EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

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International aspects of agricultural policy

BACKGROUND DOCUMENT
FOR THE
ADVISORY GROUP ON INTERNATIONAL ASPECTS OF AGRICULTURE

30 January 2012
Updated 1 June 2012

C O N T E N T S

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I am delighted to introduce what is I believe the first comprehensive survey of DG Agri's international agenda, covering our multilateral relations in WTO and elsewhere, our very active bilateral negotiating agenda, our relations with acceding countries, and more. Even though attention right now is understandably focussed on the forthcoming CAP reform, this document is a useful reminder of several things. First, that the international trade dimension of agriculture remains of utmost significance to European farmers and the European economy – Europe after is all is the world's biggest trader of agricultural products, and we are competitive in many sectors. And secondly, it demonstrates that our international agenda is an integral part of the CAP and the EU's 2020 agenda for smart, sustainable and inclusive growth.
I am sure that this document will prove useful reading, and I am glad that its publication coincides with the launching of a new advisory group on the international dimension of the CAP. My services look forward to the guidance that that group will give us as we take forward the international agenda.

Brussels, 30 January 2012

Note:
The updated version of 1 June 2012 includes trade data from 2011.

Section 1

EU AGRICULTURE POLICY IN A CHANGING WORLD

1.1. The international dimension of agricultural policy

With combined imports and exports annually of 177 billion euro (2009-2011 average data), the EU is the world's foremost trader in agricultural products, benefiting producers and consumers within and outside the EU. Agricultural trade is not an end in itself, but a means to meet demand, remedy shortage, and enhance prosperity for farmers, processors, consumers, and the rural economy in general. As such, the international aspects of agriculture policy have an important role in pursuing the fundamental objectives of the Common Agricultural Policy (CAP), which emphasises agricultural productivity, a fair standard of living for farmers, ensuring reasonable prices for consumers, promoting stability in markets and in particular stabilising imports and exports, as well as food security.

In addition, key policies have a direct bearing on the international aspects of agricultural policy, including:

– the 2020 strategy supporting the creation of smart sustainable and inclusive growth in the EU,

– the common commercial policy, notably the negotiation and conclusion of tariff and trade agreements,

– ensuring coherence with policy towards developing countries, in particular improving food security and rural prosperity,

– and contributing to global sustainability of the farming sector, for which the challenges of climate change and conservation of biodiversity are uppermost.

The EU takes a wide variety of measures and actions to promote and defend the EU agriculture sector in a changing world environment and contribute to sustainable economic development. These include in particular measures designed to:

– secure export opportunities for EU producers;

– manage import arrangements to meet the needs of EU consumers and the processing industry while taking account of sensitive production sectors;

– promote growth and stability in developing countries and in the EU's neighbouring countries;

– and uphold the rules-based global trading system in a way that takes account of the fundamental role of agriculture in ensuring food security.

1.2. Volatility and uncertainty

Global agriculture markets are in a turbulent phase, which impacts directly on EU farmers and the agri-food sector. Balancing world agricultural production and prices is notoriously difficult. If production outstrips demand, prices fall and farmers suffer economically and can lose incentive to produce; if there is a shortfall in production for the demand, prices can quickly put basic foodstuffs out of reach of the poorest consumers leading to hunger and instability. Price volatility makes planning for farmers and buyers the world over extremely difficult.

Skyrocketing food prices in 2007-2008 led to riots and political discontent in several parts of the world. These events focused attention on the pivotal role of agricultural policies for food security and rural prosperity after several decades of under-investment in agricultural research, low prioritisation of food security policy, and over-optimism in the agricultural outlook. Since 2008, there has been no let-up in both the volatility of prices and particularly high prices for many staple commodities: 2011-12 saw the FAO's food price index[1] reach comparable and even higher levels than in 2008. According to UN analysis the world population passed 7 billion in 2011, of whom an estimated 925 million are chronically hungry[2]. World population may reach 9.3 billion[3] by 2050. World demand would require an estimated 60% increase in agricultural production globally compared with 2009 levels[4]. Natural resources across the globe, notably soil and water on which farming depends, are under unprecedented strain from productivity demands and climate change[5].

These global uncertainties underline the importance of the international dimension of EU agriculture policy and the responsibilities of the EU and Member States to ensure food security, promote trade that benefits society, and foster sustainability and economic viability in the agricultural sector globally.

1.3. EU agricultural policy in 2012

The common agricultural policy of 2012 – on the eve of a new reform – is designed to ensure farmers react to market signals, and to allow EU farmers to compete globally. Impact on world market prices is minimised by the use of non trade distorting instruments and significantly reduced use of payments linked to production volumes, export, or market management.

Figure 1.1 shows the evolution of CAP expenditure. Over the last thirty years, the budget has increased in value as the EU has enlarged, totalling more than 50 billion

[1] FAO: http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/

[2] WFP: http://www.wfp.org/hunger/stats ; FAO: http://www.fao.org/docrep/012/al390e/al390e00.pdf

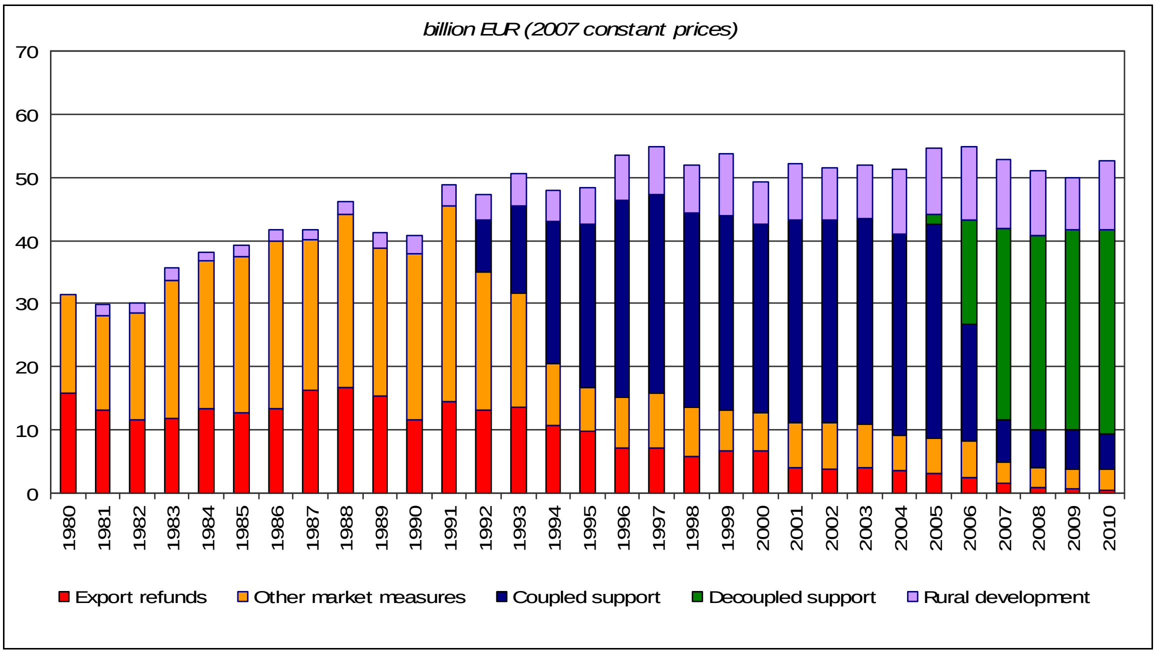
[3] UN 2010 revision of population estimates: http://esa.un.org/unpd/wpp/Other-Information/Press_Release_WPP2010.pdf

[4] http://typo3.fao.org/fileadmin/templates/esa/Global_persepctives/world_ag_2030_50_2012_rev.pdf

[5] See the FAOs,'The State of the World's Land and Water Resources for Food and Agriculture' http://www.fao.org/nr/solaw/solaw-home/en/

euro in 2009. However, over the last 20 years, expenditure on coupled direct payments has decreased in favour of decoupled payments, investment in rural development programmes has gained importance, while export subsidies as well as expenditure on market support measures have gone down to minimum levels. These measures ensure that the impact of EU domestic policy on world market prices is negligible, and that the EU is a price taker rather than a price setter.

Figure 1.1 Evolution of CAP expenditure



This is far removed from the CAP of 20 years ago, when the main commodity regimes relied on the stabilisation of a floor price within the EU at levels above world prices, which in turn necessitated high tariffs and export subsidies to bridge the gap between the internal price and world price in a given commodity. These and similar measures taken by other countries, notably the US, impacted world trade by depressing prices in the affected commodities and discouraged farmers from responding to market signals at home, leading to over-production.

1.4. New reform proposals

Against the backdrop of unprecedented food price spikes and volatility, exacerbated by the economic crisis, CAP reform proposals were presented in October 2011. The proposals provide a broad set of measures that are aimed at contributing to tackle various challenges including food security and price volatility, by promoting sustainability, improving long term competitiveness, and achieving greater economic efficiency and better targeting of support, among others.

– On ***food security*** it is essential that EU agriculture plays its part in assuring food availability and productive capacity to meet increasing demand. Each country and each region of the world has primary responsibility to assure its own food security, and developed and emerging economies must promote increases in productivity in food-deficit and vulnerable regions. At the same time the EU and other high-level producers must retain and improve their productive capacity to help stabilise markets and provide supplies for food-deficit countries. Imports in turn help the EU to diversify its sources of supply as a measure to improve domestic food security, while providing welfare benefits to farmers in exporting countries.

– On ***price volatility***, which threatens the long-term competitiveness of agriculture, the reform proposals introduce crisis management tools including safety-net powers to intervene directly in the markets through private storage and public intervention (buying product off the market) in times of low price crises. A Reserve for Crises is proposed outside the CAP budget framework to deal with (inter alia) exceptional market situations where the financing available within the CAP budget is not sufficient to cover the needs. Decoupled direct payments and the promotion and creation of insurance and mutual funds contribute to income stability. The EU was a prime mover behind the G20 initiative to take global action to tackle price volatility, endorsed at the Cannes G20 summit in November 2011. The EU remains committed to the removal of export subsidies as part of a global WTO agreement that includes discontinuation of all forms of export support.

– On ***sustainability***, much of the new CAP support (30% of direct payments and targeted regional and local measures under rural development schemes) will be focused on ‘green’ payments for long-term productivity and preserving ecosystems, such as crop diversification, maintenance of permanent pasture, preservation of ecological reserves and landscapes. Rural development policy will prioritise eco-system payments to preserve and the restore habitats and mitigate climate change, as well as measures to avoid desertification and maintaining productive capacity throughout the territory.

– On ***competitiveness***, the Commission is proposing to double the agricultural research and innovation budget and facilitate the transfer of research results into practice by creating 'partnerships for innovation' between researchers and farmers. To strengthen the bargaining position of farmers, the Commission proposes to support producer organisations and promote short marketing chains between producers and consumers (without too many intermediaries). Furthermore, the sugar quotas, which have lost their relevance, will not be extended beyond 2015.

– On ***economic efficiency and targeting of support***, the Commission is proposing to simplify the CAP mechanisms without sacrificing effectiveness. Support will be more equitably distributed and better targeted at active farmers, including young farmers in order to help rejuvenate the sector – since two-thirds of EU farmers are over 55 years of age.

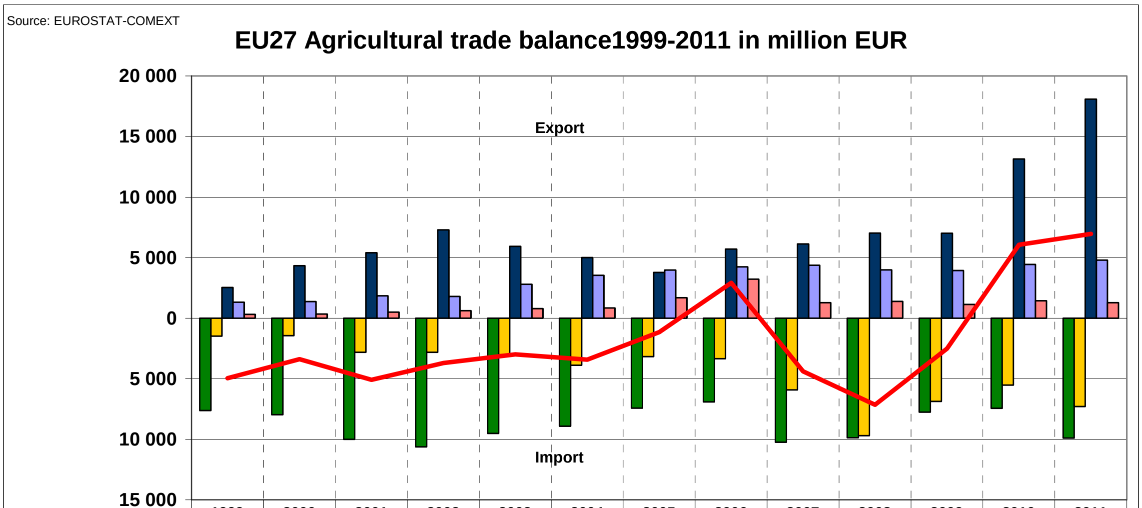
The reform package will ensure that the CAP instruments continue to have a minimal impact on world markets and trade. The proposals are designed to reinforce the competitiveness of EU farmers, enabling them to better take advantage of export opportunities.

Section 2

MAIN FEATURES OF EU AGRICULTURAL TRADE

Having been a net importer in the recession years 2007-2009, the EU is currently a net exporter of agricultural products. The last couple of years in which the EU has recorded a positive balance in agricultural trade, mark a significant rebound from the slump in the preceding years (see Figure 2.1 below). In 2011, the EU trade surplus was €7 billion, compared to €6 billion in 2010 and a deficit of 2.5 billion in 2009. On average, in 2009-2011 EU exports were around €90 billion, while imports amounted to about € 86.7 billion. The trade data underline the EU's pre-eminent position as both exporter and importer — importing far more than other leading economies of the US, China, Japan or Russia.

Figure 2.1



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commodities	-7636,392	-7970,173	-10009,14	-10621,52	-9503,201	-8916,321	-7424,295	-6910,551	-10237,93	-9857,058	-7747,348	-7439,005	-9895,116
Intermediate	-1491,241	-1444,415	-2822,201	-2816,573	-3004,404	-3896,675	-3171,561	-3354,174	-5927,475	-9700,076	-6868,517	-5525,046	-7295,202
Final products	2533,12	4323,315	5407,257	7293,668	5925,768	5011,263	3771,596	5704,948	6125,995	7033,65	7012,271	13137,95	18089,86
Other products	1315,888	1371,654	1848,195	1806,495	2795,265	3536,69	3977,183	4242,886	4369,722	3983,261	3949,986	4445,191	4798,702
Confidential Trade	311,391	337,9534	493,3846	628,4331	792,0506	833,174	1700,604	3235,057	1277,561	1384,516	1134,788	1446,64	1267,807
Balance	-4967,234	-3381,665	-5082,503	-3709,496	-2994,521	-3431,869	-1146,474	2918,166	-4392,13	-7155,708	-2518,821	6065,727	6966,054

2.1. EU export performance

The EU is the second largest agricultural exporter after the US, and exports nearly twice as much as Brazil. In the past the EU generally held a trade deficit in agricultural products, but in 2010 this trend was reversed and the EU enjoyed a positive balance in the trade of agricultural goods. This was mainly due to the increase in the value of exports that followed the steep decrease of world trade in 2009. The export rebound of 2010 was driven by a stronger demand for final products as the EU's key partners came out of recession, as well as by high prices of commodities and intermediate goods. Other factors also contributed, including the exchange rate fluctuations that have weakened the euro, and restrictive trade measures taken by other important players. In 2011 commodity prices continued to stay high and the demand for EU final products remained strong as well. Imports and exports grew at a similar pace and allowed the EU to keep the agricultural trade surplus close to that of 2010.

