



Towards a more
development
friendly Common
Agricultural
Policy (CAP)



European Commission
Agriculture and Rural Development

FOREWORD

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The European Union's Common Agricultural Policy (CAP) has been propelled into the headlines in recent months by the European Commission's proposal for a Food Facility to help developing countries deal with high food prices. This proposal, currently being discussed in the European Parliament and the Council, seeks to help the most vulnerable developing countries most seriously affected by high food prices to boost their agricultural production. Unfortunately, investment in agriculture has been neglected in many developing countries. This needs to be reversed to improve food security.

While food prices were stabilising at the time of writing in the latter part of 2008, they are expected to remain at high levels compared to recent years.

The 1992 and 1999 reforms of the CAP had already brought a significant shift in policy: a reduction in price support and the introduction of direct income support payments to farmers. A major step was achieved with the 2003 reform and the move towards so-called 'decoupled' income support. By the time the latest reforms are fully implemented, almost 90% of direct payments will be decoupled from production. This means that the link between the aid farmers receive and what they produce is essentially broken, which frees them to produce what the market wants. And of course, production which responds well to the global market's shifting needs is not production which weighs on that market. Furthermore, the percentage of decoupling should increase further if the Council of Ministers accepts our related proposals in the ongoing 'Health Check' of the CAP. Other developed countries are going in the opposite direction by injecting more and more money into the most trade-distorting forms of agricultural support. Not only is the EU moving away from trade-distorting farm support, but it is also the biggest importer of agricultural products from developing countries. Furthermore, the EU typically imports close to 60 billion dollars' worth of agricultural products from developing countries – more than the other five major importers taken together (the US, Japan, Canada, Australia and New Zealand).





The EU had already committed itself to phase out export subsidies in the framework of the World Trade Organisation's Doha Development Agenda - subject to parallel commitments for other types of export subsidies from other developed countries. Regrettably, the WTO Ministerial meeting failed at the end of July 2008. The failure to reach agreement is a huge wasted opportunity to cut barriers to trade, to open up markets and to give a much-needed boost to the global economy. This was also a lost opportunity for developing countries, which had so much to gain from a successful outcome. The EU will continue striving towards a development-friendly DDA outcome.

As bilateral trade agreements across the globe multiply, we should not forget that, in 2001, the EU granted duty-free and quota-free access to all exports from Least Developed Countries except armaments, and the same approach is being extended to African, Caribbean and Pacific countries in the context of the Economic Partnership Agreements (EPAs). The EPAs will stimulate trade and growth – including in the food and agricultural sector – which will also contribute to food security in developing countries.

All in all, the EU is taking clear and bold steps to help developing countries meet their food security objectives. The proposed Food Facility, the ongoing CAP reform process and EPAs are among these steps. Food insecurity is a serious concern in many parts of the world. The EU has already shown that it is not turning a deaf ear to such concerns.

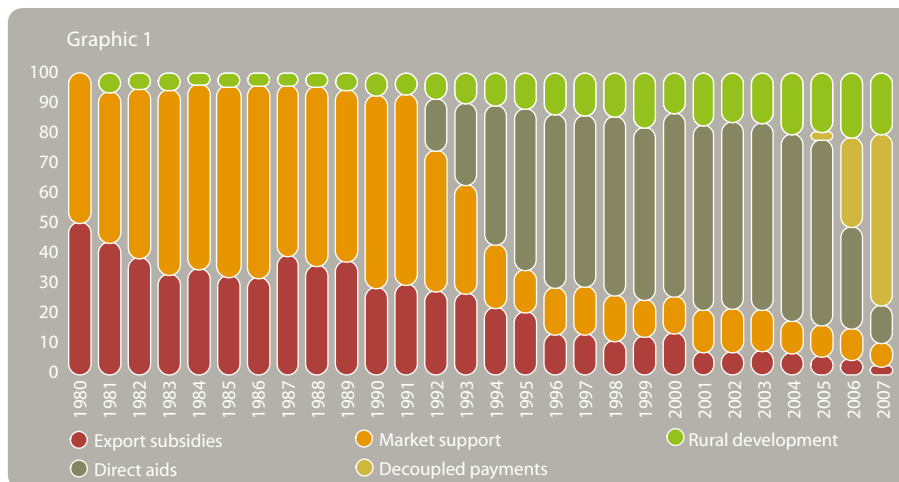
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THE CAP AND FOOD SECURITY



