# CAP and EU Trade Policy Reform

## Assessing impact on developing countries

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# Contents


| | | |
|---|---|---|
| | **Preface** | **7** |
| | **Summary** | **9** |
| | S.1 Key results | 9 |
| | S.2 Complementary findings | 10 |
| | S.3 Methodology | 10 |
| | **Samenvatting** | **12** |
| | S.1 Belangrijkste uitkomsten | 12 |
| | S.2 Overige uitkomsten | 13 |
| | S.3 Methode | 14 |
| **1** | **Introduction** | **15** |
| | 1.1 Background | 15 |
| | 1.2 Objective and research question | 18 |
| | 1.3 Research methodology | 18 |
| | 1.4 Outline of the report | 20 |
| **2** | **Development of the CAP towards 2020** | **21** |
| | 2.1 Direct payments | 22 |
| | 2.2 Market measures | 24 |
| | 2.3 Intervention prices | 25 |
| | 2.4 Export subsidies | 26 |
| **3** | **EU agricultural trade policies** | **28** |
| | 3.1 Import tariffs | 28 |
| | 3.2 Nominal Protection Coefficients | 29 |
| | 3.3 EU trade policies for developing countries | 30 |
| **4** | **Vulnerability of dairy, sugar and fruits and vegetables sectors of developing countries** | **36** |
| | 4.1 Impact of high prices | 36 |
| | 4.2 Dairy | 37 |
| | 4.3 Sugar | 48 |
| | 4.4 Fruit and vegetables | 58 |
| | 4.5 The role of China | 72 |
| **5** | **Conclusions** | **76** |

**Literature and websites** **79**

**Appendices** **90**
1 List of ACP countries and information on participation in EPAs 90
2 List of LDC countries 94
3 EU export subsidies for sugar, dairy and fruits and vegetables 2003-2009 96
4 List of agricultural graduated sectors for the period 1 January 2014 - 31 December 2016 99
5 List of beneficiaries under the new GSP 100
6 List of countries according to LDC status, ACP and income group 102

# Preface

The Europe 2020 strategy includes CAP reforms proposed by the European Commission that are expected to be implemented in 2014. The CAP has often been criticised for its harmful impact on specific agricultural and food sectors of developing countries. The EU has made important steps towards mitigating this impact. Several studies have assessed the impact of the CAP reforms on developing countries and have generally concluded that the impact of CAP reforms depends on the specific products and countries involved. In addition, the EU will change its trade policy by adopting a new GSP System. EU agricultural trade policies are an intrinsic component of the agricultural policy framework and may have an even greater impact on developing countries than the CAP.

We find it is difficult to make sweeping statements about the impact of a reformed CAP and trade policies on developing countries. This study tries to pinpoint where negative effects can be expected by highlighting four important agricultural (export) products: dairy, sugar, fruits and vegetables. We analyse the effects of CAP and agricultural trade reform on different developing countries, by specifying the categories they belong to - such as ACP, Least Developed Country (LDC) - and by examining the importance of their agricultural trade to and from the EU.

We find that the impact of CAP reforms on developing countries will be limited. However, changes in EU trade policies have a much larger effect. The changes in the Generalized System of Preferences (GSP) and related Economic Partnership Agreements (EPAs), for instance, will have more impact than CAP reforms on trade relations of developing countries with the EU, which in turn will affect agricultural producers and food consumers in these countries.

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Managing Director LEI Wageningen UR

# Summary

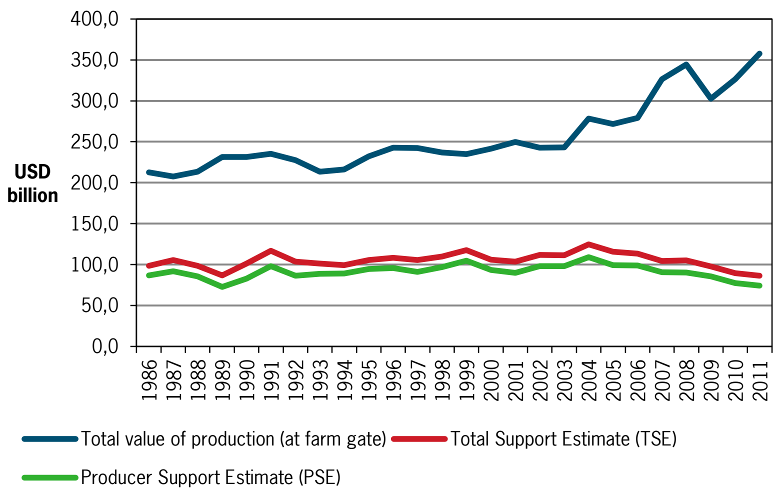
## S.1 Key results

In the years 2014-2020, the general impact of the proposed reforms in the Common Agricultural Policy (CAP) on developing countries is limited, especially with high food prices and a low level of trade-distorting support to EU agriculture (Figure S.1).

Proposed reforms in EU agricultural trade policies, such as the new GSP that determines market access, have more impact on the composition of trade with developing countries than the CAP.

Any change in CAP and EU trade policies will affect domestic consumers and producers in low-income countries differently, both having opposing interests. Some harm to either can therefore never be avoided.

**Figure S.1 Total value of agriculture and support to agriculture in the EU (1986-2009)**




Source: OECD-FAO agricultural outlook 2012.

## S.2 Complementary findings

In the context of global developments, *China* is becoming an increasingly important trade partner to developing countries, especially during the past five years. However, the EU is still by far a more important trade partner than China, except for vegetables.

| **Table S.1** | **Impact of CAP and trade reform on dairy, sugar, fruit and vegetables sectors in developing countries** | |
|---|---|---|
| **Sector** | **Countries exporting to EU** | **Countries importing from EU** |
| Dairy | Negligible | Dairy imports from the EU are relatively unimportant; however, the EU remains the most important source of dairy imports for many countries. |
| Sugar | Sugar exports to the EU are important for a number of ACP countries. For these countries, the EU is also the main export destination for sugar. | Negligible |
| Fruits | For several Latin American countries fruit and banana exports to the EU are important; their producers will be vulnerable to changes in EU trade relations. | Negligible |
| Vegetables | Vegetable exports to the EU are relatively unimportant; however, in a number of African countries, Europe is often their main export market. | Negligible |

## S.3 Methodology

This report was commissioned by the Ministry of Economic Affairs[1] for the Economic Risk Management research project.[2] In 2014 the Common Agricultural Policy (CAP) and the system of the General System of preferences (GSP) will be subject to major reform. The Ministry has asked LEI Wageningen UR to assess



[1] Formerly Ministry of Economic Affairs, Agriculture and Innovation or EL&I.
[2] Part of the BOCI programme for Policy Research Support.

the possible impacts of a reformed CAP and trade policies on developing countries, in terms of food prices, trade and domestic markets.

Developing countries are rather heterogeneous in the way they are affected by changes in the CAP and agricultural trade policies. Our approach allows us to make a simplified analysis. We have chosen four specific commodity groups: dairy, fruits, vegetables and sugar. Further, we have limited our analysis to the determination of the vulnerability of different categories of developing countries for change. We have done this by analysing the value of imports from and exports to the EU as a share of total agricultural value or total value of imports or exports.

# Samenvatting

## Hervorming GLB en EU-handelsbeleid
## Beoordeling van het effect op ontwikkelingslanden

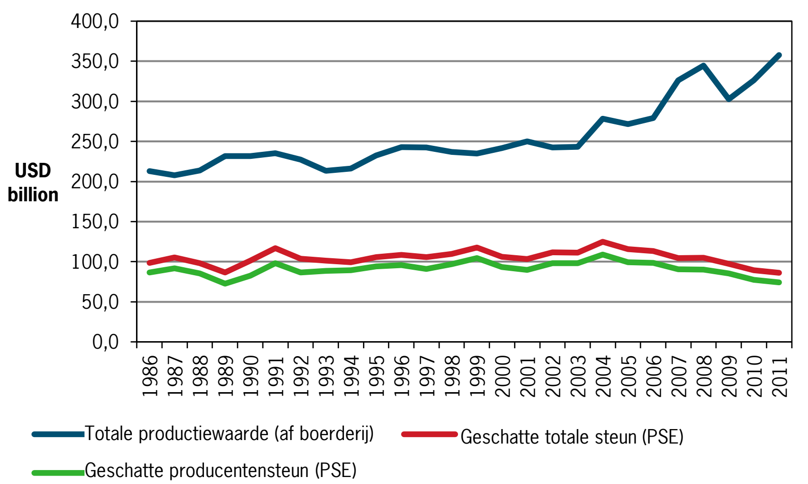
### S.1 Belangrijkste uitkomsten

In de jaren 2014-2020 zal het algehele effect van de voorgestelde hervormingen van het Gemeenschappelijk landbouwbeleid (GLB) op ontwikkelingslanden gering zijn, met name bij hoge voedselprijzen en een lage mate van handelsverstorende steun aan de EU-landbouw (figuur S.1).

De voorgestelde hervormingen van het EU-beleid inzake de handel in landbouwproducten, zoals het nieuwe SAP, hebben waarschijnlijk meer effect op de samenstelling van de handel met ontwikkelingslanden.

Alle wijzigingen in het GLB en EU-handelsbeleid werken in landen met lage inkomsten op verschillende wijze door op de binnenlandse consumenten en producenten, die elk tegengestelde belangen hebben. Het is daarom onvermijdelijk dat alle partijen enige schade oplopen.

**Figuur S.1** **Totale waarde van de landbouw en steun aan landbouw in de EU (1986-2009)**




Bron: Landbouwvooruitzichten OESO-FAO 2012.

## S.2 Overige uitkomsten

China wordt in de context van de mondiale ontwikkelingen een steeds belangrijker handelspartner voor ontwikkelingslanden. Dat was met name de afgelopen vijf jaar het geval. Vooralsnog is de EU echter een veel belangrijker handelspartner dan China, behalve voor groente.

| **Tabel S.2** | **Effect van de hervorming van het GLB en het handelsbeleid op de zuivel-, suiker-, fruit- en groentesectoren in ontwikkelingslanden** | |
|---|---|---|
| **Sector** | **Landen die exporteren naar de EU** | **Landen die importeren vanuit de EU** |
| Zuivel | Verwaarloosbaar | De import van zuivel vanuit de EU is relatief onbelangrijk. De EU blijft echter voor veel landen de belangrijkste bron van zuivelimport. |
| Suiker | Voor een aantal ACS-landen is de suikerexport naar de EU belangrijk. Voor deze landen is de EU meteen ook de belangrijkste exportbestemming voor suiker. | Verwaarloosbaar |
| Fruit | Voor een aantal Zuid-Amerikaanse landen is de export van fruit en bananen naar de EU belangrijk. De producenten in deze landen zijn kwetsbaar voor wijzigingen in de handelsbetrekkingen met de EU. | Verwaarloosbaar |
| Groente | De export van groente naar de EU is relatief onbelangrijk. Voor een aantal Afrikaanse landen is Europa echter de belangrijkste exportmarkt. | Verwaarloosbaar |

## S.3 Methode

Deze rapportage is opgesteld in opdracht van het ministerie van Economische Zaken[1] ten behoeve van het onderzoeksproject Economisch risicomanagement.[2] In 2014 worden het Gemeenschappelijk landbouwbeleid (GLB) en het Systeem van algemene preferenties (SAP) onderworpen aan een ingrijpende hervorming. Het ministerie heeft LEI Wageningen UR gevraagd om het mogelijke effect van een hervormd GLB en handelsbeleid op ontwikkelingslanden in de zin van voedselprijzen, handel en binnenlandse markten te beoordelen.

Ontwikkelingslanden zijn vrij heterogeen in de wijze waarop zij worden getroffen door de wijzigingen in het GLB en het beleid inzake de handel in landbouwproducten. Op basis van onze benadering kunnen wij een vereenvoudigde analyse maken. Wij hebben vier specifieke groepen van grondstoffen geselecteerd: zuivel, fruit, groente en suiker. Verder hebben wij ons onderzoek beperkt tot het vaststellen van de kwetsbaarheid van de verschillende categorieën ontwikkelingslanden voor beleidswijzigingen. Dit hebben wij gedaan door de waarde van de import vanuit en de export naar de EU te berekenen als onderdeel van de totale landbouwwaarde of de totale import- of exportwaarde.



[1] Voorheen het ministerie van Economische Zaken, Landbouw en Innovatie (EL&I).
[2] Onderdeel van het BOCI-programma voor onderzoeksondersteuning van beleid.

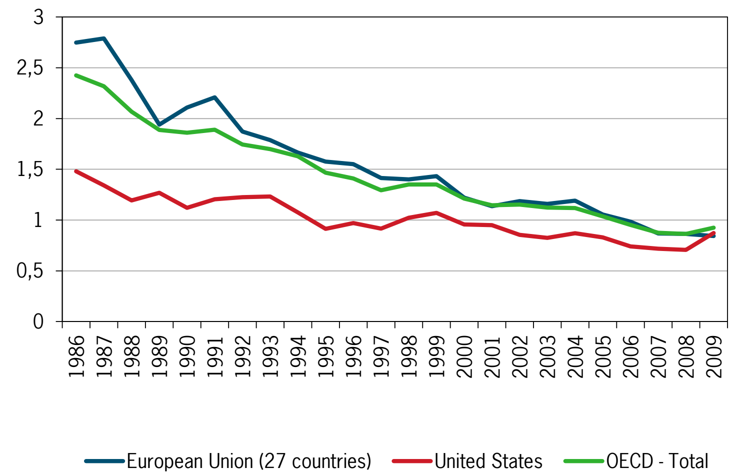
# 1 Introduction

## 1.1 Background

The Common Agricultural Policy (CAP) of the European Union has long been accused of having a distortive effect on the world markets for specific commodities and on the markets of developing countries in particular. Several studies have shown that specific CAP and agricultural trade instruments that have the intention to protect the internal EU market have had two effects: (i) they either limited the export opportunities of developing countries (market access) or had (ii) a depressing effect on world market prices (through export restitutions and domestic support) (Revoredo-Giha et al., 2011; Stevens, 2008; Donnellan and Westhoff, 2001).

Nowadays, due to a series of CAP reforms since 1992, the negative effects of the CAP on developing countries have been minimised (Cantore, Kennan, and Page, 2011). Domestic support has been shifted from price and market support coupled to production towards decoupled direct income support to farmers, which is viewed as less trade-distorting. In total, support to the agricultural sector in the EU is now comparable to levels in the US or OECD countries and less than 1% of GDP (Figure 1.1). Since the EU is a large agricultural producer and exporter, CAP instruments still have an (indirect) impact on world food prices and therefore on developing countries, although a possible price depressing effect of these instruments is blurred in the current situation of high food prices (Keijzer and King, 2012).

**Figure 1.1** **Total Support Estimate to agriculture as a % of total GDP (1986-2009)**




Source: (OECD, 2012).

In 2014, the CAP will be subject to another reform for which the negotiations are currently undertaken. These reforms should take into account the EU's development cooperation objectives, according to the principle of Policy Coherence for Development (PCD). This means that negative spillovers of non-development policies that could adversely affect the EU's development objectives should be avoided. PCD is of particular importance for the CAP, given the target of Millennium Development Goal 1 of eradicating extreme poverty and hunger and the role of the agricultural sector in achieving food security (European Commission, 2011a). Food security concerns are sometimes used by the EU to defend CAP policies, although this is not always justified (see Zahrnt, 2011 for a discussion).

Despite strong political support, actual progress in setting up PCD mechanisms and procedures in OECD countries during the past decade has been rather tentative. NGOs have denounced cases of incoherence between CAP and development policy (Ragonnaud, 2012). In a recent study for the Dutch and German Development Cooperation, King et al. (2012, 6) find that insufficient investment was made to assess the actual effects of developed country policies in developing countries (see also Klavert, Engel, and Koeb, 2011). Most PCD relevant research is theory-based and lacks adequate empirical verification. Investments in research are considered a prerequisite for functional and legitimate monitoring of countries' performance on PCD (King et al., 2012).

The Dutch government is strongly committed to the principle of PCD and has stressed the importance of a sound impact assessment of the CAP on developing countries (BuZa & EL&I, 2011a). The Dutch government also stressed the importance of market access for developing countries and a development-friendly CAP as part of its national policy on food security (BuZa & EL&I, 2011b).

The CAP cannot be separated from EU's agricultural trade policies, especially because the CAP touches on WTO regulations (Matthews, 2011c; Klavert, Engel, and Koeb, 2011; Goodison, 2010). EU agricultural trade policies have an important impact on developing countries' agricultural imports and exports. Currently, many developing countries enjoy preferential access to the EU thanks to the Everything But Arms Agreement (for Least Developed Countries or LDCs), Economic Partnership Agreements or the Generalized System of Preferences (GSP, for all developing countries) (Bineau and Montalbano, 2011).

Although the CAP reform was not intended to address the trade barriers that were 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 (Matthews, 2011a). In addition, export subsidies have largely been abolished and import tariffs for developing countries have also largely been abolished through the Everything But Arms (EBA) Agreement with the group of Least Developed Countries and the Economic Partnership Agreements (EPAs) with the group of African, Caribbean and Pacific (ACP) countries (Grant, 2010). See Appendix 1 for the list of ACP countries and information on participation in EPAs.

An important change is the new GSP, which will reduce the number of countries eligible for trade preferences from 2014 onwards. The Economic Partnership Agreements will become more important as it is intended to fill the gap of the new GSP.

Whether these changes will lead to an increase of exports to the EU straight away remains to be seen. Increasing exports of developing countries to the EU requires a number of additional measures that will tackle a number of other barriers that developing countries face, such as non-tariff barriers in the EU and the absence of sound domestic agricultural policies (see also Kuyvenhoven and Stolwijk, 2011).

## 1.2 Objective and research question

To assess the impact of a reformed CAP on developing countries, the Ministry of Economic Affairs[1] has asked LEI Wageningen UR to conduct a study on the impact of a reformed CAP on developing countries. In addition, this study will analyse the proposed changes in agricultural trade policies of the EU. We also discuss the EU policies in the context of China's increasing role in world trade. The impact on developing countries are assessed in terms of prices and trade including domestic markets.

Research questions:

- What is the (relative) impact of the reformed European Common Agricultural Policy in 2014 on developing countries, in terms of prices, trade, and domestic markets?
- How is the CAP related to its agricultural trade policies, and what is the relative impact of those on developing countries, in terms of prices, trade, and domestic markets?
- In the context of global developments, what is the relative role of China in world trade compared to the EU?

## 1.3 Research methodology

It is important to note that developing countries are very heterogeneous in the way they are affected by changes in world food prices and changes in the CAP. Klavert et al. (2011) observe that analysing the implications of the CAP for developing countries is difficult because the CAP is a highly complex policy including a wide range of measures. The effects of the CAP on developing countries depend on (European Commission, 2011a; Matthews, 2011c; Matthews, 2011b; Matthews and Gallezot, 2006):

- the commodity composition of their trade (whether these are commodities protected by the CAP);
- whether they are net-importers or net-exporters of these commodities;
- their preferential status (EBA, EPA or GSP);
- the economic structure of the country;
- their own agricultural policies.



[1] Formerly Ministry of Economic Affairs, Agriculture and Innovation or EL&I.

Different agricultural trade policies will also affect various developing countries and sectors differently as well. We have therefore chosen to focus this study on four specific commodity groups: dairy, fruits, vegetables and sugar. These four commodity groups have been selected based on the fact that they constitute significant shares in the trade between the EU and developing countries. In addition, sugar and dairy are more heavily regulated in the Single Common Market Organisation (CMO). Changes in policies for sugar and dairy will thus have a larger impact on developing countries than those for fruits and vegetables, which are less regulated (Massot Marti, 2008).

The assessment of the impact of a reformed CAP and EU agricultural trade policy has been done based on a combination of literature study and data analysis. We did a literature study to present an overview of the literature on impact of a reformed CAP and EU trade policy on developing countries. In addition, trade data was analysed to identify how a reformed CAP and agricultural trade policies will affect individual countries for the four selected sectors.

We used UN Comtrade data for exports and imports (in USD) between the EU-27 and developing countries between 2005 and 2010.[1] This period is somewhat arbitrary, but we assume that it reflects well the importance of trade values for these countries. Taking only one year will give a skewed picture because trade values and volumes often fluctuate between years. The developing countries were categorised into four groups: (1) LDCs, (2) ACP countries, (3) LDC and ACP countries and (4) 'miscellaneous' meaning they belong neither to the LDC or ACP category.

We extracted import and export data from and to the EU-27 for dairy, fruits, vegetables and sugar[2] as well as values of total import and export of agricultural products from or to the world. By dividing the import or export values for specific products by the total value of imports or exports to the world, we obtained the share of imports or exports from or to the EU-27 in total agricultural imports or exports. We used this share to represent the vulnerability of a particular sector within a particular country to EU policy changes.

