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Common Agricultural Policy towards 2020

ANNEX 12

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Annex 12 - The Common Agricultural Policy and Development

Contribution from the Directorate General for Development and Cooperation – EuropeAid

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1. Background – Policy Coherence for Development (PCD)

The reform process of the Common Agricultural Policy (CAP) has to take account of the European Union's (EU) development cooperation policy objectives, as set out in Articles 3 and 21 of the Treaty on the European Union (TEU) and Article 208 of the Treaty on the Functioning of the European Union (TFEU), which specifically refers to Policy Coherence for Development (PCD).[1] The PCD commitment is embedded in the European Consensus on Development which was adopted in December 2005 and sets out common objectives and principles for development cooperation.[2]

This commitment is based on the recognition that in pursuing its domestic policy objectives, the EU should avoid negative spillovers which could adversely affect the EU's development objectives. In addition, PCD uses the potential for positive synergies.[3] The pursuit of coherence of non-development policies with development objectives aims to systematically take into account and wherever possible, the external impacts of the Union's policies on developing countries and groups within these countries.[4] Ultimately, evidence of such impacts should influence policymaking and policy reform in order to privilege the adoption of policy options with a lower risk of negative impacts.

The EU has agreed to apply PCD in twelve policy areas that could accelerate progress towards the achievement of the Millennium Development Goals (MDGs) – without substituting EU development cooperation policy. PCD has a particular importance in the case of agriculture, given the first MDG target of eradicating extreme poverty and hunger and the role of the sector in achieving food security. The EU aims to support the MDGs and development by harnessing the growth potential of small farmers and small agricultural enterprises in developing countries.[5]

According to the International Fund for Agricultural Development (IFAD), at least 70% of the world's poorest people live in rural areas where agriculture (including crops, livestock, fisheries and forestry) forms the main economic activity and hence plays a vital role for livelihoods.[6] More than 80% of rural households farm with a predominance of small-scale farming: approximately 85% of farmers in developing countries produce on less than two hectares of land. The 2008 World Development Report "Agriculture for Development" underlines the relevance of agricultural growth for poverty reduction.[7] Evidence has shown that investments in smallholder agriculture yield the best results in terms of poverty reduction and growth.

In a context where the agricultural policies of industrialised countries can have an impact on the trade and development opportunities of developing countries, and therefore on the income of small farmers and the resilience of rural communities, the coherence of the EU's agricultural and development policies is crucial.

[1] OJ 2008 /C 115/01
[2] OJ 2006/C 46/01
[3] COM(2009) 458 final
[4] Throughout this text the term "developing country" is used to denote countries with a relatively lower level of material well being (approximated through GDP per capita) and does not express a judgment about the stage reached by a particular country or area in the development process. The European Commission is aware of the heterogeneity of the group of so-called developing countries.
[5] COM(2010) 127
[6] Rural Poverty Report; IFAD (2011)
[7] The World Bank estimates that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture. World Development Report, World Bank, (2008)

The CAP is one of the priorities in the Commission's PCD Work Programme 2010-2013.[8] The Communication on the future of the CAP adopted on 18 November 2010 reflects the EU PCD commitment by signalling that whilst the future CAP should maintain and improve its production capacity, it should seek to do so whilst taking into account development cooperation objectives and not undermining developing countries' efforts in achieving the MDGs.[9]

2. How does the CAP influence agriculture in other countries?

The OECD's 2005 report "Agriculture and Development. The Case for Policy Coherence"[10] identifies four possible policy interventions in industrialised countries, which could influence agricultural development in developing countries: (1) domestic agricultural policies, e.g. the CAP; (2) agricultural trade policy; (3) regulatory policies affecting agricultural trade, and (4) development cooperation policies.

In view of the EU's role as a major exporter and importer, the CAP could arguably play a role not only in domestic but also in international agricultural markets, thus potentially affecting production and consumption levels in third countries.[11] Since the MacSharry reforms of 1992, the CAP has undergone considerable changes that have gradually altered the policy's impact on farmers' production decisions, steering EU agriculture towards greater market orientation. The criticisms formulated at times of greater market intervention regarding alleged detrimental effects on agriculture in developing countries, a sector where these countries could theoretically enjoy a comparative advantage, are thus no longer adequate.[12] In addition, the form and the extent in which the CAP would affect developing countries is not clearly established. Matthews (2011) identifies two main channels through which impacts could be transmitted: (a) changes on world market prices, and b) impact on the variability (volatility) of world market prices.

