EU agricultural policy and developing countries: what do we know?

Alan Matthews
Professor of European Agricultural Policy
Trinity College Dublin
IIIS Public Lecture 5 May 2010
The EU’s (and Ireland’s) policy coherence for development commitment

- “The Community shall take account of the objectives [of development cooperation] in the policies that it implements which are likely to affect developing countries”.
  - Maastricht Treaty, 1993

- The Irish Government White Paper on Aid “adopted coherence as a guiding principle for Ireland’s overseas development aid programme”.
  - Government of Ireland, 2006
Numbers hungry in 2009

Total = 1.02 billion

- Developed countries: 15
- Near East and North Africa: 42
- Latin America and the Caribbean: 53
- Sub-Saharan Africa: 265
- Asia and the Pacific: 642

Source: FAO, 2009
Agricultural policy an example of policy incoherence?

Milking the CAP

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

Dumping on the Poor

The Common Agricultural Policy, the WTO and International Development
Dominic Green and Matthew Grif

Stop the Dumping!

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

- The CAP is now a different animal
  - How much has changed?
- Lessons from the 2007-08 food price crisis
  - Are high or low food prices better for poverty and hunger alleviation in developing countries?
- Other barriers to accessing the EU food market
- How important are CAP effects for developing countries?
- Policy recommendations
HOW SIGNIFICANT IS CAP REFORM?
Two decades of CAP reform

1992 MacSharry reform

1995 Uruguay Round

Agenda 2000 and 2003 Fischler ‘Mid-Term Review’

2008 Fischer Boel Health Check
CAP expenditure and CAP reform path

Source: Commission 2009
PSE level and composition by support categories, 1986-2008

Source: OECD 2009
NRAs to agriculture, EU-15/25/27 and Western European average, 1995 to 2007, percent

Source: Josling 2008
NRAs to agriculture without and with decoupled payments, Western Europe, 1956 to 2007

Source: Josling 2008
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?
- Continuation of EU direct payments face budgetary and legitimacy challenges
CAP reforms and the EU’s production surplus

Source: Commission 2009
Support to individual commodities, 2006-08

Source: OECD 2009; measured as Producer Single Commodity Transfers (%)

The diagram shows the support provided to various commodities, with data measured as Producer Single Commodity Transfers (%). The commodities are listed vertically, and the horizontal axis represents the percentage of commodity gross farm receipts.
Most of EU support is concentrated on relatively few commodities

Source: MAcMap database, 2004
Agricultural trade preferences

- In broad terms, one-third imports MFN duty-free, one-third preferences, and one-third MFN dutiable
- Value of preferences differs across the main preference schemes
  - Everything but Arms (Least developed countries)
  - Economic Partnership Agreements (ACP countries)
  - GSP Plus (vulnerable countries which have ratified conventions in the areas of human rights, core labour standards, sustainable development and good governance)
  - GSP
<table>
<thead>
<tr>
<th></th>
<th>GSP</th>
<th>GSP-EBA</th>
<th>GSP-Drug</th>
<th>Cotonou</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of tariff lines</td>
<td>1396</td>
<td>2545</td>
<td>1596</td>
<td>2086</td>
</tr>
<tr>
<td>Percent of dutiable lines</td>
<td>53.9</td>
<td>98.3</td>
<td>61.7</td>
<td>80.6</td>
</tr>
<tr>
<td>Average tariff rate (for program) (%)</td>
<td>12.7</td>
<td>0.0</td>
<td>6.0</td>
<td>15.6</td>
</tr>
<tr>
<td>Average tariff rate MFN (%)</td>
<td>17.0</td>
<td>28.1</td>
<td>18.4</td>
<td>29.8</td>
</tr>
<tr>
<td>Preference margin (percentage points)</td>
<td>4.4</td>
<td>28.1</td>
<td>12.4</td>
<td>14.3</td>
</tr>
<tr>
<td>Excluded from program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of tariff lines</td>
<td>1192</td>
<td>43</td>
<td>992</td>
<td>502</td>
</tr>
<tr>
<td>Percent of dutiable lines</td>
<td>46.1</td>
<td>1.7</td>
<td>38.3</td>
<td>19.4</td>
</tr>
<tr>
<td>Average tariff rate (for program) (%)</td>
<td>43.7</td>
<td>98.3</td>
<td>47.0</td>
<td>27.4</td>
</tr>
<tr>
<td>Average tariff rate MFN (%)</td>
<td>43.7</td>
<td>98.3</td>
<td>47.0</td>
<td>27.4</td>
</tr>
<tr>
<td>Preference margin (percentage points)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: TARIC database (DG Taxation and Customs Union).
EU biofuels policy - 1