The global pattern of export trade is also changing. While trade with the US, the EU's largest market, has bounced back and sales in 2011 were as high as in the record year 2006, its share has gone down to under 14% of exports. This is mainly because EU trade with other partners has increased. In 2010 the biggest increase of EU exports was registered by Russia, where sales grew by nearly one third reaching 10% of the EU's market share. In 2011 sales to Russia continued to grow but the biggest absolute gain was made in sales to China, outpacing Russia.

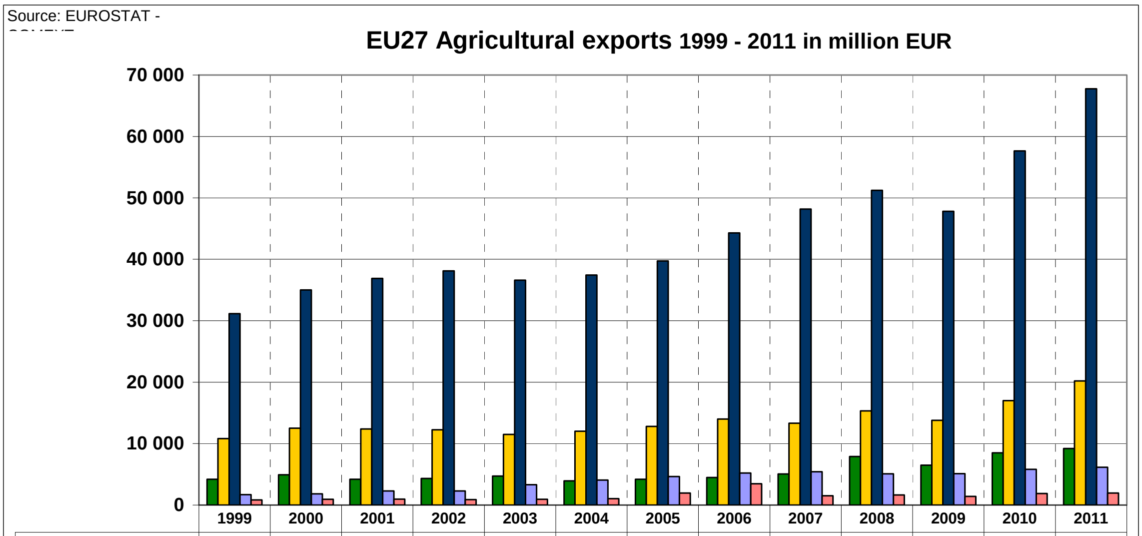
China and Hong Kong are among the EU's fastest growing markets. In 2011, the combined gain to those markets was €2.5 billion (€1.6 billion to China alone). In the last five years exports to China and Hong Kong have shown buoyant expansion: the annual growth rate since 2007 was over 30% for both markets.

The concentration of exports from the EU is evident as the 3 top trading partners, US, Russia and China, account for almost one third of total exports. Other major partners such Switzerland, Japan and Norway show a sluggish trend.

The EU's export strength lies in final products that are ready for consumers, both processed and unprocessed, where the EU shows a net trade balance of EUR 12.7 billion (2009-2011 average). These include wines, spirit drinks, cheeses and processed meats that produce significant value added in the chain. Businesses producing final products employ over 4 million people in the EU, and purchase 70% of EU farm output. The main exported products over the period 1999-2011 were spirits and liqueurs, wine and vermouth, cereal preparations, wheat, and odoriferous substances[6] (see Figure 2.2 below)

6 Odoriferous substances are products registered under heading 330210 of the Harmonized System which covers mixtures of substances (concentrates/flavourings) used by the soft drink industry

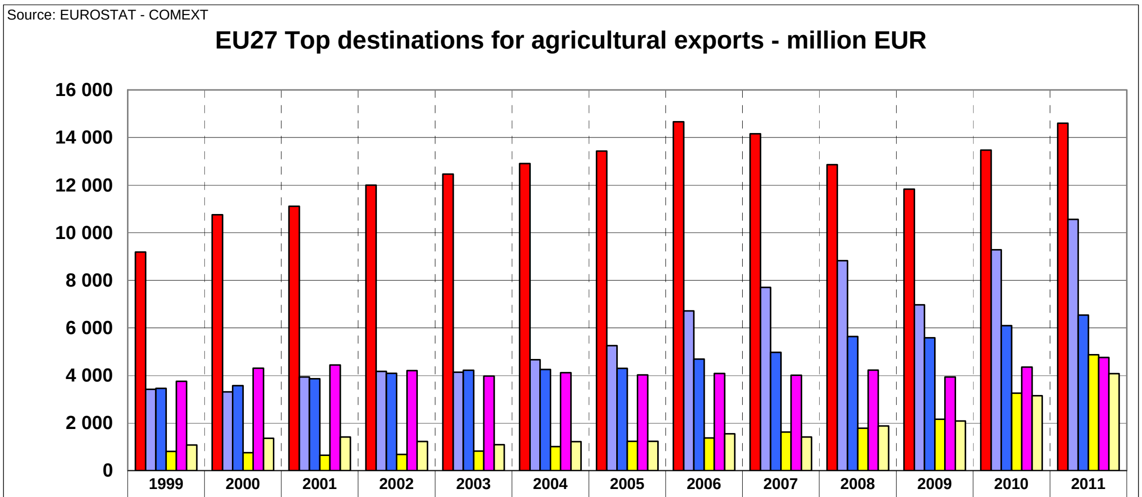
Figure 2.2



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commodities	4208,312	4940,568	4191,028	4302,21	4716,252	3923,248	4180,73	4472,456	5044,231	7900,626	6489,03	8486,632	9188,322
Intermediate	10813,48	12522,43	12366,07	12250,33	11482,17	11993,99	12784,69	13985,96	13308,74	15324,33	13768,35	16999,11	20190,96
Final products	31166,7	35021,39	36876,67	38108,26	36608,56	37423,1	39719	44298,8	48182,88	51225,05	47804,22	57632,67	67755,25
Other products	1672,86	1817,13	2290,526	2304,299	3305,286	4058,313	4610,501	5212,481	5409,865	5085,548	5122,849	5807,16	6143,663
Confidential Trade	815,0025	930,7511	958,6745	879,0826	910,1791	1046,524	1966,642	3465,301	1505,946	1609,392	1401,848	1869,033	1963,057
Agricultural products	48676,36	55232,26	56682,97	57844,19	57022,45	58445,17	63261,57	71435	73451,66	81144,94	74586,3	90794,6	105241,3

It should be highlighted that there is a high concentration of exports of these 5 products in key markets. For example, as shown in Figure 2.3, the 5 main markets for wine account for around 70% of EU sales, 60% in the case of odoriferous substances, and nearly 50% for whisky exports.

Figure 2.3



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
USA	9188,164	10755,44	11112,01	11999,73	12463,5	12907,57	13431,1	14666,68	14161,36	12860,58	11832,48	13468,97	14602,85
Russia	3416,819	3312,577	3930,692	4171,544	4135,661	4660,526	5249,748	6711,182	7702,569	8823,725	6961,73	9282,3	10560,33
Switzerland	3461,368	3570,193	3862,656	4094,544	4216,355	4247,053	4296,925	4687,986	4970,798	5635,729	5585,364	6094,043	6538,969
China	803,4994	752,5275	645,9119	683,0053	820,0946	1012,242	1231,466	1372,079	1622,519	1786,623	2158,817	3257,393	4868,985
Japan	3749,695	4305,641	4439,568	4199,434	3973,885	4112,942	4017,646	4083,923	4013,385	4222,115	3936,65	4352,511	4752,002
Hong Kong	1072,158	1360,309	1414,794	1222,458	1088,758	1216,33	1232,892	1548,259	1416,908	1882,839	2086,517	3151,907	4071,635
World	48676,36	55232,26	56682,97	57844,26	57022,52	58445,24	63261,64	71435,08	73451,75	81145,04	74586,4	90794,73	105241,2

The EU's successful export performance depends on keeping open access to export markets, tackling origin-counterfeiting in the agri-food sector, promoting the EU as a source of quality products, and keeping its own market open. EU trade policy aims to secure valuable export destinations of today, like the US, Japan and Switzerland, as well as emerging economies such as Russia, Asia and South America. The EU can only attain these results by being a reliable and valued trading partner to other countries.

2.2. EU competitiveness, value-added and commodities;

The EU's evolution of agricultural exports has followed a positive trend, exporting more goods each year, from final products to commodities.

Traditionally, the EU has had a surplus in the trade of final products and other products while showing a deficit in the trade of commodities and intermediate goods. The EU is specialized in selling final products, many of them increasingly high valued. During the last decade, about two thirds of exports to the rest of the world have comprised final products such as spirits and liqueurs, wine and vermouth and other food and cereal preparations. During the period 2009-2011, 12 of the 15 top exports were final products; the remaining 3 were wheat (commodity), other vegetable products (intermediate), and odoriferous substances (other products).

The improvement in the EU's trade balance in 2010-11 was also attributable to final goods (apart from wheat, sugar and skins), accounting for more than 60% of the growth of exports. Wine sales are responsible for a 7% of the total increase in agricultural exports in 2011. The significance of these value-added goods is also shown by increases in certain products in their unit value. In the case of whisky, an increase of 10% in unit value in 2010 and 5% in 2011 suggests that consumer preferences towards expensive brands are quite strong.

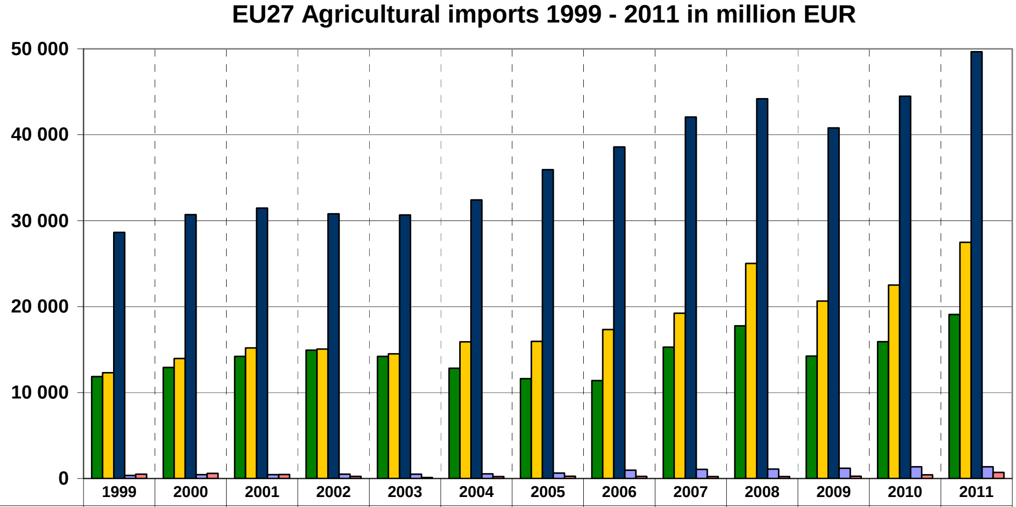
Extraneous factors, over which EU producers have little influence, also impact on the EU trade balance. In the case of wheat, the trade surplus of 2010 is due to both an increase of 70% in export value and a 30% reduction in import value. The latter was mainly caused by the export restrictions imposed by Russia and Ukraine to limit the impact of price rises in their home markets. In 2011, when the restrictions were no longer in force, imports rebounded by over 60% in value terms, but thanks to strong exports the EU maintained a positive trade balance.

2.3. EU's import performance

The EU is the leading importer in the world, well ahead of the US, China, Japan or Russia. Although the value of imports shrank in 2009 due to the recession, in 2010 imports rebounded by 10% and by another 16% in 2011. There is a wide variety of imports: 52% of imports are final products, 28% are intermediate ones and 19% are commodities (see Figure 2.4) Tropical fruits and spices, plus coffee, tea and cocoa represent 24% of total imports, while oilcakes and other animal or vegetable oils make up for 15% of total imports. Due to coffee price surge coffee is now the EU's main single import, followed by soybean meal (an animal feed) and soybeans. Some important trends are that poultry meat and offal are now among the top 15 imports whereas wheat is no longer in this group. For livestock production, the EU relies on imports of vegetable protein which is increasingly produced world-wide from crops of genetically modified plant varieties. Imports are subject to EU rules on approvals and labelling requirements.

Figure 2.4

Source: EUROSTAT -



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commodities	11844,7	12910,74	14200,17	14923,73	14219,45	12839,57	11605,02	11383,01	15282,16	17757,68	14236,38	15925,64	19083,44
Intermediate	12304,73	13966,84	15188,27	15066,9	14486,57	15890,67	15956,25	17340,13	19236,22	25024,41	20636,87	22524,16	27486,17
Final products	28633,58	30698,07	31469,41	30814,59	30682,8	32411,84	35947,41	38593,85	42056,88	44191,4	40791,95	44494,72	49665,39
Other products	356,9717	445,4754	442,3303	497,8041	510,0214	521,6227	633,3179	969,5947	1040,143	1102,288	1172,863	1361,969	1344,961
Confidential Trade	503,6114	592,7977	465,2899	250,6496	118,1285	213,3504	266,0383	230,244	228,3847	224,8762	267,0605	422,3933	695,2499
Agricultural products	53643,59	58613,93	61765,47	61553,68	60016,97	61877,04	64408,04	68516,83	77843,79	88300,65	77105,12	84728,88	98275,21

By origin, Brazil is by far the EU's largest supplier of agricultural goods (14% share), followed by the US (8%), Argentina (6%) and then China (4.5%), Switzerland (4.2%) and Turkey (3.6%). There is a high concentration in the origin of some products; for example, the soya market, with almost 100% of EU imports coming from Argentina and Brazil for soybean meal, and 70% of soybean supplies from Brazil and the US. Similarly, most coffee imports come from Brazil while around 60% of imports of cocoa beans come from Ivory Coast and Ghana.

It is striking that more than 70% of total EU imports come from developing countries, far more than the 43% average of the 5 leading importers among the high income economies (US, Japan, Canada, Australia and New Zealand). The EU is the largest importer of agricultural products from developing countries - the result of deliberate policy choices to grant favourable trading terms to developing countries. Open access to the European market contributes to these countries' economic growth, food security, poverty reduction and rural development.

2.4. Consumers and EU industry

Trade in agricultural products benefits consumers in the EU because it increases choice and access at competitive prices to products not readily available from within the EU. This includes out-of-season products and tropical goods such as coffee, cocoa, and tropical fruit – which are among the most traded commodities in any sector.

Commodities and intermediate products account for 47% of the value of total agricultural imports, many of them being transformed into value-added final products. For example, soya products will be used in animal feedstuffs to produce value-added meat products. Cocoa beans and imported sugar are just the starting point in the confectionery business. Green coffee beans are roasted according to consumer preferences across Europe, turned into branded products, processed into convenience products, and so on. The transformation of imported commodities and intermediate products creates value, and the resulting final products will be sold at a higher price providing a margin to manufacturers.

The EU also relies on imports to meet shortfalls where EU production cannot supply the quantities needed by industry or can only provide at excessive economic cost, to present consumers with freedom of choice, and to encourage competition that can increase the efficiency of EU producers.

All imported agricultural products and foodstuffs meet the EU's high standards of safety and hygiene, and are subject to checks in counties of origin, at borders and in the EU marketplace.