The Millennium Development Goals (MDGs) have been once again high on the political agenda since the Accra meeting in early September 2008 and in view of the Doha Financing for Development Conference in November 2008. When reviewing progress in achieving the MDGs halfway towards the target date of 2015, it becomes clear that a lot still needs to be done. Significant work and efforts are, for example, still required on MDG 1 (eradicating extreme poverty) and MDG 7 (environmental sustainability). These topics are currently being discussed within the context of the United Nations Commission on Sustainable Development (UN-CSD).

The MDG report¹ released by the UN in September 2008 highlights that agricultural policy has an impact on developing countries' food security objectives. For example, the report cites that within the Doha Development Agenda (DDA), one objective is the phasing out of export subsidies. As is clear from Graph 1 below, the EU has reduced significantly its export refunds and in 2008 it is estimated that these constitute less than 2% of the CAP budget. This illustrates the direction that



¹ Delivering on the Global Partnership for Achieving the Millennium Development Goals, MDG Gap Task Force 2008.



the CAP has been following for more than a decade. Payments decoupled from production have been introduced and their share has been increasing while traditional market support, which is trade distortive, is in constant decline. In addition to this, the funds allocated to rural development measures, which aim at boosting farm competitiveness, environment and quality of life in rural areas, are on the increase (see Graph 1).

The multifunctional role of agriculture, already a central feature of the CAP, is being reinforced by the CAP Health Check launched in 2007 with the objective of removing remaining restrictions on farmers in order to help them respond to growing demand for food. The Health Check will further break the link between direct payments and thus allow farmers to follow market signals to the greatest possible extent.

FOOD AID

The issue of international food aid has been raised in the context of the WTO Doha Development Agenda negotiations. Food Aid is an indispensable instrument of emergency relief. However, food aid policies and disciplines have to be properly implemented in order to ensure that the delivery of food aid in emergency situations does not reduce local or regional market opportunities and incentives for (enhanced) agricultural production. The EU provides cash and direct funding that benefits the recipients and not the donors.

The 1999 Food Aid Convention (FAC) is an international agreement², which reaffirms donors' food aid commitments. The FAC aims to contribute to world food security and improve the ability of the international community to respond effectively and efficiently on a predictable basis to emergency food situations and other food needs of developing countries. Current FAC Members are, in addition to the European Community and its Member States (European Commission and EU27), Argentina, Australia, Canada, Japan, Norway, Switzerland and the USA.

The EC attaches great importance to ensuring that the Food Aid Convention (FAC) continues to play an important role as an expression of solidarity to people in need. FAC provisions will be

²The Food Aid Convention of 1999 (FAC) was concluded by the Community by Council Decision 2000/421/EC.



discussed amongst FAC members within the forthcoming renegotiations. A renewed FAC will have to take into account today's realities and in particular the issues of predictability, flexibility and amount of food aid. Food aid should be provided on the basis of appropriate and credible needs assessments. The objective is to use food aid only as a short term instrument in emergency situations, whilst ensuring coherence with other food security interventions. In addition, the FAC should endorse the outcome of the negotiations of the WTO Doha Development Agenda in particular as they concern rules and disciplines applicable to all international food aid.

THE EU'S RESPONSE TO HIGH FOOD PRICES

These past months have been dominated by discussions on the implications of high food prices for food security. Analyses by the OECD, the World Bank and the FAO project that over the next few years food prices will decrease, although not to the levels seen in the past. High food prices have a negative impact on net food buyers but this situation could result in a positive response to net sellers. Rising food prices, for example, will offer new income generating opportunities to farmers and should enhance the contribution of agriculture to economic growth. It is evident that the right framework conditions need to be put in place to provide the necessary market signals for higher investment in agriculture, in particular in Sub-Saharan Africa. The G8 conclusions in July 2008 recalled the need to reverse the overall decline of aid and investment in agriculture in support of the Comprehensive Africa Agricultural Development Programme (CAADP). As stated in the Communication from the European Commission "One Year after Lisbon: The Africa EU Partnership at Work", released in early October 2008, one of the targets for future activities with the African Union is joint work and activities to reinforce the link between the EC Food Security Thematic Programme, the Food Facility (see below) and the African Framework for Food Security outlined in Pillar 3 of CAADP, in particular to support local demand and stimulate production by smallholder farmers (besides support to food security information systems and support to regional and continental farmers' organisations), and agricultural research, technology and dissemination.





