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Still a thorn in the side?

The reform of the Common Agricultural Policy from the perspective of Policy Coherence for Development

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Stop press: While this paper was being finalised, the post-2013 EU Common Agricultural Policy proposals were leaked. A preliminary analysis of these proposals confirms the relevance of many of the recommendations put forward in this paper.

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Acronyms

AAA	Advancing African Agriculture
ACP	African, Caribbean and Pacific (group of countries)
AGRI	Directorate-General for Agriculture and Rural Development
AU	African Union
CAP	Common Agricultural Policy
DEVCO	Directorate-General for Development and Cooperation
ECDPM	European Centre for Development Policy Management
DEC/OC	Departments in the Dutch Ministry of Foreign Affairs
EU	European Union
GDP	Gross Domestic Product
GHG	Greenhouse Gases
LDC	Least Developed Countries
MDG	Millennium Development Goals
MEP	Member of the European Parliament
MERCOSUR	Common Market of the South
NGO	Non-governmental Organisation
PCD	Policy Coherence for Development
R&D	Research & Development
SMP	Skimmed milk powder
SPS	Single Payment Scheme
UK	United Kingdom
WFP	UN World Food Programme
WTO	World Trade Organisation
UN	United Nations
USDA	US Department of Agriculture

About this paper

In December 2010, the Dutch Ministry of Foreign Affairs (DEC/OC) asked the ECDPM to perform a background analysis for the forthcoming reviews of three important domains of European policy: the Common Agricultural Policy, the Common Fisheries Policy, and the General System of Preferences. The studies were conducted from the perspective of developing countries. This meant that they focused on the external dimensions of the policy areas concerned and were based on a combination of document analysis and a limited number of interviews with key stakeholders. The findings of the three studies were presented to the relevant Dutch government officials. They are intended to inform the formulation of the government's position on the three policy reviews.

Following the completion of the studies, the Foreign Ministry encouraged the ECDPM to adapt those elements that were based on the analysis of policy documents, research data and other public documents and publish separate papers on each of the three policy domains. These papers aim to inform other interested actors about the implications of these policy revisions for developing countries.

This paper looks at the Common Agricultural Policy. The views expressed in it are those of the study team and should not be attributed to any other person or institution. The authors would like to thank Professor Alan Matthews for his very valuable comments on this paper, as well as the interviewees for their time.

Executive Summary

1. Under Article 208 of Treaty on European Union (also known as the 'Treaty of Lisbon'), the EU must take account of the objectives of development cooperation in policies that are likely to affect developing countries. This commitment, which has in fact existed since the 1992 Maastricht Treaty, is commonly referred to as **Policy Coherence for Development** (PCD). The coherence of the EU's **Common Agricultural Policy** (CAP) with development objectives is disputed, however.

2. The CAP accounts for a substantial proportion of the EU **budget**. In 2009, the CAP represented 41% of the EU's general budget.

3. In **past CAP reforms**, farm support has been largely decoupled and the role of market intervention mechanisms has been significantly reduced to that of a safety net. This means that agricultural prices are now formed by the interplay of market supply and demand, although still with significant external protection for some commodities. Whilst the EU is the largest importer from developing countries, it also remains a big exporter to developing countries. The EU is no longer involved in the practice of dumping products directly in developing countries, as it was a decade ago. Export subsidies have been significantly reduced. Today, it is much more difficult to prove that the CAP has an adverse effect on developing countries.

4. The **current debate on the reform of the CAP** is a narrow one from a developing country perspective: it focuses on the CAP's internal dimension and largely excludes its external aspects, notably trade policy, which is the main other EU policy affected by the debate on the CAP (as are energy, environment, climate change, etc).

5. It is **difficult to draw clear conclusions** about the implications of the CAP reform for developing countries as the effects are both country-specific and commodity-specific. The CAP is a highly complex policy encompassing a huge number of measures and it is virtually impossible to assess how these affect developing countries, directly or indirectly. Even if one had access to all the information, the likely conclusion would be that some countries – and certain groups within these countries – benefit from some CAP measures whereas others suffer from them. Countries benefit from different types of preferential treatment. Developing countries are a highly heterogeneous group, depending on whether they are net importers or net exporters and also depending on whether one looks at the interests of the rural or urban population. Some emerging economies (e.g. MERCOSUR) have become fierce competitors of the EU in terms of agriculture.

6. The EU's **proposals for reforming the Common Agricultural Policy** post-2013 are expected to be published in October 2011. In the run-up to these proposals, this paper first reviews the current effects of the CAP on developing countries before studying the compatibility with development concerns of the most recent proposals in the Commission Communication of November 2010, and the EU member states' positions on them. We make the following recommendations in relation to the reform of the CAP:

a. Rethink the two CAP pillars

Pillar I:

- **Direct payments** create an artificial competitiveness and should be **abolished** in the long term.
- The EU wishes to help satisfy the world demand for food. **Decoupled direct payments have no role to play in satisfying demand**, because they focus on maintaining capacity. The greater part of the CAP does not therefore contribute to world **food security.**
- **Targeting Pillar I at environmental objectives** may limit its trade-distorting effect. However, it is worth considering **strengthening the greening measures in Pillar II** instead, as farmers are likely to put pressure on their governments to increase their financial benefit from Pillar I measures. Not all EU farmers require funds to provide public goods and these should be tied to local conditions.

