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Overview of the EU Policies on Key ACP Commodities

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Introduction

Part of the Economic Partnership Agreement (EPA) negotiations between the European Union (EU) and the six African, Caribbean and Pacific (ACP) regions is the liberalisation of trade in agricultural products. Not covered in agreements in the World Trade Organization (WTO) until the Uruguay Round in 1994, trade in agriculture could become a very important aspect of EPAs. Since the EPAs are envisioned to provide for reciprocal free trade between the EU and the ACP regions for 'substantially all trade', arguably the trade regime of the EU with respect to the imports of agricultural products will have to be adjusted.

Currently, the EU has three regimes in place that govern imports from agricultural products from individual ACP countries: (i) the trade provisions of the Cotonou Agreement; (ii) the 'Everything but Arms' (EBA) initiative for LDCs; and the Generalised System of Preferences (GSP) applied to all developing countries. The first two regimes are most significant for ACP countries. Since 1975, special arrangements have been established for ACP exports of agricultural products falling under the EU Common Agricultural Policy (CAP), and agricultural products potentially competitive with products falling under the CAP. These special arrangements are applied at two levels for the ACP as a whole and for specific countries within the ACP and are laid out in annex V and Declaration XXII of the Cotonou Agreement and in a series of commodity-specific protocols: sugar, bananas, beef and veal. This chapter introduces the key features of the respective policy regimes for these three commodities.

Banana sector

The basic EU regime

The EU banana regime covers fresh and dried bananas (excluding plantains), frozen, provisionally preserved and prepared bananas, banana juice, and banana flour, meal and powder.

Within the EU, the banana-producing regions are the Canary Islands, Guadeloupe, Martinique, Madeira, Crete, Algarve (Portugal) and Lakonia (Greece). EU banana producers receive income support, subject to quality requirements, for production of up to 854,000 tonnes. Cyprus was also granted a guaranteed quantity of 13,500 tonnes following accession on 1 May, 2004. The compensation paid to EU banana farmers reflects the difference in price between EU-produced bananas and those that are imported.

In the period 1999–2001 the 15 member states of the EU consumed around 4 million tonnes of bananas per annum. Of these, approximately 0.75 million tonnes were produced within the EU, 0.72 million tonnes were imported from ACP countries, and 2.5 million tonnes supplied by countries in the 'dollar banana zone' (overwhelmingly Latin American countries, the leading suppliers being Ecuador, Costa Rica and Colombia) (see Table 1).

The total figure of close to 4 million tonnes was fairly constant from 1993 to 1999. In 1993, 3,951,000 tonnes of bananas were placed on the EU15 market, of which 644,000 tonnes were produced within the EU, 748,617 tonnes came from ACP countries, and 2,560,00 tonnes were imported from 'dollar producers'. In 1999 total consumption in the EU15 was 3,927,000 tonnes, with 729,000 produced in the EU15, 676,000 in the ACP, and 2,522,000 in 'dollar banana' producer countries.

[1] This chapter combines three *Commodity Executive Briefs* published by Agritrade (http://agritrade.cta.int),. More information on the trade aspects of (other) commodities can be found on that website.

Table 1. Banana supplies to the EU15: 1999-2001 (thousand tonnes)

	1999	2000	2001	2002	2003	2004
EU	729	782	767			
ACP	676	756	729	727	787	770
'Dollar bananas'		2,522	2,543	2,561		
Total	3,927	4,081	4,059			

Sources: Extracted from Table 2.2, Supplies of Bananas to the EU15, 1990–2002, from 'Banana exports from the Caribbean since 1992, Preliminary Report', National Economic Research Associates (NERA), 18 June, 2003. For 2002–04, Europa: Agricultural Trade Statistics, http://europa.eu.int/comm/agriculture/agrista/tradestats/index_trade.htm#parta3

Between 1999 and 2003 EU15 consumption rose by around 5%. On the eve of EU enlargement (2003) the ten new EU member states consumed 564,802 tonnes of banana, of which only 2% came from the ACP, with Caribbean bananas being virtually unknown in new EU member states.

Under the EU banana regime the establishment of producer organisations and associations is encouraged (there are currently 21), and assistance programmes are implemented by member states in collaboration with such organisations and associations within commonly agreed rules.

EU producers are eligible for a compensatory aid scheme currently amounting to €64.03 per 100kg of production, up to a maximum quantity of 867,500 tonnes. This maximum quantity is broken down by producer region as follows:

Canary Islands	420,000 tonnes
Guadeloupe	50,000 tonnes
Martinique	219,000 tonnes
Madeira, Azores and Algarve	50,000 tonnes
Crete and Lakonia	15,000 tonnes
Cyprus	13,500 tonnes

Internal expenditures in the banana sector between 1999 and 2003 averaged €249 million annually. In addition supplementary aid is available to EU banana producers when 'average production income was at least 10% below the average Community income'. In a context of price declines on the EU banana market this provision provides an important safety net to EU producers. Finally EU banana producers are also entitled to structural support in the framework of rural development measures. These programmes should promote any two of the following objectives:

- improvement in the preparation and marketing of products;
- greater competitiveness; and
- environmentally sensitive use of resources.

The stated aim of the EU banana regime is to organise the market in such a way that it will allow the Community market to 'receive satisfactory supplies of quality bananas at fair prices for producers and consumers and ensure a balance between the various sources of supply'.

This commitment to maintaining a balance between the various sources of supply has underpinned EC moves towards the tariff-only regime, which formed part of the final agreement to resolve the long-running banana dispute.

The importance of bananas

While previously there were twelve major ACP banana exporters, there are now some ten ACP countries with a significant stake in the banana trade with the EU. Traditionally the major source of supply was the Caribbean, where in a number of countries the banana sector constituted the heart of the economy and exports to the EU were central. Even with the changes that have occurred in ACP–EU banana relations since 1992 the banana sector remains vital to the economies of the Windward Islands (except Grenada) and Belize and constitutes a major agricultural sector in Jamaica, Surinam and the Dominican Republic.

While the banana trade with the EU has grown in importance for Cameroon and Côte d'Ivoire, the more diversified nature of their economies means that the banana sector, while an important agricultural sector, is overall less significant than for the Windward Islands (except Grenada), although more important than for Jamaica and the Dominican Republic (see Table 2).

Changing patterns of ACP banana exports

Since 1992 the geographical origin of ACP banana exports to the EU has changed substantially (see Table 3). Three major trends can be identified:

- a decline in the share of traditional Caribbean island suppliers (including Surinam but excluding Belize, a low-cost producer) falling from 52.3% of total ACP banana exports in 1992 to 16.3% in 2004;
- an increase in African banana exports from 37.4% of the ACP total in 1992 to 60.5% of total ACP banana exports in 2004; and
- an increase in exports of bananas from the Dominican Republic and Belize from 9.8% of total ACP banana exports in 1992 to 23.2% in 2004.

The traditional Windward Island producers, Grenada, Dominica, St Vincent and St Lucia, have seen their exports of bananas to the EU decline by 93%, 76%, 66% and 65% respectively. This has been compounded by volatile prices with a strong downward trend in recent years.

In contrast, the rise of African banana exporters has been quite dramatic, with Cameroon's exports increasing by 137% between 1992 and 2004 and those from Côte d'Ivoire increasing by 62%, raising their share of ACP banana exports by 62% (Somalia after an initial spurt of growth fell out of this trade in 1999 as a consequence of civil strife). This has increased the importance of the banana sector in Cameroon from the fifth most important sector, accounting for 6.2% of earnings from exports to the EU in 1992, to the third most important, accounting for 10.5% of such earnings in 2004. The costs of production in Côte d'Ivoire and Cameroon are low and comparable to the 'dollar banana' producers in Latin America.

The growth in African banana exports over this period however is more than matched by the rate of

Table 2. The importance of bananas for ACP economies (1997–2002 US$ thousands)

Country	Average annual total banana exports	Average annual banana exports to EU	Average annual total goods exports	Banana exports as % of total goods exports	Banana exports to EU as % total goods exports
St Lucia	26,196	21,755	62,437	42%	35%
Dominica	13,023	11,542	54,210	24%	21%
St Vincent	17,390	16,529	98,075	18%	17%
Belize	25,494	18,447	259,323	10%	7%
Surinam	21,457	19,243	539,967	4%	4%
Jamaica	29,202	22,894	1,339,323	2%	2%
Dominican Rep.	58,214	36,770	5,086,552	1%	1%
Grenada	133	125	56,158	0.2%	0.2%
Cameroon	45,119	45,119	1,770,163	3%	3%
Côte d'Ivoire	71,168	68,584	4,267,680	2%	2%

Source: Table 3, The importance of Latin American and ACP countries banana exports 1997-2002, in 'Forthcoming changes in the EU banana/sugar markets: a menu of options for an effective EU transitional package', ODI.
www.odi.org.uk/iedg/Projects/EU_banana_sugar_markets/SUGARreport.pdf

Table 3. ACP banana exports (tonnes): Selected years

	1992	1993	1994	1995	1996	...	2001	2002	2003	2004
Côte d'Ivoire	144,356	161,261	149,536	160,486	180,827	...	217,886	210,727	205,485	210,866
Cameroon	110,419	146,901	158,230	165,294	166,180	...	215,930	229,722	292,706	262,067
Somalia	181	501	4,634	21,734	25,121	...				
St Lucia	122,066	113,303	91,544	101,494	106,670	...	34,727	49,313	32,520	42,874
St Vincent	71,320	57,608	32,055	47,673	44,176	...	30,829	32,522	20,919	23,969
Dominica	51,606	52,699	43,117	33,437	39,307	...	18,062	17,802	10,823	12,401
Grenada	6,015	6,720	5,325	4,558	2,007	...	591	557	448	406
Jamaica	74,827	77,393	76,418	83,824	89,610	...	42,985	40,600	41,784	28,660
Surinam	29,950	28,001	32,739	28,988	27,160	...	28,731	6,557	...	19,277
Dom. Rep.	38,516	62,104	86,482	75,119	61,371	...	86,064	97,227	109,440	101,355
Belize	28,494	38,516	46,980	42,033	54,109	...	51,609	38,178	73,806	80,292
Total ACP	680,362	748,617	728,701	766,643	801,596	...	727,414	723,235	787,931	782,167

Source: For 1992–1996, 'External Trade of the European Union with the ACP Countries and OCTs 1992–1996'. For 2001–04 see http://europa.eu.int/comm/trade/issues/bilateral/regions/acp/stats.htm

growth in the volume of banana exports from Belize and the Dominican Republic, which increased by 182% and 163% respectively, increasing their share of ACP banana exports by 136%.

The socio-economic impact of change

From an economic and social perspective the most severely affected countries have been the Windward Islands. Their earnings from banana exports peaked in 1992 at US$146.1 million, and have shown a declining yet fluctuating trend since, falling to only US$46.1 million in 2002. (More recently a strengthening of the euro against the dollar will have raised these dollar-denominated earnings.) This has seen the contribution of bananas as a percentage of exports of goods and services fall from 22.1% in 1992 to 5.3% in 2002.

The decline in exports to the EU and associated earnings losses has seen the number of registered banana farmers (nearly all small-scale producers) fall from just over 24,000 in 1993 to just over 5,300 in 2003. Yet in Dominica, St Vincent and St Lucia the banana sector in 2000 still accounted for 68.2%, 45.5% and 23.4% respectively of rural employment and 26.6%, 29.5% and 18.8% respectively of total employment in these countries.

This demonstrates the limited progress made to date in developing alternative employment- and income-earning opportunities in these environmentally vulnerable and geographically remote banana-dependent economies, where 36,000 people continue to depend on the banana sector.

What is more it should be noted that the much smaller numbers now engaged in production, along with lower volumes and higher production costs than elsewhere in the ACP, and high transportation costs, are seriously threatening the future viability of the banana industry in the Windward Islands. Indeed this was the conclusion of a 2002 IMF report which noted that 'increased competition in the world market and uncertainties concerning preferential access to the EU have contributed to weak prices and lower farmers' confidence'. Overall it concluded 'recent developments in the international banana market have brought into question the viability of the industry'.

Similar questions have been raised about Jamaica's continued involvement in the banana-export trade, while Surinam's banana exports hit profound difficulties in 2002 with the bankruptcy of its banana-exporting company and it remains to be seen whether recovery is possible.

The old banana regime

The regime applied to ACP exports of bananas to the EU market since the establishment of the ACP–EU co-operation framework has undergone three significant changes. The first of these was in 1993, with the establishment of a single EU banana regime, in July, to replace the various national regimes which had been applied until then. This was necessitated by the creation of the single internal market in Europe which opened formerly protected national markets to increased competition, initially between ACP suppliers but subsequently from so-called 'dollar bananas'. This regime had a number of significant features:

- a duty-free quota of 857,000 tonnes for traditional ACP suppliers;
- a quota of 2,000,000 tonnes to cover non-traditional ACP countries and third countries (essentially dollar producers), with the former enjoying duty-free access and the latter subject to a duty of ECU100 per tonne;
- a licence system that distinguished between operators marketing EU-produced and ACP-produced bananas (Category 'B' licences), and established operators in the EU marketing non-traditional ACP bananas and dollar bananas (Category 'A' licences), with the former covering 30% of imports and the latter 66.5% of imports and the remainder (so-called category 'C' licences) being allocated to new operators marketing non-traditional ACP and dollar bananas; and
- an out-of-quota tariff on non-traditional ACP bananas of €750 per tonne and €850 per tonne on third-country quantities.