Section 3
MULTILATERAL

3.1. Agriculture in the WTO

3.1.1. The World Trade Organisation and the multilateral trading system

With 157 member countries and counting, the World Trade Organisation (WTO), established in 1995, sets the global rules governing trade between nations. The WTO is a member-driven organisation whose core activities are:

– multilateral negotiations aimed at progressive liberalisation of markets;

– setting the legal ground-rules for trade in the form of agreements;

– resolving trade disputes between States; and

– monitoring Members' trade policies.

The EU, as the world's largest trading block, is a key player in the WTO, where the European Commission negotiates on behalf of the 27 countries of the European Union. The EU actively supports the work of the WTO on multilateral rule-making and trade liberalisation, seeking to:

– maintain open markets and ensure new markets for European companies;

– strengthen multilateral rules and ensure their observance by others;

– promote sustainable development in trade.

There is a long-term systemic benefit in strengthening the WTO's role in improving global economic governance alongside other actors such as the Bretton Woods organisations and the G20. Thanks to its role with respect to multilateral trade liberalisation and rulemaking, the WTO has proven a powerful shield against protectionist backsliding – one of the crucial differences between today's crisis and that of the 1930s.

The current trading rules were negotiated under the Uruguay Round (1986–1994) leading to the Marrakesh Agreement establishing the World Trade Organisation (WTO). The Marrakesh Agreement is in fact a series of agreements on many aspects of trade rules including the latest revision of the 1947 General Agreement on Tariffs and Trade (GATT), intellectual property, dispute settlement, technical barriers to trade, sanitary and phytosanitary rules, and an Agreement on Agriculture.

3.1.2. The WTO Agreement on Agriculture

The Agreement sets out specific commitments undertaken by WTO members to improve market access and reduce trade distorting subsidies in trade in agricultural products. The application of these agreed commitments started in 1995 with an implementation period for developed countries of 6 years, and 10 years for developing members. The Uruguay Round made a decisive move towards increased market orientation in global agricultural trade.

The results of the WTO negotiations consist of general rules that apply to all Members as well as specific commitments made by individual Members. These specific commitments are listed under '*schedules of concessions*'. For agricultural products, these concessions and commitments include tariff and quota bindings, and limits on export subsidies and on domestic support. The Schedules may require amendments over time in order to reflect various events which have taken place such as negotiations under Article XXVIII of the GATT.

The implementation of commitments stemming from the Agreement on Agriculture is overseen by the Committee on Agriculture. Within this committee, WTO members have the opportunity to consult on issues related to the implementation of their commitments. The questions members ask each other under the review of notifications are part of the Committee’s key responsibility of overseeing how countries are complying with their commitments.

3.1.3. Agriculture and the Doha Round

At the end of the Uruguay Round, WTO Members recognized (in Article 20 of the Agreement on Agriculture) the long-term objective of substantial progressive reductions in support and protection, resulting in fundamental reform, as an ongoing process. They agreed to initiate negotiations to continue the process one year before the end of the implementation period for developed countries (i.e. in 2000).

The Doha Round of WTO negotiations, also called Doha Development Agenda or DDA, were launched in November 2001 in Doha, Qatar, and have since then experienced various periods of progress and stalemate. Building upon principles and objectives established under the 2001 Doha Declaration, the July 2004 Framework Agreement and the December 2005 Hong Kong Ministerial Declaration, WTO Members have been engaged, in particular in the second half of 2007 and in 2008, in negotiating detailed disciplines (called 'modalities') that would apply to agricultural and non-agricultural goods.

The next procedural step is to agree on these modalities, following which WTO Members can prepare their detailed list of commitments, or schedules. The latter would, together with agreed disciplines in other areas of negotiations, such as services or intellectual property, constitute the elements for the final agreement concluding the Round. Commitments are then generally expected to be implemented over a period of five and ten years for developed and developing countries respectively.

Agriculture is a cornerstone of the Doha Round, not least because of the unprecedented level of developing countries' involvement. Negotiations on agriculture cover three areas or pillars: domestic support (subsidies), market access (import regime, including tariffs), and export competition (export refunds, export credits, food aid and state-trading enterprises).

Since July 2007, successive draft modalities tabled by the Chair of the agricultural negotiations have been the basis of substantive work at Senior Official level, as well as Ministers' consideration in July 2008. The fourth revision or 'Rev. 4', tabled in December 2008, reflects the state of play and the high level of convergence reached among Members, while acknowledging outstanding items to be addressed, in particular:

– a special safeguard mechanism that would allow developing countries to raise import duties in case of an import surge;

– additional flexibilities to be used by developed countries who consider thatmore than 4% of their tariff lines correspond to products that are sensitive for domestic producers;

– domestic support disciplines for all members on cotton production.

As far as the EU is concerned, disciplines laid out under Rev. 4 are, as part of an overall package, acceptable, although a number of market access issues would need to be tied up. Rev. 4's key elements include:

– a steep reduction in the ceiling on trade-distorting subsidies, i.e. 80% cut of overall trade-distorting support and 70% cut of most trade-distorting support;

– a strong reduction of the EU border protection, with a minimum average cut of EU tariffs of 54% ;

– elimination of export subsidies.

These concessions are exceptional and go far beyond what the EU conceded in the Uruguay Round. As part of an overall package, which includes flexibilities for products considered sensitive, they are however acceptable as they make the best use of the negotiating capital stemming from CAP reforms, in respect of the mandate given by the Council to the Commission.

While DDA prospects are unclear, a balanced outcome of the DDA negotiations remains a key EU priority, as EU agriculture's offensive and defensive interests are satisfactorily addressed in the revised draft modalities of December 2008, with a number of market access provisions to be clarified or adjusted.

The EU has much to gain from the successful completion of the Doha Round because it will benefit from other Members' concessions as well. Because the EU exports large volumes of high-value products, and thanks to the structure of the tariff cut formula, duties applied on these products will be reduced, including in emerging countries where the demand is growing.

Despite the manifest advantages of a DDA agreement for trade, investment, growth and jobs, particularly for developing countries, it has not been possible for the WTO Membership to conclude the Round, in part due to differences between developed and emerging economies on what should be the contribution of the latter.. Many deadlines have been set and then missed and the financial crisis has not facilitated the process. However, the EU can take credit for being in the vanguard and not a cause of delay; and the the agriculture discussions have not as a whole been holding up the process. Nevertheless, final agreement remains elusive.

As long as the DDA is not concluded, the current WTO rules continue to apply, providing a serviceable vehicle for the conduct of world trade in agricultural products.

3.2. Tackling food security: G8 and G20

The rise in food prices in 2007-2008 propelled agriculture and food security to the top of the world political agenda. In the shadow of this price crisis, the agriculture ministers of the G8 — the grouping of developed countries including the EU and 4 Member States — met in Cison di Valmarino (Italy) in April 2009,[7] to examine ways of improving agricultural cooperation with developing countries, especially in Africa. At the following summit, the G8 world leaders committed USD 22 billion to the *L'Aquila Food Security Initiative* (AFSI) to be implemented over three years to help vulnerable countries boost food production. The European Union pledged USD 3.8 billion[8] and is delivering on this commitment through, for example, the *Food Security Thematic Programme*, the *Food Facility*, and support for agriculture and food security through the European Development Fund.

In 2012 at the Camp David Summit in the US the G8 heads of state and government launched the 'New Alliance for Food Security and Nutrition'.[9] The agricultural volet is built on three pillars: to mobilise private investment in food security in Africa; the scale-up innovation and research as a driver for increasing productivity and post-harvest handling; and to improve risk management. It will be implemented in partnership with the African Union and integrated within the AU's CAADP initiative – the Comprehensive African Agricultural Development Programme.

In 2011, the G20 group of countries - the G8 plus the emerging economies such as Brazil, China, India, Mexico and South Africa - tasked agriculture ministers to propose a plan to deal with volatility in food prices. The ensuing *Action Plan on Food Price Volatility and Agriculture*[10] was ensorsed at the G20 summit in November 2011, and such was the urgency to address the issues it had already begun to be implemented. The action plan is structured into five broad sections, comprising concrete initiatives:

– The first section targets agricultural production and productivity.with emphasis on increasing production in developing countries. The EU, as the world's biggest agricultural importer and exporter, has a particular responsibility to contribute to global food security. The *CAP after 2013* legal proposals unveiled on 12 October 2011, which call for a new partnership between European citizens and its farmers, constitute a key step in meeting the challenges of food security, sustainable use of natural resources, and growth. In this section, the G20 Action Plan also targets research and development, proposing an *International Research Initiative for Wheat Improvement (IRIWI).*

– The second section of the Action Plan deals with market information and transparency. The newly-created *Agricultural Market Information System*

[7] http://www.g8agricultureministersmeeting.mipaaf.com/en/index.php?pL1=g8agricolo

[8] http://ec.europa.eu/agriculture/analysis/markets/sto-crop-meat-dairy/2011-10_en.pdf

[9] http://www.whitehouse.gov/the-press-office/2012/05/18/fact-sheet-g-8-action-food-security-and-nutrition

[10] http://agriculture.gouv.fr/IMG/pdf/2011-06-23_-_Action_Plan_-_VFinale.pdf

(AMIS)[11], hosted by the FAO, disseminates data on agricultural markets and forecasting, to enhance existing information systems. In October 2011 the European Commission released its short term forecasts for the main agricultural commodity markets that feed into the AMIS.

– The third section in the Action Plan focusses on international policy coordination. Here, for instance, the G20 recommended removing food export restrictions or extraordinary taxes for food purchased for non-humanitarian purposes by the UN's World Food Programme (WFP). This issue is under discussion in the WTO with strong EU support.

– Under the title of risk management, the fourth section, the G20 called for a feasibility study and pilot project on the creation and management of emergency stocks. A pilot project is being implemented in west Africa by the WFP.

– In the last section – financial regulation – there is a broad recognition that appropriately regulated and transparent agriculture financial markets are key for well-functioning agricultural product markets. In this respect, the European Commission put forward further targeted measures to improve the functioning of derivatives markets with the aims of increasing transparency of trading activity in commodity and agricultural derivatives, ensuring that relevant data on the activities of all key market participants will be more readily available, and ensuring that regulators have all appropriate tools to intervene in case of disorderly trading.

3.3. Sustainability of world agriculture: twenty years after Rio

The EU is fully engaged in preparations for the UN Ministerial-level Conference on Sustainable Development to be held in Rio de Janeiro on 20-22 June 2012, *Rio+20*. The aim of the Conference is to renew political commitment to sustainable development at all levels, assess progress made to date, identify remaining gaps in the implementation of past commitments and address new and emerging challenges.

Its focus will be on two major, intertwined themes:

(1) a green economy in the context of sustainable development and poverty eradication, and

(2) the institutional framework for sustainable development.

The EU official submission was delivered to the Rio+20 Secretariat on 1 November 2011 with a clear focus on agriculture policy both as a major vehicle for poverty eradication and wealth creation and on achieving a sustainable intensification of agricultural production.

The CAP is an essential element in the EU strategy for Rio+20:

– the EU must play its part in contributing to food security;

[11] http://www.fao.org/fileadmin/templates/worldfood/images/AMIS.PDF

– instruments of sustainability developed in the EU, such as eco-system development, natural resource conservation, carbon sequestration in agriculture can be transferable to other countries;

– the new innovation partnerships in the field of agriculture that build bridges between researchers, farmers, business and advisory services could be applied globally.

– the EU as the world's main importer of agricultural products makes an unrivalled contribution to wealth creation in developing country agriculture and rural areas;

3.4. International aspects of biofuels policy

The Renewable Energy Directive (RED) adopted in 2009 sets ambitious targets for all Member States, such that the EU will reach a 20% share of energy from renewable sources by 2020 and a 10% share of renewable energy specifically in the transport sector. This policy drives the EU market for biofuels and their feedstocks from the demand side: Since development of alternative renewable energy technologies are still in their infancy, the 10% target concerns mainly biofuels such as biodiesel and ethanol based on food crops.

The EU currently accounts for more than half of world biodiesel production and consumption but its weight is expected to decrease slowly. In the case of bioethanol the EU share is about only 7% of the world market but continues to increase. In 2009, the EU imported soy biodiesel mainly from Argentina and US, and to a significantly lesser extent palm oil diesel from South East Asia. Bioethanol was imported from Brazil. Only two thirds of the biofuels consumed in the EU are currently produced domestically, with the share of imports expected to grow towards 2020. In addition, whereas EU bioethanol production is almost entirely based on domestic feedstocks, EU biodiesel production relies on substantial imports of oilseeds and vegetable oils.

Preliminary figures for 2010 indicate an EU biofuels use of 13.9 million tons in 2010, comprising 10.7 million tons biodiesel, 2.9 million tons ethanol, the remainder being pure plant oil and biogas fuel. Growth rates for ethanol have been very high in the recent past and despite the uncertainty about the future EU biofuel mix, bioethanol is likely to continue to expand faster, coming from a much lower base than biodiesel. Overall, the 10% target is likely to translate into a doubling of the current biofuel use by 2020 creating additional trade opportunities for EU trade partners.

According to the RED, the Commission should follow a balanced approach between domestic production and imports of biofuels, taking into account the development of multilateral and bilateral trade negotiations as well as environmental, social, cost, energy security and other considerations.

Trade preferences for ethanol granted by the EU are an important element in on-going trade negotiations, as import duties account for a substantial share in total value of the imported products. The prominent role ethanol plays in trade negotiations is consistent with its projected growing importance both in world and

EU markets. Several countries benefit already from free access to the EU market following trade negotiations or under GSP+ or EBA treatment.

The EU requires biofuels to be sustainable – this includes preventing conversion of land with high value for the protection of nature and biodiversity as well as with high carbon stocks for the production of biofuel feedstocks. Biofuels are also required to save a set minimum amount of greenhouse gas emissions compared with fossil fuels.

Apart from trade aspects there is another important international dimension to EU biofuels policy: Since agricultural prices increased again in 2010-2011, the debate on competition between fuel and food is continuing. The Commission has to continue to monitor the impact on food prices and on food security and to report thereon. In its reporting, the Commission will take into account the Global Bioenergy Partnership (GBEP) work on sustainability indicators. The issue of biofuels and its impact on food security is high on the agenda in G20 and other international fora – FAO in particular. In the framework of the G20 "*Action Plan on Food Price Volatility and Agriculture"* which was agreed upon by the Agriculture Ministers on 23 June 2011 there was a call "*to further analyse all factors that influence the relationship between biofuels production and (i) food availability, (ii) response of agriculture to price increase and volatility, (iii) sustainability of agriculture production, and further analyse potential policy responses.*"

3.5. Global partnerships

3.5.1. Working with the FAO

Ensuring a sustainable supply of food to more than seven billion people, in a context of increasingly scarce natural resources and changing climate, represents one of the biggest challenges that humanity will face in the coming decades. The *Food and Agriculture Organization of the United Nations* (FAO) constitutes the most important UN agency responsible for these tasks

FAO serves both developed and developing countries, and acts as a neutral forum where all nations meet to negotiate agreements and debate policy. It is also a source of knowledge and information, and helps developing countries and countries in transition modernise and improve agriculture, forestry and fisheries practices, ensuring good nutrition and food security for all.

FAO is composed of 191 states along with the EU as a Member Organisation. This condition of full membership provides both a powerful tool for the defence of Community interests at multilateral level but also a challenging responsibility to fulfil the commitments associated to it.

The EU actively participates in FAO life in a context of increasing complexity as regards multilateral relations in the areas of agriculture and food security. The EU promotes interests on agricultural matters in FAO at all level, in particular the Governing Bodies (the Conference, the Council and committees on Commodity Problems, Forestry, Agriculture, World Food Security) but also in the Intergovernmental conferences on commodities like banana, grains, olive oil or sugar.

