

Discussion Paper

No. 109

May 2011

Agricultural trade and production

Comparing adjustment support in
the Caribbean



Paul Goodison

www.ecdpm.org/dp109



portageons les connaissances au profit des communautés rurales
sharing knowledge, improving rural livelihoods

Agricultural trade and production

Comparing adjustment support in the Caribbean

Paul Goodison

May 2011*¹

¹ Based on a study in 2008

The **European Centre for Development Policy Management (ECDPM)** and the **Technical Centre for Agricultural and Rural Cooperation ACP-EU (CTA)** facilitated a series of workshops with ACP and EU stakeholders on the role of trade in agricultural development. The workshops focussed specifically on the strategic policy directions and support instruments that foster an integrated agricultural transformation in ACP countries. In this context, CTA and ECDPM have launched a series of discussion papers in order to share the most relevant experiences, success stories and best practices on how Aid for Trade can best support ACP agricultural development.

The **Aid for Trade and Agriculture series** will cover various topics such as experiences from Agricultural Adjustments Programmes and implementation of trade policy reforms, as well as lessons from ACP regions.

The editorial supervision of this initiative is provided by Sanoussi Bilal (sb@ecdpm.org), Francesco Rampa (fr@ecdpm.org) and Vincent Fautrel (fautrel@cta.int).

CTA
Agro Business Park 2
6700 AJ Wageningen
The Netherlands
Tel +31 (0) 317 467100
Fax +31 (0) 317 460067
Website: www.cta.int & <http://agritrade.cta.int>



ECDPM
Onze Lieve Vrouweplein 21
NL-6211 HE Maastricht
The Netherlands
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02
Website: www.ecdpm.org & www.acp-eu-trade.org



Table of Contents

Acknowledgements	iv
Abbreviations	v
Executive Summary	vi
1. Introduction	1
2. The EU's Underlying Approach	1
3. Rural Development Programmes of French Overseas Territories	2
4. The Sugar Protocol Accompanying Measure (SPAM) Programme in the Caribbean.....	6
5. Lessons from the EU Rural Development Programme for the French Overseas Territories.....	9
Annex I.....	13
Annex II.....	15
Bibliography	16

List of Tables

Table 1: Total RDP and Axis 1 commitments (2007-13) May 2007 to February 2008	3
Table 2: Financing Axis 1 Activities	3
Table 3: Main Instruments for Co - Financing Axis 1 Private Sector Based Production and Trade Adjustments.....	4
Table 4: MIP Annual Allocations (2007-2013) in Euros	6
Table 5: Caribbean SPAM Programmes: Total Amount and Annual Action Plan priorities for 2007	8

List of Boxes

Box 1: Axis 1 EU Rural Development Programmes: The Wider Context	2
Box 2: Underlying Market Trends in the EU: The Defining Context for Restructuring	5
Box 3: The Specific Objectives of Sugar Protocol Accompanying Measures Support	7
Box 4: Private Sector Views on Production and Trade Adjustment Support	8
Box 5: The Case of Barbados and Luxury Purchase Sugars	9
Box 6: The Case of Belize and Luxury Purchase Sugars.....	10
Box 7: Local Action Groups and the LEADER Approach	11

Acknowledgements

This paper was commissioned for the CTA-ECDPM dialogue meeting on 'Challenges of changing agricultural markets in the context of ACP-EU trade: Identifying an Aid for Trade agenda for the agricultural sector, Brussels, 14-15 April 2008. The paper has been written by Dr. Paul Goodison (GDC Partners) with the support of Ms. Solène Sureau (CTA).

The opinions expressed in the text are those of the authors, and do not necessarily reflect the views of CTA and ECDPM.

Abbreviations

ACP	African, Caribbean and Pacific
CAP	Common Agricultural Policy
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EDF	European Development Fund
EU	European Union
LEADER	Liaison Entre Actions de Développement de l'Economie Rurale
MIP	Multi-annual indicative programme
RDP	Rural Development Programme
SPAM	Sugar Protocol Accompanying Measures
USDA	United States Department of Agriculture

Executive Summary

This paper contrasts agricultural adjustment support programmes in some of the French overseas territories (Martinique, Guadeloupe and French Guyana) under the Common Agricultural Policy's (CAP) Rural Development Programme (RDP) with similar efforts undertaken in the Caribbean ACP region in the context of the Sugar Protocol Accompanying Measures (SPAM). The comparison underlines the fact that the SPAM programme is not sufficiently private sector owned and market oriented, an observation that questions its ability to answer adequately to the qualitative shift of the global market for agricultural products. Indeed, in order to respond to competitive challenges, the EU's underlying approach consists of shifting agricultural production away from bulk, undifferentiated production towards high-value added, specialised agricultural products. Given this approach, specific, targeted policy instruments are increasingly being designed to 'pump prime' production and trade adjustments to attain the goal of a globally orientated, price competitive, high quality, high value EU food and beverage industry. Against this background, 3 sets of tentative lessons are developed for the EU SPAM support to ACP agricultural producers:

- The need for a **coherent** and **integrated approach** to meeting the agriculture and food sector adjustment challenges faced, based on a strategic vision of the future trends of the agricultural market. The approach to supporting market-led production and trade adjustments then needs to combine instruments which address **human resource constraints**, **physical infrastructure constraints** and **marketing constraints** on pro-active responses, with interventions combining both **private sector-led** and **public sector-led** initiatives. Such a market led orientation does not seem always evident in the SPAM annual action plans in the Caribbean.
- The need to engage with private sector in countries where sugar production is not state run, in order to get to grips with the requirements of the adjustment process. This would appear to require a re-definition of the role of the state away from **directing developments** towards **facilitating** necessary production and trade adjustments. This observation also suggests the need to strengthen the capacity of local producers associations, replicating 'Axis 4' of EU programmes of agricultural adjustment.
- The need to clarify rules on **what can and cannot be supported** in pursuit of the attainment of underlying objectives and **who can and cannot receive support** from the public purse for the implementation of activities designed to achieve these underlying policy objectives. This need for clarification is especially felt when it comes to **directly financing** private sector based production and trade adjustment measures consistent with broader public policy objectives.

