IIIS Discussion Paper

No.454 July 2014

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Introduction

The European Union's (EU) Common Agricultural Policy (CAP) has long been criticised for its damaging effects on developing countries, and developing country agriculture in particular (J.-C. Bureau and Matthews 2005; Matthews 1985; Matthews 2008; Meijerink and Achterbosch 2013). EU farmers have enjoyed considerable protection as a result of the CAP, both through higher prices and budget support. The resulting stimulus to production (and disincentives to consumption) meant that the EU emerged as a significant competitor to developing country (and other) exporters, while its use of export subsidies enabled surpluses to be dumped at low prices on the markets of importing developing countries. Case studies undertaken by non-governmental organisations (NGOs) have highlighted the alleged negative impact of EU exports of particular commodities (milk powder, pig meat, tomato concentrate, poultry meat) in particular developing countries.[2] At the same time, the EU's high level of border protection has limited exports from from efficient exporters to the EU market. Model simulations confirm that the CAP has in the past distorted both the level and the volatility of world market prices to the detriment of farmers in developing countries, even if urban consumers and net importing developing countries reaped some benefits from lower world market prices.[3]

This chapter sets out to do two things. In practice, the impact of the CAP on developing countries is more differentiated and nuanced than this simple account would suggest. The first half of the chapter discusses the impacts of the CAP, defined narrowly as the set of regulations governing EU agricultural policy, in the broader context of other EU policies affecting the level and composition of EU agricultural production and access to the EU market. At the end of 2013, the EU agreed to a further reform of the CAP regulations. The second half of the chapter describes the likely impact of the changes introduced by this CAP2013 reform for developing countries, and evaluates the extent to which they move the CAP in or away from a more development-friendly direction. We conclude that there are mixed signals for developing countries from this reform, and that it represents a missed opportunity to help to build a more robust system of global food security.

European policies and developing country agriculture

The CAP is a complex set of policy instruments; while many measures have supported EU farm production, others (such as sugar and milk quotas, set-aside of arable land, or high animal welfare standards) have the opposite effect. The focus of this chapter is the impact of agricultural policy instruments on EU production and trade and thus on developing countries. Increasingly, however, the volume and composition of agricultural output in the EU is influenced by its non-agricultural

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2 For a small selection of NGO studies, see ActionAid 2011a; ActionAid 2011b; Aprodev 2007; Bertow & Schulteis 2007; CONCORD 2011; Fritz 2011; Oxfam 2004.

3 Adenäuer and Kuiper 2009; Costa et al. 2009; Gohin 2009; Gouel, Guillin, and Ramos 2008; Nowicki et al. 2009; Prins et al. 2011.

policies. EU climate and energy policies, for example, have encouraged the use of agricultural resources for biofuel production; for those commodities used as feedstock for EU biofuels, this policy has a much greater impact on the EU's trade position than agricultural policy. Environmental policy, such as the encouragement of organic farming and the requirement to manage certain lands primarily for nature conservation purposes, has also contributed to a lower intensity of agricultural production. Partly in response, there has been a noticeable decline in the rate of growth in total factor productivity of EU agriculture.[4] In the future, agricultural production will increasingly be influenced by climate policy if the EU's ambitious target to reduce greenhouse gas emissions by 80 per cent by 2050 is to be achieved.

Also, the CAP has undergone extensive reform over a twenty-year period since 1992 which has mitigated (but not removed) many of its most trade-distorting features. The trajectory of this reform has been to reduce market price support and to compensate farmers for the expected loss of income through direct payments. Initially, in the MacSharry 1992 and *Agenda 2000* 1999 reforms, these compensatory direct payments were coupled to production. Farmers had to produce in order to benefit (although in the case of the major arable crops the payments were also linked to set-aside which reduced production). In the 2003 Fischler reform and the 2008 Health Check, these were changed to decoupled payments. In the past, internal EU farm prices often exceeded world market prices by a factor of two or three; today, the gap is very much smaller. For the major crop products, EU farmers are now producing at world market prices. A similar trend is observed for livestock products; in 2010 only poultrymeat among the livestock products exhibited positive protection (OECD 2011). What this means is that further CAP reform will not have significant world market effects. This does not make further CAP reform irrelevant, however, as locking in the current lower level of distortionary policies would make an important contribution to a more robust system of global food security.

The minor impact of further CAP reform on world markets is not only because EU agriculture is less distorted, but also because the EU is a smaller player in world markets than it once was. Developing countries have rapidly diversified both their sources of imports and export market destinations away from the EU (Table 1). For example, almost 60 per cent of Africa's agri-food exports went to the EU in 1995; by 2012 this proportion had fallen to under 40 per cent (and this, despite the preferences these countries have enjoyed to access the EU market, see below). For other developing country regions the trend is the same. Developing countries have now become more important actors in international trade, both as sources of exports and markets for imports; their policies have become correspondingly more important in influencing world market developments.

Table 1. Importance of the EU in agri-food trade with developing countries

Country group	Share of EU in country group imports		Share of EU in country group exports	
	1995	2012	1995	2012
Developing economies excluding China	20.0%	13.7%	28.5%	18.7%
Least developed countries	28.8%	16.9%	45.2%	24.9%
Northern Africa excluding Sudan	41.0%	25.0%	61.0%	38.3%
Sub-Saharan Africa	34.7%	24.1%	59.1%	38.7%
South America and Central America	12.8%	7.2%	32.9%	20.5%
Eastern, Southern and South-Eastern Asia	13.1%	8.6%	12.5%	11.8%

Note: Agri-food imports are defined as SITC Sections 0+1+22+4
Source: Author's calculations based on UNCTADStat, unctadstat.unctad.org.