An important number of emerging topics are directly linked to the agricultural sector such as price volatility initiatives, land use or water policies, green economy, genetic resources, new technologies or bio-energy. The recent re-emergence of famine in certain parts of the world (Horn of Africa) and the food price crisis, have intensified the work of FAO, especially in the G20 process.

While the FAO remains the UN institution responsible for resolving global agricultural and food security issues, its deliberations are supported by the work of a wide range of other international organizations, dealing with issues from specific agricultural commodity sectors to policy monitoring and international standards.

3.5.2. International Agricultural Commodity Groups

Various international commodity groups (e.g. grains, sugar, olive oil, wine) promote international cooperation in specific agricultural commodities, promote openness and fairness in trade, and contribute to market stability, thus enhancing world food security. These objectives are sought by improving market transparency through information-sharing, analysis and consultation on markets.

3.5.3. The Organization for Economic Cooperation and Development (OECD)

The OECD, composed of 33 countries sharing the principles of market economy, pluralist democracy and respect for human rights, provides a forum in which governments can work together to share expertise and seek solutions to common economic problems. The OECD works on understanding what drives economic, social and environmental change, monitors and evaluates policies, makes market forecasts, and sets mutually agreed international standards in a wide range of areas, from agriculture and tax to the safety of chemicals. In the domain of food and agriculture, OECD analyses and recommendations promote knowledge and provide guidelines where multilateral agreement is necessary, in institutions like the FAO or WTO, for individual countries to make progress in a globalised economy.

While the EU does not have full member status in the OECD, the competence of EU experts in the policy areas dealt with by the OECD allows the EU to make a valuable contribution to its work. In the domain of agro-food, EU experts are particularly active in the work on agricultural commodity market forecasting, evaluation of agriculture and agri-environmental policies and innovation.

Strengthened cooperation between OECD and FAO has improved market forecasting and understanding of the reasons for recent food price volatility. The OECD's *Global Forum for Agriculture* and outreach to emerging economies is also key in bringing major actors to discuss common challenges. EU experts attend and give oral and written submissions in all OECD working groups in the domain, which number around 30 meetings per year.

Section 4
CAP AND DEVELOPMENT

4.1. Agriculture and developing countries

The main agricultural challenges for developing countries (see box) are to address food security and poverty reduction, or wealth creation, in the agricultural sector. On food security, by 2050, global food production will need to produce enough food for 9.15 billion people – an extra 2 billion from 2011 levels. An estimated 60% increase in global agricultural production will be needed to meet the expected demand in 2050. In many developing countries, natural resource limitations, exacerbated by climate change, place increasing demands on the efficient use of those resources. Concerning poverty reduction, 70% of the world's 1.4 billion people living in poverty, defined by the World Bank as living off less than $1.25 per day, live in rural areas and rely on the agriculture sector for their livelihoods.

Which countries are 'developing'?

The EU refers to World Bank definitions in the classification of countries as developed or developing. The high-income group having more than $12,276 per capita GDP are classed as developed and those below this threshold are considered developing. However there are wide differentials between the developing countries and development assistance will be increasingly focussed on the 'least developed countries' (LDCs).

Food security strategies need be country-owned and country-specific, and find a balance between support for national production and covering food needs through trade[12].

Beyond considerable EU development assistance programmes — under the 10th European Development Fund (2008-2013), agriculture, food security and/or rural development are important sectors of cooperation in about 20 African countries for a total amount of about EUR 1.1 billion — EU agriculture policy promotes growth and export opportunities for agricultural producers in developing countries in at least four ways:

– Firstly, the high level of imports from developing countries resulting from the EU's open import regime for developing counties (*section 4.2 below*);

– Secondly, the instruments of the CAP, while aimed at developing the EU farm sector, are also designed to minimise the impact on markets and producers in non-EU countries (*section 4.3 below*);

– Thirdly, the EU has developed special arrangements with the ACP group of countries in sub-Saharan Africa, the Caribbean, and the Pacific (*section 4.4 below*);

[12] See: Commission Communication An EU policy framework to assist developing countries in addressing food security challenges http://ec.europa.eu/development/icenter/repository/COMM_PDF_COM_2010_0127_EN.PDFhttp://ec.europa.eu/development/icenter/repository/COMM_PDF_COM_2010_0127_EN.PDF

– Fourthly, some of the CAP's measures and policies promoting quality production and sustainability are transferable to developing countries (*section 4.5 below*).

CAP measures are continually evaluated for their policy impact, including on developing countries. The Commission undertakes specific impact assessments, for example in the framework of the recent CAP reform proposals, and economic modelling to measure the impact of measures on prices and production decisions. Every two years the EU produces a report on progress vis-à-vis its commitment towards *Policy Coherence for Development* (PCD), a requirement enshrined under the Lisbon treaty.[13]

4.2. EU trade in agricultural products with developing countries

4.2.1. Trade data

The EU on average annually imports close to EUR 60 billion of agricultural products from the developing world, more than the other five high-income economies combined (the US, Japan, Canada, Australia and New Zealand; Figure 4.1). Imports from least-developed countries are duty-free and quota-free, while other developing countries benefit from preferential access. As Figure 4.1 also shows, around 70% of EU imports come from developing countries.

Figure 4.1

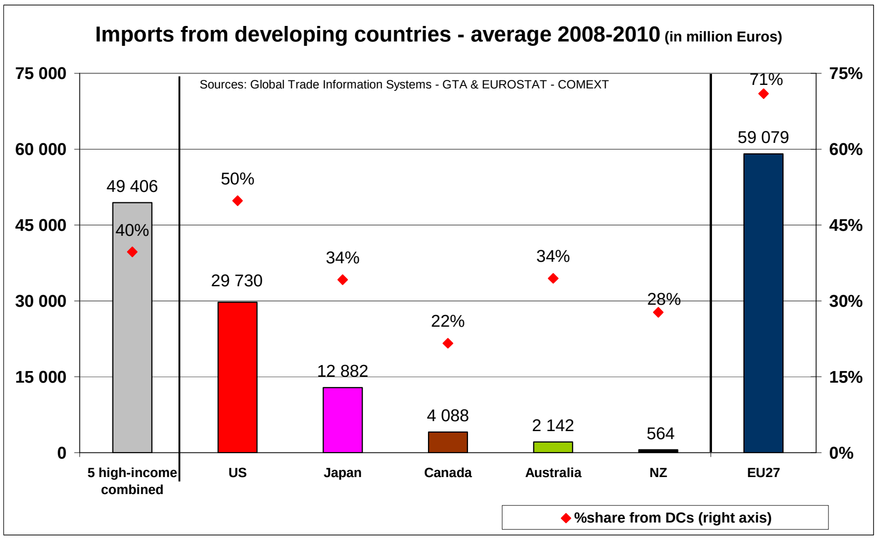
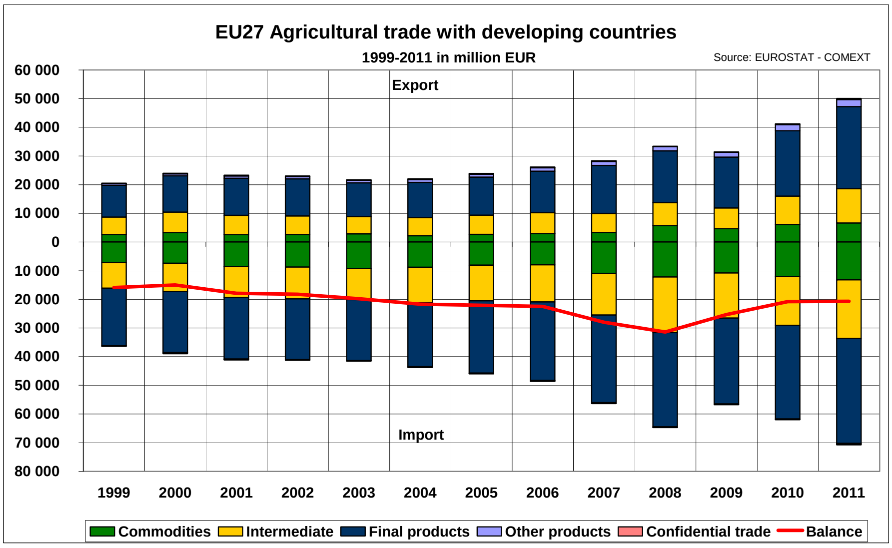


Figure 4.2 shows the EU's negative trade balance with developing countries in the range of EUR 20 billion. Both EU exports and imports from developing countries have been on the rise over the last decade. The main exported products are wheat, spirits and liqueurs, cereal preparations, wine and vermouth; while on the import side the top products are oilcakes, tropical fruits and spices, coffee and tea, animal and vegetable oils.

13 See latest report: EU 2011 Report on Policy Coherence for Development, SEC(2011) 1627, published on 15.12.2011: http://ec.europa.eu/europeaid/what/development-policies/documents/eu_2011_report_on_pcd_en.doc.pdf

Figure 4.2



4.2.2. Tariffs and quotas

Import duties and quotas set by the EU are bound in the WTO agreement: EU schedules contain commitments applied to each product including all agricultural products. These are the non-preferential tariffs, also known as 'most favoured nation' (MFN) tariffs as they apply to each and every WTO member.

In the agricultural sector, MFN tariffs are set at levels to favour imports for products needed in the EU for consumers and/or as feedstocks for the agricultural and processing sectors. In some sensitive product sectors, a lower level of tariff applies within a quota up to a certain volume of imports, and a higher tariff is applied outside the quota in order to limit the market opening to a manageable level.

Under WTO rules, Members such as the EU may agree preferential terms (ie better than the MFN tariffs and quotas) in two ways:

(1) via bilateral free trade agreements, such as those concluded with Caribbean countries or Central America;

(2) by extending additional tariff preferences to developing countries on an autonomous basis.

The EU has pursued both paths. Autonomously, the EU has adopted a preferential tariff regime called the *Generalised System of Preferences* (GSP), which has three sections:

– The standard GSP regime provides for duty-free access for non-sensitive products and substantially reduced tariffs for products listed as sensitive. Particularly sensitive tariff lines are not included (meaning that the MFN rate applies);

– GSP+ provides additional tariff reductions for developing countries that have committed to and ratified international conventions on human rights, good governance and environmental protection. This can act as a powerful economic incentive for emerging democratic countries to embed respect for the highest international norms of human rights, environmental standards, and promote political stability.

– the EBA (Everything-but-Arms) regime provides duty-free and quota-free access to the EU market for all products from 49 least-developed countries (LDCs), except for arms and ammunitions.

In 2011, the European Commission proposed a revision to the GSP regimes[14] designed in particular to re-focus on the countries most in need. Therefore, the proposal excludes from GSP countries classed as 'high' and 'upper middle income' by the World Bank for 3 consecutive years. Granting tariff preferences to richer agricultural economies in particular negates the competitive advantage that should give real developing countries a boost.

4.3. Impact of CAP on developing countries

4.3.1. Market orientation of the CAP

The CAP has been substantially reformed in recent years, in part to minimize its impact on world markets, especially developing countries. These reforms have profoundly changed the direction of the CAP, putting an end to overproduction and encouraging greater market orientation. The role of market intervention mechanisms has been either abolished or significantly reduced to a safety-net level.

Today, the EU is a price taker of commodities – as compared to the past when it was a more active institutional player on world markets – through the decoupling of direct payments, the progressive removal of production quotas and reduction of export refunds.

Figure 4.3 shows the development of the EU wheat price. Today, EU intervention policies do not anymore determine the EU market price. This is due to the 1992 reform, since when the EU wheat intervention price has been significantly lower than the EU market price (in red) and the US market price (in blue, representative of world price). Figure 4.4 shows the reductions in EU price support for different products since 1991.

However, in line with the EU's commitment to policy coherence for development (PCD) under the Treaty, the EU will continue to monitor its agricultural policies and make efforts to assess and take into account the potential impacts of future policy changes on developing countries.

[14] Commission proposal of 10.5.2011, COM(2011)241

Figure 4.3: Development of EU wheat price

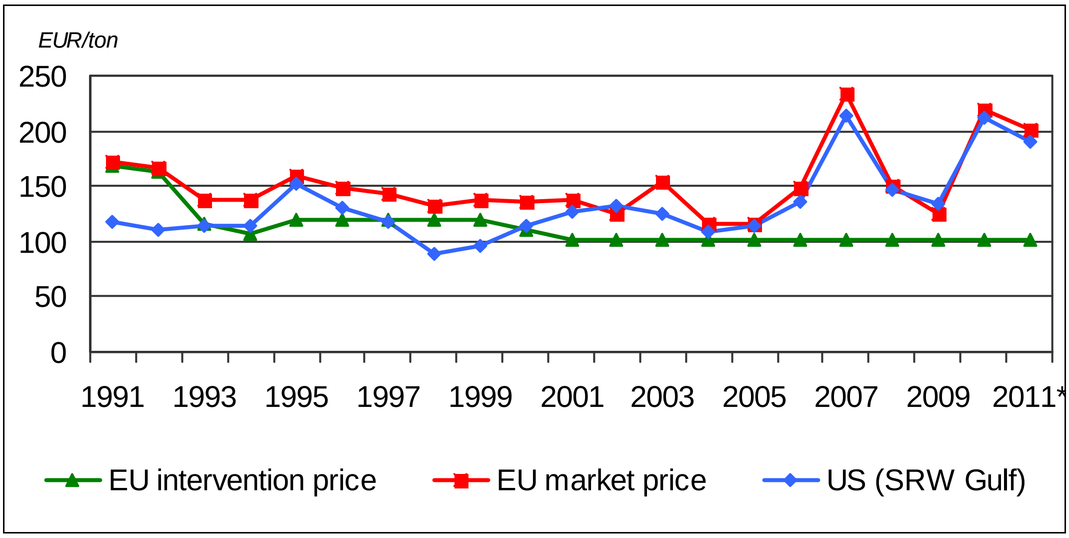
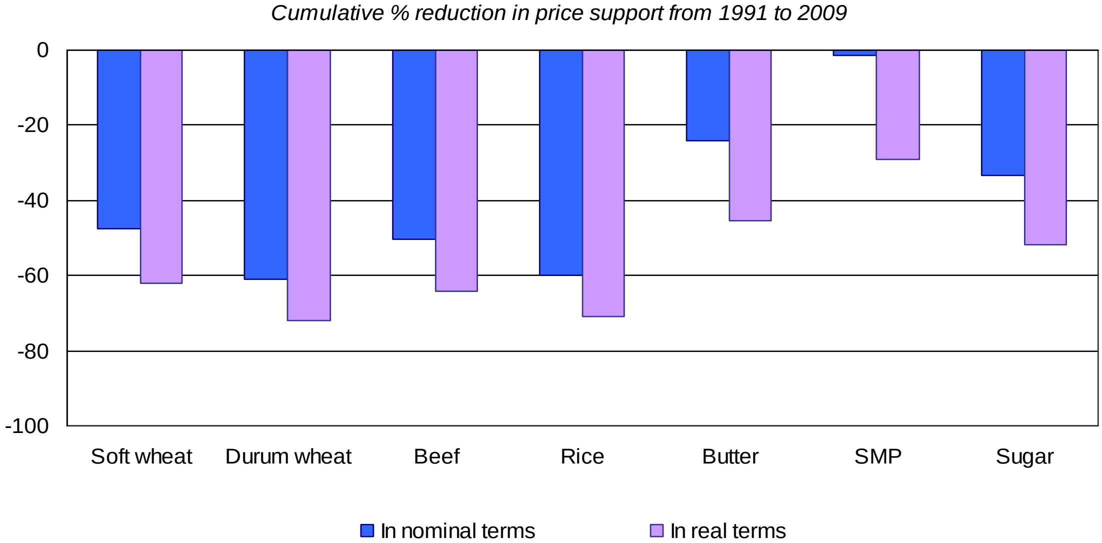