Pillar II:

- To limit the co-financing burden placed on member states under Pillar II, **incentive structures** could be put in place if the EU has a strong interest in member states adopting certain measures (e.g. on climate change or energy). It might be possible to form a link between Pillar II programmes and their accompanying measures with capacity development in developing countries, so to enable the latter to benefit from the green 'R&D' taking place in Europe.

b. Reform trade measures affecting the CAP

- The CAP's **external dimension** needs to be taken into account in current and future reforms. The close link with trade, energy, environmental and other policies needs to be acknowledged.
- Making the EU's agricultural sector more competitive is largely a **trade** issue.
- The remaining **export subsidies** should be dropped even if there is no WTO agreement.
- **Domestic sugar quotas** should be scrapped. Action could be taken in the development sector to make ACP sugar exporters more competitive.
- In future CAP reforms, the EU should seek to fully **decouple cotton subsidies** from production.

c. Improve the monitoring and evaluation of the global impact of the CAP

- Approaching the CAP reform in the spirit of MDG 8 means **systematically assessing the impact** of the CAP on developing countries. Funding should be made available for **scientific studies** on the implications of CAP instruments. The EU needs to set CAP-specific **PCD indicators.** Independent specialists should assess and build on the findings of the development-related component of the EU impact assessment study that is soon to be published.
- There is a need for an **EU-level institutional mechanism to relay feedback and allow redress.**

d. Rethink EU support for agricultural development in developing countries

- The allocation of **development funds** for agriculture should be **scrutinised and adjusted**. The precise modalities for aid delivery for food security should be formulated jointly by development and agricultural experts. DEVCO should try and develop **longer term programmes to support capacity-building for sustainable agricultural production, innovation, marketing (infrastructure) and processing**.

- The EU itself is likely to invest large sums of money in **R&D and innovation**, to make its agriculture more competitive and to tackle issues such as the mitigation of climate change, adaptation to climate change, and the scarcity of water and land. There is a need for time-bound, target-specific 'accompanying measures' for innovation for developing countries in this regard (carefully examining cases on a country-by-country basis).

1. Introduction

The EU's Treaty of Lisbon entered into force in December 2009. The provision on **Policy Coherence for Development** (PCD, Article 208) in the Lisbon Treaty was strengthened. The EU is obliged to ensure that all policies (such as those on agriculture, fisheries and migration) that are likely to affect developing countries take account of poverty reduction. Although the language on Policy Coherence for Development remains unchanged compared with previous treaties, the elevation of sustainable development with the aim of eradicating poverty to an overall goal of EU foreign policy has the effect of bolstering PCD.

This study examines the current effects of the CAP on developing countries and looks at the role PCD plays, or could play, in reforming the CAP. It studies the most recent proposals presented in the European Commission's November 2010 Communication, and member states' positions on them, with a view to the compatibility with development concerns.

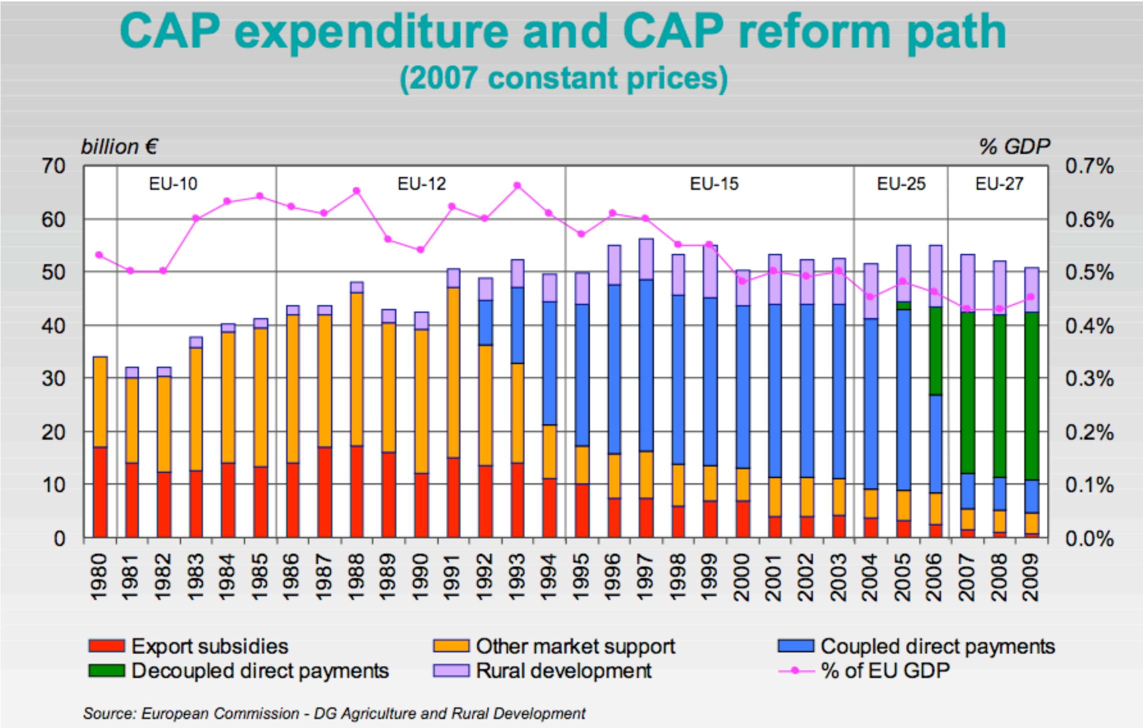
As the EU is reforming the CAP, it is also negotiating the next EU **budgetary framework** for 2014-2020. Due to the vast size of the CAP budget (representing 41% of the overall EU budget in 2009), these two negotiations influence each other. The budget envelopes will be decided by the Finance Ministers. The Commission made a first proposal for the next multi-annual financial framework on 29 June. It proposed allocating €281.8 billion for Pillar I, €89.9 billion for Pillar II and €15.2 billion for research and innovation, food safety, food support, a crisis reserve and the European Globalisation fund. Legislative proposals will follow. In comparison with the previous multi-annual financial framework, CAP pillars I and II would thus make up 36% of the entire budget, which means that there would be a slight decline in commitments. However, if the additional €15.2 billion is added, CAP funding would remain at the same level as in 2013. (Matthews, 2011a).

