

The CAP, development and food security

Alan Matthews

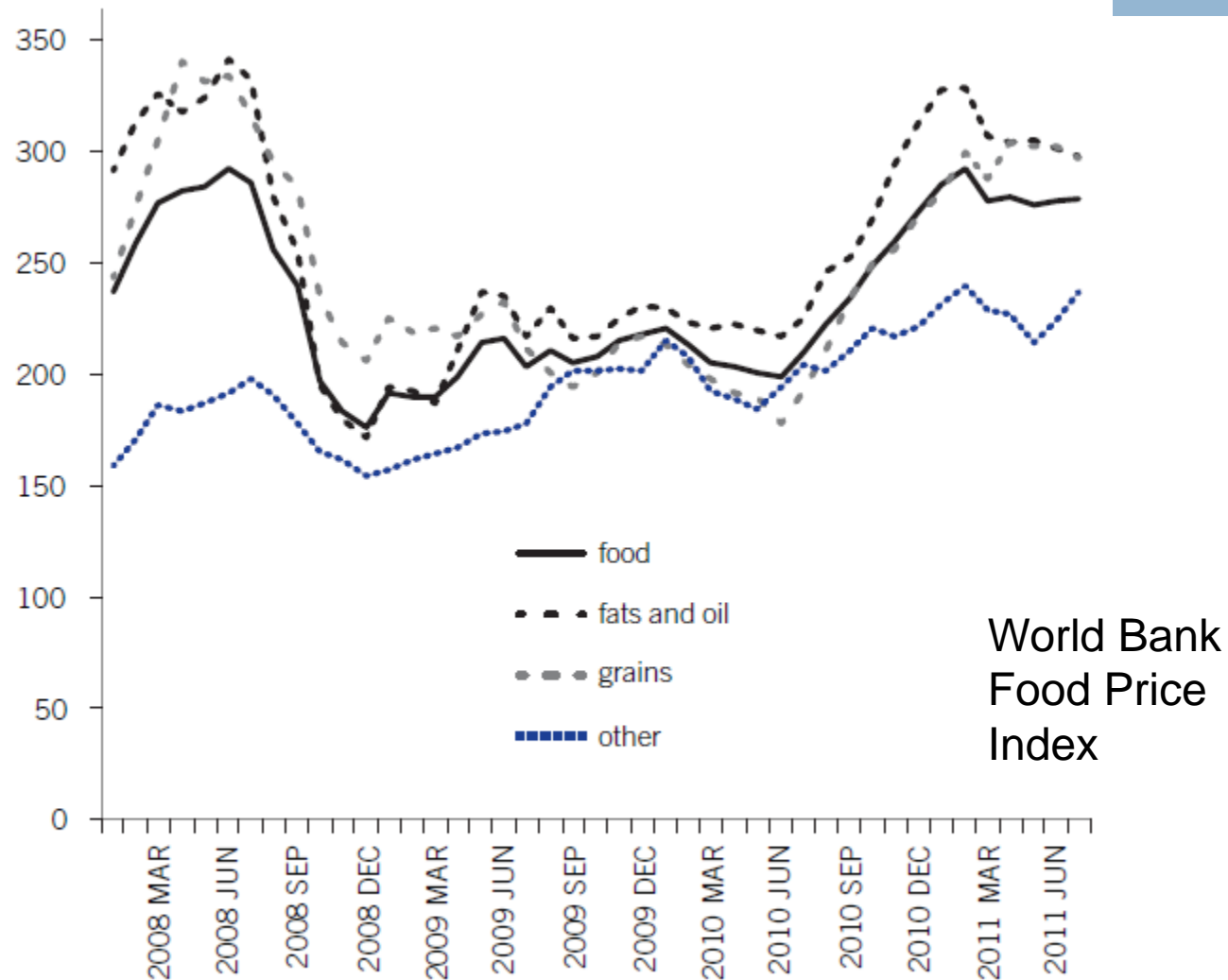
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Food security back on the agenda

2



Source: World Bank DECPG.

The EU as a global agricultural actor

3

- Significant shares of global production
- Most important trader
- In particular, by far the largest importer from developing countries
- But still high degree of self-sufficiency (2005-07)

Wheat	102%	Milk	101%
Cereals	100%	Sheepmeat	85%
Oilcrops	68%	Pigmeat	106%
Sugar	94%	Poultrymeat	102%
Beef	95%	Meat	101%

Source: FAOSTAT

Policy coherence for development

4

- Policy coherence for development means working to ensure that the objectives and results of a government's development policies are not undermined by other policies of that government which impact on developing countries, and that these other policies support development objectives, where feasible.
- Term first developed within OECD/DAC in the late 1990s which undertook much of the pioneering work to translate it into policy recommendations

Policy Coherence for Development (PCD)

5

- “The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.” Article 208 of the Lisbon Treaty

Agriculture in the PCD agenda

6

- “Within the framework of the reformed Common Agriculture Policy (CAP), the EU will substantially reduce the level of trade distortion related to its support measures to the agricultural sector, and facilitate developing countries' agricultural development”.
- ▣ European Consensus on Development, 2005

Agricultural policy an example of policy incoherence?

Oxfam Briefing Paper

34

Milking the CAP

How Europe's dairy regime is devastating livelihoods in the developing world

European citizens are supporting the dairy industry to the tune of €16 billion a year. This is equivalent to more than \$2 per cow per day – half the world's people live on less than this amount. EU surpluses of milk and milk products are dumped on world markets using costly export subsidies, which destroy people's livelihoods in some of the world's poorest countries. Dairy processors and trading companies are the direct beneficiaries of these subsidies. Meanwhile, many small-scale European dairy farmers are struggling to make ends meet. Oxfam is calling for an immediate end to EU dairy export dumping and for agricultural support to target small-scale farmers.

 Oxfam

 MAKE
TRADE
FAIR

CAFOD
tradejustice
campaign

Dumping on the Poor

The Common Agricultural Policy, the WTO and International Development

Duncan Green and Matthew Grif

Oxfam Briefing Paper

31

Stop the Dumping!

