The EU's Common Agricultural Policy (CAP): on the move in a changing world

How the EU's agriculture and development policies fit together

European Commission
Agriculture and
Rural Development

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Foreword

This is an important moment for the European Union's agriculture policy, as we reflect on what it is we want to achieve after 2013, when the current agricultural policy framework comes up for renewal. This is the core issue for my term as EU Commissioner for Agriculture and Rural Development. Of course, it is essentially an EU process, but the potential external impact of our domestic policy decisions is also a key element. I believe we must go even further to ensure that EU agricultural policy is coherent with and supportive of the Millennium Development Goals (MDGs).

There are a number of key moments in the coming months which must allow us to shine a spotlight on our internal policies, to ensure that they do take account of the effects on the world's poorest countries and people. These include the UN High Level Plenary Meeting on the review process of the MDGs in September 2010 and the Committee on World Food Security meeting in Rome in October. The EU is taking the lead in the analysis on Policy Coherence for Development to discuss measures for greater coordination, lesson learning and convergence on what needs to be done with international organizations, at a regional and global level, to meet the MDGs, including MDG1 (eradicate extreme poverty and hunger), by 2015.

One aspect of this publication is the opportunity to debunk common myths and misconceptions about a whole range of topics, where EU policy comes into play and where my sense is that the rationale and impact of our policies are not given a fair hearing: From Economic Partnership Agreements (EPAs) and food security, to biofuels policy and policy space for developing countries in their pursuit of domestic policies to enhance food security.

But this brochure is not only about debunking myths. We need to give a sense of the agricultural sector's importance in building a better and fairer future. Growing demand for and scarcity of food mean that agriculture has a central developmental role to play in the years to come. We need to prepare for this now, but the context is challenging: More and more people to feed; many of them in the very poorest parts of the planet; an environment which needs to be protected, not polluted. So the challenge is to put in place the coherent policies which can square this circle, so that we deliver a more competitive, fairer and greener agriculture, for farmers and consumers globally.

My first external visit was to the African Union in June to meet with my counterpart responsible for Agriculture. This is precisely the kind of policy dialogue I intend to maintain and strengthen over the coming years. In no small part because of this history of dialogue and cooperation, EU agriculture policy already looks very different from what it did even a decade ago, and this process will continue as we prepare for the next phase of the CAP. I intend to go on listening to my partners from inside and outside the EU, in particular in the countries of the South.

Dacian Cioloş, Commissioner for
Agriculture and Rural Development

Introduction

The term 'Policy Coherence for Development' was first used in the late 1990s at the Organisation for Economic Cooperation and Development's (OECD) Development Committee.

EU Development policy and the funding for agriculture and rural development made available to developing countries needing it are not operating in a vacuum. EU policies that have an impact include agriculture, trade, environment, fisheries, migration, transport, research and energy.

Achieving policy coherence in the EU means that it needs to pursue its objectives in 27 Member States while avoiding negative spillover effects that might harm the development prospects of poor countries. This means choosing options that do not impact in a negative manner on development policy goals.

In November 2009, the European Council endorsed a new approach on Policy Coherence for Development which focuses on five thematic global development challenges, including global food security[1].The EU's Work Programme for 2010-2013 on policy coherence was presented in April 2010 as part of the 'Spring Package for Development'[2].

'Better development cooperation will not suffice to enable the developing countries to reach the Millennium Development Goals (MDGs). There is also a need for an effective improvement in the coherence of developed countries' policies'[3].

1 The five challenges are: trade and finance, climate change, global food security, migration and security.

2 SEC (2010) PCD Work Programme 2010-2013.

3 Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee of 12 April 2005 — Policy Coherence for Development — Accelerating progress towards attaining the Millennium Development Goals [COM(2005) 134 final.

Agriculture and food security

Agriculture is a key sector for poverty reduction and food security. However, the food equation is complex. It varies from one country to another, and even within the same country, as the interests of urban consumers and rural producers may not always coincide.