1. Introduction

This paper contrasts agricultural adjustment support programmes in some of the French overseas territories (Martinique, Guadeloupe and French Guyana) under the Common Agricultural Policy's (CAP) Rural Development Programme (RDP) with similar efforts undertaken in the region in context of the Sugar Protocol Accompanying Measures (SPAM). The comparison underlines the fact that the SPAM programme is not sufficiently private sector owned and market oriented, an observation that questions its ability to answer adequately to the qualitative shift of the global market for agricultural products. Indeed, in order to respond to competitive challenges, the EU's underlying approach consists of shifting agricultural production away from bulk, undifferentiated production towards high-value added, specialised agricultural products. Given this approach, specific, targeted policy instruments are increasingly being designed to 'pump prime' production and trade adjustments to attain the goal of a globally orientated, price competitive, high quality, high value EU food and beverage industry. Against this background, 3 sets of tentative lessons are developed for the EU SPAM support to ACP agricultural producers.

2. The EU's Underlying Approach

In the context of increasing trade liberalisation in food and agricultural products, the EU's approach to agricultural production and trade adjustments is based on a clear vision of how its food and agricultural sector should adjust itself with the global economy in the new era.

This EU vision is informed by an understanding of how markets for food and agricultural products are evolving both within the EU and globally. The EU is systematically seeking to shift its pattern of food and agricultural production away from serving undifferentiated "necessity purchase" markets, towards serving differentiated "luxury purchase" markets, both within the EU and globally. This is based on the fact that EU producers simply cannot compete on price with agricultural producers in advanced developing country in a liberalised trading environment. It is further accompanied by the need to diversify income earning opportunities in rural areas, so as to allow the transition in food and agricultural production, without undermining the economic and social viability of rural areas of the EU.

This vision of the future of EU rural areas and EU food and agricultural production is consistently supported through the design of its trade and agricultural policies, which promote both economic diversification away from agriculture and production and trade adjustments within the food and agricultural sector. These agricultural and trade policies are multifaceted: they range from the redesign of basic agricultural support instruments (i.e moving from price support systems for agricultural products to income support systems for agricultural producers), through the establishment of publicly financed support instruments to 'pump prime' market-led, private sector-based adjustment processes (both within agriculture and beyond), to the systematic use of bilateral and multilateral trade negotiations aimed at opening up and consolidating market opportunities for EU value-added food products and the mobilisation of joint EC/member states/private sector efforts to identify and eliminate trade barriers for EU exports on key markets. Specific, targeted policy instruments are increasingly being designed to 'pump prime' production and trade adjustments to attain the goal of a globally orientated, price competitive, high quality, high value EU food and beverage industry. This EU policy may however lead to a contraction in the domestic EU agricultural production. Furthermore, it is implicitly recognised that future employment creation and income growth is not likely to come from the traditional agricultural production per se, but rather from the development of a competitive, high value food and beverage industry.

It should be noted that these policy instruments are multi-pronged, in response to the multifaceted nature of the production and trade adjustments required.

3. Rural Development Programmes of French Overseas Territories

An increasingly important dimension of these EU agricultural and trade policies is the rural development instrument of the Common Agricultural Policy (CAP). Since 2000, EU funding for rural development programmes has increased from €4,176.4 million to €12,366.2 million in 2007, with a 4.5% expansion agreed for 2008, in a context of a reduction of expenditures on Pillar 1 under the CAP. The EU is therefore seeking to 'pump prime' market-led, private sector based, production and trade adjustments through the rural development instrument in order to promote the vision of a globally orientated, price competitive, high quality, high value EU food and beverage industry.

Box 1: Axis 1 EU Rural Development Programmes: The Wider Context

The EU's rural development programme is seen as an essential complement to the wider process of agricultural reform, which is underway. It offers a range of tools to support farmers and food processing industries in undertaking the necessary restructuring measures in response to increased market differentiation and in preparation for increased food and agricultural trade liberalisation. The EU's rural development programme consists of four main axes of support:

- Axis 1: measures aimed at improving the competitiveness of farming, agro-processing and forestry industries, with particular emphasis on shifting patterns of production towards serving high quality, high value "luxury purchase" components of EU and global markets;
- Axis 2: measures aimed at improving the environment and the rural landscape;
- Axis 3: measures aimed at improving the quality of life in rural areas and promoting the diversification of the rural economy;
- Axis 4: measures aimed at mobilising local participation in the design and implementation of innovative programmes for the development of local rural areas, within the framework of the wider rural development policy objectives, through an expansion of the LEADER programme².

The strategic aim of the integrated deployment of support under these four axes is to refocus rural development measures on "growth, jobs and sustainability" in ways consistent with the EU's wider Lisbon Strategy for growth and employment. Based on critical EU policy objectives, there is therefore a clear policy framework for the deployment of EU rural development programme support.

Within this RDP, two dimensions have a particular interest for farmers, for the food and agricultural sector enterprises and for policy makers in ACP countries, namely Axis 1 support, aimed at enhancing the competitiveness of food and agricultural sector enterprises and Axis 4' support, designed to foster locally-led production, trade and broader economic and social adjustment initiatives through the LEADER programme³.

² A summary of the strategic guidelines for design of rural development programmes over the 2007-13 period can be found in the European Commission press release (IP/05/845-05/07/05) at: <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/845&format=HTML&aged=0&language=EN&guiLanguage=en>

³ Axis 4 interventions are not the primary focus of this paper, which concentrates on axis 1 measures designed to enhance the competitiveness of food and agricultural sector enterprises.

While these two dimensions are of particular interest, it should be noted that these form part of the broader EU agricultural and trade policies, designed to support successful production and trade adjustment. This is expected to create more employment and improve income growth in rural areas. They therefore need to be viewed in this wider context and should not be seen in isolation.