How EU agricultural subsidies are damaging livelihoods in the developing world.

European Union agricultural subsidies are destroying livelihoods in developing countries. By encouraging over-production and export dumping, these subsidies are driving down world prices of key commodities, such as sugar, dairy, and cereals. Reforming a system in which Europe's large landowners and agribusinesses get rich on subsidies, while smallholder farmers in developing countries suffer the consequences, is an essential step towards making trade fair.

 Oxfam

 MAKE
TRADE
FAIR



TAKING ACCOUNT OF CAP REFORM AND TRADE PREFERENCES

Two decades of CAP reform



1992 MacSharry
reform



1995 Uruguay
Round

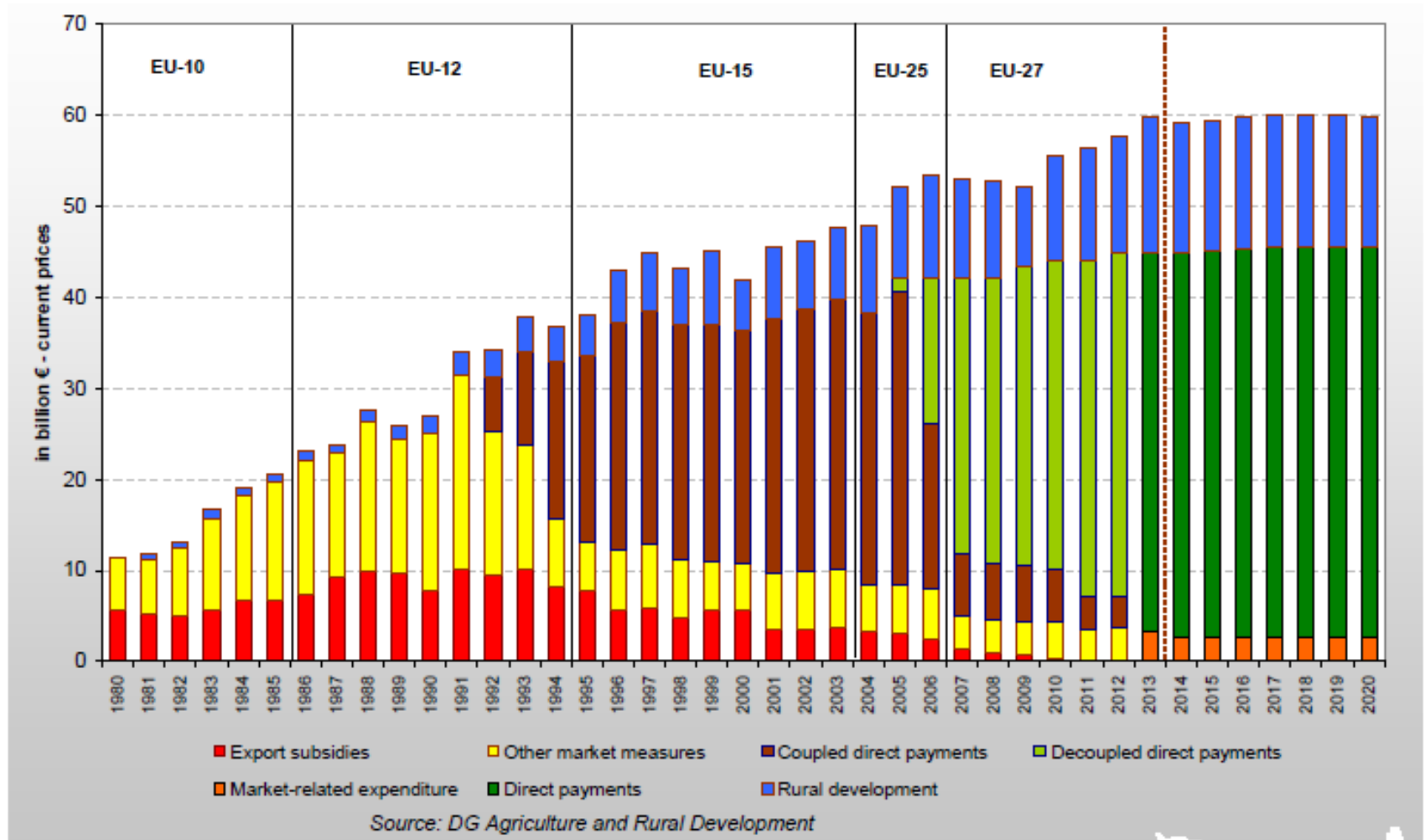


Agenda 2000 and
2003 Fischler 'Mid-
Term Review'