[4] This is the official view of the Commission, although the trend is disputed. See http://capreform.eu/what-is-happening-to-eu-agricultural-productivity-growth/.

Developing countries themselves have become increasingly heterogeneous, so there is limited value in trying to summarise or assess the impacts of the CAP on them as a group. Poverty and food security will be affected differently by the CAP and CAP reform depending, for example, whether a country is a net exporter or importer of products supported by the CAP, the commodity composition of its exports and imports, the nature of its trade relationship with the EU, the structure of its agriculture sector, its distribution of income and the urban–rural breakdown of its poor.[5] The loudest developing country critics of EU farm policy have been competitive exporters which face the high border tariffs which protect EU farmers. For these countries, the AoA was a disappointment because the EU made use of the flexibilities allowed to maintain high tariffs on sensitive product sectors such as beef. The EU's use of specific tariffs has a further discriminatory impact on exports from developing countries. Poor countries tend to have lower export prices than developed countries for the same product, possibly due to quality differences. This means that the same specific tariff bears more heavily on their exports (Chowdhury 2012) even if, during the period of higher global food prices after 2008, the use of specific tariffs implies an overall reduction in the *ad valorem* equivalent of EU agricultural protection (see below). Developing countries also complained that the EU's tariff structure demonstrated tariff escalation, although the empirical evidence on this is mixed (van Berkum 2009; WTO 2011).

For developing country importers, particularly in Africa, the issue has been more the EU's use of export subsidies which allowed it to dump its export surpluses on local markets, undermining prices for domestic farmers and reducing the market shares of its export competitors. However, export subsidies are a two-edged sword; by lowering the cost of food imports particularly for urban consumers, they increase food availability and reduce prices.[6] Both groups of countries, however, are adversely affected by EU trade measures which make world market food prices more volatile. The variable border levies used to stabilise domestic EU prices until 1994 had the effect of destabilising world market prices. These were replaced by fixed bound tariffs following the implementation of the AoA starting in 1995. However, even today, the EU continues to vary applied tariffs for cereals within its bound rates, helping to maintain EU demand for cereals (mostly for animal feed) at the very time when high global food prices are putting a strain on the import abilities of developing countries.

The EU has long provided preferential market access to favoured groups of developing countries. Although CAP products traditionally were given rather limited preferences in these preferential schemes, special arrangements in place for commodities such as sugar and bananas under the Cotonou Agreement provided market access for limited volumes to the high-priced EU market particularly for African, Caribbean and Pacific (ACP) exporters. In 2001 the EU offered duty-free and quota-free access to least developed countries under the Everything But Arms scheme (with delayed implementation for rice, bananas and sugar), then extended that provisionally under the Market Access Regulation in 2008 to all ACP countries which had signed interim Economic Partnership Agreements (EPAs). For countries in receipt of preferences, safeguarding their preferential market access has often been more important than further CAP liberalisation. In bananas, for example, the

[5] Annex 12 of the impact assessment published together with the European Commission's legislative proposals for the CAP post-2013, which addressed the relationship between the CAP and development, noted that 'impacts should be assessed on a case by case basis, as the economic, social, cultural and demographic heterogeneity among and within developing countries, as well as the multitude of factors that affect food security policies and situations in the short-, medium- and long-term, make generalisations difficult. The assumption of direct price transmission mechanisms calls for a methodological approach that combines aggregate/national with household level data' (CEC 2011, 4).

[6] It is worth noting that the only reference to food security (Article 54) in the Cotonou Agreement signed with the ACP states in 2000 obliged the EU to ensure that export refunds for all ACP states could be fixed further in advance "in respect of a range of products drawn up in the light of the food requirements expressed by those States".

EU's attempt in a series of WTO cases to defend its banana regime was supported by ACP exporters trying to protect their privileged access to the EU market vis a vis certain Latin American exporters. In the case of sugar, ACP countries also opposed the liberalisation of the EU sugar market.[7] This tension between preference recipients and other developing countries became a serious issue of contention in drafting the modalities for further agricultural trade liberalisation in the WTO Doha Round of multilateral trade negotiations. Developing countries pushed for faster liberalisation of tropical products, while those developing countries with preferences pushed for slower liberalisation for preference commodities. The difficulty arose when some commodities were on both lists. The protagonists eventually reached an agreement as part of an overall settlement of the EU banana dispute in December 2008. The EU has recognised the issue of preference erosion and has provided adjustment assistance to ACP exporters of both sugar and bananas to help them to adjust to the more competitive market environment (Goodison 2007).

Most analysis of the impact of the CAP on developing countries focuses on the market price and income support covered by Pillar 1 of the CAP. Over time, the relative importance of Pillar 2 rural development measures in total CAP expenditure has grown, to the point where it now accounts for around one-quarter of the total. The measures funded in Pillar 2 are a mixed bag from a producer perspective. Some measures, such as those encouraging investment in agriculture and providing vocational training to farmers to improve their human capital, have the effect of increasing the EU's agricultural supply capacity. Other measures, such as agri-environment measures or measures to encourage organic production, tend to reduce its supply capacity. In general, the measures included in Pillar 2 are reported in the WTO's category of green box domestic supports, meaning that they are deemed to have no or minimal effects on trade. In the new rural development regulation adopted as part of the CAP2013 reform, greater emphasis is put on encouraging more innovation in agriculture particularly by encouraging 'operational groups' bringing researchers, farmers, advisors and businesses together to tackle concrete problems. This initiative, if successful, could help to reverse the downward trend in total factor productivity growth in EU agriculture and thus improve its competitiveness on world markets.