Figure 4.4: Reductions in EU price support, bringing EU prices in line with world prices

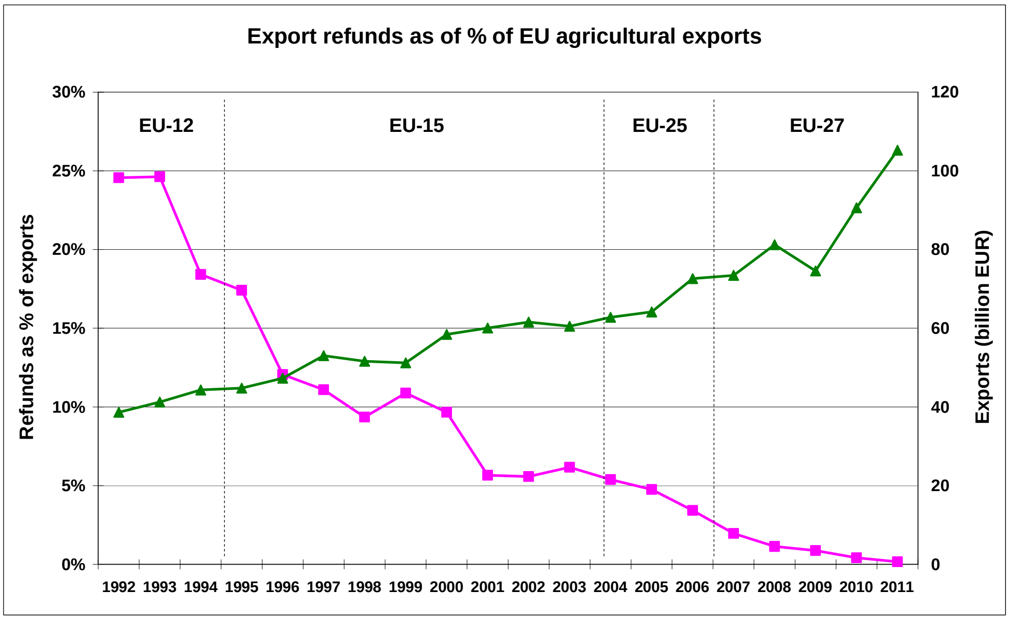


4.3.2. Export subsidies

Export subsidies, calculated to make up the difference between the EU price and a lower world price, have been cut right back to the extent that in 2010 payments amounted to less than 0.5% of the agricultural budget[15], down from 11% of the budget a decade ago (see Figure 4.5). The EU is campaigning for WTO rules that will terminate all forms of export subsidy, including the EU's export restitutions and schemes with equivalent effect used by other WTO members, as part of a comprehensive, ambitious and balanced agreement in the Doha Development Agenda.

[15] The term means the European Agricultural Guarantee Fund (EAGF)

Figure 4.5



4.3.3. Domestic support

The EU has substantially reduced trade-distorting domestic support. Slightly more than 90% of direct payments are decoupled from a requirement to produce a specific agricultural product (see Figure 1.1 in Section 1.3 above), with the result that farmers adjust their planning to market opportunities. Studies and economic modelling have shown that direct and decoupled payments do not influence production decisions. For this reason they are regarded as non-trade distorting.

In the ***cotton*** sector, production linked payments are enshrined in the accession treaty of Greece to the EU. These have been the subject of criticism from cotton producers in West Africa in particular. However, the EU is a minor player in the world cotton market, producing only 1% of world cotton (estimated 225 000 tons in 2010 out of 25.2 million tons of world production). Since 2006, the EU has fundamentally reformed its cotton policy and substantially reduced trade-distorting domestic support as far as possible within the Treaty obligations.

4.4. Relations with Africa, Caribbean and Pacific (ACP)

4.4.1. Trade and EPAs

The ACP is a grouping of 79 African, Caribbean and Pacific states with which the EU has a special relationship. 48 ACP countries are in Sub-Saharan Africa, 16 in the Caribbean region and 15 in the Pacific. The ACP-EC Partnership Agreement (the Cotonou Agreement) was signed by 77 ACP countries [16], and is the most comprehensive partnership agreement between developing countries and the EU.

[16] Cuba is not a signatory of the ACP-EC Partnership Agreement, Somalia did not ratify it. South Africa is signatory but does not benefit from the development finance cooperation provisions of the Agreement through the European Development Fund.

Current trade arrangements are agreed or under negotiation under the Economic Partnership Agreements with the ACP states in 7 regional groupings: the Cariforum (Caribbean) region, West Africa, Central Africa, Eastern and Southern Africa, the East African Community, the Southern African Development Community, and the Pacific region. The Cariforum EPA is fully implemented, while interim arrangements apply in the other regions pending final negotiation of the EPAs.

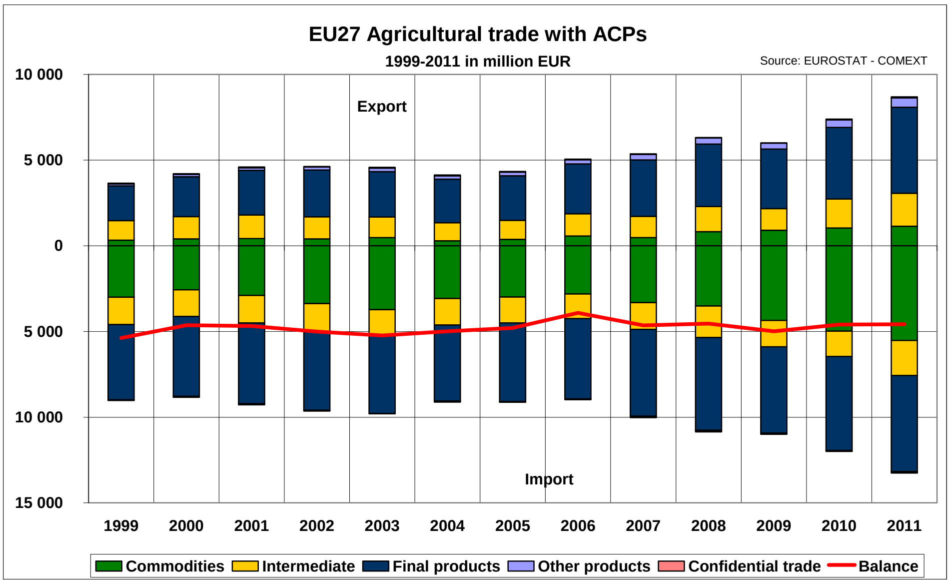
EPAs are a type of free trade agreement under which substantially all trade is liberalised by both the EU and the ACP states. The market opening is asymmetric in that the EU opening is immediate and, except for South Africa (see below), covers all products, while the ACP can choose to retain tariffs on about 20% of their sensitive products (agricultural and non-agricultural). In addition, the EPA's are designed to significantly improve regional trade between ACP states, and lay down technical and practical cooperation measures designed to facilitate trade.

Trade figures for the last decade show the ACP states, including South Africa, exporting around EUR 12 billion in agricultural product (Figure 4.6). The EU exports about EUR 7 billion, giving a net trade flow of exports from the ACP countries of EUR 5 billion, which has been quite steady over the decade.

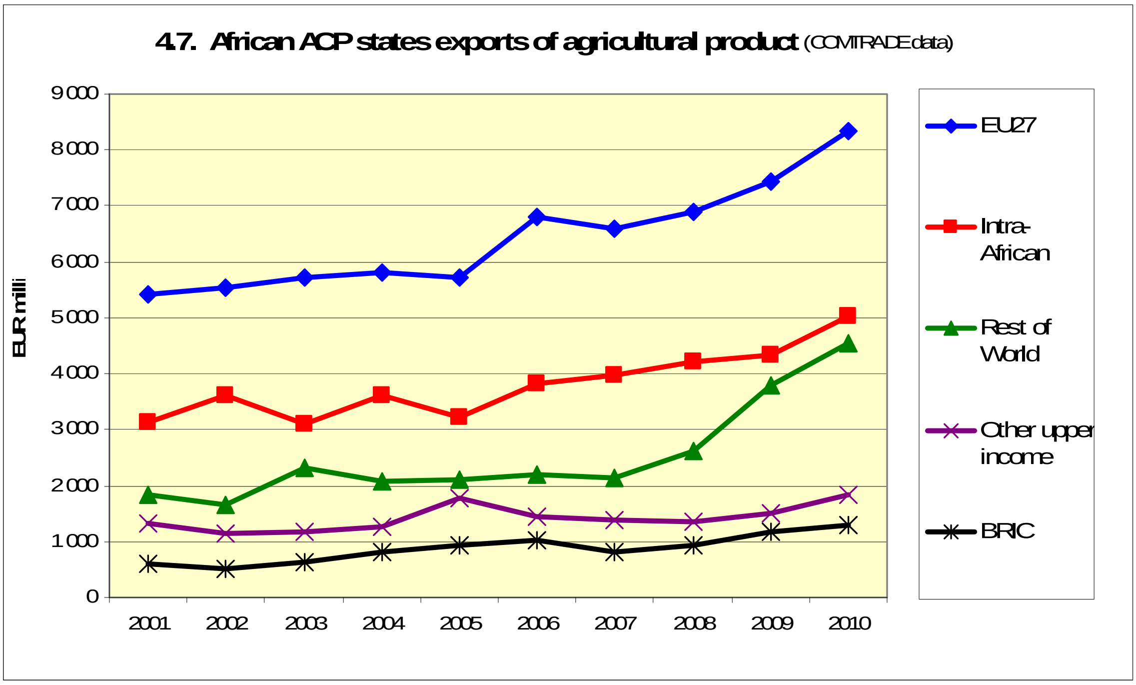
ACP countries account for around 14% of agricultural imports to the EU (average 2009-2011) and receive about 8% of EU agricultural exports. On the import side, a good proportion of imported products are commodities and intermediate products, while on the export side, the predominant categories are final products. The main imported products from the ACP countries include cocoa, coffee and tea, tropical fruits and spices, fruits, raw sugar, and raw tobacco among others. It is worth noting that ACP countries supply close to 90% of the EU's cocoa, and more than half of EU sugar imports.

The top exported products to the ACP countries include wheat, cereal preparations, spirits and liqueurs, and dairy products among others.

Figure 4.6



For African ACP states the EU is by far the most significant export destination, importing some 40% (average 2008-10) of sub-Saharan Africa's agricultural exports. The second destination for African exports is other African countries (25%), while other upper-income countries and the emerging economies absorb a relatively low share (less than 10%) of sub-Saharan African exports. (Figure 4.7)



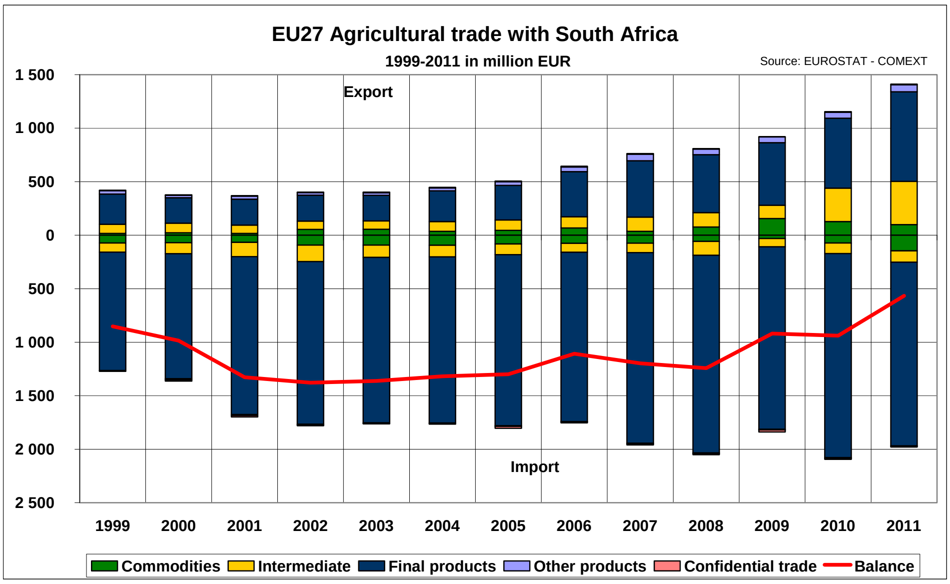
The EPAs are designed to consolidate the EU's trade and development policy, creating a climate for investment and growth in the ACP regions. For EU consumers the trade arrangements in agriculture products with the ACP ensure the availability of tropical products (cocoa, coffee, tea…), out-of-season products, and competitively priced goods on the EU market. They also help underpin the supply of developing-country goods (including 'fair trade'), organic products, and goods with specific origin that are in increasing demand in the EU.

EU consumers and the agri-food industry are substantial buyers of ACP commodities as raw materials. The share of banana imports from ACPs have increased in recent years whilst in the case of sugar, the end of the Sugar Protocol in 2009 will enable ACPs and LDCs increase their exports to the EU. The ACP countries, and their growing middle class, also represent a substantial market for EU exports, now reaching EUR 6 billion.

4.4.2. South Africa

The bilateral *Trade and Development Cooperation Agreement* was signed with South Africa in 1999 and separate agreements facilitating trade in wine and spirit drinks have applied since 2002. These arrangements provide for substantially free trade and a stable environment for investment and growth. South Africa has seen an increase in exports of agricultural product to the EU from EUR 1.4 billion to EUR 2 billion over the last decade. South Africa has a trade surplus in agricultural products of around EUR 0.8 billion (2009-2011 average, see Figure 4.8).

Figure 4.8



The main categories of products imported from South Africa are fresh or dried fruits, citrus fruit, wine and vermouth, among others. The EU exports mostly spirits and liqueurs, wheat, animal or vegetable oils, beer, and cereal preparations among others.

South Africa has joined with 6 regional partners to negotiate an EPA with the EU. The EPA will aim at liberalising substantially all trade in both directions.

4.5. Agriculture policy instruments for development

4.5.1. Schemes to add value and differentiate developing country product

Commodity markets, the main conduit for developing country agricultural produce, have several drawbacks. Prices tend to the lowest levels in the market and have been particularly volatile in recent years. Producers have little influence on how their product is sold to consumers and it is the downstream operators, investing in branding, packing and processing, who accrue a high share of the value added.

For developing country producers to gain a greater control and more value added in a product, they must distinguish it in the marketplace and be able to communicate its qualities and attributes to buyers and consumers. In the EU a significant consumer segment is looking for assurance how a product was produced and where it originates from.

Participation of agricultural producers, especially small businesses, in trade schemes that secure added value including those responding to sustainability (e.g. fair, ethical or organic trade) and geographical origin criteria can be an effective way for producers to gain price premiums and have greater bargaining power over the marketing of their product and differentiate product it the marketplace.

The EU operates on the EU market two flagship schemes designed to allow farmers communicate with consumers about the qualities and origin of their product and so secure a higher share of the value added. These are the organic farming scheme, and geographical indications, which allow producers in the region of origin, including in developing countries, to lay down the specifications for use of a valuable product name on the EU market (see the case of *Darjeeling PGI* in box). The schemes are open to developing country producers and adapted to their potential. Together with the African Union (AU) Commission, in 2011 the EU held a joint workshop on developing strategies for organic farming and for geographical indications, identifying the potential for their development in Africa. These schemes assist farmers of specific products to secure a higher share of the value added for their sales.

