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Title: Recent Trends in Europe's Exports of Agro-food Products into Africa; Implication for Trade Policy Making in Africa

Introduction

The growing dominant trends of EU's agro-food products on the African market and its implication for trade policy making in Africa can be properly understood within the context of the European Union's Agricultural Reforms carried out over the years.

a. The Roots of EU Agricultural Reforms

Until the end of the Cold War European agricultural policy had been focussed on promoting European food security, with a strong emphasis on self-sufficiency. A system of high agricultural prices insulated from global prices by protectionist trade policies and supported by extensive public storage schemes and export support payments, kept European agro-food production domestically focussed. However, with the collapse of the Soviet Union and the removal of a pre-eminent security threat to the EU it was recognised that policy reforms were necessary to equip EU agro-food sector enterprises to respond to shifting global patterns of food demand. From 1992, this saw the European Union (EU) pursuing a very gradual yet systematic reform of its agricultural policies.

Agricultural policy reforms announced in 1992, began a gradual shift from a system of price support to a system of direct aid payments to EU farmers. Guaranteed prices were gradually reduced, with direct aid payments to EU farmers being gradually increased, to partially compensate for income losses and to support a restructuring of agriculture in the EU. This restructuring aimed to shift production of particular commodities to the lowest production cost areas of the EU for that particular commodity.

b. The Case of Cereals Sector Reform: The Impact on Trade with Africa

This reform process was first initiated in the cereals sector. The cereals sector is at the heart of EU agricultural production, since it feeds into both domestic EU livestock production and the

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production of a wide range of value-added food products (e.g. pasta). This first phase of EU cereals-sector reform involving reforms in 1992, 1995 and 2000, served to fuel the export of EU cereal-based food products and EU poultry meat to African markets.

For the category 'products of the milling industry' (CN 11) EU exports to ACP countries (primarily sub-Saharan African markets) rose by 83percent in value terms between 1996 and 2002, while for 'preparations of cereals' (CN 19) exports from the EU to ACP countries (again primarily sub-Saharan African markets) rose by 163percent in value terms.

This increased the importance of the ACP markets-primarily sub-Saharan African markets-to EU exporters from 12.6 percent to 20.6 percent in the case of 'products of the milling industry' and from 4.9percent to 9.5percent in the case of 'preparations of cereals'[*].

This was, partly, driven by investments in North African countries in the local milling and processing of cheaper grains sourced from Black Sea production regions, a development which reduced EU export opportunities to these markets. This saw EU exporters falling back on 'markets of last resort' in sub-Saharan Africa.

This process of falling back on 'markets of last resort' in Africa has become a feature of the operation of EU exporters across a range of sectors as the EU agro-food sector has become more internationally orientated. However, overtime the long-term commercial potential of growing African markets came to be appreciated by EU agro-food exporters, with in some sectors sub-Saharan African markets coming to take on important commercial significance (e.g. in the poultry meat and dairy sectors[†]).

The reduction in feed costs which cereals-sector reform brought about also served to fuel EU meat-product exports (particularly of poultry). Between 1996 and 2002 EU exports of meat products to ACP countries (primarily sub-Saharan African markets) increased by 121 percent in value terms. This saw the importance of the ACP market (primarily sub-Saharan African markets) increase from 3.5percent to 6.9 percent of total EU meat-product exports.

Changes to EU food safety regulations in response to the post 1986 BSE[‡]/CJD health scare saw a ban introduced on the feeding of meat and bone meal to livestock. This measure, alongside a distinct EU consumer preference for poultry breast meat, meant market opportunities for poultry parts produced in the EU were limited. With growing consumer demand for white poultry meat in the EU, the maintenance of a protective wall of carefully regulated TRQ based import arrangements, saw EU poultry meat production grow rapidly.

It was against this background that the importance of sub-Saharan African markets to the EU poultry sector also started to grow rapidly. This was to be just the beginning of the process. By 2009 sub-Saharan African markets were accounting for 23 percent of total extra-EU poultry

[*] The share of sub-Saharan African markets for '*products of the milling industry*' and '*preparations of cereals*' peaked in 2013 respectively at 24.78percent and 10.82percent of total extra-EU exports respectively, falling to shares of 17.22percent and 9.55percent respectively in 2017 on the basis of a 21.2percent and 39.1percent increase in total extra-EU exports of '*products of the milling industry*' and '*preparations of cereals*'. Between 2013 and 2017 while the value of EU exports of '*products of the milling industry*' to sub-Saharan African markets fell 15.8percent , the value of EU exports of '*preparations of cereals*' to sub-Saharan African markets increased 22.8percent .

[†] In the dairy sector this essentially supports EU safety net measures by allowing an outlet to be found for milk powder products. It is the production of milk powder and its storage with the benefit of public support which prevent EU milk market prices falling to levels which would force more EU milk producers out of production than is currently the case, with this having the potential to undermine the basis of diary production in a range of EU member states.

[‡] **Bovine spongiform encephalopathy**/ Creutzfeldt-Jakob Disease

meat exports while by 2013 sub-Saharan Africa was taking fully 41.2percent of total extra-EU poultry meat exports.

The introduction of Russian agro-food product import embargo in August 2014 saw a further increase by 2016 the importance of sub-Saharan African markets to extra-EU poultry meat exports having risen to 46.8 percent of total extra-EU poultry meat exports, as African markets once again become 'markets of last resort' in the face of disruptions to EU exports in a major export market - Russia.