- Commitment to ensure 10% of transport fuel sourced from renewable energy by 2020, mainly biofuels

- Current biofuel contribution around 2%
  - biodiesel mainly sourced domestically from rapeseed – around two-thirds of EU production
  - bioethanol much less important but also mainly sourced domestically because of high tariffs – <1% cereals production and <5% sugar beet

- Future supplies more likely to come from imports, but effect on food prices is the same (not affected by sustainability criteria)
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
Impact of environmental and other policies

- High food safety standards apply to both domestic and imported produce
- Higher environmental standards raise production costs in Europe
  - Nitrates Directive
  - Water Framework Directive
  - Animal welfare standards (intensive farming)
  - Biodiversity protection and agri-environment schemes promoting low-intensity farming
  - Prohibition on planting GM crops and slow approval of GM food and feed
WHAT ARE THE LESSONS FROM THE 2007-08 FOOD PRICE CRISIS?
Food prices likely to remain significantly above historical levels in the medium term – is this good or bad for poverty and hunger reduction?
Changing views on food prices - 1

- “US and Europe’s surplus 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....”

Source: Swinnen, *The Right Price of Food, 2010*
“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.”


Source: Swinnen, The Right Price of Food, 2010
Implications

- Changing food prices always benefit some households at the expense of others
  - Net food producers vs net food consumers
- But surely the poor are predominantly small farmers and thus net food producers?
FIGURE 28
Distribution of poor net buyers and sellers of food staples

Percentage

Bolivia  Ethiopia  Bangladesh  Zambia  Madagascar  Viet Nam  Cambodia

Orange: Urban (net buyers)
Yellow: Rural landless (net buyers)
Gray: Smallholders (net buyers)
Green: Smallholders (self-sufficient)
Light Green: Smallholders (net sellers)

1 Percentage of poor population buying or selling internationally traded staples (rice, wheat, maize, beans).

<table>
<thead>
<tr>
<th>COUNTRY/YEAR</th>
<th>SHARE OF HOUSEHOLDS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban (Percentage)</td>
</tr>
<tr>
<td>Bangladesh, 2000</td>
<td>3.3</td>
</tr>
<tr>
<td>Bolivia, 2002</td>
<td>1.2</td>
</tr>
<tr>
<td>Cambodia, 1999</td>
<td>15.1</td>
</tr>
<tr>
<td>Ethiopia, 2000</td>
<td>6.3</td>
</tr>
<tr>
<td>Ghana, 1998</td>
<td>13.8</td>
</tr>
<tr>
<td>Guatemala, 2000</td>
<td>3.5</td>
</tr>
<tr>
<td>Madagascar, 2001</td>
<td>14.4</td>
</tr>
<tr>
<td>Malawi, 2004</td>
<td>7.8</td>
</tr>
<tr>
<td>Pakistan, 2001</td>
<td>2.8</td>
</tr>
<tr>
<td>Peru, 2003</td>
<td>2.9</td>
</tr>
<tr>
<td>Viet Nam, 1998</td>
<td>7.1</td>
</tr>
<tr>
<td>Zambia, 1998</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
<td>15.1</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Unweighted average</strong></td>
<td>6.8</td>
</tr>
</tbody>
</table>

*Source: FAO, 2008a.*
What about the national level?

- Previous slides concentrated on staple foods; clash is less evident for typical developing country cash crops (coffee, tea, cocoa, cotton, tobacco).
- Developing countries were traditionally seen as agricultural exporters, but this is no longer the case.
Developing country regions, except for Latin America, expected to increase their net food imports over the coming decade

Source: FAO, 2009
Net exports of dairy products

Source: FAO, 2009
Net exports of meat products

Source: FAO, 2009
High imports could be blamed on anti-agriculture bias in the past, but this has now changed.

Source: World Bank Agricultural Distortions project
Do developing countries any longer have a comparative advantage in agricultural production?

