



EU Policy-Making: Reform of the CAP and EU Trade in Beef & Dairy with Developing Countries

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EXECUTIVE SUMMARY

This study examines the political economy of policy-making concerning trade in livestock and livestock products (LLPs) between the European Union (EU) and developing countries. The main objective is to determine and assess how relevant EU policy is made, including the role of key actors and forces, both domestic and international. A related objective is to identify “entry points” and provide strategic recommendations aimed at achieving positive change.

Two livestock commodities, beef and dairy, were selected as central to the study because of the high levels of EU support and the global prominence of the EU in the production and trade of these products. The EU subsidizes these commodities more than any other LLPs, and the EU is the only country or trading bloc that provides export subsidies for beef.

Criticisms of the CAP

International organizations, academics and advocacy groups have argued that protectionist trade barriers, trade-distorting domestic support and export subsidies by many governments of the Organization for Economic Cooperation and Development (OECD) have had very negative consequences on the economies of both developing and developed countries. The CAP-related agriculture and trade policies that lead to overproduction and dumping of EU agricultural products are said to undermine the livelihoods of millions of farmers in developing countries who, at the same time, are also denied fair opportunities to export their own agricultural products to the EU market. Pro-developing country advocacy groups have raised awareness of these issues and of their direct linkages to the CAP. This report presents the findings of a number of relevant studies that demonstrate the negative effects of the CAP in developing countries in general. The report also explores specific cases - the dumping of beef on West African and South African markets, and the dumping of dairy products on Jamaica and India. A recent study by the International Food Policy Research Institute (IFPRI) suggests that if the EU liberalized its agricultural trade the results would include an increase of US\$42.6 billion in the net agricultural trade (exports minus imports) of developing countries. In addition, there has been great concern over coherence between the EU’s development cooperation policies and activities and other policies likely to affect developing countries. This report explores some of these concerns and also describes efforts that have been made by some EU member states to promote “policy coherence.”

EU Policy-making and the CAP

Three levels of analysis were identified and used to explain EU policy-making:

- **EU member state-level politics** are especially important because the member state agriculture ministers who collectively make the decisions about agricultural policy at the EU level (the CAP) are primarily accountable to their own member state, and to their own constituencies within their country.
- **EU-level institutions and inter-state bargaining** are central to the EU policy-making process. The European Commission plays a key role in setting the agenda for EU agricultural policy, as shown by its recent efforts to promote CAP reform. The Commission's own objectives include promoting European integration and efficient allocation of scarce budgetary resources. The member states are sharply divided on the issue of CAP reform, and inter-state bargaining in the Council of Agriculture Ministers has been very important in decisions regarding the CAP. The involvement of the leaders of France and Germany concerning EU agricultural policy-making has been significant.
- **The International level of analysis and trade issues** are discussed below.

A variety of interest groups operate across all three levels. Those attempting to influence EU agricultural policy generally find it necessary to lobby at both the member state and EU levels. Farmers groups and other agricultural interests have historically had the strongest influence on EU agricultural policy-making. Environmental concerns led to the introduction of the "second pillar" of agricultural support in the 1992 CAP reforms, and these concerns were further strengthened in the Agenda 2000 and June 2003 reforms. Because of the BSE and other animal health and food safety crises, and the activities of consumer and other advocacy groups, CAP policies were strengthened in the area of food safety. Groups supporting animal welfare causes have long been active and have influenced CAP policy in this regard. Some consumer, environmental and pro-developing country advocacy groups have tried to achieve wider reform of the CAP.

The enlargement of the EU from 15 to 25 member states in May 2004 will be very significant for the future of the CAP. Concerns about how to pay for the CAP after the less affluent central and eastern European accession countries join the EU led to an agreement to limit CAP spending for the 2007-2013 period. Based on projections, the general view is that enlargement will not result in additional surpluses of beef and dairy products.

International Trade Issues

The making of EU trade policy is similar to that of the CAP, with the member states and the Commission playing parallel roles. The Commission, in particular General Directorate for Trade, coordinates policy-making and - significantly - represents the EU in bilateral and multilateral trade negotiations. During the Doha Round of multilateral trade negotiations there has been significant pressure on the EU to reform the CAP.

Four somewhat over-lapping categories of developing countries were identified for the purposes of this study:

- South American countries that are major beef exporters (four countries)
- the African, Caribbean and Pacific (ACP) countries as a group (77 countries)
- African countries exporting beef to the EU on preferential terms (six countries)
- the least developed countries (LDCs, 49 countries)

Our first category of countries is among the strongest proponents of liberalizing global agricultural trade during the Doha Round. The ACP countries, which already benefit from preferential access to the EU market, are seeking to maintain their special status, as do the few African countries (all ACP states) currently exporting beef to the EU under a preferential protocol. The LDCs tend to share the concerns and objectives of the ACP countries, as the bulk of LDCs are in the ACP group.

The study found that increased access to the EU market for beef and veal is currently not directly relevant to poor livestock producers in developing countries. A major reason is that such producers

cannot meet current sanitary and phytosanitary (SPS) standards or European expectations regarding quality.