Almost from the outset this regime was subject to challenge by Latin American suppliers and aggrieved US-based banana companies, who felt discriminated against. The issue was first taken up in the GATT and subsequently the WTO, despite EU efforts to modify the system through expanding access for dollar bananas (first to 2.1 million tonnes and subsequently to 2.2 million tonnes) and reducing the duty (to ECU75 per tonne). In September 1997 the WTO dispute settlement board ruled in favour of the complainants, finding the EU in violation of WTO rules on about a dozen counts, particularly with reference to the agreement on import-licensing procedures. The EU was granted 15 months to comply with its WTO obligations. A deadline for amending the regime was set for the end of 1998.

This led to the second modification of the banana import regime in 1998. The principal elements involved:

- a tariff quota of 2.553 million tonnes; this figure included an autonomous quota of 353,000 tonnes given in 1995 to cover increased imports following EU enlargement. The quota specified quantities for Ecuador, Costa Rica, Colombia and Panama;
- the removal of country-specific allocations under the traditional ACP quota; and
- the abolition of the operator categories set out in the original regime.

This latter measure involved the abandonment of the division of operators in the sector by category and function and their replacement by a single division into 'traditional operators' and 'newcomers'. The latter were to be allocated a larger share of the tariff quota (8%, up from 3.5%). Traditional operators were defined based on actual imports. Licences could be used for both dollar and ACP bananas.

However, some parties to the dispute were still dissatisfied. Ecuador asked for the WTO to reconsider the case and the USA threatened the unilateral imposition of trade sanctions. For its part the EU asked the WTO to rule on the new regime. On 6 April, 1999 the WTO delivered its verdict. It found that the new revised regime was still inconsistent with WTO rules. This ruling prompted the subsequent application of sanctions for non-compliance, with the USA introducing sanctions on EU exports totalling US$191.4 million.

The EU decided not to appeal against the ruling, and set about reforming its regime yet again. Discussions were held with the USA among others, and agreement was reached in April 2001. This gave rise to the 2001 reform to the EU banana regime, which involved a two-stage process of reform and the establishment of three tariff quotas:

Bananas and EU enlargement

With dollar bananas dominating the market of new EU member states, transitional arrangements were put in place following the accession of ten new member states on 1 May, 2004 permitting the import of an additional 300,000 tonnes of bananas to 31 December, 2004 at a tariff rate of €75 per tonne. This largely maintained the *status quo* with reference to dollar banana exports to new member states and effectively prevented ACP suppliers from capitalising on the 13% expansion of the EU banana market.

- Quota 'A': 2,200,000 tonnes at the rate of €75 per tonne;
- Quota 'B': 453,000 tonnes at the rate of €75 per tonne; and
- Quota 'C': 750,000 tonnes at the rate of €0 per tonne.

While quota 'C' was reserved for ACP operators, 'A' and 'B' quotas were nominally open to bananas from any origin. Imports outside of these quotas were subject to a customs duty of €680 per tonne, except for the ACP countries, which benefit from a tariff preference of €300 per tonne. Some 83% of 'A' and 'B' quotas were allocated to 'traditional operators' and 17% to 'newcomers'. Under the 'C' quota 89% were allocated to traditional operators and 11% to 'newcomers'.

This quota system was to be transitional, however, with the establishment of a tariff-only system by 1 January, 2006 at the latest. This led to often heated discussions over the level of flat-rate tariff to be applied under a tariff-only system.

The move to the tariff-only regime

On 2 June, 2004 the Commission proposed to the Council that negotiations should be opened with Latin American suppliers and others to establish the new tariff-only regime. In so doing the then Agriculture Commissioner, Franz Fischler, is reported to have said: 'We are now moving to the final phase of our agreement and replacing the complex quota system by a simple tariff system. What will change is the import regime, not the level of protection. If our member states agree, the Commission will negotiate an adequate tariff level. We will have to square the circle and safeguard the sometimes conflicting interests of our consumers, producers and trading partners'.

Informal discussions were held with Ecuador at the beginning of October 2004 and on 23 October Pascal Lamy, the then Trade Commissioner, proposed a tariff of €230 per tonne at the ACP–EU ministerial trade committee meeting in Brussels. This figure, he is reported to have said, was arrived at after 'complex calculations' and represented a tariff 'which is equal and will maintain market access to the EU for banana-producing countries'. He further added: 'I know that some ACP countries will think that this amount is too low, while the Latin American countries will think it too high. I am not surprised by this – this is the way negotiations go. I wanted to announce this figure today given the deadlines that are looming, however this figure was just put on the table as a basis for negotiations and these negotiations will continue'.

The immediate reaction was as predicted. The ACP thought the tariff was too low and would 'seriously affect' many members of the ACP group. They favoured a tariff of €275 per tonne, a level that initial EC assessments had suggested would ensure that overall price formation on the EU market would be similar to the present one and that as a consequence the ACP would maintain their position, while some individual ACP countries would lose out within the group.

Latin American suppliers, in contrast, felt that the tariff was too high and should be no higher than €40 per tonne. Initial EC assessments, however, suggested that with such a tariff level market prices would fall and consumption would increase, while ACP suppliers from the Caribbean would be uncompetitive, although some suppliers from Africa would continue. Latin American suppliers indicated that they would appeal against the EC proposal at the WTO.

On 31 January, 2005 the EC notified the WTO of the level of duty to be applied under its new tariff-

Box 2. Assessments of the impact of different tariffs

EC scenarios[2]

Scenario I (€75 per tonne)
Market prices would fall and consumption would increase. ACP supplies from the Caribbean would be uncompetitive, although some supplies from Africa would continue.

Scenario II (€175 per tonne)
Market prices would fall and consumption would increase, though less than in Scenario I. ACP supplies would still be less competitive and their exports would fall.

Scenario III (€275 per tonne)
Whilst the competitive position of individual ACP suppliers would vary, the overall price formation on the EU market would be similar to the present one.

Scenario IV (€375 per tonne)
Market prices would increase and consumption would fall. All ACP suppliers would be competitive and the Latin American share would fall.

UK DFID tariff-equivalence calculation

This study attempted to calculate a 'tariff equivalent' that would replicate the conditions prevailing under the old regime. It arrived at a figure in the range of €197–259 per tonne (or higher if transportation costs from Caribbean producers were to be included). At this level the Caribbean supply would be maintained but Latin American producers might lose market share to lower cost African ACP producers. Lower tariffs would lead to lower prices and greater competition with severe consequences for Jamaican and Windward Island producers. A tariff of €75 per tonne would almost certainly spell the end of production for export from these countries.

FAO study

An FAO study finds that at a tariff of €75 per tonne EU prices in 2006 would fall by 20% and EU import volumes grow by 13%; at €200 per tonne prices fall by 10% and import volumes grow by 3%; and at €300 per tonne EU banana imports remain unchanged.

only system, with the level being set at €230 per tonne. According to EC statements at the time this should 'preserve the current levels of market access'. Following this formal notification on 30 March, 2005 Latin American suppliers launched a challenge in the WTO to the proposed tariff, requesting arbitration. There was concern that the EC proposals would 'result in a tripling of tariffs on their produce and would undermine their market share in Europe'.

On 1 August, 2005 the WTO arbitration award was announced. It held that the proposed EU tariff level for bananas 'would not result in at least maintaining total market access' for Latin American suppliers; it thereby upheld the appeal of the Latin American banana suppliers. ACP banana-exporting countries immediately expressed 'concern about the marginalisation of vulnerable economies from global trade', as a result of the WTO process. They were highly critical of the limited access they had enjoyed to the arbitration process, and the absence of due consideration for their concerns. The ACP group maintained that the ruling undermined 'the very fabric of the ACP–EU banana trade', and argued that the ruling would completely exclude the ACP producers from their sole export market. The EC for its part committed itself to carefully studying the ruling to examine the available options.

On 12 September, 2005 the EC came up with its response: a proposal for a flat-rate tariff of €187 per tonne. This, the EC felt, 'maintains an equivalent level of preferences for ACP bananas'. Consultations were then launched with Latin American suppliers over this proposal, since they had announced themselves deeply unhappy with it. The ACP for their part expressed concern over this level, which they feared would only exacerbate the decline in the market share of Caribbean banana already underway.

Consultations with Latin American suppliers proved fruitless and on 26 September, 2005 the EC itself took the case back to the WTO for further arbitration. On 28 October, 2005 the WTO arbitrator rejected the EU case and ruled in favour of Latin

American suppliers. This resulted in the EC once more revising the level of the proposed flat-rate tariff designed to 'maintain the same level of protection and preference for African Caribbean and Pacific countries as the existing regime provides', lowering it to €176 per tonne. The flat-rate tariff was eventually introduced from 1 January, 2006.

Background to the tariff-only debate: The evolution of ACP market shares

The concerns expressed about the new flat-rate tariff to be established need to be seen against the background of changing patterns of supply of bananas to the EU market from ACP countries. A 2004 report by National Economic Research Associates on Caribbean banana exports to the EU since 1992 highlighted:

- the large overall fall in the volume of Caribbean banana exports to the EU, which was universal except for one supplier;
- substantial falls in the tonnages of Caribbean exports to the traditional UK market (down from 360,000 in 1993 to 178,000 tonnes in 2002,

Table 4. Evolution of the banana-tariff proposal

Chronology	What was said at the time
June 2004 Opening of negotiations with Latin American suppliers on level of flat tariff to be applied under a tariff-only system. **October 2004** Informal discussions held with Latin Americans. **27 October, 2004** €230 per tonne tariff is announced. **31 January, 2005** €230 per tonne tariff officially notified to the WTO.	The EC's objective is to 'maintain the same level of protection and preference for African Caribbean and Pacific countries as the existing regime provides'. Press release IP/04/707-02/06/2004 According to Commissioner Lamy this tariff 'would keep market shares steady and maintain market access to the EU'. ICTSD (Vol. 8, No. 37, 3 November 2004) 'The EC will maintain a preference for African, Caribbean and Pacific countries in a manner respecting entirely the EU's obligations and commitments towards all interested parties.' Press release IP/05/118-31/01/2006
30 March, 2005 Latin Americans launch an official challenge in the WTO and go to arbitration. **1 August, 2005** WTO arbitration rules in favour of Latin American banana suppliers. **12 September, 2005** New EC proposal for a tariff of €187 per tonne put forward. Consultations with Latin American banana suppliers. **26 September, 2005** EU requests second WTO arbitration.	'The EU banana regime is changing but the level of protection is not increasing ... I believe this figure and methodology has allowed us to square the circle and safeguard the sometimes conflicting interests of our consumers, producers and trading partners.' Mariann Fischer Boel, press release IP/05/377-31/03/2005 'The tariff proposed by the EU was designed to be a neutral and fair conversion that would maintain current market access for all banana suppliers to the EC.' Peter Mandelson, press release IP/05/1030-02/08/2005 'The Commission's new proposal confirms Europe's commitment to ending this longstanding dispute. We have been careful to ensure that preferential access for our ACP partners is maintained.' Peter Mandelson, press release IP/05/1127-12/09/2005
27 October, 2005 WTO arbitrator rejects EU proposal for a tariff of €187/tonne.	'We are surprised and disappointed that the arbitrators did not back our proposal. We believe that the system we proposed would have maintained access to our markets in a fair manner. Mariann Fischer Boel, press release IP05/1359-27/10/2005
December 2005 EC announces a tariff of €176 per tonne. **1 January, 2006** New flat-rate tariff of €176 per tonne enters into force.	'This is a fair and balanced result for everyone, which will fully maintain access for Latin American producers while continuing to take into account EU and ACP producers.' Mariann Fischer Boel, press release IP/05/1493- 29 November, 2005

despite an expansion of total UK imports from 470,000 to 833,000 tonnes);

- falling export values (fob) which indicate major reductions in growers' incomes;
- the complete cessation of exports from Surinam and near cessation from Grenada;
- substantial reductions in the numbers of growers, and acreages under cultivation;
- the strong downward trend in both retail and producer prices, with significant falls over the period in real terms; and
- the persistent nature of these trends.

The report identified three factors contributing to this trend:

- the expansion of quotas for third-country and non-traditional ACP imports;
- the ending of the category 'B' licences for traditional ACP importers; and
- the movement from individual quotas to an overall ACP quota.

The report noted that the movement away from country-specific quotas has led to 'substantial increases in production and exports from some of the lower cost ACP countries'. While Caribbean exports had fallen by 52% (except for Belize and the non-traditional supplier the Dominican Republic) exports from Côte d'Ivoire and Cameroon have risen by 122% and 194% respectively.

Overall the report concluded that 'prima facie, the evidence suggests that the regime has offered progressively less protection to the most vulnerable producers, with the result that they have suffered the consequences of falling prices for their production and loss of market share to lower-cost producers ... for many individual Caribbean countries that have traditionally exported to the UK the extent of the decline, whether measured in terms of the prices available to their growers or in terms of their production, has been severe. For these countries, the regime has clearly not been successful in ensuring the continuing viability of their banana exports'.

