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Supporting Structural Transformation in the ACP Agro-Food Sector:

Redefining possible roles of the ACP post 2020

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Key messages

The raison d'être of the ACP Group is the promotion of the gradual integration of ACP states into the world economy in ways which contribute to the eradication of poverty and the promotion of sustainable development.

Agriculture is central to most ACP countries' economies, and an increasingly stringent EU agricultural product quality policy together with the proliferation of both official and private product standards are currently worsening the ACP Group's access to the EU market.

Preventing the emergence of these new barriers to trade represents an important area of common interest for ACP Group members, and offers a potential rationale for future concertation as a group with the EU.

This paper also puts forward additional issues that could form the base of continued ACP solidarity, such as cotton issues at the WTO and the penetration of non-traditional export markets.

Table of Contents

Acknowledgements.....	ii
Acronyms.....	ii
Abstract.....	iv
1. Introduction.....	1
2. The Changing Context of ACP-EU Cooperation and Basis for ACP Group Solidarity.....	2
3. Redefining the Objective Basis for ACP Solidarity in the Agro-Food Sector.....	6
3.1. Establishing effective dialogue around the design and implementation of SPS and food safety standards.....	6
3.2. Getting to grips with the policy challenge of private standards.....	10
3.3. The trend towards linking production process concerns to market access.....	12
3.4. Maintaining the policy space for agro-food sector development.....	13
3.5. Diversifying trade relations beyond the EU.....	15
3.6. Scope for engagement with non-EU partners in the WTO.....	19
4. Recommendations.....	21
4.1. Agro-Food Sector.....	21
4.2. General Level.....	23
5. Bibliography.....	25

List of Boxes

Box 1: Institutional Dimension: the Role of ACP Ministers and heads of Government.....	3
Box 2: Institutional Dimensions: Adopting a Multi-Dimensional Approach.....	10
Box 3: Institutional Dimensions: Developing the Institutional Capacity for More Systematic Action on SPS, Food Safety, Sustainability and Quality Related Standards Issues.....	13
Box 4: Strengthening the Functioning of EU Sugar Supply Chains.....	15
Box 5: Institutional Dimensions: Institutional Possibilities Related to ACP Policy Cooperation on Agro-Food Sector Development.....	15
Box 6: Institutional Dimensions: Supporting the Development of ACP Group Initiatives in Support of Structural Transformation through Market Diversification.....	18

List of Tables

Table 1: Direction of South Africa's exports 2000 to 2012.....	18
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The opinions expressed in this paper are those of the author and do not necessarily reflect the views of ECDPM nor those of other experts or institutions that are mentioned therein.

Acronyms

ACP	African, Caribbean and Pacific States
AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
CAP	Common Agricultural Policy
CBS	Citrus Black Spot
CEO	Chief Executive Officer
CGA	Citrus Growers Association
COLEACP	Europe-Africa-Caribbean-Pacific Liaison Committee for the promotion of ACP horticultural exports
CTA	Technical Centre for Agricultural and Rural Cooperation ACP-EU
DG SANCO	Directorate General Health and Consumers (French: Santé et Consommateurs)
DFQF	Duty-free Quota-free
EBA	Everything But Arms
EC	European Commission
EDES	Programme to increase the contribution made by the food trade to alleviate poverty in the ACP beneficiary countries
EDF	European Development Fund
EPA	European Partnership Agreement
EU	European Union
EU FVO	EU Food and Veterinary Office
FAO	Food and Agricultural Organisation
FPEAK	Fresh Produce Exporters Association of Kenya
FTA	Free Trade Agreement
GIs	Geographically designated products
GSP	Generalised System of Preferences
ICAC	International Cotton Advisory Committee
ICTSD	International Centre for Trade and Sustainable Development
IEPA	Interim Economic Partnership Agreements
IFOAM	International Federation of Organic Agriculture Movements
IMF	International Monetary Fund
IUU	Illegal, Unreported and Unregulated fishing
LDCs	Least Developed Countries
MFN	Most-favoured nation
PIP	Technical assistance programme funded by the European Development Fund
SPS	Sanitary and Phytosanitary Measures
SSG	Special agricultural safeguards
STABEX	French Système de Stabilisation des Recettes d'Exportation
SYSMIN	System of Stabilisation of Export Earnings from Mining Products

TRQs	Tariff-rate quotas
UK	United Kingdom
UK FPC	UK Fresh Produce Consortium
US	United States of America
WTO	World Trade Organization

Abstract

This paper seeks to feed into the debate on the future of the ACP group. The *raison d'être* of the ACP Group is the promotion of the gradual integration of ACP states into the world economy in ways which contribute to the eradication of poverty and the promotion of sustainable development. Agriculture is central to most ACP countries' economies, and an increasingly stringent EU agricultural product quality policy together with the proliferation of both official and private product standards are currently worsening the ACP Group's access to the EU market. Preventing the emergence of these new barriers to trade represents an important area of common interest for ACP Group members, and offers a potential rationale for future concertation as a group with the EU.

1. Introduction

The starting point for re-defining the objective basis for African, Caribbean and Pacific (ACP) Group collaboration and solidarity lies in the elaborated Georgetown Agreement.¹ Central to the *raison d'être* of the ACP Group is the promotion of the gradual integration of ACP states into the world economy in ways which contribute to the eradication of poverty and the promotion of sustainable development.

This is not simply about establishing a network of trade relationships within the multilateral trading system. Rather it is about ***establishing a network of trade relationships which fosters the transformation of the basis of integration of ACP economies into the global economy, in ways which enhance income earning and employment opportunities on a sustainable basis.***

This objective has long informed the ACP Groups' approach to trade relations with the European Union (EU). Efforts to improve rules of origin (particularly for fisheries and textile products) and remove residual tariff barriers (particularly in the agro-food sector) to encourage increased investment in the structural development of key sectors of ACP economies, have consistently been promoted.

In terms of tariff treatment, residual barriers have been progressively removed, while more limited progress has been made on rules of origin issues. However, in the agricultural sector these concessions have often been sequenced with internal EU policy reforms which have reduced the value of the tariff preferences extended to ACP countries (e.g. most recently in the sugar sector).

This has been accompanied by an EU agricultural product quality policy with more rigorous sanitary and phytosanitary measures (SPS) and food safety control systems and the proliferation of both official and private product standards. ***These non-tariff measures and private standards, depending on their design and application, can increase the costs of serving EU markets and can come to constitute important non-tariff barriers to trade.*** Preventing the emergence of such new barriers to trade represents an important area of common interest for ACP Group members.

As part of the EU's wider trade strategy, designed in response to shifting patterns of global growth, tariff concessions are gradually being extended beyond the ACP Group, largely through the vehicle of reciprocal free trade area agreements. ***This is seeing the margins of ACP tariff preferences on the EU market progressively eroded.***

However, these shifting patterns of global growth have also created new opportunities for ACP exporters, particularly exporters of primary raw materials. However, a key policy challenge facing ACP governments is ***how to use these new patterns of global growth to support a structural transformation of the basis of ACP engagement with the global economy and specific global supply chains.***

ACP governments have collectively responded to these challenges by broadening the mandate of the ACP Group. The 2003 revised Georgetown Agreement committed the ACP Group to promoting the development of "a fairer and more equitable new world order". It also included a commitment to strengthening the political identity of the ACP group and the coherence of the ACP Group acting as a "political force in international bodies", so as to "ensure that due regard is accorded its specific interests". The most notable institutional development in this regard predated the 2003 revision of the Georgetown Agreement, with the creation of the ACP Geneva Office in 2001, focused on promoting collective action around areas of common interest at the World Trade Organization (WTO).

¹ For the elaborated and revised Georgetown Agreement see The Georgetown Agreement (2003).

In addition political initiatives have been launched by the ACP Group to reach beyond the core ACP-EU relationship. However, the focus on the ACP-EU relationship has meant ***institutional developments and financial modalities vis a vis non-EU partners, have not been sufficiently revised to fully support ACP Group initiatives in areas where collective action generates a real value added compared to unilateral national initiatives or regional initiatives.***

The current debate around the future of the ACP Group offers opportunities to align ACP institutional arrangements and financial modalities with new priorities, both in their trade relationship with the EU and beyond. This requires a clear identification of the objective common interests of the ACP Group at a sector and thematic level, based on the new realities faced.

