice exports to the EU fell dramatically to below half of their peak levels. Exports via the OCT fell from 90% of total exports to only 19% of total exports. This situation was compounded by the rice-sector reform-led price reductions. With the exception of speciality rice, EU market prices for rice in the last five years have been below the intervention price level. As a consequence, earnings from exports to the EU declined even more dramatically than the volume of rice exported, despite a reduction in the levy charged on direct exports to only one third of that normally applied.

In Guyana, this has created a situation where both farmers and millers can no longer service the loans that had previously been taken out to finance an expansion of production. Banks are now increasingly seizing tractors and other equipment in the face of outstanding loans, and the amount of land dedicated to rice production has recently fallen by 22%. From being a development success story in 1996, Guyana's rice industry has been turned into a financial disaster area, with severe economic consequences for those employed in the sector or involved in servicing the rice sector. Guyana's rice farmers now receive a fraction of the price they received in the industry's heyday. At a human level, a number of farmers have committed suicide, while ethnic tensions in Guyana have dramatically escalated.

>

If the type of CAP reform introduced in the beef and cereals sectors – involving reductions in the EU intervention price and increases in direct aid to EU farmers – were to be extended to the sugar sector, the Commission has estimated that as a result of a 25% price reduction, ACP sugar exporters would lose €250 million per annum, with around half of these losses falling on Southern African ACP suppliers.[14]

For Swaziland, for example, the income losses on sugar exports would be almost as large as their total ninth EDF 'A' allocation and 18% of their total earnings on exports to the EU. In the case of Swaziland, this will be exacerbated by the erosion of SPS access as EBA preferences are implemented.

For Brazil, in contrast, any liberalisation of the EU sugar regime involving price reductions and the consequent reduction of tariff protection will open up new export opportunities on the EU market, which Brazilian producers will be able to exploit given their low production costs.
For ACP countries, for whom agricultural exports account for an average of 36% of their exports to the EU (although the range varies from a high of 97% dependency on agricultural exports to a low of 1% dependence on agricultural exports), the process of CAP reform could completely erode the value of the preferential market access they enjoy. This would be compounded by any multilateral process of EU tariff reductions. Against this background, the question arises: what policy response can ACP countries adopt?

2.4 A Policy Response to the Erosion of the Value of Preferences

One option that ACP governments may look to explore is the concept of 'compensatory trade measures'. This concept emerged from consultations in Namibia between government officials in the Ministry of Agriculture and beef-sector interests who were facing a decline in the value of beef-sector preferences.

Under this concept, it is noted that, while EU beef farmers have been financially compensated for CAP-reform-induced price declines, ACP beef exporters have not, and must carry the burden of lower EU prices themselves. While there is no suggestion from Southern African beef interests that direct financial compensation payments should be made to traditional ACP suppliers facing declining prices on the EU market as a consequence of the conscious reform of the EU's beef regime, it *is* being argued that the EU should introduce '**compensatory trade measures'.** From a Southern African beef-sector perspective, this could include such measures as:

- the abolition of the remaining 8% of the special duty (formerly known as the agricultural levy) which currently costs ACP beef exporters around 15 pence per kilogram of exported beef;
- a broadening of the beef product range which can be exported within the scope of the beef protocol, allowing the export of higher-value products so as to reducing dependence on declining basic-commodity markets;
- a reform of the licensing arrangements to allow greater flexibility to respond to market signals.
- beyond the beef sector, it could involve the elimination of all quantitative restrictions on

THE IMPACT OF COMMISSION SCENARIOS FOR SUGAR-SECTOR REFORM ON DEVELOPING COUNTRIES

The 'status quo' option and 'fixed quota' option are seen as the preferred options for ACP countries. However, these are actually the options the EU is least likely to pursue. The 'status quo' option is, in large part, a non-starter since the EU has committed itself to reform of the sector – thus, further deferment of reform would appear unlikely. The 'fixed quota' option would involve the EU reversing the commitments made under the EBA initiative for least-developed countries, and the EU is likely to be unwilling to pursue this option. This leaves the 'fall in price' option and the 'liberalisation' option, with the latter largely benefiting Brazil and involving the most severe adjustment costs for the EU sugar sector. The Commission thus appears to be gravitating towards the 'fall in price' option. However, the Commission staff paper assesses this as having 'very negative' or 'even dangerous' consequences for ACP countries.

In terms of its impact on the ACP, the 'fall in price' option would result in a fall in the price offered for ACP sugar to €435/tonne under phase 1 and to €290/tonne under phase 2 of the reform as set out in the Commission staff paper's indicative scenario. Commission estimates suggest that with a raw-sugar price offered to ACP suppliers of €435/tonne, the following ACP exporters would be likely to cease exports to the EU: Democratic Republic of the Congo, Jamaica and Madagascar. However, with a raw-sugar price of €290/tonne, the following ACP exporters would be likely to cease exports to the EU: Burkino Faso, Tanzania, Ivory Coast, Mauritius, Congo Brazzaville, Guyana, Malawi, Senegal, Swaziland, Belize and Fiji. According to Commission estimates, the only ACP exporters capable of continuing to supply the EU market at a price of €290/tonne are Zimbabwe, Zambia, Sudan, Ethiopia and Mozambique. However, with the EU market not being so attractive, the volume of exports these countries would be willing to supply would be greatly reduced, with Commission estimates suggesting it would amount to little more than 200,000 tonnes.

For less-competitive ACP sugar producers and those with a high dependence on the EU sugar market, EU sugar-sector reform could sound the death knell of the industry. For more-competitive ACP sugar producers, while substantial costs will also arise, the termination of EU exports of refined sugar, which the scenario for reform outlined in the Commission staff paper projects, would open up new opportunities for regional exports of refined sugar (were investments to be made in extending refining capacity) as EU supplies of refined sugar to the African and Middle East markets dried up. This could alleviate some of the costs arising from EU sugar-sector reform for low-cost southern African sugar producers, if they proved more responsive to market opportunities than Brazilian suppliers.

This being said, the process of reform would progressively ease the constraints on EU exports of sugar-based value-added food products currently faced as a result of WTO disciplines on export refunds for value-added food products. This could result in a renewed expansion of EU exports of simple value-added food >

products to African ACP countries in particular. This could seriously constrain the development of manufacturing value-added in the food-products sector to serve national and regional markets for value-added food products throughout Africa. This could have implications beyond the sugar sector, as industrial demand for other agricultural raw materials is constrained by the increased imports of EU value-added food products.

Overall, while no decisions have yet been taken by the EU on sugar-sector reform, it is increasingly clear that ACP countries will face major adjustment costs as a result of EU sugar-sector reform. It would appear a matter of considerable urgency for ACP sugar exporters to begin now to plan for the new realities, which will be created by EU sugar-sector reform. This relates not only to the restructuring of the sugar sector but also the development of national and regional trade policies for value-added food products in order to maintain the policy space for the structural development of the local food-processing industry throughout the ACP.