The choice of countries was according to LCD status, ACP membership and income. All countries in the South belonging to the low-income, lower-middle-income and upper-middle-income economies were considered to be developing

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[1] The United Nations Commodity Trade Statistics Database (UN Comtrade) contains detailed imports and exports statistics reported by statistical authorities of close to 200 countries or areas. UN Comtrade is considered the most comprehensive trade database available with more than 1 billion records. See for more information www.comtrade.un.org.

[2] In the Comtrade database: (i) Dairy, (ii) Edible fruit and nuts; peel of citrus fruit or melons, (iii) Edible vegetables and certain roots and tubers, (iv) Sugars and sugar confectionery.

countries and included in the analysis. The classifications are listed and explained in appendix 6. It may be argued that countries belonging to the upper-middle income category are not strictly developing countries. For completeness sake, we included them anyway, categorising them as 'miscellaneous' category. The same applies to the ACP group, of which a few members are upper-middle-income or even high-income countries (Equatorial Guinea).

## 1.4 Outline of the report

Chapter 2 provides a short overview of the development of the CAP through the years, with a focus on the proposals for the CAP 2014-2020. In chapter 3, the EU agricultural trade policies are explained. Chapter 4 analyses the vulnerability of the four sectors for changes in the CAP and EU agricultural trade policies for different developing countries. In chapter 5 conclusions are drawn on developing countries' vulnerability to a reformed CAP and agricultural trade policies.

# 2 Development of the CAP towards 2020

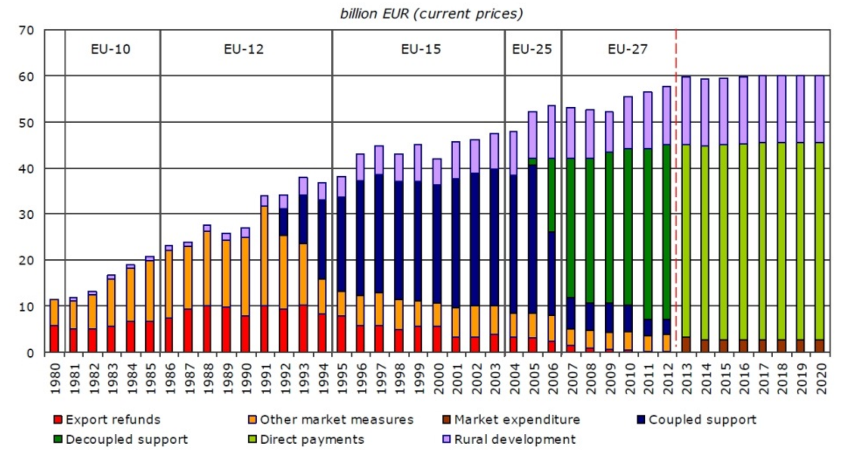
The process of CAP reform started in 1992 and major reforms were made again in 1999 with the 'Agenda 2000'. In 2003, a further round of reforms was initiated, with additional sector-specific reform in 2005 and a CAP 'health check' involving further reforms in 2008. A major round of reforms is scheduled for 2014. In September 2011, after a period of public consultation and deliberation within the EC services and stakeholders, the European Commission put forward several proposals for reform. These became subject of intense debate within the EU Council, the European Parliament and the agricultural sector in general. Formal regulations were proposed in the course of 2012. It is expected that final approval to specific changes being agreed beginning of 2014[1] (Agritrade, 2012).

In summary, the CAP proposals maintain the current structure of the CAP with two pillars. Pillar 1 contains the annual mandatory measures of general application (direct payments and market management measures). This is complemented by voluntary measures under a multi-annual programming approach in pillar 2 (rural development policy). More synergy and coordination both between the two pillars of the CAP and between the rural development policy of pillar 2 and other EU structural funds is an important aim.

Five main regulations are in place: direct payments, market measures (single CMO), rural development, the Common Strategic Framework, which also includes the rules for other EU structural funds, and a horizontal regulation, which not only contains financial management, but also brings together other common provisions. The proposals on direct payments and market measures potentially have the most impact on developing countries. These proposals are summarised below. It must be noted that these proposals are prone to changes, as they were still being discussed at the time of writing this report. Figure 2.1 shows how the focus of CAP expenditures are expected to change after 2013.

[1] At the start of 2013, at the time of writing, some doubted whether this date would be feasible. See for instance Alan Matthews' blog http://capreform.eu/welcome-to-the-irish-presidency/ accessed 14 January 2013. See also Anania (2012) for a description of the complicated process for decision making by the EC, the European parliament and the Council of the European Union.

**Figure 2.1 Path of CAP expenditures 1980-2020**




Source: DG Agriculture and rural development.

## 2.1 Direct payments

Direct payments are made directly to farmers to support their incomes. In contrast, price support supplements the incomes of farmers by supporting the prices they receive for their products. The reform of the common agricultural policy in 1992 reduced the level of price support. To prevent a corresponding fall in the incomes of farmers, direct payments were introduced to compensate farmers for the lower prices they received in the market. The coupled payments are commodity specific and an addition to the price received. Increasing the EU price in this way encourages EU production. The 2003 reform of the CAP introduced decoupling of direct payments as the general rule. However, within the framework set out by the Council, Member States may choose to keep some of their direct payments coupled to production to a certain extent.

The European Commission proposes restricting the direct payments system to a 'flat rate model'. The diversity of Single Payments Schemes in the EU-15 (historic, flat rate and hybrid models) and the Simplified Area Payments Scheme in the EU-12 will be replaced by one model with a national or regional flat rate per eligible hectare. The proposal for the CAP 2014-2020, instead, introduces a number of payment schemes:

- *Basic Payments*: a uniform payment per hectare at national or regional level.

- *Greening Payment*: payment per hectare for respecting certain agricultural practices beneficial for the climate and the environment. Three measures are foreseen: maintaining permanent pasture, crop diversification and maintaining an ecological focus area of 7% of farmland. Member States are obliged to use 30% of their national envelope for this scheme.
- *Young Farmer Scheme:* a top-up payment of 25% for starting young farmers (< 40) for the first five years (not for large farms). This scheme shall be funded by up to 2% of the national envelope.
- *Coupled support*: the Commission reintroduces the option of coupled support in order to address the adverse effects of a redistribution of direct payments. These have been abolished for most products, but the Commission intends to reintroduce these payments for suckler cows, goats and sheep. Member States may use up to 5% or even 10% of their national envelope for this support.
- *Natural constraints support:* additional payments may be granted to farmers in areas with national constraints. Member States may use up to 5% of their national envelope for this support.
- *Small Farmer Scheme*: as an alternative for the schemes mentioned above, the Commission also proposes a simple and specific scheme for small farmers (< 3 ha). These farmers may choose to receive a lump-sum payment replacing all other direct payments. Small farmers will be exempt from greening and face less stringent cross-compliance requirements and controls. Member States may use up to 10% of the national envelope[1] for this scheme.

Besides these payments and support schemes, some other, new, elements in the direct payment system are in place:

- *Cross compliance*: the basic requirements concerning environment, animal welfare and plant and animal health standards will continue to be conditional for farmers in order to receive payments and support. However, the number of existing cross compliance rules will be reduced and some new requirements resulting from the Water Framework Directive and the Sustainable Use of Pesticides Directive will be added.
- *Definition of active farmer*: in order to make sure that payments will only be provided to recipients, which can be viewed as 'active farmers', applicants whose direct payments are less than 5% of their total receipts from all non-

[1] National envelopes refer to the overall ceiling on the funding for direct payments allocated to each Member State.

agricultural activities or, which do not carry out the minimum agricultural activity are excluded.

- *Capping*: the amount of support to individual farms from the Basic Payment Scheme will be limited to € 300,000 per year. Between € 150,000 and € 300,000 support is decreased in a degressive manner. In case of holdings with (many) employees, the costs of salaries may be deducted before the reduction is applied.
- *Eligibility of land*: the year 2014 will be set as a new reference year for land areas, but in order to avoid speculation (holdings quickly buying land to profit from the area payment) a link to beneficiaries of the direct payments system will be made in 2011.
- *Transferring funds between pillars*: Member States in the EU-15 may shift up to 10% of their Direct Payments envelope to their Rural Development envelope, while Member States in the EU-12 may transfer up to 5% of their Rural Development envelope to their Pillar One envelope.

Direct decoupled payments, which are described as non-distorting, still tend to distort trade somewhat due to the sheer scale of these payments. According to EU figures, direct payments make up 28% of agricultural income for the EU-27 (total subsidies make up 40%), which means that many farms could not exist without CAP support (Matthews, 2011a).

The Scenar 2020-II study (Nowicki et al., 2009) finds that under the liberalisation scenario, where direct payments are completely abolished, farm income in the EU-27 would decline by 15% more until 2020 than under the reference scenario. The number of farms is estimated to decrease considerably. However, reducing direct payments will imply lower land prices, which enables large parts of EU agriculture to remain competitive and thus EU production is not enormously affected by further liberalisation. Others, however, predict that a reduction in direct payments would reduce EU supply through reduced land-use and therefore may increase world prices (ODI, 2011; Klavert, Engel, and Koeb, 2011).

## 2.2 Market measures

The Single Common Market Organisation (sCMO) provides the legal framework for the market instruments currently available for domestic markets, trade with third countries and rules regarding competition (European Commission, 2011a). Figure 2.1 shows that market measures are to be reduced considerably in terms of financial support. The current market measures that are expected to be continued consist of:

- Private storage aid, which represents a first layer of market management, as it is triggered, as a general rule, at a price level, which is closer to market prices (above the intervention price level).
- Public intervention, which is foreseen for cereals, rice, skimmed milk powder (SMP), butter and beef. Intervention prices, triggering mechanisms, calendars and quantitative ceilings vary across sectors.
- Special intervention measures and special measures in case of market disturbances, which can be implemented at member state or regional level under specific circumstances for certain sectors (e.g. in cases where prices on the EU market rise and/or fall significantly).
- Production quotas, which have been an important instrument for market stabilisation, in sectors facing overproduction, notably the dairy, sugar and wine sectors. Dairy and sugar quotas are set to expire following the respective 2014/2015 quota year (also see sections 4.2 and 4.3 on dairy and sugar).

The EU intends to keep a market orientation in a reformed CAP after 2013 to maintain the competitiveness of EU agriculture, but at the same time providing a safety net for farmers in case of strong market disruptions. Maintaining stable commodity markets and farm incomes are the main objectives here. The EU proposes to alleviate tight producer margins by improving distribution of value added along the food chain. It aims to achieve this by strengthening bargaining power of farmers, promoting more effective contractual relations and enhancing price transmission and transparency along the food chain. The EU proposes to simplify and streamline existing instruments because the whole system of market measures is complex (European Commission, 2011a).

## 2.3 Intervention prices

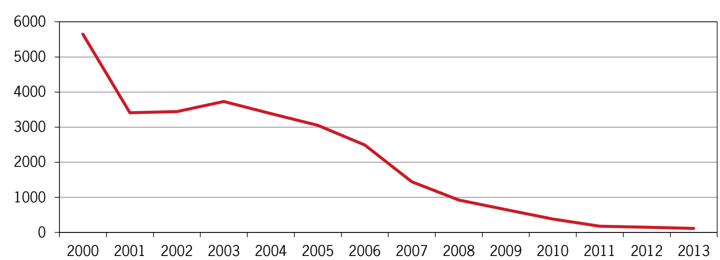
When market prices for an agricultural product fall below a certain level, the public authorities of the member states intervene to stabilise the market by purchasing surplus supplies, which may then be stored until the market price increases, exported to a third country or disposed of in an alternative way. Public intervention by the EU at fixed prices will be decreased. It remains available for cereals, beef and veal, butter and skimmed milk powder, but only for quantities fixed in advance or at very low prices. Since 2009-10, no cereals apart from soft wheat have been eligible for intervention (ODI, 2011). Within the

WTO, intervention prices are considered to be trade distorting as they artificially raise prices above a certain level and are part of the EU's reduction commitments from the Uruguay round.

## 2.4 Export subsidies

Under the CAP, export subsidies, also called export subsidies, can be introduced as a compensation to producers when export prices on the world market are lower than producer prices in the EU. The WTO members have found export subsidies to be trade-distorting. Both the EU and US have therefore committed to lowering their expenditures on this type of support under the Uruguay Round Agreement on Agriculture of the GATT. The EU has indeed reduced its use of export subsidies over the past decade, which has had far-reaching consequences in several sectors. The WTO commitments on export subsidies has limited the use of intervention prices and stockpiling in the EU. Subsequent CAP reforms that have reduced interventionist market policies cleared the road for a near total elimination. Their use was further minimised in recent years of high food prices (Figure 2.2). See Appendix 3 for EU export subsidies for sugar, dairy and fruits and vegetables 2003-2009.

**Figure 2.2** **A decade of declining use of export subsidies**




Source: Various budget reports of the European Commission, 2012b; European Commission, 2012c.[1]

Export subsidies for fruit and vegetables were abolished in 2008 and sugar export subsidies set at zero from 2008/09, while subsidies for milk and milk

[1] The figures are also cited in (ODI 2011) but differ from the figures mentioned in 'Myths and Facts; EU budget myths' published on the website of the EC (accessed January 2013): http://ec.europa.eu/budget/explained/myths/myths_en.cfm#9of15. We cannot explain the difference.

products set at zero from November 2009. The proposal to abolish export subsidies was actually made as part of the Doha Round under the WTO, which, if agreement was reached, would involve the elimination of export subsidies by 2013. The Doha Development Agenda, as it was optimistically called at the outset, has made little progress in recent years, and it is not expected it will be concluded in the near future.

Export subsidies are thus still on the table. Most recently, these subsidies have been used mostly for dairy (see Figure 4.1), beef, eggs and poultry (in 2009/2010 to 2011/2012; European Commission 2012c). Despite the limited effects of export subsidies in recent years, the fact that the EU may use them creates disincentives in developing countries to invest in sectors that may be harmed if the EU does use export subsidies (Revoredo et al., 2011).

Revoredo et al. (2011) as well as Renwick et al. (2010) provide an overview of studies that assessed the impact of (eliminating) export subsidies on developing countries. In general, the majority of studies found that elimination of export subsidies would lead to an increase in world prices, but would have a limited impact on the trade volumes and welfare of developing countries (see also Bouet, 2008; Fabiosa et al., 2005). It must be noted that the net negative effects depend on the particularities of the domestic markets in specific countries (see also Anderson and Martin, 2006a; Anderson and Martin, 2006b; Boulanger, 2009).

Others have stretched the definition of export subsidies to also include implicit export subsidies that arise from domestic support payments. The European NGO confederation for relief and development (CONCORD) therefore recommended to the EC in 2011 that

> 'any product that receives product specific support should not be exported to developing countries. If exported, the value of its specific subsidy should be added to its export value' (CONCORD, 2011).

# 3 EU agricultural trade policies

EU agricultural trade policies are important to developing countries' agricultural trade because it determines their market access to the EU. Developing countries benefit from preferential import conditions to the EU, which effectively implies that the EU charges lower taxes at the border on products from developing countries than other suppliers. There are several schemes for preferential access, most notably the Generalized System of Preferences (GSP).

We discuss the main elements of the EU trade policy and how they affect the different developing countries below. The treatment of agriculture in the preferential trade schemes is generally complex; in this section we will only touch on the main features. For more extensive discussions, we refer the reader to Candau and Jean (2009) for a recent quantitative account and, for a more general and historical introduction, to Achterbosch et al. (2003).

## 3.1 Import tariffs

It is common practice for countries to levy taxes at the border on imported products. These taxes are commonly referred to as import tariffs. The size of the tax, or tariff rate, differs by a detailed product list. Several commodity imports, including cocoa, coffee, and oilseeds, face low import tariffs. Others, such as sugar, dairy products or beef, face high tariffs and therefore a high level of protection. Developing countries will find it difficult to export these products to the EU unless they have preferential tariff concessions under a particular regime.

To calculate the average EU import tariff, various assumptions need to be made, as explained by Alan Matthews in his blog post 'Will the right tariff average stand up?'.[1] The 'Most Favoured Nation' (MFN[2]) tariff structure of the EU features a high level of complexity. Thousands of product-specific tariffs exist, which are calculated on the value of imports, the volume of imports or both. The

[1] Available from the CapReform.eu at http://capreform.eu/will-the-right-tariff-average-stand-up/

[2] Most Favoured Nation treatment requires that when a member of the World Trade Organisation grants an advantage to one country, then it must give the same treatment to all other countries that belong to the WTO. The purpose of this principle is to ensure that no discrimination is made between the countries that belong to the WTO. This principle is found in Article I of General Agreement on Tariffs and Trade 1994 as well as in other agreements. http://ec.europa.eu/agriculture/glossary/index_en.htm.

WTO (2011) has estimated that the simple average of applied 'Most Favoured Nation' (MFN)[1] tariffs on agricultural commodities are over 15% in 2011, with much variation around the average (the standard deviation is 18.9). These are high compared to 4.1% for manufactures imports.

The high variation is explained by the fact that most of the tariff peaks relate to agriculture, engineered to shield specific farming sectors in the EU from global competition, in particular the dairy, beef and grains sectors. For products in these sectors, the EU has several two-tier tariff schemes in place. The so-called tariff rate quotas include a jump in the tariff when a predetermined quantity of imports into the market has been reached. As a result, the import tariffs paid by countries on the MFN status average 54% for milk products, 34% for grains and 32% for meat (data from ODI, 2011). All this implies that trade preferences are a meaningful asset for a developing country to obtain access the EU markets (see 3.3).

## 3.2 Nominal Protection Coefficients

The OECD publishes an annual overview of Nominal Protection Coefficients (NPCs), which measures the ratio between the average price received by producers at farm gate, including payments per tonne of current output, and the border price, measured at farm gate (OECD, 2012). The NPC is thus derived from the difference between domestic and world market prices at the farm gate level, i.e. adjusting the border price of the imported food for marketing margins as well as quality and quantity differences.

The EU reforms of market regimes for key agricultural commodities have moved domestic prices for key agricultural commodities closer to the border price levels, with the price differential between internal EU prices and world prices falling from 33% in 1995-97 to 5% in 2009-11. In 2009, EU sugar prices were 19% above world market prices but this differential disappeared in 2011. The impact of the recent increase in world market prices has also led to the rapid decline in the NPC for some commodities (OECD, 2012). Although these low NPCs suggest very limited market price support from border protection and

[1] Most Favoured Nation treatment requires that when a member of the World Trade Organisation grants an advantage to one country, then it must give the same treatment to all other countries that belong to the WTO. The purpose of this principle is to ensure that no discrimination is made between the countries that belong to the WTO. This principle is found in Article I of General Agreement on Tariffs and Trade 1994 as well as in other agreements.
http://ec.europa.eu/agriculture/glossary/index_en.htm.

some coupled payments, the EU still levies rather high tariffs on imported foodstuffs (see above) (Matthews, 2012).

## 3.3 EU trade policies for developing countries

### 3.3.1 Generalized System of Preferences (GSP)

The GSP was established in 1971 to allow developing countries unilateral, non-reciprocal tariff preferences. Gradually, the EU expanded the range of beneficiaries and offered greater benefits for the least developed countries. The aim of the EU is to help developing countries to export their products to the European Union through GSP, in the form of reduced tariffs for their goods. The GSP is subject to WTO law, which allows for an exception to the WTO 'most-favoured nation' principle (i.e. equal treatment should be accorded to all WTO Members). In addition, the EU revised the GSP rules of origin in 2011 to address the criticism that rigid rules of origin impede developing countries from making full use of EU preferences (European Commission, 2012d).

Under the old GSP regulation, 176 countries were eligible under:

1. 'Standard' GSP: generous preferences: duty reduction for around 66% of all tariff lines the beneficiaries in general. Until the new GSP, 111 countries and territories enjoyed these reductions
2. GSP+: set up in 2006, providing additional preferences to 16 beneficiaries, termed enhanced preferences, because countries ratify and implement international conventions relating to human and labour rights, environment and good governance. Zero duties for the same 66% tariff lines as under GSP.
3. Everything But Arms (EBA) introduced in 2001, which allows duty-free access by all imports from LDCs with no restrictions on quantity, with the exception of arms and munitions.

The EU adopted a new GSP on 31 October 2012, which will apply as of 1 January 2014. The new scheme will maintain GSP and GSP+ but will focus on fewer beneficiaries: 89 countries. For the new GSP+, the developing countries must show binding commitment to ratify 27 conventions, which include human rights, good governance, climate change, etc., to accept monitoring, and to cooperate with the EU (European Commission 2012i).

The 89 countries consist of 49 least developed countries in the Everything But Arms scheme, and 40 other low and lower-middle income partner. There is no topical list of the new GSP+ countries yet, as all candidates are required to renew their applications for this status. This makes the analysis in this report somewhat hypothetical, but we assume that the 89 countries eligible will remain so.