It is against this background that the National Economic Research Associates report cited an IMF study on St Vincent which concluded: 'the viability of the industry is now in serious question post 2005'.

This IMF view would appear to be upheld by recent simulations undertaken in the Caribbean. These simulations suggested that at a tariff of €200 per tonne declines in export volumes of 74% for St Vincent, 53% for St Lucia, 50% for Jamaica and 21% for Belize would be likely. From a Caribbean perspective the impact of such declines in banana exports would stretch beyond the realm of foreign-exchange earnings and job losses, to include 'disastrous effects on entire communities'.

It is against this background that ACP concerns over the establishment of the new flat-rate tariff of €176 per tonne need to be seen.

The new banana import regime

The new banana import regime that entered into force on 1 January, 2006 establishes a flat-rate tariff of €176 per tonne for bananas imported from 'most-favoured nation' suppliers and an annual import quota of 775,000 tonnes subject to a zero-duty rate for ACP bananas. The explicit objective of this tariff remained the maintenance of the existing market position of various suppliers. ACP suppliers objected to the tariff as too low, Latin American suppliers remain convinced that it was too high. The EU for its part is set on continuing to apply the tariff and monitoring the market changes, with a view to adjusting the tariff should the objective of maintaining the existing market position not be achieved through the new system. Given trends in market share between ACP banana suppliers, which have seen the share of traditional Caribbean suppliers falling from 384,278 tonnes (56.5%) in 1992 to only 207,879 tonnes (26.6%) in 2004, the question arises: what does the EU policy objective mean in practice? Is the aim to maintain current market shares and thus halt this trend? Or is the aim to allow this trend to continue, with the share of Windward Island banana exporters continuing to fall?

A key issue in determining the outcome of the new flat-rate tariff in terms of intra-ACP market shares. will be how the system established for the management of the import licences will operate in practice and the impact this will have on individual

Box 3. Operation of the 'first-come first-served' system

Upon arrival the operator requests treatment under first-come first-served, uses an existing licence, or requests MFN treatment. The request is sent to the EC for processing two working days after receipt. Bananas are discharged upon arrival but the operators will only know the treatment accorded two days later, so a bank guarantee has to be lodged.

If the first-come first-served quota is about to be reached, a pro rata reduction will be applied to all requests from member states' customs authorities. If duty-free treatment cannot be accorded as the bi-monthly first-come first-served quota has been fulfilled, the operator submits a new declaration requesting another customs treatment.

The status of the quota can be followed on the website http://europa.eu.int/comm/taxation_customs/dds/en/qothome.htm.

ACP countries' shares of the EU market. For the period January and February 2006 some 160,000 tonnes of the 775,000-tonne tariff rate quota were to be allocated, 135,000 tonnes for traditional and non-traditional operators and 25,000 tonnes for operators having imported bananas under the old A/B quota or the enlargement quota.

From March to December 2006 the ACP quota will be managed on the basis of an allocation of 40% of licences to traditional operators and the allocation of the remainder on a 'first-come first-served' basis. A further phasing-in of the 'first-come first-served' quota system is envisaged for 2007, based on an analysis of the operation of the system over a few months of its operation. It has been suggested by senior EC trade officials that the 'first-come first-served' system will be further extended in 2007 and will be used exclusively in 2008. However, other DG trade officials have denied this intention.

According to an analysis by FRUITROP, a key factor in the future evolution of market shares will be access to the reefer fleet. Whoever has access to maritime transportation will be able to expand supplies. Recently world reefer capacity has decreased by around 12.5%, despite growing demand. This has pushed up freight charges. Indeed, in 2003 freight prices were the highest in seven years, while spot market prices were 20–25% higher than in 2002. Compounded by high oil prices these trends have continued and will continue. This will put further pressure on traditional Caribbean banana producers, particularly in the Windward Islands, should the new EU system result in further downward pressure on wholesale prices for bananas.

EU assistance for restructuring in the ACP

The EU acknowledged that on completion of the single internal market in Europe some difficulties would be created for traditional banana suppliers, particularly those in the Caribbean. In 1994 therefore, the EU passed a regulation (2686/94) providing for a special system of assistance (SSA) to help ACP banana suppliers to restructure to meet the challenge of improved access for non-ACP suppliers. The assumption underlying the regulation was that all ACP countries producing bananas could become competitive exporters. However the February 2000 report 'Evaluation of EU assistance to ACP banana producers' reached the conclusion that this assumption was never realistic since only Côte d'Ivoire and Cameroon 'among ACP countries have any realistic possibility of competing on costs with Costa Rica or Ecuador'. In all, some €75 million was committed.

Box 4. Impact of a €175 tariff

According to the 2004 NERA/OPM study a tariff-only system with a tariff of €175 per tonne would see a 16.2% decline in the EU banana price, which would result in the termination of banana exports from St Vincent, the probable ending of banana exports from Dominica, a 77.5% decline in banana exports from St Lucia, a 56.5% fall in banana exports from Jamaica, and a 22.1% fall in banana exports from Belize.

In 1999 the SSA was replaced by a 'special framework of assistance' (856/1999) which was to last ten years. This promised greater levels of funding (€45 million per annum) and a wider remit to include the promotion of diversification as well as support for competitiveness. There has been criticism that the 'special framework for assistance' was still tending to support programmes in the banana sector in countries that have only limited potential to be competitive and that insufficient attention was being paid to diversification. As a consequence in 2002 some 64% of funds allocated were directed toward diversification compared to 12% in 1999. This reflected the conclusions of the February 2000 evaluation, which emphasised the need for support for diversification rather than restructuring, given the competitiveness challenges facing traditional Caribbean banana suppliers. However, most of these projects have been small-scale pilot projects which highlight the difficulties faced in promoting diversification in the particularly difficult environmental (periodic hurricanes) and geographical circumstances faced in the Windward Islands.

With EU-financed interventions proving insufficient so far to address the competitiveness gap (Windward Island production costs are three times those of Ecuador, due to higher wages paid to growers and higher transportation costs) the outlook for Windward Islands banana exports under a tariff-only 'first-come, first-served' system looks rather bleak. Since 2004 the level of assistance provided has been reduced by 15% per annum, in line with the initial regulation.

In this context, a number of questions hang over the future of EU assistance to banana-dependent ACP economies. Firstly, how will a scheme for the allocation of funding based on an evolving measurement of the 'competitiveness gap' respond to the new market situation created by the 'first-come first-served' import-management system? In addition, with evaluations of the current scheme focusing on the failures to get to grips with the diversification challenge, how is the EU likely to redesign its aid-deployment system to deal with the challenges thrown up in the banana sector?

Currently it would appear that the EC wishes to place far greater emphasis on budget support to Caribbean banana-dependent economies with this

Table 5. Annual commitments under the special framework for assistance (€ millions)

	1999	2000	2001	2002	2003
Belize	3.10	3.10	3.40	3.50	6.20
Dominica	6.50	6.50	6.70	6.40	5.90
Grenada	1.00	0.50	0.50	0.50	0.50
Jamaica	5.30	5.30	5.00	4.70	4.40
St Lucia	8.50	8.88	9.20	8.80	8.00
St Vincent	6.10	6.45	6.40	6.10	5.60
Suriname	3.10	2.70	2.70	2.50	2.20
Sub-Total	**33.60**	**33.43**	**33.90**	**32.50**	**29.80**
Cameroon	6.2	5.7	5.60	5.1	–
Ivory Coast	4.7	4.35	2.85	2.6	–
Somalia	–	–	0.60	2.8	–
Madagascar	–	–	–	0.5	5.00
Cape Verde	–	0.6	–	0.5	–

Source: Europeaid website: http://europa.eu.int/comm/europeaid/projects/edf_en.htm#this_page and 'Forthcoming changes in the EU banana/sugar markets: a menu of options for an effective EU transitional package', ODI, London, www.odi.org.uk/iedg/Projects/EU_banana_sugar_markets/SUGARreport.pdf

Table 6. Annual commitments under the special framework for assistance (€ millions)

	1999	2000	2001	2002	2003
Belize	3.10	3.10	3.45	3.50	6.20
Dominica	6.50	6.50	6.70	6.40	5.90
Grenada	1.00	0.50	0.50	0.50	0.50
Jamaica	5.30	5.30	5.00	4.70	4.40
St Lucia	8.50	8.88	9.20	8.80	8.00
St Vincent	6.10	6.45	6.40	6.10	5.60
Suriname	3.10	2.70	2.70	2.50	2.20
Sub-Total	**33.60**	**33.43**	**33.85**	**32.50**	**29.80**
Cameroon			5.60	5.1	
Côte d'Ivoire			2.85	2.6	
Somalia			0.60	2.8	
Madagascar				0.5	5.00

Source: Europeaid website: http://europa.eu.int/comm/europeaid/projects/edf_en.htm#this_page
and 'Forthcoming changes in the EU banana/sugar markets: A menu of options for an effective EU transitional package', ODI, www.odi.org.uk/iedg/Projects/EU_banana_sugar_markets/SUGARreport.pdf

being linked to the implementation of public-policy reforms, designed to open up economic activities to the free flow of capital, goods and services. In this context support for banana-related adjustment is likely to be increasingly merged with general EU support to economic adjustments linked to the implementation of liberalisation measures being brought together under the EPA negotiations.

Sugar sector

The revised EU sugar regime

The reform of the EU sugar regime, while initiating major changes in line with the general process of CAP reform, has retained many of the elements of the basic structure of the sugar regime established in 1968:

- Prices are still established administratively rather than by the market, albeit at a level which, within four years, will be 36% lower than the current prevailing price level.
- There are still quotas on production.
- A system of levies remains in place, although this has the changed function of supporting industry restructuring during the transitional period rather than supporting sugar exports.
- Intervention buying will remain in place for four years, after which it will be replaced by a floor price and support for private storage.
- A regulated import regime will remain in place.
- Although an export regime remains, it is being fundamentally restructured to bring it into line with WTO panel rulings on the EU's WTO export obligations.

In addition to these basic elements, which have been retained in modified form, some new elements have been introduced, notably:

- direct aid payments to EU sugarbeet farmers to compensate for the reductions in the sugar price;
- a 'voluntary' restructuring scheme for beet processors wishing to leave the industry; and
- the opening up of the possibility of using non-quota sugar in the chemical and pharmaceutical industries as well as for bio-fuel development.

In November 2005 the following specific measures were introduced:

- A 36% reduction in the guaranteed price for white sugar for four years, beginning in the 2006/07 season.
- The introduction of compensation to sugarbeet farmers 'at an average of 64.2% of the price cut', through a 'decoupled' payment linked to 'cross compliance' which will form part of the 'single-farm payment scheme'.
- The payment of an additional 'coupled payment' equivalent to 30% of the price cut for a transitional period of five years plus the possible payment of 'limited national aid', but only for 'countries which give up more than half of their production quota'.
- The establishment of a 'voluntary restructuring scheme lasting four years for EU sugar factories and isoglucose and insulin producers, consisting of a payment to encourage factory closure and the renunciation of quotas'. The aim of the restructuring fund is to: 'encourage less competitive producers to leave the industry'; finance social and environmental adjustment costs, and provide funds to most affected regions to diversify. Payments will be €730 per tonne in the first two years, falling to €625 in year three and €520 in year four.
- The funding of restructuring measures through a special levy placed on remaining quota holders over three years of the transition.
- The introduction of the scope to use restructuring funds to compensate beet producers affected by factory closures (reportedly up to 10% of the amount).
- The establishment of a 'diversification fund for member states where the quota taken up is reduced by a minimum amount, with diversification funds increasing the more the quota is renounced'.
- The merging of the 'A' and 'B' quotas.
- A provision for the use of non-quota sugar in the 'chemical and pharmaceutical industries and for the production of bio-ethanol'.
- The maintenance of the intervention agency during the four-year transition period followed by 'the introduction of a private storage system as a safety net in case the market price falls below the reference price'.
- The allocation of an additional quota of 1.1 million tonnes to 'C' sugar-producing countries against 'a one-off payment corresponding to the amount of restructuring aid per tonne in the first year'.
- An increase in the isoglucose quota of 300,000 tonnes for existing companies, phased in over three years.
- The possible purchase by Italy (60,000 tonnes), Sweden (35,000 tonnes) and Lithuania (8,000 tonnes) of extra isoglucose quota at the restructuring aid price.

The detailed modalities for the implementation of the reforms have yet to be agreed. It is expected that by the end of February or the beginning of March of 2006 a full legal text of the reform measures will be produced and adopted by the EU Council. Following approval by the European Parliament and the drafting of implementation rules, the new sugar regime will be able to enter into force from 1 July, 2006. The first year of application of the new regime will run for 15 months, after which the sugar-marketing year will run from October to September.

The EU export regime

According to the Agriculture Commissioner, Mariann Fischer Boel, the agreed reform package will 'bolster the competitiveness of the EU sugar industry, improve its market orientation and produce a sustainable market balance in line with the EU's international commitments. ... This agreement will also ensure that we come rapidly into line with the recent WTO panel'.