In Sub-Saharan Africa, for example, agriculture is the economic mainstay for most of the population. It accounts for about a third of Africa's GDP, 60 % of the total labour force, of which 70-80 % are women[4]. Small-scale farmers account for 80 % of agricultural production in Africa, especially in Sub-Saharan Africa, and they are particularly affected by food insecurity and/or malnutrition.

It is clear that the agricultural policies of developed economies can have an impact on food security in developing countries. While responsibility for food security lies primarily with national governments, the interplay of policies, that is, their coherence, across agriculture, trade and development, for instance, has a role to play. This needs to be discussed and addressed at the global level. This was recognised in the reformed and revitalised Committee on World Food Security in October 2009, as well as during the World Food Summit in November 2009 in Rome.

4 IFAD, World Bank and FAO 2008, Gender in Agriculture Sourcebook.

The EU: world's biggest importer of farm products from developing countries

The EU is a major food exporter. However, the traffic is not all one way. The EU is the world's biggest importer of farm products, and by far the largest importer of agricultural products from developing countries. The EU imported € 53 billion worth of goods on average over the period 2006-08 (Graph 1). This is more than the United States (US), Japan, Canada, Australia and New Zealand combined. Their imports from developing countries reached on average € 47 billion for the same period.

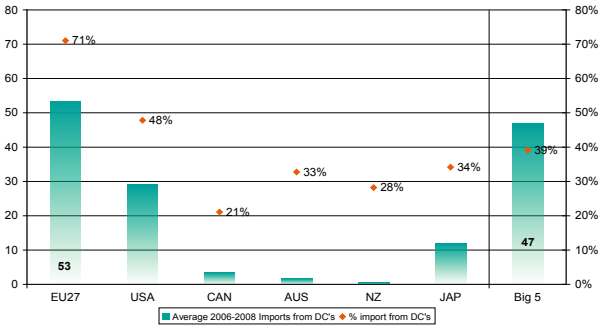
Around 71 % of the EU's agricultural imports originate from developing countries. This has been the result of long-standing preferential market access that the EU has offered for products from developing countries. These arrangements have been substantially deepened over time. Under the 'Everything But Arms'[5] initiative, least-developed countries (LDCs) are given duty-free and quota-free access to the EU market. Under Economic Partnership Agreements (EPAs), countries from the African, Caribbean and Pacific (ACP) group enjoy full duty-free and quota-free access.[6]

The EU has been a leader among developed countries in enhancing market access for developing countries. The challenge it faces in formulating trade and development policies from an agricultural perspective is to strike the right balance in reflecting the specific needs and situations of partner countries.

5 Council Regulation (EC) No 732/2008 of 22 July 2008 applying a scheme of generalised tariff preferences for the period from 1 January 2009 to 31 December 2011 and amending Regulations (EC) No 552/97, (EC) No 1933/2006 and Commission Regulations (EC) No 1100/2006 and (EC) No 964/2007.

6 With a transitional safeguard mechanism for sugar until 2015. Trade relations with South Africa (SA) are governed by a bilateral free trade agreement: the Trade, Development and Cooperation Agreement (TDCA).

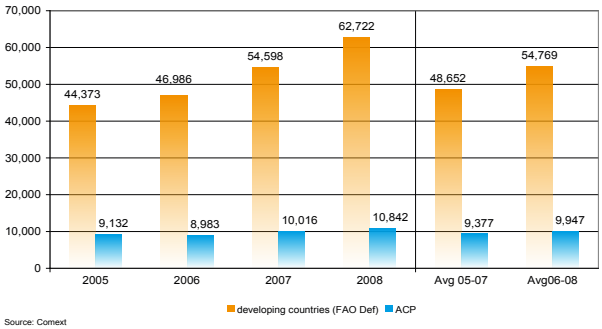
Graph 1: Agricultural products: Imports from Developing Countries (average 2006-2008 - billion €)



Source: UN - COMTRADE

EU imports of agricultural products from developing countries have been on the increase. As shown in Graph 2, in 2008, the EU imported agricultural goods worth € 62.7 billion from developing countries, compared to € 44.4 billion in 2005.