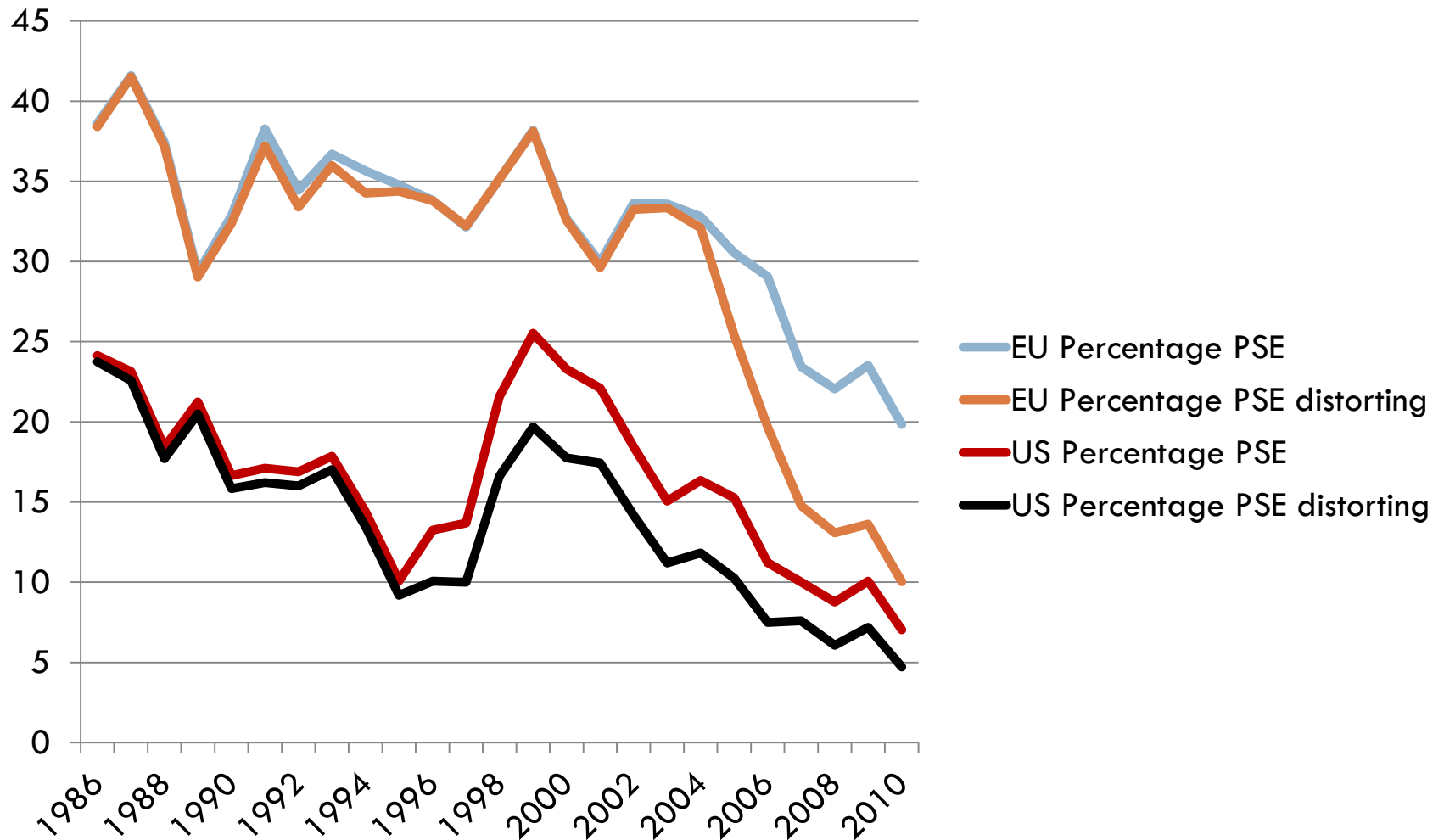


2008 Fischer Boel
Health Check

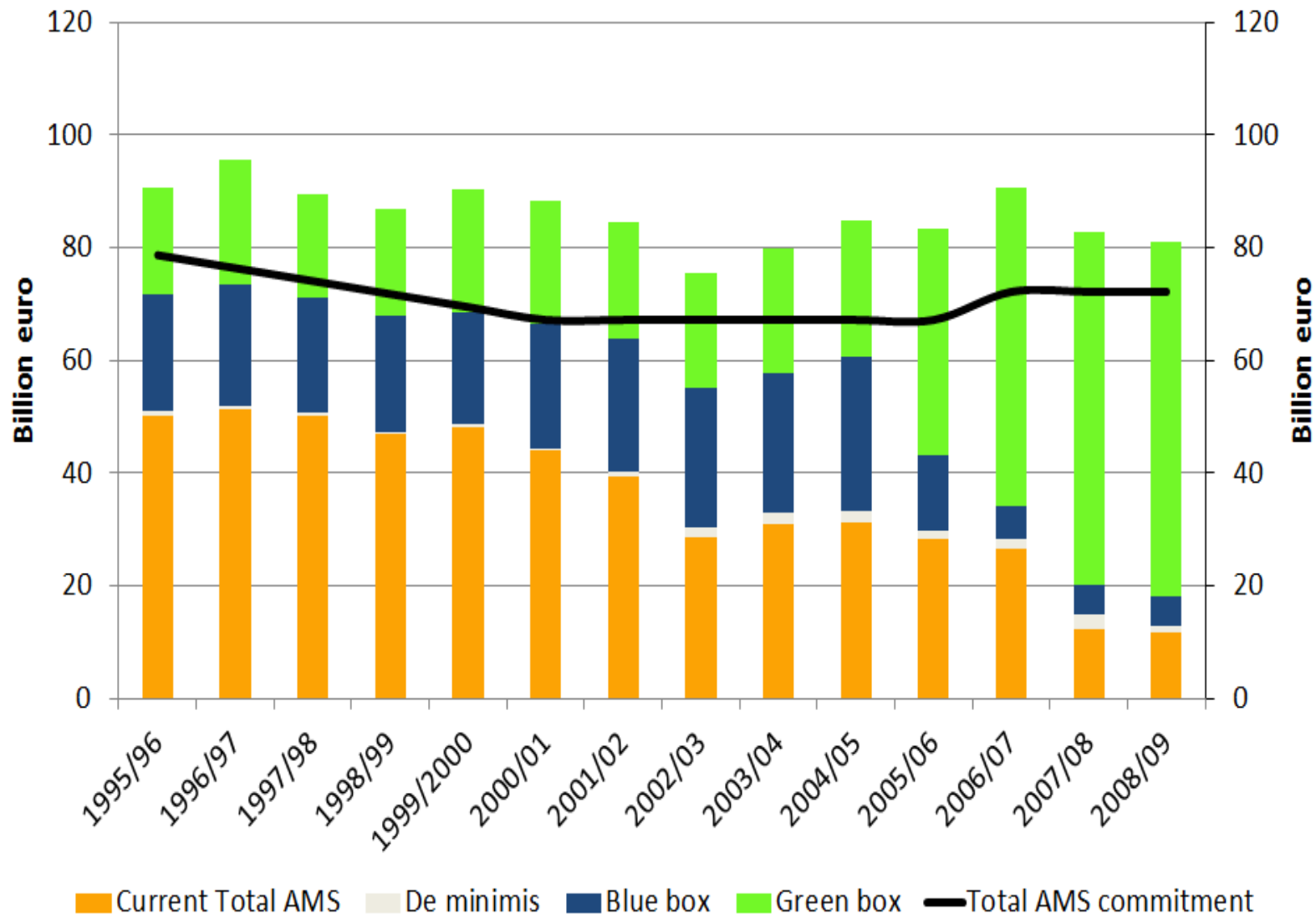
The path of CAP expenditure 1980-2020 (in current prices)