As a result of these reforms, although the EU remains a net exporter of agrifood products (CEC 2014) EU net exports of many major commodities are smaller than otherwise and in some cases it has become a net importer (OECD 2011). One might have thought that this would be welcomed by those who had vocally criticised the distorting impact of EU over-production in the past, yet many development NGOs object as much to EU imports of agricultural commodities as EU subsidised exports. Much EU imports are in the form of animal feed requirements, particularly soybeans from Latin America. These imports are seen as having a negative impact on development. Some have calculated the 'virtual land' requirements of EU imports, the implication being that this land used to supply food to the EU means that food availability for local population is reduced. Use of 'virtual land' is equated with a form of 'land grabbing' (Friends of the Earth Europe 2013; Von Witzke and Noleppa 2010).

What is overlooked in this debate is that the development of cash crop exports to the EU and elsewhere is often a more productive use of land than using it for staple food production and thus contributes to food security, especially for smallholders with limited landholdings (Achterbosch, van Berkum, and Meijerink 2014). Also, large-scale production in Brazil has been shown to reduce poverty (Ferreira Filho and Horridge 2009; Weinhold, Killick, and Reis 2013). Others are concerned that the growth in EU imports has negative economic externalities in the form of reductions in natural habitats such as tropical rain forests and increasing greenhouse gas emissions from converting forests and grasslands into cropland. This issue has played a particular role in the debate

7 "ACP and LDC sugar suppliers deplore EC's CAP proposals", published 18 Oct 2011, http://www.sugaronline.com/home/website_contents/view/1180425.

on the use of biofuels due to concerns about 'indirect land use change'. In response, the EU has attached 'sustainability criteria' to the import of biofuels if they are to count against member states' biofuel use targets. In the case of food imports more generally, sustainability requirements are now increasingly demanded by the private sector, an example of the growing importance of regulatory barriers to food trade more generally.

Growing consumer concerns about food safety, animal welfare, food quality and protection of the environment has led to a steady increase in regulation affecting agricultural production and the food industry.[8] These regulations affect developing countries in two ways. Greater regulation may make it more difficult for developing country exporters to access the EU market. But, on the other hand, if regulations only apply to EU producers but not to third country exporters, then developing country exporters may gain a competitive advantage. Broadly, the distinction between the two kinds of regulations is between those that affect the product itself (e.g. is the product likely to transmit disease?) and those that affect only the way in which the product is produced (e.g. do egg-laying hens have cages of a sufficient size?). WTO trade rules basically allow countries to regulate third country imports where regulations affect the product (most obviously, food safety), but countries are not allowed to impose their regulatory standards on third countries when they only concern production methods and processes (animal welfare, fair trade). However, in these latter cases, such standards are increasingly required of developing country imports not only by the EU public authorities but by private supermarket chains pursuing niche markets dependent on regulation (e.g. organic products, fair trade).

Sanitary and phytosanitary standards can be a major barrier for developing country exporters seeking access to the EU market. For example, only twelve countries in the world have veterinary clearance to export beef to the EU (Desta 2008). Häberli (2008) found that sanitary restrictions meant that there was no legal possibility for least developed countries (LDCs) to export animal-based products to the EU, despite the absence of tariffs, because no processing facilities in LDCs had been certified for export (with the one exception of four Bangadeshi factories certified for certain animal casings). No one will want to argue that developing countries should be allowed to export unsafe food simply because of their development needs. Nonetheless, SPS regulations are likely to bear heaviest on developing countries, both because the 'regulatory gap' between measures in place in export and domestic markets is likely to be greatest for these countries, and because of the more limited availability of compliance resources at the country and firm level. On the other hand, standards may help to improve access to the EU market by enhancing the reputation of developing countries' exports. There is also evidence that standards may have a catalytic effect in that investments, for example, to meet hygiene requirements may also lead to increased productivity and lower costs. Whether EU regulatory standards help or hinder developing country exports is best explored on a case study basis. EU development assistance, e.g. aid for trade programmes, can help developing countries to demonstrate compliance with relevant standards.

At the same time, there has been a sea-change with respect to the perceived principal issues facing the global food system. In the mid-1980s, when negotiations started on what was to become the WTO Uruguay Round Agreement on Agriculture (AoA), the main problem was structurally depressed world market prices, due in part to high protection of agricultural production in developed countries. Since the global food crisis in 2008 following the dramatic increase in food prices in that year, food prices have remained at elevated levels, with worrying impacts on food security in developing

[8] Legally speaking, there is an important difference between measures meant to protect human, plant and animal health (which are governed under the WTO Sanitary and Phytosanitary Agreement) and measures to improve food quality, consumer information or animal welfare (which are governed under the WTO Technical Barriers to Trade Agreement).

countries (Swinnen 2011). Some argue that this has required a re-evaluation of the role of EU agriculture in contributing to global food availability.

This found expression in the debate on the most recent reform on the CAP which took place between 2011 and 2013. In an era of high global prices, farmer groups argued that an important objective of the reform should be to encourage additional production within the EU to contribute to global food supplies.[9] Environmentalists, on the other hand, wanted a larger share of the CAP budget to go to encouraging farmers to produce 'public goods', such as biodiversity and soil health, even if this meant lower agricultural production, at least in the short run. Evidence of the influence of the former position was demonstrated when the European Council, in its high-level discussion of the EU's multi-annual financial framework for the period 2014-2020, found it important to insert into their agreement that "The requirement to have an ecological focus area (EFA) on each agricultural holding will be implemented in ways that do not require the land in question to be taken out of production and that avoids unjustified losses in the income of farmers" (European Council 2013, 27).

