

# EU's Common Agricultural Policy - a Blight on African Development?

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*The Common Agricultural Policy (CAP) is the centerpiece of the European Union's agricultural policy and is arguably their most protectionist programme. In this essay Gemma Bewley analyses whether this system, designed to support EU farmers, has had external consequences on the economic development of African nations. She does this through the application of three trade theories before turning to the empirical evidence to further support her argument.*

## INTRODUCTION

In order to determine whether the EU's agricultural trade policies has had an adverse impact on African development, we must first examine what the agricultural trade policies of the EU consist of now and what they have consisted of in the past. our analysis must not be limited to tariff barriers but also non-tariff agricultural policies implemented by the EU as these can be highly restrictive and costly to less developed countries. We will then consider these policies in the context of the international trade theories and determine what these theories predict for the implication of EU agricultural trade policies on African migration. The theories of international trade that will be addressed are the Ricardian model, the Specific Factors model, the Heckscher-Ohlin model and the Stolper-Samuelson theorem. We must analyse the numerous case studies and reports from various African countries and see if the expectations that arise from the theories of international trade are witnessed in African communities. Finally, we must address the arguments in defence of the EU and their agricultural trade policies before concluding whether those policies have been significant push factors in African migration to the EU.

## WHAT IS THE EU'S AGRICULTURAL TRADE POLICY?

The EU's current agricultural trade policies have been evolving as part of the Common Agricultural Policy (CAP) since its introduction in 1962. The main ambitions of the CAP are to support farmers and rural communities across Europe. For years, the CAP has been seen as a highly protectionist piece of legislation which heavily distorted international agricultural markets to the benefit of large farm owners and food producers in Europe. Some of the protectionist policies implemented over the years up to 2013 included import tariffs which inhibited entry into the European market for other countries and subsidies which resulted in European farmers receiving a guaranteed high price for their produce while the world price was lowered as a result of surplus European production. Over time, the tools used to achieve the goals of the CAP have progressed to become fairer for farming communities around the world. For example, in July 2013, the export subsidy rates set by Europe were reduced to zero (Matthews et al., 2016). However, the EU continues to apply tariff rate quotas (TRQs) which see a certain amount of imports enter the EU at a low 'in-quota' tariff and the surplus imports enter at a higher 'out-of-quota' tariff. According to Matthews et al. (2016), more than 20% of agricultural imports enter the EU under a tariff rate quota.

## NON-TARIFF AGRICULTURAL POLICIES

As trade barriers in agriculture all over the world have declined with each World Trade Organisation (WTO) meeting, non-tariff measures (NTMs) are becoming increasingly more influential in directing international trade. NTMs include sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) which are put in place to achieve various public policy objectives. The measures that are required to be taken to comply with NTMs are often costly and can put foreign competitors at a disadvantage (Matthews et al., 2016). Bertow and Schultheis (2007) show that as agricultural products from Uganda can be exported to the EU duty- and quota-free it is non-tariff barriers like SPS that are more inhibiting to export growth. They say that in Uganda, improving the SPS measure of the quality of a product is costly as Uganda has few inspection units and none of the four laboratories in Uganda are recognised internationally as testing centres (Bertow and Schultheis, 2007). Keijer and King (2012) argue that food safety and SPS measures can have a discriminatory effect on less developed exporting countries as they raise the costs of trading considerably. However, Matthews (2017) argues that many of the obstacles facing Less Developed Countries such as the difficulties in meeting and certifying food safety standards are their own responsibility yet the EU is helping them to overcome the various barriers

with initiatives such as ‘aid for trade’.

Some of the aims of the ‘Deep and Comprehensive Free Trade Agreements’ (DCFTAs) that the EU is negotiating with North African countries is to tackle non-tariff barriers, to guide the liberalisation of services industries, and to align the regulations for the production of goods with respect to labour rights and environmental standards of North African countries with those of the EU (Langan, 2015). However, some political analysts of the region predict this type of liberalisation may destabilise the economic foundations of these countries and deepen the political tensions and social inequalities. There are also concerns that further liberalisation in these countries will see the regions manufacturing sectors be undermined by competition from Europe, like the agricultural sectors have been in the past (Langan, 2015).