Namibian grape exports.

This concept has a wider application, including for ACP rice exporters and, in future, ACP sugar exporters. At a policy level, there are some in the European Commission beginning to recognise the profound implications CAP reform will have on ACP suppliers of certain commodities. Indeed, the European Commission Staff Working Paper on 'Reforming the European Union's Sugar Policy', in reviewing the budgetary implications of a 'fall in price' scenario, noted that, while the internal budgetary implications would be limited in the first stage of reform, '***it might however be necessary to provide for and phase in financial and/or trade support measures to accompany the adjustments imposed in the ACP countries covered by the Sugar Protocol***'. Unfortunately, this recognition of the need for a combination of financial assistance and trade-support measures has not been extended to other sectors facing financial losses as a consequence of CAP reform (e.g. the beef and rice sectors). The types of suggestions now coming out of the European Commission with reference to scenarios for sugar-sector reform need to be more systematically developed and applied in sectors already subject to reform, so that valuable lessons can be learned when more far-reaching reforms affecting a broader range of developing countries are introduced.

2.5 Main Results of EU Options for Sugar-sector Reform

Currently, with an internal white-sugar price of €725 per tonne and with the EU sugar-production quota's 17.5 million tonnes, the EU produces some 16 million tonnes of sugar. The EU imports 1.9 million tonnes of sugar and exports a total of 5.3 million tonnes.

2.6 Implications: Increased Competitiveness of EU Exports

The second major implication of CAP reform is with regard to the increased price competitiveness of EU agricultural and value-added food-product exports. This can best be illustrated by consideration of developments in the cereals sector, where the process of CAP reform is most advanced. In the cereals sector between 1992 and 1999, average EU cereal prices declined by

EU Options for Sugar-production Reform

	Status Quo option	Fixed Quota option	Fall in Price option	Liberalisation option
EU production	16.0m tonnes	16.0m tonnes	14.0m tonnes	6.0m tonnes
EU Imports	4.0m tonnes	3.5m tonnes	2.5m tonnes	10.0m tonnes
EU Exports	4.0m tonnes	3.5m tonnes	0.5m tonnes	0.0m tonnes
EU Price/tonne	€600/tonne	€600/tonne	€450/tonne	€350/tonne
Fall in ACP Revenues	€150m	€150	€300	€350
Net EU Expenditures	€600–800m	€600–800m	€800–1,000m	€1,150–1,350m
EU member states where sugar production substantially eliminated	Greece, Ireland, Italy, Spain, Finland, Latvia, Lithuania, Poland, Slovakia, Sweden	Greece, Ireland, Italy, Spain, Finland, Latvia, Lithuania, Poland, Slovakia, Sweden	Greece, Ireland, Italy, Spain, Finland, Latvia, Lithuania, Poland, Slovakia, Sweden	All except Germany, France, UK

between 45% and 50%. Following conventional economic theory, the normal supply response to such a dramatic reduction in prices would be a reduction in production of cereals within the EU. However, as a result of the level set for direct payments for EU farmers (financed from public funds) introduced in parallel with these price reductions, the supply response of EU cereal farmers was very different from that which the normal laws of economics would lead one to expect. Between the 1992–93 season and the 1999–2000 season, EU cereals production increased from 167.7 million tonnes to 211 million tonnes – an increase of some 25.8%. This peculiar supply-side response to the dramatic price reductions which occurred was a result of the distortion in production decisions of farmers arising from the direct-aid-payments made to compensate EU farmers for the price reductions.

With the shift from high prices for cereals to lower prices for cereals and more direct-aid-payments to EU farmers, total EU expenditures in the cereals sector had to increase from ECU10,211 million in 1992 to ECU17,866 million in 1999,[15] an increase of some 75%.

This process of reform in the cereals sector has promoted a renewed expansion of EU cereal exports to levels approaching those reached prior to the Uruguay Round WTO agreement, which introduced restrictions on the levels of export-refund payments which could be made to bridge the gap between EU and world-market prices for cereals. In 1991, prior to the initiation of CAP reforms in the cereals sector, the EU exported around 37 million tonnes. This fell to only 32.5 million tonnes in 1993–94, but increased following the full implementation of the 1992 round of reforms to 36.8 million tonnes in 1999–2000.

More significantly, the reduction in EU cereal prices introduced as a result of the McSharry

IMPACT OF CAP REFORM ON IRISH SUGAR FARMERS

Sugar beet has for many years been one of the most profitable crops for European farmers with access to production quotas. Reform of the sugar sector has been repeatedly deferred since 1992, with proposals for reform having only recently been put forward. Four options for reform of the EU sugar sector were considered: the 'status quo' option; the 'liberalisation' option; the 'fixed quota' option and the 'fall in price' option.

The most likely option – in that it is most consistent with reforms in other sectors – is the 'fall in price' option. Under this option, the guaranteed price for beet would be abolished. Prices would be determined by negotiations between farmers and millers. To compensate farmers, direct support de-coupled from production would be introduced. However, it is recognised that some form of production-linked payments would probably be needed to maintain refineries in certain areas (giving rise to a partial de-coupled system). Under this option, it is argued that 'in the interests of fairness and to reduce its budgetary cost, direct aid could be modulated and fall rapidly beyond a certain size of holding or amount of direct payment'. The income effect of such a process of reform on Irish beet-farmers' incomes would then be determined by the level at which 'modulation' is introduced and how this relates to average sugar-beet farm size in Ireland. The smaller the average farm size, the less likely farm incomes are to be adversely affected by 'modulation'.[16]

It is anticipated that pursuit of this option, by reducing the domestic EU price of sugar, 'would make it possible to satisfy the external constraints while exerting less pressure on the production level. Depending on the price level chosen, the European market would become less attractive for quite a large proportion of exporters with high production costs – including a significant proportion of ACP countries'. The September 2003 Commission staff working paper ran a scenario for the 'fall in price' option which saw EU sugar production fall to 14 million tonnes (from a current level of 20 million tonnes) and sugar-beet production in Ireland being 'substantially eliminated'.

However, with proposals for sugar-sector reform not yet having been agreed, the final outcome of sugar-sector reform will be determined by the skill with which Irish government officials negotiate the details of the reform package in ways which minimise income losses to Irish farmers.