Graph 2: EU27 imports from developing & ACP countries (million €)



Source: Comext

The Common Agricultural Policy – evolving with the times

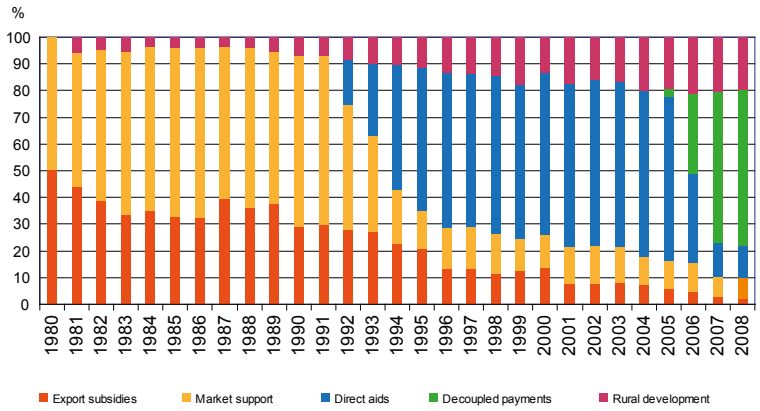
The days of 'wine lakes' and 'butter mountains' are long gone. There have been many important policy reforms to the CAP, especially in the past decade, and these are contributing to more balanced markets.

The CAP was successful in attaining its initial goals of guaranteeing food for European consumers. Since then, it has undergone extensive reforms and has become more market-oriented, whilst still providing quality products for EU citizens.

The most significant shake-up took place in 2003, when the EU abolished production-related farm aid. The new policy was designed to support farmers' incomes. It allowed them more freedom to grow in response to demand – in other words, it was de-coupled from production. More recent reforms further enhanced positive social and environmental effects of the European agricultural policies by promoting new economic activities and linking payments to the respect of environmental, food safety, plant health and animal health and welfare standards (so-called cross-compliance requirements).

Graph 3 shows how the pattern of CAP expenditure has changed over time. In 1980, export subsidies and market support accounted for the whole of the budget. By 2008, they accounted for just 10 % of the budget together. Export subsidies now represent less than 2 % of CAP expenditure.

Graph 3: Evolution of CAP expenditure and CAP reform path



In 2008, the CAP underwent a Health Check, which resulted in measures that eased constraints on the supply of food products. These measures included the abolition of a compulsory requirement to leave 10 % of land fallow, so-called 'set-aside', the enlargement of milk production quotas to prepare for phasing out, and the scrapping of subsidies for energy crops.

Moreover, in line with the Johannesburg Plan of Implementation[7], the CAP is being increasingly adapted to sustainability goals. One of the policy's main objectives is to help agriculture fulfil its multifunctional role in society: to produce safe and healthy food, to contribute to sustainable development of rural areas, and to protect and enhance the farming environment and its biodiversity.

The debate on what the CAP should look like after 2013 is underway, and its effects on developing countries are being addressed in EU policy-making in the Policy Coherence for Development context.

7 A framework for action to implement the commitments originally agreed at the United Nations Conference on Environment and Development (Rio de Janeiro, 1992). It was adopted at the World Summit on Sustainable Development held in Johannesburg, South Africa from 26 August to 4 September 2002.

CAP reforms have helped to reduce trade distortions

The EU is continuously taking developing countries' needs and concerns into consideration in its domestic policies. It has, for example, already undertaken bold reforms in two areas of major interest to developing countries since 2006: **sugar and bananas**.

SUGAR: Linking agriculture, trade and development concerns.

This sector of the CAP was reformed in 2006. For decades, the EU had bought fixed quantities of sugar at guaranteed prices from a number of African, Caribbean and Pacific (ACP) countries under the Sugar Protocol of the ACP-EC Partnership Agreement. CAP reform involved decreasing institutional sugar prices and phasing out intervention on the domestic market for sugar by 2010. To assist ACP countries in adapting to the new market conditions that the reform created, the Commission launched Accompanying Measures for Sugar Protocol countries[8], worth a total of €1.28 billion (2006-2013). This assistance aims to strengthen the competitiveness of the sugar sector, where this is sustainable, to support development of alternative activities (diversification), and to mitigate broader impacts (including social, economic or environmental). Moreover, LDC countries under EBA and ACP countries that are part of EPAs, receive duty-free quota-free access for their sugar exports to the EU, but with a transitional safeguard mechanism up to 2015. This improved market access for ACP countries will allow them to raise their revenues from exports, which should benefit their net trade balance position.