### **WHAT DO THE CLASSICAL THEORIES OF TRADE PRESENT?**

In order to understand what the consequences of the EU’s agricultural trade policies are, we begin by looking at what the models of trade theories predict. To begin with, the Ricardian model of trade proclaims that each country’s comparative advantage determines the flow of trade between countries. A country has a comparative advantage in producing a good if the opportunity cost of producing it domestically is lower than the opportunity cost of making it in a foreign country (Feenstra and Taylor, 2014). The distribution of subsidies to European farmers under the CAP distorted the market of certain goods for many years and this would have eliminated the comparative advantages that some African countries would have had naturally from endowments such as the climate or the higher availability of land. The Ricardian model asserts that the utility to each country from engaging in trade is at least as high as it would be in autarky, which implies that engaging in trade never makes a country worse off. According to the Ricardian model of trade, a country’s wage level is determined by its absolute advantage, which is the amount a country can produce with its labour. This is why countries with highly advanced technological capabilities still import goods from countries that have less advanced technology because the lower productivity levels in those exporting countries will appear in the form of lower wages and ultimately in lower prices. As we would expect European countries to have higher levels of technology and more advanced capital resources we would expect them to have higher wages than many African countries, and thus we would expect African food products to be cheaper to import for Europe. However, as we have seen, the CAP imposed tariffs on agricultural imports into the EU for many years and subsidised EU exports which completely altered the effect from the differences

in wage levels.

A country's terms of trade are the ratio of its export prices to its import prices. Higher export prices or lower import prices result in higher terms of trade which is beneficial to workers as it implies higher real wages (Feenstra and Taylor, 2014). As EU subsidies led to the reduction in overall world prices for many agricultural goods, foreign consumers would pay less for importing them and thus increase their consumer surplus. These lower export prices result in a fall in the EU's terms of trade. The EU also experiences consumption and production losses, and these are not offset by the increased consumer surplus experiences by foreign countries, thus, on the whole, there is a deadweight loss for the world. Feenstra and Taylor (2014) argue that the overall reduction in welfare across the world as a result of these inefficient reallocation effects are reflected in a lower GDP level for Europe, as well as in the reduction of the EU economy's purchasing power.

The Ricardian model tells us that overall there are gains from trade so some individual or entity must be better off as a result of trade taking place. However, in order to determine the effects of agricultural trade policies on African economic development, we need to go beyond the Ricardian model and determine who is not better off as a result of the changes that occur in relative prices because of trade.

The Specific Factors model examines the returns to labourers, landowners and capital proprietors. In keeping with the predictions of classical economists, the Specific Factors model concludes that in the short run, factors of production that cannot move between industries and are in an industry competing with imports will lose the most from trade. Thus, in an import-competing industry which opens up to trade and then experiences a reduction in the relative price of its good, there will be a knock-on effect in reducing the real earnings of the specific factor of that industry. Conversely, export-focused industries which see an increase in the relative price of their goods after opening to trade also see a rise in factor earnings (Feenstra and Taylor, 2014). One of the assumptions this model makes is that there are two industries, manufacturing and agriculture and that labour is mobile between them meaning there will not be dramatic changes in wages when one industry does better than the other from trade. However, it seems unlikely that labour is mobile between these industries as they require very different skills that take time to learn. So, in reality, we can expect there to be significant changes in the wages of the two industries when they open to trade.

As farmers in African countries will receive lower world market prices for

their produce as a result of the market intervention by the EU through the CAP, they will experience income loss and unemployment as their farms may go out of business if they cannot compete with such low prices. As we have said, the reality of moving from the agricultural to the manufacturing industry is unlikely to be easy, and those that are left without work may see little future for themselves in the domestic job market. This could lead to large scale migration, further reducing the productivity and innovative capacity of the country's workforce. In fact, McKeon (2018) finds that much of the migration to Europe from West Africa is rooted in decades of policies which have left rural communities impoverished as smaller producers failed to compete with prosperous exports. While in North Africa, Langan (2015) estimates that the ad valorem tariffs of 26% on fish and fish products and 20.8% on fresh fruit and vegetables have prevented the creation of 115,000 jobs in Morocco and 66,000 jobs in Tunisia.