For the Irish sugar-processing industry, such a reform should ease the constraints which will increasingly be felt on exports of refined sugar and sugar-containing products, if an un-reformed EU sugar regime were to continue. While the EU imports raw sugar, it has extensive exports of refined sugar and sugar-based value-added food products. This allows European manufacturers to gain the 'marketing margins' on these industrial activities. Sugar-sector reform should facilitate the renewed expansion of sugar-based value-added food-product exports which have in recent years faced constraints as a result of WTO limits on export refunds for so called non-Annex I products. EU exports of white sugar, however, are likely to fall to only 500,000 tonnes from a current level of 5.3 million tonnes.

reforms of 1992 made possible a substantial expansion of EU exports of cereal-based food products. ACP countries were a particular target for exports of simple EU cereal-based products. Between 1996 and 1998, exports to ACP countries falling under customs codes CN11 (‘*products of the milling industry*’) and CN19 (‘*preparations of cereals*’) increased 67% and 54% respectively. This saw the ACP market for EU exporters of these products grow in importance. For ‘*products of the milling industry*’, the importance of the ACP market rose from 12.6% to 20.5% of total EU exports, while for ‘*preparations of cereals*’, the importance of the ACP market rose from 4.5% of total EU exports of these products to 7% of total EU exports of these products.

Similar trends are apparent in other value-added food-product sub-sectors. Yet most of these EU exports are simple value-added food products which ACP countries could easily produce themselves. The further process of CAP reform in 2000 and the newly introduced June 2003 reforms are likely to see these trends continue.

It should be noted that the increased price competitiveness of EU agricultural and value-added food-product exports reduces the dependence of such exports on WTO constrained export refunds. **The new basis for the EU’s export-price competitiveness is the system of direct-aid-payments, which will increasingly be de-coupled and hence free from any form of WTO expenditure discipline.**

2.7 Policy Response to Increased Price Competitiveness of EU Exports

Given that the EU is wedded to the current process of CAP reform and will not abandon this basic approach to its agricultural policy simply to secure a WTO agreement, there would appear to be little prospect for securing through the WTO any meaningful reduction in **all forms** of EU agricultural support. This basic intransigence was one of the factors contributing to the failure of the WTO ministerial in Cancun. Prospects for a radical change in the European Commission’s position appear remote since the European Commission believes that reforms it has introduced are fundamental, and there is a need for the EU’ international trading partners to recognise this and respond accordingly. The Commission feels it has not been given the credit due for its shift away from trade-distorting forms of agricultural support to less-trade-distorting and non-trade-distorting forms of agricultural support. Unfortunately, the European Commission is failing to recognise the mounting rejection of its basic definitions of what constitutes non-trade-distorting and less-trade-distorting forms of support.

In this context, ACP and other developing-country governments will need to find other ways **to insulate their markets from the adverse external consequences of the CAP reform process.** In an ACP context, this suggests a need for **swift, simple and effective safeguard measures** modelled on the current safeguard provisions, which the EU can invoke under the Cotonou Agreement.

These Cotonou Agreement safeguard provisions allow action to be taken where imports

- cause or threaten to cause serious injury;

IMPACT OF CAP REFORM ON IRISH CEREAL FARMERS

The cereals sector is the most advanced in terms of CAP reform and is in the forefront of the move over to de-coupled forms of farm support. EU cereal prices have fallen on average over 50% since 1992. However, this has not undermined farm incomes since these price reductions have been more than compensated by the increases in direct-aid-payments to EU cereal farmers.

European Commission impact assessments of its initial mid-term-review proposals in the cereals sector suggest that the implementation of these proposals would lead to a reduction in the area under cereals of around 2.5% and this would consequently constrain cereal-production growth. This, it was argued, would lead to lower production and higher cereal prices than would be the case without the implementation of reform. However, this does not mean EU cereal production will decline relative to current levels. FAPRI simulations of the impact of the Commission mid-term-review proposals in the cereals sector suggests that across the EU there will be an 11.3% increase in soft-wheat production by 2009, a 3.2% increase in maize production, a 6.2% increase in barley production, a 4.6% increase in durum-wheat production and a 20.1% increase in rice production. Only in the rye sector will there be a decline in EU production compared to the levels attained in 2002 (-13%). Overall, when compared to current levels of production, this means an 11-million-tonne increase in soft-wheat production, a 420,000-tonne increase in durum-wheat production, a 1.89-million-tonne increase in maize production and a 3.2-million-tonne increase in barley production. This will be at prices approaching world-market price levels (although this will be heavily influenced by currency movements). EU projections suggest the EU wheat price will remain above intervention-price levels.

Depending on currency movements, this will allow the EU to begin exporting major cereals without any need for export refunds. Should this situation arise, this will feed the expansion of EU cereal-based value-added food-product exports. Overall, it is anticipated that farm incomes will largely be unaffected by the reform measures, but should market prices remain significantly above intervention price levels, it will lead to increased farm incomes since increased direct-aid-payments are based on the intervention-price reduction.

- threaten serious disturbances in any sector;
- threatens to create difficulties, which could lead to an economic deterioration in a region.

These provisions place emphasis on preventing disruption of markets through 'statistical surveillance' and 'prior consultations' in 'sensitive' sectors. In 'sensitive' sectors, it also allows action to be taken without the need to document the damage being caused since the emphasis is on preventing 'injury', 'disturbances' or 'difficulties'.

These type of safeguard provisions could very usefully be applied to EU agricultural and value-added food-product exports to ACP countries in a context where CAP reform is enhancing EU price competitiveness by redesigning how agricultural support is extended. Establishing 'monitoring and surveillance' arrangements in sensitive sectors under safeguard provisions mirroring those used by the EU could prevent severe market disruptions arising under future trade arrangements with the EU.

The definition of sensitive products should include **all agricultural and simple value-added food products where ACP countries have a production interest** and where the CAP policies influence production decisions and subsequent trade outcomes.

It would appear important that any further WTO rules on safeguard measures should be permissive of developing countries negotiating these types of pre-emptive safeguard arrangements. Securing the support of the EU for such arrangements would appear to be wholly consistent with the principle underpinning the 'Chirac proposal' to halt the deployment of EU export refunds to Africa until a new WTO agreement has been concluded. The principle in this regard is that ***the deployment of EU agricultural support should not be allowed to prejudice the agricultural and agro-industrial development of African countries.***

2.8 Implications: The Growing Importance of SPS Issues

The third major area where the CAP reform is impacting on trade with developing countries is through the increased emphasis being placed on food safety and food quality. The Foreign Agricultural Service of the United States Department of Agriculture is arguing that the EU market for food and drinks is now increasingly split between '**necessity purchases**'[17] and '**luxury purchases**'. In the '**necessity purchases**' component of the market, price competition is intense, while in the '**luxury purchases**' component, quality standards and ethical factors play a more important role than price competitiveness. The EU is encouraging European farmers to increasingly focus on the luxury end of the market, while progressively liberalising market-access arrangements on the back of the process of CAP reform.