The countries that no longer benefit are (European Commission, 2012b):

- The 'overseas countries and territories' (33). This category consists of mainly EU territories, which have their own market access regulation - and thus do not use GSP to enter the EU. Reform will be in general neutral for them.
- Countries that enjoy another trade arrangement with the EU, which provides substantially equivalent coverage as compared to GSP (in total 34). This category includes countries with a Free Trade Agreement or with autonomous arrangements (such as the bridging Market Access Regulation for countries that have negotiated an Economic Partnership Agreement (EPA) but not yet signed and ratified). Given that use of GSP is marginal for these countries, reform will in general be neutral for them.
- Finally, countries that have been listed by the World Bank as high or upper middle income economies for the past three years are excluded (in total 20).

New countries that can now apply for the new GSP+ are Philippines, Pakistan, Ukraine because the so-called 'vulnerability criterion' has been relaxed.

The new GSP maintains the core principles behind graduation. Graduation means that imports of particular groups of products and originating in a given beneficiary country lose GSP preferences. The new GSP includes a few changes, one of which is relevant for our study: graduation no longer applies to GSP+ countries because like EBA countries (for which graduation does not apply), GSP+ countries are also vulnerable and display a non-diversifies export base. Out of a total of over 2400 country-product group combinations that exist, 20 (less than 1%) have been graduated (European Commission, 2012i).

See Appendix 4 for a list of agricultural graduated sectors. See Appendix 5 for a list of countries that fall under the new GSP and GSP+.

### 3.3.2 ACP countries preferential trade agreements

The African, Caribbean and Pacific Group of States (ACP) is an organisation created by the Georgetown Agreement in 1975 and consists of 79 Member-States, all save Cuba signatories to the Cotonou Agreement that binds them to the European Union: 48 countries from Sub-Saharan Africa, 16 from the Caribbean and 15 from the Pacific (see appendix 2 for a complete list). The ACP group was traditionally positioned above GSP beneficiaries in the EU pyramid of preferences.

Under the Cotonou Agreement, the EU granted non-reciprocal trade preferences to ACP countries. The rules of origin stipulated the conditions under which this preferential access was to be enjoyed by the beneficiary countries (European Commission, 2012f). However, the Cotonou Agreement was also meant as a forum for concluding Economic Partnership Agreements (EPAs, see section 3.3.3), which would replace non-reciprocal trade preferences from 2008 onwards. The main reason for replacing this system of non-reciprocal trade preferences is because these are incompatible with WTO rules.

The new GSP will affect all ACP countries, either directly or indirectly. A small number of countries are affected directly because the GSP is the only preferential safety net that is available for their exports to the EU. This will be taken over by the EPAs as explained above, but only if they reach an acceptable conclusion before the temporary Market Access Regulation expires (see section 3.3.3 on EPAs). The current GSP regime does not offer equivalent preferences on key exports to those that the ACP countries receive at present, and the modest extensions to the new GSP do not alter this picture (Agritrade, 2013). Another, very small group will be excluded as GSP beneficiaries because they have been reclassified as upper or middle income countries.

The remaining ACP countries will be affected indirectly because changes to the GSP will change the competitive advantage that they enjoy over other suppliers to the EU market. The preferences of current ACP and LDC exporters will in general erode because the EU is concluding bilateral trade agreements with other regions (e.g. in Central America). In addition, the ACP and LDC countries are confronted with higher costs of supplying the EU market (e.g. due to sanitary and phytosanitary (SPS) regulations), and dispute settlements in the WTO (e.g. bananas).

### 3.3.3 Economic Partnership Agreements (EPAs)

The EPA negotiations started in 2002 and were supposed to end on 1 January 2008, which was set as the deadline for bringing the EC-ACP trade regime into conformity with WTO rules.[1] As of 1 January 2008, the provisions of the Market Access Regulation (MAR) entered into force as a temporary unilateral scheme for countries that have negotiated an Economic Partnership Agreement (EPA) but have not yet signed and ratified (European Commission, 2012f). The MAR

[1] The Annex V of the ACP-EC Partnership Agreement, among, which the Protocol concerning the definition of the concept of 'originating products' and methods of administrative cooperation, expired on 31 December 2007 (European Commission 2012f).

governs the EU import regime for 36 ACP countries that are in the process of negotiating EPAs. The MAR provides duty-free quota-free (DFQF) market access to these 36 ACP countries.

The process of concluding EPAs has been slow. Only one full EPA was signed between the EC and the CARIFORUM in 2008. The Agreement will officially enter into force pending the completion of the process of ratification by the member states. In the Eastern and Southern Africa (ESA) group, Comoros and Zambia have initialled the agreement, indicating they will sign at a later date. Madagascar, Mauritius, Seychelles and Zimbabwe have signed an interim agreement with the EU in August 2009. To date, only the Seychelles have ratified the Agreement. The reason for these delays is that the ACP negotiating countries are reluctant to join EPAs for fear of the damaging effects of increased market competition from EU imports, especially in sensitive areas like agriculture and services (ICTSD & ECDPM, 2011; Ramdoo and Bilal, 2011). In addition, for governments whose revenue is heavily dependent on import tariffs, the reduction of tariffs will represent a substantial loss of public revenue, especially for those countries that have high import tariffs (Dodd, 2008; Perez, 2006). A reduction of import tariffs would nonetheless benefit consumers in developing countries.

So far, the ACP countries that have not initialled an interim EPA have not experienced any trade disruptions, as they have been able to fall back either on the 'Everything But Arms' (EBA) regime or the standard EU Generalised System of Preferences (GSP). Based on the Cotonou principle of differentiation, not all ACP countries are required to open their markets to EU products after 2008. The group of *least* developed countries is able to either continue cooperation under the arrangements made under the 'Everything But Arms' regulation. Non-LDCs that decide they do not want to enter into an EPA can for example be transferred into the EU's Generalized System of Preferences (GSP), or the Special Incentive arrangement for Sustainable Development and Good Governance (GSP+).

In 2011 the European Commission put renewed pressure on the EPAs by proposing changes to the Market Access Regulation. The European Commission announced on 30 September that countries that have signed an Economic Partnership Agreement (EPA) with the EU but without having taken the steps to ratify and implement it, will be withdrawn from the Market Access Regulation as of 1 January 2014 onward. Eighteen countries (14 countries in the Caribbean, Madagascar, Mauritius, Seychelles and Papua New Guinea) have taken the necessary steps towards ratification of initialled agreements, and will continue to use the facility. The remaining 18 countries that have not even signed the agreement could potentially lose their free access to the EU market (European Commission, 2011c; ICTSD & ECDPM, 2011).

The European Commission has outlined what the effects are on developing countries that decide to opt out of an EPA (European Commission, 2011c, 2). The nine LDCs (Burundi, the Comoros, Haiti, Lesotho, Mozambique, Rwanda, Tanzania, Uganda, Zambia) could benefit from DFQF access to the EU under the Everything But Arms scheme. The seven low income or lower middle income countries (Cameroon, Fiji, Ghana, Ivory Coast, Kenya, Swaziland, Zimbabwe) could benefit from the new GSP regime, which is less advantageous, but still generous. The last two countries, Botswana and Namibia, are currently upper middle-income countries and, if this status is confirmed in three consecutive years, would not qualify for preferential access under the new GSP.

### 3.3.4 Doha Development Agenda

The EU remains a supporter of the Doha Development Agenda, believing it will bring benefits to the global trading system. Some of the elements of the CAP proposals have been made part of the Doha Agenda, such as proposal to abolish export subsidies. If agreement were reached, this would involve the elimination of export subsidies by 2013. Little progress has been made in the Doha Development Round, and some expect this will change in the short term for many reasons (Matthews, 2011b).

Numerous studies have examined the failure of the Round. Decreux and Fontagé (2011) put forward several explanations why reaching an agreement is difficult. The estimated global GDP gains from further global tariff reform appear to be relatively modest, and may also be achieved through bilateral trade agreements. Some regions may lose out from further trade liberalisation, specifically Sub-Saharan Africa (SSA), North Africa, Mexico and the Caribbean. This partly reflects a preference erosion. Bureau and Jean (2012) find that the Doha agenda does not meet pressing issues such as including importer's rights to food in times of scarce export supplies and government-pushed biofuel markets.

Numerous studies examined the results of the Doha Development Round, which have so far been rather disappoinging. Decreux and Fontagé (2011) put forward several explanations why reaching an agreement is difficult. The estimated global GDP gains from further global tariff reform appear to be relatively modest, and may also be achieved through bilateral trade agreements. Some regions may lose out from further trade liberalisation, specifically Sub-Saharan Africa (SSA), North Africa, Mexico and the Caribbean. This partly reflects a preference erosion. Bureau and Jean (2012) find that the Doha agenda does not meet pressing issues such as including importer's rights to food in times of scarce export supplies and government-pushed biofuel markets.

Nonetheless, it is expected that the Doha Development Round will continue at the 9th Ministerial Conference in Bali in December 2013, where countries will attempt to 'harvest' the agreements already made as result of earlier negotiation and to find further agreement on remaining subjects. The negotiations proper are described as a 'single undertaking' meaning that they form a single package of about 20 subjects, to be signed by each country with a single signature without any option to pick and choose between different subject. Important issues for developing countries include special and differential treatment provisions, duty-free quota-free market access, and rules-of-origin.

# 4 Vulnerability of dairy, sugar and fruits and vegetables sectors of developing countries

## 4.1 Impact of high prices

In the past five years, the prices of several key agricultural commodities have peaked twice: in 2007/08 and 2010/11. The effects of high prices on developing countries are mixed (Aksoy and Hoekman, 2010). High prices are favourable for net exporters of agricultural commodities. After years of depressed prices, which were blamed for stifling agricultural productivity and growth, prices are peaking again. But high prices appear to be a mixed blessing, as many poor net consumer households face increasing costs when buying food. Swinnen (2011) argues that the size of the benefits to producers and losses to consumers of high prices depends on various factors. He mentions several complicating factors in determining the effect of high world prices on developing countries:

1. The distinction between producers and consumers may not be so simple. Many rural households in developing countries are both producers and consumers of food and are thus affected in different ways by price changes. The net household effect depends on their net consumption status1.
2. The change in world-market prices may differ from the change in the local prices and the latter may even differ for local producers and local consumers, as these changes are affected by various policies (trade policy, taxes, etc.), by infrastructure and institutions, and by the industrial organisation of the food chain.
3. Local production and consumption may also affect local prices, in addition to exogenous external shocks. These exogenous shocks may be caused by nature (for example, the weather) or by humans (for example, changes in trade policies or consumption or production in other countries).
4. Short-run effects may differ from long-run effects, as pass-through may take some time

[1] Net consumption is what is left for own consumption after a rural household has sold part of its production.

The fact that there are both winners and losers of high food prices (and therefore also of low food prices) is illustrated by the fact that during the years before the price hike of 2006, attention focused on low food prices and policies that brought the world food prices down, such as import tariffs, production and export subsidies, etc. These low prices hurt producers in developing countries and therefore many recommended such policies should be removed (see for example Ray et al., 2003). Especially rich-country export subsidies ('dumping'), which pushed prices down on international markets, were a cause for dismay (Swinnen, 2011).

The volatility of prices seem another concern because it introduces uncertainty (OECD and FAO, 2011). At a micro-level, it makes planning difficult for both consumers and producers. At a more macro-level, it also makes planning and budgeting more difficult for food importing governments. The OECD-FAO Agricultural Outlook 2011-2020 expects that prices will be on a higher plateau and that high volatility will remain (OECD and FAO, 2011).

The high and volatile world prices for several agricultural commodities have led to an increased focus on the effect of world prices of the proposed CAP changes for 2013-2020. A recent study by Boulanger et al. (2010) calculates that the abolition of the CAP would shift average world prices 1-4% upwards. It must be noted that these are averages, the impact will vary across commodities and countries. However, the price effect of an elimination of the CAP seems to be relatively small.

## 4.2 Dairy

### 4.2.1 EU dairy policies

Milk production is important in EU agriculture, comprising 14 percent of the value of EU's total agricultural production. The EU's export surplus is small, around 2 per cent of the value of total agricultural production, but this accounts for over a third of total world dairy exports (European Union, 2012). Other major exporters of dairy are New Zealand, the US and Argentina, accounting for almost half of total world dairy exports together.

The Common Market Organisation (CMO) for milk and milk products has traditionally differed in some respects from the CMOs in other sectors. Raw milk is a highly perishable product, which is not easy to store or transport, which is why market support has focused on first-stage processing products, principally butter. skimmed milk powder and cheese. The first EU dairy regulation dates back to 1964 and this instituted the basic management of the dairy products market. A consolidated regulation was adopted in 1968, which formed the basis for the dairy policy until 2008, when a single CMO for the whole CAP was created. The original aim of the European dairy policy was the management of the markets for dairy products to secure product prices that permit milk producers to obtain a fair standard of living.

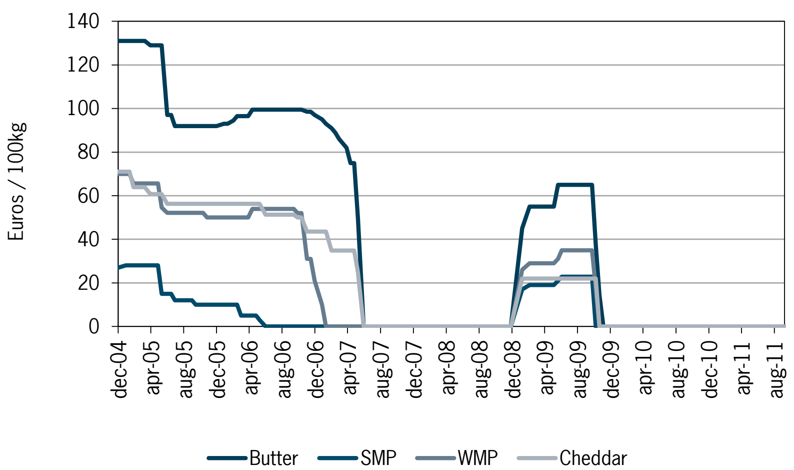
The current dairy CMO has several market support mechanisms; the most important ones are:

- Limited intervention buying (with intervention prices) of butter and skim milk powder to protect the domestic market against disruptions caused by seasonal and structural surpluses;
- Limits on milk production through a milk quota system at national level (since 1984), which will expire in 2015;
- From 2004 to 2007 milk producers received a dairy premium as compensation for phased cuts in the intervention price. In 2007 the premium has been integrated in the Single Farm Payment;
- Import tariffs on dairy products;
- The use of export subsidies[1] to bring prices of EU dairy products down to the international market level. Between June 2007 and August 2011, no exports subsidies have been applied on dairy products due to high world market prices, except during the period from January to November 2009 (Figure 4.1).
- With the planned abolition of the production quotas and the incorporation of premiums in the Single Farm Payments, support to dairy farmers has been shifted from production and price support towards income support, which should make the dairy policy more market-oriented and less trade-distortive.



[1] Also termed export subsidies. We use the term export subsidies throughout the report.

**Figure 4.1** **Export subsidies for dairy projects (2005-2012) in Euro/kg**




NB SMP = skim milk powder and WMP = whole milk powder.
Source: DairyCo Market Information, 2011.

Import tariffs apply for the majority of dairy products. These are subject to the conditions and limits established in the WTO Uruguay Round (see Table 4.1). Imports of dairy products are allowed into the EU, although stringent consumer safety and animal health requirements apply, at reduced import duties up to a set quota volume for certain products, from:

- any country under the import opportunities created by the GATT/WTO 'Uruguay Round'. These were phased in over 6 years, reaching a maximum in 2000/01 and will remain unchanged until a new WTO Agreement is signed.
- applicant countries, under the 'Europe Agreements', aimed at establishing a free trade area, and eventually membership of the EU. These imports have duty reduced by at least 80%. The maximum quantity subject to this reduced rate is increased year by year, with reciprocal arrangements allowing EU imports at reduced rates into these countries. Free trade is established once these states become members of the EU
- the 46 ACP countries (African, Caribbean and Pacific), up to a set volume, with a 65% reduction in customs duties (i.e. 65% reduction for 1,000 tonnes of condensed milk, 65% reduction for 1,000 tonnes of cheese, and 16% reduction on an unlimited imports of other dairy products.
- Turkey, with no duty applied
- South Africa, with no duty applied.

- For the world's 48 Least Developed Countries duty- and quota-free access is applied.

| **Table 4.1** | **WTO ceilings on annual subsidised dairy exports from the EU** | |
|---|---|---|
| **Product category** | **Quantity ('000t)** | **Expenditure (million €)** |
| Butter & butteroil | 411.6 | 945.8 |
| Skim milk powder | 323.4 | 298 |
| Cheese | 331.7 | 345.7 |
| Other milk products | 1 008.9 | 724.1 |

Note: Figures relate to EU-25. Consolidated figures for EU-27 still not formally published.
Source: WTO, 2012.

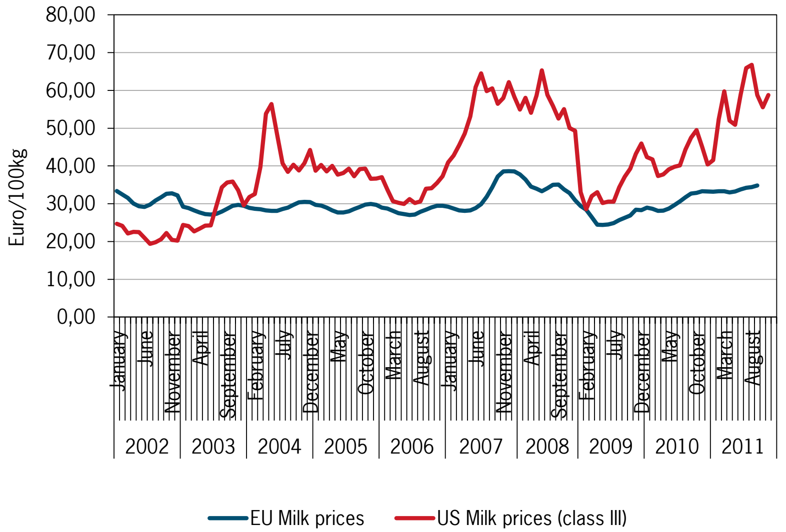
The decision to abolish production quotas from 2015 is now an EU commitment. The quotas will be increased gradually to achieve a 'soft landing' for the EU dairy sector. Although in some EU countries, milk production quotas have become binding, production levels in others remain well below the available delivery quotas.

Trinity College Dublin (2012a) argues that quota elimination should be regarded in context of the protective effect of EU tariffs. Comparing quota elimination with and without EU tariffs: with tariffs, EU dairy production increases while consumption of dairy products decreases more than without tariffs. Tariffs are not expected to change before a successful conclusion to the Doha Round, which is not yet in sight. The net effect could be an increase the EU milk surplus and lower levels of EU imports, thus depressing world market prices. However, this does not take into account the switch from direct payments to a single payment system (per ha. It is therefore estimated that for dairy, although farmers' incomes will suffer, the dairy supplies will probably not be affected. It is expected that prices for milk and dairy will remain unchanged (Jongeneel et al., 2011).

The OECD and FAO expect large disparity in quota fill to persist and project that the EU-15 quotas will be under-filled by more than 20% in 2014/15 when the quota regime is scheduled to end (OECD & FAO, 2012a). This is another reason why the quota abolition in 2015 will have a limited impact on EU milk supply and is not expected to have any great significance for world prices (Matthews, 2011c).

Figure 4.2 shows that market prices of fresh milk in the US are much more volatile than prices of milk in the EU, which have remained rather stable over the past decade because of the quota system. By controlling milk production, milk quotas indirectly contributed to stabilising the raw milk price at a relatively high level, and thereby to supporting the agricultural income of milk producers (Jongeneel, 2011).

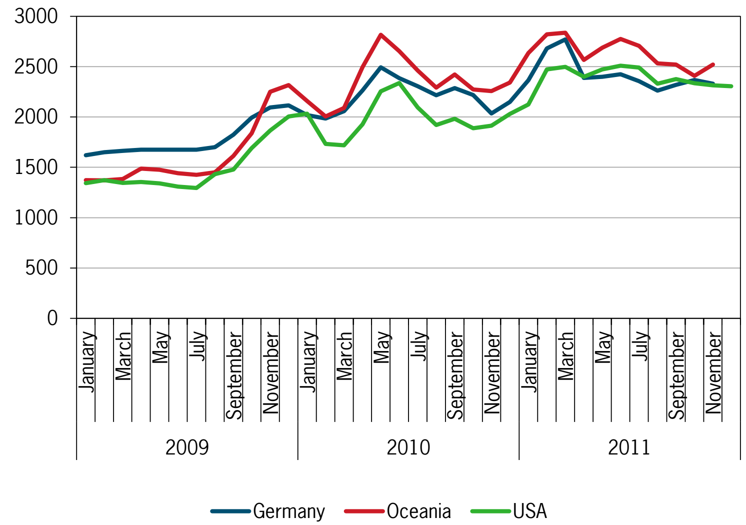
| Figure 4.2 | EU farmgate prices for milk (Euro/100kg's) and USA milk index prices (USD/cwt) |
|---|---|




NB EU-25 or EU-27 depending on year.
Sources: DairyCo Market Information, 2012; AMS-USDA, 2012.