Within the rural development programmes of the French overseas territories of the Caribbean, particular importance is being given to Axis 1 interventions. In the case of Guadeloupe and Martinique, $\frac{3}{4}$ of all rural development spending is being deployed in support of measures to enhance the competitiveness of food and agricultural sector enterprises (43% in the case of French Guyana). For Guadeloupe and Martinique, this is twice the average of all EU rural development programmes, as approved in February 2008.

Table 1: Total RDP and Axis 1 commitments 2007-13 (€ million)

	Total Programme	Axis 1	Axis 1 (% total)
October 2007	76,493.6	23,592.7	30.84%
November 2007	98,570.6	32,403.1	32.87
December 2007	115,283.6	42,388.1	36.77%
January 2008	122,792.8	44,697.2	36.40%
February 2008	138,730.2	51,153.9	36.87%
April 2008	142,152.5	52,709.7	37.08%
May 2008	142,841.4	53,094.7	37.17%

This suggests that enhancing the competitiveness of food and agricultural enterprises is seen as a particular challenge in these small and remote EU economies. The level of public support to Axis 1 production and trade adjustment processes, further suggests that particular importance is attached to high levels of 'pump priming' in the small and remote EU economies.

Table 2: Financing Axis 1 Activities 2007-2013 (€)

	Total Cost	Public Finance	EAFRD finance	% public finance	% EAFRD
Martinique	127,927,396	107,102,139	69,616,390	83%	54%
Guadeloupe	180,040,200	142,546,097	99,782,268	79%	55%
Guyana	49,100,226	39,596,933	29,697,700	81%	60%

This being said, the rate of private sector-based trade and production adjustment investments co-financing tends to be slightly lower than the overall average EU co-financing of Axis 1 measures (although only a slightly lower percentage). It should be noted that the rules applied to the utilisation of Axis 1 rural development funding in these territories are given special dispensations to allow higher levels of co-financing for both programme activities and interventions with individual farms and enterprises.

Table 3: Main Instruments for Co-Financing Axis 1 Private Sector Based Production and Trade Adjustments 2007-2013 (€)

	Total Cost	% public finance	% EAFRD
Martinique			
- Modernisation of Agricultural Holdings (121)	41,066,667	75%	49%
- Value added for agriculture (123-1) and forestry products (123-2)	19,897,436	75%	49%
- Research and product development interface projects (124)	961,539	80%	52%
Guadeloupe			
- Modernisation of Agricultural Holdings (121)	44,000,000	65%	45%
- Value added for agriculture (123-1) and forestry products (123-2)	35,000,000	75%	53%
- Research and product development interface projects (124)	2,000,000	75%	53%
French Guyana			
- Modernisation of Agricultural and forestry Holdings (121)	10,857,133	60 %	45%
- Value added for agriculture (123-1) and forestry products (123-2)	11,771,892	68%	51%
- Research and development interface projects (124)	244,400	90%	67%

In the Caribbean French Overseas Territories, as in all other EU Axis 1 rural development interventions, emphasis is placed on the adoption of an integrated approach. This approach seeks to address four inter-related aspects of the competitiveness challenges faced by the agricultural and food sector production to adjust to the increasingly liberalised trading environment:

- developing the human resource base for competitive food and agricultural production;
- addressing public physical infrastructure investment needs (roads, water etc);
- addressing private physical infrastructure investment needs, both for primary producers (category 121) and for the value added processing sector (category 123-1);
- enhancing the product quality and marketing capacity for high value products.

This approach is carefully tailored to encourage the production of high quality – high value food and agricultural product markets, both within the EU and globally. This is further complemented by measures to support the marketing of these quality products. It should be noted that the rules and regulations applicable for the deployment of Axis 1 funding are specifically designed to promote investments, aimed at shifting the pattern of production and trade and to discourage investments that simply replicate production patterns for market conditions that prevailed under the former CAP regime.

In addition, this approach is designed to successfully get to grips with the policy challenge of **how to deploy public funds in support of market-led, private sector-based, production and trade adjustment processes in support of the attainment of wider public policy objectives**. Here again the rules and regulations governing the deployment of Axis 1 funding are framed in ways designed to get to grips with this challenge.

This allows a total of 40.45% of Axis 1 funding in Guadeloupe, 40.57% in French Guyana and 45.6% of Axis 1 funding in Martinique to be deployed in support of private sector-based investments in production and trade adjustments to respond to increasing trade liberalisation in agricultural and food products. This

is being done in consistency with the provisions of Article 109.2 of Regulation (EC, Euratom) No 1605/2002, which governs the use of EU annual budget funds and which stipulates, under the section dealing with awards of grants, that ***“the grant may not have the purpose or effect of producing a profit for the beneficiary”***.

This is significant, since it appears that the prohibition regarding the deployment of any EU funding in the form of grants, which in their *“purpose or effect”* produce *“a profit for the beneficiary”*, is now preventing the effective deployment of EU Sugar Protocol Accompanying Measure (SPAM) support programme, which was meant to be for market-led, private sector-based processes of trade and production adjustment⁶.

Box 2: Underlying Market Trends in the EU: The Defining Context for Restructuring

According to the United States Department of Agriculture (USDA), there are now two distinct components to the EU market – **“necessity purchases”** and **“luxury purchases”**. “Necessity purchases” are those products where purchase decisions are made exclusively on the basis of price considerations. For “luxury purchases”, in contrast, purchase decisions are not primarily based on price, but on some perceived “quality” attributes of the product. It might be organic or artisanal produced, or it might be a “fair trade” product or respect animal welfare standards, or have some particular geographical designation of origin to which a particular value is attributed. Whatever the non-price reasons which drive the purchase decisions, this type of EU consumer is willing to pay more, often substantially more, for the “luxury purchase” product compared to the “necessity purchase” product.