The European Commission and EU ministers have recognised that serving the luxury end of the market with high-quality products produced in line with ethical standards involves additional costs which can, alongside stricter hygiene requirements, serve to undermine the competitiveness of European production. In this context, in May 2003, the European Commission announced the creation of four schemes to support EU farmers in meeting these higher costs. These four schemes include:

IMPACT OF CAP REFORM ON IRISH DAIRY FARMERS

The decision of the 26 June EU Agricultural Council has taken the process of reform in the dairy sector beyond the measures agreed in 2000 (implementation of which had been deferred). The Council agreed to:

- a reduction of the butter intervention price by 25% over four years, a cut of 10% more than that agreed under the Agenda 2000 round of reforms;
- a reduction of skimmed-milk-powder intervention price by 15% over three years, as agreed under the Agenda 2000 round of reforms;
- a ceiling on intervention buying for butter of 70,000 tonnes in 2004, declining to 30,000 tonnes by 2007;
- an increase in compensation payments to EU farmers from €11.81 per tonne in 2004 to €23.65 per tonne in 2005 and €35.5 per tonne in 2006;
- an extension of the dairy-quota regime to 2014–15;
- the incorporation of the dairy sector into the single de-coupled-farm-payment scheme once the agreed reforms have been implemented.

In addition, member states may make additional payments equivalent to 10% of the sum of the single-farm-aid-payment to encourage specific types of farming. The reforms agreed will have a number of implications. While production will remain fairly constant, the reforms will lead to increased price competitiveness. Currently, the prices of EU dairy products are on average 30% higher than the equivalent world-market price. This price gap has been undermining EU export competitiveness and reducing the EU's world-market share. The reforms agreed should substantially close this price gap for EU butter exports and reduce it for milk-powder exports, thus serving to reduce the dependence of dairy exports on WTO-constrained export refunds. Overall, this should lay a basis for reversing the declining trend in the EU's share of the global dairy trade. It will also reduce the costs of Europe's value-added dairy-products industry and fuel the growing export trade in dairy-based value-added food products. Irish dairy companies are likely to be well placed to capitalise on these developments. The June 2003 Commission report on prospects for EU agricultural markets stated that in the dairy sector, the market balance was expected to improve over the medium term, with increasing cheese production and consumption and a lower availability of butter and milk powder. Given the quota-management system in place, milk production in the EU-15 will remain constant, but the utilisation of milk will change, with cheese production increasing by 540,000 tonnes, butter production decreasing by 140,000 tonnes and milk-powder production declining by 180,000 tonnes. It maintained that after short-term increases, EU dairy-product exports are expected to decline, while exports of value-added dairy-based products are likely to continue to increase. The June 2003 reform measures should strengthen these trends, and incomes of Irish dairy farmers should be insulated from the effects of the reduction in prices by the tripling of direct-aid-payments, though this will depend in part on the responsiveness of dairy companies to market opportunities for value-added dairy products. National companies would need to develop viable strategies for expanding the market for value-added dairy products.

· a scheme to help farmers introduce the new and exacting standards;
· a scheme to promote animal welfare, with those who farm better than the normal good husbandry standard receiving permanent aid to compensate for the costs and income foregone;
· a five-year scheme to support farmers' participation in certification programmes;
· a scheme for advertising of quality labelled products by producer groups.

In the 2004 EU Agricultural Budget, some €248 million has been allocated to food safety, animal, plant and human-health-protection programmes.

In a context where, as EU Agricultural Commissioner Fischler has recognised, the market does not always adequately reward higher quality,[18] EU farmers are to be assisted in meeting these quality standards, whereas ACP suppliers will have to carry all these costs on their own account and will receive no such assistance. This is likely to greatly reduce the attractiveness of supplying the EU market, particularly in a context where the prices of basic commodities are falling under the impact of the on-going process of CAP reform.

The costs of technical compliance with stricter EU standards is but one of the challenges facing agricultural exporters from developing countries. Additional areas of concern include the problems of verification of compliance and the failure of businesses to defend a range of pesticides which, although no threat to human health, are not seen as commercially attractive enough to warrant submitting them to costly defence submissions under the EU's new stricter regulations.

In African countries in particular, the issue of verification of compliance is a particular problem. In a presentation in May 2003, the COMESA[19] Secretariat noted how eastern and southern African (ESA) countries '*face difficulties in entering the EU food market not necessarily because their products are unsafe but often because the ESA country lacks the monitoring, testing and certification infrastructure that would make it possible for them to demonstrate compliance with import requirements*'.[20]

This is a serious constraint, given the limited human and institutional capacities which exist in African developing countries. It has led to eastern and southern African countries suffering significant export-earnings losses (mainly in the fisheries sector). It is seen as a particular problem for small-scale producers who simply couldn't afford the costs of compliance and subsequent verification (since these processes tend to have high fixed costs which need to be spread across large volumes of production). Ensuring technical compliance with SPS measures can carry serious implications for the participation of small-scale producers in the benefits of trade liberalisation and can, if mishandled, lead to the further marginalisation of the poor within the globalisation process.

This situation is compounded by the fact that there are often high fixed costs associated with establishing the necessary verification infrastructure, and this is not always justified by the volume of production being exported. In this context, careful consideration will need to be given to establishing verification-and-certification capacity at a regional level in order to spread the costs across a sufficient volume of production.

Given the financial implications, a strong case exists for the EU providing assistance to the establishment of verification-and-certification bodies in developing countries in order to demonstrate compliance with EU import requirements. To a certain extent, the European Commission has already recognised the need for such assistance with the inclusion of a component dealing with the funding of pilot projects to support ACP countries in meeting technical standards and sanitary and phyto-sanitary requirements in the new €50 million *trade.com* programme.[21] Unfortunately, the emphasis on establishing the institutional capacity to verify compliance with EU SPS standards is a relatively minor component of this programme, and much more needs to be done.

Overall, the scope for SPS measures being used to create administrative barriers to trade is considerable. This is particularly the case if, in the design and implementation of such measures, the hard institutional realities faced in developing countries (particularly the poorest) are not taken into account. This suggests a need for a dialogue between the EU and groupings of developing countries on how SPS measures can be designed and implemented in ways which, while respecting genuine EU human, animal and plant-health concerns, avoid placing excessive economic burdens on developing-country exporters.

The COMESA Secretariat paper presented in Nairobi in May 2003 also noted how, in the floriculture and horticulture sectors, particular problems were arising from the introduction of 'zero tolerance' and strict minimum residue levels. Indeed, on 8 July 2003, the European Commission announced that it was close to completion of its pesticide review, as a consequence of which a further 110 substances used in plant protection are to be withdrawn from the market by December 2003. These 110 substances are in addition to the 320 that were withdrawn from the market before July 2003.[22]

A significant number of the products to be withdrawn are a result of companies failing to defend the use of these products since the market for these products is not seen as commercially interesting. Unfortunately, this often corresponds with products used in tropical zones for the production of temperate-product exports to EU markets. Horticulture and floriculture producers could thus face the withdrawal of authorisation to use certain products, even where these may be safer than alternatives or even where alternatives simply do not exist. This could potentially pose a significant problem. This issue needs to be taken up urgently with the EU with a view to securing the type of 'temporary derogations' which are to be applied in certain EU member states for some 'essential uses'. Internally, within the EU, this relates to products which have not been defended by the manufacturer but for which there is no readily available alternative for the crops in question and for which no safety concerns arise.