The world certainly faces a serious challenge to further increase food production to meet the expected increase in demand by 2050, even taking into account the possible contribution of reduced food waste and other demand-side behavioural changes (Smith and Bustamante 2014). Most of this additional demand will come from developing countries, and it would be desirable that developing countries met most of this additional demand. However, an increasing number of developing countries will come to rely on world markets for a significant share of their food consumption needs. Thus, the EU can make a contribution to global food security to the extent that it can further increase production in an efficient and environmentally sustainable manner. Threats to global food security arise mostly from unexpected shocks which lead to large price fluctuations as well as from the pursuit of trade-distorting policies. The EU can also contribute to global food security by eliminating its own trade-distorting policies and by increasing its openness to trade, thus maximising its ability to help to mitigate global shocks.

The CAP 2013 reform

In 2013, the CAP underwent a further reform. This reform was negotiated in the context of the renewal of the EU's multiannual financial framework for the 2014-2020 period. One of its main objectives was to provide a stronger rationale for the continued payment of decoupled direct payments to EU farmers. It is hard to see their main justification as addressing low incomes in agriculture, as 83% of the total payment goes to just 20% of producers (CEC 2013). The Commission, instead, proposed to create a greater link to environmental sustainability by making 30% of the payment a 'green payment' conditional on farmers following practices beneficial for the environment and to help mitigate climate change. The Commission proposed three measures which it believed were simple and generalisable across the whole EU territory. They included requirements for crop diversification and the creation of ecological focus areas on arable farms, and the maintenance of the area under permanent grassland.

The subsequent debate revolved around the interpretation of these requirements and exactly how much farmers would be required to do to be eligible for the green payment. By the end of the legislative process, the obligations were lightened considerably, much to the chagrin of environmental and development NGOs (Matthews 2013). The Commission also proposed a more even distribution of direct payments both across countries and between farmers within countries to redress some of the perceived unfairness of the previous system. Its proposal for a new single

[9] The importance given to global food security should not be overemphasised. Most respondents to the public consultation on CAP reform in 2010 stressed the role of the CAP in ensuring European food security (CEC 2010). Nonetheless, the global food security argument was also used (Candel et al. 2014).

common market regulation largely maintained the safety-net nature of intervention support prices while expanding the toolkit to deal with market crises and giving farmers greater scope to organise to improve their bargaining position in the food chain. The proposed rural development regulation maintained a menu of measures which member states could use to strengthen the competitiveness and environmental sustainability of agricultural production, adding risk management and innovation measures to the menu while simplifying the programming process.

By the end of the legislative process, the Commission's proposals had been significantly amended but were nonetheless substantially adopted.[10] The remainder of this paper discusses the likely significance of the new regulations for developing countries, and whether they improve the EU's capacity to contribute to global food security (Matthews 2010; Matthews 2011). The new regulations change the way in which domestic support is provided to EU farmers, and also limit the future use of export subsidies, so particular attention is paid to these two areas. The new CAP2013 regulations have no implications for the EU's market access arrangements which are the domain of EU trade policy (the common commercial tariff). However, because of the importance of these market access arrangements for developing countries, we first describe the current status of, and recent changes in, market access. We then discuss the implications of the changes in domestic support and policy with respect to export subsidies in the recent CAP reform.

Market access

The EU bound its agricultural tariffs as part of the WTO Agreement on Agriculture. A large number of non-*ad valorem* tariffs are applied to agricultural goods, most of which are specific duties but others are compound duties (an *ad valorem* duty plus a specific duty), mixed (an *ad valorem* or a specific duty) or more complicated forms (such as those in the Meursing Table applied to some processed products).[11] In addition, particularly for fresh fruits and vegetables, the EU applies seasonal tariffs that vary depending on the date. In the case of some fruits and vegetables, additional duties on top of these seasonal tariffs apply on a consignment basis if the consignment price is below a trigger entry price. The EU also applies special safeguard (SSG) duties on specified agricultural products if their import volume exceeds defined trigger levels or if prices fall below specified trigger levels. The price-based SSG has been applied to chicken, turkey, and sugar products almost continuously; with some egg products added during the marketing years 2007/08 and 2008/09. The EU has calculated trigger volumes for fruit and vegetables on a regular basis but the volume-based SSG has never been implemented (WTO 2011).

Overall, MFN applied tariffs (that is, the tariffs applied to imports of agricultural commodities which are not eligible for a preferential tariff rate) fell from 17.8 percent in 2008 to 15.2 percent in 2011 and to 14.8 percent in 2013. This was mostly due to the effect of increasing world prices reducing the *ad valorem* equivalent of the specific tariffs. Dairy is subject to the highest average tariff rate, followed by sugars and confectionary, live animals and meat, and cereals and preparations. Very high tariff equivalents apply to specific commodities, for example, prepared or preserved mushrooms (197% and 170%), citrus juice including orange juice and grape juice (196.3% and 165.3%), certain meats and edible meat offal (192.1% and 120.1%), goat meat (166.7%), whey (164.8%), olive oil (154.1% and 120.6%), and isoglucose (135.3%).