8 Regulation (EC) No 266/2006 establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime and Council Regulation (EC) No 1905/2006 establishing a financing instrument for development cooperation (Article 17).

BANANAS: Improving coherence between agriculture, trade and development policy

Since 1994, the EU has provided more than €450 million targeted support for the banana sectors of ACP banana-exporting countries to help them adapt to structural changes. This aid has helped them to produce bananas more competitively, or to diversify into other areas. The Commission is proposing new resources in addition to existing EU development assistance to support ACP banana exporters adapt to new trade realities.

The EU also remains fully committed to a swift conclusion of the WTO's Doha Development Round negotiations, which would entail full elimination of export subsidies, subject to parallel discipline on other export competition measures by other countries. This would help to achieve a level playing field in agriculture worldwide.

At the same time, developing countries can expect a lot of flexibility to ensure that trade liberalisation does not impact negatively on their domestic markets. In particular, least developed countries will not have to make any duty reductions, and the duty reductions envisaged for developing countries in general are lower than those for developed countries, with longer implementing periods.

The weeks and months ahead will be critical in the pursuit of trade liberalisation at a multilateral level.

EU's Agricultural Policy and Developing Countries – your questions answered

a. Is CAP distorting world trade and agriculture prices?

By 2013, at least 92 % of direct payments paid in the EU will be decoupled from production.

EU prices are increasingly driven by world market prices rather than intervention prices. Intervention has been reduced or abolished in all sectors. From 2005 to 2009, the EU halved the export subsidy rate for beef. It has paid no export subsidies on cereals since September 2006 (except for processed products) or on sugar since October 2008. Export subsidies for fruit and vegetables and for wine have been abolished following reforms of those sectors.

Cumulative change in real intervention prices (1991-2009, deflator 2000=100)*

Product	Soft wheat	Durum wheat	Rice	White Sugar	Beef	Butter	SMP
Price change	- 66 %	- 75 %	- 71 %	- 57 %	- 68 %	- 46 %	- 35 %

* Intervention price series are taken from Agriview and deflated by the deflation inde provided by DG ECFIN, then the cumulative change from 1991-2009 was calculated

The re-introduction of export refunds for dairy products in January 2009 was a temporary measure complying with international rules and was taken in response to a dramatic 60 % decrease in world market prices, and to its impact on farmers' revenues. Limits in terms of volume and price on these export refunds, which were dismantled in the course of the year, were set at levels which did not fully bridge the gap between EU and world market prices, thus ensuring a limited impact on world market prices.

As has been discussed during the High Level Conference "What Future for Milk" on 26 March 2010, in the design of the future of the CAP, the EU will need to take account of the climate change challenges, environmental sustainability, the territorial dimension of rural areas across the EU, citizens' demands and the globalisation process. An extensive debate on the future of the CAP was launched in April 2010. A wrap up conference on the future of the CAP was organised in Brussels on 19-20 July. Later on this year, the Commission will publish a major policy paper (a so-called 'Communication') on the future shape of the CAP. This would be followed by legal proposals which will be presented in mid-2011.

b. Does EU biofuel production have a negative impact on food security in developing countries?