Example of a protected geographical indication: Darjeeling PGI

In October 2011, the EU registered[17] the name ‘Darjeeling’ as a protected geographical indication to designate tea from gardens situated at an altitude of between 600 and 2 250 metres on steep slopes in the district of Darjeeling, in the state of West Bengal, India. The environmental factors of the area, as well as the production method including selective hand harvesting of leaves, results in a tea having specific characteristics. The final registration decision of 'Darjeeling' clarified that the name should only be used as a sales designation for tea that is wholly produced in the geographical area in accordance with the specification. Blends of Darjeeling and other teas should not bear the name ‘Darjeeling’ as the sales designation. However, existing users of the ‘Darjeeling’ name to designate teas not in conformity with the specification, were granted a transitional period limited to 5 years to continue to use the name. The Darjeeling registration illustrates how developing country producers can ensure that product marketed under the registered geographical indication corresponds to the specification laid down in the area of production.

A larger number of private schemes are also in operation in the marketplace, of which the various 'fair trade' schemes are particularly significant for developing country producers. In the marketplace, fair trade and organic labelling are often combined.

4.5.2. Sustainability

In the agricultural sector, policy must ensure that economic growth and development go hand in hand with sustainable environmental practices.

The EU employs several trade-related provisions to foster sustainable production through market and trade mechanisms. These include the GSP+ trading regime (see section 4.2.2 above), and encouraging use of private and public sustainability-bound schemes.

Outside the trade policy arena, the EU has tackled sustainability issues in its internal policy and such instruments could be applied in domestic policies of developing countries. Responding to pressure on biodiversity, climate change, and quality of natural resources (chiefly water and soil) the EU has adopted production regulations and rural development measures including tight regulation of environmental protection of water courses, training in good farming practice, and payments for eco-system services.

[17] Commission Implementing Regulation (EU) No 1050/2011 entering a name in the register of protected designations of origin and protected geographical indications (Darjeeling (PGI)) OJ L 276, 21.10.2011, p.5.

The problems and appropriate policy responses in developing countries will be different from those in the EU, but where there are synergies, EU measures represent possible options.

Development funding is available from donors such as the EU, according to choices and policy priorities set by the developing countries and/or regions themselves. The EU agriculture policy instruments can provide examples and options, and can be funded subject to the developing country including such priorities in its national agricultural policy.

Section 5
PARTNERSHIP WITH THE EU'S NEIGHBOURS

5.1. Enlargement of the EU: the agricultural dimension

The EU's enlargement policy aims to create a safer, more prosperous, stronger and more influential Europe. The recent enlargement of the EU was a success story for the European Union and demonstrated the attractiveness of the European model. Nevertheless, the accession process is highly demanding. The countries aspiring to join the EU have to fulfil strict criteria - having stable democratic institution, functioning market economies, and ability to take on the obligations of membership.

In the accession process, agriculture looms large: many of the candidates and potential candidates have comparatively substantial agriculture sectors, but also a number of structural challenges to their development.

5.1.1. The enlargement countries

The current enlargement countries consist of the Western Balkans, Turkey and Iceland, who are at different stages in the accession process.

The EU has granted the status of 'candidate' to 6 countries[18]: [1]:

– **Croatia:** accession negotiations closed and is expected to join the EU on 1 July 2013, depending on the ratification of the Accession Treaty;

– **Turkey:** accession negotiations started in October 2005;

– **Iceland:** accession negotiations started in June 2010;

– **the former Yugoslav Republic of Macedonia :**candidate since December 2005;

– **Montenegro**: candidate since December 2010, accession negotiations should be opened in July 2012,.

– **Serbia** : candidate since March 2012

The European Summit of Thessaloniki reconfirmed in 2003 the prospect of future membership to other countries of the Western Balkans, considering them as 'potential candidates'. These are:

[18] The "Copenhagen criteria" were set out in December 1993 by the European Council in Copenhagen. They require a candidate country to have: (a) stable institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities; (b) a functioning market economy, as well as the ability to cope with the pressure of competition and the market forces at work inside the Union; (c) the ability to assume the obligations of membership, in particular adherence to the objectives of political, economic and monetary union.

– **Albania**: applied for membership in April 2009;

– **Bosnia and Herzegovina**;

– **Kosovo**.[19]

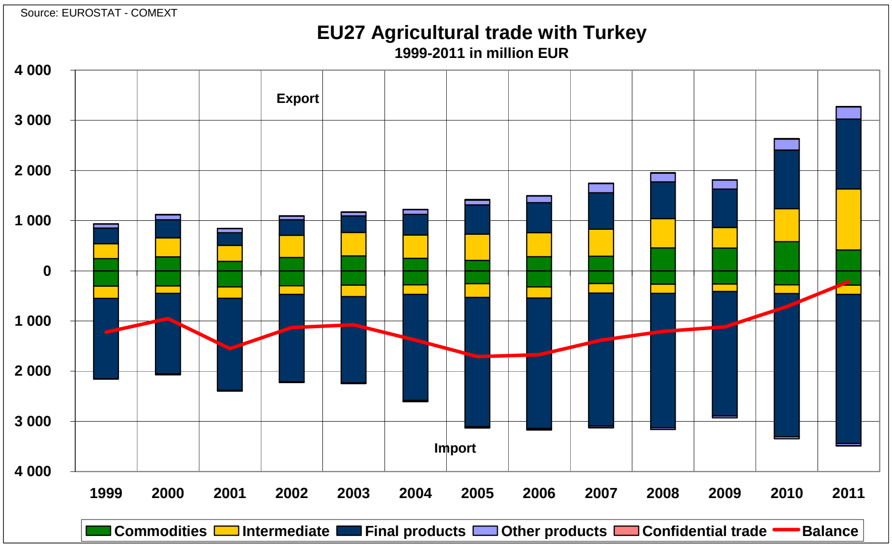
5.1.2. Bilateral trade with enlargement countries

Turkey

The EU and Turkey enjoy a deep trade relation: the EU ranks by far as number one in both Turkey's imports and exports while Turkey is the EU's 7th supplier and 8th largest export market.

The EU has a net trade deficit in agricultural products with Turkey (see figure 5.1), which, however, is constantly being reduced as the EU is increasing its sales to Turkey. After hitting the bottom in 2005 (EUR 1.7 billion), it shrank to just EUR 200 million in 2011. Turkish exports to the EU are dominated by fresh, dried and processed fruit, vegetables and nuts (accounting over half of Turkish exports), meanwhile imports from the EU are spread over a wider selection of products, with tobacco products, cotton, essential oils, oilseeds and hides and skins being the most important in value terms.

Figure 5.1



Formal trade relations with Turkey date back to 1963 with the signature of the Ankara Association Agreement between the EEC (European Economic Community) and Turkey. This agreement envisaged the progressive establishment of a customs union which would bring the two sides closer together in economic and trade matters.

[19] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

The customs union was completed in 1995 (Decision No 1/95 of the EC-Turkey Association Council) but did not cover basic agricultural products, which are regulated under a bilateral trade agreement which entered into force on 25.02.1998. The relevant decisions establish mutual trade concessions for agricultural products.

Western Balkans

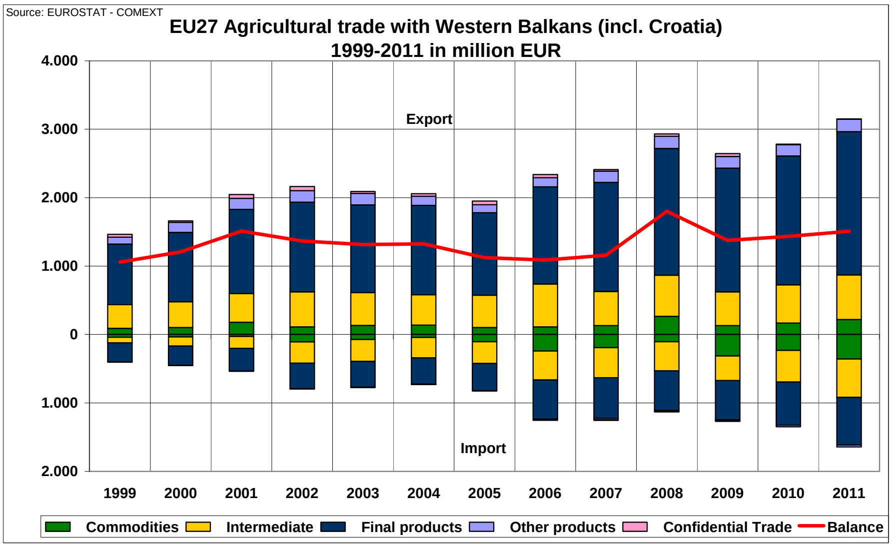
The EU is by far the most important export market for the Western Balkan countries and trade preferences have created an enabling environment for an increase of exports. Western Balkans' exports to EU of basic agricultural products follow an upward trend showing an increase of over 30% between 2006 and 2011. Serbia had a positive trade balance of over EUR 400 million in 2011. However, the EU still enjoys an overall significant trade surplus towards the region (EUR 1.5 billion in 2011), which can be seen in Figure 5.2 below.

Croatia and Serbia are the leading exporters of the region accounting for around 80% of total EU agricultural imports from the region. At the beginning of the period exports of the two countries to the EU were comparable but since 2005 Serbia's exports have jumped threefold (mostly of fruits and cereals), while Croatian sales to the EU went up by only 20%. At present, imports from Serbia alone represent around 60% of total EU imports from the region (2011 data). The export performance of these two countries is therefore an important determinant of the development of exports from the region as a whole.

Reciprocally, trade agreements allow for the gradual opening up of the markets of the Balkan region to EU products. Between 2006 and 2011, EU exports of agriculture products into the Western Balkans went up by over 30%. Croatia remains the largest importer of EU basic agriculture products, accounting for around 40% of all EU exports to the Balkan region (2011 data). Serbia, closely followed by Bosnia and Herzegovina, ranks second, receiving around 16% of EU agricultural exports to the region.

EU exports to the region are largely cereal preparations, yeasts, live animals, tobacco products, and pork meat while the top imports from the Western Balkans are sugar, fruits (raspberries, cherries), grain and seeds, animal and vegetable oils, vegetables, raw hides and skins.

Figure 5.2



In 2000, the European Community granted exceptional unlimited duty-free access to the EU market for nearly all products originating in the countries of Western Balkans, without quantitative restrictions, thus granting unlimited duty-free accesses to the market of the enlarged Union. These measures included almost all basic agricultural products with the exception of some fishery products, 'baby beef', wine and sugar, for which duty-free or reduced duties within preferential quotas have been set.

In the following years, these provisions were, by and large, transferred into the bilateral Stabilisation and Association Agreement (SAA) with the respective Western Balkan countries. Pending the ratification of the SAAs, the Union's trade relations with some countries are governed by Interim Agreements.

Trade measures of the SAA represent a uniform system of preferences for the countries of the region. They remain asymmetrical, i.e. offering immediately improved market access to nearly all products originating in the region. On the other hand Western Balkan countries agree under the SAA to dismantle gradually respective tariffs on imports from the European Union in order to achieve a substantial liberalization of trade within 5-10 years after the entry into force of the SAA.

5.1.3. Preparations for accession

Agriculture is one of the most complex, sensitive and critical issues in the enlargement preparations. This is due to its significant economic weight in each of the candidates in terms of share of Gross Domestic Product (GDP), the high proportion of the population depending on agriculture for their livelihoods, as well as structural deficiencies (subsistence and semi-subsistence farming)..A demanding transition phase of preparation is required from the candidates and potential candidates for this sector before joining the EU.

In technical terms, 'agriculture and rural development' is one of 35 chapters of EU legislation and policies under negotiation (the full EU body of laws and policies was divided into chapters to ease the negotiation process). The candidate countries have to align their agricultural policy with the Common Agricultural Policy (CAP) to be fully integrated from the day of accession. Running the CAP requires the setting up

of a paying agency and management and control systems such as the integrated administration and control system (IACS), and the capacity to implement rural development measures. New Member States must be able to apply EU legislation on direct support schemes and to implement the common market organisation for various agricultural products.
In preparation for applying the CAP, candidates and potential candidates are eligible for pre-accession assistance in order to set up the relevant administrative structures to implement this policy. Financial support is made available through the IPA, *Instrument for Pre-Accession Assistance*[20], which provides financing for institution-building and associated investments.

Candidate countries also have access to a specific rural development component of IPA, the IPARD (*Instrument for Pre-Accession Assistance in Rural Development*)[21], whose objectives are two-fold:

– to provide assistance for the implementation of the legislation concerning the Common Agricultural Policy;

– to contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate country.

5.2. European neighbours

The EU is well aware of the importance of working closely with partners in the international arena, specially its neighbours. Due to geographical proximity, political and socio-economic relations with these countries are essential to foster growth and for the stability of the region.

It is useful to make a distinction between the relations with those European neighbours who belong to the European Free Trade Area, and the further neighbours, those to the East and to the South of the Mediterranean. The latter are part of the European Neighbourhood Policy.

Russia is also a neighbour of the EU but not included in the ENP, so relations have been instead developed through a Strategic Partnership. EU bilateral relations with the Russian Federation are defined by the Partnership and Cooperation Agreements (PCA) of 1997. The provisions of the agreement are currently being reviewed for a more ambitious approach bearing the provisional name of 'New Agreement'.

5.2.1. European Neighbourhood Policy Partners

The European Neighbourhood Policy (ENP) was developed in 2004, with the objective of avoiding new dividing lines between the enlarged EU and neighbouring countries and instead strengthening the prosperity, stability and security of all concerned. The ENP applies to the EU's immediate neighbours by land or sea: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon,

[20] More info on IPA http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/instrument-pre-accession_en.htm

[21] More info on IPARD: http://ec.europa.eu/agriculture/enlargement/assistance/ipard/index_en.htm

Libya, Moldova, Morocco, Occupied Palestinian Territory, Syria, Tunisia and Ukraine.

The European Neighbourhood Policy (ENP) was recently revised (25 May 2011) in an EC communication to take into account the developments in the southern Mediterranean and to accompany changes in the eastern part of Europe. This new communication sets out the main priorities and directions of a revitalised ENP strategy which seeks to strengthen individual and regional relationships between the EU and countries in its neighbourhood through a ‘more support for more reform’ approach. The Communication is a culmination of an extensive review and consultation with governments and civil society organizations both within the EU and in the 16 ENP partner countries to Europe’s South and East.

ENP-East

ENP-East countries (Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan) are becoming closer EU partners with an increased integration of markets including agricultural ones. Institutional relations are based on the Partnership and Cooperation Agreements (PCAs) of the late 1990s. The PCAs constitute the ground for setting political cooperation and basic bilateral trade relations with an aim to achieve progressive approximation of legislation and policies to the EU rules. Since 2009, the Eastern Partnership provides a distinct regional framework with these countries.

Such approximation is progressively bringing Eastern countries and EU towards the negotiation of the association agreements, which would include free trade in agricultural products, termed Deep and Comprehensive Free Trade Area (DCFTA). DCFTA agreements will essentially provide for approximation of the regulatory aspects in order to guarantee long-lasting market integration.

ENP-South

The Partner Countries participating in the Barcelona Process are now part of the European Neighbourhood Policy (ENP). The ENP complements and reinforces the Barcelona Process on a bilateral basis, through Action Plans agreed with the Partner Countries. These set out an agenda of political and economic reforms for a period of three to five years. To date, 12 action plans have been agreed (some of these are already ’second generation‘).The process was reinforced by the Rabat Roadmap in 2005 and supported by the Union for The Mediterranean in 2008.

Relations with ENP-S countries are established through Association Agreements (AAs). Bilateral AAs have been negotiated and progressively implemented within the framework of the Euro-Mediterranean Partnership of 1995. The current AA partners are: the Palestinian Authority (1997), Tunisia (1998), Morocco (2000), Israel (2000), Jordan (2002), Lebanon (for trade aspects in 2003), Egypt (2004) and Algeria (2005). A draft Association Agreement has been initialled with Syria, but not yet signed. Libya has a status of observer in the Barcelona Process until now.