For skimmed milk powder, which can be more easily exported than fresh milk, prices in the EU are comparable to international prices during the past three years.

| Figure 4.3 | Prices of Skimmed Milk Powder (€/tonne) in Germany, Oceania and USA 2009-2011 |
| --- | --- |




Source: CLAL, 2012.

### 4.2.2 Dairy exports of developing countries

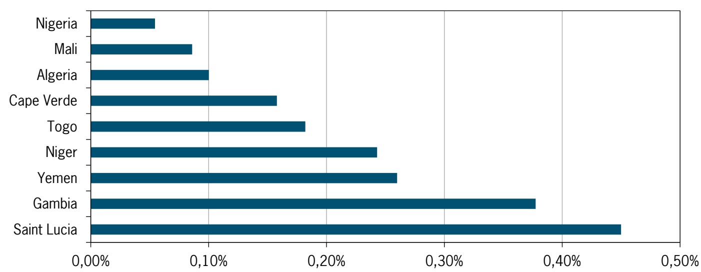
The ACP countries have reduced customs duties for their export to the EU, while the LDCs have duty and quota-free access. Dairy exports to the EU are very small compared to the value of total exports; shares fall below 1%, which means that the EU is not an attractive export destination for developing countries (Figure 4.4 and Table 4.2). For some countries (Saint Lucia, Cape Verde and Niger), the EU is the largest export destination. After 2014, Saint Lucia, Guyana and Seychelles will be excluded from the new GSP, because they are expected to be part of another trade arrangement with the EU. Saint Lucia and Guyana are currently part of the CARFORUM EPA signed with the EU. Seychelles is part of the Economic Partnership Agreement Market Access Regulation. Cape Verde will cease to be an LDC under the new GSP but has a three year transition period when it continues to enjoy EBA treatment.

Algeria's exports to the EU are extremely low. It falls into the non-LDC and non-ACP country category but is part of the Euromed market access arrangement with the EU, which is part of the Euro-Mediterranean Free Trade Area

(EMFTA) that is being established. Changes in EU trade policies are not expected to affect its dairy exports to the EU.

Overall, dairy is a relatively minor export sector in these countries. Only a relatively small number of dairy producers and exporting companies in names countries may thus be vulnerable to changes in EU agricultural policies.

**Figure 4.4** **Countries' shares of dairy exports to the EU in total agricultural exports to the world (in % average value 2005-2010)**




Source: Authors' calculations based on Comtrade data, 2012.
Cut-off point is 0.10%.

| Table 4.2 | Countries' shares of dairy exports to the EU in total agricultural exports to the world (in mln euro average 2005-2010) | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Export Dairy to EU** | **Export Total Agriculture to World** | **Export Dairy to World** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| | **(A)** | **(B)** | **(C)** | | | |
| **ACP** | **2,705** | **24,961,887** | **130,734** | 0.0% | 0.5% | 2.1% |
| Saint Lucia* | 164 | 36,452 | 170 | 0.5% | 0.5% | 96.5% |
| Cape Verde | 33 | 20,889 | 34 | 0.2% | 0.2% | 97.1% |
| Nigeria | 1,107 | 2,031,788 | 12,130 | 0.1% | 0.6% | 9.1% |
| **ACP + LDC** | **1,189** | **7,909,751** | **62,878** | 0.0% | 0.8% | 1.9% |
| Gambia | 51 | 13,514 | 986 | 0.4% | 7.3% | 5.2% |
| Niger | 224 | 92,227 | 224 | 0.2% | 0.2% | 100.0% |
| Togo | 239 | 131,266 | 9,251 | 0.2% | 7.0% | 2.6% |
| Mali | 276 | 320,203 | 1,252 | 0.1% | 0.4% | 22.0% |
| **LDC** | **879** | **2,033,058** | **16,858** | **0.0%** | **0.8%** | **5.2%** |
| Yemen | 866 | 333,170 | 14,624 | 0.3% | 4.4% | 5.9% |
| **Misc** | **5,360** | **269,105,758** | **2,975,145** | 0.0% | 1.1% | 0.2% |
| Algeria* | 140 | 139,324 | 2,964 | 0.1% | 2.1% | 4.7% |
| **Grand Total** | **10,132** | **302,149,697** | **3,341,058** | 0.0% | 1.1% | 0.3% |

Source: authors' calculations based on Comtrade data (2012).
Cut-off point for (A)/(B) is 0.10%.
* signifies that a country has another market access arrangement and in 2014 will no longer be eligible for trade preferences under the new GSP.

### 4.2.3 Dairy imports by developing countries

Dairy imports constitute a relatively minor share of total agricultural imports of developing countries (Figure 4.5 with cut-off point for (A)/(B) is 2%), although in Cape Verde and Mauritania dairy imports constitute over 13% of total agricultural imports. The share of EU dairy imports in total dairy imports is much larger generally, with some countries reporting shares of over 80% (see Table 4.3). Thus, although dairy imports from the EU are unimportant in most countries, viewed in the context of total agricultural imports, many countries depend on the EU for their dairy imports and policy changes will affect them.

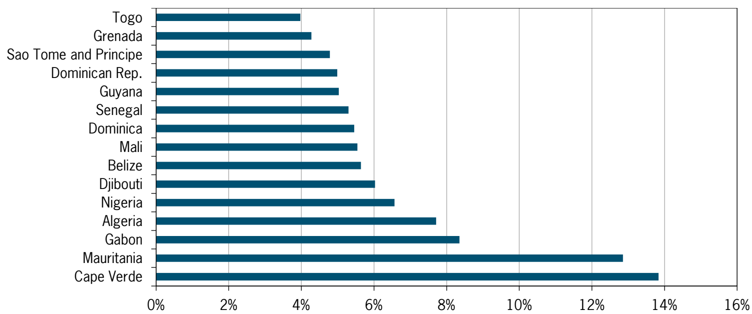
The EU has been criticised for exporting dairy produce to developing countries against low prices ('dumping') (Halderman and Nelson, 2005). And for unfairly competing with local milk and dairy production. However, Figure 4.3 suggests that EU prices for skim milk powder, which is usually exported instead of fresh milk, are not much lower than prices of other major suppliers, such as New Zealand or the USA.

Slightly reduced prices (resulting from abolishing quotas but not tariffs) may be good news to consumers, because imports might become cheaper. However, slightly cheaper imports may harm local dairy production, especially in the countries listed below in Table 4.3. An example of this criticism is a report by the NGO ActionAid on Bangladesh (Curtis, 2011). It claims that with the right support and further development of the dairy sector, dairy imports from the EU could have been replaced by production of Bangladeshi dairy farmers. The EU dairy imports into Bangladesh deter the development of a local dairy sector because they enter Bangladesh at prices competitive with domestic milk and are heavily marketed and branded, undercutting local producers of fresh milk and domestic processors of milk powder. The price of fresh milk is influenced by milk powder prices because milk powder is a substitute for fresh milk.[1]

The above makes clear that contrasting interests remain in many developing countries: consumer will benefit from cheaper EU imports, while local producers will be disadvantaged. Without belittling the importance of local dairy sectors in developing countries, in general, dairy is an insignificant sector in agricultural trade for most developing countries, with a few exceptions such as ACP Cape Verde, Gabon and Nigeria, ACP and LDC Mauritania and non ACP and LDC Algeria.

[1] In this light, the export subsidies that were given in 2008-09 (Figure 4.1) have also been an issue of heavy criticism.

**Figure 4.5** Countries' shares of dairy imports from the EU in total agricultural and dairy imports from the world (in % average value 2005-2010)




Source: Authors' calculations based on Comtrade data, 2012.
NB Cut-off point for (A)/(B) is for share in total agricultural imports is 4%.

**Table 4.3** Countries' shares of dairy imports from the EU in total agricultural imports and total dairy imports from the world (in mln euro average 2005-2010) Cut-off point for (A)/(B) is 2%

| Country and region | Import Dairy from EU (A) | Import Total Agriculture from World (B) | Import Dairy from World (C) | (A)/(B) | (C)/(B) | (A)/(C) |
|---|---|---|---|---|---|---|
| **ACP** | **592,592** | **21,024,752** | **1,380,774** | **2.82%** | **6.6%** | **42.9%** |
| Cape Verde | 26,670 | 192,772 | 28,145 | 13.83% | 14.6% | 94.8% |
| Gabon | 8,175 | 97,889 | 9,333 | 8.35% | 9.5% | 87.6% |
| Nigeria | 257,325 | 3,920,930 | 452,950 | 6.56% | 11.6% | 56.8% |
| Belize | 4,534 | 80,365 | 10,889 | 5.64% | 13.5% | 41.6% |
| Dominica | 2,076 | 38,049 | 4,076 | 5.46% | 10.7% | 50.9% |
| Guyana | 8,224 | 163,470 | 25,907 | 5.03% | 15.8% | 31.7% |
| Dominican Rep. | 87,532 | 1,754,775 | 140,674 | 4.99% | 8.0% | 62.2% |
| Grenada | 2,666 | 62,372 | 7,597 | 4.27% | 12.2% | 35.1% |
| Cameroon | 12,414 | 354,198 | 16,879 | 3.50% | 4.8% | 73.5% |
| Côte d'Ivoire | 43,392 | 1,331,122 | 63,283 | 3.26% | 4.8% | 68.6% |
| Saint Vincent and the Grenadines | 2,439 | 78,153 | 6,384 | 3.12% | 8.2% | 38.2% |

| Table 4.3 | Countries' shares of dairy imports from the EU in total agricultural imports and total dairy imports from the world (in mln euro average 2005-2010) (continued) | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Import Dairy from EU** | **Import Total Agriculture from World** | **Import Dairy from World** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| | **(A)** | **(B)** | **(C)** | | | |
| Ghana | 24,455 | 879,615 | 56,870 | 2.78% | 6.5% | 43.0% |
| Cuba | 13,366 | 487,848 | 57,709 | 2.74% | 11.8% | 23.2% |
| Antigua and Barbuda | 1,645 | 75,859 | 6,191 | 2.17% | 8.2% | 26.6% |
| Barbados | 6,561 | 308,789 | 22,758 | 2.12% | 7.4% | 28.8% |
| Mauritius | 13,333 | 847,633 | 80,879 | 1.57% | 9.5% | 16.5% |
| **ACP + LDC** | **180,661** | **7,116,385** | **381,931** | **2.54%** | **5.4%** | **47.3%** |
| Mauritania | 34,151 | 265,660 | 41,234 | 12.86% | 15.5% | 82.8% |
| Djibouti | 1,953 | 32,395 | 3,157 | 6.03% | 9.7% | 61.9% |
| Mali | 17,643 | 318,136 | 24,673 | 5.55% | 7.8% | 71.5% |
| Senegal | 64,674 | 1,220,688 | 120,087 | 5.30% | 9.8% | 53.9% |
| Sao Tome and Principe | 1,326 | 27,697 | 1,680 | 4.79% | 6.1% | 78.9% |
| Togo | 2,469 | 62,185 | 3,233 | 3.97% | 5.2% | 76.4% |
| Benin | 3,182 | 96,740 | 5,382 | 3.29% | 5.6% | 59.1% |
| Comoros | 425 | 13,609 | 1,026 | 3.12% | 7.5% | 41.4% |
| Burkina Faso | 3,638 | 139,688 | 7,039 | 2.60% | 5.0% | 51.7% |
| Gambia | 2,523 | 97,199 | 5,964 | 2.60% | 6.1% | 42.3% |
| Niger | 5,577 | 230,155 | 19,267 | 2.42% | 8.4% | 28.9% |
| Sudan | 19,792 | 882,014 | 54,670 | 2.24% | 6.2% | 36.2% |
| Malawi | 3,905 | 240,141 | 10,854 | 1.63% | 4.5% | 36.0% |
| **LDC** | **66,930** | **4,357,387** | **233,392** | **1.54%** | **5.4%** | **28.7%** |
| Yemen | 52,290 | 1,770,203 | 158,690 | 2.95% | 9.0% | 33.0% |
| **Misc** | **1,574,338** | **173,143,715** | **7,155,455** | **0.91%** | **4.1%** | **22.0%** |
| Algeria | 493,392 | 6,399,325 | 939,319 | 7.71% | 14.7% | 52.5% |
| Morocco | 100,878 | 4,164,275 | 202,179 | 2.42% | 4.9% | 49.9% |
| Indonesia | 152,150 | 9,207,375 | 725,598 | 1.65% | 7.9% | 21.0% |
| **Grand Total** | **2,414,521** | **205,642,238** | **9,151,551** | **1.17%** | **4.5%** | **26.4%** |

Source: Authors' calculations based on Comtrade data, 2012.
Cut-off point for (A)/(B) is 2.0%.

## 4.3 Sugar

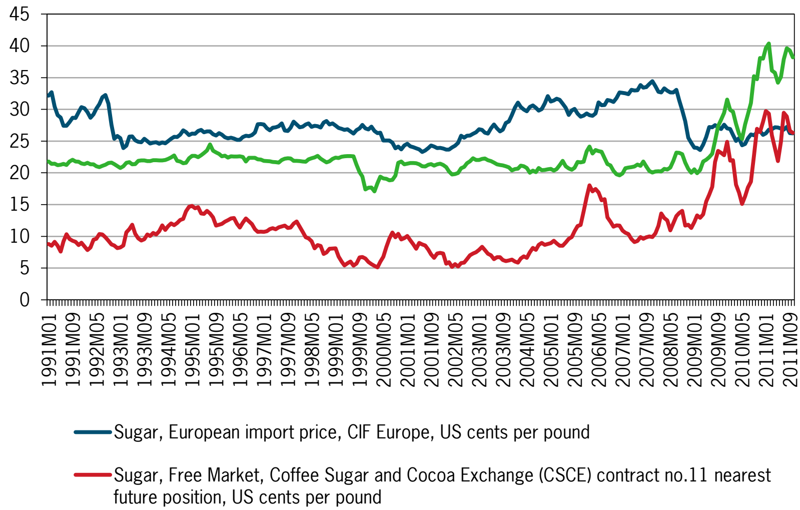
### 4.3.1 EU sugar policies

The EU is currently a net importer of sugar. EU sugar imports account for 7.6% of world sugar trade while EU sugar exports account only for 3.7% of world trade. Sugarbeet production in the EU accounts for a mere 0.9% of the value of agricultural production in the EU (European Union, 2012). The EU sugar market is divided into quota sugar (for human consumption) and 'out-of-quota' sugar, which is used for industrial use of bioethanol processing.

The essential features of the current EU sugar regime are support prices (a minimum price to growers of sugar beet, and a guaranteed price to support the market), production quotas to limit over-production, tariffs and quotas on imports from third countries, and subsidies to export surplus production out of the EU (Smit et al., 2011; Informa, 2012).

The high level of support to EU sugar beet growers led to EU sugar prices that were above world market prices, which, in turn, increased sugar production in the EU, which was exported to the world market with subsidies. As a consequence, low cost producers in developing countries faced depressed world prices and reduced trade opportunities. However, after reforms sugar prices in the EU dropped and with the rise in world sugar prices since 2009, EU prices are now comparable to world prices (Figure 4.6).

**Figure 4.6** **Sugar prices 1991-2012**




Source: IMF, 2011.

After a WTO dispute in 2005, which found that the EU sugar regime was in breach of its WTO obligations, the EU sugar policy was reformed. The intervention price was lowered with 36% for sugar and with 40% for sugar beets over a four-year period, together with a voluntary restructuring scheme, which provided incentives for the EU's least efficient sugar producers and sugar beet growers to leave the industry (Trinity College Dublin, 2012b). Producers of sugar beets were compensated for 65% of the price decrease. The sugar production quotas were decreased by around one third. Producers of sugar may now sell their quotas to the EU and buy part of the quotas later on (Smit et al., 2011). After the 2005 reforms, sugar production in the EU decreased, changing the EU from a net exporter to a net importer. In 2006/07 exports of white sugar dropped with 6.7 tonnes.

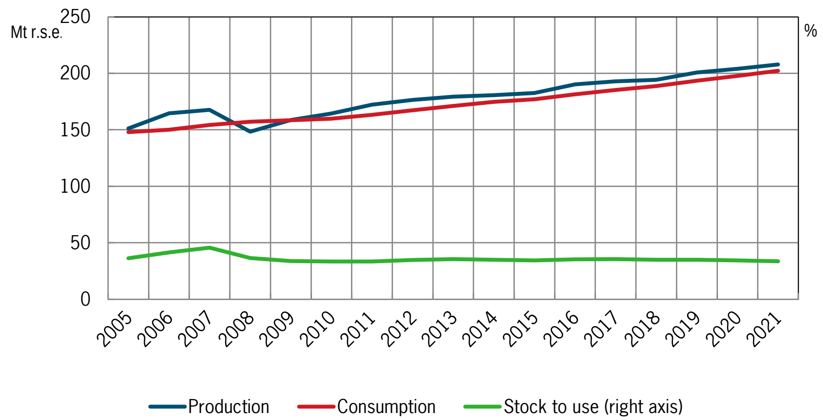
In September 2015, the EU sugar policy of production quota for which a price guarantee[1] applies is expected to expire. Any surplus sugar that is produced above the production quota will be sold at world market prices. Under the WTO, 1.37m tonnes of subsidised sugar exports from the EU is allowed, with an expenditure of €513.9m (WTO, 2012)



[1] Minimum price for sugar beet farmers and a reference price for sugar processing industry.

The OECD and FAO (OECD & FAO, 2012b, 155) expect internal sugar prices to decline further. Additional adjustments will take place in national industries within the EU in response to changing prices incentives, including conversion of some former non-quota beet production destined for ethanol to higher value sugar output. Unrestricted (industrial) isoglucose production is also expected to increase. The OECD and FAO expect production of sugar to be 16.1 tonnes in 2021-22 and to remain well below annual consumption (18.5 tonnes).

**Figure 4.7** **World sugar consumption and production (left axis) and stock to use ration (right axis) 2005-2021**




Source: OECD and FAO Secretariats (OECD & FAO, 2012b).

Although EU tariffs on sugar and sugar products are sufficiently high to keep out third country imports, the EU has had a number of preferential agreements under which limited volumes of sugar are admitted. The most important is the Sugar Protocol under the Cotonou Agreement with African, Caribbean and Pacific (ACP) countries, which guaranteed the EU support price for a limited quantity of sugar imports from these countries. Table 4.4 lists these preferential exporters.

| Table 4.4 | List of preferential exporters to the EU | | |
|---|---|---|---|
| **Part I: Least Developed Countries (LDCs)** | | **Part II: Non LDCs** | |
| **Group Label** | **Third Country** | **Region** | **Third Country** |
| NON-ACP LDC | Bangladesh | Central Africa Non LDC | |
| | Cambodia | Western Africa Non LDC | Côte d'Ivoire* a) |
| | Laos | SADC Non LDC | Swaziland* |
| | Nepal | EAC Non LDC | Kenya* |
| ACP-LDC | Benin | ESA Non LDC | Mauritius* |
| | Burkina Faso | | Zimbabwe* |
| | Democratic Republic of Congo | Pacific Non-LDC | Fiji* |
| | Ethiopia | | Barbados* |
| | Madagascar | | Belize* |
| | Malawi | | Dominican Republic* |
| | Mozambique | | Guyana* |
| | Senegal | | Jamaica* |
| | Sierra Leone | | Trinidad & Tobago* |
| | Sudan | | |
| | Tanzania | | |
| | Togo | | |
| | Uganda | | |
| | Zambia | | |

a) * refers to countries that will no longer enjoy preferential access under the new GSP because they have another market access arrangement with the EU. See also Table 4.5.

Unlimited access was granted to least developed countries from 2009 as part of the EBA agreement, while other developing countries have benefited from import quotas for specific amounts under other agreements. For instance, free access for ACP sugar under Economic Partnership Agreements (EPAs) will be subject to an automatic safeguard mechanism to be applied to non-LDC ACPs only. Free access is granted unless two criteria are simultaneously met (Hönich, 2011):

- total imports from ACPs reach 3.5m tonnes and
- imports from ACP non-LDCs reach 1.38m t in 2008/9, 1.45m t in 2009/10 and 1.6m t per marketing year in 2010/11-2014/15.

Specific regions that have signed an EPA are affected by a regional safeguard threshold for exports from non-LDCs (Table 4.5). From 1 October 2015 onwards, the access to EU market is expected to be totally free, while the EPA safeguards will still apply.

| **Table 4.5** | **Regional Safeguard Thresholds (RSTs) (tonnes white sugar equivalent)** | | | |
|---|---|---|---|---|
| **Region** | **Country** | **2009/2010** | **2010-2011** | **2011-2012** |
| CEMAC (Central Africa Non LDC) | | 10,186.1 | 10,186.1 | 10,186.1 |
| ECOWAS (Western Africa Non LDC) | Côte d'Ivoire | 10,186.1 | 1,186.1 | 10,186.1 |
| SADC (Southern Africa Non LDC) | Swaziland | 166,081.2 | 174,631.9 | 192,954.5 |
| EAC (East Africa Non LDC) | Kenya | 12,907.9 | 13,572.4 | 14,996.5 |
| ESA (Eastern and Southern Africa (ESA) Economic Partnership Agreements Non LDC ) | Mauritius | 544,711.6 | 572,755.9 | 632,850.9 |
| | Zimbabwe | | | |
| Pacific Non LDC | Fiji | 181,570.5 | 190,918.6 | 210,950.3 |
| CARIFORUM (Forum of the Caribbean Group of African, Caribbean and Pacific (ACP) States Non LDC) | Barbados | 454,356.6 | 477,749.0 | 527,875.6 |
| | Belize | | | |
| | Dominican Republic | | | |
| | Guyana | | | |
| | Jamaica | | | |
| | Trinidad & Tobago | | | |
| Total ACP Non LDC | | 1,380,000 | 1,450,000 | 1,600,000 |

Source: Based on Singh, 2012.