2. The wider context of the Common Agricultural Policy

There were some 13.7 million farms in the EU in 2009 (70% of them farming less than 5 hectares). The agri-food sector employed 17.5 million people, 7.7% of the aggregate EU workforce. The EU's CAP has caused heated debates in the past and continues to be the centre of a polarised debate. Contextually, the focus of debate has shifted from low food prices and the dumping of food surpluses to concerns about high food prices and food scarcity. Some critics maintain that the CAP continues to have a massive adverse effect on developing countries. Many of them have called for a major reform of the CAP, placing its external dimension at the centre and linking it with the EU's trade, energy, environment and health policies, among others. Some NGOs argue for a self-sufficient EU. Others claim that previous reforms of the CAP have largely erased the negative implications. Some supporters of this position argue that the current agricultural problems in developing countries are largely due to bad governance in the countries themselves. Many believe that the forthcoming reform has hardly any implications for developing countries and needs to focus on internal EU issues such as the implications of the financial crisis, inequalities between member states and the impact of climate change. Yet others argue that developing countries are heterogeneous and that any change in the CAP will benefit some countries and harm others. Few member states have prioritised the implications for developing countries in formulating their positions on the upcoming reform.

In past CAP reforms, farm support has mainly been decoupled from production and the role of market intervention mechanisms has been reduced to that of a safety net. This means that agricultural prices are now formed by the interplay of market supply and demand, though still with significant external protection for some commodities. Although the EU is the biggest importer of agricultural products from developing countries, it still remains a big exporter to developing countries. The EU is no longer involved in direct dumping in developing countries, as was the case a decade ago. Export subsidies have been significantly reduced. Box 1 shows the change in EU measures in the past thirty years.

Box 1: CAP expenditure and CAP reform path



2.1. The current CAP reform process

In November 2010, the European Commission published a Communication entitled “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future”. The Communication outlined three options for reform:

1. maintaining the *status quo*, with the exception of the distribution of direct payments;
2. a minor reform, targeting Pillar I and extending Pillar II measures to include climate change mitigation and risk management structures;
3. a major reform, focusing on environmental and climate change objectives and moving away from income support and most market measures.

The Communication took account of the results of a public consultation on the CAP Reform, which ended in June 2010. The Commission argued that the forthcoming CAP reform should primarily address economic, environmental and territorial challenges. The Commission’s three objectives of the future CAP are:

1. viable food production;[1]
2. the sustainable management of natural resources and climate action;[2]

[1] To contribute to farm income and limit its variability, to improve sector competitiveness and share in food chain value-added, to compensate areas with natural constraints.
[2] To guarantee the provision of public goods, to foster green growth through innovation and to pursue climate change mitigation and adaptation.

3. balanced territorial development[3].

The Communication makes one reference to PCD:

> "The primary role of agriculture is to supply food. Given that demand worldwide will continue rising in the future, the EU should be able to contribute to world food demand. Therefore it is essential that EU agriculture maintains its production capacity and improves it, while respecting EU commitments in international trade and *Policy Coherence for Development."*

After the publication of the Communication, the Commission opened another public consultation on the CAP reform impact assessment, which closed in January 2011. The consultation document for the impact assessment does not refer to the CAP's implications for developing countries, although it does include a section on global issues. The latter notes that the EU is willing to accept a reduction in trade-distorting subsidies, the elimination of export subsidies and a reduction in border protection as part of a package deal concluding the Doha Round. Several contributors to the consultation (e.g. Germanwatch, APRODEV and Fairtrade) noted that a commitment to PCD was missing in the consultation document. The UN's Special Rapporteur on the Right to Food recently called on the EU to place the CAP in the broader framework of PCD and called for the impact assessment to look at the CAP reform from a right to food perspective (de Schutter, 2011). A summary of the consultation and the impact assessment will be published in fall 2011. DG DEVCO has complemented the assessment with a paper on the CAP and development, which will be annexed to the final impact assessment report.

The Commission's legislative proposal will pass through the ordinary legislative procedure (formerly called the 'co-decision procedure'), which means that the **European Parliament** will jointly adopt the Commission proposal with the Council of Ministers. As the proposal will be discussed around the time when the proposal for the next multi-annual financial framework is available, this might increase interest in the CAP across Parliament and change the nature of debate on the CAP, which has so far been largely dominated by the AGRI Committee, whose members are seen to be closely linked with the farming lobby.

3. The difficulty of assessing the implications of the CAP for developing countries

Analysing the implications of the CAP for developing countries is a huge challenge. The problem is that not just the impact, but also links and causality are difficult to prove in the absence of scientific studies assessing impact and causality. The CAP is a highly complex policy including a wide range of measures and it is virtually impossible to assess how countries are affected (directly or indirectly) by it. Even if we had all the information we need, an assessment would probably show that some countries benefit from certain CAP measures, whereas others do not. Countries benefit from different types of preferential treatments. The statements made in this paper are based on expert assessments (although even the experts disagree on the implications for developing countries in certain respects, in which case we have tried to outline their respective positions).

[3] To support rural vitality and employment, to promote diversification and to allow social and structural diversity in rural areas.

Developing countries are a highly heterogeneous group, depending on whether they are net importers[4] or net exporters and also depending on whether one looks at the interests of farmers or consumers in the countries in question. Some groups of developing countries (e.g. MERCOSUR) have become fierce competitors of the EU in terms of agricultural products. Where possible, this study tries to differentiate between the different groups.

3.1. The implications of the CAP for developing countries

As we have already stated, it is not easy to discern the implications of the CAP for developing countries at the present time. The 'obvious' implications of the past (i.e. high export subsidies leading to the dumping of EU agricultural products on developing countries' markets) are long gone. Today, it is much more difficult to demonstrate the CAP's potential adverse effects on developing countries. In fact, some commentators argue that certain aspects of the CAP are actually beneficial to developing countries. In order to make empirically and scientifically sound claims, one would need to look at the CAP's influence commodity by commodity and country by country. To set the scene for later sections, this section sets out the arguments being made on issues that are said to influence developing countries (which are often linked to EU trade policy). It also alerts readers to the ambiguities surrounding these issues.

Systemic effects of the CAP

- The external dimension of the CAP is *not consistent* with an international trade regime that fosters *development.* The EU's limited willingness to open up to world markets is a bad example for emerging economies and may spur protectionism elsewhere (Matthews, 2010, 2011b).