3
CURRENT EU TRADE POLICY POSITIONS

3.1 Foundations in the CAP

The European Union's current position on agricultural trade negotiations is that the June 2003 CAP-reform agreement has established a basis from which the EU can make a detailed WTO offer in the areas of market access, reductions in export refunds and reductions in trade-distorting forms of domestic agricultural support.

Specifically, at the end of July, following the Montreal mini-ministerial meeting, EU Agricultural Commissioner Franz Fischler claimed the EU was:

- 'ready to deliver a huge cut in trade-distorting domestic support of 60%';
- eliminate 'export subsidies for certain products' and reduce them for others;
- cut tariffs by an average of 36% whilst opening up or expanding tariff-rate quotas for certain sensitive products.[23]

However, the EU's positions on these issues were conditional on similar offers being forthcoming from other WTO members. For example, the commitment on cutting export subsidies was conditional upon other forms of export support being similarly disciplined. While commitments to tariff reductions and the reduction in trade-distorting forms of agricultural support were conditional on acceptance of better protection for geographical indications for quality products, there were more concessions on non-trade concerns and the opening up of developing-country markets through agreed programmes of tariff reductions (though be they less extensive than developed economies). The EU made it clear that the June 2003 CAP-reform agreement provided the framework within which it would seek to negotiate a WTO agreement, the implication being that the EU would not agree to anything in Cancun at the WTO ministerial meeting which might undermine the agreed process of CAP reform.

3.2 Developments Around Cancun

In August 2003, this EU position found its way into a joint draft EU–US text for the Cancun ministerial. This document put forward specific proposals on:

- domestic support;
- market access;
- export competition.

On domestic support, it proposed substantial cuts by all members who use trade-distorting forms of support, recognising that those who subsidise more will have to cut more. It also proposed that less-trade-distorting domestic support should be allowed where:

- direct payments are based on fixed areas and yields or such payments are made on 85% or less of the base level of production;

- for livestock programmes, payments are made on a fixed number of livestock units;
- such support does not exceed 5% of the total value of agricultural production by the end of the implementation period;
- the sum of allowed support under the aggregate measure of support and *de minimis* levels are reduced.

On market access, it proposed a hybrid formula marrying the gentle across-the-board cuts used in previous international farm agreements with a call for a more aggressive capping of duties in some areas. Significantly, the joint text recognised the importance of the concept of 'sensitive products' and the need for a special safeguard provision for developing countries to protect sensitive products from excessive imports. This joint text also proposed lower tariff cuts and longer implementation periods for developing countries.

On export competition, the framework called for a 'clearly defined parallelism between the disciplines imposed on export subsidies, refunds and export credits'. It also proposed partial elimination of export subsidisation on a list of products of interest to developing countries. Finally, it provided a path for parallel reduction of export subsidisation for products on which such support is not eliminated and for the disciplining of the activities of state-trading enterprises.

That such a common EU–US approach is possible reflects the basic reality in both Europe and the US, whereby existing patterns of agricultural production remain dependent on the continued provision of vast levels of public aid to the agricultural sector. In this context, while both the EU and the US will seek WTO rules which give them a competitive edge over each other, the conflicts this gives rise to pale into insignificance when considered against the background of the common interests both the EU and US have in ensuring that no WTO rules are adopted which compromise the basic frameworks within which they provide vast levels of public assistance to their agricultural sectors.

Overall, the draft EU–US framework was not warmly received by other WTO members. The Indian representative argued it was 'not feasible' since 'it does not take account of our farmer's interests … and seems to be an attempt to prise open developing country markets without commitment by rich countries to open theirs'. The Cairns Group[24] for its part said the proposals were 'not enough' and were too vague to be a basis for real negotiation. In this context, it was not surprising that no agreement was reached in Cancun.

This being said, the European Commission maintains that considerable progress was being made in the agricultural talks and that agriculture was not the reason for the failure of the Cancun WTO ministerial meeting, since agriculture was never finally discussed, with the talks running aground on the rock of 'Singapore issues'.[25] While this is nominally the case, for many developing countries, agreement on agriculture was always likely to influence their negotiating positions elsewhere. Discussing other issues first therefore ensures a certain intransigence in developing-country positions. The Commission's current position thus seems to reflect the massive gulf in perceptions over the significance and implications of the EU June 2003 reform package.

BEYOND CANCUN

Though the talks in Cancun never reached the stage of deadlock around agricultural issues, it was apparent that there is substantial disagreement on agricultural issues. The EU strongly emphasised the importance of distinguishing between the trade-distorting effects of different types of support, maintaining that not all forms of support were bad and that the EU had increasingly shifted over to less-trade-distorting and non-trade-distorting forms of support which it felt should not be subject to any WTO disciplines.

The US, for its part, was unwilling to address the west and central African concerns over the impact of agricultural subsidies on the cotton sector and the need to phase out such subsidies and compensate those adversely affected. The US preferred to address this issue through broader discussions on market access for textile and clothing products, thereby shifting debate away from the question of agricultural subsidies per se. This struck at the heart of the debate on domestic agricultural support in OECD[26] countries, by challenging a major policy plank in an area which clearly had adverse effects on some of the poorest developing countries. In this context, the strong position taken by the Group of 21[27] – led by Brazil, India and China, with heavyweights such as Egypt also joining in – was always going to lead to head-on disagreement. The Group of 21 put forward a framework proposal calling for more extensive cuts in domestic support and less-stringent access commitments for developing countries. This proposal signalled a readiness to fight for major changes in the draft text put forward by the US and EU, which largely allowed these countries to pursue their existing programmes of agricultural support and indeed sought WTO recognition and acceptance of the distortions such agricultural support programmes generated. This position struck at the heart of the debate on domestic support for agriculture.

The Group of 21 in particular objected to the draft text's willingness to protect US and European Union subsidies in the 'blue box' category, which covers subsidies linked to production restraint. The G21 paper called for the elimination of the 'blue box' and tighter disciplines on domestic support for products which are primarily exported by developing countries (the modification of the initial CAP-reform proposals made it more difficult for the EU to agree to these type of proposals). These proposals were intended to target the dumping of commodities by rich countries where subsidies allow the goods to be exported at below-production-costs in the developed country. On market access, the G21 called for developing countries to agree to minimum and average reductions of all tariffs but with developed countries subject to much more significant tariff reductions. The G21 proposal also suggested different special and differential treatment rules for net food-importing developing countries. The EU criticised the G21 paper as 'flawed' since it asked developed countries to make concessions while developing countries were asked to do little. The Commission spokespersons maintained this was unrealistic. With the US also having firmly set itself against the G21 proposal as a basis for negotiations, and with an agreement on agriculture being seen as a make-and-break issue by developing countries, broader disagreements on Singapore Issues meant that an agreement lay beyond the reach of ministers in Cancun.