This paper limits itself to elaborating the objective common interests of the ACP Group in the agro-food sector. It begins with a short review of how the objective basis for ACP solidarity has changed since 1985, before exploring the basis for redefining the objective common interests of the ACP Group in the agro-food sector. This will largely be undertaken with reference to the relationship with the EU, but will also include references to the challenges faced in diversifying ACP agro-food sector exports beyond the EU.

This will in passing also explore the scope for ACP institutional development in support of this new agenda, tentatively suggesting areas for the institutional mandate of existing bodies.

2. The Changing Context of ACP-EU Cooperation and Basis for ACP Group Solidarity

The Lomé Negotiations and the Formation of the ACP Group

The formation of the ACP Group and the success achieved during the Lomé I negotiations cannot be divorced from the specific political and economic realities of the early 1970s. Negotiations took place against the background of the withdrawal of US troops from Vietnam, the collapse of the Portuguese dictatorship and the beginning of the end of Portuguese colonial rule in Africa and the launch of an oil embargo, which saw a quadrupling of oil prices between October 1973 and January 1974.

These political-economic developments saw the emergence of major concerns over the perceived geo-strategic advance of the Eastern Bloc, the possible emergence of further raw material monopolies and a growing focus on securing raw material supplies. This contributed to the emergence of the debate around the New International Economic Order. Significantly this also coincided with a desire on the part of the European Commission (EC - the executive arm of the European Communities) to find a genuine European voice in global affairs, in the context of an on-going cold war confrontation in a bipolar world.

Effective ACP political solidarity enabled ACP members to exploit the evolving geo-political situation to secure substantive concessions in the course of the Lomé I negotiations. This led to the conclusion of an agreement which:

- a) Extended non-reciprocal trade preferences to ACP countries (rather than the reciprocal preferential trade arrangement which characterised the earlier francophone Yaounde agreements), including through a number of quota restricted commodity specific protocols (beef, sugar, bananas and rum);

- b) Established country specific multi-annual aid programmes, which were guaranteed and could not be withdrawn (subsequently extended to include regionally programmable aid);
- c) Established an export earnings guarantee scheme for certain specified agricultural products, linked to ACP exports to the EU market (STABEX), with this subsequently being extended under the SYSMIN scheme to cover ACP mineral export earnings;
- d) Established an emergency aid facility to deal with unforeseen disasters, with this subsequently being extended to cover rehabilitation activities;
- e) Created a multi-levelled structure for political dialogue (a joint ACP-EU Council of Ministers; a joint Committee of Ambassadors and eventually a joint forum for exchange at Parliamentary level).

Box 1: Institutional Dimension: the Role of ACP Ministers and heads of Government

In the new era facing the ACP the strong political engagement at Heads of Government level which characterised the earliest experiences of the activities of the ACP as a group, will need to be reproduced. This will need to be mobilised both *in support of the re-engagement of EU member states governments with fundamental aspects of the ACP-EU relationship* and in *reaching beyond the EU to develop new areas of collective cooperation in support of the structural transformation of ACP engagement with the global economy*.

In reaching beyond the EU this needs to engage both with common issues faced in the trade field and in the development assistance field. The development of common ACP programmes of assistance to trade development targeting non-EU markets and drawing on non-EU sources potentially has a major role to play in assisting the ACP Group in redefining its relationship with the EU.

The strong collective political leadership shown by ACP governments, manifested in bilateral political contacts with EU member states governments, was critical to the success achieved. This was backed up by well coordinated Foreign Service representation on the spot in Brussels. This high level political engagement was rooted in the belief that a new form of north-south partnership was being created, in line with aspirations to create a New International Economic Order.

The basic concessions secured under Lomé I were extended under Lomé II and Lomé III. However, following the conclusion of the third Lomé Convention in 1985, the political context underwent a radical change, with the collapse of the Soviet Union, the ending of the cold war and the disappearance of a dominant global bipolar framework. This removed the geo-strategic political imperative for EU engagement with the ACP.

The EU's Evolving Trade Policy and the Erosion of the Basis for ACP Trade Solidarity

Alongside the disappearance of this geo-political imperative the European Communities had to address a growing range of challenges closer to home in a radically changing global economic context. The end of the cold war, the opening up of the Chinese economy and the strong growth experienced in emerging economies in Asia and Latin America drove a major reorientation of EU external policies towards the most rapidly growing areas of the developing world. This has increasingly been focused on the conclusion of reciprocal free trade agreements (FTAs).

Since 1990 this has seen the ACP Group fighting rear-guard actions in defence of the gains made under the first three Lomé Conventions. In the trade sphere, with the EU's growing policy focus on concluding

reciprocal FTAs, this initially focussed on defending the continuation of ACP non-reciprocal trade preferences. This subsequently evolved into a fight against the imposition of full reciprocity in trade in goods and finally, into a fight against the imposition of “WTO+” policy commitments under FTAs.

Initially the ACP Group enjoyed some success, negotiating a post Lomé agreement which included a further eight years of non-reciprocal trade preference, with the opening of the economic partnership agreement (EPA) negotiations being deferred until September 2002. This was achieved despite earlier EC efforts to have reciprocal preferential trade arrangements immediately replace the Lomé IV non-reciprocal trade preferences.

Nevertheless from September 2002 regionally based processes of EPA negotiations were launched, the conclusion of which was seen as a pre-requisite for the extension and enhancement of duty free-quota free (DFQF) access to the EU market. ***These negotiations, coupled with the unilateral extension of DFQF access to the EU market for all least developed countries from March 2001, was to see the fragmentation of the ACP Group first in terms of trade negotiations and subsequently in terms of the tariff treatment accorded different ACP countries exports to the EU.***

Indeed, given the variable progress made in the regionally based EPA negotiation processes, by 1 January 2008 ACP members were trading into the EU not under a single trade regime, but under a multiplicity of diverse trading arrangements, ranging from a full FTA agreement, through the special transitional arrangements (under MAR 1528/2007) based on widely differing Interim Economic Partnership Agreements (IEPAs) and full duty free-quota free non-reciprocal preferences for LDCs under the Everything But Arms (EBA) initiative, to standard GSP treatment.

This fragmentation of the basis for ACP trade access to the EU market has served to undermine the objective basis for ACP solidarity in the trade sphere.

Erosion of ACP Solidarity in Development Finance and Political Cooperation

A similar process of erosion of the objective basis for ACP solidarity around development financing has also occurred. The negotiation of the Cotonou Agreement led to substantive changes to the basic development cooperation framework established under Lomé I. This included:

- a) An end to guaranteed multiannual national and regional allocations and the introduction of a ‘use it or lose it’ philosophy;
- b) The abandonment of automatically triggered commodity price guarantee arrangements;
- c) The introduction of human rights clauses with stricter provisions linked to the suspension of development assistance programmes.

By removing the guaranteed nature of the initial country and regional allocations, shortening the timeframes for aid deployment (to levels never achieved under previous Lomé Conventions) and introducing ‘incentive’ payments for good performers, the EC effectively set ACP government in competition with each other for access to European Development Fund resources. ***This has served to undermine the objective basis for ACP solidarity in the development assistance sphere.***

At the level of the ACP-EU political dialogue the success of the structures established under Lomé I saw their replication across a growing number of EU external cooperation arrangements. As a consequence the ACP Group has found itself competing increasingly for political attention with other regionally based dialogue structures, often involving regions in which the EU currently has a far greater political or economic

interest. This has seen ***a decline in the relative importance of the ACP Group as a political intermediary and a down-grading of the political engagement of EU member states with joint ACP-EU institutional structures.***

This has seen the ACP-EU political relationship increasingly focussed around a dialogue between ACP Ministers and the EC, rather than EU member states Ministers, with this complemented by a Parliament-to-Parliament dialogue. This narrowing of the focus of the ACP-EU political dialogue process has left the ACP increasingly vulnerable to the unilateral decisions of the EC, which may not always reflect the state of relations between ACP and EU member states at the bilateral level.

The ACP Group level political dialogue with the EU has also been diminished by the development of political dialogue structures between the EU and sub-regions of the ACP, which increasingly shadow the regional economic and trade interests of the EU.