The elimination of sugar quotas may lead to an increase in sugar and isoglucose production, which will lower prices. This may lead less competitive producers to leave the market. A surge of imports from third countries is not expected because a reduction of import tariffs is not part of the proposed reform package. The lower prices in the EU will lead to the EU becoming a less interesting market to export to. The trade balance of the EU for sugar is therefore expected to improve.

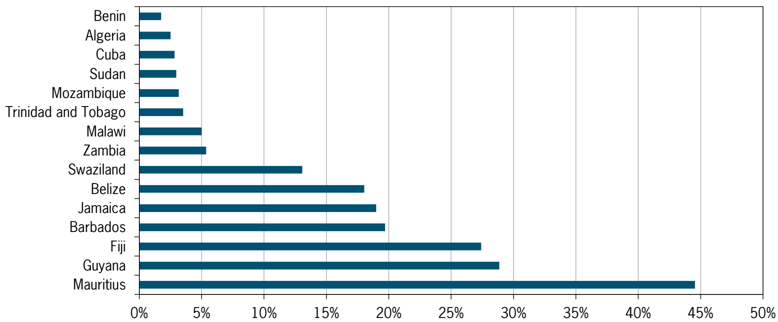
Two studies reviewed by Matthews (2011c), namely Nolte et al., (2011) and the European Commission (2011a), project a minimal impact on world sugar prices, although the two studies have different scenarios for preferential imports. Nonetheless, the decision of the EU to allow the export of 700.000 tonnes of surplus (out-of-quota) sugar production in 2011 drew angry criticism from producers in Australia and Brazil (Informa, 2011; South Centre, 2011), showing how sensitive the EU sugar exports are.

Developing countries can produce sugar at much lower cost than the EU, yet reform of the EU sugar policy will result in both winners and losers in among them. Reform will benefit competitive sugar exporters currently excluded from the EU market. It will adversely affect those developing countries that currently benefit from preferential import access to the EU's high-priced sugar market. It will also diminish the benefits received by those least-developed countries to which duty-free and quota-free access were promised after July 2009 (ACP-LDC suppliers). Singh (2012) notes that in the absence of quotas, this preference could fall to zero as long as world prices are supported above 18- 22 cents/lb. However, he expects that if world prices decrease, prices in the EU will remain above world market values. In this way, the EU will continue to give the ACP-LDC some protection from the volatility of the world market.

### 4.3.2 Sugar exports by developing countries

Figure 4.8 shows the countries that are most sensitive to a change in EU policy, as their shares of sugar exports to the EU in total agricultural exports to the world are relatively large (cut-off point for (A)/(B) is > 2%). Table 4.6 lists these countries per category and also provides information on the share of sugar exports to the EU in total sugar exports. It shows that most countries fall into the ACP non-LDC category

| Figure 4.8 | Countries' shares of sugar exports to the EU in total agricultural exports to the world (in % average value 2005-2010) |
|---|---|




Source: Authors' calculations based on Comtrade data, 2012.
Cut-off point for (A)/(B) is 2%.

Table 4.6 shows that for many countries, the EU is the main outlet for sugar, especially for ACP countries, with shares well over 75%. These will no longer be eligible for trade preferences in the new GSP. However, all, except Cuba, are part of the CARIFORUM EPA signed with the EU, which grants them trade preferences. Cuba's sugar exports therefore, will be vulnerable to changes in trade preferences that apply in 2014.

A few LDCs countries also have high shares of sugar exports. Although sugar is negligible in Cambodia's agricultural exports (1.6%), the EU is its most important export outlet (with almost 90% of sugar exports), implying that any policy change of the EU will immediately impact the sugar industries in these countries. Sugar world market prices were higher than EU prices, inducing many sugar exporting countries to shift part of their exports away from the EU. This is expected to be a temporary phenomenon, as world and EU sugar prices are likely to converge (Agritrade, 2011a). All countries will keep their preferential access to the EU under the new GSP.

Algeria is not eligible for trade preferences under a new GSP, as it is part of Euromed. Pakistan, however, may become eligible, which may provide opportunities to increase sugar exports to the EU.

| Table 4.6 | Countries' value and shares of sugar exports to the EU in total agricultural and sugar exports to the world (in million USD, average 2005-2010) per category a) | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Export Sugar to EU (A)** | **Export Total Agriculture to World (B)** | **Export Sugar to World (C)** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| **ACP** | **717,046** | **22,305,844** | **1,462,873** | **3.21%** | 6.6% | 49.0% |
| Mauritius* | 290,348 | 651,786 | 299,598 | 44.5% | 46.0% | 96.9% |
| Guyana* | 109,946 | 380,937 | 142,646 | 28.9% | 37.4% | 77.1% |
| Fiji* | 106,485 | 388,480 | 136,337 | 27.4% | 35.1% | 78.1% |
| Barbados* | 18,436 | 93,555 | 18,655 | 19.7% | 19.9% | 98.8% |
| Swaziland* | 78,238 | 411,872 | 82,529 | 19.0% | 20.0% | 94.8% |
| Jamaica* | 27,324 | 151,472 | 34,078 | 18.0% | 22.5% | 80.2% |
| Belize* | 46,966 | 359,469 | 108,708 | 13.1% | 30.2% | 43.2% |
| Trinidad and Tobago* | 10,912 | 309,780 | 19,393 | 3.5% | 6.3% | 56.3% |
| Cuba** b) | 4,128 | 145,627 | 27,496 | 2.8% | 18.9% | 15.0% |
| **ACP + LDC** | **108,776** | **6,999,267** | **277,264** | **1.55%** | **4.0%** | **39.2%** |
| Zambia | 21,177 | 394,564 | 91,424 | 5.4% | 23.2% | 23.2% |
| Malawi | 37,415 | 747,526 | 58,221 | 5.0% | 7.8% | 64.3% |
| Mozambique | 13,765 | 434,666 | 36,543 | 3.2% | 8.4% | 37.7% |
| Sudan | 9,536 | 320,968 | 11,980 | 3.0% | 3.7% | 79.6% |
| Benin | 1,251 | 71,002 | 1,273 | 1.8% | 1.8% | 98.2% |
| Madagascar | 6,326 | 363,964 | 8,648 | 1.7% | 2.4% | 73.2% |
| **LDC** | **2,484** | **1,079,660** | **8,266** | 0.23% | 0.8% | 30.1% |
| Cambodia | 762 | 46,215 | 858 | 1.6% | 1.9% | 88.8% |
| **Misc** | **513,859** | **266,092,276** | **13,498,881** | **0.2%** | **5.1%** | **3.8%** |
| Algeria* | 3,500 | 139,324 | 42,396 | 2.5% | 30.4% | 8.3% |
| Pakistan*** | 50,293 | 3,064,000 | 116,591 | 1.6% | 3.8% | 43.1% |
| **Grand Total** | **1,342,165** | **296,477,047** | **15,247,284** | **0.45%** | **5.1%** | **8.8%** |

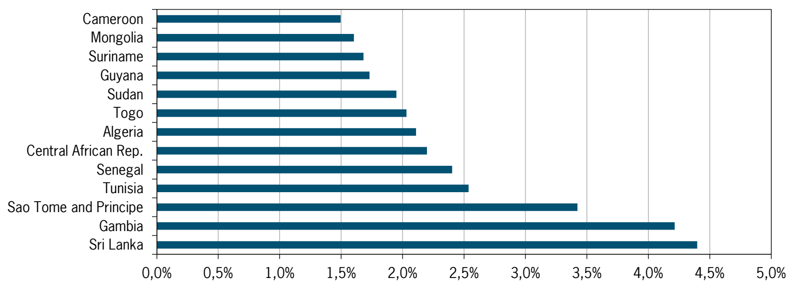
a) * signifies that a country has another market access arrangement and in 2014 will no longer be eligible for trade preferences under the new GSP; b) ** signifies that a country is no longer in the beneficiaries list; c) *** signifies that a country can apply under the so-called 'vulnerability criterion', which will be relaxed under the new GSP so more countries can apply.

Source: authors' calculations based on Comtrade data (2012). Cut-off point for (A)/(B) is 2%, except for LDC and Miscellaneous, Cut-off point for (A)/(B) is 1.5%.

### 4.3.3 Sugar imports by developing countries

The shares of sugar imports from the EU in total agricultural import value are very small; the highest is for Central African Republic with Sri Lanka with almost 12% It is therefore to be expected that in this area, CAP or EU trade reforms will have little impact on these countries. Changes in EU sugar policy will thus hardly affect local consumers nor negatively affect producers in those countries with respect to sugar imports.

**Figure 4.9** **Countries' value and shares of sugar imports from the EU in total agricultural imports from world (in %; average 2005-2010) a)**




a) Cut-off point is 1.5%.
Source: Authors' calculations based on Comtrade data, 2012 .

Tabel 4.7 shows that the EU exports sugar to various categories of countries, but that it is unimportant source for sugar imports for most developing countries.

| Table 4.7 | Countries' value and shares of sugar imports from the EU in total agricultural imports from world (in million USD, average 2005-2010) per category | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Import Sugar from EU** | **Import Total Agriculture from World** | **Import Sugar from World** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| | **(A)** | **(B)** | **(C)** | | | |
| **Acp** | **90,019** | **21,007,082** | **1,016,363** | **0.4%** | **4.8%** | **8.9%** |
| Guyana | 2,830 | 163,470 | 6,894 | 1.7% | 4.2% | 41.1% |
| Suriname | 2,334 | 138,819 | 10,731 | 1.7% | 7.7% | 21.8% |
| Cameroon | 5,298 | 354,198 | 22,367 | 1.5% | 6.3% | 23.7% |
| **ACP + LDC** | **108,675** | **22,741,967** | **1,318,795** | **0.5%** | **5.8%** | **8.2%** |
| Gambia | 4,096 | 97,199 | 16,046 | 4.2% | 16.5% | 25.5% |
| Sao Tome and Principe | 948 | 27,697 | 1,655 | 3.4% | 6.0% | 57.3% |
| Senegal | 29,342 | 1,220,688 | 56,576 | 2.4% | 4.6% | 51.9% |
| Central African Rep. | 602 | 27,376 | 2,092 | 2.2% | 7.6% | 28.8% |
| Togo | 1,264 | 62,185 | 4,395 | 2.0% | 7.1% | 28.8% |
| Sudan | 17,197 | 882,014 | 137,522 | 1.9% | 15.6% | 12.5% |
| **ldc** | **9,042** | **4,375,057** | **354,846** | **0.2%** | **8.1%** | **2.5%** |
| - | - | - | - | - | - | - |
| **Misc** | **506,401** | **173,143,715** | **5,416,661** | 0.3% | 3.1% | 9.3% |
| Sri Lanka | 68,614 | 1,560,271 | 219,276 | 4.4% | 14.1% | 31.3% |
| Tunisia | 51,151 | 2,016,042 | 152,640 | 2.5% | 7.6% | 33.5% |
| Algeria | 135,020 | 6,399,325 | 473,825 | 2.1% | 7.4% | 28.5% |
| Mongolia | 1,574 | 98,148 | 12,056 | 1.6% | 12.3% | 13.1% |
| **Grand Total** | **7,035** | **2,597,586** | **61,745** | **0.3%** | **2.4%** | **11.4%** |

Source: Authors' calculations based on Comtrade data, 2012.
Cut-off point for (A)/(B) is 1.5%.

## 4.4 Fruit and vegetables

Fruit and vegetables account for 6.5% and 8.7% respectively of the value of EU agricultural production (European Union, 2012). The EU is the second largest producer, the second largest exporter and the largest importer of fruit and vegetables in the world (CTA, 2011).

The CMO for fruit and vegetables covers all fruit and vegetables grown in the European Union with the exception of potatoes, wine grapes, bananas, sweet corn, beans and peas for fodder, and olives. Bananas are an important fruit in terms of export revenues for several countries but they are not included in the CMO for fruit and vegetables. There is a separate banana trade regime, which is discussed briefly below.

The fruit and vegetables sector has been subject to various CAP reforms in 1996, 2001 and 2007 (Agritrade, 2011b). Price support was abandoned in favour of increased levels of direct aid to farmers. The fruit and vegetable sector was incorporated into the single payment scheme, although a range of sector-specific measures implemented through producer organisations (POs) were maintained. In addition, certain traditional trade policy tools were maintained, notably minimum import price arrangements. In 2007, a single CMO was created. The current CMO aims to make the sector more competitive and marketable, promote consumption, reduce pressure from crises, improve environmental safeguards and increase consumption of fruit and vegetables in the EU (European Commission, 2012g).

The most important change of 2007 for the purpose of this study was to abolish export subsidies. However, export subsidies are still available to EU exporters of certain products to third countries to compensate for the difference between EU and world prices. The products covered are: apples, lemons, oranges, peaches, nectarines, table grapes, tomatoes and some nuts. Subsidies are set periodically or on the basis of requests from operators and the quantities available.

The Common Customs Tariff rate is applicable to fruit and vegetable products. The objective of the tariff is to allow domestic producers to compete with growers exporting from other countries. Tariff quotas are dealt with on a first come first served basis. Different import tariffs apply for fruit and vegetables. Table 4.8 shows the current WTO ceilings.

| Table 4.8 | WTO ceilings on annual subsidised fruit and vegetables exports from the EU | |
|---|---|---|
| **Product category** | **Quantity ('000t)** | **Expenditure (million €)** |
| Fruit and vegetables, fresh | 411.6 | 945.8 |
| Fruit and vegetables, processed | 323.4 | 298 |
| Source: WTO, 2012. | | |

Fruits and vegetables are a small topic in the proposals for a reformed CAP (European Commission, 2012h) compared to for instance dairy or sugar. Under CAP reform, and against a background of increasingly market-related price formation, EU support to the fruit and vegetable sector will now largely consists of:

- policies to strengthen the position of producer organisations within the supply chain;
- safety-net measures to ensure that increased exposure to market forces does not undermine the basis of production in the fruit and vegetable sector (CTA, 2011).

By 2011, the majority of transitional coupled support payments in the fruit and vegetable sector was phased out. Coupled support may be still granted to fruit and vegetables under certain conditions, for instance to sectors or to regions of a Member State where specific types of farming or specific agricultural sectors undergo certain difficulties and are particularly important for economic and/or social and/or environmental reasons (European Commission, 2011d).

Public assistance in the fruit and vegetable sector now largely takes the form of 'support to producer organisations' (POs). While provision still exists for export subsidies for fruit and vegetable products, no funds were allocated under the 2011 budget. Support to promotional measures organised through POs now constitutes the main form of export-related assistance. This will be phased out from 2017 onwards (Table 4.9).

| Table 4.9 | EU budget allocated to setting up aid for fruit and vegetables producer groups (mln Euro) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Changes to 2013** | | | | | | | |
| **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total 2014-2020** |
| 30 | 0 | 0 | 0 | -15 | -15 | -30 | -30 | -90 |
| Source: European Commission, 2011e. | | | | | | | | |

The previous system of intervention buying to support market prices has been replaced by POs, within clearly defined limits. This forms part of a wider programme of crisis management measures.

A single Community F&V market implies a single trading system at the external frontiers of the Community. The application of Common Customs Tariff duties should stabilise the Community market by preventing the price level in non-EU countries and relative fluctuations from having repercussions on prices within the Community. This means avoiding supplies at extremely low prices from non-EU countries. This is done by fixing of reference prices and the levying of a countervailing charge in addition to customs duty for F&V when the entry price of imported products is below the reference price (Agrosynergie, 2008).

The entry price system for fruit and vegetables, processed fruit and vegetables and grape juice and musts is maintained (Matthews, 2011a), which guides a complex system of import quotas, seasonal restrictions and preferential trade arrangements (CTA, 2011; Agrosynergie, 2008). Nonetheless, through reforms and improved market access for third-country suppliers, the EU has allowed market prices to fall. This has potentially reduced the attractiveness of the EU market for undifferentiated (i.e. with no value-added) fruit and vegetable exports from developing countries, in particular the ACP countries (CTA, 2011).

The (interim) Economic Partnership Agreement (EPA) and 'Everything But Arms' (EBA) arrangements have a significant impact on fruit and vegetable trade. These led to the removal of all seasonal and special duty restrictions, which formerly applied. This is beneficial to exporters from non-LDC ACP countries with (interim) EPAs, that will enjoy the same market access as LDC ACP exporters. Non-LDCs that are not signatories of an (interim) EPA have reverted back to standard Generalised System of Preferences (GSP) treatment, although no major ACP fruit and vegetable exporter currently falls into this category (CTA, 2011).

An important factor that determines market access of fruits and vegetables to the EU is GlobalGAP certification (formerly EurepGAP), which was created by the European retail industry concerned about food safety as well as the quality properties of fresh food produce. The coordination of the (fresh) fruits and vegetables sector is increasingly based on private contracting. Developing countries thus face stricter application of food safety standards and increasingly, private voluntary standards.

### 4.4.1 EU banana regime

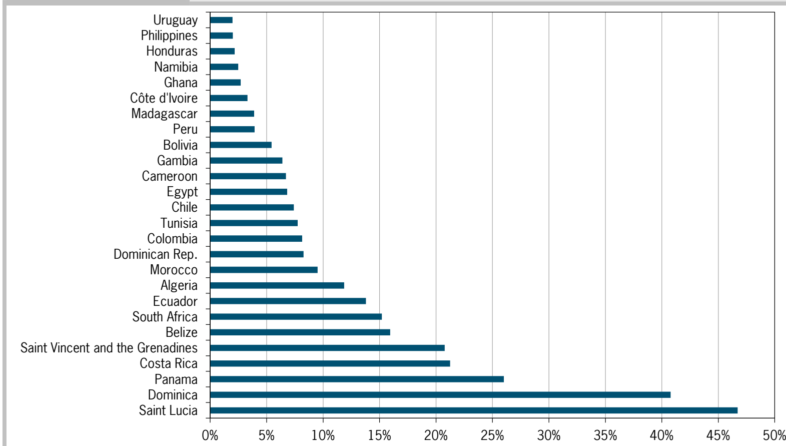
Countries that belong to the ACP have enjoyed preferential access to the EU market for banana exports. However, after several WTO disputes and subsequent reforms of its banana trade regime, the EU introduced a tariff-only regime on 1 January 2006. When Latin American exporters outside the ACP contested this, the WTO decided that the EU was obliged to rebind and lower its banana tariff rate. In December 2009, the EU laid down a schedule for the reduction of the EU's tariff on bananas. Since the signing the EPA and EBA arrangements in January 2008, ACP banana-exporting countries continued to have duty-free, quota-free access to the EU market (Cali, Abbott, and Page, 2010; Trinity College Dublin, 2010; Gilleson, Hewitt, and Page, 2005). On November 8th 2012, the European Union and 11 Latin American countries signed an agreement that ended the 20 year old dispute between the EU and the Latin American countries not belonging to the ACP about the EU restricting banana imports from outside the ACP countries.

The changing tariff arrangements mean that the erosion of the preferential margin for ACP banana-exporting countries will be faster than initially anticipated. The EU has introduced Banana Accompanying Measures (BAM) that will assist ACP countries to adjust to the new banana tariffs. This applies to Belize, Cameroon, Côte d'Ivoire, Dominica, Dominican Republic, Ghana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, and Suriname, which have supplied more than 10,000 tonnes of bananas to the EU on average over the last ten years. The measures will last for a proposed maximum of four years (2010-2013) and have a budget of €190m, with a possibility of topping up this amount by a further €10m (Trinity College Dublin, 2010). The mentioned countries will all lose preferential access to the EU in the new GSP from 2014 onwards. The Latin American countries fall under the Cariforum EPA with the EU. The African countries (Cameroon, Côte d'Ivoire and Ghana) will fall under the EPA Agreement Market Access Regulation.

### 4.4.2 Fruit exports to the EU

Figure 4.10 shows the importance of fruits and vegetable exports to the EU for different developing countries while Table 4.10 shows the values, placing the countries in the different country categories. Five non-LCD ACP countries (Saint Lucia, Dominica, Saint Vincent and the Grenadines, Belize and South Africa) are in the top-seven. Banana exports account for a significant share for these Latin American countries (see Table 4.11 and the discussion above on the effects of the EU banana regime). The Latin American countries will now enjoy the same market access as LDC ACP countries under the Cariforum EPA that has been signed, and after the dispute settlement of November 2012. South Africa South Africa joined the EPA negotiations as part of the Southern African Development Community Group (SADC) in February 2007. It has opted not to join at this stage as its trade relations with the EU are governed by the Trade, Development and Co-operation Agreement concluded with the EU in 1999. It will thus no longer be eligible for preferential treatment under the new GSP.