While there have always been differences in prices paid based on quality considerations, with the process of CAP reform bringing down the price of basic commodities, this price differential has increased significantly. According to the EC commissioned **Scenar 2020** study, which looked at the future of agriculture in rural areas of the EU up to 2020, the underlying demographic trend in the EU will see no expansion of overall demand for food and agricultural products in the coming period. However, as EU citizens become more affluent, patterns of food consumption will change, with consumers increasingly favouring high quality products and convenience foods. As a consequence, in the face of a progressive liberalisation of imports of agricultural products (increasingly feasible in the context of the shift away from price support to income support), it is expected that prices of undifferentiated agricultural commodities (‘necessity purchases’) **will fall in the coming years in the EU⁴**. In contrast the demand for “luxury purchase” products will show a **marked increase** due to *“a shift to quality (“luxury”) and convenient products (e.g. ready meals)”* in European consumption patterns. Against this background, there will be *“an increase in value rather than an increase in the volume of food consumed⁵”*. This represents the longer term trend on EU markets. A trend which is fully taken into account in the design of EU production and trade adjustment support instruments established under its expanding rural development programmes.

In Guadeloupe and Martinique, the deployment of support to private sector-based investments in production and trade adjustments constitutes the single largest component of the rural development programme. Indeed, to a certain extent, the figures set out above under-estimate the level of public funding being deployed in support of private sector-led production and trade adjustment initiatives, since it

⁴ This is despite the recent increases in EU food prices. What is noticeable about these EU food price increases is that they are far less pronounced than the global increases in food prices, given the higher starting point for EU food prices. Price declines in the EU will thus be relative to the traditionally high prices which African exporters have enjoyed under long standing preferential trading arrangements.

⁵ See the full text of the study at: http://ec.europa.eu/agriculture/agrista/2006/scenar2020/final_report/scenar2020final.pdf

⁶ The notable exceptions in this regard is Guyana, where in the context of a state run sugar industry, non targeted general budget support is allowing the financing of an integrated programme of competitiveness enhancing measures implemented through GUYSUCO.

excludes the subsidised loans provided for the establishment of young farmers (below 40 years of age) and the 'public infrastructure' funding provided to private sector devised irrigation initiatives⁷.

This combination of publicly funded support for human resource development, the development of physical potential, both at the public and private sector levels, and marketing and trade adjustments support targeting high-quality, higher-priced markets, represents an **integrated** approach to the production and trade adjustment challenges facing the food and agricultural sector in the EU in an era of global trade liberalisation.

4. The Sugar Protocol Accompanying Measure (SPAM) Programme in the Caribbean

This integrated and coherent approach as applied in the French overseas territories of the Caribbean stands in distinct contrast to the evolving experience under the EU financed SPAM programme in the Caribbean. This is despite some nominal similarities in the approach to programme planning adopted.

Under the SPAM programme, as under the EU rural development programmes, emphasis is placed on establishing a clear adaptation strategy, which is then operationalised through the establishment of a multi-annual indicative programme and the deployment of funding within the framework of annual action plans. As in the EU's overall rural development approach, the option of pursuing **restructuring** and/or **diversification within agriculture** and/or **outside of agriculture** is opened to beneficiaries of the SPAM programme.

However, there is far less structured guidance on the nature of the production and trade adjustments to be encouraged in the food and agricultural sector than is the case under the EU's rural development programme. Under internal EU programmes, there is a distinct bias towards investments which follow market trends and evolving consumption patterns, with the aim of shifting patterns of European food and agricultural production towards serving growing "luxury purchase" markets both within Europe and globally. The opposite side of this coin is the discouragement of investment in renewal of patterns of production which serve traditionally protected markets, where competition will intensify in the era of agricultural trade liberalisation.

Table 4: MIP Annual Allocations 2007-2013 (€)

Country	2007	2008	2009	2010	Total
Barbados	11,133,000	10,134,000	6,200,000	7,200,000	34,667,000
Belize	6,000,000	9,000,000	13,037,000	17,074,000	45,147,000
Jamaica	25,000,000	18,000,000	16,699,000	17,848,000	77,547,000
Guyana	27,065,000	21,000,000	18,000,000	18,105,000	84,170,000
Trinidad and Tobago	6,000,000	9,974,000	10,702,000	14,967,000	41,643,000
St Kitts and Nevis	10,500,000	9,400,000	10,400,000	12,000,000	42,000,000

This being noted, the strong tendency towards delivering SPAM programme support in the Caribbean, in the form of sector budget support or general budget support, potentially gives Caribbean governments considerable discretion over how to deploy the financial assistance provided. Providing financial

⁷ See annex 1 for a table listing all planned axis 1 interventions under the Guadeloupe and Martinique rural development programmes.

assistance in this form also potentially provides for the swift deployment of such funding, once specific policy conditionalities have been defined and met.

Box 3: The Specific Objectives of Sugar Protocol Accompanying Measures Support

The objectives of the SPAM are formally set out in the Regulation of February 15th 2006. Article 4 list three objectives which can be pursued under the multi-annual adaptation strategies to be supported under the SPAM. These are:

- to enhance the competitiveness of the sugar and cane sector, where this is a sustainable process...;
- to promote the economic diversification of sugar dependent areas, for example by redirecting current sugar production towards the production of bio-ethanol and other non-food applications of sugar
- to address broader impacts generated by the adaptation process, possibly related but not restricted to employment and social services, land use and environmental restoration, the energy sector, research and innovation and macroeconomic stability.

This basic regulation stipulates that multi-annual adaptation strategies should define the **objectives** to be pursued; the **approach** and **means** identified to achieve these objectives; establish a **financial plan** for the implementation of the strategy and the **responsibilities** of different stakeholders. The adaptation strategies also need to take into account “*present and future market conditions*”⁸. The multi-annual adaptation strategy then forms the framework for the deployment of EU financed multi-annual aid allocations under the SPAM programme.

However, this being stated, under this public sector-focused aid deployment approach, there appears to be far less of a focus on ensuring that **production and trade adjustments are market-led**, than is the case under EU rural development programmes in the French overseas territories of the Caribbean. This could well be a by-product of the ‘state-to-state’ focused nature of EU development activities in the Caribbean. Under the SPAM programme there is a strong emphasis on working through the public sector, both in terms of diversification measures and sugar and agricultural sector focused activities.