For particular groups of developing countries, high tariffs are mitigated by preferential access arrangements. Developing countries can export to the EU with reduced tariffs under the Generalised System of Preferences (GSP). However, the coverage of agricultural products in the GSP is limited,

[10] For the texts of the revised regulations, see http://ec.europa.eu/agriculture/newsroom/155_en.htm.
[11] Under the Meursing table used to set the tariff on many processed food products, the EU charges a tariff on each imported product based on the product's content of milk protein, milk fat, starch, and sugar.

and for most products, the preferential margin is small. Larger preferences are granted under the special incentive arrangement for sustainable development and good governance, which targets vulnerable countries (GSP+). LDCs can export all agricultural products duty free and quota free under the 'Everything But Arms' (EBA) initiative. Other developing countries have signed free trade agreements with the EU that also provide preferential access (Mediterranean countries, Chile, Colombia, Mexico, Peru, South Africa). African, Caribbean and Pacific (ACP) countries benefited from the non-reciprocal preferential access arrangements under the Cotonou Agreement. These arrangements had larger product coverage than the GSP scheme and a zero or minimal tariff for many products. Special protocols for sugar, beef and bananas attached to the Cotonou Agreement allowed virtually duty-free access for specific quantities which thus benefited from the higher internal EU prices for these products. Since 1 January 2008, the EU provisionally extended duty-free and quota-free access similar to the EBA scheme to those ACP countries which have signed interim Economic Partnership Agreements. ACP countries which have not signed comprehensive EPAs by 1 October 2015 (which would continue this access) will revert to the GSP scheme with its more limited preferences after that date.

Table 2. EU tariffs faced by agri-food exports from particular countries, 2009

Exporter	**MFN Average traded tariff lines - simple**	**MFN Average traded tariff lines - weighted**	**Preferential margin - weighted**	**Ratio duty-free imports in value terms**
	%	**%**	**%**	**%**
Developed countries				
Australia	15.2	9.8	0.0	33.8
Canada	13.2	3.7	0.0	75.2
United States	16.4	6.6	0.0	40.4
GSP				
Argentina	19.2	8.2	0.8	75.0
Brazil	16.9	7.0	0.2	67.7
China	13.1	10.0	2.1	53.9
India	12.9	7.1	4.0	59.2
Pakistan	13.0	5.4	0.7	39.4
Thailand	14.6	8.8	1.8	11.3
GSP+				
Bolivia	13.3	6.8	6.3	90.1
Ecuador	14.4	19.6	3.9	38.4
FTA partners				
Chile	15.5	10.2	6.8	78.4
Egypt	12.5	9.9	5.6	39.1
Mexico	13.6	5.8	3.7	81.6
Morocco	12.9	12.1	7.3	49.7
South Africa	13.7	8.0	4.7	44.3
iEPA/LDC				
Burkina Faso	6.1	2.9	2.9	100.0
Cameroon	11.6	6.6	6.6	100.0
Chad	0.0	0.0	0.0	100.0
Kenya	15.5	8.6	8.5	99.9
Uganda	18.5	7.2	7.2	100.0

Source: Author's compilation based on WTO World Tariff Profiles, 2012.

Examples of the preferential tariff treatment enjoyed by particular developing countries on agricultural exports are shown in Table 2. For each country the average MFN tariff that would apply on their current agri-food exports to the EU is shown – using both a simple average and a trade-weighted average of all tariff lines. The MFN tariffs faced by exporters differ depending on the particular composition of their exports to the EU. The fourth column shows the preferential margin provided to each exporter depending on the trade agreement it has with the EU, while the fifth and final column shows the proportion of its current exports which enter the EU duty-free. The country groupings are generally ranked in ascending order based on the size of the preferential margin they enjoy. Developed country exporters face the MFN tariff and have no preferential margin. At the other extreme, free trade agreement partners such as Morocco or countries that have signed interim Economic Partnership Agreements such as Kenya enjoy preferential margins of 7-8 per cent. Least developed countries such as Uganda and countries which have signed interim Economic Partnership Agreements export all agri-food products duty-free. The proportion for countries facing MFN tariffs is much lower, at between 35-40% for Australia and the US (although the Canadian figure is higher at 75%). It is sometimes observed that the largest preferences are provided to those countries that are least likely to pose a competitive threat to EU producers; this is an inevitable characteristic of preferences designed to assist least developed countries, but it is clearly also the pattern which creates the least political resistance at home.

GSP preferences in agri-food products are not worth a great deal, although India benefits more than others. GSP+ preferences are more generous depending on the composition of a country's exports, as the contrasting experiences of Bolivia and Ecuador show. The position of countries which have signed free trade agreements (FTAs) with the EU is interesting. Preference margins are high, but there is great variation in the proportion of these countries' exports which enter duty-free. The Latin American exporters (Chile and Mexico) appear to benefit significantly from their agreements, while more than half of the exports from the EuroMed countries Egypt and Morocco and South Africa still face tariffs on entering the EU. In 2010, the EU concluded FTAs with Columbia, Peru and six Central American countries. These agreements provided additional preferential access for these countries' banana exports although with a safeguard clause until 2020 (Anania 2010).

Domestic support

Domestic support covers both market support and direct payments to farmers. The use and importance of market support instruments and particularly public intervention has steadily diminished as part of the CAP architecture. The number of commodities eligible for public intervention has been reduced, limits have been placed on the guaranteed quantities, and support prices have been lowered to safety-net levels. Indeed, inflation is further eroding the real value of these safety net guarantees as reference prices have not been updated. For example, the reference (and intervention) price for cereals has remained the same at €101.31/t since 2000/2001 (Table 3 shows the evolution of intervention prices in nominal terms since the start of the reform period). For developing countries, the reduction in the sugar intervention price has probably had the most significant impact. Under the Sugar Protocol attached to the Cotonou Agreement, ACP export prices were linked to the EU sugar intervention prices, so that the reduction in the latter had a direct effect on ACP sugar export earnings.