**Figure 4.10** **Countries' shares of fruit exports to the EU in total agricultural exports to the world (in % average 2005-2010) a)**




Cut-off point is 2%.
Source: Authors' calculations based on Comtrade data, 2012.

The importance of fruit exports to the EU of LDC ACP countries is surprisingly low, and therefore the erosion of preference will not affect them in a significant way on a *national* level. However, Table 4.10 shows that for several countries, the EU is the main exporter for fruits. For example, Cameroon exports almost 100% of its fruits to Europe. The erosion of preferences will hurt specific fruit producers and exporters.

| **Table 4.10** | **Countries' value and shares of fruit exports to the EU in total agricultural exports to the world (in million USD, average 2005-2010) per category** | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Export Fruits to EU (A)** | **Export Total Agri-culture to World (B)** | **Export Fruits to World (C)** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| **ACP** | **1,311,081** | **22,305,844** | **2,355,123** | **5.88%** | **10.6%** | **55.7%** |
| Saint Lucia*[a] | 11,352 | 24,301 | 11,673 | 46.7% | 48.0% | 97.3% |
| Dominica*[a] | 4,601 | 11,285 | 7,642 | 40.8% | 67.7% | 60.2% |
| Saint Vincent and the Grenadines*[a] | 6,388 | 30,761 | 10,224 | 20.8% | 33.2% | 62.5% |
| Belize*[a] | 24,149 | 151,472 | 35,661 | 15.9% | 23.5% | 67.7% |
| South Africa*[a] | 884,180 | 5,813,136 | 1,535,032 | 15.2% | 26.4% | 57.6% |
| Dominican Rep.* | 91,332 | 1,105,026 | 125,569 | 8.3% | 11.4% | 72.7% |
| Cameroon* | 36,570 | 544,725 | 36,668 | 6.7% | 6.7% | 99.7% |
| Côte d'Ivoire* | 148,149 | 4,489,835 | 330,557 | 3.3% | 7.4% | 44.8% |
| Ghana* | 32,277 | 1,195,840 | 61,691 | 2.7% | 5.2% | 52.3% |
| Namibia* | 15,540 | 624,486 | 21,798 | 2.5% | 3.5% | 71.3% |
| **ACP + LDC** | **48,194** | **6,999,267** | **166,672** | **0.69%** | **2.4%** | **28.9%** |
| Gambia | 720 | 11,261 | 1,581 | 6.4% | 14.0% | 45.5% |
| Madagascar | 14,149 | 363,964 | 15,556 | 3.9% | 4.3% | 91.0% |
| **LDC** | **3,513** | **1,079,660** | **153,717** | 0.33% | 14.2% | 2.3% |
| - | - | - | - | - | - | - |
| **Misc** | **5,634,047** | **266,092,276** | **18,459,762** | **2.1%** | **6.9%** | **30.5%** |
| Panama[a] | 231,915 | 891,669 | 264,490 | 26.0% | 29.7% | 87.7% |
| Costa Rica[a] | 598,046 | 2,814,220 | 1,219,703 | 21.3% | 43.3% | 49.0% |
| Ecuador[a] | 647,270 | 4,691,867 | 1,623,277 | 13.8% | 34.6% | 39.9% |
| Algeria* | 16,534 | 139,324 | 20,124 | 11.9% | 14.4% | 82.2% |
| Morocco* | 294,331 | 3,093,310 | 498,489 | 9.5% | 16.1% | 59.0% |
| Colombia | 459,779 | 5,646,592 | 686,966 | 8.1% | 12.2% | 66.9% |
| Tunisia* | 110,510 | 1,426,623 | 193,436 | 7.7% | 13.6% | 57.1% |
| Chile | 884,399 | 11,941,861 | 3,354,545 | 7.4% | 28.1% | 26.4% |
| Egypt* | 191,702 | 2,812,913 | 522,037 | 6.8% | 18.6% | 36.7% |
| Bolivia | 49,439 | 908,537 | 92,730 | 5.4% | 10.2% | 53.3% |
| Peru | 177,755 | 4,517,138 | 334,173 | 3.9% | 7.4% | 53.2% |
| Honduras | 17,103 | 789,891 | 141,542 | 2.2% | 17.9% | 12.1% |

| Table 4.10 | Countries' value and shares of fruit exports to the EU in total agricultural exports to the world (in million USD, average 2005-2010) per category (continued) | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Export Fruits to EU (A)** | **Export Total Agri-culture to World (B)** | **Export Fruits to World (C)** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| Philippines*** | 66,393 | 3,308,580 | 632,045 | 2.0% | 19.1% | 10.5% |
| Uruguay** | 51,857 | 2,616,921 | 66,154 | 2.0% | 2.5% | 78.4% |
| **Grand Total** | **6,996,835** | **296,477,047** | **21,135,275** | **2.36%** | **7.1%** | **33.1%** |

Cut-off point for (A)/(B) is 2%.
* signifies that these countries will no longer enjoy preferential access under the new GSP because they have another market access arrangement with the EU.
** signifies that a country is no longer in the beneficiaries list.
*** signifies that a country can apply under the so-called 'vulnerability criterion', which will be relaxed under the new GSP so more countries can apply.
[a] Bananas constitute major share of fruit exports - see Table 4.11.
Source: Authors' calculations based on Comtrade data, 2012.

Table 4.11 shows the shares of banana exports in total agricultural exports for the top 8 fruit and vegetable exporters to the EU. It turns out banana exports account for a large share of the fruit and vegetable exports of St Lucia and Dominica. Banana exports are negligible for South Africa. The four remaining ACP countries (St Lucia, Dominica, St Vincent and the Grenadines and Belize) will receive additional support through the Banana Accompanying Measures (BAM), as they will face preference erosion in the coming years. On the other hand, Panama, Costa Rica and Ecuador will benefit as EU markets will open up for their banana exports (between 11 and 30% of their agricultural exports).

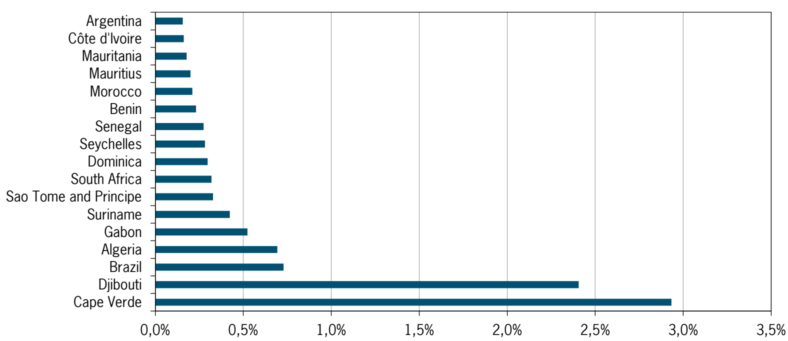
| Table 4.11 | Share of bananas in total agricultural exports of top 8 fruit and vegetable exporters | |
|---|---|---|
| **Country** | **Share F&V in total ag exports** | **Share bananas in total ag exports** |
| **ACP** | | |
| Saint Lucia*a) | 47% | 70% |
| Dominica* | 41% | 48% |
| Saint Vincent and the Grenadines* | 21% | 34% |
| Belize* | 16% | 18% |
| South Africa* | 15% | 0% |
| **Misc** | | |
| Panama | 26% | 11% |
| Costa Rica | 21% | 21% |
| Ecuador | 14% | 30% |

a) * signifies that these countries will no longer enjoy preferential access under the new GSP because they have another market access arrangement with the EU.
Source: Authors' calculations based on Comtrade data, 2012 and FAOSTAT, 2012.

### 4.4.3 Fruit imports from the EU

Figure 4.11 and Table 4.12 show that imports of fruits and vegetables from the EU are relatively small, and thus no large effects are to be expected from CAP reform for consumers in developing countries.

**Figure 4.11** **Countries' shares of fruit imports from the EU in total agricultural imports from world (in % average 2005-2010)**




Cut-off point for (A)/(B) is 0.2%.
Source: Authors' calculations based on Comtrade data, 2012.

| Table 4.12 | Countries' value and shares of fruit imports from the EU in total agricultural imports from world (in million USD, average 2005-2010) per category | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Import Fruits from EU** | **Import Total Agriculture from World** | **Import Fruits from World** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| | **(A)** | **(B)** | **(C)** | | | |
| **ACP** | **28,040** | **21,024,752** | **250,272** | **0.13%** | **1.2%** | **11.2%** |
| Cape Verde | 5,654 | 192,772 | 6,275 | 2.9% | 3.3% | 90.1% |
| Gabon | 513 | 97,889 | 849 | 0.5% | 0.9% | 60.4% |
| Suriname | 587 | 138,819 | 1,240 | 0.4% | 0.9% | 47.4% |
| South Africa | 14,055 | 4,406,823 | 66,812 | 0.3% | 1.5% | 21.0% |
| Dominica | 113 | 38,049 | 212 | 0.3% | 0.6% | 53.3% |
| Seychelles | 369 | 130,773 | 2,644 | 0.3% | 2.0% | 14.0% |
| Mauritius | 1,695 | 847,633 | 19,893 | 0.2% | 2.3% | 8.5% |
| **ACP + LDC** | **6,303** | **7,116,385** | **76,495** | **0.09%** | **1.1%** | **8.2%** |
| Djibouti | 780 | 32,395 | 3,045 | 2.4% | 9.4% | 25.6% |
| Sao Tome and Principe | 91 | 27,697 | 95 | 0.3% | 0.3% | 95.1% |
| Senegal | 3,351 | 1,220,688 | 22,861 | 0.3% | 1.9% | 14.7% |
| Benin | 224 | 96,740 | 1,772 | 0.2% | 1.8% | 12.6% |
| Mauritania | 472 | 265,660 | 1,329 | 0.2% | 0.5% | 35.5% |
| **LDC** | **5,244** | **9,304,350** | **221,602** | **0.06%** | **2.4%** | **2.4%** |
| **Misc** | **5,062** | **4,946,963** | **155,970** | **0.1%** | **3.2%** | **3.2%** |
| Brazil | 50,738 | 6,959,041 | 371,916 | 0.7% | 5.3% | 13.6% |
| Algeria | 44,363 | 6,399,325 | 151,210 | 0.7% | 2.4% | 29.3% |
| Morocco | 8,761 | 4,164,275 | 83,357 | 0.2% | 2.0% | 10.5% |
| Argentina | 2,918 | 1,873,793 | 122,949 | 0.2% | 6.6% | 2.4% |
| **Grand Total** | **44,649** | **42,392,450** | **704,339** | **0.11%** | **1.7%** | **6.3%** |

Cut-off point for (A)/(B) is 0.2%.
Source: Authors' calculations based on Comtrade data, 2012.

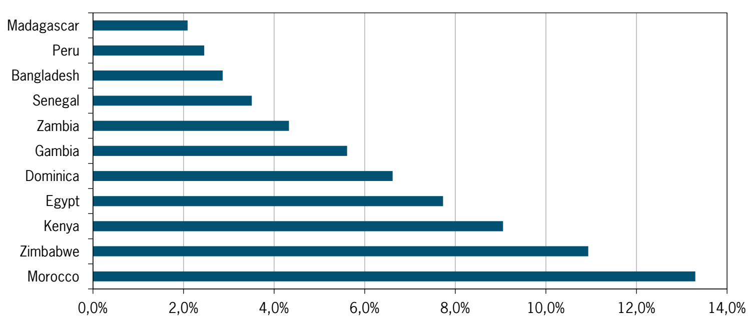
### 4.4.4 Vegetable exports to the EU

Table 4.13 shows that although the importance of vegetables exports is small compared to overall trade (Figure 4.12), the EU is the major export destinations for many developing countries, especially for African countries relatively close to European markets. ACP countries such as Zimbabwe, Kenya, and ACP & LDC countries such as Gambia, Senegal and Burundi and miscellaneous category countries Tunisia and Morocco all export most of their vegetables to the EU (around 90% or more). The new GSP will pose some changes. The ACP countries will need to obtain trade preferences under market access arrangements with the EU, instead of the GSP preferences.

The LDC countries, will continue to enjoy preferences under the new GSP, if they fulfil the requirements. However, they may face preferences erosion, which could harm the admittedly small vegetable export sector. Although the participation of smallholder farmers in vegetable exports is usually small (Minot and Ngigi, 2004), producing vegetables for export can contribute to poverty reduction (Maertens and Swinnen, 2009).

China and Costa Rica are special cases. For Chinese vegetables, graduation will apply, and because China will not be able to apply to GSP+, this means China will not be able to enjoy trade preferences for vegetables under a new GSP. For Costa Rican vegetables and fruits, graduation will also apply. However, Costa Rica is allowed to apply for GSP+, and if it does, graduation will not apply.

**Figure 4.12** **Countries' shares of vegetables exports to the EU in total agricultural exports to the world (in % average 2005-2010)**




Cut-off point is 2%.
Source: Authors' calculations based on Comtrade data, 2012.

| Table 4.13 | Countries' shares of vegetables exports to the EU in total vegetables and agricultural export to the world (in % average 2005-2010) | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Export Vegetables to EU** | **Export Total Agriculture to World** | **Export Vegetables to World** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| | **(A)** | **(B)** | **(C)** | | | |
| **ACP** | **17,409** | **886,325** | **21589** | **2.0%** | **80.6%** | **80.60%** |
| Zimbabwe* | 99,114 | 906,396 | 107,137 | 10.90% | 92.50% | 92.50% |
| Kenya* | 212,412 | 2,346,256 | 238,453 | 9.10% | 89.10% | 89.10% |
| Dominica* | 896 | 13,542 | 1,969 | 6.60% | 45.50% | 45.50% |
| **ACP + LDC** | **6,095** | **349,963** | **21,532** | **10.70%** | **28.30%** | **28.30%** |
| Gambia | 758 | 13,514 | 799 | 5.60% | 94.80% | 94.80% |
| Zambia | 17,080 | 394,564 | 22,338 | 4.30% | 76.50% | 76.50% |
| Senegal | 18,974 | 540,864 | 19,331 | 3.50% | 98.20% | 98.20% |
| Madagascar | 7,610 | 363,964 | 11,326 | 2.10% | 67.20% | 67.20% |
| Ethiopia | 23,720 | 1,229,579 | 188,065 | 1.90% | 12.60% | 12.60% |
| United Rep. of Tanzania | 4,905 | 964,411 | 60,950 | 0.50% | 8.00% | 8.00% |
| Uganda | 3,248 | 805,360 | 15,402 | 0.40% | 21.10% | 21.10% |
| Malawi | 2,322 | 747,526 | 17,322 | 0.30% | 13.40% | 13.40% |
| Burkina Faso | 736 | 342,253 | 5,162 | 0.20% | 14.30% | 14.30% |
| Burundi | 63 | 81,385 | 70 | 0.10% | 90.00% | 89.60% |
| **LDC** | **6,136** | **323,898** | **20,493** | **1.90%** | **29.90%** | **29.90%** |
| Bangladesh | 27,527 | 960,664 | 54,244 | 2.90% | 50.70% | 50.70% |
| Nepal | 1,527 | 218,310 | 65,603 | 0.70% | 2.30% | 2.30% |
| **Misc** | **67,049** | **9,175,596** | **435,163** | **0.70%** | **15.40%** | **15.40%** |
| Morocco* | 411,301 | 3,093,310 | 449,869 | 13.30% | 91.40% | 91.40% |
| Egypt* | 217,435 | 2,812,913 | 503,759 | 7.70% | 43.20% | 43.20% |
| Peru | 111,026 | 4,517,138 | 361,302 | 2.50% | 30.70% | 30.70% |
| Tunisia* | 27,306 | 1,426,623 | 31,635 | 1.90% | 86.30% | 86.30% |
| China**** | 574,342 | 38,578,862 | 4,560,357 | 1.50% | 12.60% | 12.60% |
| Panama | 9,456 | 891,669 | 23,555 | 1.10% | 40.10% | 40.10% |
| Algeria* | 1,111 | 139,324 | 6,416 | 0.80% | 17.30% | 17.30% |
| Costa Rica**** | 16,588 | 2,814,220 | 99,118 | 0.60% | 16.70% | 16.70% |

| Table 4.13 | Countries' shares of vegetables exports to the EU in total vegetables and agricultural export to the world (in % average 2005-2010) (continued) | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Export Vegetables to EU** | **Export Total Agriculture to World** | **Export Vegetables to World** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| | **(A)** | **(B)** | **(C)** | | | |
| Argentina** | 134,355 | 28,347,325 | 418,778 | 0.50% | 32.10% | 32.10% |
| Bolivia | 4,270 | 908,537 | 26,693 | 0.50% | 16.00% | 16.00% |
| Ecuador | 25,105 | 4,691,867 | 78,667 | 0.50% | 31.90% | 31.90% |
| India | 77,861 | 16,638,171 | 703,907 | 0.50% | 11.10% | 11.10% |
| Occ. Palestinian Terr. | 532 | 109,653 | 7,648 | 0.50% | 7.00% | 7.00% |
| **Grand Total** | **36,507** | **3,825,510** | **183,400** | **10.00%** | **19.90%** | **19.90%** |

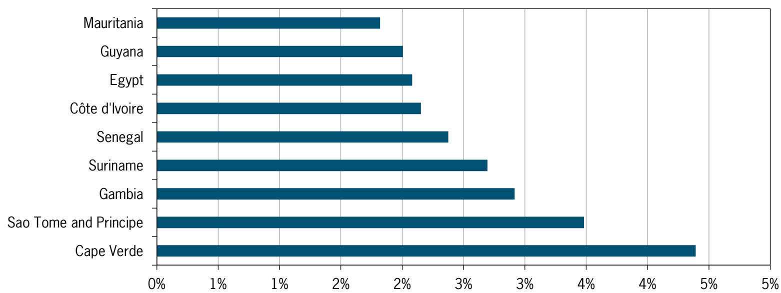
Cut-off point for (A)/(B) is 2%, but lower for countries with a high share in vegetables exports.
* signifies that a country has another market access arrangement and in 2014 will no longer be eligible for trade preferences under the new GSP.
** signifies that a country is no longer in the beneficiaries list.
*** signifies that a country can apply under the so-called 'vulnerability criterion', which will be relaxed under the new GSP so more countries can apply.
**** Signifies that graduation applies for vegetables, except when a country applies for GSP+.
Source: Authors' calculations based on Comtrade data, 2012.

### 4.4.5 Vegetable imports from the EU

Figure 4.13 and Table 4.14 show that imports of vegetables from the EU are relatively unimportant for most developing countries. However, the EU is an important source for vegetables for certain developing countries, especially for ACP and LDC countries Sao Tome and Principe, Gambia, Senegal, Guinea, and ACP countries Cape Verde and Côte d'Ivoire (who import around 80% and more from the EU). For non-ACP LDCs, import of European vegetables is negligible.

It is not clear how they will be affected by proposed EU CAP policy changes. The support of the vegetables farmers through the CAP is indirect. The EU has allowed prices to fall, and this will benefit consumers in importing developing countries, but will disadvantage local producers. Trade policies will have a larger impact. Under the EBAs, the EU stipulates free access to developing countries, which again will disadvantage local producers.

**Figure 4.13** **Countries' shares of vegetables imports from the EU in total agricultural imports to the world (in % average 2005-2010)**




Cut-off point for (A)/(B) is 2%.
Source: Authors' calculations based on Comtrade data, 2012.