The Changing Global Context of ACP-EU Cooperation: Opportunities of the ACP

As the EU began to substantively assert its more free market based approach in the first decade of the new millennium, the global economic landscape was shifting dramatically, with the growing economic significance of emerging economies. According to the IMF, emerging economies as a whole will have grown by around 4% more than rich economies in 2011 and 2012. Indeed by 2013 emerging markets will produce more than half of global output, measured in purchasing power parity. If emerging markets continue to grow at least 3% points faster per year than rich economies then by 2030 they will account for two thirds of global output. While the financial crisis has served to accelerate this shift in economic power, this process was underway prior to the financial crisis.

Since the launch of the EPA negotiations, this trend of faster economic growth in non-EU countries has extended itself into Africa, changing the context of ACP-EU trade and economic cooperation relations. However, the consequence of this change, in terms of the underlying objectives of the ACP Group, requires careful assessment.

For example a relative decline in the economic weight of the developed economies is underway, not an absolute decline (although there are pockets where severe declines in living standards are underway). This means that in certain sectors for certain types of products, particularly quality differentiated agro-food products, the EU remains an important and indeed, growing market.

One of the major impacts on the ACP of the rise of China and other emerging economies has been the transformation of international commodity markets. Currently the growth underway in emerging economies is far more resource intensive than patterns of growth in developed economies. Thus while China accounts for only an eighth of global output it uses between 33% and 50% of the world's annual production of iron ore, aluminium, lead and other non-precious metals. The rapid increase in demand for raw materials and relatively sluggish supply response (for it often takes many years for new raw material supplies to come on stream) has seen an unprecedented surge in raw material prices.

This has intensified competition for raw materials, with western economies having to adjust to substantially higher commodity prices. Moreover emerging economies are generally better placed to compete for the limited supply of raw materials, for they are able to use each extra tonne of raw materials more gainfully than their competitors in the developed world.

Western firms, often with public sector support, are however responding to the challenge, with this ***competitive repositioning potentially offering opportunities for commodity suppliers in Africa to***

negotiate new arrangements which facilitate the structural transformation of the basis of integration of their economies into the global trading system.

In parallel, major emerging economies such as China, India and Brazil have begun to develop comprehensive aid, trade and political cooperation relations with individual ACP regions, potentially reducing the significance of traditional aid relationships with the EU.

To date the repositioning of emerging economies as development partners of individual ACP countries has not been replicated at the level of the ACP Group. This constitutes an important area for collective engagement in support of efforts to promote a structural transformation of the basis for ACP member states engagement with the global economy.

While the new global economic dynamic has seen a diversification of ACP trade relationship beyond traditional partners in the developed world, this diversification of African export markets is not currently being matched by a diversification of the structure of African exports. Indeed, Africa's trade with China and India is even more dependent on primary commodity exports than its trade with the EU and the US.²

So while the emergence of a multi-polar world potentially opens up new opportunities for ACP countries, ***the important challenge is to use this to promote structural transformation, through the development of greater local value added and the development of associated service industries.*** In this context a central question faced is: ***what value added role can the ACP Group play in supporting national and regional efforts to bring about such a structural transformation?***

3. Redefining the Objective Basis for ACP Solidarity in the Agro-Food Sector

3.1. Establishing effective dialogue around the design and implementation of SPS and food safety standards

Identifying the Basis for Common Action

While the objective basis for ACP solidarity in terms of tariff treatment has been substantially undermined, the ACP Group retains considerable common interest in dealings with the EU on a range of non-tariff measures, which are becoming barriers to profitable trade with the EU. ***This provides an important starting point for redefining the basis for ACP solidarity and refocusing the collective efforts of the ACP Group in support of nationally and regionally led strategies for the structural transformation of ACP engagement with global economy.*** It also provides a basis for joint programmes and initiatives which have a real value-added by being implemented at the all-ACP level.

Getting to Grips with a Multi-Dimensional Challenge

The design and implementation of SPS and food safety standards is a multi-dimensional issue. While primary responsibility lies at the national level with private companies and government regulatory authorities, in certain specific areas there is a clear value added from initiating actions at the ACP level. The scope for value added collective ACP action however needs to be carefully defined in ways which are complementary to national and regional initiatives. This requires a de-packaging of the challenges faced.

² For more details see CTA Agritrade (2011a).

The most basic issue relates to ensuring an objective scientific basis for the application of SPS and food safety standards. This ideally requires the strengthening of the WTO regulatory framework for the establishment of SPS and food safety standards, so as to ensure the “*right to trade*” of ACP countries.³

Given that SPS and food safety measures are increasingly the principal obstacle to ACP Group agro-food sector exports this constitutes an important area for ACP Group action.

However, this is not simply about the standards set, but also how they are applied in practice. This relates to the minimum standards applied, the frequency and duration of inspections and the costs of inspections. The importance of these different issues for ACP Group members has been well illustrated by developments in 2013.

Redefining Minimum Requirements and Tolerance Levels

In January 2013 “*more than a fifth of Kenya’s vegetable exports to the European market were rejected ... after they were found to contain traces of a banned chemical*”. This increase in interceptions followed a 90% reduction in the permitted level of residues.⁴ This saw a range of Kenyan exporters delisted from being eligible to export to the EU, with some smallholder producer groups seeing a 90% reduction in the volumes placed for sale on the EU market. With the Kenyan green bean sector supporting an estimated 50,000 smallholder producers, concerns have been expressed that smallholder producers are being squeezed out of the supply chain, as traders become reluctant to purchase products for export, unless their production processes are fully supervised by a larger-scale exporter.

Initiatives are now underway in the context of COLEACP to provide assistance through the PIP and EDES programmes to develop both short- and long-term solutions. While a major focus is on training in pesticide use and improved residue surveillance, significantly this includes ***calls for the development of closer consultations with the concerned EC Departments, notably the Directorate-General for Health and Consumers (DG SANCO)***.

February 2013 also saw the announcement that in future the EU will only allow “*a maximum of five citrus black spot disease interceptions in a season*”, before measures would be taken against imports from the country concerned, including a possible ban. This is posing a major threat to citrus exports from South Africa, Swaziland and Zimbabwe, since according to Justin Chadwick, CEO of the Citrus Growers Association (CGA) of Southern Africa, there has not been a season where there have been less than 12 interceptions.⁵

This rule change was introduced despite the absence of scientific evidence that imports of citrus fruit act as a ‘pathway’ for the introduction of Citrus Black Spot (CBS) to the EU. It was furthermore introduced despite the findings of the EU Food and Veterinary Office (FVO) inspectors that South Africa’s “*whole system of export checks has been improved and strengthened since the 2009 mission*”, in ways which “*reduces significantly the risk of introduction of CBS*”.⁶ The announcement did however occur against the background of increasing pressure on the EC from Spanish farmers’ organisations to place stricter controls on citrus imports from South Africa, including by restricting imports from South Africa “*until the disease has been eradicated*”.⁷

³ See Stiglitz and Charlton (2013) and see Jones (2013a).

⁴ See CTA Agritrade (2013a).

⁵ See CTA Agritrade (2013b).

⁶ See European Commission (2011).

⁷ See Freshfruitportal.com (2013).

The tightening up of EU import requirements saw the initiation of additional controls measures at a cost of R100 million in September 2013 of export restrictions on citrus exports to the EU from CBS infected zones so as to avert broader EU import restrictions.⁸ This affected an estimated 40,000 tons of oranges in September 2013.

Intensifying Inspections and Reducing Returns on Kenyan Vegetable Exports

In February 2013, the Fresh Produce Exporters Association of Kenya (FPEAK) reported that intensified EU controls of Kenyan exports of mange-tout peas and bean were leading to delivery delays (of up to 72 hours). This it was maintained was having a significant impact on the shelf life of products delivered to retailers, reducing the commercial value of the products delivered to the final retailer. However by mid-February 2013, only 1.6% of samples tested contained higher than permitted residue levels. According to FPEAK, the scale of the problem did not warrant the level of delays caused by intensified inspections. These EU controls are seen as becoming a barrier to trade, since they disrupt or destroy business.⁹

Changes to levels of inspection of individual products are the sole prerogative of the concerned EC department, with reviews taking place every three months. This can lead to frequent changes to the levels of inspections for individual products.¹⁰ Given the impact increased inspection levels can have on the costs of inspection and the commercial value of shipments, this can make financial planning around exports an uncertain business.