Impact on world market prices

- The CAP contributes to **market price volatility** through variable border protection, which adversely affects all developing countries. The EU introduces export subsidies as a safety net when world prices are low (as was the case with the dairy subsidies in 2009). It eliminates import tariffs when world prices are high (see the cereal import duties imposed in 2007). Clearly, changes in dairy prices and the resultant price volatility cannot be attributed solely to the temporary application of EU export subsidies (source: interviews).

- Although largely decoupled, the EU's **direct payments** still tend to distort trade due to their sheer scale. According to EU figures, direct payments make up 28% of agricultural income for the EU-27 (total subsidies make up 40%), which means that many farms could not exist without CAP support (Matthews, 2010). Some interviewees argued that the EU needs to reduce direct payments if it wishes to limit market distortion. Others claimed that urban consumers in developing countries benefit from EU domestic support because it makes foodstuffs cheaper to import (source: interviews). Clearly, this is not a long-term solution to the problems of the agricultural sector in developing countries (lack of capacity, lack of research, etc) and would rather call for targeted interventions to support in-country production in developing countries rather than relying on EU domestic support.

- Some commentators have argued that, although **EU cotton production** represents only 2% of the global cotton market, it still has a major distorting effect on some West African countries for whom cotton is a sensitive product on which they are highly dependent (Gillson et. al 2004, Fair Politics 2009, ACP Secretariat, 2011). EU cotton production is only 65% decoupled from production

[4] Net importers: According to the FAO, there were 70 low-income food-deficit countries (LIFDC) in 2011. See http://www.fao.org/countryprofiles/lifdc.asp. Those LDCs which are not net importers are Angola, Myanmar, Equatorial Guinea and Samoa.

(compared with 90% for direct payments overall). It is difficult to reform the EU's cotton regime due to the accession treaties with Greece and Spain, under which support for cotton production is guaranteed.

- The EU's market intervention measures **distort relative world market prices**. This makes relative prices a less useful guide to the global allocation of resources than would otherwise be the case. This impact is clearly not as important as in the past. The EU's biofuels policy also adds to the distortion of relative prices, given its focus on vegetable oils in the EU (source: interviews).

Undermining global food security?

- **Does the CAP undermine local livelihoods?** The EU has a high livestock production for which it needs protein-rich feed components. For this, it relies on emerging economies (around 12 million ha outside Europe), where what were originally semi-natural grasslands are now used as arable land. In some cases, this has resulted in the displacement of livestock farmers (PBL, 2011). According to APRODEV (2011), the EU should reduce imports of animal feed from developing countries and stimulate the production of protein crops within Europe to help developing countries increase their own production and meet local market demands. Others claim that similar arguments in favour of self-sufficiency in Europe would have devastating effects because there would be no surpluses available for the world market (Matthews, 2010), and because farmers would not survive if they produced for local markets only.

- The **food vs. fuel** debate. Some commentators argue that the EU's renewable energy targets undermine global food security because they reduce the food supply and hence push up world market prices (APRODEV, 2011). They claim that the targets lead to land-grabbing in third countries, i.e. taking land away from small farmers using it for local agricultural production and leasing it to big investors for biofuel production. Different studies have produced contradictory findings on the implications of biofuel production for global food prices, though some kind of impact is expected in any event. Some observers see the potential advantages of biofuel production in developing countries: there is an opportunity for an 'agricultural renaissance' in that price signals to small-scale farmers can significantly increase both yields and outcomes. However, this can only be guaranteed through good land tenure management (Cotula et. al, 2008) and strong farmers' associations (as in some West African countries) which can benefit from export production. Often, however, smallholders do not benefit from price incentives because they do not have any bargaining power in the global value chain (source: interviews).

- The **abandonment of public storage** as an EU policy tool. Some commentators argue that the abandonment of public storage as a policy tool increases food security concerns because it limits the EU's ability to stabilise prices (source: interviews). Public storage (or the delivery of aid for private storage) has allowed the EU to open up its stores when prices collapse. This then boosts demand and helps to support prices, which also benefits developing countries, given that the EU market is no longer insulated from the world market through variable levies and subsidies. On the other hand, public storage has a market-distorting effect and can be highly costly (although it should not be costly if it is intended solely as a safety net).

Export subsidies

- It is generally acknowledged that the EU's export subsidies currently have far *fewer implications* for developing countries than they did in the past. Some commentators argue that the re-introduction of export subsidies in the *dairy sector* in 2009 to avoid a slump in prices has led to the dumping of dairy products in developing countries (for example, Brot für die Welt & EED, 2009 on Cameroon). This is a practice with which local farmers cannot compete. A recent USDA review of EU dairy sector development found that there was a 63% expansion in EU exports of skimmed milk powder (SMP) in 2010, as a result of expanded storage programmes in response to the 2009 EU dairy crisis. One of the main countries of destination was Nigeria (USDA, 2011).

There is a case to be made for the EU to abolish all its export subsidies by 2013 to show its commitment to trade liberalisation, regardless of whether or not a WTO agreement is signed. Some commentators argue, however, that this would remove one of the EU's bargaining chips. Others claim that many developing countries don't want the EU to scrap its export subsidies because it is a cheap way of getting protein to poor consumers. This is also why many developing countries keep their import tariffs low, although it is not in the interests of the agricultural sector. Others have noted that some developing countries may also want to maintain export subsidies for dairy products because they themselves don't have the infrastructure required to produce at EU cost levels, and export subsidies depress inflationary pressures (source: interviews).

Standards

- The increasingly strict enforcement of the EU's SPS (Single Payment Scheme) and *food safety standards* (for example, EU aflatoxin standards[5] or animal slaughter practices) causes problems for farmers in developing countries because it increases the cost of production and may erode net income (Agritrade/CTA 2010, Goodison, 2010). The EU provides support to its farmers so that they can produce high-quality food on a scale that is not possible in developing countries (EU farmers argue that developing countries are not strict enough in applying EU standards). An additional problem for developing countries are the standards imposed by many private companies, which go beyond EU requirements. Goodison (2010) has proposed a code of conduct for best practice in the establishment of private voluntary standards. NGOs (APRODEV, 2011) have called for the regulation of private standards. On the other hand, EU standards may encourage competitive production in developing countries and may thus boost farmers' incomes.