**Table 4.14** **Countries' shares of vegetables imports from the EU in total vegetables and agricultural import to the world (in % average 2005-2010)**

| Country and region | Import Vegetables from EU (A) | Import Total Agriculture from World (B) | Import Vegetables from World (C) | (A)/(B) | (C)/(B) | (A)/(C) |
|---|---|---|---|---|---|---|
| **ACP** | **84,481** | **21,024,752** | **507,691** | **0.40%** | **2.4%** | **16.6%** |
| Cape Verde | 8,468 | 192,772 | 11,088 | 4.4% | 5.8% | 76.4% |
| Suriname | 3,740 | 138,819 | 5,964 | 2.7% | 4.3% | 62.7% |
| Côte d'Ivoire | 28,659 | 1,331,122 | 34,654 | 2.2% | 2.6% | 82.7% |
| Guyana | 3,280 | 163,470 | 11,424 | 2.0% | 7.0% | 28.7% |
| Grenada | 766 | 62,372 | 1,961 | 1.2% | 3.1% | 39.1% |
| Dominica | 441 | 38,049 | 1,039 | 1.2% | 2.7% | 42.5% |
| Trinidad and Tobago | 6,430 | 614,434 | 30,792 | 1.0% | 5.0% | 20.9% |
| Gabon | 871 | 97,889 | 1,363 | 0.9% | 1.4% | 63.9% |
| Cuba | 4,275 | 487,848 | 35,477 | 0.9% | 7.3% | 12.0% |
| Seychelles | 1,107 | 130,773 | 4,256 | 0.8% | 3.3% | 26.0% |
| Barbados | 2,290 | 308,789 | 11,842 | 0.7% | 3.8% | 19.3% |
| Saint Vincent and the Grenadines | 511 | 78,153 | 2,145 | 0.7% | 2.7% | 23.8% |

| Table 4.14 | Countries' shares of vegetables imports from the EU in total vegetables and agricultural import to the world (in % average 2005-2010) (continued) | | | | | |
|---|---|---|---|---|---|---|
| **Country and region** | **Import Vegetables from EU (A)** | **Import Total Agriculture from World (B)** | **Import Vegetables from World (C)** | **(A)/(B)** | **(C)/(B)** | **(A)/(C)** |
| Saint Lucia | 529 | 88,559 | 4,199 | 0.6% | 4.7% | 12.6% |
| Jamaica | 5,355 | 1,014,676 | 22,365 | 0.5% | 2.2% | 23.9% |
| Saint Kitts and Nevis | 180 | 35,390 | 1,855 | 0.5% | 5.2% | 9.7% |
| Cape Verde | 8,468 | 192,772 | 11,088 | 4.4% | 5.8% | 76.4% |
| Suriname | 3,740 | 138,819 | 5,964 | 2.7% | 4.3% | 62.7% |
| Côte d'Ivoire | 28,659 | 1,331,122 | 34,654 | 2.2% | 2.6% | 82.7% |
| Guyana | 3,280 | 163,470 | 11,424 | 2.0% | 7.0% | 28.7% |
| **ACP + LDC** | **3,351** | **338,875** | **8,118** | **1.00%** | **2.40%** | **41.30%** |
| Sao Tome and Principe | 964 | 27,697 | 1,029 | 3.5% | 3.7% | 93.7% |
| Gambia | 2,834 | 97,199 | 3,297 | 2.9% | 3.4% | 86.0% |
| Senegal | 28,995 | 1,220,688 | 35,686 | 2.4% | 2.9% | 81.2% |
| Mauritania | 4,835 | 265,660 | 7,604 | 1.8% | 2.9% | 63.6% |
| Guinea | 2,272 | 167,818 | 2,770 | 1.4% | 1.7% | 82.0% |
| Djibouti | 298 | 32,395 | 587 | 0.9% | 1.8% | 50.7% |
| Sudan | 7,870 | 882,014 | 34,612 | 0.9% | 3.9% | 22.7% |
| Ethiopia | 4,680 | 787,475 | 31,262 | 0.6% | 4.0% | 15.0% |
| Togo | 363 | 62,185 | 549 | 0.6% | 0.9% | 66.2% |
| Mali | 1,630 | 318,136 | 3,836 | 0.5% | 1.2% | 42.5% |
| Uganda | 2,529 | 493,926 | 8,317 | 0.5% | 1.7% | 30.4% |
| **LDC** | **4,745** | **4,357,387** | **160,939** | **0.11%** | **3.7%** | **2.9%** |
| **Misc** | **389,487** | **173,143,715** | **5,004,736** | **0.2%** | **2.9%** | **7.8%** |
| Egypt | 161,383 | 7,751,575 | 293,804 | 2.1% | 3.8% | 54.9% |
| Algeria | 88,033 | 6,399,325 | 241,614 | 1.4% | 3.8% | 36.4% |
| Tunisia | 25,064 | 2,016,042 | 37,531 | 1.2% | 1.9% | 66.8% |
| Egypt | 161,383 | 7,751,575 | 293,804 | 2.1% | 3.8% | 54.9% |
| **Grand Total** | **540,144** | **205,642,238** | **5,843,844** | **0.26%** | **2.8%** | **9.2%** |

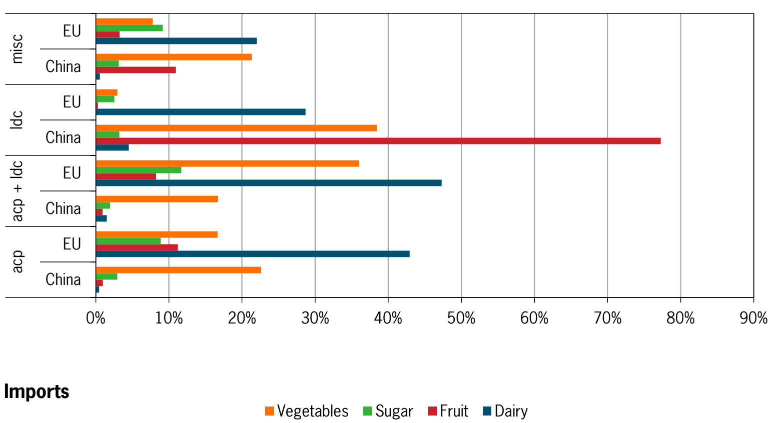
Cut-off point for (A)/(B) is 0.5% to show relevance of (A)/(C).
Source: Authors' calculations based on Comtrade data, 2012.

## 4.5 The role of China

Within the context of trade with the EU, the role of other large trading partners is important, in particular China, whose influence in the Asian region and Africa is growing. For the crops relevant to our study, Figure 4.14 and Figure 4.15 show the importance of imports and exports from and to China. The imports by LDCs of fruits and vegetables from China are much more important than those from the EU. With respect to exports, China has a strong interest in expanding its access to international markets for its labor-intensive agricultural products. Particularly for perishable products such as fruits and vegetables, many of the logical markets are in East Asia (Bhattasali et al., 2004).

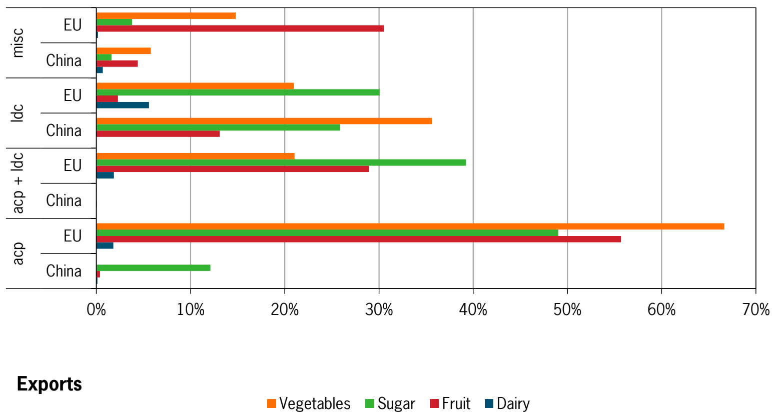
The export to China of fruits and vegetables, and to some degree sugar, are comparable to the EU. Dairy trade flows with China are insignificant compared to those with the EU. Finally, trade flows between ACP countries and the EU are much larger than with China, which can be explained by the preferential status.

**Figure 4.14** **Imports by developing countries of vegetables, fruits, sugar and dairy from China and EU (% of world imports); average 2005-2010**




Source: Authors' calculations based on Comtrade data, 2012.

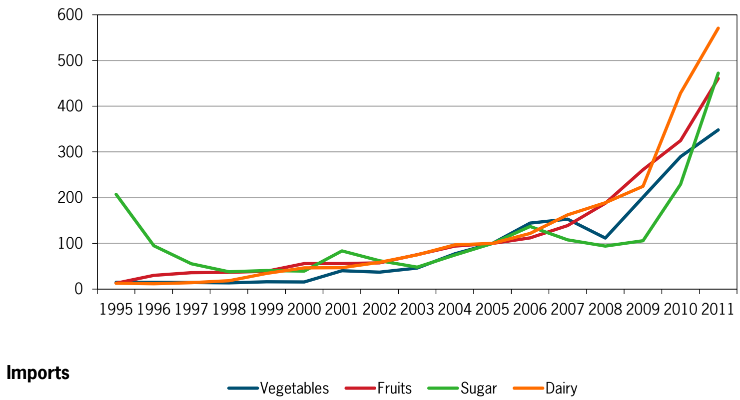
| Figure 4.15 | Exports by developing countries to China and EU of vegetables, fruits, sugar and dairy (% of world imports); average 2005-2010 |
|---|---|




Source: Authors' calculations based on Comtrade data, 2012.

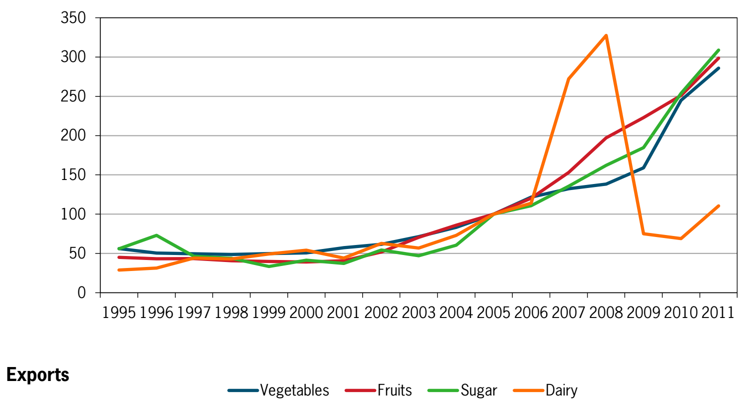
Figure 4.16 and Figure 4.17 show that China's trade with the world has increased significantly over the past five year. This is consistent for fruits, vegetables, sugar and dairy. Only the export of dairy plummeted in 2008, which can probably be explained by the contamination of milk with melamine. Also in 2010 and 2012 contamination was reported, which may result in Chinese dairy exports remaining at lower levels.

**Figure 4.16** **World imports from China 1995-2011 of vegetables, fruits, sugar and dairy (index 2005=100)**




Source: Authors' calculations based on Comtrade data, 2012.

**Figure 4.17** **World exports to China 1995-2011 of vegetables, fruits, sugar and dairy (index 2005=100)**




Source: Authors' calculations based on Comtrade data, 2012.

The combined picture that emerges is that although China still lags behind the EU as a trading partner, it is becoming an increasingly important trading partner, especially for LDCs. In particular for vegetables, it may soon overtake the EU.

China's trade policy has changed since its accession to the WTO in 2001. Bhattasali et al., (2004, 5) describe that 'agricultural trade in China has been influenced by a bewildering array of policies on imports and exports, including state trading, designated trading, quotas, licenses, tariffs, and tariff-rate quotas.' After WTO accession, many tariffs were reduced. China now has 1,097 tariff lines at the HS eight-digit level for agriculture products (WTO definition) with an average tariff of 15.1%, compared with 8.6% for all other products. Applied tariffs vary a lot from one product category to another. Most concern cereals, but also tariffs on sugars are high: varying from 8% to 50%. It has abolished all tariff quotas except for wheat, maize, rice, sugar, wool, and cotton[1] (WTO Secretariat, 2012). China's accession to the WTO with relatively low tariff bindings on agricultural products has probably led to increased prices. Given China's size, it plays an important role in world agricultural markets. Reduced tariffs lead to lower domestic prices and might thus lead to higher Chinese demand in world markets (Bhattasali et al., 2004).

China does not provide export subsidies for agricultural products[2]. The VAT rebate rate on exports of most agricultural products is currently 5% compared with the statutory rate of 13%. In December 2007 the rebate was removed entirely for a number of products, including cereals, soybeans, and their flours and vegetable oils (WTO Secretariat, 2012).

China increasingly has supported its agricultural sector over the past ten years in both the Green Box (€73.8 billion[3] in 2008) and the Amber Box (€11 billion)[4]. Support in the Amber Box concerned mostly non-crop specific support as well as support for cereals (wheat, maize, rice), oilcrops (soybeans and rapeseed), cotton and pork (WTO Secretariat, 2012). This will have contributed to raising Chinese production and thus tempering price increases.

[1] State-trading enterprises continue to dominate access to tariff quotas for these crops. State-trading enterprises are also the ones who export rice, maize, cotton, and tobacco, which, along with other grains, are subject to export quotas.
[2] However, export taxes were applied to grains from the beginning of 2008 when world grain prices rose, which were phased out from December 2008 to June 2009.
[3] €1 = ¥8.03 at 2012 exchange rate.
[4] According to the most recent notification on domestic support to the Committee on Agriculture in October 2011 for the calendar years 2005-08.

# 5 Conclusions

The general conclusion of this report is that the impact of the current Common Agricultural Policy (CAP) and its upcoming reform on developing countries is limited, as compared to the impact of European trade policies. The price impact of CAP reform will be moderate, mainly because world market prices since 2008 have become more aligned with EU prices.

The most important effects of CAP reform on developing countries are through changes in:

- *Direct payments:* these will remain and remain large. However, the impact on developing countries via international price changes is small. The European Commission (European Commission, 2011f) has calculated that the implementation of the greening measures (ecological set aside and crop diversification) has an effect on agricultural markets: ecological set aside forces farmers to reduce production, which leads to a drop of supply and an increase of prices. Crops diversification may induce price *decreases* for crops that are introduced by farmers to substitute the main crops. The price effect of crop diversification, however, is limited because overall the total cultivated area is not changed.
- *Intervention prices:* these have mostly been abolished and those that remain are very low. Therefore it is unlikely they will have an impact on production and price levels in the EU, and therefore on developing countries.
- *Milk and sugar quotas:* the impact of the abolition of milk production quotas will be low, but the abolition of sugar quotas could result in higher EU production, resulting in lower preferential imports from developing countries.
- *Coupled payments:* these have been abolished for dairy, sugar and fruits and vegetables.
- *Export subsidies:* these have mostly been abolished, although the EU has used them for dairy when prices were low. The EU still has the option to reintroduce export subsidies, which are trade distorting. Completely abolishing these trade distorting subsidies could lead to a decrease in EU production and an increase in world market prices, but impacts are expected to be very limited.

The impact for developing countries will be felt more in terms of trade access and global competition when the EU changes its trade policies, e.g. under the new scheme of trade preferences (GSP), the EPAs and possibly the Doha

Development Agenda, if successful. To what extent the new GSP will affect trade of developing countries is yet unclear, as it depends on whether countries will apply for the new GSP or GSP+, and also on whether countries will conclude EPA agreements, which are supposed to replace GSP in some cases. Developing countries with continued preferential access to the EU market (LDC and ACP countries) are increasingly faced with an erosion of these preferences, due to changes in both agricultural and trade policies.

The effect of CAP reforms on *dairy* is negligible in a national context: the share of exports of dairy products to and imports of dairy from the EU compared to total agricultural trade values are relatively minor. However, the EU remains the most important source of dairy imports for many countries. The share of EU dairy imports in total dairy imports is much larger generally, with some countries reporting shares of over 80%. When the EU reinstates export subsidies for dairy, this will lead to cheaper imports of dairy for developing countries, benefiting consumers but possibly harming local dairy producers. The most vulnerable countries with respect to EU dairy imports are Cape Verde, Gabon and Nigeria (ACP), Mauritania (ACP and LDC ) and Algeria. Agricultural trade policies are in general not relevant for the dairy sector of developing countries.

*Sugar exports* to the EU are important for a few specific ACP countries. The most vulnerable is Mauritius, whose sugar exports to the EU make up 45% of total agricultural export value and almost 100% of its total sugar exports. But also other major exports such as Guyana (29%) and Fiji (27%) are sensitive, as is Barbados, whose sugar exports to the EU constitute only 20%, but whose only outlet is the EU. These countries will possibly be affected by the new GSP system.

The shares of *sugar imports* from the EU in total agricultural import value are very small: the highest is for Sri Lanka with 6%. It is therefore to be expected that CAP or EU trade reforms will have little impact on these countries. The EU is no major source of sugar for any country.

For *fruit exports*, five non-LCD ACP countries (Saint Lucia, Dominica, Saint Vincent and the Grenadines, Belize and South Africa) are in the top-five of countries with a high share of fruits and vegetables exports to the EU in total agricultural export value (over 15%). *Banana exports* account for a significant share for the Latin American countries. The EU is an important outlet for fruits (for Saint Lucia almost 100%). The importance of fruit exports to the EU of LDC ACP countries is surprisingly low, and thus the erosion of preferences will not affect them in a significant way. The reason for the relative unimportance of fruit exports to the EU may be because the EU market is complex, characterised by multiple regulations and high quality assurance standards. The share of *fruit im-*

*ports* from the EU in total agricultural imports value of developing countries is relatively small, and thus no large effects are to be expected from CAP reform.

For *vegetable exports*, ACP countries Kenya and Zimbabwe are relatively vulnerable to preference erosion. They will no longer be eligible for the new GSP. Although vegetable exports to the EU account only 11% for Zimbabwe and 9% for Kenya of total agricultural exports, the EU is the main market for vegetables (92% and 89% respectively). Morocco's vegetable exports to the EU account for 13% of total agricultural exports, with the EU being the main market. Morocco is a non-LDC and non-ACP country, but is part of the EuroMed. It has little to lose from preference erosion because it is a competitive supplier. *Vegetable imports* from the EU are very small and therefore no impact from either the CAP or agricultural trade policy is expected.

Our analysis has specified, which countries are vulnerable to changes in the CAP or EU agricultural trade policies for dairy, sugar and fruits and vegetables. More detailed case-studies are needed that take into account the market structure of these countries to be able to pin-point exactly how these countries will be affected. Our study provides a basis for selecting these case-studies. Overall, it is clear that any change in CAP and trade policies will affect some group, either domestic consumers or domestic producers and thus some harm cannot be avoided. The principle of Policy Coherence for Development (PCD) could be used to compensate these groups in the short term.

Finally, China is becoming an increasingly important trade partner to developing countries, especially during the past five years. Although for most developing countries, and especially the ACP and LDC countries, the EU is still by far a more important trade partner than China, for many other developing countries, China has already become equally important, and specifically for vegetables.

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# Appendix 1

## List of ACP countries and information on participation in EPAs

| Table A1.1 | ACP countries in Africa |
|---|---|
| **Africa** | |
| The African ACP countries negotiate in five Economic Partnership Agreements groups | |
| **SADC group** | |
| South Africa | |
| Swaziland | |
| Lesotho | |
| Mozambique | |
| Namibia | |
| Angola | |
| Botswana | |
| **EAC group** | |
| Burundi | |
| Rwanda | |
| Kenya | |
| Tanzania | |
| Uganda | |
| **Eastern and Southern Africa group (COMESA related)** | |
| Malawi | |
| Zambia | |
| Zimbabwe | |
| Seychelles | |
| Comoros | |
| Madagascar | |
| Mauritius | |
| Djibouti | |
| Ethiopia | |
| Eritrea | |
| Sudan | |
| Somalia, not participating in EPA | |

| Table A1.1 | ACP countries in Africa (continued) |
|---|---|
| **CEMAC plus São Tomé and Príncipe, DR Congo group (ECCAS related)** | |
| Cameroon | |
| Central African Republic | |
| Chad | |
| Republic of the Congo | |
| Democratic Republic of the Congo | |
| Equatorial Guinea | |
| Gabon | |
| São Tomé and Príncipe | |
| **West Africa group (ECOWAS plus Mauritania)** | |
| Benin | |
| Burkina Faso | |
| Cape Verde | |
| Ivory Coast | |
| Togo | |
| Gambia | |
| Ghana | |
| Guinea | |
| Guinea-Bissau | |
| Liberia | |
| Niger | |
| Nigeria | |
| Senegal | |
| Sierra Leone | |
| Mali | |
| Mauritania | |

| Table A1.2 | ACP countries in the Caribbean |
|---|---|
| **Caribbean** | |
| Antigua and Barbuda | |
| Bahamas | |
| Barbados | |
| Belize | |
| Cuba, not participating in EPA | |
| Dominica | |
| Dominican Republic | |
| Grenada | |
| Guyana | |
| Haiti | |
| Jamaica | |
| Saint Kitts and Nevis | |
| Saint Lucia | |
| Saint Vincent and the Grenadines | |
| Suriname | |
| Trinidad and Tobago | |

All countries of the Caribbean Community plus Dominican Republic group negotiate in the CARIFORUM Economic Partnership Agreement (EPA) with the European Union (EU). The related EU Overseas Countries and Territories (OCT) are: Aruba, Bermuda, British Virgin Islands, Netherlands Antilles, Anguilla, Cayman Islands, Turks and Caicos Islands, Montserrat and the related EU outermost regions are Guadeloupe, Martinique, French Guiana, Saint Martin, Saint Barthélemy.

| Table A1.3 | ACP countries in the Pacific |
|---|---|
| **Pacific** | |
| Cook Islands | |
| Timor-Leste, not participating in EPA | |
| Fiji | |
| Kiribati | |
| Marshall Islands | |
| Federated States of Micronesia | |
| Nauru | |
| Niue | |
| Palau | |
| Papua New Guinea | |
| Samoa | |
| Solomon Islands | |
| Tonga | |
| Tuvalu | |
| Vanuatu | |

All countries of the Pacific Islands Forum group negotiate in the Pacific EPA with the EU. The related EU OCTs are: New Caledonia, Wallis and Futuna, French Polynesia, Pitcairn islands.