4
CONCLUSIONS AND RECOMMENDATIONS FOR THE IRISH PRESIDENCY[28]

4.1 Recognising the Impact of CAP Reform

There is a recognition within certain departments of the Commission that the process of CAP reform will in some sectors have particularly severe effects on Europe's traditionally favoured developing-country trading partners: the African, Caribbean and Pacific Group. There is in some sectors even a recognition that the consequences of CAP reform for ACP countries will be so severe as to require the extension of financial assistance to restructuring. While this awareness is most pronounced in the sugar sector, where the adverse effects of CAP reform on ACP export earnings are glaringly apparent, the implications of CAP reform for ACP countries in other sectors are not so fully understood.

Recommendation

In this context the **Irish Presidency** needs to initiate, under the auspices of the ACP–EU Council of Ministers, a comprehensive review of the impact of CAP reform on ACP agriculture and value-added food-processing industries, and to establish a formal and structured dialogue within the framework of ACP–EU to consider:

- the likely impact of individual CAP reform measures on ACP economies;[29]
- how the adverse impacts of specific reform measures on ACP countries can be minimised;
- what 'compensatory trade measures' can be introduced to ease the net costs;
- reforming aid-deployment-and-management arrangements to improve the efficiency and effectiveness of programmes of assistance with sectoral restructuring;
- the precise extent of the financial needs for assistance with restructuring;
- ensure that issues in future ACP–EU agriculture trade relations are comprehensively addressed as an integral part of the on-going ACP–EU EPA negotiations.

4.2 Improving the Effectiveness of Restructuring Assistance

In the past, where the EU has taken trade policy measures which have adversely affected ACP countries, restructuring assistance has been extended (most notably in the rum and banana sectors). However, the aid-deployment procedures under the EDF are poorly suited to stimulating a dynamic private-sector-based response to restructuring of the affected industries. A case in point in this regard is EU assistance to the West Indian rum industry, extended in response to the EU–US agreement to remove tariffs on their trade in rum. According to West Indian rum-industry sources, it took four years and eight months from the initial identification of a need for restructuring assistance in response to liberalisation of the rum market to the release of the first tranche of funding,[30] with the first tranche of funding becoming available only three months before the full liberalisation of the rum market. This meant the West Indian rum industry is effectively being assisted in coping with the consequences of the policy measures rather than being assisted in preparing to pro-actively prepare for the changes.

The experience to date suggests that more flexible and efficient aid-deployment procedures will be required if EU assistance to the restructuring of ACP sectors affected by the process of CAP reform are to be effectively deployed in ways which minimise the adjustment costs to ACP economies.

Recommendation

In this context, the **Irish Presidency** needs to initiate a process for reviewing and reforming aid-deployment-and-management arrangements to improve the efficiency and effectiveness of programmes of assistance with sectoral restructuring in developing countries adversely affected by the process of CAP reform.

4.3 Beyond the Rhetoric to Recognising Realities

There is an ideologically driven insistence within certain sections of the European Commission that the new forms of CAP support are less-trade-distorting or even non-trade-distorting. While in narrow econometric modelling terms this may be correct, this assertion is highly misleading. In many respects, the new forms of agricultural support are simply more efficient in influencing production and trade outcomes. This may in some instance reduce the extent of trade distortions arising from EU agricultural-support programmes. However, it cannot be doubted that production and trade outcomes will be materially affected by the new systems of agricultural support (de-coupled single-farm-payments) being set in place under a reformed CAP. With a policy commitment to ensuring the avoidance of land abandonment in a context of increasing annual yields, the net effect of reform across a number of sectors will be an increase in total EU production above that currently prevailing. A production outcome which would not in the context of price reductions if the new form of direct-aid-payments were not being introduced. The net overall effect on production depends, of course, on the level at which the new forms of direct farm-aid payments are set.

In this context, it is difficult to see how the European Commission can sustain the argument that the new forms of farm support are non-trade-distorting.

At Cancun, most developing countries did not share the European Commission's view on the extent to which the agreed CAP-reform measures were genuinely reducing trade distortions. They largely felt that the reform measures were simply freezing in place existing distortions and increasing the efficiency with which EU farm support attains its underlying policy objective of increasing the competitiveness of EU agriculture and the EU value-added food-products industry. Thus, when the EU tried to play 'hard ball' on Singapore Issues in order to extract concessions in exchange for what it saw as a profound transformation in EU agricultural policy, few developing countries were inclined to buy into the implicit trade-off the EU was offering, believing that the EU was largely seeking to have it all its own way. As a consequence, many developing countries refused to budge on Singapore Issues until such time as the EU introduces genuine reforms to eliminate the legacy of past distortions and to create genuine free trade in agricultural products (i.e. through eliminating both tariff protection and the market distortions arising from publicly financed aid programmes).

Against this background if the EU starts to get to grips with the real external effects of CAP reform, this will go some way towards changing the climate for WTO agricultural negotiations.

Recommendation

In this context the Irish Minister of Agriculture should:

- acknowledge that the new forms of CAP support affect production and trade outcomes and insist that the external effects of these outcomes on developing countries should be assessed and addressed;
- press for the introduction of more integrity into the debate in the EU Agricultural Council on the external effects of CAP reform by insisting on a movement away from the ideological insistence that new forms of support on non-trade-distorting to a recognition that new forms of support have an impact on production and trade outcomes the precise impact of which on developing countries will need to be assessed on a case-by-case basis.

4.4 Getting to Grips with the Erosion of the Value of Preferences

Across a range of products, from beef to rice and sugar, the process of CAP reform is eroding the value of agricultural trade preferences extended to favoured developing country partners (most notably the ACP and the least-developed countries). While it has been recognised in the sugar sector that the EU will need to provide financial assistance for the restructuring in ACP countries which sugar-sector reform will necessitate, the need for similar such assistance and other trade measures as a result of reform in other sectors has not been so clearly recognised.

Recommendation

In this context the Irish government should:

- encourage the adoption of compensatory trade measures as a policy response to the erosion of the value of trade preferences for traditionally preferred partners arising form the process of CAP reform.