- The greater EU focus on *quality standards* (for example, animal welfare labelling), which is mainly buyer-driven, is sometimes seen as a potential problem for developing countries. The latter are concerned that EU farmers are trying to introduce policy regulations that limit the opportunities for developing-country exporters in the commercially most attractive segment of the EU market (Goodison, 2010). Others argue (APRODEV 2011) that the situation may lead to smallholders being pushed into business models and market pressures that threaten to exclude them if they fail to comply with the high costs of quality and safety standards. Yet others claim that these standards may also be seen as an opportunity, in that developing countries could make more use of registered trademarks like 'Ethiopian coffee' in the EU.

The sugar regime and the end of the ACP sugar commodity protocol

- The current EU sugar regime is due to expire in 2015. The 2006 sugar regime reform led to a fall in sugar prices (Court of Auditors, 2010). ACP states' and LDCs' access to the EU market was protected by the sugar commodity protocol in the past, guaranteeing price and export quotas. However, the sugar protocol was renounced after the 2006 reform as price guarantees had been abandoned for EU farmers and the same was done for ACP exporters. The ACP countries were granted a transition period (including accompanying measures), and this is due to end in 2012. The

[5] It is estimated that African countries have lost USD 670 million in agricultural exports because of the tougher EU standards on aflatoxin as compared to the Codex Alimentarius standard. This primarily affects various nut exports, but may also affect the cocoa sector. A 2007 European Food Safety Agency report argued that 'increasing the maximum levels of aflatoxins in certain nuts would have a minor effect on the risk to consumer health'. Nevertheless, the stricter EU standards continue to be applied (Goodison, 2010).

ACP countries and LDCs are lobbying against another sugar reform because they fear a drop in EU prices (although world sugar prices are currently high, sugar prices are cyclical and could fall). They are also lobbying for the extension of the accompanying measures: the EU allocated a €1.2 billion adjustment aid package to ACP countries for the last reduction in sugar prices (source: interviews, Agritrade/CTA 2010). One possibility might be to help ACP exporters to use some of their sugar as biofuel, so as to facilitate their adjustment to further reform. Southern Africa is an area with real potential for the production of sugar cane part of which could be used as biofuel.

4. The links between the current reform and the implications for developing countries

The current debate on the forthcoming reform of the CAP is a narrow debate from a developing country perspective. This is because it focuses on the CAP's internal dimension and largely excludes external aspects, notably trade policy as the main other EU policy involved in the larger debate on the CAP (alongside energy, environment and climate change).

Section 3 shows that it is difficult to draw clear conclusions about the implications of the CAP for developing countries as the effects are both country-specific and commodity-specific. The problem is compounded by the heterogeneity of developing countries, and negative externalities are difficult to prove in the absence of comprehensive studies on the impact of the various CAP instruments.

This section thus attempts to list aspects of the reform (as set out in the 2010 Commission Communication) which may have implications for developing countries, although as we have already stated, it is difficult to come to clear conclusions. Any reform of the CAP is always likely to produce winners and losers among the developing countries. However, there are a number of general points we can make:

The CAP budget

- The size of the CAP budget as a whole, and the distribution between Pillar I and Pillar II, has implications for developing countries. €26.6 billion of CAP domestic support payments were still in the WTO Amber Box in 2007.[6] Normally speaking, a reduction in the size of the CAP should help to reduce trade distortion. In a resolution adopted in June 2011, the European Parliament called for the EU agricultural budget to be maintained at least at the 2013 level. Since Parliament will jointly adopt the legislative proposal with the Council, this may be a pointer towards the future battleground between Parliament and the Council. The first indications of the budget received from the Commission suggest that the Commission is on the same lines as Parliament and the agricultural lobby in terms of the budget.

Pillar I

Direct payments

- *Targeting.* The Commission Communication proposes to target support under the economic (i.e. basic income function) and environmental (i.e. provision of public goods) criteria. It is widely acknowledged that targeting Pillar I more carefully should reduce the CAP's trade-distorting impact.

[6] Although these funds are in the domestic support pillar, most of them are in fact market price support (the difference between administered prices and the fixed external reference price), which is also counted in the Amber Box. Only a small part is actually trade-distorting (i.e. coupled) direct payments.

- *Greening*. In its Communication, the Commission proposes a mandatory greening component of direct payments, by supporting environmental measures across the EU, giving priority to climate and environmental policy goals. From the viewpoint of exporting developing countries, greening by agri-environmental measures could be beneficial because it increases the cost of production for European farmers and is therefore likely to decrease output. It would make EU farmers less competitive with agricultural exporters in developing countries, who could benefit from higher EU prices. According to the Commission's proposal on the multi-annual financial framework, 30% of direct support should be conditional on greening.

- *Least Favoured Areas*. The Commission Communication proposes to provide additional income support to farmers in areas with specific natural constraints. Some commentators argue that this could boost EU production and place developing countries at a disadvantage because they lack such support. However, many argue that an increase in production is likely to have little or no effect on developing countries because many farmers in least Favoured Areas are likely only to maintain their production through direct payments (source: interviews).

- *Coupled support*. The Commission notes in the Communication that some coupled support may continue to be granted within clearly defined limits. This applies to cotton. Some MEPs have called for a change in the cotton regime in the CAP reform, but this problem is unlikely to be addressed in the current round: the Commission has argued that the EU's cotton production is negligible, that the Greek economy already faces problems and that decoupling support may lead to protests.

Market measures

- *Dairy quotas*. The Commission Communication states that dairy quotas will be removed in 2015. This will increase production within the Union and thus lower prices, both in the EU and probably also beyond its borders. The removal of quotas is likely to make (big) EU dairy producers more competitive globally. In sum, consumers in many developing countries will probably benefit from lower prices, but cheap dairy imports may discourage processing plants from investing in local milk collection and remove incentives for local farmers to meet local demand.