Trend in producer support estimate percentages, %



EU WTO domestic support notifications



Source: EU WTO notifications

EU expenditure on export subsidies, €m

	2003	2012*
Cereals and rice	213.5	0.0
Sugar	1,021.3	1.0
Dairy products	1,595.3	1.0
Beef	295.5	36.0
Non-Annex 1 products	433.3	14.0
Fruit & vegetables	29.3	0.0
Wine	19.6	0.0
Pigmeat, poultry & eggs	116.0	87.0
Olive oil	0.1	0.0
Food aid	5.7	0.0
Total expenditure	3,729.6	139.0

Source: EAGF report, 2010; 2012 Draft Budget for 2012.

	EU Applied MFN 2011 rates			
	Simple average tariff (%)	Range tariff (%)	Std-dev (%)	CV
Total	6.4	0-200.6	10.3	1.6
Agriculture	15.2	0-200.6	18.9	1.2
-Live animals	22.2	0-157.8	23.4	1.1
-Dairy products	32.6	1-164.8	27.7	0.9
-Coffee, tea, cocoa, sugar	15.6	0-120.6	15.7	1.0
-Cut flowers and plants	4.6	0-19.2	4.4	1.0
-Fruit and vegetables	15.0	0-200.6	15.1	1.0
-Grains	21.6	0-70.8	17.1	0.8
-Oil seeds, fats, oils	7.3	0-159.3	17.0	2.3
-Beverages and spirits	13.8	0-117.7	17.2	1.3
-Tobacco	25.8	6.2-74.9	23.0	0.9
-Other agricultural	5.9	0-93	12.1	2.0
Non-agriculture (excluding petroleum)	4.1	0-26	4.1	1.0
Source: WTO Trade Policy Review 2011				

An expanding network of preference schemes

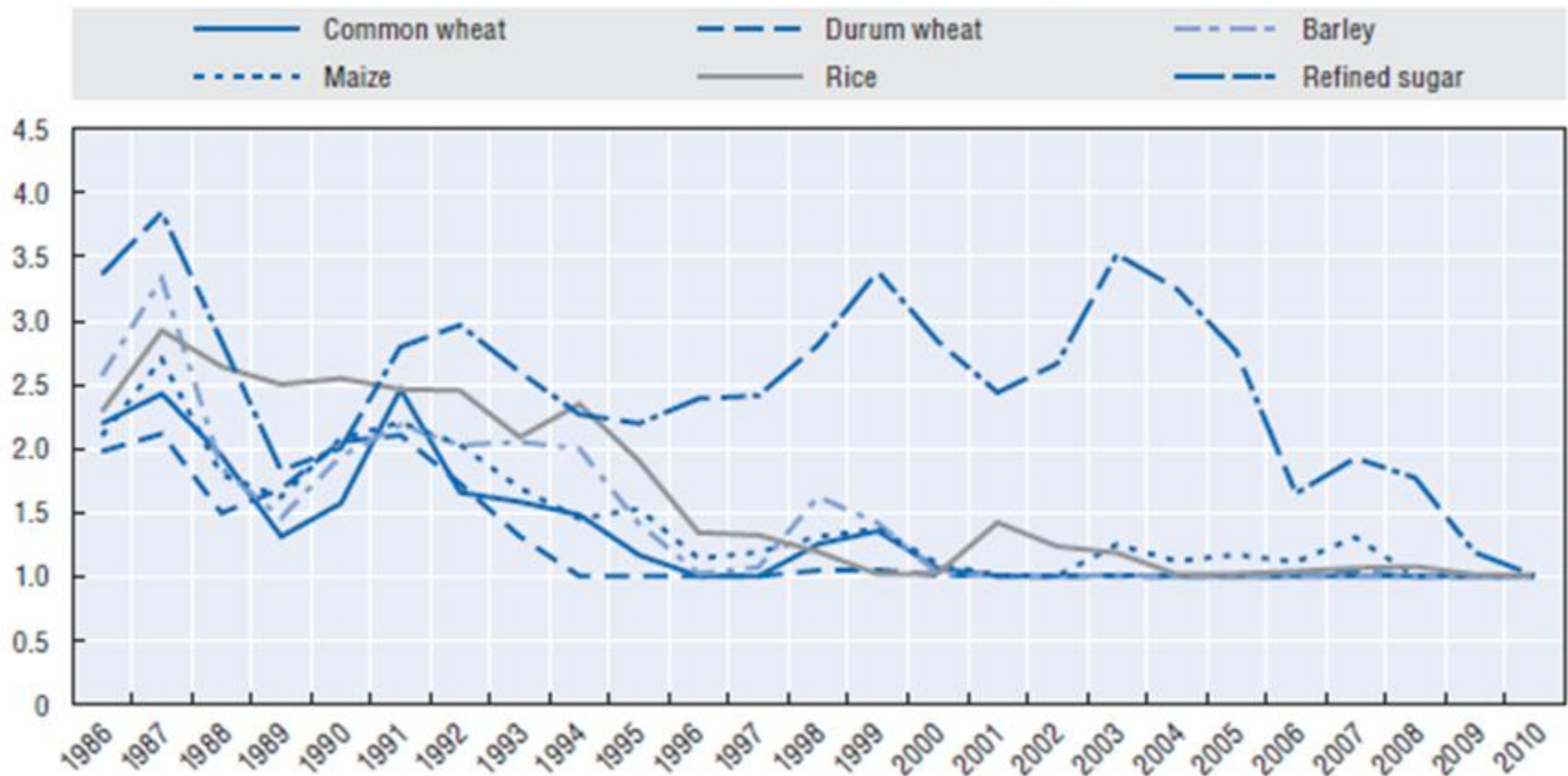
- EU has a hierarchy of preference schemes
- Generalised System of Preferences (GSP)
 - ▣ Limited CAP product coverage
 - ▣ But GSP+ for vulnerable developing countries
 - ▣ 2001 Everything but Arms (least developed countries)
- Non-reciprocal preferences
 - ▣ Cotonou Agreement with ACP countries
 - Sugar, beef and bananas
 - ▣ Since 2008, EPA market access regulation
- Free trade agreements
 - ▣ EuroMed, South Africa, Chile, Mexico