Moving to a long-run framework where labour and capital can move between the industries without restrictions, we look at the Heckscher-Ohlin model. This model predicts that a country will specialise in exporting the good which uses the factor of production most abundant in that country more intensively and will import the other good and so, the relative earnings for the factor used in the production of the exports will increase. The Stolper-Samuelson theorem says that when the relative price of a good increases, the earning of the factors used in making the good will move in contrast with one another. Taken as one, the Heckscher-Ohlin model and the Stolper-Samuelson theorem predict gains for the abundant factor of production and losses for the scarcer factor of production when a country opens to trade (Feenstra and Taylor, 2014). The Heckscher-Ohlin model assumes technology levels are the same across countries which in reality is not true. When we account for trade-distorting appliances such as export subsidies, the most abundant factor of production of a country becomes redundant in the face of such low prices so the predictions of the Heckscher-Ohlin model and the Stolper-Samuelson theory, with respect to the most abundant factor of production, are not expected to be found in the case of trade between the EU and countries in Africa.

## **EVIDENCE FROM CASE STUDIES**

The extent to which the CAP impacts countries in Africa depends on the different economic, trade and poverty characteristics of each African country (Boysen et al. 2016). Some African countries may be net exporters of agricultural products and thus be negatively affected by the CAP while others may be net importers of agricultural products, thus benefiting from the impact of the CAP.

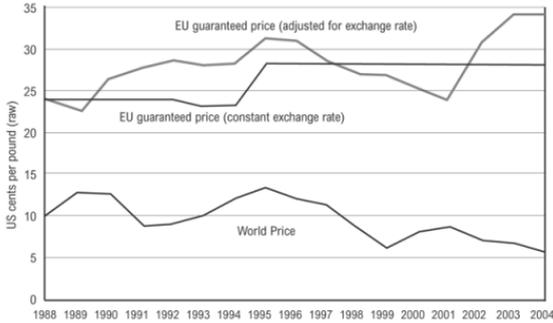
Within countries that are net importers of food, the poorest members of society may be net sellers (McMillan et al., 2006). Clearly to understand fully the effects of the CAP on the different communities in Africa we will need to examine various case studies.

In Cameroon, frozen chicken from Europe flooded domestic markets in the late 1990s at prices as low as €1.44 per kilo, which local producers could simply not compete with. An organisation known by its French acronym ACDIC meaning, Citizens Association for the Défense of Collective Interests, selected a random sample of 100 poultry farmers in 1996 and found that by 2002 only 8 of these farmers were still in business. As prices dropped so sharply, farmers could no longer cover their costs nor pay back outstanding loans. They found the fall in production of poultry farming had a knock-on effect resulting in job losses for the producers of chicken feed and local butchers. Overall, it is estimated that 120,000 jobs were lost as a result of this crisis (Aprodev, 2010). Senegal reduced their tariffs on chicken imports from 55% in 1998 to 20% in 2002 which resulted in local chicken farmers having to compete with a rise in frozen chicken imports from the EU. Organisations representing agricultural producers estimate that since 2002, 70% of poultry farms in Senegal have closed down because of the competition from subsidised EU exports (Dupraz and Postolle, 2013). The scale of job losses in these regions of West Africa is dramatic as they show the near total ruin of a sector of the agricultural industry where workers may not have many transferable skills and so end up in long term unemployment and poverty.

For many years, the EU has been accused of dumping its annual surplus of approximately 5 million tonnes of sugar overseas through the CAP system of direct and indirect subsidies. In 2004 the EU was estimated to be spending €3.30 in subsidies for every €1 worth of sugar exported (Oxfam International, 2004). Large export subsidies and high import tariffs resulted in a wide gap between EU guaranteed sugar prices and world market prices. Graph 1 illustrates the difference between the guaranteed price received by European producers and the world markets price between 1988 and 2004. The Everything But Arms (EBA) agreement allowed LDCs to sell Europe a volume of sugar equal to 1% of their total annual consumption. Mozambique and Ethiopia were allowed to sell a combined total of 25,000 tonnes to Europe in 2004 which is less than what just 15 of the largest sugar farms in Norfolk, England produce in one year. Oxfam International (2004) estimated the costs of restriction for three African countries, Ethiopia, Mozambique and Malawi, from the beginning of their EBA agreement with Europe up to 2004 at \$238 million. Overall, they estimated that for every

\$3 Mozambique received in aid from the EU, they lose \$1 due to restrictions to the European sugar market. In 2009 the EU gave partnered countries under the EBA agreement duty-free access to export.