For the agricultural sector 'a new generation of trade agreements', taking account of the Rabat Roadmap has been implemented. New agricultural protocols with deeper liberalisation were signed with Egypt, Israel, the Palestinian Authority and Morocco (the legislative procedure is to be completed).

The events of the Arab-spring have temporarily impeded progress in some AA partners, but serve to highlight the importance of promoting these agreements, not least their agricultural components, to cement democracy, the rule of law, a functioning market economy, and a vibrant rural sector.

As part of the EU's response to the Arab Spring, the Commission proposed and Council adopted negotiating directives for deep and comprehensive free trade areas with Egypt, Jordan, Morocco and Tunisia. The main objective of these future negotiations will be to integrate these partners progressively into the EU internal market. Further market access for industrial and agricultural products will be considered in these negotiations as needed, taking into account the particular circumstances of both sides. In addition, these negotiations will aim at eliminating possible obstacles to trade in agricultural products through enhanced provisions in the area of sanitary and phytosanitary measures.

ENPARD

The latest tool developed by the EU to cooperate with its Southern and Eastern Partners is the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD). This instrument aims at helping modernise the agricultural sector in partner countries, raising productivity, improving quality and market potential, as part of policy changes in the agricultural sphere. This would help the countries concerned to benefit from increased global trade and establish the foundations for sustainable rural development, assuring a basic level of food safety and protection against price fluctuations.

ENPARD will build on EU best practice in developing rural areas, in particular in pre-acceding countries (IPARD). Local decision making, based on the LEADER approach, will reflect the demand of civil society in the region to determine its own future.

5.2.2. Bilateral trade with ENP Partners

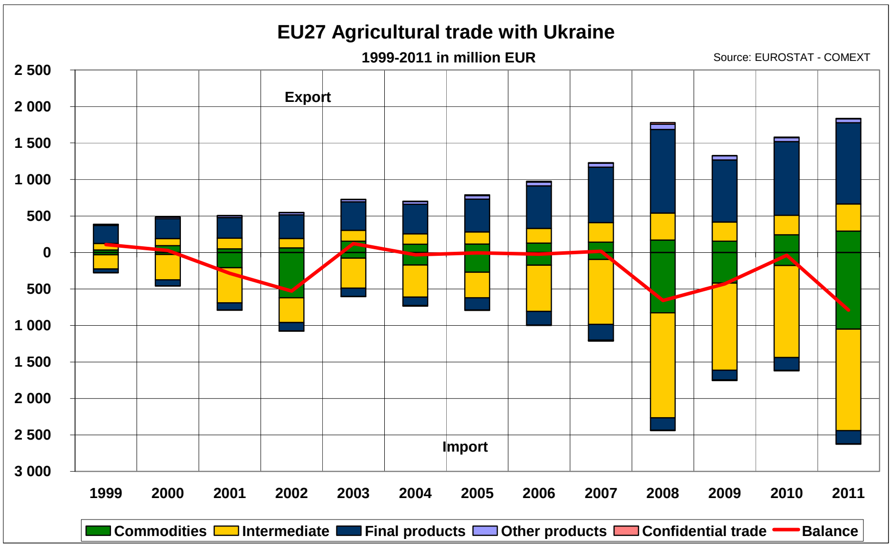
ENP-East

Ukraine

The EU's agricultural trade balance with Ukraine has been negative in the recent years (see figure 5.3). The fluctuation observed on the trade balance is due to varying wheat supplies. In years 2001-2002 and 2008-2009, where the trade deficits are the largest, Ukraine became the EU's first supplier of wheat (except 2001). The supplies dwindled radically in 2010, following the introduction of export restrictions. In 2011 wheat imports resumed and reached EUR 270 million (1.3 million tonnes).

The EU imports mainly commodities and intermediate products while the bulk of its exports are final products. The EU supplies Ukraine with mainly pork meat, coffee extracts and soups, tropical cocoa, animal feedstuffs, and fruits, whereas Ukraine, apart from wheat and other cereals, sells the EU also products of oilseeds (mostly rape and sunflower seeds), animal and vegetable oils, and oilcakes..

Figure 5.3



Negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) were concluded in 2011, foreseeing the opening of markets for agricultural products on both sides. The agreement will also provide protection of EU and Ukrainian geographical indications of agricultural products.

Agriculture matters are discussed during an annual EU-Ukraine Agriculture Dialogue, which has taken place at the senior (ministerial) level since 2006. The annual meeting has proved to be an excellent occasion to exchange information on the respective Parties' agriculture policies and their reforms, market trends, as well as to pass constructive messages that could serve as guidance when confronting trade irritants.

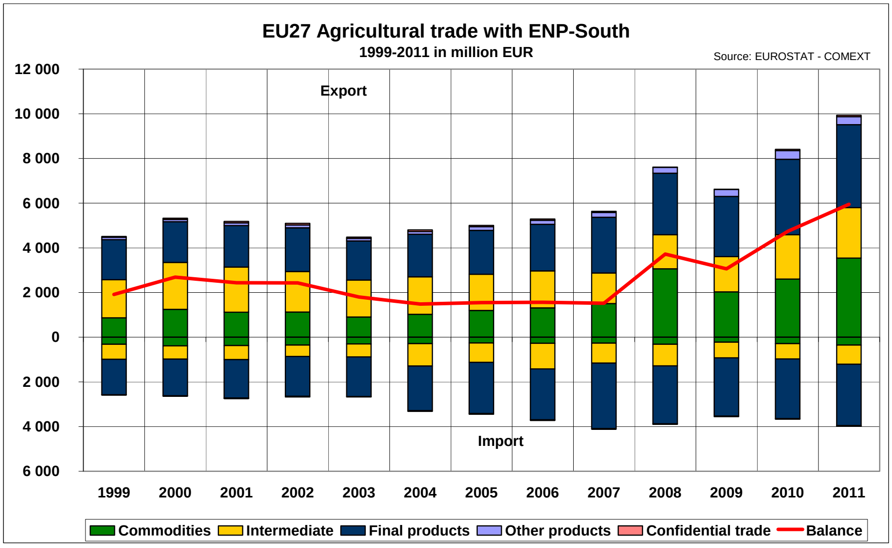
Armenia, Georgia, Azerbaijan

The EU is a net exporter in trade with the Caucasian countries, constantly improving its position. In 2011 exports reached their peak over the last decade – EUR 424 million, exceeding imports by EUR 305 million. The main exported products are cigars and cigarettes, cereal preparations, sugar confectionery, spirits and liqueurs, fruit and vegetable preparations, meat preparations, and dairy products among others. Imports are rather negligible, mostly including tropical fruits and spices.

ENP-South (Morocco, Algeria, Tunisia, Libya, Egypt, Lebanon, Syria, Israel, Palestine and Jordan)

As figure 5.4 below shows, over the last decade the EU has recorded a positive trade balance with the ENP-South countries (around EUR 5.9 billion in 2011), showing a rather upward trend. The major exported product is wheat, constituting around one third of EU exports. Other products include cereal preparations, dairy products, cigars and cigarettes. The import side is dominated by fruits and vegetables, which account for over 50% of EU imports from the above countries.

Figure 5.4



5.2.3. Russia and bilateral trade

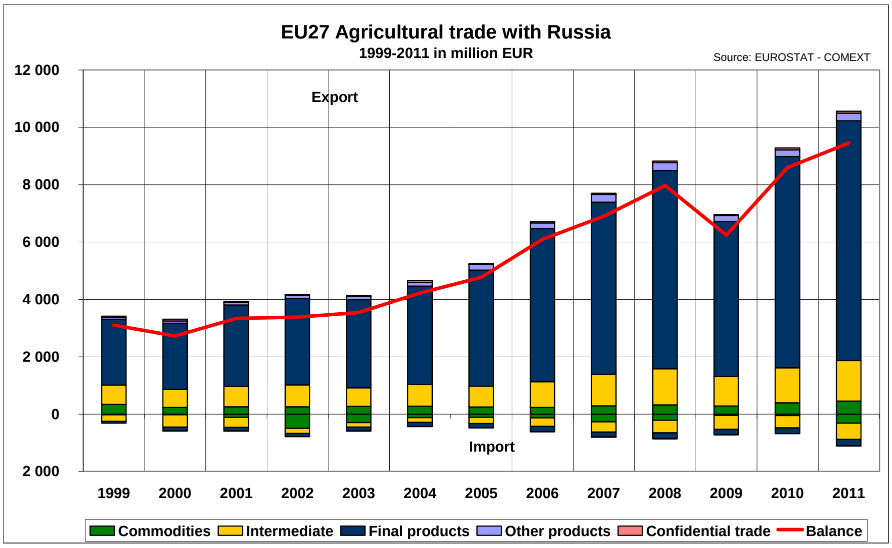
Over the last decade the EU has recorded a strongly positive balance in agricultural trade with Russia (EUR 9.5 billion in 2011), showing an upward tendency (see Figure 5.5). With a share of 10% in total EU agricultural exports Russia is the second EU top export destination, following the US.

The top ranking products exported to Russia are fruits (fresh pears, apples, peaches), followed by dairy (cheese), vegetables, pigmeat, wine and vermouth, spirits and liqueurs. In 2011, the total value of exports was EUR 10.6 bn, with fruits and vegetables making up 16% of the total.

On the import side, the two dominant categories are animal or vegetable oils (rape or colza oil, soybean oil, sunflower oil) and wheat, each accounting for around 1/5 of EU imports from Russia.

Wheat supplies from Russia strongly fluctuated in recent years. Until 2008, Russia had been the EU major wheat supplier (ranked 4th) (around 720 thousand tonnes) but unfavourable weather conditions in Russia followed by a temporary export ban have made Russian share in EU wheat imports shrink from 10% in 2008 to a fraction of 4% in 2010 (184 thousand tonnes). As a result, in wheat supplies Russia has been outstripped by Turkey, Kazakhstan, Mexico and Australia. In 2011, the supplies of wheat to the EU resumed (to 1 million tonnes) and Russia came back to its 4th position in the ranking.

Figure 5.5



Agriculture matters are discussed during the annual EU-Russia Agriculture Dialogue, which has taken place at ministerial level since 2006. The Dialogue serves as a platform to discuss in a positive manner the respective Parties' agriculture policies and their reforms, as well as to pass constructive messages and to receive useful first hand policy indications to be then processed in a clearer message when confronting trade irritants.

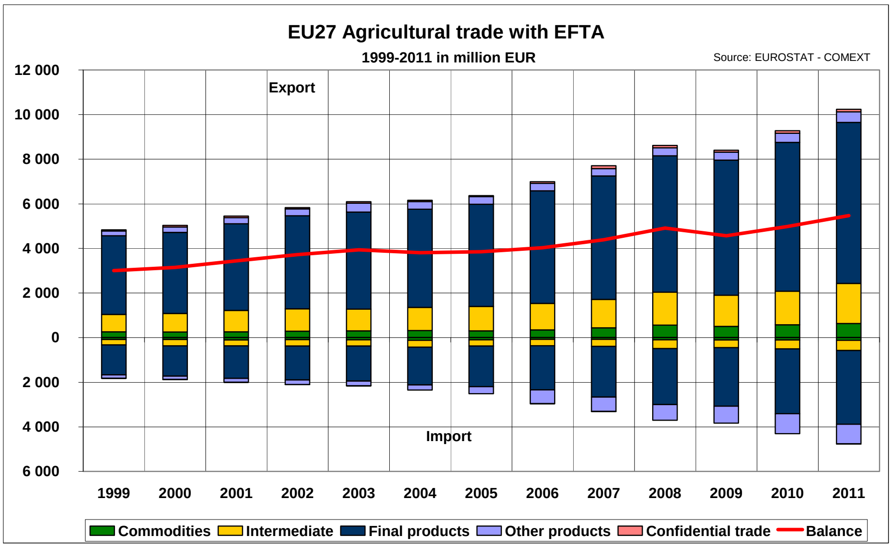
5.2.4. EFTA and bilateral trade

EFTA[22] is a very important destination for EU products. Switzerland itself is the EU's third export and fifth import partner (2011 data). Together with Norway it absorbs around 10% of the EU's exports and accounts for around 5% of EU imports. The EU records a positive trade balance with EFTA countries - currently at a level of EUR 5.5 billion (see Figure 5.6). The main exported products to EFTA include wine and vermouth, cereal preparations, fruits and vegetables and vegetable products. The EU main imported products include coffee and tea, waters, ice-cream and chocolate, cereal preparations, dairy (cheese).

A member of the EFTA – Iceland – is also an EU candidate country. The EU is its main trading partner, with regard to all commodities, as well as for agricultural products. When looking at total trade the EU is a net importer while for trade in agricultural and processed agricultural products, the EU is a net exporter to Iceland. The 2010 trade balance was EUR 174 million in favour of the EU. The EU mainly exports cereal preparations, processed products, fruit and vegetables to Iceland while the top exports of Iceland to the EU are sheep meat, horses and fur skins.

[22] EFTA countries include Lichtenstein, Iceland, Norway, and Switzerland.

Figure 5.6



The European Economic Area (EEA) Agreement with EFTA States Iceland, Liechtenstein and Norway, in force since 1994, does not cover the acquis on agriculture and rural development except for compulsory marketing standards like organic farming, sheep carcass classification, and wines and spirits, and some other standards necessary for free circulation on the EU's internal market, in particular as regards veterinary and phytosanitary issues.

In 2007 the Icelandic market for agricultural products from EU was partially opened following negotiations conducted under Article 19 of the EEA. It resulted in bilateral trade preferences between the EU and Iceland, in the form of full tariff liberalization for non sensitive products and some quotas and/or tariff reduction for sensitive products. A second phase of negotiations is now being considered.

As for Switzerland, trade relations in agricultural products are governed by a bilateral EU-Switzerland agricultural agreement.

5.3. Middle East

Gulf Cooperation Council

Gulf Cooperation Council countries (Saudi Arabia, Kuwait, Bahrain, Qatar, UA. Emirates, Oman) are important recipients of EU agricultural exports. The EU is constantly recording a significant surplus of exports, which in the last years showed a growing trend. In 2011, the EU exports in value terms reached its unprecedented high level of EUR 5.5 billion. The EU exports mainly cereal preparations, cigars and cigarettes, dairy products, odoriferous substances, other cereals (mainly barley), sugar confectionery, fruit and vegetable preparations, and wheat among others. The bulk of EU exports are final products but a significant portion of the surge of exports in the last year was constituted not only by final products but also by commodities – predominantly barley. Barley exports in 2009 (EUR 32 million) were close to the lowest level in the decade recorded in 2004 (EUR 11 million). In 2011 barley exports rebounded to the level of EUR 334 million. Almost all of these exports were directed to Saudi Arabia.

EU imports from CCC are rather negligible (around EUR 350 million in 2011) and mainly consist of animal or vegetable oils and live animals.

Other Middle East countries

The trade balance with the other Middle East countries – Iran, Iraq and Yemen is positive (EUR 675 million in 2011). A significant growth in exports in value terms was recorded in 2008, where they doubled as compared to the previous year, and remained on a high level until today (around EUR 1 billion in 2011). This was mainly due to the rise in exports of wheat and, over the last year, cigars and cigarettes. The main exported products to these countries are cigars and cigarettes, wheat, cereal preparations, preparations used in animal feeding, dairy products, and poultry meat among others. The import side is dominated by tropical products (fruits and spices), raw hides and skins, animal products (unfit for human consumption), fresh or dried fruits.