- *Sugar regime.* The Commission Communication notes that the current sugar regime expires in 2015. There are several options for the future, including 'a non-disruptive end of the quotas at a date to be defined'. The removal of quotas would allow efficient producers within the EU to expand. In principle, the EU's current net deficit should fall, potentially hurting exporting developing countries. Nolte et. al (2010) show that, at standard world market prices, if EU sugar quotas were abolished, LDCs and ACP countries would suffer from significant export losses to the EU: all but six LDCs would cease to export. If quotas were abolished and world market prices were high, all LDCs would cease to export. At high market prices, the scrapping of quotas would lead to a smaller reduction in (non-LDC) ACP exports than at standard world market prices. Should quotas continue and market prices be high, Ethiopia, Sudan, Zambia and Zimbabwe would probably benefit. Were market prices to be low, imports from LDCs and (non-LDC) ACP countries would be higher than at standard market prices, whether or not quotas were scrapped. Thus, the impact of quota abolitions on LDCs and ACP countries depends on world market prices.

- *Export subsidies*. The Communication does not refer to the elimination of export subsidies with or without a WTO agreement in Doha. The consultation document for the impact assessment notes that the EU has indicated its readiness to accept the elimination of its export subsidies as part of a package deal. Recent weeks have shown that the Doha Round is unlikely to be concluded and that there will not be a package deal. Export subsidies clearly have a trade-distorting impact and an adverse impact on developing countries. The EU's position in the coming months, i.e. whether it is willing to end export subsidies unilaterally, will be crucial in relation to the other players.

- *Food chain*. The Commission proposal notes that there is a need to introduce new policy elements with respect to the food value chain. Some commentators argue that, if any such proposals were accepted and were successful, farmers' need for domestic support payments would decrease. This could potentially benefit developing countries if the EU reduces direct payments as a result. However, others argue that the EU's proposal will distort competition and that several EU countries have demonstrated that farmers' organisations can benefit greatly from the value chain if they organise themselves well. Moreover, they argue that direct payments should be reduced as it is now clear from recent experience that they are not needed in order to strengthen the role played by farmers in the value chain (source: interviews).

Pillar II

- *Global public goods*. Under Pillar II, the CAP seeks to strengthen the sustainable management of natural resources by protecting the environment and enhancing agriculture's resilience to climate change. Pillar II should also strengthen the CAP through innovation. Some observers have called for a clearer definition of public goods in the realm of the CAP (e.g. is animal welfare a public good?) to avoid creating another tool for giving farmers money for things they ought to do anyway. The mitigation of climate change and the promotion of innovation in this regard is clearly of interest to all, including developing countries if they can make use of the results of R&D efforts in the EU. Again, it has been argued that issues such as carbon emissions have little do with agriculture and are the responsibility of the energy sector. For this reason, they should not be used as an 'excuse' to make Pillar II less cost-effective, it is claimed.

- *Agri-environmental measures***.** The Commission continues to promote agri-environmental measures. Some Pillar II measures are negatively coupled (reducing production) and thus pay EU farmers to farm less extensively. This could benefit certain developing countries because they have the effect of limiting production in Europe and may hence boost imports from developing countries.

- Risk management tool kit. The Commission Communication proposes a risk management tool kit for dealing with income uncertainties and market volatility, and for addressing production and income risks, compatible with the income stabilisation tool in the WTO Green Box. The new tool kit will be used to pay for insurance instruments and mutual funds. Although this could be viewed as another proposal with a trade-distorting effect, as a safety net, its impact is unlikely to be large enough to affect developing countries. It will be an optional measure for member states, only a small number of whom are likely to use it. It will not be an EU-wide or compulsory measure.

4.1. Member states' positions on the CAP reform and its implications for developing countries

We interviewed a number of member states' representatives about their positions on the CAP reform and its implications for developing countries. Where interviews were not feasible, we reviewed their public statements on the CAP.

There was a broad consensus among the member states that the reform would have few, if any, implications for developing countries. Few member states representatives' had thought about its implications for developing countries. Not all member states had formulated positions on a number of the issues mentioned above, as they did not regard them as forming part of the CAP reform.

The coalitions that have formed around the CAP have (unsurprisingly) little do with what member states' see as the implications for developing countries. There is a group of more reform-minded countries that is in favour of trade liberalisation (e.g. the UK, Sweden, the Czech Republic). When it comes to trade liberalisation and the interests of developing countries, there is clearly also a more change-resistant group of countries, represented in the interviews by Spain and Poland (though Poland is in favour of a major reform of the CAP in other areas).

In brief, the interviews generated the following findings (see the table on p.12 for more detailed information):

- *Budget*: Opinions varied on the 'desirable' size of the CAP budget.
- *Implications for developing countries*: Sweden and the UK said that this was a consideration in preparing their government's position.
- *The pillars*: There was a strong divide on the role of the pillars, the division of funds among the pillars and the role of greening in Pillar I.
- *Export subsidies*: The UK, Sweden and the Netherlands want to eliminate subsidies even if no agreement is reached in the Doha WTO Round.
- *Sugar quota*: Opinions varied on the use of the sugar quota.
- *Food security*: Some member states are in favour of maintaining current EU production, whilst others feel there is a need for more trade liberalisation to ensure global food security.
- *Risk management toolkit*: Opinions varied on the use of the tool kit. None of the interviewees thought it would necessarily have any implications for developing countries.
- *Decoupling of cotton*: This was supported by many member states, although not by Spain.