On 20 May 2008 the European Commission adopted the Communication “Tackling the challenge of rising food prices-Directions for EU action”³. The three-pronged policy response proposed by the Commission includes the following measures:

- 1) **Short-term: the Health Check of the Common Agricultural Policy and monitoring of the retail sector under the Single Market Review in line with competition and internal market principles.**
- 2) **Initiatives to enhance agricultural supply and ensure food security including the promotion of sustainability criteria for biofuels, the development of future generations of biofuels in Europe and at the international level, and strengthening agricultural research and knowledge dissemination especially in developing countries.**
- 3) **Initiatives to contribute to the global effort to tackle the effects of price rises on poor populations including: a more coordinated international response to the food crisis, in particular in the UN and G8 contexts; continued open trade policy offering preferential access to the EU market to the world's poorest countries; swift response to immediate short-term humanitarian needs; and targeting development aid at longer-term projects to revitalise developing countries' agriculture.**





More specifically, the proposals of the CAP Health Check will serve as part of the solution to ease the global pressure on food prices. These include:

- **Phasing out milk quotas:** milk quotas will be phased out by April 2015. Currently many farmers are looking at their quota levels as production targets irrespective of the market. It is expected that relaxing milk quotas will have a positive impact on regional and global markets.
- **Abolition of set-aside⁴** is also seen as having an impact on food security as it will free up more land for food production.
- **To scrap the current energy crop subsidy** of €45 per hectare which will increase the market-orientation of agricultural production and remove the distortion between food, feed and energy uses.

Through the CAP Health Check the EU will achieve greater market-responsiveness and accuracy to demand, which are key in order to moderate rising commodity price rises.



THE 1 BILLION EURO FOOD FACILITY

Several international organisations have emphasised how the current food crisis will push more people into poverty and hunger. The proposed 1 billion euro Food Facility launched by the European Commission earlier this year and which is currently being discussed in the Council and the European Parliament, is part of the response to address the crisis. It seeks to provide a rapid response which could already give the first results in the next planting seasons. Nevertheless, a precondition for success is the need to have a coordinated action at the global, regional and local levels. Talks have been taking place with the UN's High Level Task Force on the Global Food Security Crisis and various international and regional organisations in recent months to earmark these funds to the most vulnerable countries affected by high food prices.

The aim is to target the proposed Facility so that the necessary production responses start having a positive impact to reduce poverty and hunger in the shortest possible timeframes. Discussions on a coordinated effort also took place at the United Nations on 25 September 2008 during the High-Level Food and Climate Change Event.



AGRICULTURE AND PREFERENTIAL TRADE RELATIONS WITH DEVELOPING COUNTRIES – THE CASE OF ACP COUNTRIES

The EU grants trade preferences to developing countries under different schemes. The EU's non-reciprocal preferential arrangement is the Generalised System of Preferences (GSP) available to all developing countries, combined with its Everything But Arms (EBA) initiative for Least Developed Countries (LDCs). In addition, a special preferential scheme was available for the group of ACP countries under the Lomé Conventions and the subsequent Cotonou Agreement. These special preferences were allowed under an exception from WTO rules, the so called WTO waiver, and limited in time until 31 December 2007.