While this may be a logical choice when dealing with state-run sugar industries (as in Guyana and Jamaica), or when focusing on support to wider economic diversification (St Kitts and Nevis and in large part Trinidad and Tobago), it rather neglects the important lessons both from previous sector-based restructuring support programmes in the Caribbean (in the banana and rum sectors) and the EU’s own internal experience of food and agricultural sector restructuring in preparation for trade liberalisation.

The most important lesson in this regard is that production and trade adjustments need to be **market-led** and in large part **private sector-based**⁹, if they are to effectively respond to the challenges faced in an era of accelerating agricultural and food product trade liberalisation.

This would appear to be one of the most fundamental shortcomings under the SPAM programme in those countries where Caribbean governments are seeking to maintain production within the sugar value chain and/or support diversification within the agricultural sector. Under these programmes there appears to be a certain “reluctance” to devolve responsibility for the design and management of production and trade adjustment initiatives down to the private sector (including all forms of private enterprise at the primary production and secondary processing levels), within a clear policy framework for deploying “pump priming” public funding to stimulate dynamic market-led, private sector based adjustments.

⁸ Regulation (EC) No. 266/2006 article 4.2.

⁹ With the notable exception of Guyana, where a commercially orientated state run company is seeking to address these challenges in a coherent and integrated fashion.

Table 5: Caribbean SPAM Programmes - Total Amount and Annual Action Plan priorities for 2007

Country	Amount € 2007-10	2007 Annual Action Plan Priorities
Barbados	€ 34,667,000	Sector Budget Support (€11,133,000)
Belize	€ 45,147,000	Two conventional development programmes: 1. a roads programme (€4.8 million) implemented by Dept. Public Works Department 2. a capacity building programme implemented via SPAM PMU (€1.2 million).
Guyana	€ 84,170,000	General Budget Support (€27,065,000)
Jamaica	€ 77,547,000	General Budget Support (€12,500,000) Sector Budget Support (€12,500,000)
St Kitts	€ 42,286,000	General Budget Support (€9,500,000)
Trinidad & Tobago	€ 41,463,000	Sector Budget Support (of which €5,560,000 of €6,000,000)
TOTAL	€325,280,000	

It is far from clear whether this situation is a product of:

1. a certain scepticism over the long-term future of sugar production and other competitive agricultural activities in the Caribbean;
2. the institutional weaknesses of private sector bodies in the Caribbean and the consequent constraints on their ability to lead the production and trade adjustment process;
3. the administrative constraints faced by the EC in managing the deployment of assistance to private sector bodies which leads them to favour easily managed instruments such as general budget support and sector budget support;
4. the regulatory constraints on the deployment of EU public funding in support of private sector based production and trade adjustment initiatives;
5. the continuation in the public sector in the Caribbean of a state led philosophy of economic development, rather than a state facilitated philosophy of continuous economic adjustment to a dynamically changing production and trade environment;
6. a combination of a number or all of the above.

Whatever the cause, if food and agricultural sector production and trade adjustments are to be successfully supporting in the Caribbean, it is important to effectively engage with the challenge of deploying public funding in support of market-led, private sector-based trade and production adjustment initiatives.

Box 4: Private Sector Views on Production and Trade Adjustment Support

A recent opinion piece by the Executive Director of the Caribbean Council, David Jessop identified a number of areas of concern amongst Caribbean private sector operators with regard to the EPA process. Amongst these concerns were two of direct relevance to agricultural and food sector adjustment processes. The first of these concerns related to the attitude of public sector officials and perceived absence of an appreciation of a need for a paradigm shift, with governments shifting from directing economic development to facilitating private sector economic development. The second of these concerns related to the *“deep concern, verging on anger, about the ability of the European Commission and its representatives to deliver development assistance to the private sector”*. According to Executive Director Jessop, from a Caribbean private sector perspective EC funding is widely viewed as *“virtually inaccessible”*, with there being serious concerns that *“even modest levels of support could not be delivered by the European system in the time scale in which change has to occur, not least because it was always accompanied by rules that were at odds with individual corporate success”*. These observations would appear to highlight the multifaceted nature of the problem of effectively deploying EC assistance in support of market led, private sector based production and trade adjustments in the food and agricultural sector in the Caribbean, outside of the French overseas territories.

Against this background, what tentative lessons can be drawn of relevance to the SPAM programme beneficiaries in the Caribbean, from the experience of EU rural development programmes in the French overseas territories of the Caribbean?

5. Lessons from the EU Rural Development Programme for the French Overseas Territories

The first tentative cluster of lessons relates to the need for a **coherent** and **integrated approach** to meeting the agriculture and food sector adjustment challenges faced. The internal EU experience strongly emphasises the need for the whole process to be market-led, based on a clear understanding of where food and agricultural markets are going and the future role of domestic production within an increasingly liberalised global trading environment. The approach to supporting market-led production and trade adjustments then needs to combine instruments which address **human resource constraints**, **physical infrastructure constraints** and **marketing constraints** on pro-active responses, with interventions combining both **private sector-led** and **public sector-led** initiatives, depending on what is most effective in delivering the necessary production and trade adjustments.

Under the SPAM programme the drawing up of the national adaptation strategy was intended to provide the framework for a coherent and integrated approach. However, the market-led dimension of such strategies is not always apparent. This means that on occasion, there appears to be an absence of a clear vision of the end objectives to be attained through the national adaptation strategy. Even where there is a clear market-led orientation to the national adaptation strategy, this is not always reflected in the multi-annual indicative programme established. It is certainly not always apparent in the annual action plans so far implemented under the SPAM programmes in the Caribbean.