4.5 Getting to Grips with the Impact of Increased EU Price Competitiveness

The process of CAP reform is systematically lowering the price of EU-produced agricultural raw materials, yet at the same time sustaining, and in some cases increasing, the overall level of EU production of these products. This is increasing the price competitiveness of EU exports of both basic agricultural and simple value-added food products. It is also reducing the dependence of these exports on WTO-constrained export refunds. This is particularly important in the sphere of simple value-added food products (where there are no WTO ceilings on the volume of exports subject to export refund – only limits on the total financial envelope deployed in the form of export refunds). Indeed, should the process of CAP reform be successfully extended to the sugar sector, then there is likely to be a renewed expansion of EU exports of simple value-added food products (particularly to Africa), which have in recent years been seriously constrained by WTO export-refund ceilings. This is a particular area of concern, as these simple value-added food products often constitute the first stage of agricultural-based industrial development in Africa. In this context, with the new forms of EU agricultural support opening up new opportunities for exports, if the scope for local value-added agricultural processing is not to be constrained in least-developed and poor developing countries, then the EU will need to ensure that international, regional and bilateral scope is provided for the establishment of swift, simple and effective safeguard measures. Such swift, simple and effective safeguard measures should include the establishment of monitoring and surveillance mechanisms for sensitive products and their associated value chains (including all CAP-covered products and the downstream industries associated with these basic products), and provision for the pre-emptive imposition of duties where a threat of market disruption becomes apparent.

Recommendation

In this light, the Irish Presidency should:

- call for the EU to support the establishment of swift, simple and effective pre-emptive safeguard measures for least-developed and poor developing countries in areas where the EU provides continued support under the CAP (including under the new de-coupled single-farm-payment scheme).

4.6 Getting to Grips with the Impact of Stricter SPS Measures

The strengthening of sanitary and phytosanitary controls and the shift towards more quality production in the EU forms an integral part of the process of CAP reform. It is recognised in the EU that these new SPS measures have cost-implications for EU farmers, and various programmes of assistance to EU farmers to help in adjusting to the new requirements have been established. However, these stricter SPS measures also have cost-implications for developing-country suppliers, the burden of which falls most heavily on small, poor and least-developed countries who have limited production runs. For these countries, since the fixed costs of meeting higher EU standards is often very high, their limited production runs can lead to substantial additional unit costs. This can lead to exporters from these countries abandoning exports to the EU (e.g Namibian exports of game meat).

This situation is compounded by the rapidly evolving nature of EU SPS controls, with exporters feeling that the EU is constantly moving the goalposts. In one instance recently highlighted, this led to a consignment which met EU standards at the time of departure for the EU market no longer complying with EU standards upon arrival in the EU market, and the consignmeny being prevented from entering the EU market.

This situation is further compounded by the weak institutional arrangements in many of these countries for the **verification** of compliance with EU standards. Thus, even where at the corporate level it may be technically and economically possible to comply with EU SPS standards, the institutional mechanisms are not in place locally to verify compliance with EU standards. This can lead to imports being blocked.

This is an issue which potentially threatens to undermine the benefits of trade preferences which the EU extends to least-developed, poor and small developing countries. It is thus an issue which needs to be urgently addressed, if least-developed, poor and small developing countries are to gain any meaningful benefits from the process of global trade liberalisation underway within the context of the WTO.

Recommendation

In this context the Irish Presidency should:

- promote the establish of formal structures of dialogue with the EU's main developing-country trading partners on how genuine EU health concerns can be addressed without placing excessive burdens on least-developed, poor and small developing-country exporters.

In addition, the Irish Presidency should secure a firm commitment from appropriate EU institutions that the processes of dialogue initiated with least-developed, poor and small developing countries on SPS standards lead to:

- the design of SPS measures in ways which address EU concerns but minimise the financial burdens of compliance and verification placed on least-developed, poor and small developing-country exporters;
- the establishment of financial-assistance programmes to assist producers in least developed, poor and small developing countries to meet the costs of compliance with EU SPS standards;
- the provision of training, technical assistance and financial support to the establishment of institutional arrangements in least-developed, poor and small developing countries for the verification of compliance with EU SPS standards.

NOTES & REFERENCES

1 The Mac Sharry reforms are named after the Agricultural Commissioner at the time – Ray McSharry. They constituted the first step towards a fundamental reform of the EU's Common Agricultural Policy. It introduced for the first time a shift over from price support (high interventions prices, which maintained high market prices) to systems for the provisions of direct aid to farmers. The reform process was initiated in the cereals sector since the cereals sector, given its important linkages to the livestock sector and value-added processing activities, was seen as lying at the heart of EU agriculture.

2 The intervention price was set administratively by the EU. It represented a floor price below which market prices were not allowed to fall, for if market prices fell below this level, supplies would be bought into public intervention until such time as the market price returned to levels above the intervention price. With the shift over to de-coupled farm payments, the intervention price system will be effectively dismantled and prices will be allowed to find their own market level. This is likely to lead to further reductions in the prices of EU agricultural commodities until a market balance is reached.

3 The full text of this USDA report can be found on: http://www.fas.usda.gov/gainfiles/200209/145783969.pdf

4 The Uruguay Round was the round of international trade negotiations which concluded with the signing of the Marrekesh Agreement, which established the World Trade Organisation (WTO). It was named after the country in which this round of multilateral trade negotiations was launched.

5 Value-added food products result from second-stage processing of the basic agricultural raw materials. For example, wheat is a primary agricultural product, while wheatflour is a first-stage processed product. Cakes and pastries manufactured on the basis of wheat are second-stage processed products or value-added food products. They are referred to as value-added food products since considerable value has been added to the basic raw materials as a result of its processing in combination with other basic agricultural raw materials. Under the CAP, value-added food products manufactured on the basis of CAP-covered agricultural raw materials benefit from a system of export refunds which are designed to bridge the price gap between EU and world-market prices of the basic agricultural raw materials used. These export refunds are provided not on the value-added food product but on the raw material content. Under EU regulations, these products are now known as 'non-Annex I products', since they are the products not covered by Annex I of the Amsterdam Treaty (they used to be known as non-Annex II products since they were not covered by Annex II of the 1957 Treaty of Rome). A list of 'non-Annex I products' at the four-digit level can be found in Annex 1.

6 Explanatory Statement, Draft Report on the proposal for a Council regulation amending Regulation No. 3448/93 laying down the trade arrangements applicable to certain goods resulting from the processing of agricultural products (COM1999)717-C5-095/2000 –

1999/0284(CNS), PE 232.564, Provisional 1999/0284 (CNS), 28 June 2000, Rapporteur: Dominique F.C. Souchet

7 Export refunds have traditionally been equivalent to the difference between EU and world-market prices. Thus, if the EU price is € 150 and the world market price €100 then an export refund equivalent to €50 is provided, so that EU traders can sell the product at world-market prices without incurring a loss. If, in this scenario, EU prices of the product in question are reduced to €125 and world-market prices remain at €100, the export refund required to close the gap between EU and world-market prices falls to €25. Administratively determined price reductions can thus significantly reduce the need for export refunds.

8 The Cotonou Agreement is a comprehensive trade-and-development co-operation agreement between the EU and seventy-seven African, Caribbean and Pacific (ACP) countries. It is named after the capital of Benin where the agreement was signed. It is the successor arrangement to the Lomé Convention which from 1975 to 2000 provided the framework for the EU's trade-and-development co-operation relations with an ever-growing group of African, Caribbean and Pacific countries.