ECONOMIC PARTNERSHIP AGREEMENTS – NEW DRIVERS OF DEVELOPMENT

The trade preferences of the Cotonou Agreement, while well intentioned, have not succeeded in their objective of helping to integrate the ACP countries into the world economy, nor protected the EU's trade relationship with ACP from legal challenge by other WTO Members. This is why the ACP States and the Community decided, in the Cotonou Convention, to overhaul their previous trade relations. They agreed to replace the Cotonou trade preferences by new WTO compatible trading arrangements called Economic Partnership Agreements (EPAs), progressively removing barriers to trade and enhancing cooperation in all areas related to trade. In 2007, the EU adopted an Aid for Trade Strategy. One aim of this policy initiative is to build upon, foster and support ACP regional integration processes. Building on existing strengths of the EU in the area of Aid for Trade, the EU will support ACP regions and countries to take full advantage of increased trading opportunities and maximise the benefits of trade reforms, including those of the EPAs. The strategy commits the EU to increase resources available for Aid for Trade, and to work with partners to ensure that these are channelled in an effective and comprehensive manner.

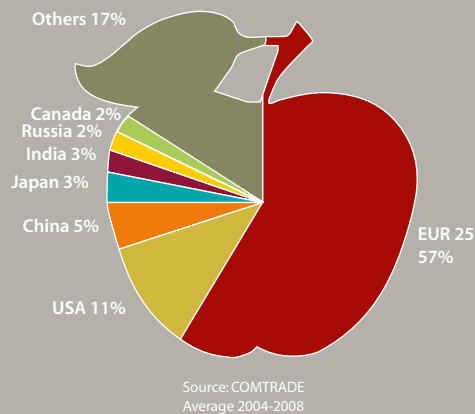


EPA negotiations have been conducted with six regional configurations covering all ACP countries (West Africa, Central Africa, Eastern and Southern Africa, the Southern African Development Community, Caribbean and Pacific). At the end of 2007, negotiations on a first full regional EPA with the Caribbean region and a number of interim agreements were concluded with certain countries or regions in Africa and the Pacific. These interim agreements serve as stepping stones towards full regional EPAs currently under negotiation. The aim of these agreements is to help ACP countries to build larger markets, foster trade in goods and stimulate investment. The full EPA with Cariforum was signed on 15 October 2008.

Given the importance of agriculture for ACP countries, agriculture plays an important role in EPAs. The EPA with the Caribbean region (CARIFORUM), for example, contains a chapter on agriculture and fisheries, which, among others, covers provisions on cooperation and assistance to the agri-food sectors of the region and addresses the issue of food security.

The new agreements will slowly and progressively open up EU-ACP trade in goods: immediately for ACP goods exported to the EU and gradually for EU goods exported to ACP countries. The EC has opened its market to duty-free and quota-free exports from the ACP under EPAs, including all agricultural products with transitional provisions only for sugar (till 2015) and rice (till 2010). Graph 2 below shows the importance of the EU as a destination for ACP agricultural exports.

Graphic 2 : Exports of agricultural products from ACP countries





The extensive opening up of the EU market has the added advantage of giving ACP countries maximum flexibility without breaching WTO rules. Opening up of the ACP markets will afford enough flexibility to protect sensitive sectors and offer safeguard mechanisms to cope with unforeseen problems. In fact, most of the ACP's sensitive products are in the agricultural sector, for example Ghana's chicken products – the EC and Ghana agreed that under an EPA there will be no change at all in the tariffs Ghana uses to protect its poultry sector.

Rules of Origin (RoO) express the local processing requirements for a good to be considered as being of local origin and hence qualify for preferential market access. The RoOs of EPAs improve the RoO of the expired Cotonou regime. They provide among others some relaxation and simplification for agricultural and processed agricultural products which will enable ACP farmers and producers to access EU market more easily.

For developing countries that are important producers of agricultural goods, **Geographical Indications** (GIs) will provide a useful tool to increase trade and promote development. The EC-CARIFORUM EPA includes a chapter on GI protection that establishes mutual recognition of national systems of GI-protection assures coexistence of GIs and trademarks – where appropriate – and foresees starting negotiations on a future agreement on the protection of geographical indications.

KEY COMMODITIES

Sugar

Sugar is a key example of the EU's preferential trade relations with developing countries. For many years the EU has provided preferential access to its market for sugar imported from ACP countries and India. Specific trade regimes have been applied, in particular the "Sugar Protocol" and the EBA.