Agricultural trade preferences

- In broad terms, one-third imports MFN duty-free, one-third preferences, and one-third MFN dutiable
- Virtually all of Africa and some Andean and Caribbean countries have duty-free access to the EU market
- Asian and Latin American exporters continue to face relatively high tariffs

EU arable farmers now producing at world market prices

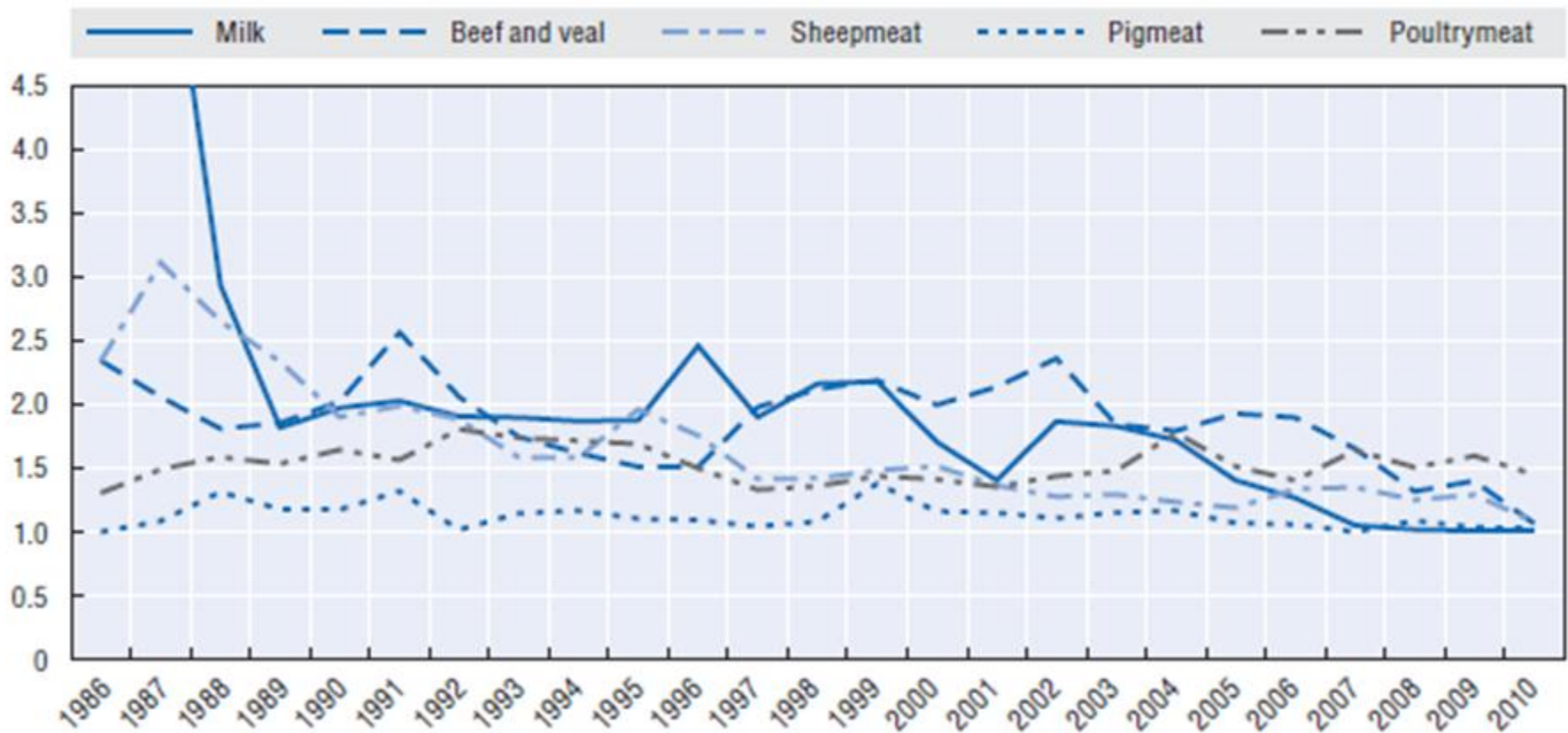
Producer NPC for selected crops, 1986-2010



Source: PSE/CSE Database, 2011.