Minimising the Costs of Food and Feed Controls Applied to ACP Products

In a significant related development in May 2012 the EC tabled proposals to change the current legislation governing all official controls for food and feed. The most significant aspect of the proposals, from an ACP perspective, relate to “*a major increase in the number of controls subject to mandatory charging*” and the introduction of full cost recovery for all official controls.

Significantly given the impact moves to full cost recovery for all official controls could have on the competitiveness of micro-enterprises in the EU (defined as “*a business that employs less than 10 people, with a turnover of less than €2 million*”), the EC proposals include a mandatory exemption for micro-businesses from full cost recovery provisions. However, while similar such competitiveness issues arise for ACP exporters, currently no similar concessions are being considered. Food exporters across the ACP are fearful that the move towards full cost recovery of official controls could significantly increase the costs of exporting to the EU market, with this burden falling particularly heavily on those ACP exporters with limited overall volumes.

This is a particular concern for non-traditional exporters in ACP countries, which have no track record of exports to the EU. The EU’s risk assessment based system of inspections, means that where no track record exists on which to base risk assessments, high rates of inspection occur. The high unit costs of inspection this would give rise to under any full cost recovery system would be likely to act as a disincentive to export diversification.

In this context it has to be recalled that when the UK introduced moves to full cost recovery for official controls in April 2012, the UK Fresh Produce Consortium estimated this would raise the costs of import

⁸ See CTA Agritrade (2013c).

⁹ For details see CTA Agritrade (2013d).

¹⁰ See CTA Agritrade (2013e).

checks by 73% by 2014. It was further maintained that “many sectors of the industry will struggle to absorb these costs”.¹¹

Extending the proposed provisions on EU micro-enterprises to ACP food and feed exporters could potentially offer an important vehicle for supporting ACP agro-food sector export diversification. Such preferential treatment for ACP exporters in terms of charges levied for food and feed inspections could constitute a significant vehicle for compensating ACP exporters, in an era of the erosion of the level of tariff preferences and value of traditional trade preferences. This would take the EU’s policy responses to preference erosion beyond sector specific “aid for trade” programmes (e.g. the Banana and Sugar Accompanying Measures Programmes).

Scope for Collective ACP Group Action

The foregoing are but illustrative examples of recent difficulties and challenges which have emerged for ACP exporters, as a result of the EU’s unilateral alteration of the application of its SPS and food safety standards. The affected ACP exporters associations and national governments have all complained and sought bilateral consultations to resolve the specific issues faced, with to date limited success.¹²

The absence of clearly defined structures for the exchange of information on planned changes and consultations on the scientific basis for such action however, means that individual ACP governments have little formal recourse for settling these SPS and food safety related disputes, beyond appeals to the EC to review existing or proposed changes. This contrasts sharply with the structures and procedures being set in place under the Canada – EU trade agreement. According to reports from the Canadian government, not only have intensified consultative structures on SPS issues been established, but it has been agreed that SPS disputes should be subject to dispute settlement mechanisms.¹³

With SPS and food safety controls taking on a growing significance as barriers to agro-food sector exports across the ACP, this potentially offers an important area for collective ACP Group action, both in their dialogue with the EU and beyond, at the WTO. Indeed, this strongly suggests scope for an ACP Group political initiative.

¹¹ See Agritrade (2012a).

¹² For example, the Namibian government’s efforts to change the SPS basis for bone in lamb exports to the EU, in line with the evolution of the application of EU SPS standards to exports of beef from Brazil, have been on-going for over ten years, without any progress being achieved.

¹³ See Canadian government (2013).

Box 2: Institutional Dimensions: Adopting a Multi-Dimensional Approach

A concerted ACP initiative to reduce the scope of SPS, food safety and quality related standards becoming new barriers to trade and the structural development of ACP economies will require ACP Group action at a multiplicity of levels.

Firstly, it will require a political initiative at the level of ACP governments to draw the EU into formal structures for dialogue on these issues, given the current EC insistence that food safety and SPS issues are exclusively a matter for internal discussion and decision making. This can be pursued collectively by the ACP Council of Ministers and individually by ACP leaders through their bilateral contacts with EU member states leaders. This is essential if substantive issues facing the ACP Group in their agro-food sector trade with the EU are to be placed on the European Commission's agenda of concerns and scope for increased dialogue on SPS, food safety and quality related issues is to be created.

Secondly, it will require a political initiative at the WTO to press for:

- Intensified discussions on proposals for enshrining “*a right to trade*” in WTO rules;
- A formal WTO arbitration mechanism for SPS and food safety related disputes;
- A code of conduct for the elaboration of both official and private quality standards; and
- WTO agreed standards for the linking of production process requirements to market access.

This suggests an enhanced role for institutions such as the CTA and an enhanced role for the ACP Secretariat in providing political coordination of concerted and sustained ACP Group action.

3.2. Getting to grips with the policy challenge of private standards

The Broader Policy Framework for Private Standards

A central element of the process of CAP reform has been the emphasis on the ‘quality’ and safety of EU food production. This has been most comprehensively set out at the policy level through the EU's Agricultural Product Quality Policy.¹⁴ The aim of this policy is to differentiate EU food and agricultural products from third country products, so as to secure significant price premiums for EU producers.

The policy of quality based differentiation includes the strengthening of official regulatory frameworks, for example, for geographically designated products (GIs) and most recently efforts to systemise the application of formerly private sector run organic certification schemes.¹⁵ Some of these changes are already included in the EC food and feed regulation proposals and would serve to relegate private organic certification bodies to executive agencies for the implementation of EU-wide organic standards.¹⁶ This could potentially undermine efforts across the ACP to develop lower cost Participatory Guarantee Systems of organic certification in the framework of the IFOAM family of organic standards.¹⁷

Beyond these official standards, efforts have been launched to capitalise on consumer environmental concerns by establishing both national sustainability certification and sector specific sustainability initiatives. These initiatives are more or less private sector based, with little policy attention being paid to

¹⁴ For details see European Commission (2009) and for a summary CTA Agritrade (2013d).

¹⁵ Consultations on the future of the EU's organic products regime are underway with proposals to be tabled by the end of 2013.

¹⁶ See CTA Agritrade (2013f).

¹⁷ See CTA Agritrade (2013g).

their market and trade consequences. This can be seen as an important policy lacuna¹⁸, with potentially serious consequences for ACP exporters.

Indeed, ACP Ministers have expressed concerns over the possible rise of eco-protectionism.¹⁹ While to date these concerns have focussed on the debate over “*border adjustment taxes on imports produced with greater carbon emissions*”, developments in 2012-13 suggest more immediate concerns arise over labelling claims under private sector designed schemes. This can serve to generate consumer resistance to imported products, where they are not certified as meeting private sector defined standards. This raises issues related to regulatory guidelines and controls over labelling claims and the accessibility of labelling schemes to third country suppliers on a non-discriminatory basis.

The Emergence of National Sustainability Certification Schemes

The most notable recent initiative in this regard was the June 2012 launch by the Irish Food Board of its ‘Origin Green’ labelling scheme of sustainable business practices. This scheme aims to differentiate Irish food and drink products from other third country products through ‘sustainability’ certification.²⁰ While not part of the EU’s official policy, such schemes are consistent with the general thrust of EU policy aimed at differentiating EU products from third country products on ‘quality’ grounds. While these initiatives can be seen as important in addressing climate change concerns, they can be captured by particular producer interests, who then use them to create obstacles to imports.

If the use of this type of sustainability labelling scheme becomes widespread in the EU, then ***ACP producers and governments will need to try and ensure that such schemes do not systematically discriminate against ACP products that meet the same underlying sustainability standards.*** Otherwise this could relegate ACP exporters to serving only lower priced market components, despite the fact that ACP products may meet the same underlying standards and may even have a smaller carbon footprint.