9 The 'Everything But Arms' initiative is the popular name given to the EU's system of GSP preferences extended to all least-developed countries, which provides duty and quota-free access to the EU market for all products originating in least-developed countries, except arms and munitions and, on a transitional basis, sugar, bananas and rice.

10 This will mean that least-developed countries will not have to pay any of the normal duties applied or any of the special duties applied. This will effectively remove any form of 'tariff escalation', including that arising from the application of the basic CAP regime to value-added food products containing CAP-covered raw materials. Currently, for example, canned pineapple imports are not only subject to duties for being canned pineapples but are also subject to special duties linked to the sugar content of the canned pineapples. These special duties are calculated with reference to the difference between the EU sugar price and the world-market price of sugar, and can be very substantial indeed. It is these particularly onerous duties which least-developed countries also no longer have to pay under the EBA initiative.

11 Most Favoured Nation treatment is the basic tariff treatment which a country commits itself to implementing vis-à-vis all trading partners under multilateral trade arrangements. All preferential-trade arrangements are based on a reduction of the MFN duties charged. Thus, ironically, the Most Favoured Nation treatment is actually the least-favourable trade treatment which can be extended to a trading partner.

12 'Agenda 2000' was the name given to the second major wave of reforms of the CAP. This round of reforms built on the practice established under the MacSharry round of reforms and involved further reductions in the intervention price, linked to increased levels of direct-aid-payments to farmers.

13 The 'income transfer' is the difference between the earnings which are generated by sales of sugar on the EU market under the preferential sugar arrangements and the earnings that would be generated by the sale of the same sugar on the world market.

14 This estimate was made in the Commission Communication to the Council and European Parliament in October 2000. However, the Commission Staff Paper, 'Reforming the European Union's Sugar Policy: Summary of Impact Assessment Work' (Brussels SEC (2003)) released

in September 2003, suggests that losses of €300 million per annum would result from a 40% price reduction. This is inconsistent with the calculation contained in the Commission's October 2000 communication. On the basis of the October 2000 assessment, the annual losses to ACP sugar exporters would be nearer €400 million per annum, with the losses to least-developed country exporters under the EBA being additional to these losses. Commission Staff Paper, released in September 2003 can be found on: http://europa.eu.int/comm/agriculture/publi/reports/sugar/fullrep_en.pdf

15 The ECU or European Currency Unit was the forerunner of the euro and was calculated on the basis of a basket of European currencies.

16 The concept of 'modulation' involves restricting the total level of support payments which can be made to any single farm. Initially, the European Commission was suggesting the following system for modulating payments to farmers: no reduction in payments to farmers receiving up to €5,000 in payments; a 12.5% reduction in payments to farmers receiving between €5,000 and €50,000; a 19% reduction in the payments to farmers receiving more than €50,000. These proposals were subsequently modified by the EU Council which decided to limited the extent of 'modulation' to a total of 5% of payments on farms receiving more than €5,000 in payments, with the funds being saved being deployed to finance extended rural-development programmes.

17 According to this USDA analysis, 'necessity purchases' are those products which are sensitive to price changes and where competition on price is high. 'Luxury purchases' are those products the purchase of which is determined more by quality considerations than price considerations. This can included branded products or products with some special quality features.

18 See the speech by Commissioner Fischler to EU Agricultural Ministers (SPEECH/03/238-13/05/2003) available at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=SPEECH/03/238|0|RAPID&lg=EN&display=

19 Common Market of Eastern and Southern Africa – COMESA.

20 For the full text of the May 2003 COMESA Secretariat Presentation to the meeting of officials and ambassadors from the eastern and southern African region on the subject of developing an Economic Partnership Agreement negotiating mandate for the region see: http://www.acp-eu-trade.org/documents/COMESA_Sec_May03_Developing%20an%20ESA%20NegPos_on_EPAs_MA_Constraints.pdf

21 The European Commission press release announcing the trade.com programme acknowledged that for ACP developing countries, verifying compliance with EU SPS requirements 'represent a major obstacle to improving their export performance'. For more details see IP/03/1123-25/07/2003, which can be found at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1123|0|RAPID&lg=EN&display=

22 For more details see the European Commission Press release IP/03/957-08/07/2003, which can be found at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/957|0|RAPID&lg=EN&display=

23 For more details see the speech by Commissioner Franz Fischler (SPEECH/03/374-30/07/003), which can be found at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=SPEECH/03/374|0|RAPID&lg=EN&display=

24 The Cairns Group is a grouping of seventeen agricultural exporting WTO members established

during the Uruguay Round with a view to promoting the liberalisation of trade in agricultural products. It includes Argentina; Australia, Bolivia; Canada; Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

25 For the European Commission take on who was to 'blame' for the failure of the Cancun WTO ministerial, see the text of Commissioner Lamy's speech to the European Parliament on the Outcome of the Cancun WTO Ministerial (SPEECH/03/429-24/09/2003) http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=SPEECH/03/429|0|RAPID&lg=EN&display=

26 Organisation for Economic Co-operation and Development, a grouping of developed economies, which collaborate extensively on economic policy issues.

27 A group of twenty-one larger developing countries which came together at the Cancun WTO ministerial to advocate in favour of the interests of developing countries. This grouping represents widely varying interests and under diplomatic pressure from the US is now beginning to fragment.

28 These recommendations apply primarily to the ACP–EU trade relationship. As a consequence of the more extensive trade preferences ACP countries have enjoyed, they will be most severely and directly affected by the process of CAP. While the trade effects will be different for different groups of developing countries, the principles and approaches underpinning the approach to the ACP group can be applied to other groups of developing countries, taking into account the specific nature of their agricultural trade relationship with the EU.

29 In this context, the comprehensive study should simply be a starting point for an intensified dialogue with the affected stakeholders, thereby extending the approach currently being used internally within the EU in the process of sugar-sector reform.

30 Relatively speaking, this is a quick response which can largely be attributed to the organised private-sector lobbying on on-going monitoring of the process. In the absence of such private-sector monitoring and intervention to keep the process moving forward, it is likely that several more years would have passed before funds would finally have been made available.

ABBREVIATIONS

ACP Group	African, Caribbean and Pacific Group
BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy
COMESA	Common Market of Eastern and Southern Africa
EBA Initiative	Everything But Arms initiative
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FAS	Foreign Agricultural Service (United States Department of Agriculture)
GAIN	Global Agricultural Information Network (United States Department of Agriculture)
GSP	Generalised System of Preferences
MFN treatment	Most Favoured Nation Treatment
OCT	Overseas Communes and Territories (French)
OECD	Organisation for Economic Co-operation and Development
SPS	Sanitary and Phytosanitary Standards
USDA	United States Department of Agriculture
WTO	World Trade Organisation