Following the WTO panel rulings and subsequent appeals decisions the EU will be limited to the WTO ceiling of 1,273,500 tonnes of exports supported by €499.1 million in financial support. The EU will no longer be allowed to export an amount equivalent to 'ACP and Indian imports into the EU under preferential arrangements' and will have to desist from the sale of 'C' sugar onto world markets.

However the reform measures do open up a new outlet for 'C' sugar production through the provision for the use of non-quota sugar in the production of chemical and pharmaceutical products and in biofuel development. As the chemical and pharmaceutical component of this market currently takes around 500,000 tonnes of sugar per annum, an expansion of this market and the intensified development of bio-ethanol production based on sugar (with public assistance through tax breaks and other financial incentives), could provide a domestic outlet for future surplus 'C' sugar and accumulated EU sugar stocks, which by the end of 2005 were projected to have reached 1 million tonnes.

This measure could avert a sudden upsurge of EU sugar exports, prior to compliance with the more narrowly interpreted version of the EU's WTO commitments. It will certainly free up elements of the 'non-annex 1' budget currently deployed in support of sugar-containing chemical and pharmaceutical products, for deployment in support of other sugar-containing food-product exports. This is a further vehicle through which EU sugar exports will take place.

With the process of price reduction closing the gap between EU and world market prices, EU financial allocations to export refunds on the raw-material content of value-added products will be able to finance a much larger volume of exports (slightly more than twice the current volume of sugar-containing products) with the same level of export refunds (currently frozen at €415 million per annum under the WTO agreement). If, as seems likely, the elimination of export refunds on the raw-material content of value-added food products is 'back-loaded' in the EU's final offer on export subsidies under the Doha Round, then during the transition period up to 2013 a substantial expansion of EU exports in sugar-containing food products is likely to occur as a result of EU sugar-sector reform.

According to the analysis of the United States Department of Agriculture (USDA) the net result of EU sugar-sector reform by 2011 will be a reduction of sugar production by 'between one-quarter and one-third from roughly 20 million tonnes today to perhaps 13 to 15 million tones', with the EU ceasing to be a major exporter and becoming a net importer.

The EU import regime: Implications of reform

The USDA in its review of EU sugar-sector reform has pointed out that 'starting in July 2006, the new EU sugar regime will still require significant levels of border protection, with no substantial non-preferential imports of sugar into the EU expected in the near future'. This is particularly likely to be the case if the EU secures special treatment for sugar under any WTO agreement on agriculture. This would see the EU retain special safeguard measures.

Table 7. ACP SPS access

	SPS quotas (tonnes W.S.E.)
Barbados	2,841.2
Belize	4,985.2
Congo	2,519.2
Cote d'Ivoire	10,000.0
Fiji	19,181.8
Guyana	19,931.7
Jamaica	15,926.8
Kenya	11,023.4
Madagascar	2,550.0
Malawi	10,000.0
Mauritius	41,980.1
St Kitts & Nevis	1,831.3
Swaziland	30,000.0
Tanzania, United Rep of	2,485.9
Trinidad & Tobago	5,592.2
Zambia	12,731.5
Zimbabwe	25,000.0
Total	**215,580.3**

Formally the EU reform measures do not affect the preferential import arrangements that are in place. India will continue to enjoy its 10,000 tonnes of duty-free access to the EU market. The EU's Balkan neighbours will continue to enjoy duty-free access and existing MFN commitments will continue to be honoured. The ACP, for its part, will continue to enjoy duty-free access for the tonnages agreed under the sugar protocol (1,294,700 tonnes), while LDCs will continue to enjoy progressively expanded quota-restricted duty-free access until 2009, after which full duty-free access will be granted. The implementation of the EBA initiative will, however, reduce the tonnages which non-LDC ACP countries can export under the Special Preferential Sugar arrangement to a point where by 2009 no such exports take place. This will constitute a serious loss of preferential access for a number of low-cost ACP non-LDC sugar suppliers, most notably Zimbabwe, Swaziland, Guyana and Fiji, where SPS is equivalent to 45%, 20%, 11% and 10% respectively of their total preferential access to the EU market.

As a result of the reforms however, all sugar imports into the EU will be subject to income losses as internal EU prices are reduced in line with the agreed reform schedule. The first ACP countries to experience losses will be the sugar-protocol beneficiaries, since raw sugar prices will be reduced from the 2006/07 season by an amount equivalent to the refining aid paid to EU cane sugar refiners (–5.1%). EBA and SPS suppliers will not be affected by this measure, since the price they receive is not supported by refining to EU cane refiners. EBA and SPS sugar exporters will only be affected by the price reductions introduced in 2008/09 and 2009/10, when prices traditionally received for these sugar exports will fall by 12.6% and 32.6%.

For EBA sugar exporters, however, according to a USDA analysis 'the new sugar reforms introduce a measure to 'review' EBA sugar exports to the EU should they increase by more than 25% year on year. A review would enable the EU to impose restrictions or even withdraw the EBA import concessions for sugar, although the Commission continues to be careful in its language on this issue as there is unlikely to be much political support at the moment for restricting LDC export opportunities to the EU'. Indeed, EC spokespeople have sought to reassure LDC suppliers that such safeguard measures will only be invoked where there is evidence of 'triangular' trading of sugar destined for the EU.

Table 8. Impact of EU sugar-sector reform

Million tonnes	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	18.7	15.3	14.7	13.7	12.9	12.9
Carry-over	0.7	0.7	0.7	0.7	0.7	0.7
Quota 15.5	15.1	14.0	13.0	12.2	12.2	
'C' sugar	3.2	0.2	0.7	0.7	0.7	0.7
Imports	1.9	1.9	2.2	2.3	3.1	3.1
Total available	**19.6**	**17.7**	**16.9**	**16.0**	**16.0**	**16.0**
Subsidised exports	2.8	1.3	1.3	0.0	0.0	0.0
Consumption	15.6	15.6	15.6	16.0	16.0	16.0
Balance	4.4	1.0	0.7	0.7	0.7	0.7
Carry-over	0.7	0.7	0.7	0.7	0.7	0.7
'C' exports	3.7	0.3	0	0	0	0
Imports						
ACP protocol	1.3	1.3	1.3	1.3	1.3	1.3
ACP (SPS)	0.1	0.1	0.1	0.1	0.1	0.0
LDC	0.1	0.1	0.4	0.5	1.4	1.5
MFN	0.1	0.1	0.1	0.1	0.1	0.1
Balkans	0.3	0.3	0.3	0.3	0.3	0.3
Total imports	1.9	1.9	2.2	2.3	3.1	3.1

Source: USDA GAIN Report E35225-30/11/2005, www.fas.usda.gov/gainfiles/200512/146131717.pdft

Agriculture Commissioner Mariann Fischer Boel has pointed out that 'developing countries will continue to enjoy preferential access to the EU market at attractive prices'. According to the USDA 'The reforms are expected to leave the EU sugar price at roughly double world market prices compared to currently being over triple world prices'. With current world market prices and exchange rates this would appear to be something of an exaggeration, with EU post-reform sugar prices being only around 40% above the world market price. Nevertheless for low-cost ACP sugar producers the EU market will remain more attractively priced than the world market. However, in a number of ACP regions, sugar prices on neighbouring markets will prove more attractive that EU sugar prices and this will have an impact on the volume of sugar exported from these regions to the EU.

Table 9. An alternative take on future imports: EC projections of sources of imports under sugar-sector reform (million tonnes)

	Base year	2012/13 (Post reform)
ACP/India	1.3	1.3
EBA/SPS	0.2	2.2
MFN	0.1	0.1
Western Balkans	0.3	0.3
Total	1.9[4]	3.9

Source: Extracted from 'Reforming the European Union's Sugar Policy: Update of Impact Assessment (SEC, 2003) 1022', Table 4, Commission Staff Working Paper, Brussels, SEC (2005).

Review of implications of reform for the ACP

The direct impact

For the ACP the most important of the agreed reform measures is the reduction in the EU sugar price. According to the EC press release 'the guaranteed price for white sugar will be cut 36% over four years', beginning in the 2006/07 season. The press release indicates that this will involve a cut of '20% in year one, 25% in year two, 30% in year three and 36% in year four'. However, analysts show that these cuts refer to the net earnings of EU beet farmers and refiners, and are inclusive of the restructuring levy payments that they must make. Thus the reference price follows a slightly different course of price reductions, remaining at €613.9/tonne through the 2007/08 season before falling by 17.1% to €524 in 2008/09 and a total of 36% in 2009/10 to €404.4/tonne. This translates into price cuts for ACP raw sugar as set out in the table below:

Table 10. Changes in prices for ACP raw sugar

Year	Price per tonne	% change (cumulative)
Current regime	€523.7	0
2006/07	€496.8	-5.1%
2007/08	€496.8	- 5.1%
2008/09	€434.1	-17.1%
2009/10	€335.0	-36.0%

In this context, in the first two years of reform the only price cut that ACP suppliers face will be that equivalent to the loss of the refining aid formerly paid from the EU budget to EU cane refiners. In this context the ACP as a whole will face the following income losses on their exports under the sugar protocol (Table 11).

These losses may be broken down by ACP sugar-protocol beneficiaries as in Table 12. This neglects the losses to those ACP countries that have or will abandon sugar production entirely as a result of the price cuts (e.g. St Kitts & Nevis). To these losses from 2008/09 onwards need to be added the losses suffered by SPS sugar suppliers and ACP EBA sugar exporters. Assuming a total supply from both sources of 200,000 tonnes, this would amount to losses of €12.4 million in 2008/09 and €32.4 million from 2009/10 onwards.

In the short term the reform measures as adopted by the EU Council of Ministers do represent a significant 'saving' for ACP countries compared to the losses that would have arisen under the initial EC proposals (minus €430 million compared to minus €661 million). Effectively, when compared to the initial proposals, the final agreed reform programme 'saves' the ACP some €231.2 million (about €57.8 million per annum) over the first four years of the reform period. This represents a reduction in losses

Table 11. Losses on ACP sugar-protocol earnings from final agreed EU sugar reforms

Year	Raw price €/t	Tonnage	Earnings (€)	Losses (€)
2005/06	523.7	1,294,700	678,034,390	0
2006/07	496.8	1,294,700	643,206,960	−34,827,430
2007/08	496.8	1,294,700	643,206,960	−34,827,430
2008/09	434.1	1,294,700	562,029,270	−116,005,120
2009/10	335.0	1,294,700	433,724,500	−244,309,800
Total 2006–10				**−429,969,780**

Table 12. Losses by ACP sugar-protocol beneficiary countries only*

	Sugar-protocol quota (tonnes)	Current earnings (€)	Earnings 2006/08 (€)	Earnings 2008/09 (€)	Earnings 2009/10 and after (€)
Barbados	50,312.4	26,348,603	24,995,200	21,840,612	16,854,654
Belize	40,348.8	21,130,666	20,045,283	17,515,414	13,516,848
Congo	10,186.1	5,334,461	5,060,454	4,421,786	3,412,344
Côte d'Ivoire	10,186.1	5,334,461	5,060,454	4,421,786	3,412,344
Fiji	165,348.3	86,592,904	82,145,035	71,777,610	55,391,680
Guyana	159,410.1	83,483,069	79,194,937	69,199,924	53,402,383
Jamaica	118,696.0	62,161,095	58,968,172	51,525,933	39,763,160
Kenya	0.0	0.0	0.0	0.0	0.0
Madagascar	10,760.0	5,635,012	5,345,568	4,670,916	3,604,600
Malawi	20,824.4	10,905,738	10,345,561	9,039,872	6,976,174
Mauritius	491,030.0	257,152,411	243,943,704	213,156,123	164,495,050
St Kitts & Nevis	15,590.9	8,164,954	7,745,559	6,768,010	5,222,952
Swaziland	117,844.5	61,715,164	58,545,147	51,156,297	39,477,907
Tanzania, United Rep of	10,186.1	5,334,461	5,060,454	4,421,786	3,412,344
Trinidad & Tobago	43,751.0	22,912,398	21,735,496	18,992,309	14,656,599
Zambia	0.0	0.0	0.0	0.0	0.0
Zimbabwe	30,224.8	15,828,727	15,015,680	13,120,585	10,125,308

*Some adjustments to quota allocations have occurred in recent years, with Kenya and Zambia receiving 10,000 tonne allocations, the Barbados quota being reduced, the St Kitts & Nevis quota being discontinued, and Swaziland enjoying 120,000 tonnes of access. In this context Zambia and Kenya will face losses on exports similar to those of Tanzania, while the losses to Barbados will be less than projected since in recent years they have had a lower degree of exposure to sales on the EU market.

in the first four years of 35% compared to the losses arising under the initial EC proposals. This has been achieved by effectively deferring the full rèduction in the raw sugar price paid to ACP suppliers until 2008/09, saving the ACP some €131,929,930 in 2007/08 compared to the impact of the initial proposal. For comparison the losses that would have occurred under the initial EC June 2005 proposals are set out in Table 13.