The emergence of sector wide national schemes

Alongside national sustainability schemes, sector specific sustainability initiatives have been launched in some countries. Thus we find that in June 2012 “*all major supermarkets, trading companies and NGOs in the Netherlands*” signed a covenant, committing themselves to ensuring that “*all fresh fruits and vegetables in Dutch supermarkets are sustainably produced*” by 2020. The covenant covers virtually the entire fruit and vegetable sector (90% of retail volume). Given the importance of Dutch ports and wholesale markets to fruit and vegetable distribution across large parts of northern Europe, this entirely private sector led initiative raises a number of questions.

- How well placed will ACP suppliers be to meet these new standards?
- Could slow responses to evolving standards weaken the competitive position of ACP exporters vis a vis third country suppliers seeking to capitalise on new EU trade preferences?
- What happens to ACP fruit and vegetable exporting sectors, when sustainability certification becomes the industry norm, without the issue of the distribution of costs and benefits of sustainability certification along the supply chain having been effectively addressed?

Individually and collectively the ACP need to respond rapidly to these challenges.

¹⁸ See CTA Agritrade (2012b).

¹⁹ See the remarks of South Africa’s Trade and Industry Minister, Rob Davies at the Third African Accreditation Cooperation General Assembly in September 2012 cited in CTA Agritrade (2012b).

²⁰ See CTA Agritrade (2012c).

Moving Beyond National Response to the Proliferation of Sustainability Certification Initiatives

ACP exporters have not been passive in the face of the rise of sustainability concerns and the multiplication of sustainability certification schemes. Companies such as the New Britain Palm Oil Company in Papua New Guinea have risen to the challenge to become one of the foremost suppliers of sustainably certified palm oil.²¹ Elsewhere industry wide initiatives have been launched to replace multiple standards and audits with a single audit process so as to reduce costs of certification and improve the net benefits to primary producers (e.g. the launch in October 2012 of the Sustainability Initiative of South Africa).²²

While these represent important initiatives, from which fellow members of the ACP Group could draw lessons, the danger is that national ACP efforts will constantly be playing “catch-up”, as private standards continue to evolve, often under pressure from national producers organisations. ***Getting ahead of the curve on private standards, by establishing clear guidelines and codes of conduct for their elaboration, potentially constitutes an important area for collective ACP Group action.***

3.3. The trend towards linking production process concerns to market access

Linking market access to sustainable fishing practices

A noticeable trend in EU fisheries sector policy is the efforts underway to link ***access to the EU market to the implementation of sustainable fishing practices***. This first emerged with reference to the EU regulation to combat Illegal, Unreported and Unregulated (IUU) fishing. There are however concerns these measures could be used as a non-tariff barrier to trade.

In November 2012, under the IUU regulation a list of countries was published which had been notified that they could face trade sanctions by the EU for lack of cooperation in fighting IUU fishing.²³ Subsequently the US published a similar list of ten countries engaged in IUU fishing. Significantly, despite there being a Food and Agricultural Organization (FAO) international plan of action, nominally providing a common framework for assessing compliance with IUU requirements, there was little overlap between these two lists. Given the potential trade consequences of these policy initiatives, this suggests a lack of objectively verifiable grounds for the drawing up of these lists and a need for far greater transparency and dialogue on this issue.

This issue has been given added significance with the adoption in 2012 of new EU legislation imposing trade and non-trade-related sanctions on third countries “*that do not abide by international rules on sustainable fishing methods*”. The measures proposed are wide ranging and include measures that, if applied to an ACP country, would affect its capacity to trade fish products into the EU market, either directly (quantitative restrictions on imports), or indirectly (by limiting the possibilities for increasing the volume of fish products that can be considered ‘originating’).

This is a major source of concern, given the linkages which are implicitly emerging between access rights for EU vessels following EU fishing reporting requirements and recognition of the sustainability of the fishing practices being undertaken in the fishing zones of the ACP countries concerned.

²¹ See CTA Agritrade (2013h).

²² See CTA Agritrade (2013i). Similar initiatives are underway in other ACP countries, for example, see CTA Agritrade (2012d).

²³ See CTA Agritrade (2012e).

Broadening Out Production Process Requirements for Market Access

Current developments in EU fisheries policy potentially carry far wider implications. Once a legally defensible basis for the imposition of production process requirements to the granting of access to the EU market for fisheries products has been set in place, it could potentially be extended to other sectors and products (e.g. social certification requirements for market access linked to the elimination of child labour in cocoa production; linking market access for meat products to certification of full compliance with EU animal welfare standards; linking market access for palm oil to sustainability certification; linking market access for tea exports to certified sustainable small holder farming practices). While some of these production process requirements may be widely seen as desirable (elimination of child labour in cocoa production), others would appear to be more appropriately left to consumer choice at point of sale and only require clear labelling. ***This issue of production process related market access requirements would appear to be another area for concerted ACP Group action.***

Box 3: Institutional Dimensions: Developing the Institutional Capacity for More Systematic Action on SPS, Food Safety, Sustainability and Quality Related Standards Issues

There would potentially appear to be an expanded role for CTA in assisting the ACP in getting to grips with ***policy challenges*** arising with regard to SPS/food safety/sustainability/quality standards related issues. This could draw on CTA's strong agronomic base and more recent focus on agricultural trade policy issues. This could be particularly valuable if coordinated with sector and regionally specific SPS/food safety programmes (e.g. the COLEACP managed PIP and EDES programmes).

Potentially CTA could also provide an institutional base for supporting the ACP Group in:

- The establishment and operation of ACP-EU consultative mechanisms on changes in SPS and food safety controls;
- Evaluating the impact of proposed changes;
- Launching a dialogue with the EU on the regulatory framework for the design and implementation of private standards and the scientific and objective verification of labelling claims.²⁴

CTA could also potentially play a role in monitoring major policy developments affecting agricultural trade and supporting ACP Group policy initiatives in response to these developments (e.g. EC proposals to move to full cost recovery for food and feed controls).

Any expanded role for CTA on the technical side of these issues would need to be matched by a re-focussing of certain functions of the ACP Secretariat on the operationalisation of political strategies to prevent SPS, food safety and a quality standards and measures becoming non-tariff barriers to trade.

3.4. Maintaining the policy space for agro-food sector development

Retaining the Right to Use Traditional Agricultural Trade Policy Tools

In the context of the EPA negotiations the use of agricultural trade policy tools has been an area of considerable contention in some regional negotiations. Many of the issues underpinning these contentious issues have been captured under the recent concept of the "*right to development*" advanced by Joseph Stiglitz and Andrew Charlton in their report "The Right to Trade: Rethinking the Aid for Trade Agenda".²⁵

²⁴ For an example of the need for such regulation see CTA Agritrade (2012f).

²⁵ See later section 3.6.

More fundamentally however is the contradiction between what the EU has been advocating in the context of the EPA negotiations and the actual trade practice under the CAP. As the 2013 WTO EU trade policy review pointed out, while MFN duties on agricultural products average 8.6%, this masks considerable variation between products, some of which are subject to high non-ad valorem duties or seasonal duties. The EU also has no less than 112 separate tariff quotas in place, which are used to manage trade in sensitive products.²⁶ The EU also has “*reserved the right to use special agricultural safeguards (SSG) on 539 tariff lines*”. Although safeguards are less extensively used, special price based agricultural safeguards have nevertheless “*been made operational for chicken, turkey and sugar products almost continuously*”.²⁷

Thus vis a vis its major trading partners the EU maintains a sophisticated agricultural trade regime designed to hold the line against any imports which could undermine EU agro-food markets and hence production. While this is seen as a transitional arrangement, linked to the long-term processes of CAP reform it has been retained in place for over 20 years.

Many ACP governments potentially have an interest in the retention of the kinds of agricultural trade policy tools which the EU retains in order to manage markets and insulate producers from volatile global markets (special agricultural safeguards, import licensing arrangements, TRQs, variable and seasonal tariffs etc.)

This potentially constitutes an area for concerted action by the ACP Group in arguing for the maintenance of the policy space for the promotion of agro-food sector development. Indeed, it can be seen as an important test case for the EU’s commitment to policy coherence for development.