Box 5: The Case of Barbados and Luxury Purchase Sugars

The Barbados National Adaptation Strategy has two distinct components: **support for restructuring of the sugar sector** and **support for economic diversification**. However the EC financed multi-annual indicative programme for 2007-2010 focuses **exclusively** on the economic diversification component. This is despite the fact that the government of Barbados has established a highly sophisticated strategy for the restructuring of its sugar sector, involving the concentration of production of a more diversified range of sugar cane based products in a larger more modern facility. This strategy seeks to:

1. develop high quality sugar products targeting the "luxury purchase" component of the EU market, using only the top quality sugar juice and based on a sophisticated marketing strategy;
2. develop sugar products for regional markets using second grade cane juice;
3. develop a range of alcohol products using lower quality cane juice;
4. develop ethanol production from molasses;
5. develop electricity co-generation from cane waste.

By targeting different markets for different products, the aim is to maximize industry revenues, thereby balancing underlying cost disadvantages. Given the diversified range of products to be produced from sugar cane, new varieties of cane are to be introduced more consistently with the requisite product mix. In a number of areas public funding from the government of Barbados own resources have been used to support the development of new products targeting “luxury purchase” product markets in the EU.

It is precisely these kinds of market-led adjustments which the EC routinely supports under Axis 1 interventions of its rural development programmes. It is unclear whether the decision not to engage in this component of the Barbados restructuring strategy was made by the EC or by the Government of Barbados. Certainly given the EC’s involvement in this area in neighboring French overseas territories, there may well be relevant experiences which could usefully be shared.

A second cluster of lessons relates to the role of the private sector. SPAM programmes in the Caribbean are almost exclusively public sector-focused, with little or no direct engagement with private sector led production and trade adjustment initiatives. While the state focused approach is understandable in sugar industries which are state controlled, in other countries it represents a serious constraint on effectively getting to grips with necessary production and trade adjustments. Certainly there would appear to be a need to move beyond the public sector in engaging with production and trade adjustments in SPAM programme beneficiary countries. Outside of those countries where sugar sectors are entirely state controlled, this would appear to require a re-definition of the role of the state away from **directing developments** towards **facilitating** necessary production and trade adjustments in the agricultural and food sector, either within or outside of the sugar sector. This would appear to be one of the key lessons from the EU’s own rural development experience in the era of increasing agricultural and food sector trade liberalisation.

Box 6: The Case of Belize and Luxury Purchase Sugars

Under the Belize National Adaptation Strategy four priorities were identified: Support to a Sugarcane Production Improvement and Rehabilitation Programme; support for improvement of the “Sugar Belt” Road Network; support for an Enterprise Development Programme; support for a Policy Development Capacity Building and Training Programme. The first long-term priority area was seen as being **“strategic support to the farmers and institutions of the sugar industry that will improve competitiveness and contribute to a stable and sound physical environment in sugar-dependent areas”**. This was entirely consistent with on-going industry efforts to develop supplies to a “luxury purchase” component of the EU market, namely the market for “fair trade” sugar.

In February 2008 a major breakthrough was achieved in this programme with Tate & Lyle announcing its decision to convert its granulated white cane sugar brand to “fair trade” sugar by the end of 2009. A further 22 products will subsequently be converted to “fair trade”, until 100% of Tate & Lyle’s retail cane sugar range is “fair trade”. Belize is to be the main source of supply for Tate & Lyle, which plans to buy between 50,000 and 100,000 tonnes of sugar from Belize in the first year, paying a premium of \$ 60 per tonne. While this will bring additional benefits to 6,000 smallholder farmers, in the short term there are substantial costs associated with this strategy related to compliance and certification to “fair trade” standards, ensuring full traceability of “fair trade” sugar and investing in milling capacity to ensure quality and expand supply to meet demand.

However, under the 2007 annual action plan fully 70.9% of the €9 million allocation was devoted to a road sector programme and the bulk of remaining funds being devoted to government orientated capacity building measures. Only a mere €50,000 was allocated to a study to looking at the institutional strengthening of sugar cane farmers organisations. No funds were earmarked to assist producers in investing in adjusting production to effectively serve the new “luxury purchase” market opportunities which had been created by the Belize Sugar Associations partnership initiative with Tate and Lyle. Yet here again this is the kind of production and trade adjustments routinely support with direct financing under the EU’s Axis 1 rural development interventions.

This is reflected in the rural development programmes of the French overseas territories in the allocation of 4.9% and 6.3% of total rural development funding to Axis 4 LEADER programme interventions in Guadeloupe and Martinique respectively. Here the formation of Local Action Groups (LAGs) are seen as critical to supporting locally relevant restructuring and diversification initiatives.

In the context of the SPAM programmes in neighbouring independent Caribbean states, this suggests a need to provide considerable support to **strengthening agricultural producer organisations** where there is held to be a long-term future for sugar production or other forms of agricultural production. In countries where there is deemed to be no such future, then there would appear to be a need for establishing structures similar to those of the local action groups under the EU's Axis 4 rural development interventions, to encourage locally relevant restructuring, diversification and social adjustment initiatives.

A further tentative cluster of lessons from a comparison of the experiences to date relates to the need for clearer rules on **what can and cannot be supported** in pursuit of the attainment of underlying objectives and **who can and cannot receive support** from the public purse for the implementation of activities designed to achieve these underlying policy objectives. Clear guidance is given in this regard under the EU's rural development programme. A guidance which serves both to focus the minds of those involved in programme design on the kind of **market-led adjustments** required and to open up the possibility for **directly financing** private sector based production and trade adjustment measures, consistent with broader public policy objectives.

Box 7: Local Action Groups and the LEADER Approach

The LEADER+ programme is one of the main vehicles for supporting local community engagement with the EU's rural development programmes and policy. The aim of the LEADER+ programme is to get rural actors organised in Local Action Groups and draw them into the design and implementation of programmes designed to boost growth and job creation in innovative ways. The LEADER+ programme forms an essential fourth axis of the EU's rural development programmes. According to the European Commission **"at the heart of the LEADER approach is the idea that workable solutions to local rural problems are not dreamt up in Brussels or the national capitals"**¹⁰. This is why the LEADER approach **"encourages rural communities to tailor their own development strategies"**. To date in the EU some 1,500 Local Action Groups have been supported. The EC aim is to encourage greater use of the LEADER approach via Local Action Groups in the new EU member states in central and eastern Europe.