Changes on world market prices would influence the terms of trade of developing countries, but impacts would differ according to the trade profile of the country, i.a. the country's trade balance, whether it is a net exporter or importer of the product in question, relative trade with the EU, the country's level of development and trade regime, or the country's possible preferential status.[13] Greater market orientation will ensure that impacts are generally minimised and in any case not exacerbated. However, these impacts should be assessed on a case by case basis, as the economic, social, cultural and demographic heterogeneity among and within developing countries, as well as the multitude of factors that affect food security policies and situations in the short-, medium- and long-term, make generalisations difficult. The assumption of direct price transmission mechanisms calls for a methodological approach that combines aggregate/national with household level data.

[8] SEC(2010) 421 final
[9] COM(2010) 672 final
[10] OECD, Agriculture and Development. The case for Policy Coherence, 2005. http://www.oecd.org/document/23/0,3746,en_2649_33797_35664919_1_1_1_1,00.html
[11] OECD-FAO Agricultural Outlook 2007-2016
[12] UN Special Rapporteur on the right to food, *The Common Agricultural Policy towards 2020: The role of the European Union in supporting the realization of the right to food*. Comments and Recommendations by the United Nations Special Rapporteur on the right to food - Mr. Olivier De Schutter, 17 June 2011; Bureau, Matthews, *EU Agricultural Policy: What Developing Countries Need to Know*, IIIS Discussion Paper; and Bureau, Matthews, *The Consequences of Agricultural Trade Liberalization for Developing Countries: Distinguishing between Genuine Benefits and False Hopes*, IIIS Discussion Paper No. 73, 2005. http://www.cepii.fr/anglaisgraph/workpap/pdf/2005/wp05-13.pdf (and related bibliographic references
[13] OECD, Agriculture and Development. The case for Policy Coherence, 2005.

In practice, price transmission mechanisms are difficult to establish. This is particularly the case in countries where markets are more fragmented, possibly resulting in different degrees of price transmissions. National trade policies and domestic marketing systems will play a major role in this respect. Impacts on households will depend on whether they are net producers or net consumers of specific commodities.[14] Moreover, the incidence of the impacts will have to be measured in different timescales, taking into consideration the capacity of different actors to respond and adapt to price variations. The analysis of price transmission mechanisms[15] is thus necessary in order to understand the magnitude of effects (incidence) of potential impacts of agricultural policy changes on developing countries at different levels (e.g. country level, household level) and on different groups (e.g. regional, urban, rural).[16]

Transmission mechanisms and hence possible impacts would in turn be brought about through three possible measures:

- **Domestic support**
- **Export subsidies**
- **EU market access restrictions**

Finally, even in the absence of directly measurable or identifiable price effects, countries' governments may take decisions that affect their populations following EU policy changes or expected changes in world markets – these could be defined as political economy impacts.

2.1 Domestic support

Domestic support, which falls under Pillar I of the CAP, includes price support and direct subsidies paid to farmers. Coupled direct payments (i.e. tied to production levels) would be the most trade-distorting as they encourage surplus production potentially driving down world prices.

As a consequence of CAP reforms over the last 20 years, price support has declined substantially and direct payments take mostly the form of decoupled payments (more than 90%), i.e. away from supporting production levels and towards greater market orientation. While domestic agricultural support in a major trading bloc like the EU could affect international prices, the impact of these specific measures is not straightforward. As mentioned above, impacts will vary depending on the commodity, from country to country and from group to group (e.g. consumer vs. producer; urban vs. rural).