Developing the Use of New Agricultural Policy tools in the ACP context

As the EU moves towards less regulated agricultural markets, with prices of CAP covered agricultural commodities no longer being set administratively, but being determined within a managed market context, the EC has recognised that inequalities in power relationships along particular agricultural supply chains can lead to unfair trading practices and price outcomes which, over time, could undermine the foundations of agricultural production in the EU. This has led to the development of policy measures designed to strengthen the functioning of specific supply chains, to better insulate them from the adverse effects of market price volatility.

The measures developed within the framework of this policy range from increased support for producer organisations, through the establishments of new regulatory frameworks for relationships along the supply chain and the drawing up of framework contracts for relations between producers and processors²⁸, to the adoption of a European Retail Action Plan and a Green Paper on unfair trading practices.²⁹

In an era of agricultural market liberalisation, this constitutes an increasingly rich body of regulatory experience, which ACP governments could potentially draw on to address a range of challenges faced as a result of both internal reforms and the transformation of the basis for trade in certain agricultural products into the EU.

Some ACP governments are already making use of agricultural trade policy tools to strengthen the functioning of local agricultural supply chains. In Namibia as part of a wider scheme, the allocation of import licences for horticultural products has been linked to expanded local procurement of the regulated fruit and vegetable products. This has seen the share of locally produced Namibian fruit and vegetables

²⁶ For an illustrative example in this regard see CTA Agritrade (2012g).

²⁷ See CTA Agritrade (2013j).

²⁸ See CTA Agritrade (2012h) and CTA Agritrade (2012j).

²⁹ See CTA Agritrade (2013k).

increase to 37.5% of national commercial consumption from a mere 7% when the scheme was launched in 2004.³⁰ In February 2013 the government of Senegal announced a similar initiative in the onion sector.³¹

Box 4: Strengthening the Functioning of EU Sugar Supply Chains

On 26 June 2013 a political agreement was reached between the EU institutions on the abolition of sugar production quotas from 30 September 2013. Significantly, alongside the announcement of the abolition of EU sugar production quotas, the EC announced that *“the organisation of the sugar sector will be strengthened on the basis of contracts and mandatory inter-professional agreements,”* which will include *“standard provisions for agreements between sugar factories and growers”*. In addition, *“for the period after quotas, white sugar will remain eligible for private storage aid.”* These measures are intended to *“provide added security”* to the functioning of the EU sugar market.³²

This forms part of what Agriculture Commissioner Ciolos described as *“a framework of modernised market management instruments with true safety nets, a clearer, strengthened role for producer organisations and obligatory contracts, before sowing, between growers and processors”*. This was seen as an essential complement to the abolition of sugar production quotas³³.

Greater sharing of information across the ACP Group on these types of policy experience could potentially support improved design of such schemes and promote their more transparent and accountable application, in ways that structurally develop ACP agro-food sectors.

Box 5: Institutional Dimensions: Institutional Possibilities Related to ACP Policy Cooperation on Agro-Food Sector Development

Given its existing work on monitoring the evolution of the EU’s agricultural policy and its trade policy implications, CTA could potentially play a role as a clearing house for information on the policy uses and operational experience of the use of agricultural trade policy tools in both the EU (where this affects trade with the ACP) and across the ACP. This could build on CTA’s experience of using information technology in the service of agricultural development by promoting the establishment of carefully defined networks of ACP policy makers for the on-line sharing of information on specific policy experiences.

Once again any such technical work by CTA would need to be complemented by a re-focussing of the activities of the ACP Secretariat on the operationalisation of programmes for pan-ACP policy cooperation on agro-food sector development.

3.5. Diversifying trade relations beyond the EU

Getting to Grips with New Opportunities

The surge in global food prices in recent years has been driven by growing demand in emerging markets resulting from more rapid rates of economic growth, increased urbanisation and changing consumption patterns. This is creating new opportunities for agriculture based ACP countries to:

- a) Diversify away from dependence on traditional markets in the EU, where the value of traditional trade preferences are being eroded;
- b) Expand net export revenues on the back of rising agricultural prices;

³⁰ See CTA Agritrade (2009).

³¹ See CTA Agritrade (2013l).

³² For more details see CTA Agritrade (2013m).

³³ For more details see CTA Agritrade (2012j).

- c) Structurally transform their engagement with global food supply chains, by moving up the value chain, so that more of the final retail price of food and agricultural products is retained in ACP countries and more employment opportunities are created in ACP agro-food sectors.

Challenges are faced in each of these areas, with ACP level actions in some instances potentially offering a more cost effective way of getting to grips with the challenges faced than purely national or regional actions. In this context the scope for complementary interventions at the ACP, regional and national levels, should not be under-estimated.

Of these three areas of opportunity, the challenges faced in transforming the structural engagement of ACP based enterprises with global supply chains, can be seen as a key challenge facing ACP policy makers and ACP based agro-food sector enterprises.

Meeting SPS Requirements in Non-Traditional Markets

The scope for expanding ACP exports to major emerging markets, such as China, is enormous. Currently preferential trade schemes of countries such as China, India and South Korea, are becoming increasingly comprehensive, with, in some instances, increasingly favourable rules of origin.³⁴ However, securing effective market access for agro-food products to these rapidly growing emerging markets, commonly requires the conclusion of SPS and quarantine protocols.

ACP authorities have had a highly variable experience in this regard. In 2012 for example, The Namibian authorities commenced the final stages of securing approval from the Chinese Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) for the establishment of the audit and control capacities required for the export of a range of meat and fisheries products.³⁵

In contrast at the Trade Pasifika exhibition in June 2012 the absence of agricultural export protocols (dealing with SPS and food safety issues) covering access to major export markets, such as China, was lamented. This was seen as constituting a significant barrier to exploiting potential market opportunities.³⁶ This is symptomatic of problems facing a wide range of ACP exporters seeking to diversify beyond traditional export markets.

Against this background there would appear to be scope for ***cooperation across the ACP on a joint programme for facilitating the negotiation of SPS and quarantine protocols with countries such as China***. This could provide for the sharing of experience across ACP countries in negotiating SPS and quarantine protocols and, on a sector specific basis (e.g. fisheries or livestock), could offer scope for jointly organised exposure visits. In addition, through intensifying pan-ACP cooperation in this area it could offer scope for developing concrete development cooperation programmes with non-EU partners, in ways which would diversify the basis of funding for ACP Group activities and programmes.

Finding Your Way Around Non-Traditional Markets

Meeting SPS and quarantine requirements is but the first of the challenges faced. There is also the substantial challenge of matching up export products with high-value market opportunities, so as to support the structural transformation of the engagement of ACP agro-food sectors with global supply chains.

³⁴ See Liard (2012).

³⁵ See CTA Agritrade (2013n).

³⁶ For more details see CTA Agritrade (2012k).

For example in Namibia, while the process of SPS approval is now well advanced, the difficult challenge is still faced of identifying higher-value commercial opportunities in China relative to those available on other traditional markets. This is by no means a simple and straightforward task, particularly for quality differentiated higher-value products which Namibia is increasingly exporting to European markets.

In recent years the main Namibian meat product exporter MEATCO, has built up a sophisticated marketing strategy which places individual meat cuts on those markets which offer the highest returns for that particular cut of meat. This requires building up a detailed understanding of local demand.

Against this background the Chinese market is a black box. There is clearly a demand for low cost 'chow mein' shredded beef, but this provides a poor match for Namibia's beef export profile. Potentially, the rising middle class demand for beef in China could open up new export opportunities for Namibian exports of high-quality beef cuts, however this requires:

- Identifying the specific market components to be served;
- Overcoming consumer scepticism over beef originating from Africa; and
- Developing a strong branding and marketing strategy in association with local partners who understand the evolving patterns of Chinese demand for high-quality beef.

For a small beef producer such as Namibia, the human capital and financial cost associated with developing branded high-quality exports to the Chinese market is likely to be high, relative to the value of Namibia's overall export potential.

Against this background pan-ACP cooperation in opening up the 'black box' of Chinese consumer demand in the meat product sector could offer a cost effective means of diversifying away from traditional markets, in ways which yield increased returns to Namibian producers.³⁷

This applies across a multiplicity of sectors with considerable scope existing in the initial phases of market identification and development for pursuing activities on a pan-ACP, sector specific basis, while recognising that full exploitation of market opportunities would then need to devolve down to the enterprise level in individual countries. The initial review however of evolving market opportunities, exposure visits and fostering of enterprise-to-enterprise contacts could most cost effectively be carried out in the context of a broad all ACP Group programme.