In the longer term (beyond 2009/10), the 'savings' are marginal, amounting to slightly over €20 million per annum for the ACP as a whole, a mere 7.6% 'saving' on an annual basis compared to the initial proposal. This means that in the longer term ACP

Table 13. Losses to the ACP under the initial June 2005 EC proposals

Year	Raw price €/t	Tonnage	Earnings (€)	Losses (€)
2005/06	523.7	1,294,700	678,034,390	0
2006/07	496.8	1,294,700	643,206,960	−34,827,430
2007/08	394.9	1,294,700	511,277,030	−166,757,360
2008/09	372.9	1,294,700	482,792,630	−195,241,760
2009/10	319.5	1,294,700	413,656,650	−264,377,740
Total 2006/2010				**−661,204,290**

sugar suppliers will still face 92.4% of the income losses they would have faced under the initial proposal.

The indirect impact

With EU sugar prices set to decline by 36% by 2009/10, the raw material costs of the EU sugar-containing food-and-drink industry will fall sharply. As the USDA has pointed out in the case of Poland, 'less expensive sugar will permit Polish food-processing companies to better compete locally and in export markets', since in sectors such as soft drinks and sweets sugar accounts for 30 to 50% of production costs. The impact of EU sugar-sector reforms on the price competitiveness of EU exports of sugar-containing products both directly and via the increased volume of exports that can be financed within WTO financial ceilings (€415 million per annum) will require careful evaluation in low-cost ACP sugar-producing countries, seeking to develop sugar-based value-added processing for national and regional markets. This is particularly the case since the little-noted provisions dealing with the use of non-quota sugar in the chemical and pharmaceutical industries will serve to free up funds within the non-Annex I budget currently deployed in support of chemical and pharmaceutical exports for deployment in support of exports of sugar-containing value-added food products.

A final indirect impact of the agreed EU sugar-sector reforms relates to its impact on the functioning of regional sugar markets in the ACP. With EU sugar prices reduced dramatically, the EU market will be less attractively priced than a number of neighbouring regional markets. The region most likely to be affected in this regard is Southern and Eastern Africa, where seven countries currently export over 832,000 tonnes of sugar to the EU market. The question arises: what will be the knock-on effects, in terms of regional sugar prices, of a dramatic (36%) fall in the EU sugar price?

The most obviously attractive alternative regional markets in this regard are South Africa and Kenya, both of which – at current exchange rates – will offer prices higher than those obtainable on the post-reform EU market . The very real danger exists that sugar which currently goes to the high-priced EU market will be re-directed to regional markets. If this occurs on a large scale this could undermine national sugar prices. The challenge facing the sugar industry in Eastern and Southern Africa is how to raise regional demand for regionally produced sugar and sugar-containing products, while maintaining the value of regional sugar markets, in the face of the changed price conditions for exports to the EU market.

Careful consideration will need to be given to this question in terms of the policies set in place nationally, regionally and inter-regionally to promote growth in demand for regionally produced sugar and sugar-containing products while at the same time maintaining the value of the sugar market.

The EU policy response to ACP sugar-sector adjustment

The overall response

In February 2005 the EC issued a working document on the 'Action plan on accompanying measures for sugar-protocol countries affected by the reform of the EU sugar regime', setting out how it intends to assist ACP countries in adjusting to the new market conditions created by EU sugar-sector reform. In this document the EC 'recognises that the EU sugar reform may lead to significant adjustment needs in ACP-country signatories to the sugar protocol' and committed itself to 'support ACP countries in their path to poverty reduction and sustainable development'. The ACP countries eligible for support are specified as 'Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, St Kitts & Nevis, Fiji, Republic of Congo, Côte d'Ivoire, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe'.

The two major components of the EC response strategy set out in the February 2005 working document are to improve the international trading conditions in which ACP sugar-protocol countries find themselves and assist these countries through the provision of development assistance.

The development-assistance dimension

In terms of development assistance the EU wishes to see the comprehensive country-specific response strategies formulated. The EC has identified three axes for EU assistance:

- the enhancement of competitiveness;
- the promotion of diversification; and
- support to broader adjustment processes, including addressing the short- to medium-term social impacts and the establishment of well-targeted safety nets.

Considerable emphasis is placed on correctly assessing the future prospects of each ACP sugar sector in the context of lower EU sugar prices and the cost structure of the industry. This document states clearly that where 'directing assistance towards maintaining the sugar industry would not be sustainable in the long term, and would correspond to an inefficient use of financial resources, the EU favours supporting diversification or broader adjustment measures'.

The February 2005 Commission working document held that 'the specific needs of SMEs, including small farmers, should particularly be accounted for', possibly through using EIB-administered loan instruments under the Cotonou Agreement's investment facility. The working document favoured making 'maximum use of existing instruments, available though EC cooperation ... or through other bilateral donors or international organisations'. Trade Commissioner Mandelson for his part spoke of the importance of the early deployment of restructuring assistance, so that ACP countries can be supported in preparing for changes rather than simply adjusting to the changes that will flow from EU sugar-sector reform. The significance of early aid deployment is given extra weight by the two-year deferment of substantial reductions in the price offered for ACP sugar under the final reform agreement. The breathing space this provides ACP countries to prepare for change is only of value, however, if external assistance is rapidly mobilised and effectively deployed.

On the funding and delivery of assistance to sugar-sector adjustment the Commission working document favours extending assistance to country-specific sugar-adjustment strategies in the form of non-targeted budgetary support or through support to a sector-wide approach. While it does not rule out a project-based approach to restructuring, this is not favoured since it imposes a heavy management burden on the EC services.

While the February 2005 Commission working document made no reference to the level of restructuring support to be made available to ACP sugar exporters, some €40 million has been allocated under the 2006 budget for this purpose, with Trade Commissioner Mandelson indicating at the WTO Ministerial in Hong Kong that €100 million per annum will be made available for sugar-sector restructuring support in ACP countries up to 2013.

The trade dimension

In terms of the trade dimension, the Commission working document emphasised the importance of trade policy as a 'tool to foster economic growth in developing countries' through their integration into the global economy. In this context the working document expressed the view that 'further market opening can be an important contribution to the expansion of trade in agricultural products and to sustained and continued economic growth for all countries'. It emphasised how the July 2004 WTO framework agreement 'adequately addresses the special needs and concerns of developing countries and is a good basis to continue the negotiations which should ultimately lead to a more level playing field for all, in particular developing countries striving to integrate into the world economy'. It also highlighted the importance of trade facilitation through the WTO.

According to this document the current EPA negotiations provide 'an ideal opportunity to support the adjustment process of the sugar sector'. The working document made explicit reference to the importance of both free trade and 'trade preferences for regional production' in creating 'additional markets for ACP sugar'. The working document argued that the ACP sugar sectors which will benefit most from such regional trade arrangements will be 'those sugar industries with expansion potential, located in deficit regions, as well as the landlocked producers which are disadvantaged by higher transport costs for their overseas exports'. The working document stressed how EPAs will incorporate sugar-protocol access, offer opportunities for other products, and establish programmes to tackle supply-side constraints, in full compatibility with WTO rules. It is held that this will open up new opportunities for sugar-protocol country exporters to balance the decline in EU sugar prices.

In January 2005 Trade Commissioner Mandelson, on a visit to the Caribbean, spoke extensively about improving market access to compensate for price declines, although the subsequent Commission working document made no reference to this. With agreement to the reform package now secured in the EU Council, the EC is becoming more open to public discussion of the use of expanded market access as part of the EU's policy response to supporting competitive low-cost ACP sugar suppliers in adjusting to the consequences of EU sugar-sector reform. Indeed, in the run up to the EU Council meeting, with the UK Presidency looking for a compromise proposal, prime minister Blair assured Caribbean leaders that he would seek not only to lengthen the transitional period and push for an increase in transitional assistance, but also examine the issue of greater market access. As a result of the final Council agreement the transition period has been extended and an increased volume of assistance looks likely to be made available. To date, however, the issue of expanded duty-free access for low-cost ACP sugar suppliers who can profitably supply the EU market at the lower post-reform prices has not yet been addressed. With the first round of price reductions scheduled for July 2006, this is now a matter of some urgency.

Comment

The dispute over the impact and restructuring

While it is widely recognised that reductions in the EU sugar price will result in profound economic shocks for ACP sugar suppliers, there is no consensus on just how each country will be affected. The EC sees the prospects for profitable sugar production being profoundly undermined in many Caribbean sugar-exporting countries and is insistent that in such countries' funds should be devoted to diversification rather than restructuring. However, many of the governments in these countries do not share the EC's assessment and will not contemplate the demise of their sugar sectors. This is leading to a considerable level of often acrimonious disagreement over what constitutes an appropriate use of any restructuring support made available by the EU. This is likely to result in considerable delays in the deployment of EU aid in the countries concerned. However, it is also having an impact on the EU's broader approach in ways which could undermine efforts to provide restructuring support prior to the consequences of EU sugar-sector reform being felt in ACP countries.

The impact of the modification of the initial reform proposals

The 'savings' arising for ACP countries through the modification by the EU Council of Ministers of the initial EC reform proposals could help cushion some of the initial costs of adjustment in certain ACP countries, providing EU restructuring support is now swiftly and effectively deployed. The experience of the banana and rum programmes are not fully encouraging. It needs to be recognised, however, that the modification of the EC's reform proposals have simply 'bought time' for the implementation of effective programmes of support to ACP sugar exporters to adjust to the new market realities they will face. If this time is not effectively used then the adjustment costs faced in ACP countries will be as profoundly damaging to even low-cost ACP sugar producers as the initial EC reform proposals.

Early aid deployment and restructuring strategies

The EU's desire to see some high-cost ACP sugar producers deploy restructuring assistance in support of broader processes of economic reform rather than in support of sugar-sector 'competitiveness' measures is having a significant impact on how the EC is seeking to deploy restructuring support. It underlies the insistence of the EC on the establishment of integrated and comprehensive country-response strategies that are based on a 'correct' assessment of the future prospects of the sugar sector in question, prior to the deployment of any funds from the dedicated sugar-sector adjustment facility. This insistence, however, is likely to have profound implications for the deployment of such assistance in all ACP countries, and compromise the early operational deployment of such assistance, despite the widespread recognition of the importance of helping ACP countries to prepare for change rather than simply respond to it.

The indications from certain regions – where the restructuring needs are glaringly obvious (given a recent history of declines in export earnings on sales to the EU resulting from currency movements) – is that since comprehensive restructuring strategies need to be in place before any aid is deployed, financing decisions on restructuring support will only be made in October 2006 at the earliest. This would result in the operational deployment of assistance only taking place in the second quarter of 2007 (at the earliest). If this timeframe for the deployment of EU assistance to ACP sugar-sector restructuring is adhered to, the benefits derived from the effective two-year deferment of substantive EU sugar-price reductions will be lost.

There is clearly a need to develop innovative arrangements to ensure the early in-country deployment of restructuring support. While such innovative solutions are being developed based on many of the elements contained in the Commission's February 2005 working document (budgetary support and private-sector initiative), it remains to be seen how quickly these innovative approaches could be operationalised, within a timeframe consistent with the agreed schedule for EU sugar-sector reform. This issue of deploying EU assistance swiftly in support of 'time-sensitive' adjustment processes constitutes one of the unresolved issues following Prime Minister Blair's assurances to Caribbean leaders of November 2005.

The exclusion of non-sugar-protocol LDC ACP sugar suppliers

A significant feature of the EC's proposed response strategy is its exclusion of certain non-protocol least-developed ACP sugar exporters (for example Ethiopia, where sugar has rapidly become the fourth largest export to the EU). The Commission working document largely ignored the losses which LDC sugar exporters will face (assuming perhaps that expanded access after 2009 will compensate for any price reductions). These will amount to €162 per tonne or €32.4 million on a 200,000 tonne quota. However, even with the lifting of quantitative restrictions on LDC sugar exports in 2009, this level of income losses could affect the financial viability of certain recently developed sugar schemes in LDCs, given the way the financing packages of such schemes are structured. This could require targeted forms of assistance to, for example, financial restructuring of loans to smallholder farmers.

The likely reality of the LDC safeguard clause

While the EC is seeking to give assurances that the safeguard provisions will only be invoked in the case of 'triangular' trade arrangements emerging, the very existence of the safeguard provisions may serve to encourage 'voluntary' restraint in the volumes of sugar exported. Whether in fact such safeguard clauses are invoked will depend on overall trends in sugar imports. Current analysis suggests that at the lower post-reform price, LDC sugar exports to the EU could be as low as 300,000 tonnes and that with a number of traditional ACP sugar-protocol suppliers reducing or discontinuing sales, EU cane refiners may struggle to secure the necessary supplies from within the existing preferential trade arrangements.

The need to rethink the terms and conditions of EIB loans.

While the EC has spoken of using EIB funding to address the needs of sugar farmers and sugar-related SMEs, it seems evident that the EIB's current lending policy in certain sugar-exporting ACP countries prevents the effective deployment of such funds in support of the types of low-cost loans that will be required to facilitate sugar-sector-related adjustments. In some countries EIB policies that insist on the deployment of grant-financed loans at local market rates are simply replicating inefficiencies in local financial markets and resulting in interest rates on loans to sugar-related activities even higher than those offered by commercial banks. This is clearly unhelpful in the context of acute sugar-sector adjustment requirements, which are resulting in a drying up of private-sector financing and an escalation of the costs of loan financing deployed in support of sugar-sector-related activities.