The rise in demand for biofuels and the policy for promoting renewable energy in transport are often cited to have been among key factors in food price increases in 2007-2008. The Commission conducted several studies on food prices and the reasons behind food price fluctuations[9]. The analysis found that EU biofuel production and the new 2020 10 % renewable transport fuel target had little impact on global food prices. This was because biofuels use only about 2-3 % of EU cereal production and around 5 % of global vegetable oil production. Futhermore, commodity prices dropped after 2008, whilst

9 Commission's Communication Tackling the challenge of rising food prices, adopted on 20 May 2008, COM(2008) 321 final. The Commission Staff Working Document 'Monitoring prices developments' (SEC(2008)2970) accompanying Communication on Food prices in Europe, adopted on 9 December 2008, COM(2008) 821.

biofuel demand continued to rise. So EU biofuels policies did not seem to have a significant influence on cereals markets.

To respond to concerns about food prices, and to create additional safeguards against possible negative impacts, the Commission set up a sustainability scheme. This comprises a set of monitoring and reporting requirements, including food price and food availability impacts in the EU and countries outside the EU (third countries) that are significant sources of biofuel imports into the EU. The Commission is committed to reporting on these aspects, to maintaining continuous dialogue with third countries and to proposing corrective action, if necessary.

c. Do EPAs risk destroying the agri-food sector in the ACPs?

EPAs allow ACP countries policy space to enhance their agricultural production and to strive towards eradication of hunger and poverty. By applying a generous amount of asymmetry, market access arrangements take into account the development needs of ACP countries. So, the EU opens its market for duty-free quota-free access for products from ACP countries (with a safeguard mechanism on sugar until 2015), but it accepts that a proportion of trade around 20 % of its own exports will be excluded from liberalisation. ACP partners themselves decide what falls into this 20 %. Most of the products excluded are agricultural, including complete agri-food sub-sectors that ACP countries deem strategic. The share of EU imports in total domestic consumption for Sub Saharan Africa is very low even when one takes two products which are often cited by ACP countries when discussing food security; it is estimated around 5 per cent for milk and 3 per cent for meat.

Furthermore, under a special food security safeguard clause, ACP countries may take measures to protect their markets when their food security is threatened. Apart from the usual safeguard provisions to counter the effects of a sudden rise in imports, an 'infant industry' clause allows ACP countries to protect sectors that are starting.

d. Do EU exports distort meat production in West Africa?

The EU has been blamed for dumping of cheap chicken parts on West African countries, thus destroying their national poultry sectors. However, data clearly shows that there is no displacement effect of domestic production potential as the share of EU imports in the domestic consumption of West African countries is just 11-12 per cent.

Since 2003, the CAP does not provide export subsidies for poultry exports to Africa (with the exception of Angola). The solution to this perceived problem is for West African Governments to adopt measures to support their chicken producers so that they become more efficient and expand their domestic production. Developing countries have the policy space to do what is needed to defend their interests, including food security, both in the context of the Doha Development Agenda and Economic Partnership Agreements.

Conclusion - What's next on the agenda for policy coherence?

Careful monitoring of the CAP's impact on development objectives and food security will continue in the coming years. Indeed, food and agriculture will remain high on the international political agenda. In the longer term, agricultural policies in developed economies, including the EU's CAP, should take into account constraints imposed by measures to combat climate change, demographic trends, changes in consumption patterns and the limited area of new land available for cultivation. Globally, feeding the world's growing population will mean food production needs to double by 2050, with a significant increase needed in Africa. Boosting agricultural productivity, especially in Africa's poorest countries, and ensuring sustainability of production will be critical challenges. Coherent agriculture and development policies globally will help to address these. The role of research in agriculture in developing countries will also be a key consideration in the analysis of options for policy coordination and coherence, a topic which was discussed in detail during the 2010 Global Conference on Agriculture Research for Development (Montpellier, 28-31 March).

In view of the 2010 review of Millennium Development Goals, donors are considering how to continue supporting progress towards achieving targets, and how to accelerate progress between now and 2015. The High-level Plenary Meeting in New York on 20-22 September 2010 should also give the necessary impetus for enhanced policy coordination at a global level to address MDGs, including MDG1, in the coming years.

Agriculture is part of the solution to reduce rural poverty. Policies and governance systems need to support agriculture to achieve maximum impact. The EU will continue to play an active role in coordinating international policy coordination and debate, to ensure that policies are indeed compatible and coherent across the sectors involved.

European Commission

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