Table 1: Selected member states' views on the CAP reform

	UK	Sweden	Poland	Spain	Czech Republic	Germany	Netherlands
Budget objectives?	*Cut* EU budget and share of CAP in budget.	*Cut* EU budget and share of CAP in budget.	Maintain a *strong CAP*.	*No cuts* in CAP budget. Stop abandonment of agricultural land.	*Cut* CAP budget.	Unwilling to increase overall EU budget	*Cut* EU budget. Maintain CAP budget without taking account of inflation.
Specific CAP objectives?	Increase *global competitiveness*, reduce farmers' dependence on subsidies, and include provisions on *environmental public goods*.	More *market orientation, less distorting impact* on developing countries, *environmental friendliness.*	Create a *level-playing field* in Europe through flat-rate spending.	Increase *competitiveness,* protect *EU-wide farming*, consider *environmental concerns*.	*Competitiveness*, *simplification, modernisation for rural development, innovation*, equal treatment of farmers across the EU.	*Sustainable, productive, competitive* agricultural sector, protect agriculture all over the country, also in disadvantages areas.	Sustainability, productivity, innovation, want market-oriented CAP
Position on the pillars?	Phase out Pillar I. Shift Pillar II to green public goods.	Scrap Pillar I. Strengthen Pillar II.	Strong Pillar II, high direct payments work against transfer of land (to create larger farms).	Strong Pillar 1.	60-40	Need strong 1st and 2nd pillars, clear and reliable financing for both pillars.	Strong, targeted Pillar I, redistribution of Pillar II.
How to target Pillar I?	Benefits of greening Pillar I are questionable. How to set sufficiently tight conditions? Would cultivate more dependency.	If Pillar I is maintained, targeting should focus on the environment. 'Greening' is no excuse for retaining Pillar I.	Target disadvantaged areas, abandon historical preferences. Greening means more complications and red tape.	Waiting for EC proposal.	Target provision of public goods. Greening to be optional so as not to disrupt market orientation. Should not duplicate what's already in Pillar II. More paperwork.	CAP to pay for provision of public goods. Guarantee high EU standards.	Targeted towards innovation, sustainability, competitiveness, compensating farmers for public goods: green everything.
Scrapping of export subsidies	Immediately, even if no WTO agreement.	Immediately, even if no WTO agreement.	Retain export subsidies: safety net needed.	Yes, but only if WTO agreement is reached.	Yes, even if no WTO agreement.	Yes, if WTO agreement is reached.	Yes, even if no WTO agreement.

Sugar reform		Need another reform. Scrap quotas.	2006 reform failure. Need reform and simplification. Retain quotas post-2015.	No need for another reform.			Need another reform. Address sugar shortage.
Implications for developing countries?	Part of UK rationale for reform, though current CAP no direct impact.	Objective of Swedish policy. Trade, Agri and Foreign Ministries agree about this.	Not top of Poland's priorities.	Reform not seen to be important for developing countries.	Full trade liberalisation should benefit developing countries.	CAP to be coherent with MDGs.	Request for inclusion in impact assessment.
How does and should Europe contribute to global food security?	Modern farming techniques and export, investment in supply chain development in developing countries.	Should *abolish all export subsidies and all market measures.* Rely on free market.	Need more *research and modernisation*. EU should not produce less.	EU needs to maintain current levels of farming.	Should liberalise trade. Maintain reasonable level of self-sufficiency.	EU to continue to farm, even in disadvantaged areas.	Liberalise trade, and strengthen agricultural development in developing countries.

4.2. How to argue for a development-friendly CAP – what would it look like?

The reformed CAP will not benefit all developing countries. There will be winners and losers. And, as ever, there will be a difference between rural and urban populations. If one considers the results of the Uruguay Round as a step towards a more development-friendly world trading system, reforming trade policy rather than the CAP could be the crux here. However, the situation is different when viewed solely from an LDC perspective. The fact is that LDCs are likely to lose from more trade liberalisation as they already have duty-free and quota-free access to the EU. As long as there is no recipe for poverty eradication in LDCs (or at least not one that the EU can steer through the CAP or by other means), it is probably best to aim for a CAP that meets a robust set of international trading standards to ensure global food security. The next sugar reform is a good 'test case' in this regard: if ACP exporting interests count most, the EU should not reform its sugar regime. However, is this PCD in the long term? The sugar regime distorts trade with other developing countries and keeps inefficient systems in the ACP alive.

How, then, can we push for a better CAP in development terms (in the Uruguay Round sense)? A **direct approach to the negotiations**, based on the claim that there are clearly identifiable adverse effects related to specific CAP reform measures that can be removed by making general adaptations to the proposals, is not feasible. Overall, the possible impacts are too heterogeneous and too fiercely contested, and no broad-brush solutions are readily available. For this reason, a more **global** or 'MDG8' approach is likely to be more successful.which focuses on reducing asymmetries between the EU and developing countries. MDG 8 calls for a global partnership for development, developing further an open, rule-based, predictable, non-discriminatory trading and financial system and addressing the special needs of the least developed countries. Our recommendations thus argue in favour of a more competitive CAP which takes into account its effects on developing countries and seeks to reduce asymmetries between the EU and developing countries for a more food-secure world.

5. Recommendations

5.1. Rethink the two CAP pillars

Pillar I

Direct payments create an artificial competitiveness that should not be pursued in the long term. Although it is not feasible to abolish direct payments at present, steps in this direction should be taken.

The EU wishes to help satisfy the world demand for food. Decoupled direct payments have no role to play in satisfying the growing demand for food, because they focus on maintaining capacity. The greater part of the CAP does not therefore contribute to world **food security** (Tangermann, 2011). The Scenar 2020 II study shows that a complete removal of all direct payments would reduce overall agri-food production in the Union by no more than 0.25% (Tangermann, 2011).

Targeting Pillar I (in the sense of linking the provision of public goods to direct payments) may limit the trade-distorting effect of Pillar I by limiting farm income, i.e. farmers will have to spend some of the subsidies they receive on greening measures. The greening component would thus replace certain direct payments. While this may limit trade distortion, it is worth considering the possibility of reducing Pillar I and **strengthening greening measures in Pillar II** instead, as farmers are likely to put pressure on their governments to increase their financial benefit and profit from Pillar I measures. This may be a disincentive to an effective agri-environmental policy. Not all EU farmers require funds to provide public goods. These provisions should be tied to local conditions (Tangermann, 2011).