The role of expanded access to the EU market

While Prime Minister Blair implicitly committed himself to examining the issue of greater market access as an integral part of restructuring support to low-cost ACP sugar producers, there are four distinct aspects of this issue that will need to be addressed, namely:

- the timing of the granting of expanded duty-free access to the EU market;
- the basis for assessing existing levels of access;
- the scale of the expansion of the duty-free access to be granted to individual low-cost ACP sugar exporters; and
- the framework for the consolidation of this expanded access both in the short term (up to 2008) and the long term (beyond 2008).

Price reductions will be felt by sugar-protocol exporters from the 2006/07 season (–5.1%), although major price reductions will not set in until the 2008/09 season (–17.1%) and the full effect of the reform-induced price reductions will not be felt until the 2009/10 season (-36%). It is being argued that just as direct aid payments to EU farmers are phased-in in parallel with EU price reductions, so expanded duty-free access for low-cost ACP sugar suppliers should be phased in alongside price reductions. For the countries affected (Belize, Fiji, Guyana, Swaziland and Zimbabwe) this would require an expansion of duty-free access to occur from 2006/07 onwards. However this raises the question of from what basis such expanded access should occur. Should it occur on the basis of:

(a) the sugar-protocol quota?

(b) the sugar-protocol quota and the traditional SPS allocation? or

(c) the average level of exports to the EU market in the proceeding specified period?

Extending the principles underpinning EU farmers' rights to compensation would lead one to base any expansion in duty-free market access for low-cost ACP sugar suppliers on the average levels of sugar exported to the EU over a specified historical period.

On the basis that the aim of expanded duty-free access is to compensate for price declines, this suggests that the level of increased duty-free access to be granted should be commensurate with the revenue losses arising for the sugar sector concerned as a consequence of administratively determined reductions in the price offered for ACP raw sugar. In the case of Swaziland, the application of this formula to the 2006/07 season would require the granting of additional duty-free access of 11,977 tonnes.[5]

This poses the question 'How does the EC intend to consolidate such expanded access in the short and medium term?'. In the medium to long term, clearly it is the EC's intention to incorporate duty-free access for ACP sugar exports into EPAs. However this leaves unaddressed the question of how expanded access is to be secured during the transitional seasons 2006/07 and 2007/08. This is an issue that needs to be addressed urgently.

Duty-free access for value-added exports

A final EU market-access issue that will need to be considered will be the early elimination of special sugar duties imposed on sugar-containing products. The elimination of such duties by creating opportunities for increased exports of sugar-containing products (e.g. canned fruit) could serve to both expand domestic demand for sugar and facilitate processes of diversification. The ACP need to look for an 'early harvest' in discussions with the EU in this area.

Nurturing regional sugar markets

As the USDA pointed out in the case of Poland, EU sugar-sector reform will greatly reduce the costs of sugar-containing food products destined for both domestic and export markets. This will be particularly important for value-added products that also have a high dairy content (given the ongoing implementation of EU dairy-sector reform), for example sweet and chocolates. This will greatly enhance the price competitiveness of EU exports of sugar-containing value-added food products.

In this context ACP sugar-producing countries that are seeking to develop sugar-based value-added food-product industries may well need to negotiate special safeguard clauses to protect against import surges that deal not just with the trade in sugar alone but also with high-sugar-content food products. In this context products within the whole sugar chain, will need to be subject to any special safeguard mechanisms established under the WTO agreement or within EPAs.

Furthermore careful attention will need to be paid to the trade treatment accorded high-sugar-content processed products under any reciprocal preferential trade agreements (e.g. EPAs). If sugar markets are protected yet duties are eliminated on high-sugar-content processed products, this will close down the scope for the development of sugar-based value-added processing activities in ACP regions. This is already occurring in South Africa where despite continued protection of the sugar market (105% tariff), tariffs are being progressively eliminated on sugar-containing food products. This is having profound effects on confectionery, the most severely affected sector, where demand for sugar has been shrinking rapidly. If this trend becomes generalised across other sugar-using industrial sectors, then this could lower demand for sugar in what is the major high-priced regional market for sugar in Eastern and Southern Africa.

Consolidating regional sugar markets

While the February 2005 Commission working document on accompanying measures spoke of supporting the development of regional trade in sugar, such support needs to address the very real constraints that are faced in developing and consolidating a regional trade in sugar. The first issue to be addressed is the nature of demand. ACP countries export raw sugar to the EU, yet regional markets demand refined sugar. Thus if a regional trade in sugar is to be developed, investments will need to be made in refining capacity. Yet funds for such investment are drying up or becoming more expensive, given the income losses the sugar sector is set to face as a consequence of EU sugar-sector reform. Clearly there will be a need for instruments to provide low-cost loans to support such investment. Similarly the infrastructure to facilitate regional trade in sugar and sugar products will need to be established and this will similarly require the provision of low-cost loans.

Finally there will need to be close co-operation in the development of regional sugar policies, since with EU sugar-sector reform many regional markets will become more price attractive than the EU market. If this is not to give rise to both increased official and unofficial trade in sugar within regions in ways that undermine regional market prices, then close policy co-ordination will be required within ACP regions to ensure that regional sugar markets are both nurtured and consolidated.

Beef and veal

The basic regime and beyond

The basic regulations establishing the common organisation of the market in beef within the EU date back to 1968. The system consisted of four major elements:

- price support through a system of intervention buying;
- high levels of tariff protection around the EU market for beef;
- export-refund support to promote beef exports; and
- direct payments.

With the implementation of CAP reform in the beef sector, a number of major changes have taken place, consistent with the shift from price support to direct support payments. This has involved a substantial expansion of direct support payments in parallel with price reductions and the dismantling of intervention buying.

However beyond this shift in instruments there has emerged a shift in focus, away from an emphasis on the quantity of production to an emphasis on the quality of production. In the beef sector in particular, this has involved two distinct elements: food safety, which is foremost the responsibility of government authorities; and food quality, which is essentially an issue for the private sector (although in the case of the EU, substantial levels of public assistance are being extended in support of the development of quality assurance schemes and quality labels).

Food-safety issues and food-quality differentiation of beef products will be critical factors in the coming years in determining the nature of ACP–EU trade in beef products.

A factor also strongly influencing EU beef production is the progress of reform of the EU dairy regime, since two-thirds of EU beef production comes from the dairy herd. The maintenance of milk quotas until 2015, in a context of increasing milk yields, is leading to a decline in EU beef production (with a decline of 11.9% in the total dairy herd translating into a 3.4% decline in total beef production).

The EU's traditional high-price policy, which maintained EU beef prices at levels substantially above the world market price, was at the heart of the attractiveness of the EU market to ACP beef exporters. The process of EU beef-sector reform is transforming the market situation in the EU faced by ACP exporters and is having significant effects on trade relations.

In terms of future developments the stage is being set for the incorporation of the EU beef sector into the single farm-payment scheme. This will occur from December 2006 onwards, after the transitional arrangements (which involve application of product-specific supports) have run their course. While over time, with the application of the concept of 'modulation', limits will be placed on direct aid payments per farmer, the increased efficiency of new EU support systems (which leaves 1 in 2 euros in the hands of farmers, as opposed to 1 in 4 euros under the old regime) will increase the production impact of the support extended to the farming sector as a whole. This being said, the incorporation of the beef regime into the single farm-payment scheme will mean that farmers are free to choose which products to produce from the broad range covered by the scheme. According to reports the EC envisages this leading to a reduction in beef production, as farmers re-align their production patterns to respond to market changes and exploit their comparative cost advantage in producing the various products that fall under the single farm-payment scheme, rather than pursuing subsidy maximisation strategies.

However, given the interconnections between EU beef and dairy markets the overall net effect of beef-sector reform on production in the EU – and hence trade with the EU – will not fully emerge until quota restrictions have been lifted in the dairy sector, after 2015.

The EU import regime

The basic framework

The high EU prices have traditionally required the EU to maintain high levels of import tariffs in the beef sector. However, with the process of price reductions underway and a shift over to direct farm-

Table 14. The EU beef import regime

		Base rate for reductions	1995	2000	Reduction
Live animals	*ad valorem*	16.0%	15.0%	10.2%	36%
	specific €/t	1,454	1,367	931	36%
Beef meat	*ad valorem*	20.0%	18.8%	12.8%	36%
	specific €/t	2,763	2,597	1,768	36%
Preserved meat	*ad valorem*	26.0%	24.4%	16.6%	36%

Source: 'Situation and outlook: beef sector; CAP 2000 working document, DG Agriculture, April 1997, p. 13.

Box 5. The single farm-payment scheme

The single farm-payment scheme will be paid once a year and will replace most existing product-specific direct aid payments. The national allocation to the single farm-payment scheme consists of the aggregation of the maximum each state could spend on direct aid payments during the agreed historic reference period.

Payments will be made to any farmer actively farming at the date each member state introduces the scheme. Farmer entitlements will be defined by the entitlements the farmer enjoyed during the reference period (normally 2000–02, although there are variations). 'Each entitlement is calculated by dividing the reference amount by the number of hectares which gave rise to this amount in the reference years.' Eligible hectares include all types of agricultural land except land used for permanent crops and forestry. 'Farms may produce all crops with the exception of permanent crops, fruit and vegetables and potatoes.'

This payment is linked to cross-compliance with various conditions, linked to land management, good agricultural practices and environmental considerations.

Member states have various options as to how they calculate and make payments. This can be based on individual farmers' receipts during the reference period or averages for the region or the state. During the transitional period coupled payments may under certain conditions be maintained (so called 'partial decoupling'). All payments made are to be reduced by 3% in 2005, 4% in 2006 and 5% in 2007, under the principle of 'modulation', which is designed to free up funding for wider rural-development activities.

According to the EC the single farm-payment scheme 'provides stable support allowing farmers to produce to market demand and to plan for the future'.

support payments, the need for tariff protection is receding. This will in the coming years be reflected in modifications to the EU import regime, either as a result of multilateral trade negotiations or the conclusion of bilateral trade agreements, particularly an EU–Mercosur free-trade-area agreement.

Currently the EU's import regime for beef consists of a combination of an *ad valorem* duty and a specific amount per tonne (see Table 14). As can be seen, the Uruguay Round agreement resulted in a 36% reduction in these duties over six years. By far the most important duty is the specific duty, which for beef now stands at €1.768 per tonne. It is this duty that is likely tc (a 9% decl to the most substantial progressive disits were evoarticularly as part of moves towards establishing *ad valorem* equivalent values, prior to tariff reductions.

In addition to these two duties a safeguard clause allows customs duties to be increased in the case of import surges or a drop in the import prices below a certain trigger threshold.

ACP and other trade preferences

Table 15 shows the preferential quotas for chilled and frozen de-boned beef/veal extended to ACP countries under the Cotonou Agreement and the average quota utilisation over the period.

In total the ACP countries have a preferential beef-and-veal quota totalling 52,100 tonnes. These quotas constituted around 14% of total EU imports throughout the 1990s. However, Kenya has only supplied beef in one year, 1992, and Madagascar has not supplied any beef to the EU since 1998. Since 2002, initially as a result of foot-and-mouth disease, Zimbabwe has also not supplied the EU market.

It can be argued that with moves towards trade liberalisation these quantitative restrictions should be lifted. However the reality is that, with rare annual exceptions, ACP beef exporters have rarely filled the quotas allocated to them, on average supplying only 55.6% of the allocated quota (or around 7% of EU imports). This suggests that tariff barriers do not constitute a significant barrier to trade.

Looking beyond the ACP, in order to comply with its market-access commitments the EU also operates a tariff-rate quota as set out below.

Before EU enlargement the EU in addition granted tariff-rate quotas to pre-accession countries,

Table 15. ACP beef exports to the EU 1977–2004

	Quota (tonnes)	Avge. supply (tonnes)	% quota fill (avge.)
Botswana	18,916	11,403	60.3%
Namibia	13,000	9,415	72.4%
Zimbabwe	9,100	6,266	68.9%
Swaziland	3,363	914	27.2%
Madagascar	7,579	954	12.6%
Kenya	142	1	0.7%

Table 16. Market access in the beef-and-veal sector

	Quota (head or tonnes)	In-quota tariff
Current access		
live animals (adults)	10,000	4–6%
live animals (calves)	169,000	16% + €582/tonne
beef meat (tonnes)	144,000	20%
Minimum access:		
beef meat	20,000	20%

amounting in total (live and meat) to around 142,000 tonnes.

The growing importance of food safety

In terms of exporting to the EU, and following directly on from the BSE experience, there has been a growing policy emphasis on food safety and in parallel a growing emphasis on food quality. Food-safety standards have to be met in order for beef products to be allowed entry to the EU market. Food quality is important from a commercial perspective since it allows beef products to attract the premium prices that make it attractive to export to an EU market in a context where prices have generally been falling, and costs of supplying the market have been increasing.

In order to be granted access to the EU market, verification of food-safety compliance needs to be addressed at three levels:

- recognition by the EU of the country as eligible to export;
- the listing by the EU of establishments eligible for export to the EU; and
- the certification by the local competent authority that the consignment meets EU standards.

