European Development Cooperation Strengthening Programme (**EDCSP**)

Policy Incoherence: Where is the CAP in the New EC Communication

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The EC Communication on Trade, Growth and Development contains many good intentions to encourage growth in developing countries. The paragraph on 'What Europe can offer' provides some details of the European Union's (EU) policy directions, which can be summarised under six broad pillars: (1) more focused preferences; (2) better targeted AfT; (3) complementary instruments boosting FDI; (4) comprehensive and modulated bilateral/regional agreements; (5) a values-based trade agenda to promote sustainable development; and (6) helping developing countries to improve resilience to crisis.

The introduction of the Communication contains a reference to policy coherence for development (PCD), and argues that trade and investment policies could help in the development and integration of economies in the world economy. It is surprising to see no mention of other EU policies such as the Common Agricultural policy (CAP) which nonetheless affect developing country growth and trade patterns.

The Overseas Development Institute (ODI) is currently examining the impact of existing CAP instruments and post-2013 reform on developing countries. This section compares the policy directions provided by the EU Communication with these research findings. As discussed in Annex XII of the EU CAP reform agricultural policy impact assessment, it is evident that the EU endorses the Policy Coherence for Development (PCD) in agricultural policies.

The main findings arising from our research can be summarised as follows:

1. Current CAP instruments harm developing countries. Instruments such as direct payments and export subsidies aimed at boosting the production and income of EU farmers tend to reduce world prices and the attractiveness of the European market for developing countries. European import tariffs represent a further market distortion penalising competitive farmers outside the EU who cannot sell products to the European market because import prices in the EU are kept artificially high by trade policies.

2. The proposed post-2013 quota abolition in the sugar sector will induce EU farmers to increase production and will reduce world prices by penalising farmers in developing countries. A recent LMC International and ODI report (2011) estimates that the EU quota abolition in African, Caribbean and Pacific (ACP) countries could lead to an additional 200,000 poor people. Other proposed reforms, such as the redistribution of direct payments across EU Member States, seem not to have a big impact on developing countries.

3. Policies attempting to isolate domestic markets from the fluctuations of the world market price (such as the CAP) may further contribute to exacerbating world price volatility (Cantore et al., 2012a).

4. Proposals to green the CAP, when implemented in full, may represent an interesting trade opportunity for developing countries. Cantore (2012) suggests that greening measures for many commodities reduce the area harvested by European farmers. Management practices such as set-aside oblige farmers to reduce production. In the short to medium term, the reduction in production raises price-incentivising exports of farmers in developing countries (which may be using less intense farming production techniques). This effect is in addition to the environmental gains in terms of lower greenhouse gas emissions and the

avoidance of climate change damage, from which developing countries would also benefit in terms of development and growth.

The EC Communication on Trade, Growth and Development should therefore consider the following directions:

1. It should aim for a liberalised agriculture market in Europe abolishing subsidies for EU farmers which create market distortions. Funds diverted from support to EU farmers could be used to implement (agricultural) development programmes in the EU and developing countries consistently with the EU's PCD. In this way, the EU could meet its stated objective of meeting food security more efficiently than by supporting EU farmers.

2. Such a policy shift would require an unambiguous declaration by the EU that its priority for food security will not be achieved by paying subsidies to EU farmers but rather sustainable agriculture worldwide. Unfortunately, the current EU post-2013 CAP reform does not firmly propose a reduction of distortive agricultural policies, but in the multiannual financial framework, it is still possible to reduce spending on the CAP heading and allocate it towards other headings which can better achieve stated objectives.

3. Full compensation is necessary for developing countries in cases where EU policies harm developing country exports and growth. Losers from the EU sugar quota abolition in ACP countries would deserve compensation for short-term losses even though in the medium and long terms, quota abolition could bring benefits in terms of a reduction in price volatility and market distortions.

4. As greening helps in dealing with challenging global changes and reducing the risk of natural disasters in developing countries (declared in the EC Communication itself as a priority), European governments should work to endorse the greening proposals contained in the EC reform proposal. Unfortunately, in December, many European governments did not endorse these.

We note that the EC Communication on Trade, Growth and Development does not even mention the CAP. Of course, EU agricultural policies fall under the Directorate-General for Agriculture and Rural Development, but in the spirit of PCD, the CAP should be discussed.

For example, the EC indicates the elimination of import and non-import tariffs only for goods and services which may deliver environmental benefits, and not for all commodities. The EC Communication calls for 'better assessing the impact of trade initiatives on the EU and its trading partners, including developing countries', but it is silent on compensation mechanisms for developing countries in the case of EU policies damaging them. The EU is still some way from reaching real PCD.

References

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