In the North Atlantic region EU OCTs of Greenland and Saint Pierre and Miquelon are located, but no ACP countries. In the South Atlantic region the EU OCTs of Saint Helena and Falkland Islands are located, but no ACP countries.

# Appendix 2

## List of LDC countries

| Table A2.1 | List of 'least developed countries' according to the United Nations |
|---|---|
| **Africa (33 countries)** | |
| Angola | |
| Benin | |
| Burkina Faso | |
| Burundi | |
| Central African Republic | |
| Chad | |
| Comoros | |
| Democratic Republic of the Congo | |
| Djibouti | |
| Equatorial Guinea | |
| Eritrea | |
| Ethiopia | |
| Gambia | |
| Guinea | |
| Guinea-Bissau | |
| Lesotho | |
| Liberia | |
| Madagascar | |
| Malawi | |
| Mali | |
| Mauritania | |
| Mozambique | |
| Niger | |
| Rwanda | |
| São Tomé and Príncipe | |
| Senegal | |
| Sierra Leone | |
| Somalia | |

| Table A2.1 | List of 'least developed countries' according to the United Nations (continued) |
|---|---|
| **Africa (33 countries)** | |
| Sudan | |
| Togo | |
| Tanzania | |
| Uganda | |
| Zambia | |
| **Asia-Pacific (14 countries)** | |
| Afghanistan | |
| Bangladesh | |
| Bhutan | |
| Cambodia | |
| East Timor | |
| Kiribati | |
| Laos | |
| Myanmar | |
| Nepal | |
| Samoa | |
| Solomon Islands | |
| Tuvalu | |
| Vanuatu | |
| Yemen | |
| **Americas (1 country)** | |
| Haiti | |

# Appendix 3

## EU export subsidies for sugar, dairy and fruits and vegetables 2003-2009

| Table A3.1 | Export subsidies 2008-2009 | | | | |
|---|---|---|---|---|---|
| Product | Total exports ('000 t) | Subsidised exports | | Annual commitment levels | |
| | | Outlays (million €) | Quantity ('000 t) | Outlays (million €) | Quantity ('000 t) |
| Sugar | 2093.4 | 0.0 | 950.0[1] | 513.9 | 1374.4 |
| Butter and butteroil | 149.8 | 54.3 | 98.1 | 945.8 | 411.6 |
| Skim milk powder | 177.5 | 25.8 | 126.5 | 298.0 | 323.4 |
| Cheese | 548.1 | 24.7 | 134.0 | 345.7 | 331.7 |
| Fruit and vegetables, fresh | 2347.6 | 0.0 | 0.0 | 108.7 | 1173.3 |
| Fruit and vegetables, processed | 425.4 | 0.0 | 0.0 | 141.3 | 378.5 |

| Table A3.2 | Export subsidies 2007-2008 | | | | |
|---|---|---|---|---|---|
| Product | Total exports ('000 t) | Subsidised exports | | Annual commitment levels | |
| | | Outlays (million €) | Quantity ('000 t) | Outlays (million €) | Quantity ('000 t) |
| Sugar | 2419.8 | 441.3 | 1359.6 | 513.9 | 1374.4 |
| Butter and butteroil | 131.1 | 0.0 | 0.0 | 945.8 | 411.6 |
| Skim milk powder | 195.2 | 0.0 | 0.0 | 298.0 | 323.4 |
| Cheese | 567.1 | 0.0 | 0.0 | 345.7 | 331.7 |
| Fruit and vegetables, fresh | 1871.3 | 4.4 | 167.1 | 108.7 | 1173.3 |
| Fruit and vegetables, processed | 446.7 | 2.4 | 58.0 | 141.3 | 378.5 |



[1] These exports did not attract any export subsidies.

| Table A3.3 | Export subsidies 2006-2007 | | | | |
|---|---|---|---|---|---|
| **Product** | **Total exports ('000 t)** | **Subsidised exports** | | **Annual commitment levels** | |
| | | **Outlays (million €)** | **Quantity ('000 t)** | **Outlays (million €)** | **Quantity ('000 t)** |
| Sugar | 2371.4 | 470.1 | 1336.9 | 513.9 | 1374.4 |
| Butter and butteroil | 257.2 | 239.2 | 253.8 | 945.8 | 411.6 |
| Skim milk powder | 130.1 | 0.0 | 0.0 | 298.0 | 323.4 |
| Cheese | 605.7 | 108.8 | 292.5 | 345.7 | 331.7 |
| Fruit and vegetables, fresh | 2173.2 | 14.5 | 451.1 | 108.7 | 1173.3 |
| Fruit and vegetables, processed | 424.0 | 4.4 | 93.6 | 141.3 | 378.5 |

| Table A3.4 | Export subsidies 2005-2006 | | | | |
|---|---|---|---|---|---|
| **Product** | **Total exports ('000 t)** | **Subsidised exports** | | **Annual commitment levels** | |
| | | **Outlays (million €)** | **Quantity ('000 t)** | **Outlays (million €)** | **Quantity ('000 t)** |
| Sugar | 8360.6 | 442.8 | 1215.0 | 499.1 | 1273.5 |
| Butter and butteroil | 245.8 | 292.3 | 295.4 | 947.8 | 399.3 |
| Skim milk powder | 133.9 | 14.6 | 117.0 | 275.8 | 272.5 |
| Cheese | 542.7 | 142.6 | 319.4 | 341.7 | 321.3 |
| Fruit and vegetables, fresh | 1895.7 | 20.2 | 519.6 | 52.8 | 753.4 |
| Fruit and vegetables, processed | 393.7 | 3.9 | 84.0 | 8.3 | 143.3 |

| Table A3.5 | Export subsidies 2004-2005 | | | | |
|---|---|---|---|---|---|
| **Product** | **Total exports ('000 t)** | **Subsidised exports** | | **Annual commitment levels** | |
| | | **Outlays (million €)** | **Quantity ('000 t)** | **Outlays (million €)** | **Quantity ('000 t)** |
| Sugar | 6349.1 | 466.9 | 1130.3 | 499.1 | 1273.5 |
| Butter and butteroil | 360.5 | 519.2 | 381.5 | 947.8 | 399.3 |
| Skim milk powder | 220.1 | 66.0 | 212.2 | 275.8 | 272.5 |
| Cheese | 513.6 | 157.1 | 299.7 | 341.7 | 321.3 |
| Fruit and vegetables, fresh | 1578.1 | 13.4 | 423.1 | 52.8 | 753.4 |
| Fruit and vegetables, processed | 369.7 | 3.6 | 78.0 | 8.3 | 143.3 |

| Table A3.6 | Export subsidies 2003-2004 | | | | |
|---|---|---|---|---|---|
| **Product** | **Total exports ('000 t)** | **Subsidised exports** | | **Annual commitment levels** | |
| | | **Outlays (million €)** | **Quantity ('000 t)** | **Outlays (million €)** | **Quantity ('000 t)** |
| Sugar | 3,861.7 | 325.9 | 663.2 | 499.1 | 1,273.5 |
| Butter and butteroil | 324.9 | 618.4 | 353.5 | 947.8 | 399.3 |
| Skim milk powder | 244.4 | 143.2 | 258.9 | 275.8 | 272.5 |
| Cheese | 487.1 | 239.1 | 321.2 | 341.7 | 321.3 |
| Fruit and vegetables, fresh | 1,686.2 | 15.7 | 694.2 | 52.8 | 753.4 |
| Fruit and vegetables, processed | 349.3 | 3.9 | 84.0 | 8.3 | 143.3 |

# Appendix 4

## List of agricultural graduated sectors for the period 1 January 2014 - 31 December 2016

| | Section Description |
|---|---|
| **China P.R.** | |
| | S-1a Live animals and animal products excluded fish |
| | S-1b Fish, crustaceans, molluscs and aquatic invertebrates |
| | S-2b Vegetables and fruit |
| | S-2c Coffee, tea, maté and spices |
| | S-2d Cereals, flour, nuts, resins and vegetable plaiting |
| | S-4b Prepared foodstuffs (excl. meat and fish), beverages, spirits and vinegar |
| **Costa Rica** | |
| | S-2b Vegetables and fruit |
| **Ecuador** | |
| | S-2a Live plants and floricultural products |
| | S-4a Preparations of meat and fish |
| **Indonesia** | |
| | S-1a Live animals and animal products excluded fish |
| | S-3 Animal or vegetable oils, fats and waxes |
| **Thailand** | |
| | S-4a Preparations of meat and fish |
| | S-4b Prepared foodstuffs (excl. meat and fish), beverages, spirits and vinegar |

# Appendix 5

## List of beneficiaries under the new GSP

1. EBA (49 partners):
Forty-nine countries continue to receive Everything But Arms (EBA) treatment (duty-free quota-free access except for arms). These are LDCs (see note below).

| **Africa:** | **Asia:** |
|---|---|
| 1. Angola | 34.Afghanistan |
| 2. Benin | 35.Bangladesh |
| 3. Burkina Faso | 36.Bhutan |
| 4. Burundi | 37.Cambodia |
| 5. Central African Republic | 38.Lao PDR |
| 6. Chad | 39.Maldives |
| 7. Comoros | 40.Myanmar/Burma |
| 8. Congo, Dem. Rep. of the | 41.Nepal |
| 9. Djibouti | 42.Timor-Leste |
| 10.Equatorial Guinea | 43.Yemen |
| 11.Eritrea | |
| 12.Ethiopia | **Australia and Pacific:** |
| 13.Gambia | 44.Kiribati |
| 14.Guinea | 45.Samoa |
| 15.Guinea-Bissau | 46.Solomon Islands |
| 16.Lesotho | 47.Tuvalu |
| 17.Liberia | 48.Vanuatu |
| 18.Madagascar | |
| 19.Malawi | **Caribbean:** |
| 20.Mali | 49.Haiti |
| 21.Mauritania | |
| 22.Mozambique | |
| 23.Niger | |
| 24.Rwanda | |
| 25.Sao Tome and Principe | |
| 26.Senegal | |
| 27.Sierra Leone | |

| | |
|---|---|
| 28.Somalia | |
| 29.Sudan | |
| 30.Tanzania | |
| 31.Togo | |
| 32.Uganda | |
| 33.Zambia | |
| Notes: Myanmar/Burma's preferences are withdrawn since 1997 due to serious and systematic violations of principles of core international labour conventions. The Commission proposed in September 2012 its reinstatement into EBA. At the time of release of this document, the European Parliament and Council were considering the Commission proposal. The Maldives has ceased to be an LDC and has a transitional period where it can benefit from EBA until end 2013. | |

2. GSP beneficiaries (40):
Armenia, Azerbaijan, Bolivia, China (people's Republic of), Cape Verde, Colombia, Congo (Republic of), Cook Islands, Costa Rica, Ecuador, Georgia, Guatemala, Honduras, India, Indonesia, Iran (Islamic Republic of), Iraq, Kirghizia, Marshall (islands), Micronesia (federate States of), Mongolia, Nauru, Nicaragua, Nigeria, Niue, Pakistan, Panama, Paraguay, Peru, the Philippines, El Salvador, Sri Lanka, Syrian (Arab Republic), Tajikistan, Thailand, Tonga, Turkmenistan, the Ukraine, Uzbekistan, Vietnam.

3. GSP+
Initially, the GSP+ beneficiary list is empty, as all eligible countries must apply for new GSP+ benefits, including those countries which benefit from GSP+ today. All GSP beneficiaries with the exception of China, Colombia India, Indonesia, Thailand and Vietnam are considered vulnerable and thus are eligible to apply for GSP+.
(European Commission, 2012k)

# Appendix 6

## List of countries according to LDC status, ACP and income group

Currently, the following criteria are used to classify countries as least developed:

1. Gross national income per capita
2. Human Asset Index
3. Economic Vulnerability Index

In addition, low income countries with population larger than 75m inhabitants are not eligible to be considered for inclusion (United Nations, 2008).

The World bank divides economies according to 2011 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, \$1,025 or less; lower middle income, \$1,026 - \$4,035; upper middle income, \$4,036 - \$12,475; and high income, \$12,476 or more (World Bank, 2013a).

| **Country** | **LDC** | **ACP** | **Low-income economies (\$1,025 or less)** | **Lower-middle-income economies (\$1,026 to \$4,035)** | **Upper-middle-income economies (\$4,036 to \$12,475)** |
|---|---|---|---|---|---|
| **ACP & LDC** | | | | | |
| Angola | 1 | 1 | | | 1 |
| Benin | 1 | 1 | 1 | | |
| Burkina Faso | 1 | 1 | 1 | | |
| Burundi | 1 | 1 | 1 | | |
| Central African Republic | 1 | 1 | 1 | | |
| Chad | 1 | 1 | 1 | | |
| Comoros | 1 | 1 | 1 | | |
| Congo, Dem. Rep | 1 | 1 | 1 | 1 | |
| Equatorial Guinea | 1 | 1 | | | High-Income Economy |
| Eritrea | 1 | 1 | 1 | | |
| Ethiopia | 1 | 1 | 1 | | |

| Country | LDC | ACP | Low-income economies ($1,025 or less) | Lower-middle-income economies ($1,026 to $4,035) | Upper-middle-income economies ($4,036 to $12,475) |
|---|---|---|---|---|---|
| Gambia | 1 | 1 | 1 | | |
| Guinea | 1 | 1 | 1 | | |
| Guinea-Bissau | 1 | 1 | 1 | | |
| Haiti | 1 | 1 | 1 | | |
| Kiribati | 1 | 1 | | 1 | |
| Lesotho | 1 | 1 | | 1 | |
| Liberia | 1 | 1 | 1 | | |
| Madagascar | 1 | 1 | 1 | | |
| Malawi | 1 | 1 | 1 | | |
| Mali | 1 | 1 | 1 | | |
| Mauritania | 1 | 1 | 1 | | |
| Mozambique | 1 | 1 | 1 | | |
| Niger | 1 | 1 | 1 | | |
| Rwanda | 1 | 1 | 1 | | |
| Samoa | 1 | 1 | | 1 | |
| São Tomé and Principe | 1 | 1 | | 1 | |
| Senegal | 1 | 1 | | 1 | |
| Sierra Leone | 1 | 1 | 1 | | |
| Solomon Islands | 1 | 1 | | 1 | |
| Somalia | 1 | 1 | 1 | | |
| Sudan | 1 | 1 | | 1 | |
| Tanzania | 1 | 1 | 1 | | |
| Timor-Leste | 1 | 1 | | 1 | |
| Togo | 1 | 1 | 1 | | |
| Tuvalu | 1 | 1 | | | 1 |
| Uganda | 1 | 1 | 1 | | |
| Vanuatu | 1 | 1 | | 1 | |
| Zambia | 1 | 1 | | 1 | |
| **LDC** | | | | | |
| Djibouti | 1 | | | | |
| Afghanistan | 1 | | 1 | | |

| Country | LDC | ACP | Low-income economies ($1,025 or less) | Lower-middle-income economies ($1,026 to $4,035) | Upper-middle-income economies ($4,036 to $12,475) |
|---|---|---|---|---|---|
| Bangladesh | 1 | | 1 | | |
| Bhutan | 1 | | | 1 | |
| Cambodia | 1 | | 1 | | |
| Lao People's Democratic Rep. | 1 | | | 1 | |
| Myanmar | 1 | | 1 | | |
| Nepal | 1 | | 1 | | |
| Yemen | 1 | | | 1 | |
| **ACP** | | | | | |
| Antigua and Barbuda | | 1 | | | 1 |
| Bahamas | | 1 | | | |
| Barbados | | 1 | | | |
| Belize | | 1 | | 1 | |
| Botswana | | 1 | | | 1 |
| Cameroon | | 1 | | 1 | |
| Cape Verde | | 1 | | 1 | |
| Congo, Rep. | | 1 | | 1 | |
| Cook Islands | | 1 | | | |
| Cuba | | 1 | | | 1 |
| Djibouti | | 1 | | 1 | |
| Dominica | | 1 | | | 1 |
| Dominican Republic | | 1 | | | 1 |
| Federated States of Micronesia | | 1 | | | |
| Fiji | | 1 | | 1 | |
| Gabon | | 1 | | | 1 |
| Ghana | | 1 | | 1 | |
| Grenada | | 1 | | | 1 |
| Guyana | | 1 | | 1 | |
| Ivory Coast | | 1 | | | |
| Jamaica | | 1 | | | 1 |
| Kenya | | 1 | 1 | | |
| Marshall Islands | | 1 | | 1 | |

| Country | LDC | ACP | Low-income economies ($1,025 or less) | Lower-middle-income economies ($1,026 to $4,035) | Upper-middle-income economies ($4,036 to $12,475) |
|---|---|---|---|---|---|
| Mauritius | | 1 | | | 1 |
| Namibia | | 1 | | | 1 |
| Nauru | | 1 | | | |
| Nigeria | | 1 | | 1 | |
| Niue | | 1 | | | |
| Palau | | 1 | | | 1 |
| Papua New Guinea | | 1 | | 1 | |
| Saint Kitts and Nevis | | 1 | | | |
| Saint Lucia | | 1 | | | 1 |
| Saint Vincent and the Grenadines | | 1 | | | 1 |
| Seychelles | | 1 | | | 1 |
| South Africa | | 1 | | | 1 |
| Suriname | | 1 | | | 1 |
| Swaziland | | 1 | | 1 | |
| Tonga | | 1 | | 1 | |
| Trinidad and Tobago | | 1 | | | |
| Zimbabwe | | 1 | 1 | | |
| **Low income** | | | | | |
| Korea, Dem Rep. | | | 1 | | |
| Kyrgyz Republic | | | 1 | | |
| Tajikistan | | | 1 | | |
| **Lower-middle income** | | | | | |
| Albania | | | | 1 | |
| Armenia | | | | 1 | |
| Bolivia | | | | 1 | |
| Côte d'Ivoire | | | | 1 | |
| Egypt, Arab Rep. | | | | 1 | |
| El Salvador | | | | 1 | |
| Georgia | | | | 1 | |
| Guatemala | | | | 1 | |
| Honduras | | | | 1 | |

| Country | LDC | ACP | Low-income economies ($1,025 or less) | Lower-middle-income economies ($1,026 to $4,035) | Upper-middle-income economies ($4,036 to $12,475) |
|---|---|---|---|---|---|
| India | | | | 1 | |
| Indonesia | | | | 1 | |
| Iraq | | | | 1 | |
| Kosovo | | | | 1 | |
| Micronesia, Fed. Sts. | | | | 1 | |
| Moldova | | | | 1 | |
| Mongolia | | | | 1 | |
| Morocco | | | | 1 | |
| Nicaragua | | | | 1 | |
| Pakistan | | | | 1 | |
| Paraguay | | | | 1 | |
| Philippines | | | | 1 | |
| South Sudan | | | | 1 | |
| Sri Lanka | | | | 1 | |
| Syrian Arab Republic | | | | 1 | |
| Ukraine | | | | 1 | |
| Uzbekistan | | | | 1 | |
| Vietnam | | | | 1 | |
| West Bank and Gaza | | | | 1 | |
| **Upper-middle income** | | | | | |
| Algeria | | | | | 1 |
| American Samoa | | | | | 1 |
| Argentina | | | | | 1 |
| Azerbaijan | | | | | 1 |
| Belarus | | | | | 1 |
| Bosnia and Herzegovina | | | | | 1 |
| Brazil | | | | | 1 |
| Bulgaria | | | | | 1 |
| Chile | | | | | 1 |
| China | | | | | 1 |
| Colombia | | | | | 1 |

| **Country** | **LDC** | **ACP** | **Low-income economies ($1,025 or less)** | **Lower-middle-income economies ($1,026 to $4,035)** | **Upper-middle-income economies ($4,036 to $12,475)** |
|---|---|---|---|---|---|
| Costa Rica | | | | | 1 |
| Ecuador | | | | | 1 |
| Iran, Islamic Rep. | | | | | 1 |
| Jordan | | | | | 1 |
| Kazakhstan | | | | | 1 |
| Latvia | | | | | 1 |
| Lebanon | | | | | 1 |
| Libya | | | | | 1 |
| Lithuania | | | | | 1 |
| Macedonia, FYR | | | | | 1 |
| Malaysia | | | | | 1 |
| Maldives | | | | | 1 |
| Mexico | | | | | 1 |
| Montenegro | | | | | 1 |
| Panama | | | | | 1 |
| Peru | | | | | 1 |
| Romania | | | | | 1 |
| Russian Federation | | | | | 1 |
| Serbia | | | | | 1 |
| Thailand | | | | | 1 |
| Tunisia | | | | | 1 |
| Turkey | | | | | 1 |
| Turkmenistan | | | | | 1 |
| Uruguay | | | | | 1 |
| Venezuela, RB | | | | | 1 |
| **Grand Total** | **48** | **79** | **36** | **54** | **54** |

Source: UNCTAD, 2012; World Bank, 2013b.

LEI Wageningen UR develops economic expertise for government bodies and industry in the field of food, agriculture and the natural environment. By means of independent research, LEI offers its customers a solid basis for socially and strategically justifiable policy choices.

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