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Center for Development Research
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ZEF POLICY BRIEF NO 36

EU COMMON AGRICULTURAL POLICY IMPACTS ON TRADE WITH AFRICA AND AFRICAN AGRICULTURAL DEVELOPMENT

This study is prompted by the pending further development of the Common Agricultural Policy (CAP) after 2020 and the consideration that, in the context of this potential change of EU agricultural policy, greater emphasis should be laid on African development. It is clear that agricultural policy serves many objectives and that conflicts between different objectives, such as environmental, climate, health, and distributional aspects, must be taken into account in reform projects. As a trading bloc, the EU plays a central role in international agricultural trade, which is why the CAP influences not only the common market of the EU member states but also international agricultural markets and trade. The impacts on developing countries have so far played a minor role in the discussions on adjustments to the CAP. Due to tariff preferences and historically developed trade relations, the EU is the most important trading partner for the African continent and the main buyer of African agricultural exports. In 2018, the total volume of trade between the EU and Africa amounted to about 35 billion euros, accounting for about 25% of the total African agricultural trade.

With a total volume of 400 billion euros for the 7-year budget period, which currently represents about 36% of the total budget (EU28), CAP spending is the largest expenditure item in the EU budget. Total EU development expenditures for Africa amount to about one-tenth of that, and the share for agricultural development and food security is only about 2% of the EU agricultural budget. Given the goal to establish coherence between the agricultural and development policy of the EU, this budget imbalance must not be ignored, especially in view of the high risks for food security in Africa due to the economic consequences of COVID-19. Moreover, as Africa's opportunities and problems are becoming increasingly relevant for the EU, future EU policy should be examined as to whether they benefit Africa's agricultural development. This includes investment in sustainable agricultural productivity, infrastructure, and institutions that are conducive to trade.

The consequences of Coronavirus controlling attempts that include border closures and market shutdowns in both Europe and Africa have highlighted the key role of trade and market policies for development. The decision to establish the African Continental Free Trade Area (AfCFTA) provides another important reason to revisit the EU–Africa trade policy relations in the important fields of food and agriculture. The CAP is suspected of exacerbating obstacles to development through implicitly subsidized agricultural exports. By contrast, achieving food security and rural development, especially in low-income countries, is a declared goal of the United Nations Sustainable Development Goals (SDGs)'. In the report on "The Future of Food and Agriculture", the EU Commission describes the global impact of the CAP and the need to take into account the objectives of development cooperation. However, the EU Commission's 2020 farm to fork strategy ignores the external effects of European agricultural policy. The initial assessment of the impact of the EU CAP on trade and agricultural development in Africa yields the following conclusions and recommendations:

Common Agricultural Policy post-2020

On June 1st 2018, the European Commission presented the draft legislation on the future of the CAP for the period after 2020. It provides for a small reduction in the total volume of agricultural subsidies for its now 27 Member States. The proposal is based on higher ambitions with regard to environmental protection and climate change through mandatory ecological programs and an enhanced linkage of direct payments to the greening rules. A stronger environmental orientation is also considered very likely among the experts interviewed for this study. However, the draft also envisages changing the green architecture of the CAP and giving the Member States greater freedom in achieving the targets set out in national strategic plans. This flexibility could lead to an increase in the use of coupled subsidies in some Member States, which in turn would increase export surpluses for some agricultural products. This could lead to renewed incoherence with agricultural development policy.

Table: Expected changes in post-2020 CAP by experts

	Tendency of the experts' assessments
Level of payments	0
Capping/redistribution of subsidies	(+)
Stronger conditionality on environmental and climate benefits of agriculture	+
Stronger environmental objectives	+
Higher animal welfare standards	-
Increased return to coupled payments	+

Note: 0 = no change expected; + Direction of change: yes or likely; - Direction of change: no or unlikely; (+) Change yes but not impacting external effects. For details, incl. the exact wording, please refer to the report.

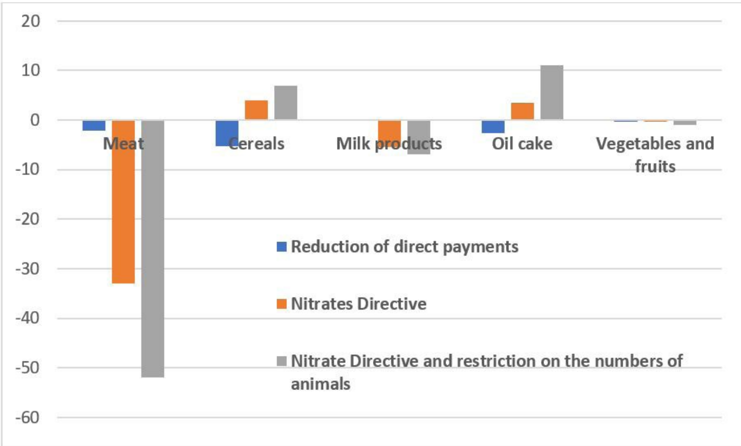
Effects of European agricultural and trade policy in Africa

Trade policy: In its present form, the CAP continues to promote food exports especially indirectly. In 2018, wheat (€3.3 billion), meat (€1 billion), dairy products (€1.7 billion) and processed food (€6 billion) were the main EU exports to Africa. Among these goods, the share of Africa's imports from the EU ranges from 25% (meat) to 44% (dairy products). In the current debate on CAP adjustments, effects on developing countries have so far played a minor role, although the EU describes coherence with its development policy objectives as an important element of its policy. There is widespread agreement that, in the past, coupled subsidy payments, export refunds, and direct market interventions have made a major contribution to increasing agricultural production in the EU and have led to the EU's increased export surplus. Low-priced food imports have weakened the agricultural sectors of African countries in the long-term and hindered the development of competitive agricultural production. These earlier effects cannot be corrected quickly because agricultural productivity depends on long-standing favorable framework conditions and long-term investments in innovation.