The Sugar Protocol is a bilateral agreement between 20 ACP countries and the EU, initiated in 1975. The EU undertakes to import a fixed quantity of sugar (1.3 million tonnes in total per year) duty free, at a guaranteed price linked to the EC institutional price. There is a similar agreement with India to import 10 000 tonnes.

The opening up of the vast and profitable EU market has led the Community to terminate the Sugar Protocol under the procedure laid down in Article 10 thereof. To help ACP countries adapt to lower European prices, the Sugar Protocol countries will benefit from EUR 1.24 billion in accompanying measures over the period 2007-2013. The market will be opened up to the ACP countries in stages:

- until 30 September 2009: the terms offered by the Sugar Protocol will be maintained and market access under EPA will be improved by increasing the tariff quotas;
- from 1 October 2009 to 30 September 2015: LDCs will have free access to the market (on the terms laid down in the "Everything But Arms" initiative), the only restriction being an automatic safeguard clause for non-LDC ACPs under EPAs;
- from 1 October 2015: there will be free access to the market for all ACP countries under EPAs, with the general safeguard clause remaining applicable should imports from ACP countries violently destabilise the EU market.

Bananas

The EU is the largest consumer and importer of bananas in the world. About 80% of EU imports come from Latin America and 20% from ACP countries. The EU is the destination for practically all ACP banana exports.

Since 1 January 2006, the "Everything But Arms" initiative grants duty-free quota-free access for bananas from Least Developed Countries (LDCs) to the EU market. Non-LDC ACP countries benefit from duty-free and quota-free access under the EPA trade regime since 1 January 2008. All ACP banana exporters concluded negotiations on a full or interim EPA at the end of 2007.

POLICY COHERENCE FOR DEVELOPMENT (PCD) AND THE CAP

Policy Coherence for Development (PCD) is a dimension of EU development policy that aims to ensure that Community policies across a range of issues support, or at least do not undermine, the attainment of development objectives. In conformity with Article 178 of the EC Treaty, the Commission, the European Parliament and the EU Council, set out on 20 December 2005 a common EU vision of development policy in the framework of the European Consensus on Development. The EU agreed to PCD commitments in twelve policy areas: trade, environment, climate change, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, and transport and energy.

In September 2007, the European Commission adopted the European Union's first Report on Policy Coherence for Development, which highlighted the interactions and complementarities between development policy and the twelve other internal and external EU policies that have an impact on developing countries. Discussions on the 2009 PCD Report have just started within the European Commission.

The EU takes into consideration the objectives of development cooperation when implementing the Common Agricultural Policy. The CAP reform has looked into development aspects even before the implementation of PCD. Hence, the major reforms of 2003 and 2004 signified a strong contribution to reducing trade-distorting effects of EU support to agriculture and enhancing positive social and environmental effects. A concrete example is the fruit and vegetables reform with the elimination of the distorting impacts of processing aid and export refunds.

CONCLUSION

With higher food prices and input costs, Europe's farmers still need to meet the challenge of producing quality and safe food at affordable prices. The CAP has achieved a great deal in the past decades; it has evolved and reformed itself to reflect new realities, a process which is at this moment being re-discussed within the context of the CAP Health Check.

At an EU level, the CAP will aim to continue providing European farmers with the right market signals to produce using sustainable production practices whilst responding to the new challenges presented by climate change and water scarcity that rural areas are already confronting. In developing countries the issue of climate change is also impacting heavily on the productive capacity of farming communities.

There is a clear understanding that food and agriculture should be placed higher on the international political agenda. The year 2008 has been a turnaround point and the international community, under the aegis of the UN, has also started responding in a coordinated manner to help resolve the food security crisis. At the UN General Assembly in September 2008, measures to resolve the food crisis, addressing global warming and how to help the African continent in particular to make headway in halving poverty, illiteracy and other socio-economic ills by 2015 were high on the agenda.

The European Union is a key actor in actively contributing to concerted efforts so that the African continent in particular can strive towards meeting its MDG targets by 2015, notably MDG1. The EU will continue to adjust the CAP, wherever necessary, to tomorrow's realities, including those reflecting the food security concerns of the developing countries.

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