The initiation of common action at the ACP Group level would be particularly relevant if this occurred within the context of a multiplicity of agro-food sector specific initiatives, with a focus on value added processing and value added product differentiation. Moving into pre-packaged consumer ready products (e.g. for coffee and beef) constitutes a common area of interest across a wide range of ACP Group member states. This need for clearly defined sector specific collective action can indeed be seen as essential given the difficulties faced by individual ACP companies in mobilising the necessary financial and human resources, to search out and develop new markets, in what in global terms in many instances are tiny companies.

This issue of the limited volume of individual ACP countries exports to China, relative to the size of the Chinese market means that there is little danger of inter-ACP competition on these markets. This suggests a strong objective basis for pan ACP Group collaboration in the initial stages of identifying both evolving market trends in China and how most effectively to tap into these trends

³⁷ For details of other African countries seeking to develop meat exports to China see CTA Agritrade (2012I).

in ways which support the development of higher value processing and marketing of ACP products.

Diversification in Support of Structural Transformation

The diversification of ACP trade which is underway (e.g. China now takes nearly half of Benin's cotton exports up from zero in 1999) is not necessarily supporting the structural transformation of ACP engagement in global supply chains. South Africa's experience in this regard can be seen as illustrative. Over the past 15 years there has been a major shift in South Africa patterns of trade with different regions of the world (see table).

Table 1: Direction of South Africa's exports 2000 to 2012

Region	2000	2012
Europe	33%	23%
Americas	14%	12%
Asia	23%	35%
Oceania	1%	2%
Africa	13%	18%

Source: Standard Bank, "SA Trade – the global structure", South Africa Trade Special Report, Part I, 19 July 2013

Asia has now overtaken Europe as the main destination for South Africa's exports, with a major expansion in the volume of exports having occurred. However, this reorientation of exports has not to date supported any structural development of South Africa's trade.

Box 6: Institutional Dimensions: Supporting the Development of ACP Group Initiatives in Support of Structural Transformation through Market Diversification

Given its strong agronomic base, CTA could potentially play a role in:

- Coordinating a pan-ACP programme of support to meet SPS and quarantine requirements in major emerging markets (e.g. China);
- Building on existing export development initiatives across the ACP by coordinating the development of pan-ACP Group sector specific market identification and development programmes targeting key emerging markets (e.g. the structure of growing Chinese demand for coffee);
- Providing an institutional base for monitoring trends in structural investment in ACP agro-food sector development, aimed at moving local production up particular value chains and providing a clearing house on policy best practice for attracting such investment in ACP Group agro-food sectors (building on CTA's existing value chain programme).

Once again any expanded technical work of CTA would need to be complemented by a re-focussing of the activities of the ACP Secretariat on the elaboration of political strategies for strengthening dialogue with non-traditional partners of the ACP Group and coordinating the sharing of experience across the ACP.

Indeed, in trade with Asia the share of mineral products, base metals and precious and semi-precious metals and stones increased from 53% of total exports to Asia in 2000 to 61% in 2012.³⁸ Ironically the structure of South Africa's trade with the US and Europe is far less dependent on exports of mineral products, base metals and precious and semi-precious metals and stones, than its trade with Asia, suggesting that ***market diversification rather than fostering a structural transformation of the basis***

³⁸ See Standard Bank (2013).

for engagement of the South African economy with global supply chains, is currently reinforcing traditional patterns of primary product export dependency.

Thus, while many ACP countries are looking to tap into the expanding demand on the Chinese market, a key issue is **how to do this in ways which increase returns and promote local value addition in ACP countries prior to export**. In addition the question arises how can new trade opportunities with faster growing economies in the developing world be used to leverage investment in increased local high value agro-processing activities from all sources? **Here there would appear to be scope for joint ACP Group collaboration in this area at the sector level.**

3.6. Scope for engagement with non-EU partners in the WTO

Walking on Two Legs on Issues of Relevance to the ACP as a Whole

ACP Group cooperation on WTO issues has been a central part of ACP Ministerial discussions for many years, with the creation of the ACP Geneva Office in 2001, seeking to establish a firmer institutional base for collective ACP Group action.

The ACP Geneva Office potentially provides an institutional foundation for the ACP to “walk on two legs”, when it comes to pursuing its trade interests. That is to say to move beyond the establishment of common positions in preparation for WTO meetings, towards building a multilateral dimension to common ACP Group strategies for the promotion of the structural transformation of the basis of ACP engagement with the global economy.

The recent Stiglitz and Charlton proposals in the “The Right to Trade: Rethinking the Aid for Trade Agenda” report argued for a ‘*right to trade*’ and a ‘*right to development*’ to be “*enshrined in WTO rules and enforced through its dispute settlement mechanism*”. The proposal for a ‘*right to trade*’ would seek to address “*the trade barriers facing exporters from developing countries*” by granting them the right to “*bring action against an advanced country on the basis that a specific policy materially impedes the development of an identified community in a poor country by restricting their ability to trade*”. The ACP experience in 2012/13 of the EU’s changing application of previously agreed SPS and food safety measures highlights the importance of the debate around the ‘*right to trade*’.

The proposals for a ‘*right to development*’ would seek to address the challenges arising “*when developing countries implement multilateral trade rules*”, by limiting the “*applicability of WTO obligations when the enforcement of such obligations would have a significant adverse effect on development*”. The proposal to enshrine a ‘*right to development*’ in WTO rules, with this taking precedence over other trade policy commitments, can be seen as directly relevant to a number of the contentious issues in the on-going EPA negotiations. In the EPA context draft provisions have been advanced by the EU which would require the abandonment of the use of long established agricultural trade policy tools (e.g. import licensing to manage national markets, in a context of profound imbalances in economic power within ACP regions³⁹).

In this context promoting in-depth discussions of different aspects of the ‘*right to trade*’ and ‘*right to development*’ which should be subject to some form of international arbitration, can be seen as particularly relevant to ACP countries.

³⁹ For some illustrative examples of the use of agricultural trade policy tools which would be brought into question in the SADC – EU EPA context see CTA Agritrade (2010), CTA Agritrade (2011b) and CTA Agritrade (2011c).

While the ambitious nature of the Stiglitz and Charlton proposals raise systemic issues for the WTO and are likely to cause considerable controversy amongst WTO members⁴⁰, these concepts of a '*right to trade*' and '*right to development*' place centre stage three issues which are of growing concern in the ACP Group, namely the need to:

- a) 'hard wire' special and differential treatment into the application of all existing WTO provisions;
- b) have some appeals mechanisms against the application of non-tariff measures in ways which inhibit developing country exports; and
- c) have the "the right not to be harmed by the imposition of trade rules".

Further discussion of these issues in the WTO could complement ACP Group efforts to strengthen the hand of ACP national authorities in securing the transparent and scientifically accountable application of SPS and food safety standards, thereby avoiding the use of such measures as protectionist tools. It could also provide a mechanism for strengthening international standards for the application of sustainability principles to market access arrangements, thereby preventing the use of sustainability requirements as commercial barriers to trade or preventing the emergence of linkages to the granting of fishing access rights and preferential investment rights. It could further strengthen the position of ACP governments in both EPA negotiations and EPA implementation if "*the right not to be harmed by the imposition of trade rules*" was recognised.

Broadening the Debate on Cotton in the WTO

The ACP Group has strongly supported Cotton-4 group (Benin, Burkina Faso, Chad, Mali) initiatives in the WTO to secure the early elimination of US and EU cotton sector subsidies, the deployment of which has severely affected ACP cotton producers. However, in recent years the issue of cotton sector subsidies has become more complicated, with Chinese government cotton sector support leading to production and trade outcomes which have a major bearing on global cotton markets.

A May 2013 ICTSD/ICAC information note,⁴¹ highlighted how China, rather than the USA, has been the largest provider of cotton subsidies since 2009/10, with Chinese support for the cotton sector having increased more than fivefold between 2007/08 and 2012/13. As a result of the operation of China's minimum support price policy and import quotas, cotton prices in China have been kept "*well above international cotton prices*", with this increasing import demand from the Chinese textile industry and thereby supporting world market cotton prices.