Regulatory framework: Although African raw agricultural material exports to the EU are largely free of duties under various agreements, processed products are only free of duties if it can be ruled out under the "country of origin" principle that components of the final good were imported from a third country. The proof of origin requires a list of the production stages and ingredients as well as their origin. This condition often makes it difficult for African exporters to export processed agricultural products to Europe, hindering the creation of regional value chains. De-bureaucratized regulations (supported by advice from development cooperation) should create flexibility if the majority of the ingredients originate from the partner country or the respective regional economic zone. Social and hygiene standards for goods imported into the EU are necessary but must be transparent. According to EU regulations, social standards must comply with the principles of the International Labour Organization (ILO). However, currently, these are not implemented consistently. It would be helpful if the EU provided more support for the improvement of standards in Africa; otherwise, the export potential of African countries cannot be fully exploited.This should also include capacity strengthening in Africa to check the adherence to health standards of EU food products exported to Africa.

Effects of direct payments: Direct payments to EU farmers continue to account for up to 50% of total farm income in the EU. As shown by the model simulations, a reduction in direct payments is not expected to have a significant impact on food production in Africa in the short-term because the decline in imports from the EU will largely be offset by imports from other world regions. In the long term, however, this could be different, as European agricultural enterprises may partly be kept in production locations by the direct payments where they would not be able to survive without these subsidies. Furthermore, direct payments allow investment decisions that increase the productivity of variable production factors. The current EU agricultural subsidy policy hampers the development of African agriculture much less than it did before export subsidies and coupled subsidy payments were largely abolished.

Figure: Percentage change of African food imports from the EU under different modelling scenarios



Effects of CAP environmental orientation:

According to the expert consultation carried out for this study, a stronger environmental and climate orientation of the CAP, which takes into account the indirect effects of intensive agriculture on the environment and climate, would have a dampening effect on European agricultural exports to Africa. In the model simulation, the implementation of the European Nitrate Regulation leads to a reduction in livestock farming and alters European meat production. As a result, European exports (especially of pork) to Africa would decrease by 33-52%, and European exports of dairy products by about 5-7%. However, this reduction in European exports would probably be mainly absorbed by other exporters.

Meat case study: African countries on average import around 20% of meat products, a quarter of which come from the EU. Poultry accounts for the majority of African meat imports, with poultry parts accounting for three-quarters of African poultry imports from the EU. However, the European poultry sector benefits little from subsidy payments and European producer prices are relatively high in international comparison. The low export prices of poultry parts are a result of the low demand for these products in Europe and not a consequence of the CAP. This also means that a reduction of EU poultry exports through political measures (and the associated higher prices) would primarily burden consumers in Africa.

Dairy products case study: Many countries in North and West Africa are heavily dependent on milk powder imports, some of which exceed domestic production multiple times. The CAP has far-reaching impact in the dairy market. Following the abolition of the milk quota, European milk production has continued to increase, although low European producer prices are supposed to reduce the incentive to do so. However, dairy farms in the EU still benefit from income support. Direct payments, as well as coupled subsidies (in some Member States), provide incentives for investing in productivity-enhancing technologies, and in this way positively affect milk production. In addition, the EU provides safeguarding against price risks through support purchases of milk powder, which are re-supplied to the market below world market prices. On the other hand, in some African countries, the (proportional) production costs are lower than in European countries. At present, however, these African countries are not able to meet the rapidly growing demand for milk products on the continent. Investments in local value chains and improved infrastructure would increase African productivity and intra-African trade could gain in importance. Disrupting these opportunities through subsidised exports of EU milk powder would hamper African agricultural development.

Preliminary conclusions on CAP reform and trade policy with Africa

i) The increased return to coupled subsidy payments and support prices now being considered in some EU countries, as already begun in 2013, is inconsistent with the objectives of the EU's development policy and should, therefore, be limited. Otherwise, there is a risk of increased unfair competition with Africa.

ii) The more targeted linking of agricultural subsidies to environmental and climate regulations increases the costs of agricultural production in the EU, especially in livestock farming, and could be expected to reduce the EU's production and export surpluses. This would create local incentives in Africa to invest in domestic agriculture.

iii) Extensive open market access to the EU for African agricultural products, in particular also processed food, without tariff escalation, shall be facilitated. Concession of result-oriented, long transition periods, and trade policies allowing for the protection of African agriculture (i.e. granting further scope to protect key agricultural industries beyond 2035) before African markets are fully opened shall be considered.

iv) In a future strategic EU –Africa trade agreement adapted to AfCFTA, trade preferences should be transferred to such an agreement. In addition, "Aid for Trade" programs should be maintained regardless of the FTAs.

v) New opportunities for direct digital trade in agricultural and food products from Africa should be facilitated, promoted, and increased to create value addition in processed products (cocoa, tea, coffee) in decentralized rural areas.

vi) Appropriate quality, health, environmental and social standards of agricultural and food products traded in and with Africa should be developed further together with African partners. Employment effects should be taken into account. The EU should provide support on improving these standards in Africa, e.g. through "Aid for Trade" programs, as African export potential would otherwise not be fully exploited.

vii) Simplification of origin rules (supported through consultation with trading partners) should provide scope for flexibility, provided the majority of the ingredients originate in the partner country or regional economic area.

IMPRINT:

This policy brief is based on:
Lukas Kornher and **Joachim von Braun** (2020). EU Common Agricultural Policy - Impacts on Trade with Africa and African Agricultural Development. ZEF-Discussion Papers on Development Policy No. 294
https://www.zef.de/fileadmin/webfiles/downloads/zef_dp/ZEF_DP_294.pdf

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August 2020

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