2.2 Export subsidies

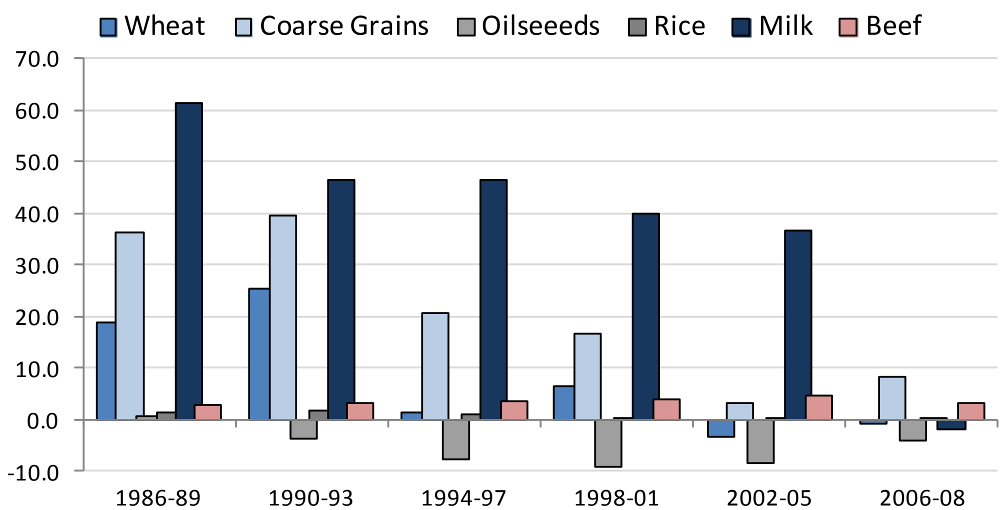
Export subsidies (or refunds) seek to encourage agricultural exports through financial support. In theory, they could result in bringing down prices for EU agricultural products and stimulating additional exports, putting downward pressure on world market prices and therefore distorting competition and limiting regional trade. These measures are thus disciplined under WTO rules and are to be reduced over time.

[14] OECD, Agriculture and Development. The case for Policy Coherence, 2005.
[15] I.e. the extent to which domestic agricultural commodity markets in developing countries respond to changes in international prices.
[16] Analyses have turned out inconclusive given the limited data available and the difficulty of linking partial economic modelling tools that provide the impact of CAP changes on global commodity markets, to household level impact assessment.

Export refunds have been subject to criticism from farmers' organisations and other civil society groups, who have reported on the resulting unfair competition as local farmers have to compete with products that may receive financial support for production and/or export. Implications for agricultural production and consumption in developing countries will differ once again depending on the product concerned, the country's trade position and the household's consumption and production patterns. On the one hand, EU subsidised products may negatively impact on local farmers by making their production less profitable. On the other hand and in the short-term, it may be favourable to consumers who benefit from access to lower-priced imports.

The use of export refunds by the EU has been declining strongly over time: In 2010, the expenditure for export refunds for agricultural products from the EU was 166 million EUR, while in 2000 the refunds were 5.6 billion EUR. This level is well below 1% of CAP expenditure.

Figure 1: Estimates of CAP impacts on EU exports, 1986-2008 (million tonnes)



Source: OECD PEM model[17]

2.3 EU market access restrictions

Market access restrictions include measures that have an impact on imports be it due to the different level of compliance (non-tariff barriers) or to the level of tariff to be paid (import tariffs).

Non-tariff measures (NTMs) encompass all measures affecting trade other than tariffs. Among those the most frequently discussed are sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT). SPS measures aim to provide a certain level of food safety for consumers, as well as to protect human, animal and plant health. TBT refers to labelling and marketing standards, as well as norms for sizes, quality classes and other physical attributes of products. In those two categories there is a distinction between requirements which need to be

[17] Evaluation of Agricultural Policy Reforms in the European Union, OECD, TAD/CA/APM/WP(2010)26/FINAL

fulfilled to gain market access and conformity assessment which verifies that respective requirements are actually met.

NTMs bring transparency into trade regimes by spelling out minimum requirements goods have to fulfil in order to be marketed on specific markets. The SPS Agreement and the TBT Agreement of the World Trade Organisation (WTO) aim to guarantee that standards are not misused as disguised protectionist measures. While maintaining the sovereign right and obligation of countries to set their own regulations and standards, countries are encouraged to base their import requirements on internationally agreed benchmarks as set by the three standards setting organisations (Codex Alimentarius, OIE, and IPPC).

The EU is the largest importer of agricultural products from developing countries (importing more than the next five importers combined) and has several trade-friendly regimes in place to facilitate market access such as the duty free access granted through Free Trade Agreements (FTAs), including the negotiated Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific (ACP) countries and the Everything But Arms Initiative (EBA), under the Generalised System of Preferences (GSP). In addition numerous trade-related assistance activities are put in place.