The ICTSD analysis maintains that if stocks held by the Chinese government had not increased to such an extent, stocks in the rest of the world "*might have accumulated faster... and international cotton prices might have declined further*".

The threat of these Chinese stocks nevertheless now hangs over the global cotton market. To date, releases of cotton from Chinese stocks have not been "*large enough to significantly undermine domestic and international prices*". However, depending on the scale and basis of future sales from stocks, such releases "*could reduce the need for Chinese imports and depress world cotton prices*". Chinese government policy choices in the cotton sector are thus likely to have an important bearing on global cotton sector price developments in the coming years.⁴²

⁴⁰ See Jones (2013b).

⁴¹ See ICTSD/ICAC (2013).

⁴² For details of current concerns around the possible evolution of Chinese cotton sector policy see CTA Agritrade (2013o).

Against this background there would appear to be both considerable need and scope for an ACP political initiative towards China around the WTO on cotton issues.

This could form an important plank of intensified ACP Group cooperation with China. Such increased cooperation could be extended to a range of areas of common interest to the ACP, from joint cooperation in securing SPS approvals for exports to China, to sector-based programmes across the whole ACP to assist producers in understanding and penetrating Chinese markets. Such joint action at the ACP level, if properly managed, could be far more cost effective than individual country or regional actions, both in the WTO context and beyond.

4. Recommendations

4.1. Agro-Food Sector

- Given the growing importance of the design and application of SPS and food safety controls to the effective access enjoyed by all ACP exporters to EU markets, there would appear to be scope for a collective ACP political initiative to:
 - a) establish a reporting and monitoring mechanism for SPS and food safety disputes involving ACP countries;
 - b) promote the establishment of an ACP-EU consultation mechanism on the introduction of new changes to the application of SPS and food safety controls, where no immediate threat to human safety or plant health arises;
 - c) promote the establishment of an ACP-EU arbitration mechanism for the resolution of SPS disputes where they arise, with clear procedures and timeframes for resolution;
 - d) promote a mandatory arbitration mechanism in the WTO for the resolution of SPS and food safety disputes, where measures have been unilaterally introduced without sufficient supporting evidence being presented of a substantive food safety or SPS threat;
 - e) promote an extension of the exemptions for EU micro-businesses from the principle of full cost recovery to official food and feed controls to ACP exporters, as part of a more concerted policy response to getting to grips with the challenges of preference erosion.
- Given the growing importance of private standards to the net benefits gained by ACP agro-food sector exporters, there would appear to be scope for a collective ACP Group initiative to launch a dialogue with the EU on the regulatory framework for the design and implementation of private standards and the scientific and objective veracity of labelling claims made under these schemes, focussed on:
 - a) The drawing up of a code of conduct for the establishment and management of such schemes including requirements for such schemes to be open to all producers which met the requisite quality standards;

- b) The establishment of specific requirements linked to the scientific and objective credibility of the claims made under private labelling schemes;
- c) The establishment of agreed practices for the distribution of costs and benefits of sustainability certification along the supply chain, potentially building on the collaborative experience to date around the application of good agricultural practices through COLEACP managed programmes;
- Given the potential scope of moves to link market access to production process requirements, there would appear to be a need for concerted ACP Group action to ensure that such standards do not become either new barriers to trade or tools for favourably situating EU companies as investment partners in sector development programmes, by making their involvement a short-cut to market access.
- The ACP Group should consider initiating a programme of monitoring the use of EU agricultural trade policy tools and launching both bilateral and multilateral initiatives to promote the concept of a “*right to development*”, which would seek to limit the applicability of commitments entered into through both bilateral and multilateral trade agreements where their enforcement would have a significant adverse effect on development.
- Within increasingly liberalised yet imperfect markets, improving the poverty alleviation effects of greater integration into global supply chains is more and more dependent upon strengthening the functioning of agro-food sector supply chains. The sharing of regulatory experiences and lessons both within the ACP group and between the EU and the ACP Group, potentially constitutes an increasingly important area for collective ACP action.
- Given the common problems faced by ACP producers in penetrating non-traditional export markets, there would appear to be scope for a joint ACP Group programme to assist key agro-food sectors in finding their way around non-traditional markets. Such targeted programmes, for example, could focus on:
 - a) The establishment of a common fund to support sector specific market assessments, to provide a detailed assessment of the market opportunities available in China and support to exposure visits to develop business contacts; and
 - b) The compilation of best business practice guides to developing business partnerships in China;
 - c) The sharing of experiences in meeting Chinese SPS and quarantine requirements;
 - d) The establishment of a template for SPS and quarantine agreement and implementation procedures meeting Chinese SPS requirements;
 - e) Pan-ACP policy cooperation on best practices for leveraging investment in higher value processing activities from all sources.

Such targeted initiatives could of course reach beyond China to address the specific challenges faced in trading into other rapidly growing emerging markets.

Significantly the initiation of highly targeted programmes with clearly identified emerging economy partners, could offer considerable scope for diversifying the ACP Group’s traditional development assistance relationship beyond the EU, which in turn could lay the basis for a re-definition of the ACP Groups’ financial relationships with the EU.

- An ACP Group political initiative in the WTO focussed on bringing China into a more substantive role in addressing cotton sector issues facing ACP Group members could usefully be launched. This could potentially cover three related issues:
 - a) The need for more effective Chinese engagement on cotton subsidy issues in the WTO;
 - b) The management and disposal of Chinese cotton stocks;
 - c) The need to extend duty-free, quota-free access to China's imports of African cotton.

4.2. General Level

- The ACP Group needs to clearly identify the objective basis for ACP solidarity in the traditional areas of ACP Group activity and to establish clear priority areas for common action which have an added value when undertaken at the all-ACP level.
- This will need to be defined not in competition with national and regional ACP authorities, which have the primary role in coordinating efforts to promote the structural transformation of the basis of ACP members' engagement with the global economy, but in ways which are complementary.
- The identification of priority areas for value-added common action need to be undertaken with reference to core ACP Group objectives of transforming the basis of integration of ACP countries into the global economy, in ways which maximise the contribution to employment creation, poverty alleviation and the promotion of sustainable development.
- Priority areas where common action adds greater value need to be identified with reference to each of the key economic sectors (agro-food sector development, fisheries sector development, industrial development, mineral sector development, tourism development, service sector development etc.) and with reference to each of the traditional areas of ACP Group engagement (trade, development assistance and political dialogue).
- Priority areas for action, while initially focusing on the EU should, also reach beyond the EU to reflect the shifting focus of global economic growth, with wherever possible, this building on existing institutions (e.g. the ACP Geneva Office and the joint ACP-EU Technical Centre for Agriculture and Rural Cooperation – CTA) and existing ACP Group political initiatives.
- In reaching beyond the EU it will be essential to diversify sources of financial support to ACP Group activities, with ideally efforts in this direction being initiated before the ending of the current Cotonou Agreement, so as to lay the basis for a seamless transition.
- This will require the identification of initial areas where the new approach can be piloted, with specific agro-food sector issues potentially offering the best opportunities in this regard.
- The need to diversify funding will need to inform the elaboration of new focal areas of ACP Group activity, with these activities providing a basis for diversifying the financing of ACP Group activities.
- The diversification of financing for ACP group activities is an essential part of re-defining the ACP Group's political relationship with the EU and will require the elaboration of clear political strategies and the active engagement of political leaders across the ACP if it is to become effective.

- This will allow a shifting of the operational focus of the activities of the ACP Group beyond the EU and thereby lay a new basis for ACP-EU political relations.
- The ACP Group will need to secure a broadening out of the mandate of joint ACP-EU institutions (e.g. CTA), to allow:
 - a) The adoption of a coordinating role on the policy dimensions of existing pan-ACP and regional programmes in their focal areas of activity, so as to ensure that effective technical back up is provided to ACP Group political structures in the conduct of policy dialogues with the EU and beyond;
 - b) The development of strategies and operational programmes for the greater exploitation of information and communication technologies in support of more effective ACP networking (including both government and private sector association) on areas of common interest;
 - c) The development of ACP Group activities which reach beyond the EU.

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