Under the SPAM programme in the Caribbean, where funds are largely being deployed as sector budget support or general budget support, the freedom this gives with regard to the ultimate utilisation of the funds made available, appears to be leading to a less clearly focused deployment of funds. Indeed, at times, it appears difficult to identify the production and trade adjustment rationale for the actual utilisation of funds under the SPAM annual action plans. On occasion, it appears as if aid deployment under the annual action plans has more to do with bridging the funding gap arising from the delayed availability of 10th EDF financing, than it has to do with meeting either the production and trade adjustment challenges arising in the agricultural sector, or the economic diversification challenges arising at the macro-economic level, as a result of the consequences of EU sugar sector reforms.

This can lead to a submerging of the specifics of the production and trade adjustment challenges faced within wider development cooperation efforts. This can become a real problem where these wider development cooperation efforts are focused on conventional state-to-state cooperation activities, in a context where the real challenge lies in **effectively deploying public funds to 'pump-prime' market-led,**

¹⁰ See "Leader: getting local groups involved in rural development policy", MEMO/07/466, Brussels, November 16th 2007, at <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/466&format=HTML&aged=0&language=EN&guiLanguage=en>

private-sector-based trade and production adjustment processes. Unless this challenge of how to effectively deploy public aid to 'pump-prime' market-led, private-sector-based trade and production adjustment processes in pursuit of clearly articulated public policy objectives is successfully addressed, EU financed programmes of assistance are likely to be largely ineffective in assisting Caribbean agricultural sectors and wider economies in meeting the challenges of changing markets and agro-food trade regimes.

Annex I

Overall Distribution of Financial Support Under Axis 1 2007-2013 (Euro)**Table I.1 French Guyana**

Measures	Total Cost	Public Finance	EAFRD finance	% share axis 1
Professional training and information activities (111)	7,590,668	7,590,668	5,693,001	18.46%
Installation of young farmers (112)	1,600,000	1,600,000	1,200,000	3.89%
Farmer and worker early retirement (113)	120,000	120,000	90,000	0.29%
Establishment of management help, advice and replacement services (115-1, 115-2)	499,800	192,800	144,600	0.47%
Modernisation of agricultural and forestry holdings (121)	10,857,133	6,514,133	4,885,600	15.85%
Value added for agriculture and forestry products (123)	11,771,892	7,972,999	5,979,749	19.39%
Research and development interface projects (124)	244,400	220,000	165,000	0.54%
Improvement of infrastructure: management of irrigation and access and potential improvement of farmed areas (125)	16,123 333	15,748,333	11,811,250	38.31%
Farmer participation in food quality schemes (132)	150,000	150,000	112,000	0.36%
Information and promotion of food quality systems and products (133)	143,000	100,000	750,000	2.43%
Total Axis I	49,100,226	40,208,933	30,831,700	

Table I.2 Guadeloupe

Measures	Total Cost	Public Finance	EAFRD finance	% share axis 1
Professional training and information activities (111)	36,000,000	27,501,429	19,251,000	19.29%
Installation of young farmers (112)	5,780,000	5,780,000	4046,000	4.05%
Farmer and worker early retirement (113)	2,000,000	2,000,000	1400,000	1.40%
Establishment of management help, advice and replacement services (115-1, 115-2)	2,000,000	1,332,857	933,000	0.94%
Modernisation of agricultural holdings (121)	44,000,000	28,512,000	19958,400	20.00%
Improvement economic value of forestry (122)	1,250,000	1,000,000	700,000	0.70%
Value added for agriculture and forestry products (123-1, 123-2)	35,000,000	26,250,000	18375,000	18.42%
Research and development interface projects (124)	2,000,000	1,500,000	1,050,000	1.05%
Improvement of infrastructure: management of irrigation and access and potential improvement of farmed areas	50,000,000	47,169,811	33,018,868	33.09%
Post disaster rehabilitation (126)	153,000	107,100	74,970	0.08%
Farmer participation in food quality schemes (132)	500,000	375,000	262,500	0.26%
Information and promotion of food quality systems and products (133)	1,357,200	1,017,900	712,530	0.71%
Total Axis I	180,040,200	142,546,097	99,782,268	100.00%

Table I.3 Martinique

Measures	Total Cost	Public Finance	EAFRD finance	% share axis 1
Professional training and information activities (111)	21,538,461	17,230,769	11,200,000	16.09%
Installation of young farmers (112)	6,300,000	6,300,000	4,095,000	5.88%
Farmer and worker early retirement (113)	7,735,122	7,735,122	5,027,829	7.22%
Establishment of management help, advice and replacement services (115-1, 115-2)	-	-	-	-
Modernisation of agricultural holdings (121)	41,066,667	30,800,000	20,020,000	28.76%
Improvement economic value of forestry (122)	1,292,308	1,292,308	840,000	1.21%
Value added for agriculture (123-1)and forestry products (123-2)	19,897,436	14,923,077	9,700,000	13.93%
Research and development interface projects (124)	961,539	769,231	500,000	0.72%
Improvement of infrastructure: management of irrigation and access and potential improvement of farmed areas (125-1, 125-2)	25,601,553	25,103,860	16,317,509	23.44%
Post disaster rehabilitation (126)	601,618	601,618	391,052	0.56%
Farmer participation in food quality schemes (132)	1,923,077	1,538,462	1,000,000	1.44%
Information and promotion of food quality systems and products (133)	1,009,615	807,692	5245,000	0.75%
Total Axis I	127,927,396	107,102,139	69,616,390	

Annex II

Table II.1 Distribution of Public Funding Under Rural Development Programmes

French Guyana

Axis	Public Finance (Euro)	EAFRD Co-Financing (Euro)	% EAFRD co-financing
Axis 1	39,596,933	29,697,700	39.92%
Axis 2	8,832,353	7,507,500	10.09%
Axis 3	30,532,235	25,952,400	34.88%
LEADER	9,762,353	8,267,400	11.11%
Technical assistance	3,500,000	2,975,000	4.00%
TOTAL	92,187,874	74,400,000	