3. Addressing the CAP Reform from a Development Perspective

Food security is one of the major global challenges of the future in view of increasing global demand combined with supply uncertainties. The increase in demand is primarily linked to demographic and income growth, but also to other factors that lead to competition over natural resources and land use, e.g. agro-fuels. The uncertainties in supply are linked to i.a. economic (e.g. fluctuating price of oil), climatic (e.g. extreme events, desertification), and animal and plant health issues (e.g. threats of pests and diseases).

The EU should lead efforts towards a sustainable agricultural sector participating in the efforts to assure global food security. On the one hand, EU development cooperation policy aims to harness the potential growth of small farmers and small agricultural enterprises in developing countries. On the other hand, it is essential that the EU agriculture and food industries contribute to global food security by remaining important suppliers of high quality and safe agricultural and food products in a growing world market.

The rationale behind the EU's CAP reform after 2013 is explained in the Communication "The CAP towards 2020"[18], namely: (i) viable food production; (ii) sustainable management of natural resources and climate action; and (iii) balanced territorial development. While the CAP's objectives are first and foremost internal to the EU, the EU's commitment to PCD puts the principle of no harm high on the EU's domestic policymaking agenda.

Over the past decade, the EU's efforts to support agriculture in developing countries have been established through a number of policies and initiatives within its development policy (e.g. 2002: Rural Development Policy, 2004: Action Plan on Commodities, 2007: Advancing African Agriculture, 2008: Food Facility). In 2010, the European Union reaffirmed its strong commitment to support interventions in order to improve food security in developing countries. The

[18] C(2010) 672 final

Communication 'An EU policy framework to assist developing countries in addressing food security challenges' sets out how the EU should target food security-related development assistance, building on the principle that most food security challenges require country-specific responses.

This policy framework, endorsed by the Council in May 2010, sets out the EU food security agenda for the coming years. The framework provides directions for assistance to developing countries in addressing the four pillars of food security: (i) increasing availability of food, (ii) improving access to food, (iii) improving quality of food and ensuring adequate intake, and (iv) crisis prevention and management. This comprehensive approach is centred around four priority areas: (i) smallholder resilience and rural livelihoods; (ii) effective governance at all levels; (iii) regional agriculture and food security policies; and (iv) assistance mechanisms for vulnerable population groups.

The EU supports countries' efforts as they develop domestic policies pursuing the MDGs in general and food security in particular. To maximise the impact on hunger, the EU will prioritise support to agriculture and food security in countries most off-track with respect to achieving MDG 1. The CAP's objective is not to alleviate poverty worldwide. However, the CAP can contribute to global food security and its possible effects are taken into consideration throughout the policymaking and implementation processes.

The EU's commitment was reiterated in the framework of the G20 Agriculture Ministers meeting of 22 and 23 June 2011.[19]

4. Conclusions

World population could reach 9 billion by 2050 based on United Nations' estimates. Consequently, demand for food is likely to grow by at least 70%. While this is below demand growth over the previous half-century (which reached 140%) it will require continued growth in agricultural production, including in countries where populations grows fastest. In many of these countries, limited access to natural resources, exacerbated by climate change and conflicting interests will result in increasing challenges and demands for their efficient and sustainable use. The Commission supports sustainable agricultural production in developing countries through providing aid that prioritises approaches that are ecologically efficient, and promotes the formulation and implementation of partner countries' national agriculture policies.

The CAP's successive reforms since 1992 have steered its orientation towards more coherent and efficient policies and away from trade-distorting principles and instruments that may place strains on developing countries' agricultural development and growth. The proposals for the future CAP, alongside the EU's multilateral trade negotiations, are in the spirit of continued market orientation. The overall objective of promoting sustainable agriculture in a global environment remains and impacts on agriculture in developing countries will be further reduced.

[19] Ministerial Declaration "Action Plan on Food Price Volatility and Agriculture", G20 Agriculture Ministers' meeting of 22 and 23 June 2011

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6. *Abbreviations*

ACP	African, Caribbean and Pacific countries
CAP	Common Agricultural Policy
EBA	Everything But Arms Initiative
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
GSP	Generalised System of Preferences
IFAD	International Fund for Agricultural Development
MDGs	Millennium Development Goals
MFF	Multiannual Financial Framework
NTB	Non-tariff barrier
PCD	Policy Coherence for Development
SPS	Sanitary and phyto-sanitary measures
TEU	Treaty on the European Union
TFEU	Treaty on the Functioning of the European Union
WTO	World Trade Organisation