- Developing countries role in world food system has changed
  - Increased diversity of available growth strategies, no longer just agriculture-based
  - Emergence of small number of highly competitive food exporters
  - Increasing number and scale of net food importers
  - Urbanisation, climate change will gradually reduce the poverty multiplier of agricultural production
Growth from agriculture is especially effective for poverty reduction

GDP growth from agriculture benefits the income of the poor 2-4 times more than GDP growth from non-agriculture (43 countries)
NON-TARIFF BARRIERS TO GAINING ACCESS TO THE EU FOOD MARKET
The debate about standards

- Imported food required to meet high EU food safety standards
- Increasing emphasis on food quality standards (affecting production processes) particularly in private supply chains
- Example: Only 12 countries are currently allowed to export beef to the EU
- Standards: the new protectionism? – not necessarily
  - Developing country exporters more likely to have difficulty in meeting EU standards
  - Meeting standards may raise costs, but can also improve efficiency and product quality
  - Standards provide the opportunity for product differentiation and therefore premium prices
  - Often the difficulty is not with the individual firm, but with national certification
  - A role for trade-related development assistance
MODELLING CAP EFFECTS
## European agricultural liberalisation - scenario impacts

<table>
<thead>
<tr>
<th>Countries</th>
<th>Pre-CAP 2003 Baseline</th>
<th>CAP 2003 Baseline</th>
<th>Doha (EU+US)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full Agri Lib</td>
<td>US+EU Agri Lib</td>
<td>EU Agri Lib</td>
</tr>
<tr>
<td>umi</td>
<td>0.33</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>BRA</td>
<td>0.66</td>
<td>0.25</td>
<td>0.25</td>
</tr>
<tr>
<td>MUS</td>
<td>-1.12</td>
<td>-1.70</td>
<td>-1.64</td>
</tr>
<tr>
<td>RUS</td>
<td>0.28</td>
<td>-0.05</td>
<td>-0.05</td>
</tr>
<tr>
<td>Imi</td>
<td>0.39</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>China</td>
<td>0.14</td>
<td>-0.04</td>
<td>-0.04</td>
</tr>
<tr>
<td>ECU</td>
<td>1.35</td>
<td>1.17</td>
<td>1.26</td>
</tr>
<tr>
<td>UKR</td>
<td>1.17</td>
<td>0.36</td>
<td>0.35</td>
</tr>
<tr>
<td>li</td>
<td>0.56</td>
<td>0.05</td>
<td>0.03</td>
</tr>
<tr>
<td>ACP</td>
<td>0.56</td>
<td>0.13</td>
<td>0.06</td>
</tr>
<tr>
<td>BGD</td>
<td>0.18</td>
<td>-0.08</td>
<td>-0.07</td>
</tr>
<tr>
<td>MWI</td>
<td>0.67</td>
<td>-0.76</td>
<td>-0.40</td>
</tr>
<tr>
<td>TZA</td>
<td>1.30</td>
<td>-0.04</td>
<td>-0.02</td>
</tr>
<tr>
<td>UGA</td>
<td>0.07</td>
<td>-0.04</td>
<td>-0.04</td>
</tr>
<tr>
<td>VNM</td>
<td>1.32</td>
<td>0.10</td>
<td>0.07</td>
</tr>
</tbody>
</table>

Source: Gouel et al, in Matthews *forthcoming*
European agricultural liberalisation

- These are aggregate short-run impacts
- Aggregate impacts depend on net importer/exporter status, preferential access, and commodity composition of imports and exports
- Distributional effects will differ
  - Farmers who are net food sellers will gain
  - Consumers and net food purchasers will lose
- Effects are maximum possible because model assumes perfect price transmission from global to domestic markets
- Particularly for low-income countries, CAP effects are second-order
CONCLUSIONS
Are developing countries (and NGOs) wrong to focus on further CAP reform?

- Aggregate effects may indeed be small (though important for some individual countries and commodities)...
- ... because there are both winners and losers and the effects cancel out
- But EU agricultural protectionism has a systemic effect on international trade rules
- The more Europe clings to border protection on ‘food security’ grounds, the less credible the argument that developing countries should rely on open markets for their food security
An agenda for action

- Seek the successful conclusion of the Doha Round
- Eliminate export subsidies after 2013 regardless of Doha Round outcome
- Greater targeting of the EU direct payments after 2013
- Addressing market access costs due to non-tariff barriers
- Aid to counter preference erosion
- Assisting the integration of smallholders into global supply chains
- CAP instruments to promote global market stability?
- Reinvigorate EU agricultural research as contribution to global food security