Pillar II

To limit the co-financing burden of member states under Pillar II, **incentive structures** could be put in place if the EU has a strong interest in member states adopting certain measures (e.g. on climate change or energy) which may also be beneficial to developing countries (such as measures to reduce greenhouse gas emissions). Developing countries need help in applying green technologies and technologies that allows for adapting to climate change. It might be possible to form a link between Pillar II programmes and their accompanying measures with capacity development in developing countries. This could help to open up to developing countries the 'green' R&D currently taking place in Europe.

5.2. Reform trade measures affecting the CAP

The CAP's **external dimension** needs to be taken into account in current and future reforms. The close link with trade, energy, environmental and other policies needs to be acknowledged. The CAP cannot be seen in isolation.

Making the EU's agricultural sector more competitive is largely a **trade** issue: it is principally import tariffs that keep domestic prices in the EU above world market prices. The main issues here include tariff reduction, the definition of 'sensitive products', tariff escalation, tariff simplification and the conversion of specific tariffs to *ad valorem* tariffs. The EU should stop exacerbating market volatility by introducing export subsidies when world market prices are low and discontinuing import tariffs when world market prices are high.

The remaining **export subsidies** should be scrapped even if no WTO agreement is reached. Should the Doha Round not be finalised, the EU will need to seek alternative measures to support developing countries. One option could be to sign more **regional trade agreements** to remove or limit agricultural tariffs. These require influential supporters in the member states whilst they are being negotiated (as is currently the case with MERCOSUR). The Commission faces strong opposition from the European Parliament in this regard (in a resolution of 8 March, the Parliament condemned the Commission for making concessions on agriculture and called for the promotion of offensive agricultural interests). The European Commission recently published a Communication (COM (2011) 200 final) on the Southern Mediterranean which announced a European Neighbourhood Facility for Agriculture and Rural Development to 'improve the efficiency and productivity of the agricultural sector' rather than advocating the removal of agricultural tariffs for this region. Member states should press the Commission to liberalise trade.

Domestic sugar quotas should be eliminated. This would be in keeping with the spirit of the Uruguay Round. Action could be taken in the development sector to make ACP sugar exporters more competitive.

In future CAP reforms, the EU should seek to **decouple cotton** from production, by offering package deals to Greece and Spain. There seems to be wide-ranging support for this among many member states. Cotton is an 'outlier' when one looks at the total balance sheet of the EU in terms of income support. It is a basic matter of principle and credibility in relations with the South (i.e. West Africa) and the international community in the WTO. The solution may lie in some form of readjustment of the support provided to Greek and Spanish cotton-growing regions. Such a reform is likely to be complicated by the economic difficulties currently faced by Greece.

5.3. Improve the monitoring and evaluation of the global impact of the CAP

Any common policy in the EU with important external implications should include a **systematic external impact assessment.** Monitoring and evaluating the implications of the CAP for developing countries should provide a basis for evidence-based decision-making. Approaching CAP reform in the spirit of MDG 8 means systematically assessing the impact of the CAP on developing countries. This differs from commodity to commodity, from instrument to instrument and from country to country. Funding should be made available for scientific studies on the implications of CAP instruments for different categories of developing countries. The EU needs to set CAP-specific **PCD indicators,** which should be developed jointly by experts from DG Agriculture, DG Trade and DG DEVCO. Independent specialists should assess and build on the findings of the development-related component of the EU impact assessment study that is soon to be published.

There is a need for an **EU-level institutional mechanism to relay feedback and allow redress.** Among the options that could be examined are:

- The establishment of an EU **rapporteur on development effectiveness** (on the same lines as the UN Special Rapporteur on the Right to Food). Governments, civil-society organisations and individuals should be able to lodge complaints with the rapporteur, who would be mandated and able to examine cases in which EU policy (not just on agriculture, but also on trade, energy, fisheries, etc) is seen to harm developing countries. The rapporteur would have easy access to EU institutions and governments and would report back to policy-makers.
- **Country-level focal points or liaison officers**, linked to EU Delegations. This proposal has already been made in the past in relation to 'PCD focal points' in EU Delegations, who could support the rapporteur by receiving cases that need investigation.

5.4. Rethink EU support to agricultural development in developing countries

The allocation of **development funds** for agriculture should be **scrutinised and adjusted**. The precise modalities for aid delivery for food security should be formulated jointly by development and agricultural experts. In order to redress current asymmetries in global production and trading of agricultural commodities, developing countries need strong, systematic help in developing a more competitive agricultural sector. DEVCO should try and develop longer term programmes to support capacity-building for sustainable agricultural production, innovation, marketing (infrastructure) and processing in the South instead of spending large sums of money solely on emergency programmes (such as the food facility[7]), and export promotion (such as standard certification schemes).

The EU itself is likely to invest large sums of money in **research and development and innovation measures** to make its agriculture more competitive and to tackle issues such as the mitigation of climate change, adaptation to climate change, and the scarcity of water and land. In the Europe 2020 Strategy, the Union committed itself to increasing its R&D spending by 3%. Even if the least developed and vulnerable developing countries dedicated a sizable part of their GDP to *agricultural research and development* (for example, under the 2003 Maputo Declaration, AU member states agreed to spend 10% of their national budget on agricultural development), the amount of funding available to them would not be anywhere near the amount available to the EU, which means that the gap would simply widen even further. This means that there is a need for 'accompanying measures' to promote innovation in developing countries in this regard (carefully examining cases on a country-by-country basis).

[7] The funds for the food facility were spent largely on UN programmes, because the absorption capacity in most countries' rural development and agricultural programmes was not ready for an *ad-hoc* cash injection. In terms of types of intervention, only around 23% was spent on the promotion of productive capacity. The food facility has hopefully addressed hunger (through WFP programmes) and helped to import inputs that needed to be paid for in foreign currency (through the World Bank). However, it has done little in terms of addressing long-term problems, including dependency on production inputs from abroad. Source: European Commission (2010b)

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