This last stage of certification by the local competent authority must comply with a range of basic principles. Meeting these standards fully and consistently places a considerable and growing financial burden on ACP national administrations. Yet getting the paperwork right and establishing a credible system of control by the competent authority is now vital to trading meat products into the EU. If any of the paper work is not in order, or the integrity of the competent authority is brought into question, imports of these meat products into the EU will cease. This placing of responsibility for ensuring the integrity of food-safety controls throughout the food chain (from the production of animal feed through the handling and disposal of animal by-products, to the despatch of the beef from the port) in the hands of a local competent authority, places the performance of public bodies in ACP countries at the centre of the beef trade with the EU. Any failure by ACP governments in performing these functions, if the infringements are considered serious enough, will lead to the closure of the EU market, regardless of the quality of operations of the beef producers and processors involved in the trade.

There is also considerable uncertainty on how the

EU wishes to see the various animal-product-related food-safety regulations applied in ACP countries. For example:

- Will respect for the objectives of EU regulations need to be attained in the same way in all countries?
- Will the EU be able to tailor requirements to country circumstances (with countries at high risk of disease facing stricter controls than those with no history of such diseases)?
- Will all provisions of the applicable EU regulations be equally applied to production in third countries or will certain aspects be waived, providing the safety of meat destined for the EU market is not compromised (for example with regard to disposal of animal by-products)?
- Will the exemptions to small-scale trade in animal feed between farmers within the EU be extended to small-scale feed-trading in third countries (on the basis that for feed contamination to be of concern it must effect a minimum level of total feed intake)?

A further area of potential concern in the field of food safety is the EC's efforts to 'internationalise' its own animal-welfare regulations. The EC supported the February 2004 OIE global conference on animal welfare and is pushing for the establishment of international standards. These EC initiatives cannot be divorced from EU member states' concerns over the potential competitive disadvantages to EU producers arising from higher animal-welfare standards. Harmonisation of international standards for animal welfare would remove any competitive disadvantage that EU producers might face. However this would increase the costs of supplying the EU market. These cost burdens would be likely to fall particularly heavily on ACP beef exporters who use extensive-farming systems of cattle production, and this could over time come to constitute an effective trade barrier. ACP beef exporters will need to pay close attention to EU efforts to promote binding international standards for animal welfare, particularly in the area of transportation.

An area to which ACP beef-exporting governments will need to pay increasing attention in the coming months and years is in operationalising the public commitments that EC officials have made on the provision of assistance to ACP counties in meeting EU food-safety standards. This will be essential if ACP countries are to be helped to maximise their trade potential in the area of beef and other agricultural exports.

The EC has committed itself to ensuring that food-safety standards do not become new non-tariff barriers to trade with the developing world. However this ignores one very important dimension, namely the economic cost of compliance. This cost has been recognised inside the EU, and various public-assistance programmes to support food-safety compliance have been set up. These range from a dedicated budget line (€248 million in the 2004 budget) for food-safety measures, to the inclusion of components for food-safety compliance in direct aid payments to farmers and rural development programmes in favour of food processors.

Yet in many ACP beef-exporting countries, even though the high fixed costs of SPS compliance and verification relate to relatively small production runs, it seems that no assistance programmes commensurate with the challenge faced have been set up to date (it should however be noted that the EU has funded two large TA programmes on SPS for the fisheries and the horticultural sector; for further details on those TA programmes, please visit: http://agritrade.cta.int/infosources/sps.htm). This means that the beef industry in ACP countries is itself carrying the costs of compliance with EU food-safety standards. This is becoming an increasing burden as prices received on the EU market decline (see next section).

This inferior access to public support for food-safety compliance and verification places ACP beef suppliers at a competitive disadvantage in supplying the EU market compared to EU producers. This is an issue which will need to be addressed if they are to continue to supply the EU market.

The impact of reform on the EU beef market

From an ACP perspective there are two major effects of reform on exports to the EU market. The first is the impact on prices received for beef sold in the EU because of the shift from price support to direct-aid payments to farmers. ACP beef producers saw the value of their earnings from exports to the EU decline progressively under the impact of CAP reform in the beef sector, as EU beef prices have been allowed to fall towards more 'normal' levels. The former EU Agriculture Commissioner, Franz Fischler, estimated that two-thirds of the price declines that occurred in the EU beef market between 1999 and 2002 were the result of CAP reform and only one-third were the consequence of the BSE crisis. While EU farmers have been compensated for these reform-induced price declines by increased levels of direct aid payments, ACP suppliers have simply faced the income losses.

In the case of Southern African beef exporters, the sterling value of beef exports declined by between 28% and 30% from 1999 to 2001. In the case of Namibia this resulted in an income loss of €6 million in 2001 compared to the prices received when Namibia first began exporting to the EU. In the case of Swaziland the declining EU beef price led first to a discontinuation of exports of lower quality beef cuts, and subsequently a discontinuation of all exports in the face of lower local currency earnings on the back of a strengthening rand.

Under the impact of the 2000 round of CAP reforms these price declines continued until 2003. For Namibia, earnings for fresh and chilled beef exports fell from €6.143 per kg in 2001 to €5.589 per kg in 2003 (a 9.8% decline), while for Botswana the decline was from €5.572 per kg in 2001 to €5.075 per kg in 2003 (a 9% decline). The price declines for frozen beef cuts were even more pronounced, with prices for frozen Namibian beef cuts falling from €2.876 per kg to €2.069 per kg (a decline of 28.1%) and those from Botswana falling from €2.508 per kg to €2.120 per kg (a decline of 15.5%). There was however some 'bounce back' in prices in 2004

Box 6. The process of EU beef-sector reform

Since the end of 1992 a process of reform has been underway in the EU beef sector, involving a movement away from price support to increased levels of direct aid payments to farmers. This has featured increasing headage premia and progressive reductions in the intervention price for beef.

The 'Agenda 2000' extension of reform in the beef sector involved a 20% reduction in the intervention price for beef in three stages. On 1 January, 2000 the intervention price fell to €3,475 per tonne for the first six months, to €3,242 per tonne for the season from July 2000 to June 2001, and to €3,013 per tonne for the season 2001/02. On 1 July, 2002 the intervention price was replaced by a 'basic price' for storage of €2,224 per tonne. Under this new system if the EU market price falls below 103% of the 'basic price' then the EU will finance private storage of beef in order to support the market.[6] In addition beef producers will also benefit from a 'safety net' intervention system for bulls and steers, involving the organisation of 'buying in tenders' in particular member states, if the market price for bulls and steers in the member state concerned falls below €1,540 per tonne for two consecutive weeks.

To compensate for these reductions in the intervention price, direct aid to EU beef farmers was increased. Initially these payments consisted of different premia paid per head; however as of June 2003 further reform measures were adopted, involving the progressive decoupling of existing farm aid payments from production through the establishment of a single farm-payment scheme, which embraced a range of commodities.

As with other sectors, the single farm-payment will be linked to 'cross compliance' with environmental, food-safety, and animal-welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition.

During a transitional period up to December 2006, EU member states will have a degree of discretion over the pace at which they implement the decoupling of farm payments. By 2008 the single decoupled payment scheme will be extended to the dairy sector (although quotas will remain in place until the 2014/15 season). This is important since trends in the dairy sector have a direct bearing on overall EU beef production.

Table 17. Fresh and frozen beef export from Namibia and Botswana to the EU (2001-04)

	Fresh and chilled beef exports (€/kg)		Frozen beef exports (€/kg)	
	Botswana	Namibia	Botswana	Namibia
2004	5.233	5.589	-	2.210
2003	5.075	5.544	2.120/	2.069
2002	5.662	6.135	2.428	2.157
2001	5.572	6.143	2.508	2.876

reflecting the emergence of a deficit in beef supplies to the EU market.

These price trends also reflect a second major impact of EU beef-sector reform, namely the emergence of a far more differentiated beef market, with divergent price trends in different components of the market. This is a reality which ACP beef suppliers will have to adjust to, with exports of clearly labelled and differentiated beef products being targeted at premium-priced markets, where price trends are stronger, and exports can remain profitable despite the escalating costs of food-safety compliance, which have to be carried by private-sector operators in ACP countries.

This may well require the development of carefully designed labelling and marketing strategies, which will require external technical and financial assistance. This is particularly the case since the volume of exports from ACP countries involved is relatively small, when considering the costs of such labelling and marketing initiatives. The value of such initiatives however is reflected in the higher prices that Namibia's beef exports attract (+8.65% on average) as a result of the FAN quality-assurance scheme, compared to beef exports from Botswana.

In the face of the price competitiveness of Latin American supplies, this would appear to be the only basis on which ACP beef suppliers can continue to supply the EU market profitably in the longer term. This is particularly the case since tariffs on imports from Brazil and Argentina are likely to fall in the coming years with the conclusion of a Mercosur–EU free-trade-area agreement and the expansion of tariff-rate quotas for sensitive products as part of the final deal under the Doha Development Round. This would serve to further enhance the price competitiveness of Brazilian and Argentinean beef on the EU market. The question therefore arises: will ACP beef producers, processors and public authorities be up to the challenge of ensuring a consistent supply of clearly labelled and differentiated quality beef products to the EU market? Development assistance could usefully be sought from the EU in addressing this challenge effectively.

The EU export regime

In the 1990s the EU was the world's leading beef exporter, with over 25% of the world beef trade and a peak level of exports of 1.2 million tonnes. This was a classic outcome of the old CAP regime, which through price support encouraged production, required huge levels of export refunds (over 1.2 billion ecus), and generated substantial intervention stocks. In the 1990s export refunds drove this trade, with export-refund payments being equivalent to around 40% of the market price. In ACP countries where lower quality and hence lower priced beef cuts were sold, the importance of export refunds was even greater in fuelling this trade.

Table 18. EU export commitments under the Uruguay Round

	Value (€ million)	Volume ('000 tonnes)
Base	1,959	1,040
1995	1,923	1,137
2000	1,254	822

Source: 'Situation and outlook – beef sector', CAP 2000 working document, DG Agriculture, April 1997, p.15.

The Uruguay Round agreement, however, placed ceilings on the level of subsidised EU beef exports, and along with the BSE crisis and the implementation of the reform of the beef sector, this saw EU beef exports begin to fall sharply. By 2004 EU beef exports were only around one-third of what they were throughout most of the 1990s, with export-refund allocations now being substantially below the allowed WTO ceiling (just over a quarter) and export volumes well below half the allowed level on which export refunds can be paid.

Table 19. EU beef imports and exports 1997–2004

	Imports (tonnes)	Exports (tonnes)
1997	387,000	971,000
1998	347,000	695,000
1999	385,000	872,000
2000	378,000	577,000
2001	350,000	498,000
2002	424,000	522,000,
2003	440,000	390,000
2004*	509,000*	333,000

*estimate; subsequent USDA figures gave total imports of 580,000 tonnes

Recent trends in EU imports and exports

In the 1990s EU imports of beef remained fairly constant at around 370,000 tonnes per annum. Since 2002, however, EU imports of beef have risen substantially to an average of around 432,0000 tonnes in 2002–03, before rising to a reported 580,000 tonnes in 2004. Some 70% of these imports came from Brazil and 20% from Argentina, with, in both instances, the full duty being paid. This arises from the highly price-competitive nature of Brazilian and Argentinean beef production (not unconnected of course from dramatic currency movements). For example, Brazilian rib-eye cuts (€7 per kilo) are almost half the price of Irish rib-eye cuts (€13 per kilo) and 30% cheaper than Dutch Limousin rib eye (€10 per kilo). Argentina, while more expensive than Brazilian production (at €9 per kilo), is still highly competitively priced for most European markets.

Since 2002 EU imports of beef have exceeded EU beef exports, a consequence of a strong recovery in EU beef consumption after the BSE crisis, and a contraction in EU beef production linked to the decline in the size of the dairy herd.

A growing trend in the EU beef market is towards increased product differentiation, with a clear distinction emerging between high-quality beef and low-quality beef, labelled differentiated beef, and non-labelled generic beef. The EU25 currently has a shortage of high-quality beef and a surplus of low-quality beef. This arises in large part from the disjuncture between patterns of beef production in new member states (low quality) and aspirational consumption patterns (towards high-quality beef). This in part accounts for the larger-than-expected increase in beef imports in 2004. It also explains why, despite a growing deficit between EU production and consumption (which has emerged since 2003), the EU remains a beef exporter.

This has important implications for the trade relationship with ACP beef-producing countries. On the one hand, with a growing gap between EU beef consumption and EU beef production, there exist opportunities for ACP beef producers to supply high-quality beef, at prices which allow them to profitably export to an increasingly fragmented EU beef market. However with a surplus of low-quality beef, even exporting a mere 330,000 tonnes per annum, the danger exists that EU beef exports could easily swamp ACP markets. This danger is exacerbated by the fact that highly price-competitive Latin American suppliers are increasingly pushing EU traders out of their traditional beef markets. In this context, as in other sectors where the EU has faced intensified competition in bulk commodities in higher priced markets, EU traders may find themselves increasingly looking to supply African markets, as markets of last resort.