Since the implementation of the 2008 Health Check, mandatory intervention is restricted to wheat, butter, skimmed milk powder (for specific quantities), and beef and veal. Intervention prices are set for several other products including durum wheat, barley, maize, sorghum and paddy rice but the quantity that may be bought into intervention is currently set at zero. Intervention prices and quantities used to be set for sugar, but these ceased to apply from end September 2010. The Commission may decide to continue public intervention for durum wheat, barley, maize, sorghum, paddy rice, sugar, butter and skimmed milk powder beyond the limits set out above if the "market situation and, in particular, the development of market prices, so requires." Usage of intervention has steadily declined; for example, no beef has been purchased into intervention since 1999.

Table 3. Intervention prices in the EU, 1988/89 and 2012/2013

Marketing year	**Unit**	**1988/89**	**2012/13**	**Percentage change**
Wheat	€/tonne	204.1	101.31	-50.4%
Durum wheat	€/tonne	314.6	101.31	-67.8%
Barley	€/tonne	193,9	101.31	-47.8%
Maize	€/tonne	204.1	101.31	-50.4%
Rice	€/tonne	357.3	150.00	-58.0%
Sugar	€/tonne	616.2	404.40	-34.4%
Calendar year		**1988**	**2012**	
Butter	€/tonne	3562.0	2,217.51	-37.7%
Skimmed milk powder	€/tonne	1979.3	1,698.00	-14.2%
Beef	€/tonne	3912.3	1,560.00	-60.1%

Sources: WTO 1994; 2013.

In addition to purchases into public intervention, the Commission can also open private storage aids (PSA) for butter and certain cheeses, skimmed milk powder, white sugar, olive oil, beef, pig meat, sheep meat, and goat meat. Under the PSA schemes, the products remain in private ownership and the owner receives aid to cover the cost of storage for periods specified in the contracts before they can be released onto the market. In 2011, PSAs were made available for butter, olive oil and pig meat and, in 2012, for butter and olive oil.

The CAP2013 agreement did not fundamentally change these arrangements, although the intervention price for beef was increased from 70% to 85% of the reference price. The new single common market organisation (CMO) regulation will contain a general market disturbance clause under which the Commission will have the power to extend or modify the scope, duration or other aspects of measures provided for in the regulation. This provision applies to all commodities covered by the single CMO regulation. In addition, market support measures can be introduced to respond to market disruption related to animal diseases and loss of consumer confidence due to public, animal or plant health issues. In the case of animal disease and loss of consumer confidence disruptions, measures can only be taken at the request of a member state and are co-financed to the extent of 50%/60% (the latter in the case of foot-and-mouth disease). To fund these measures a €400m crisis reserve is set up, financed by annually reducing direct payments by this amount.

As part of its legislative proposals, the Commission had proposed to eliminate sugar quotas with effect from 2015. Sugar quotas have helped to maintain sugar prices in the EU, along with very high MFN applied tariffs and safeguard duties on the import of sugar. Beet farmers and sugar processors sought to extend quotas until the end of the new CAP period in 2020, and this was also supported by the ACP and EBA exporters which benefit from duty-free and quota-free access to the EU market. The final compromise agreed was that sugar quotas would continue until 2017. The impact of this change on the ACP and EBA exporters will very much depend on the level of world market prices in the future. For many of these countries, during periods of high world market prices, neighbouring and other third country markets are more attractive than the EU one. In recent years, the ACP and EBA countries have not taken up the full quota of sugar imports allocated to them. On balance, however, the reform will result in lower imports from preferential suppliers (Matthews 2011). The elimination of milk quotas in 2015, which had been agreed earlier as part of the 2008 Health Check, was confirmed.

While market support is now of much less importance to EU farmers, agricultural income remains heavily dependent on the direct payments received under the CAP. On average across the EU, Pillar 1 direct payments account for 30 percent of farm income; when Pillar 2 payments such as agri-environment payments and compensatory payments for farming in areas of natural constraints are added, the total rises to 40 per cent. For particular commodity sectors (particularly drystock) and countries, the percentages can be much higher.

Decoupled payments further reduce the distortionary effects of agricultural policy because they do not affect the marginal incentive to produce. But there are still a number of mechanisms whereby even decoupled payments would be expected to encourage additional production compared to a situation in the absence of such payments, although there is controversy over the magnitude of these effects (McVittie et al. 2009).[12] However, the production effects of decoupled payments will be smaller than those of coupled payments and much smaller than market price support.

Also, in the EU, farmers in receipt of direct payments must observe a series of farm management measures incorporated in cross-compliance conditions. These are of two kinds: statutory minimum requirements linked to the respect of environmental, food safety, animal health and welfare standards which are part of the EU's legislative framework, and a set of good agricultural and environmental conditions which are defined at the national level and which mandate particular farming practices. While many of these conditions simply reflect good farming practice, others add to the cost of production. An example would be the requirement to establish buffer strips along water courses to help reduce the run-off and leaching of nitrates to surface and ground waters introduced in the CAP Health Check. Cross-compliance conditions thus work in opposition to any production stimulus from direct payments.

In the coming CAP budgetary period 2014-2020, the funding available for direct payments has been increased slightly in nominal terms (from €40 billion in 2013 to €41.2 billion in 2020, assuming a 2% rate of inflation) but reduced in real terms (to €35.9 billion) by around 10 per cent (figures calculated from data in Little et al. (2013). These figures are still tentative as member states were given some possibility to transfer funds from Pillar 1 to Pillar 2 and vice versa. From the perspective of developing countries, as important as the overall size of direct payments are the way they will be distributed, the obligations required of farmers in return for the payments, and the extent to which they remain decoupled.