Significantly the specific pattern of EU poultry meat exports to sub-Saharan Africa was heavily influenced by the specific poultry sector trade policies pursued by different African governments. A critical issue which has emerged in the last 10 years in regard to the EU-Africa poultry trade has been the willingness of sub-Saharan African governments to use non-tariff trade policy measures to restrict imports of extremely low priced imports of EU poultry parts in the interests of domestic producers.

c. The Widening and Freezing of EU Agricultural Reforms

Alongside the phased introduction of reforms in the cereals sector the EU began to gradually and carefully roll out its underlying reforms in other sectors[§], by 2013, most direct aid payments to EU farmers having been 'decoupled' from production of specific agricultural products. This meant EU farmers received direct aid payment regardless of what was produced or the level of production. However, from 2013 the concerns of some EU member states over the potential loss of national agricultural production capacity has led to demands for greater 'flexibility' in the use of 'coupled' payments under EU rules.

According to OECD analysis the EU's June 2013 political agreement on CAP reform increased the scope for 'coupled' support in certain particularly sensitive commodities[**]. The maintenance of 'coupled' payments has had the most pronounced production effects and trade consequences in the dairy and sugar sectors.

In 2017 the EC agreed to further relax the rules on the provision of 'coupled' payments. This halted and partially reversed the reform process which was initially intended to entirely move over to the deployment of decoupled payments. Concerns expressed by the EC during the 2017 discussions on the further relaxation of EU rules on the deployment of 'coupled' support payments suggested that in light of the trade consequences of these 'coupled' payment, any further 'flexibilities' could leave the EU vulnerable to challenge in the WTO.

Despite the partial reversion of the earlier commitment to fully moving over to decoupled support payments, by 2018 in all CAP covered products, the reform process had largely been completed, with the dairy and sugar sectors being the last sectors to be fully reformed.

Significantly, as a result of these reforms, the EU agro-food sector is no longer producing primarily for the domestic EU markets, with 'surpluses' being stored or exported with public

[6] With direct aid payments initially tied to ***area payments*** linked to historical levels of production, subsequently ***'decoupled'*** from historical production levels and eventually '***decoupled'*** from the production of any specific commodity. Farmers were then paid simply for being farmers, with most farmer being free to choose what they produced. However given concerns over possible loss of production in certain EU member states, some payments remained '***coupled*** to production of particular commodities in particular member states.

[**] See, OECD, 'Support to agriculture rising after hitting historic lows, OECD says', 18 September 2013, http://www.oecd.org/newsroom/support-to-agriculture-rising-after-hitting-historic-lows-oecd-says.htm

assistance, it is now increasingly focussed on price competitively serving expanding global markets for agro-food products.

This price competitiveness however, is still strongly influenced by the income transfers farmers receive under the direct aid payment schemes and various other EU agricultural support programmes (from product specific 'coupled' payments to large scale programmes of 'emergency' intervention buying and storage).

Without these direct aid payments (which include both 'decoupled' and 'coupled' payments) EU farmers would be much more vulnerable to global price volatility (to which EU markets are increasingly exposed), with the prospect of EU agricultural production being undermined by periodic market crisis situations[††]. As it is these various measures insulate EU farmers from the worst effects of price volatility and shift the burden of adjustment to other components of the global agro-food system, most notably in Africa.

d. The Complementary Trade Dimension to EU Agricultural Policy Reform

Significantly, as the EU agricultural reform process got underway the European Commission recognised this reform process would be assisted by a trade policy which secured preferential access for EU exporters to growing markets across the globe. As a consequence, from 1995 the EC was committed to pursuing a policy of concluding free trade area agreements, as a means of securing preferential access for EU agro-food exporters to overseas markets. This trade policy is seen as an essential complement to the process of agricultural reforms.

However, it should be noted the domestic tariff dimension of this trade policy involves a carefully managed process of liberalisation of imports of agro-food products in sectors which are considered 'sensitive' within the EU (e.g. the poultry sector).

It is this new EU trade policy which informed the development of EU's trade relations with post-apartheid South Africa, with the European Commission hoping to conclude a free trade agreement with South Africa in the mid-1990s. It was intended this agreement would then become a model for Post-Lomé trade relations with sub-Saharan African countries.

South Africa's reluctance to conclude an FTA with the EU without a proper assessment of its implications for domestic economic policy ensured this agreement was not concluded until 1999. This was too late for it to become the model for the immediate post-Lomé trade relationship with other African and ACP countries. It nevertheless confirmed the EU's commitment to establishing reciprocal preferential trade arrangements as the long-term basis for future EU-Sub-Saharan Africa trade relations.

This was duly enshrined in the Cotonou Agreement, with the provisions of the Cotonou Agreement providing the basis for the launch of economic partnership agreement negotiations with regional groupings of sub-Saharan African countries. While this process has taken far longer and been far more difficult than the European Commission initially envisaged, during this period the approach was deepened to reach beyond tariff reduction and elimination commitments.

[††] For a snapshot review of the EU's use of agricultural support measures on a sector by sector basis in 2011 see: Agritrade, ''The EU's agricultural policy toolbox: A sector-by-sector review', Special report, 13 December 2011, http://agritrade.cta.int/en/Agriculture/Topics/CAP-reform/Special-report-The-EU-s-agricultural-policy-toolbox-A-sector-by-sector-review

From July 2007, a strong focus emerged not only on securing the reduction and elimination of import tariffs in the agro-food sector, but also the systematic removal of non-tariff barriers to EU agro-food exports. For EU exporters these non-tariff measures were seen as the principal obstacle to the continued expansion of extra-EU agro-food exports. This provides the context in the agro-food sector to the negotiation, conclusion and implementation of EU-Economic Partnership Agreements with sub-Saharan African countries.