..while some protection remains for
some meats but not milk

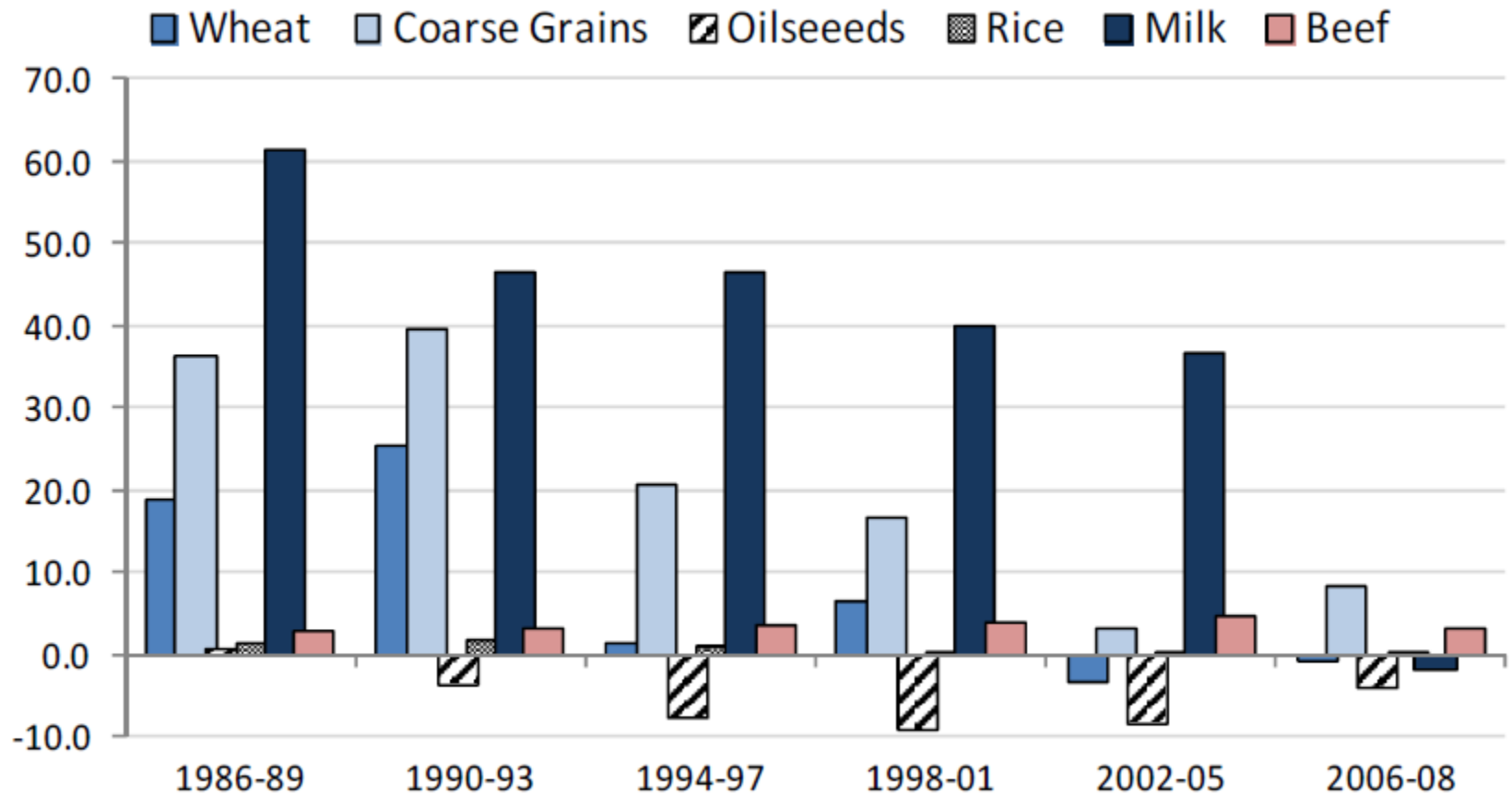
Producer NPC for selected livestock products, 1986-2010



Source: PSE/CSE Database, 2011.

CAP impacts on net exports, 1986-2008 (million tonnes)

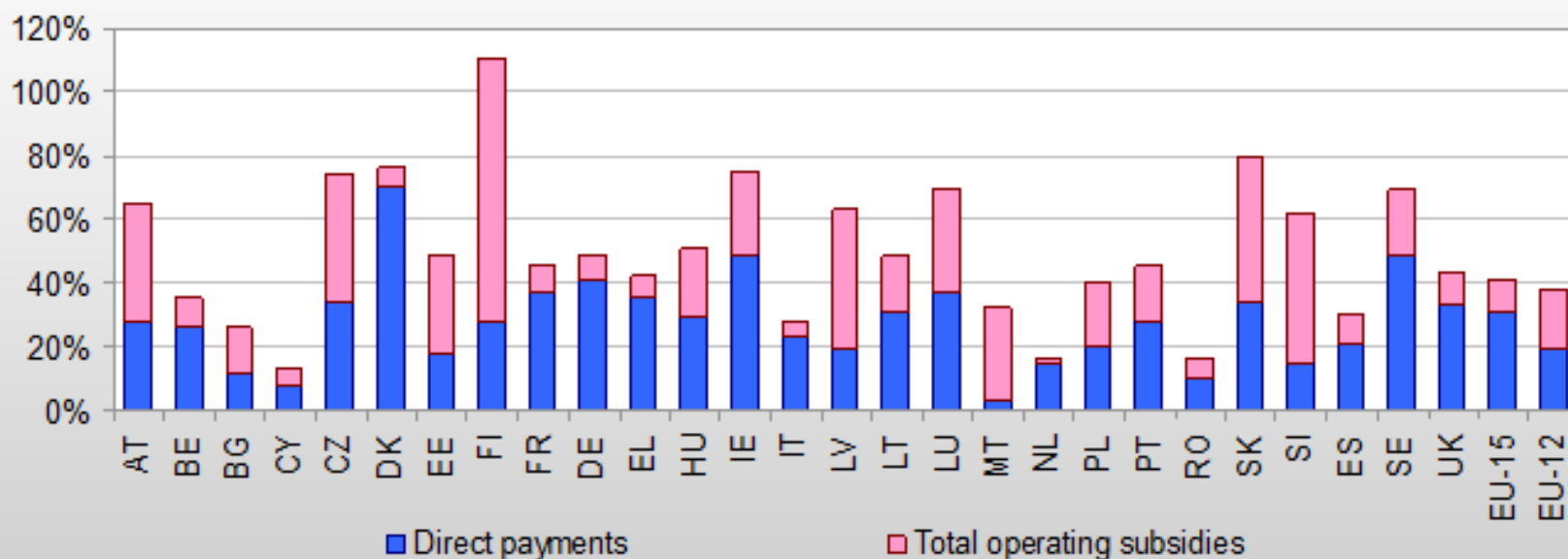
21



Source: OECD PEM model

Dependence on direct payments

Level of direct payments and total operating subsidies as a percentage of agricultural factor income (avg. 2007-2009)