The cost of compliance with SPS standards is a major problem for developing countries exporting agricultural products to markets that require high SPS standards. These developing countries will need significant assistance in, for example, developing relevant infrastructure and capacity to be able to certify that their products meet international standards.

Forces For and Against CAP Reform

The most important force driving reform of the CAP has been multilateral trade negotiations. The Doha Round of agricultural trade talks is currently playing this role. To strengthen its negotiating position in the agricultural talks at the September 2003 World Trade Organization (WTO) Ministerial Meeting in Cancun, in June 2003 the EU member states reached agreement on CAP reform. Ranking second as a driving force for CAP reform are budgetary pressures created by the (a) need to integrate the much less efficient agriculture sectors of the ten accession countries that will join the EU in 2004 and (b) the difficulty of sustaining the CAP in general. Environmental concerns have produced changes in EU agricultural policy, as have the concerns and efforts of groups supporting animal welfare. The activities of consumers and pro-developing country advocates has increased awareness of certain issues in recent years but has not had much influence in changing agricultural policy except in the area of food safety. The situation is changing in Europe, as pressures from various groups to reform EU agricultural policy have been mounting. For example, the influence of food retailers, processors and others (particularly as a result of increased vertical integration along the food processing chain from farmer to consumer) is strengthening the pro-reform constituency.

Although the number of European farmers has been steadily declining, the continued strength of farmers' organizations and other agricultural interests has so far served as a bulwark against reform of the CAP. These interests have dominated EU agricultural policy-making for decades, and they are particularly important in the internal politics of France. For many years France, and EU member states sharing similar goals, have used EU-level institutions and inter-state bargaining to successfully defend the CAP.

Recommendations

Reforming both the CAP and multilateral trade rules could significantly improve the prospects of poor developing country-livestock producers. The analysis presented in this report suggests a number of entry points for making EU policy more responsive to the problem of poverty reduction in developing countries in general and for livestock-dependent poor in particular. The report discusses strategic entry points at the level of the (a) international trading system, (b) EU member state and (c) the European Union itself. Some of the more important recommendations are highlighted below.

The Doha Round of multilateral trade negotiations is critical as it is the most important force driving CAP reform and it provides the best opportunity to achieve a global trading system that has fairer rules for developing countries. Multilateral trade negotiations are also the most effective way for developing countries to have influence on EU policy-making; without such influence, developing-country interests will not receive adequate consideration. It is clear, however, that most poor developing countries need considerable assistance to more effectively determine their own best trade-related interests and then to promote them. Two general recommendations follow from this: (a) if progress is to be made in the ongoing multilateral trade negotiations involving developing countries, better targeted and more effective technical assistance is required: and (b) poor countries should be assisted to develop fora to allow them to better learn of each other's interests and to enable them to build productive alliances.

The present study found little solid information regarding the effects of the CAP in developing countries. To help fill this information gap it is recommended that relevant information on the effects of the EU's subsidized exports of milk powder in selected developing countries be collected and analysed, focusing on whether and how such exports undermine livelihoods and hinder efforts to reduce poverty (and, if yes, the key consequences).

SPS standards are becoming increasingly important in regard to market access. Many poor LLP producers are unable to access the EU market because they cannot meet the high SPS standards. In addition, producers who have been supplying developing country markets may lose access to these markets if international-level SPS standards are applied. We recommend studies that focus on whether and how (and, if yes, the results) the SPS standards prevent poor producers from accessing these markets. Additional attention needs to be focused on developing and implementing appropriate forms of: (a) representation by developing countries in the international organizations that determine and supervise SPS standards; and (b) representation of poor livestock producers on the bodies that determine and supervise national SPS policy in developing countries.

The experiences of interest groups suggest entry points for those wishing to influence EU policy. As both farmers' organizations and food and beverage industry interests have demonstrated, it can pay off to develop long-term relationships with Commission officials and key member-state politicians. While building such relationships would be useful to advocacy groups as well, it is unlikely that they have the same kind of opportunities. Advocacy groups have been successful at raising awareness of their concerns among the public, however, and it is through public pressure that they have had their greatest influence on key decision-makers. The successes of environmental and animal rights advocates in influencing CAP reform may be relevant to pro-developing country advocacy groups, although there appears to be more concern within Europe for environmental issues (and animal rights issues in parts of Europe) than for the problems of developing countries. For those involved in advocacy efforts, long-term strategies focused on raising public awareness may have the best pay-offs.

On a more general note, it would be useful for international organizations to publicize more widely the findings of key research on relevant policy issues as opinion pieces in leading newspapers, as well as to send policy briefs to the staffs of senior politicians and to officials of EU member states, the Commission, members of the European Parliament and others.

Pro-Poor Livestock Policy Initiative (PPLPI)

Website: <http://www.fao.org/ag/pplpi.html>

Working Paper: <http://www.fao.org/ag/againfo/projects/en/pplpi/docarc/wp18.pdf>