This is a matter of some concern, because EU beef exports to ACP countries consist almost entirely of low-quality beef destined for the low-priced end of the market. This tends to compete directly with the production of small-scale farmers and emergent commercial farmers (whose commercial position already tends to be weak), further harming the development of this sector of ACP beef production.

Against this background a number of factors can be seen to influence EU beef exports to ACP countries, notably:

- the openness and demand for beef on non-ACP markets;
- the cyclical ups and downs of European beef production, as well as the pace of change in the composition of production (from lower quality to higher quality);
- the development of domestic consumption of beef within the EU (towards higher quality beef);
- the variations in the level of export refunds offered for different types of beef cuts for different destinations;
- the trade arrangements established by ACP countries to regulate beef imports (tariffs and safeguard arrangements); and
- the WTO ceilings on the volume of exports.

Local supply-and-demand considerations on ACP markets are likely to have only a marginal impact on the actual pattern of EU beef exports to ACP countries.

Future trends

The long-term decline in EU cattle numbers will continue, given the quota restrictions in the dairy sector and increasing milk yields. This will impact on EU beef production, as will the introduction of the single farm-payment scheme, which is seen as contributing to a decline in beef production. The July 2005 EC report on 'Prospects for agricultural markets and income 2005–2012' concluded that net EU beef production would fall from 7.98 million tonnes in 2003 to 7.61 million tonnes in 2012, a decline of 4.6%. Beef consumption, after holding fairly constant to 2007 (8.265 million tonnes in 2003 and 8.260 million tonnes in 2007) is expected to fall to 8.134 million tonnes in 2012.

This is in part the result of the ongoing trend in meat consumption away from beef in favour of poultry and pork. There will nevertheless be a growing gap between EU production and EU consumption of beef, reaching a projected 527,000 tonnes in 2012. This is expected to sustain higher prices.

In this context imports are expected to rise to 628,000 tonnes, but despite the growing deficit on the EU market the EU will continue to export beef, although this will be on a much smaller scale (around 10% of the peak levels). Exports will be around 300,000 tonnes per annum up to 2007, before falling to an average of around 124,000 tonnes over the 2010–12 period. The continuation of exports will largely be a consequence of the imbalance between production and demand for low- and high-quality beef cuts.

A key feature of these trends is the growing importance of quality consideration in the prices received for beef exported to the EU market. If quality

Table 20. EU beef-and-veal market projections, 2003–12 (tonnes)

	Net production	Net consumption	Imports	Exports
2003	7,983,000	8,265,000	440,000	390,000
2004	8,035,000	8,244,000	509,000	333,000
2005	7,928,000	8,210,000	549,000	266,000
2006	8,044,000	8,267,000	560,000	337,000
2007	7,992,000	8,260,000	566,000	298,000
2008	7,924,000	8,238,000	577,000	264,000
2009	7,833,000	8,195,000	588,000	226,000
2010	7,734,000	8,165,000	600,000	169,000
2011	7,654,000	8,151,000	614,000	116,000
2012	7,607,000	8,134,000	628,000	101,000

Source: Extracted from table A.9, 'Prospects for agricultural markets and income 2005-2012', EC Directorate-General for Agriculture, July 2005.

standards can be attained and assured and ACP countries make the transition to marketing their beef production more effectively into increasingly differentiated EU beef markets, then growing trading opportunities can be exploited. In this context, quantitative restrictions on ACP beef exports may even need to be removed.

A further noteworthy feature of these trends is the growing volume of low-quality EU beef cuts being exported. While overall levels of EU beef exports will be substantially down (almost 75% lower than 2003 levels), the scale of EU beef exports will still be large relative to the size of ACP markets. With EU beef exporters facing growing competition in traditional markets from highly price competitive Latin American suppliers, this could lead to significant EU beef exports to ACP markets, most notably in west and southern Africa. This is a possibility to which the ACP governments concerned will need to pay close attention

Implications for ACP countries

Removing residual restrictions

The first and most obvious area in which ACP beef exporters require a policy response from the EU is through the removal of residual tariff barriers and quantitative restrictions on exports. Given the underuse of existing ACP quotas, removing residual tariff barriers would appear to be more important in the short term than the elimination of quantitative restrictions. In the longer term, however, should the EU market prove attractive, the current low rates of off-take in ACP beef-protocol countries could be raised, leading to considerable expansions of production. This would require the identification of remunerative markets, the improvement of quality standards, and the modification of some cultural practices linked to cattle ownership.

While ACP beef exports under the beef protocol enjoy full exemption from the *ad valorem* duty applied to beef imports, they still have to pay 8% of the special duty applied to beef imports (that is to say ACP beef exported under the quota enjoys a 92% reduction in the special duty). This duty is equivalent to around £0.15 per kg. For Botswana the removal of this duty on its full quota of exports would generate an extra €2.837 million and some €1.71 million based on average annual exports since 1976. For Namibia the corresponding amounts would be €1.950 million and €1.412 million. On actual exports this would be equivalent to 27% of the income losses Namibia suffered in 2004 as a result of the reduction in EU beef prices induced by beef-sector reform. With frozen beef cuts being much lower priced the impact of the removal of the special duty is proportionately more important, representing approximately a 10% improvement in the price (as opposed to 3.9% for fresh and chilled beef cuts).

The removal of residual tariffs is in fact an area in which the Namibian beef sector is looking for early movement from the EC, so as to facilitate the mobilisation of funds for support to food-safety compliance programmes. The case is being made for the EU to immediately cancel the residual levy still charged on Namibian beef exports to the EU. This would free up nearly €2 million per annum in extra revenues. These extra revenues, it is argued, could be captured by the Namibian beef industry through a special levy, with the funds thus raised being used to finance ongoing food-safety measures.

The removal of the remaining residual tariff barriers need not await the outcome of the EPA negotiations, since under the existing provisions of

Table 21. Financial impact of the removal of residual duties on beef, 2004*

	Tonnage	Current revenues	Extra revenues
Namibia fresh and chilled	6,503	€36,345,267	€1,414,402
Namibia frozen	2,210	€5,387,980	€530,265
Botswana fresh and chilled	5,233	€26,185,932	€1,088,370
Botswana frozen	-	-	-

*based on €1.45 to 1£

Declaration XXVI of the Cotonou Agreement, the joint declaration on beef and veal, the EU undertakes to 'ensure that the ACP states, beneficiaries of the protocol on beef and veal, derive full benefits therefrom'. Clearly since the imposition of the residual duty prevents them from gaining 'full benefits' from the protocol these provisions could be invoked to allow the removal of the existing residual duty.

Addressing the financial burden of food-safety measures

The issue of the financial implications of technical compliance with EU food-safety standards is an issue of critical importance to ACP beef exporters, particularly since with declining EU prices this is creating a 'squeeze' on the profitability of beef exports to the EU. Unless grant financing is made available by the EU through a dedicated funding mechanism to meet EU food-safety standards in the beef sector (similar to the support extended in the fisheries sector) then ACP beef exporters could find themselves excluded from the EU market, either as a result of failure to comply with EU food-safety standards or because the financial costs of compliance has made exports to the EU commercially non-viable.

While the EC has made a range of public statements stressing the importance of helping developing countries to meet EU food-safety standards, to date it seems that no money has been made available through easily accessible instruments to support the types of activities required.

The economic consequences of the termination of beef exports to the EU market would not be restricted to the lost income on sales to the EU market, but would be compounded by price declines on local and regional markets into which this beef would need to be diverted. This is particularly the case for high-quality beef cuts, for which there is actually a surplus in Southern African markets as a result of the structure of beef consumption and production in South Africa, the major beef consumer and producer in the region.

Serving differentiated markets

The issue of the commercial sustainability of EU food-safety controls will be vitally affected by the ability of ACP beef producers and processors to make the shift from 'trading' beef into an undifferentiated market to 'marketing' beef cuts into an increasingly differentiated EU market. Given the human-resource-intensive nature of these types of marketing activity and the human-resource constraints faced in the principal beef-exporting regions of the ACP (linked in large part to the reversals in human development arising from the HIV/AIDS pandemic),

Box 7. What the EC has said on assisting developing countries in meeting EU food-safety standards

Addressing a conference on EU exports and SPS measures in Brussels on 27 May, 2005 Trade Commissioner Mandelson said that SPS measures were 'a crucial dimension of trade policy ... future challenges in trade policy will not be in the field of traditional tariffs, but in the so-called non-tariff barriers to trade, to which the question of standards is crucial'. He continued 'if not managed with care, these measures can be impediments to trade which are difficult to justify. Managed successfully, they can be a stimulus to trade: enhancing the opportunity to exploit comparative advantage to the mutual benefit of all'. Commissioner Mandelson argued 'we should not shy away from taking a fresh look as how we can best work more closely with developing countries to meet their needs. First and foremost how do we enable them, through effective capacity building, to meet our own and international standards'. He went on 'we need to help developing countries to improve their capacity to abide by SPS rules and requirements and help them provide the infrastructure to do so'. Commissioner Mandelson called for 'specific provision for trade-related technical assistance in the field of SPS [to be] included in our aid programmes'.

Source: Speech by Commissioner Mandelson (SPEECH/05/307-27 May 2005) http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/307&format=HTML&aged=0&language=EN&guiLanguage=en

Table 22. EU meat and edible-meat-offal exports to the ACP and the world 1997–2003 (million euros)

	ACP	World	ACP as % of total EU exports
1997	150	3,644	4.12%
1998	159	3,285	4.84%
1999	145	3,742	3.87%
2000	223	3,943	5.66%
2001	240	3,830	6.27%
2002	255	3,689	6.91%
2003	247	3,156	7.83%

external financial and technical assistance may well be required to help ACP beef suppliers make the transition. With the EU having extensive programmes of assistance to its own farmers in developing marketing strategies, the EC would appear to be an ideal source of support for such financial and technical assistance. Furthermore the provisions of Declaration XXVI commit the EC to assisting ACP beef-and-veal exporters to 'improve their competitiveness'. This would appear to provide ample scope for extending support to such programmes.

Defending national and regional markets

While the scale of EU beef exports is greatly reduced and EU beef intervention stocks are empty, this does not mean that ACP countries face no threats of market disruption. The EU is facing increased competition on its traditional beef-export markets and is increasingly wanting to dispose of lower quality beef cuts, which find no markets in the EU. As in other sectors (e.g. cereal-based value-added food products), the EU could easily fall back on supplying ACP (mainly African) markets.

There is some evidence to suggest that the ACP is already becoming a more important market for EU meat exports generally, with a 65% expansion in the value of EU meat exports to the ACP between 1997 and 2003, despite a 13.4% contraction in the value of overall EU meat exports.

Against this background ACP beef-producing countries need to look at policy options for managing this potential problem.

This suggests a need for:

- the establishment of mechanisms for monitoring both EU beef exports to ACP markets and also those to non-ACP markets of interest to ACP producers;
- the establishment of swift and effective safeguard measures in the beef sector to allow immediate action to prevent market disruptions;
- the establishment of surveillance mechanisms, with the support of the EU, to monitor applications for export refunds on beef destined for markets of importance to ACP beef producers; and
- the establishment of a framework for consultations on beef-sector issues of concern to existing ACP beef suppliers and potential ACP beef exporters under the EBA initiative.

Endnotes

1. The Technical Centre for Agricultural and Rural Cooperation (CTA), based in Wageningen (Netherlands), is a joint ACP-EU organization specialized in information and communication for ACP agricultural and rural development and currently operates in the framework of the Cotonou Agreement. Agritrade is the CTA's website on ACP-EU agricultural trade issues. Contact person at CTA: Vincent Fautrel (fautrel@cta.int)
2. EC communication authorising the Commission to open negotiations on an amendment of the bound customs tariff for bananas, Brussels COM(1999), Annex 1, 'Implications of a tariff-only system'.
3. Actual sugar exports may exceed the nominal share of the SPS quota allocated to each country.
4. The original table had a sum of 2.3 million tonnes, this is assumed to be a mistake and the corrected figure of 1.9 million is included.
5. On the assumption of the full implementation of EU sugar-price reductions as agreed by the EU Council, a world market price of US$250 per tonne and a €/$ exchange rate of 1 to 1.1.
6. This is roughly equivalent to an intervention price of €2,669 per tonne under the old intervention price system.

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http://www.europa.eu.int/comm/agriculture/markets/beef/index_en.htm

The Directorate-General Agriculture's web-page providing a summary of the reform of the common organisation of the market for beef and veal with references to major regulations governing the market: http://www.europa.eu.int/scadplus/leg/en/lvb/l60009.htm

The Directorate-General Agriculture's web-page dealing with 'Agenda 2000' CAP reform in the beef-and-veal sector:
http://www.europa.eu.int/comm/agriculture/publi/fact/beef/beef_en.pdf

The executive summary of the Directorate-General Agriculture's analysis of the background to the 'Agenda 2000' reforms in the beef sector, from 1997 http://www.europa.eu.int/comm/agriculture/publi/pac2000/beef/index_en.htm

The full text of the Directorate-General Agriculture's analysis of the implications of the proposed 'Agenda 2000' reforms in the beef sector, of April 1997. This is based on data available in March 1997 and reviews the impact of the 1992 reform process: http://www.europa.eu.int/comm/agriculture/publi/pac2000/beef/beef_en.pdf