Table II.2 Guadeloupe

Axis	Public Finance (Euro)	EAFRD Co-Financing (Euro)	% EAFRD co-financing
Axis 1	142,156,097	99,782,268	70.00
Axis 2	25,940,915	20,752,732	80.00
Axis 3	11,383,200	8,537,400	75.00
LEADER	9,333,333	7,000,000	75.00
Technical assistance	2,703,467	2,027,600	75.00
TOTAL	191,907,012	138,100,000	71.96

Table II.3 Martinique

Axis	Public Finance (Euro)	EAFRD Co-Financing (Euro)	% EAFRD co-financing
Axis 1	107,102,138	69,616,390	65.00%
Axis 2	20,323,263	16,258,610	80.00%
Axis 3	5,877,077	4,407,808	75.00%
LEADER	9,189,589	6,892,192	75.00%
Technical assistance	3,900,000	2,925,000	75.00%
TOTAL	146,392,067	100,100,000	68.00%

Bibliography

Barbados Multi-annual indicative programme (MIP) 2007-2010 under the accompanying measures for sugar protocol countries (AMSP).

Memorandum to the DCI Committee, annual action programme covering the programming document 'multi-annual indicative programme (MIP) 2007-2010 under the accompanying measures for sugar protocol countries' for Barbados for 2007

Multi-annual indicative programme (MIP) for Belize 2007-2010 under the accompanying measures for sugar protocol countries (AMSP).

Memorandum to the DCI Committee, annual action programme covering the programming document 'multi-annual indicative programme (MIP) 2007-2010 under the accompanying measures for sugar protocol countries' for Belize for 2007

Multi-annual indicative programme on sugar for the period 2007-2010, delegation of the European Commission to Guyana, Suriname, Trinidad & Tobago, Aruba and the Netherlands Antilles, Draft 25 February 2007

Memorandum to the DCI Committee, Annual action programme covering the programming document of the accompanying measures to sugar adaptation strategies in sugar protocol countries for the sector policy budget support for Guyana for 2007

Multi-annual indicative programme (MIP) for Jamaica 2007-2010 under the accompanying measures for sugar protocol countries.

Memorandum to the DCI Committee, annual action programme covering the programming document 'multi-annual indicative programme (MIP) 2007-2010' for the accompanying measures for sugar protocol countries (AMSP) for Jamaica

St Kitts and Nevis Multi-annual indicative programme (MIP) 2007-2010 under the accompanying measures for sugar protocol countries (AMSP).

Memorandum to the DCI Committee, Annual action programme covering the programming 'multi-annual indicative programme (2007-2010 for the accompanying measures to sugar adaptation strategies in sugar protocol countries' for general budget support for St Kitts and Nevis, Caribbean for 2007

EC multi-annual adaptation strategy for the period 2007-2013 under the accompanying measures for sugar protocol countries, for Trinidad and Tobago

Memorandum to the DCI Committee, Annual action programme covering the programming documents under accompanying measures for sugar protocol countries' for the 2007 sector policy budget support in Trinidad and Tobago

Council regulation (EC) No. 1698/2005 of 20 September 2005, on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), Official Journal of the European Union, 21.10.2005, L 277/1

Council regulation (EC) No. 1974/2006 of 15 December 2006, laying down detailed rules for the application of Council regulation (EC) No. 1698/2005, on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), Official Journal of the European Union, 23.12.2006, L 368/15

Council decision of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007-2013) (2006/144/EC) , Official Journal of the European Union, 25.02.2006, L 55/20

Council regulation (EC) No. 1944/2006 of 19 December 2006, amending regulation (EC) No. 1698/2005 of 20 September 2005, on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), Official Journal of the European Union, 22.12.2006, L 367/23

Proposal for a regulation of the European Parliament and of the Council establishing accompanying measures for sugar protocol countries affected by the reform of the EU sugar regime, Brussels, 22.06.2005 COM (2005) 266 final

'Action plan on accompanying measures for sugar protocol countries affected by the reform of the EU sugar regime' Commission Staff Working Paper, Brussels 17.01.2005, SEC (2005) 61

EC RAPID press release service : <http://europa.eu/rapid/showInformation.do?pageName=whatsNew>

Rural development programme Martinique: Summary
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/489&format=HTML&aged=0&language=FR&guiLanguage=en>

Rural development programme Guadeloupe: summary
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/38&format=HTML&aged=0&language=FR&guiLanguage=en>

Rural development programme French Guyana: summary
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/602&format=HTML&aged=0&language=FR&guiLanguage=en>

The European Centre for Development Policy Management (ECDPM) aims to improve international cooperation between Europe and countries in Africa, the Caribbean, and the Pacific.

Created in 1986 as an independent foundation, the **Centre's objectives** are:

- to enhance the capacity of public and private actors in ACP and other low-income countries; and
- to improve cooperation between development partners in Europe and the ACP Region.

The Centre focuses on **three** interconnected thematic programmes:

- Development Policy and International Relations
- Economic and Trade Cooperation
- Governance

The Centre collaborates with other organisations and has a network of contributors in the European and the ACP countries. Knowledge, insight and experience gained from process facilitation, dialogue, networking, infield research and consultations are widely shared with targeted ACP and EU audiences through international conferences, focussed briefing sessions, electronic media and key publications.

ECDPM Discussion Papers

ECDPM Discussion Papers present initial findings of work-in-progress at the Centre to facilitate meaningful and substantive exchange on key policy questions. The aim is to stimulate broader reflection and informed debate on EU external action, with a focus on relations with countries in the South.

This publication benefits from the generous support of ECDPM's core and institutional funders: The Netherlands, Belgium, Finland, Ireland, Luxemburg, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

ISSN 1571-7577

European Centre for Development
Policy Management

ecdpm

HEAD OFFICE SIÈGE

Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE BUREAU DE BRUXELLES

Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

info@ecdpm.org
www.ecdpm.org
KvK 41077447



Printed on FSC certified paper.