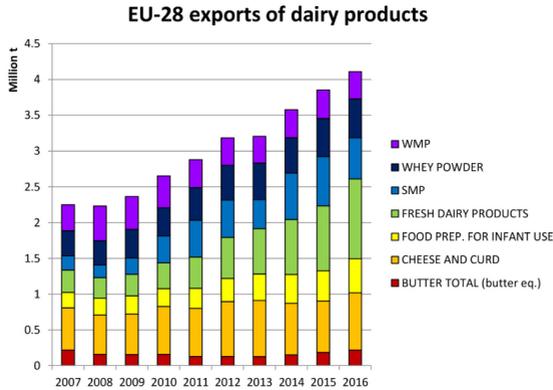
Graph 1. Source: Oxfam International



Source: Based on data from International Sugar Organisation, World Bank, European Commission

In 2009 there was a slump in dairy prices across the EU which led to the re-introduction of export subsidies. Many have argued that this led to the dumping of dairy products in developing countries. A USDA review of the European dairy sector found that exports of skimmed milk powder (SMP) grew 63% in 2010, this growth can be seen in Graph 2 (Engel and Klavert, 2011). In 2014 Russia enacted an embargo on European food and agriculture products which put pressure on European dairy producers to find demand for their produce. As seen in Graph 2 exports of skimmed milk powder increased again in 2014. Livingstone (2018) reports that large European dairy multinationals expanded into West Africa after the 2009 dairy crisis in Europe and ship skimmed milk powder to the region and then transform it into liquid milk. Senegal's dairy association, FENAFILS, say that local milk producers struggle to compete with global firms such as Danone, Arla and FreislandCampina and the region is at risk of completely losing the local industry (Livingstone, 2018).

Graph 2. Source: European Commission



## THE EU'S DEFENCE

The European Commission believes there are many exaggerations made about the persistent effects of the CAP on the developing world. They point to a number of other possible causes that could result in the reduction of domestic agricultural production in developing countries. Some of these causes include government policies, supply chain issues, animal or plant health issues, e.g. avian influenza (European Commission, 2018). They also acknowledge that there are other large countries, such as the United States, China or Brazil who may also impact the domestic agricultural production of the developing world.

In the case of dairy products in Africa, the European Commission claims that African production of skimmed milk powder does not meet the demand. They point to the differing self-sufficiency rates across Sub-Saharan Africa from 79% in Malawi to 39% in Nigeria (European Commission, 2018). Furthermore, the trade agreements, or EPAs, that Europe has with many partner countries in Africa allow the partner countries to declare 'sensitive' agricultural products which they can protect from liberalisation. This results in whole sectors of the agricultural industry being excluded from the EPA entirely and ensuring local production is not hampered by competition from European imports. Finally, the European Commission argues that Europe is, in fact, the largest importer of agricultural products from Least Developed Countries (LDCs). Their imports in 2017 amounted to €3.5 billion which was more than the combined value of all imported agricultural goods from LDCs to the United States, Canada, Russia, China and Japan (European Commission, 2018).

Engel and Klavert (2011) also argue that many developing countries do not want EU exports to become more expensive as they provide cheaper alternatives for consumers and depress inflationary pressures. This explains why prior to the EU completely scrapping export subsidies in 2013, many developing countries kept their import tariffs low despite disadvantaging the agricultural sector. As a counterargument to this perceived benefit of providing cheap food to consumers of developing countries at the detriment of their domestic agricultural producers, Bertow and Schultheis (2007) argue that these countries will always be vulnerable to external food price fluctuations. Without a strong domestic sector, developing countries may become dependent on the agricultural industries of their importers.

## CONCLUSION

It is clear that with each passing of another WTO meeting, the EU's CAP has been evolving substantially. Export subsidies are no longer in use and most low-income countries and all LDCs can now export to the EU market duty-free (Matthews et al., 2016). Despite this, Goodison (2007) describes the future of Africa as being determined by its trading relationship with Europe. Goodison reflects on how Africa has been defined by Europe in the past, through the slave-trade and colonialism, to how, in recent times, Africa has suffered from market outcomes which have been shaped by Europe's CAP. Goodison argues that the EPAs currently in place have left Africa dependent on Europe as they pressured African countries to open up to trade and embrace liberalisation. Under EPAs, the European Commission prioritises the idea of regional trade and trade within African regions has increased since they have opened trade with Europe, but it is often in the form of re-exports and thus it doesn't benefit regional producers (Goodison, 2007). However, it is also clear that consumers often benefit from EU exports, regardless of the negative consequences for the agricultural industry. Overall, consequences that limit the ability for growth in value-added areas of the agricultural sector are negative as these are areas in which growth would be beneficial to the development of a country's economy.

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