Source: DG Agriculture and Rural Development

Note: Total operating subsidies include state aids granted by Member States

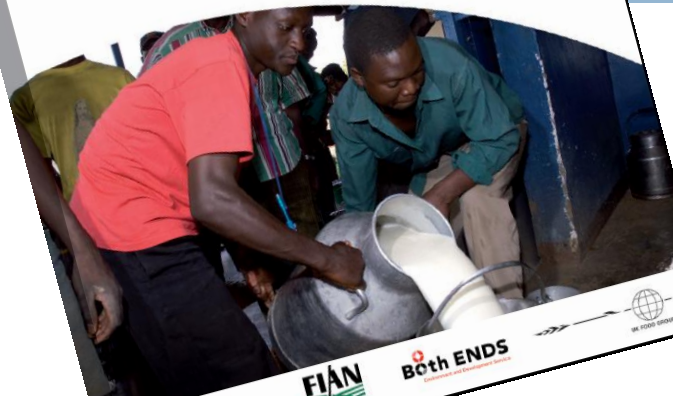
How damaging are EU decoupled payments?

- Decoupled payments are classified in the WTO Green Box as non or minimally trade-distorting, therefore no disciplines
- Theoretical and empirical arguments that decoupled payments
 - ▣ Wealth, liquidity, expectations, impact on entry and exit
- Decoupled payments can allow farmers to continue to produce below the costs of production
 - ▣ An adjustment lag?



CONTINUING NGO CRITICISMS

CONSEQUENCES OF THE EU TRADE AND AGRICULTURE POLICY FOR ZAMBIA'S DAIRY FARMERS SLOWED DOWN ON THE BEST PATH TO AUTONOMY AND DEVELOPMENT



FIAN

Both ENDS



Die EU exportiert – die Welt hungert

Warum die EU-Agrarpolitik auf Kosten armer
Länder geht

Autorin: Marita Wiggerthale



No more chicken, please

How a strong grassroots movement in Cameroon
is successfully resisting damaging chicken imports
from Europe, which are ruining small farmers
all over West Africa



Milking the poor

How EU subsidies hurt dairy producers in Bangladesh

September 2011

Spotlight on EU Policy Coherence for Development

A Lisbon Treaty provision
A Human Rights obligation



CONCORD

DEVASTATING FLOODS – MAN MADE

EUROPEAN TRADE POLICY VIOLATES
RIGHT TO FOOD IN GHANA –
CHICKEN AND TOMATOES



GERMANWATCH

FIAN

Both ENDS

UK FOOD GROUP

Continuing NGO criticisms

26

- “...while the EU recognises that advancing local smallholder farming is particularly essential in developing countries, other EU policies continue to undermine this very objective. ...Europe’s unsustainable agricultural production and subsidised exports, speculation on food commodities, greenhouse gas emissions and use of foreign farmland for its own food and energy production are examples of policies whose external impacts are inconsistent with the goal of eradicating global hunger.”
 - ▣ CONCORD, Spotlight on Policy Coherence 2011



IMPACT OF THE CAP ON WORLD MARKETS

Ways in which the CAP impacts on developing countries

- Through influencing the level of world prices
- Through influencing the volatility of world prices
- Through non-tariff barriers and the costs of market access



Impact of EU agricultural liberalisation

- Aggregate impacts depend on net importer/exporter and preferential status
 - ▣ Net exporters gain, net importers lose
 - ▣ Preference beneficiaries suffer preference erosion
- Further CAP reform (and OECD agricultural policy reform more generally) would have a positive impact on developing countries, although the size of this gain should not be overestimated.
- These positive gains would be highly skewed, with the bulk of the gains going to a few competitive agricultural exporters, and with a number of island and least developed countries facing potential losses.
- For Africa CAP reform is largely irrelevant. Its problem is market entry, not market access

Welfare effects of CAP reform, % change

	Pre-CAP 2003		Post-CAP 2003		
	EU (MA)	EU (MA+DS)	EU (MA)	EU (MA+DS)	Doha
World	0.069	0.088	0.066	0.065	0.017
EU	0.167	0.231	0.157	0.158	0.043
Other high-income	0.071	0.096	0.067	0.067	0.018
Upper-middle-income	0.063	0.057	0.064	0.061	0.013
Lower-middle-income	0.075	0.063	0.075	0.069	0.007
Low-income	0.030	0.027	0.032	0.029	0.005

Source: Gouel et al, forthcoming, based on the MIRAGE model

Welfare effects of agricultural trade liberalisation, % change

Region	World	OECD	EU	Doha-EU
World	0.261	0.200	0.065	0.017
European Union	0.169	0.158	0.158	0.043
High-income	0.241	0.226	0.067	0.018
Upper-middle-income	0.323	0.118	0.061	0.013
Lower-middle-income	0.314	0.074	0.069	0.007
Low-income	0.475	0.037	0.029	0.005

Source: Gouel et al, forthcoming, based on the MIRAGE model



MAKING THE CAP MORE COHERENT WITH DEVELOPMENT OBJECTIVES

Changing views on food prices - 1

- “US and Europe[‘s s]urplus production is sold on world markets at artificially **low** prices, making it impossible for farmers in developing countries to compete. As a consequence, over 900 millions of farmers are losing their livelihoods.”
 - ▣ OXFAM International, *International celebrities get dumped on at the WSF, 1 November 2005*
- “**Higher** food prices have pushed millions of people in developing countries further into hunger and poverty. There are now 967 million malnourished people in the world....”
 - ▣ OXFAM International, *Lessons from the food price crisis: Questions & Answers, 15 October 2008*

Changing views on food prices - 2

- “The long-term **downward** trend in agricultural commodity prices threatens the food security of hundreds of millions of people in some of the world's poorest developing countries.”
 - ▣ *FAO newsroom, Agriculture commodity prices continue long-term decline, 15 February 2005, Rome/Geneva*
- “**Rising** food prices are bound to worsen the already unacceptable level of food deprivation suffered by 854 million people. We are facing the risk that the number of hungry will increase by many more millions of people.”
 - ▣ *FAO Assistant Director-General Hafez Ghane, May 2008, Rome.*

EU biofuels policy

- Biofuels policy re-introduces some elements of the 'old' CAP by putting a (variable) floor under food prices (linked to energy prices)..
- .. But by providing a domestic market will **raise** rather than **lower** world prices
 - ▣ -availability of by-products for animal feed will offset some of the higher input costs for livestock farmers
- Biofuel 'mandates' also help to export instability to global food markets
- Is there an inconsistency in attacking both policies which lower and raise world market prices?