The redistribution of direct payments (moving from the historic model for entitlement payments towards a regional flat-rate system in the EU-15 member states plus Malta and Slovenia, and moving to greater convergence in the value of payment entitlements across member states) will tend to shift payments from more productive to less productive member states, and from more intensive to less intensive farms within member states. Redistribution of payments on its own would thus be expected to have a negative effect on EU production. Recent studies support this intuition but suggest that the effects will be very marginal, in most cases less than 1-2%. The effects are somewhat larger for cereals than for livestock but still rather small. Overall, therefore, the studies support the view that the EU's direct payments are rather decoupled in practice (Erjavec et al. 2011; Gocht, Britz, and Adenauer 2011).

Compliance with the measures required for the green payment will increase the costs of farming in the EU either directly or in the form of loss of income in the short-term. The green measures (the requirement to maintain the 2015 ratio of permanent pasture, the requirement for crop

[12] Legally, there are also question marks over the consistency of the EU's Single Farm Payment with the WTO criteria for green box measures (Swinbank and Tranter 2005).

diversification and, particularly, the ecological set-aside) will reduce supply and increase market prices. In the longer-term, there may be a positive feedback from more sustainable agricultural practices in terms of higher yields, but the likely importance of this positive feedback is hard to quantify. The Commission made some estimates of the cost of implementing these green measures in its impact assessment; these were based on the original proposals and not on the legislation as eventually adopted. It concluded that the total cost to EU farmers of complying with the greening measures would amount to approximately €5 billion; this would be equivalent to an increase in input costs on average by a little over 2% (Matthews 2011). However, the final package is considerable weakened compared to the initial proposals, so the impact of greening will be considerably less.

When the Fischler reform introduced decoupling in 2003, there was significant scope to retain partial coupling for arable, beef and sheep payments. In addition, a special provision in the direct payments regulation allowed up to 10% of a country's Pillar 1 envelope to be used for specific supports to farming and quality production (Article 69 of Regulation (EC) No. 1782/2003). The additional payment had to be granted for specific types of farming which were important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products.

The Health Check agreement led to further decoupling of direct payments, so that suckler cow and sheep and goat premia as well as payments for cotton were the only formally coupled payments still allowed to remain in 2013. (The cotton payments arise from the Protocols in the Treaties of Accession of Greece and Spain which provide that the EU would support the production of cotton in the regions where it is important for the agricultural economy, that the support would permit producers to earn a fair income and would include the grant of an aid to production. This legal guarantee complicates the removal of cotton subsidies which would be very desirable from a development perspective). Member states instead were given enhanced flexibility to provide specific support to help farmers producing milk, beef, goat and sheep meat and rice in disadvantaged regions or to support economically vulnerable types of farming.

In a potential step back from the trend towards greater market orientation, the new CAP regulation extends the scope for coupled payments. Member States are allowed to use up to 8 per cent of their national ceilings for this support, or 13 per cent where their level of coupled support exceeded 5 per cent in at least one of the years of the period 2010-2014 or where they applied the single area payment scheme until 31 December 2014. These limits can be increased by a further 2 per cent if the payments are used to support protein crop production. Further, in cases where certain sensitive needs in a sector or a region are demonstrated, and upon approval by the Commission, member states can be allowed to use more than 13 per cent of their national ceiling. Most agricultural products can now be supported through coupled payments, although at the last moment tobacco was removed from the list.

However, the future use of coupled payments is subject to three restrictions. Coupled support may only be granted to those sectors or to those regions of a member state where specific types of farming or specific agricultural sectors that are particularly important for economic, social or environmental reasons undergo certain difficulties. It shall only be granted to the extent necessary to create an incentive to maintain current levels of production in the sectors or regions concerned. And it is a voluntary option for member states. It remains to be seen what use member states will make of this voluntary coupled support scheme, and whether overall coupled payments will increase in importance during the 2014-2020 period.

Export subsidies

A specific feature of the EU's agricultural policy has been its use of export subsidies to support prices on its domestic market (officially, these are referred to as export refunds by the EU). Under the WTO Agreement on Agriculture, the EU accepted commitments to limit both the value of budgetary outlays on export subsidies and the volume of subsidised exports. Changes to the EU's CMO regulation mean that not all products for which the EU has the right to use export refunds under its WTO schedule of commitments are now eligible to be granted export refunds. Thus, the CAP2013 single CMO regulation permits export subsidies for cereals, rice, sugar, beef and veal, milk and milk products, pigmeat, eggs and poultrymeat. Products such as wine, tobacco, olive oil and fruits and vegetables which were eligible for export refunds in the past are no longer eligible following the reforms of these market regimes.

The EU's use of export subsidies has fallen dramatically and for the first time since the 1970s have no longer been used since July 2013. Total expenditure on export refunds fell from €3.8 billion in 2003 to €147 million in 2012 (at their peak in the late 1980s and early 1990s, they amounted to €10 billion per year). The 2012 expenditure related mainly to beef, poultry, pig-meat, eggs and non-annex I products. The fact that the EU currently does not use export refunds does not rule out the possibility that the EU could make greater use of this policy instrument in future if there were a sharp reduction in world market prices from their current levels.

However, the CAP2013 reform also signalled an important shift in how export subsidies might be used in the future. Changes to the language on export subsidies in the single CMO regulation go further than before in limiting the future use of export subsidies, without quite taking the final step of eliminating them altogether. In future, export subsidies will only be used when conditions of the internal market fall under the scope of those described for exceptional measures. In normal circumstances, the refund available should be zero. Exceptional measures are permitted under both Article 154 (situations of market disturbance) and Article 156 (specific problems likely to cause a rapid deterioration of production and market conditions which could justify taking necessary and justifiable emergency measures) of the CMO regulation. In trying to gauge how frequently export subsidies will be used in the future, it all depends on how the Commission assesses a market disturbance (Article 154) or a specific problem likely to cause a rapid deterioration of production and market conditions (Article 156).

In January 2014, Commissioner for Agriculture and Rural Development Dacian Cioloş announced his readiness to stop the use of export refunds for exports to developing countries in Africa with which the European Union has an Economic Partnership Agreement (EPA) - even in times of crisis when this instrument can still be used.[13] In fact, the EU has already conceded in the CARIFORUM EPA to the elimination of export subsidies on exports to that region, but only on those agricultural products for which CARIFORUM has agreed to eliminate tariffs. Because many African countries have made use of their flexibility under interim EPAs to maintain tariffs on food imports from the EU, including the CARIFORUM text in the African EPAs would not represent much of an improvement. The Cioloş announcement therefore represents a further step in limiting the use of export subsidies if implemented. Ultimately, EU has agreed to eliminate export refunds as part of a Doha Round agreement provided similar disciplines are applied to all other forms of export competition and as part of an overall agreement on the Doha Round.

Conclusions

This chapter has reviewed some of the ways in which the EU's agricultural policy can affect developing countries and examined the likely impact, in particular, of the changes introduced in the

[13] http://capreform.eu/export-refunds-and-africa/.

CAP regulations in the 2013 CAP reform. At the outset, I argued that, for a variety of reasons, the EU's CAP now has relatively minor impacts on world markets in aggregate, although for particular commodities and particular countries, its importance can be greater. The chapter has emphasised that the diversity among developing countries means that it is not possible to conclude that whatever impact the CAP has is unambiguously favourable or unfavourable for these countries. Each developing country has its own specific set of interests, depending on the structure of its agricultural trade, its trade relationship with the EU and the urban-rural profile of those most food-insecure in that country.

The revisions to the CAP regulations agreed in the 2013 CAP reform will have mixed and contradictory impacts on the EU's supply capacity and thus on developing countries. Attaching greater environmental conditionality to direct payments through the new green payment will slightly raise production costs, while the redistribution of payments from more intensive to more extensive farming regions and farms will also slightly reduce production, as will limiting recourse to export subsidies to strengthen domestic market prices. On the other hand, the greater focus on encouraging innovation in Pillar 2, the greater scope for producer cooperation in bargaining in the supply chain and the new market crisis measures will have the effect of maintaining and increasing the EU's supply capacity. Some measures will have their main impact through influencing specific crops and the structure of production. There is the possibility, for example, that coupled payments might increase and be applied to a wider range of commodities than at present, but this is a voluntary measure and it remains unclear how much member states will want to make use of it. The elimination of sugar quotas after 2017 will result in increased domestic production of sugar, although informed analyses suggest that the overall production response will be limited (already, EU beet farmers are able to produce out-of-quota beet provided it is not used for food purposes although this may be cross-subsidised by the higher prices paid for in-quota beet sugar). The impacts on developing countries of all of these changes, with the possible exception of sugar, will be very minor, particularly in the context of the swings in world market prices experienced since 2008.

There is still some debate and confusion about the appropriate role for the EU in the global food system. Some argue that the EU should maintain a position of food self-sufficiency, neither being an exporter of food products (and thus competing with developing country farmers) nor being an importer (and thus adding to the pressure on scarce land resources in developing countries). Such a self-sufficiency strategy would be highly costly and inefficient and would do nothing to promote the food security of the world's poorest. Instead, by allowing undistorted trade in food, the EU can help to build a more robust system of global food security. Fully committing to an open trade regime avoids unfair competition due to trade-distorting support while ensuring that the EU contributes to the mitigation of unforeseen shocks and price fluctuations (Matthews 2014).

From this perspective, the EU should contribute to meeting global food needs, but it should do so in an efficient and sustainable manner. This leads to two further conclusions. Encouraging a more environmentally-friendly EU agriculture is a very desirable objective, even if in the short-run it does diminish the EU's production capacity. Nonetheless, it makes sense to try to reduce this trade-off by pursuing its environmental objectives with the most efficient policies. The measures associated with the new green payment are very broad-brush and shallow. More targeted interventions might not only yield greater environmental benefits, but could also reduce the trade-off with potential production. Second, rather than attempting to maintain and increase production through distortionary public supports, the more appropriate way to increase the EU's production potential is through greater innovation leading to higher productivity. This is reflected in the new initiative for a European Innovation Partnership on agricultural sustainability and productivity as well as the doubling of research funds for agriculture in the next programming period. Because of the novelty of this instrument and the fact that it is untried, it is hard to predict how important it will be in reversing the trend of declining growth rates of agricultural productivity within the EU.

This CAP reform was not intended to address the trade barriers used to keep some EU market prices higher than world market levels. The EU has reduced the impact of these barriers for a number of developing countries through extending the scope of preferential access under various trade agreements, and a further reduction is being negotiated in the WTO Doha Round. Nonetheless, developing countries will be disappointed that the opportunity was not taken in this reform to set a final date for the ending of export subsidies. A more ambitious CAP reform, in which the targeting of direct payments was pursued more ambitiously and coupled payments were phased out, would also have had a greater impact in removing the remaining distortions caused by the CAP to world markets.

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