What role for the EU in global food production?

36

- “The new reality of food security is not sufficiently addressed in the Health Check and this new political reality needs to be in sharp focus in any future changes in the CAP post 2013. The emphasis needs to be on securing the EU food production base and meeting increased demand for food globally.”
- Mairead McGuinness, Rapporteur, European Parliament Report on the Common Agricultural Policy and Global Food Security, 2008

What role for the EU in global food production?

37

- **“Given that demand worldwide will continue rising in the future, the EU should be able to contribute to world food demand. Therefore it is essential that EU agriculture maintains its production capacity and improves it while respecting EU commitments in international trade and Policy Coherence for Development”.**
- ▣ Commission, Communication The CAP towards 2020, Nov 2010

What role for the EU in global food production?

38

- “The current EU approach to food in large part reflects its Global Europe strategy, centred on increasing EU competitiveness on the global market ... The focus on competitiveness is aimed at promoting agricultural exports. Some EU products (wheat, dairy products, sugar) are exported mainly to ACP countries. Regardless of whether or not these EU exports benefit from support, most of the time they compete with the development of national production in the countries importing them. As a result, the CAP is threatening local food production – which the EU’s development policy is trying to promote”.
- CONCORD, Spotlight on Policy Coherence 2009, pp. 17-18

What role for EU in global food production?

39

- “While the EU's Common Agricultural Policy (CAP) persists with its central focus of fostering competitiveness and exports of European agribusiness, it will continue to undermine small-scale farming and create greater food insecurity in the global South.”
- ▣ Thomas Fritz, Globalising Hunger: Food Security and the EU's Common Agricultural Policy (draft), 2011, Transnational Institute, www.just-trade.org

Should EU be a net exporter or importer of food from PCD perspective?

40

- NGOs highlight many case studies where food imports from EU allegedly undermine developing country food production...
- ...but are equally critical where EU turns round and starts to import from developing countries

The EU's footprint abroad

- Importing 'virtual' land and water

41

- “The EU is also a large importer of farm products.. thus occupying millions of hectares of farmland abroad which cannot be used for local food production anymore”.
- ▣ Thomas Fritz, Globalising Hunger: Food Security and the EU's Common Agricultural Policy (draft), 2011, Transnational Institute.

The EU's footprint abroad

42

- “In a situation of increased land scarcity, land use by the rich for their luxurious or affluent consumption patterns – often leading to obesity and unhealthy nutrition - is virtually taking food from the mouths of the poor, by grabbing their land, by the shift in land use or by the increasing prices of the poor man and woman's diet.”
 - ▣ APRODEV CAP Lobby Brief 4, 2011

Agrofuels

43

- “There is currently a massive land grab for agrofuels in Southern countries, much of it conducted by European companies wanting to export to the EU. The plans of private companies for acquiring domestic land constitute a threat to smallholder farmers, whose lands are likely to be confiscated and who are then reduced to unemployment”.
- ▣ CONCORD, Spotlight on Policy Coherence 2009

Is self-sufficiency an appropriate response?

44

- If both exports and imports cause harm, self-sufficiency is advocated as the virtuous middle ground
- “Meeting Europe’s responsibility towards global food security is not so much a matter of raising its agricultural exports to developing countries in order to feed the hungry from our land. Rather, it is an issue of allowing and supporting developing countries to increase their own production and to meet demands on their local markets. Indeed, the EU has to acknowledge that we cannot even feed ourselves from our own land and that we are becoming a problem for the world.”
 - ▣ APRODEV CAP Lobby Brief 4, 2011

EU self-sufficiency is not the answer

45

- But self-sufficiency is either hugely costly (where EU does not have comparative advantage)
- It is also a 'crime' against those developing countries without a comparative advantage in food production..
- ...and those with a comparative advantage in producing cash crops instead of food
- **We must insist that openness to trade is both the more development-friendly option and in the interests of the EU itself**

Trade critiques are driven by other concerns

46

- But NGO arguments can also be interpreted as a critique of modes of production
 - ▣ Import-competing farmers are invariably seen as small family farms, frequently operated by women, farming in ecological way
 - ▣ Export-oriented farms are invariably seen as industrial agro-companies, often owned by foreign investors, farming in environmentally unsustainable way
 - ▣ Probably true as a generalisation, but with exceptions
 - ▣ Focuses attention on the social and environmental consequences of trade flows
 - ▣ Can trade policy address these externalities?

Designing a development-friendly CAP

47

- Developing countries are too differentiated and heterogeneous to be able to design a CAP to achieve specific food security objectives
- Some developing countries are or can be low-cost food exporters, but not all developing countries have a comparative advantage in food production
- Designing and maintaining an open, robust, rules-based trade regime for food is an important global public good
- EU agricultural policy should be consistent with these rules

Conclusions

- Much of the discourse on CAP and development turns on the appropriate EU net trade position
 - ▣ Should the EU be a net food exporter to help feed the world?
 - ▣ Should the EU reduce its net imports to avoid ‘cannibalising’ resources which could otherwise be used to feed developing countries?
- But it is neither possible nor sensible to target agricultural policy on particular trade (world price) outcomes
- Continuing to reduce distorting interventions is the way to make EU agricultural policy more coherent with its development objectives