Section 6
BILATERAL: THE AMERICAS

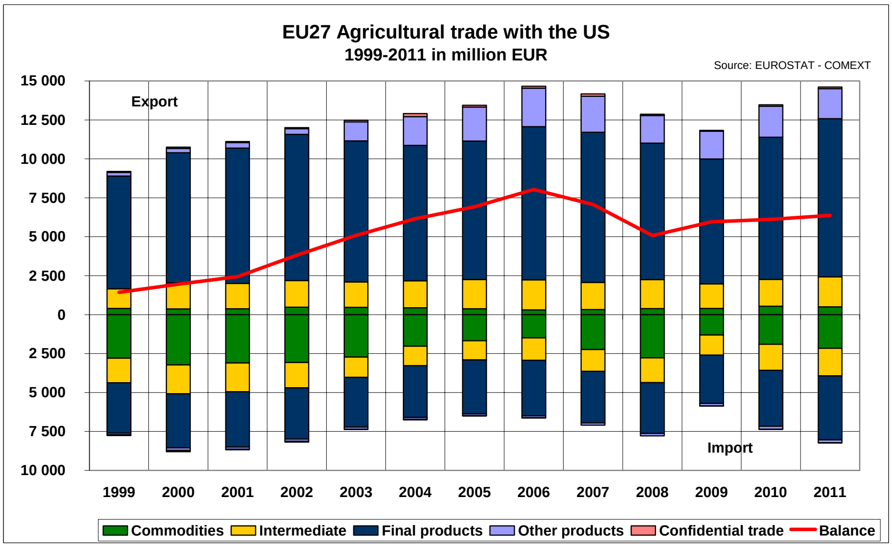
6.1. US and Canada

6.1.1. United States

The US is the EU's top destination for agricultural trade. The EU maintains a positive trade balance with the US of €6 billion. The bulk of EU exports are final products such as alcoholic beverages (wines, spirits, beer) accounting for around 40% of the total EU exports. Other exported products include odoriferous substances, cheese, waters, olive oil, cereal preparations.

The top products imported by the EU include cereals (mainly wheat), and soya beans. The US covers about 20% of EU's soya beans supplies and 20% of wheat imports. Other major products include wines and whiskies, nuts, and raw tobacco.

Figure 6.1



Trade relations with the US are generally not based on bilateral agreements, but on multilateral disciplines, the exception being wine and spirits. The 2006 Wine Agreement provides rules on protection of names, oenological practices and certification. In particular, it was agreed that certain so-called "semi-generic" names (e.g. Champagne, Chablis, Port) will no longer be used except if covered by a grandfather clause. A 1994 exchange of letters on spirits also concerns the protection of certain names.

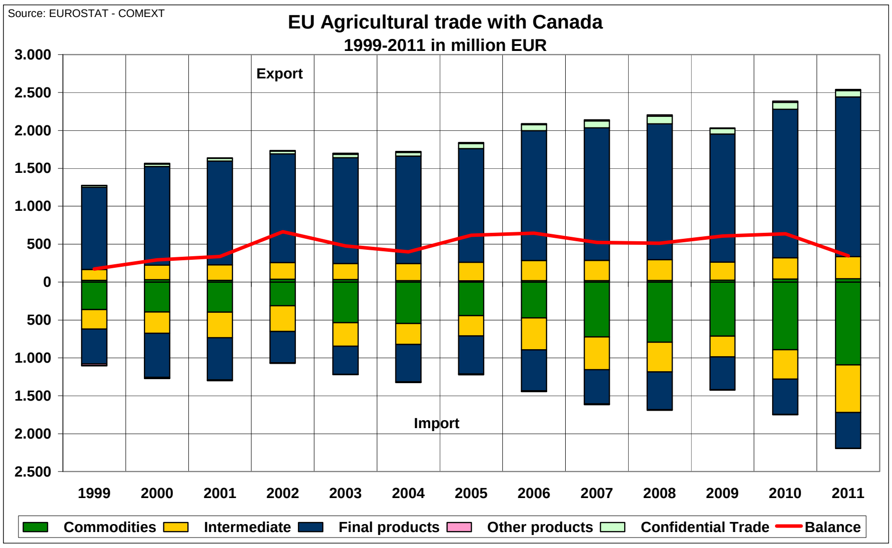
A number of notorious trade disputes between the EU and the US concern agricultural trade (Beef-Hormones, Bananas, GMOs, AMT poultry). In 2009, progress was registered in settling some of these disputes, i.e. Bananas and Beef-Hormones. In *Beef-Hormones*, an autonomous non-hormone treated beef quota was established by the EU in return for the gradual lifting of existing trade sanctions.

6.1.2. Canada

Canada is an important EU agricultural trade partner. The EU has been constantly recording a trade surplus in agricultural Canada (around €350 million in 2011), which has been rather stable over the last decade. The top exported products are wines, which similarly to the US, account for over 40% of EU exports to the country. Other products sold to Canada include ice cream and chocolate, cereal preparations, cheese.

Canada is the EU's top supplier of wheat, covering around 25% of EU import needs. It is also an important supplier of soy beans. These two products make for near half of all EU agricultural imports from Canada. Other imported products include other products of oilseeds (sunflower and rapeseed among others), fresh and chilled vegetables and other animal or vegetable oils.

Figure 6.2



The foundation for the management and development of the EU/Canada relationship, including on trade, was provided in 1976 by the signing of a Framework Agreement for Commercial and Economic Cooperation, the first one ever signed by the EU and an industrialised country. EU / Canada agricultural trade issues are discussed in different bilateral meetings, including the annual EU/Canada Agricultural Dialogue, and the Trade and Investment Sub-Committee.

A number of bilateral agreements designed to facilitate closer trade have been signed over the years. Those related to agricultural issues include a Agreement on Trade in Wines and Spirits (2003), which allows for inter alia protection of geographical indications and other names and regulatory provisions on labeling and oenological practices.

At the EU-Canada Summit on May 2009 the launch of negotiations for a Comprehensive Economic and Trade Agreement (CETA) was announced. Since the first round of CETA negotiations, held in October 2009, progress has been made towards an advanced agreement which should include a maximum liberalisation of trade between the EU and Canada and a comprehensive protection of agri-food geographical indications.

The EU's key objectives in agriculture in the CETA negotiations are:

– substantial additional market access across the board, and in particular for dairy products;

– new rules for the Canadian liquor boards ensuring non-discrimination against EU alcoholic beverages;

– comprehensive protection of EU agricultural and foodstuff geographical indications (geographical indications of wines and spirit drinks are already protected through the existing wine and spirits agreement).

6.2. Central America

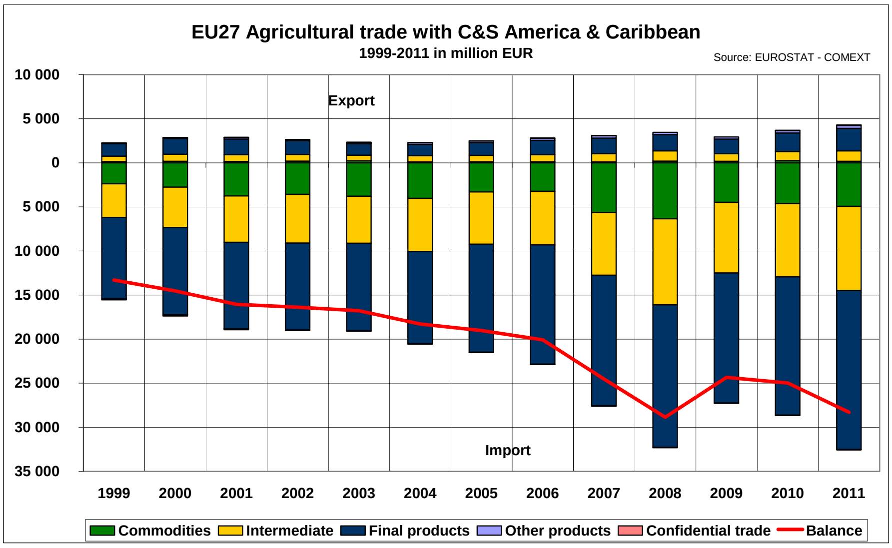
Traditionally, trade in agricultural products with Central American countries has been focused mostly on coffee and banana imports into the EU. The six countries of Central America (Panama, Guatemala, Honduras, Costa Rica, El Salvador, and Nicaragua) have also benefited from GSP+ trade preferences. These preferences have been consolidated recently into a comprehensive region-to-region Association Agreement between the EU and Central America. Agreed upon in May 2010, the Agreement has been approved by the Council. After the European Parliament has also reviewed it the EU will be ready to apply provisionally the entry into force of the trade chapter in the autumn of 2012. Effective entry into force of the trade chapter would take place when Central American countries will have ratified the Agreement.

Aside from GSP+ consolidation, the Agreement also provides both sides with increased market access in agricultural goods. The main benefit for EU exporters will be in the wines and spirits sector, while also dairy and meat exports will see an increase. In the Agreement, the incorporation of the concept of Geographical Indications in the domestic legislation of the six countries was a major achievement and will reinforce the market position of EU quality products on these markets, where the competition from products from North America and other Latin American exporters is fierce

Central America also gains tariff rate quotas on products such as sugar and rum, while banana exports will be subject to a gradually lowering preferential tariff with a limit of 75 EUR per tonne in 2020.

Figure 6.2 presents the trade flow between the EU and Central and South America, taken as a whole, i.e., including trade with Mercosur countries (Argentina, Brazil, Uruguay and Paraguay). Figure 6.3 shows trade flows with Mercosur only in more detail.

Figure 6.2



6.3. Mercosur

Mercosur[23] countries are major EU suppliers of agricultural products. The main countries of the group, Argentina and Brazil, make up for around 21% of EU agricultural imports (average 2009-2011). By contrast, the share of exports to Mercosur in total EU exports is quite small – only 1.6%. Moreover, the already large deficit in trade with Mercosur is showing a rather downward trend.

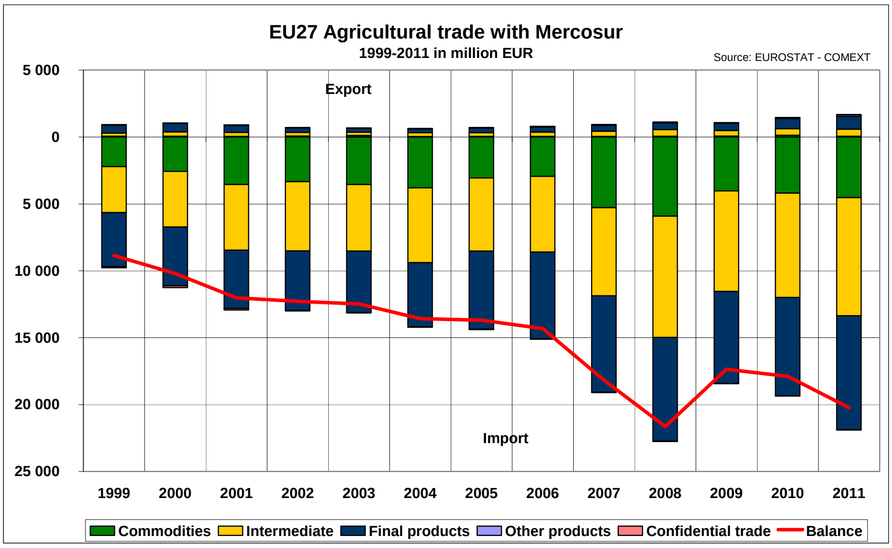
The top product categories imported from Mercosur include oilcakes, soya beans, coffee, bovine meat, fruit juices. It is important to appreciate that the four countries of the group are responsible for around 70% of imports of soya beans used by the EU as animal fodder, and 75% of imports of bovine meat into the EU. Argentina is the top supplier of bovine meat, while Brazil is the number one seller of soya beans. Moreover, Mercosur, predominantly Brazil, is also the leading supplier of poultry meat to the EU, covering around 90% of EU imports in volume terms.

Brazil is an important supplier of sugar (mainly raw cane sugar) to the EU (around a third of EU total sugar imports) and ethanol (around a third of EU total imports). Central and South America, taken as a whole, accounts for around half of EU imports of sugar and 70% of EU imports of ethanol.

EU exports, compared to imports, are negligible. The EU main exports include olive oil, spirits and liqueurs, wine and vermouth. Nonetheless, the EU is the largest supplier of agricultural products to Mercosur countries, accounting in 2010 for 30% of Mercosur's total agricultural imports

[23] Mercosur include Brasil, Argentina, Uruguay, and Paraguay

Figure 6.3



Negotiations between the EU and Mercosur to conclude Bi-regional Association Agreement formally started in December 1999. The negotiation foresees political, cooperation and trade pillars. Trade pillar negotiations have been active between 2002 and 2004, when it was mutually decided to suspend the negotiation, because of far too diverging positions and expectations.

In May 2010 the Parties mutually announced resumption of negotiations of the three pillars. The trade provisions of the agreement are still being negotiated, and cover trade in goods, including agriculture, services and government procurement, the protection of intellectual property rights including geographical indications, sanitary and phytosanitary (SPS) measures and sustainable development.

6.4. Mexico

The EU and Mexico are linked by a system of agreements, covering the whole of the political, economical and trade relationship. The basis of the relationship is the Economic Partnership, Political Co-ordination and Co-operation Agreement (usually named the Global Agreement), that entered into force on 1 October 2000. It has 3 pillars: political dialogue, trade liberalisation and co-operation.

Trade liberalisation of goods was established by Decision 2/2000 of EU-Mexico Joint Council that entered into force on 1 July 2000. The Agreement contains tariff quotas for certain agricultural products that are not subject to full liberalisation, as well as review clauses for further liberalisation. The Decision contains provisions for co-operation in the field of customs, standards and technical regulations, Sanitary and Phytosanitary (SPS) measures, and for the opening of public procurement markets. To this purpose a number of Special Committees at expert level were established.

In addition, there exists in the agricultural area an Agreement between the European Commission and the United States of Mexico concerning the mutual recognition and protection of designations for spirit drinks, signed on 27 May 1997. This allows for the protection by the competent authorities in the EU and in Mexico of the spirit drinks listed in the annexes to the agreement.

6.5. Chile

Superseding the previous framework agreements of the 1990's, the EU-Chile FTA is a broad and comprehensive agreement covering all areas of EU-Chile trade relations, going well beyond WTO commitments. It was hailed by the parties as a state-of-the-art agreement, providing an in-depth coverage regarding many trade-related provisions, and has been functioning well since its coming into force.

The trade provisions of the agreement entered into force on an interim basis on 1 February 2003. They cover a free trade area in goods, services and government procurement, liberalisation of investment and capital flows, the protection of intellectual property rights, a co-operation for competition and an efficient and binding dispute settlement mechanism. The free trade area in goods is underpinned by transparent and strong rules, including provisions which aim at the facilitation of trade in particular in the area of wines and spirits, and sanitary and phytosanitary measures - for both areas specific agreements are annexed to the Association agreement. It is also important to mention the built-in agenda securing the evolution of the trade provisions.

6.6. Andean Countries

An important milestone in the strengthening of the EU-CAN relationship has been the conclusion of the Multi Party Free Trade Agreement between the EU and Colombia and Peru. This agreement is currently undergoing scrutiny in the Council and in the European Parliament for its final ratification. No date is certain but it is expected to come into force during 2012, thus providing an important upgrade to the commercial relationship between the parties. The EU is currently the second largest trading partner of the region after the US, and the implementation of the agreement is set to boost this economic importance.

Whilst Ecuador also participated in the first negotiating rounds of the agreement, Bolivia did not do so. The agreement is open for these countries to join in the future.

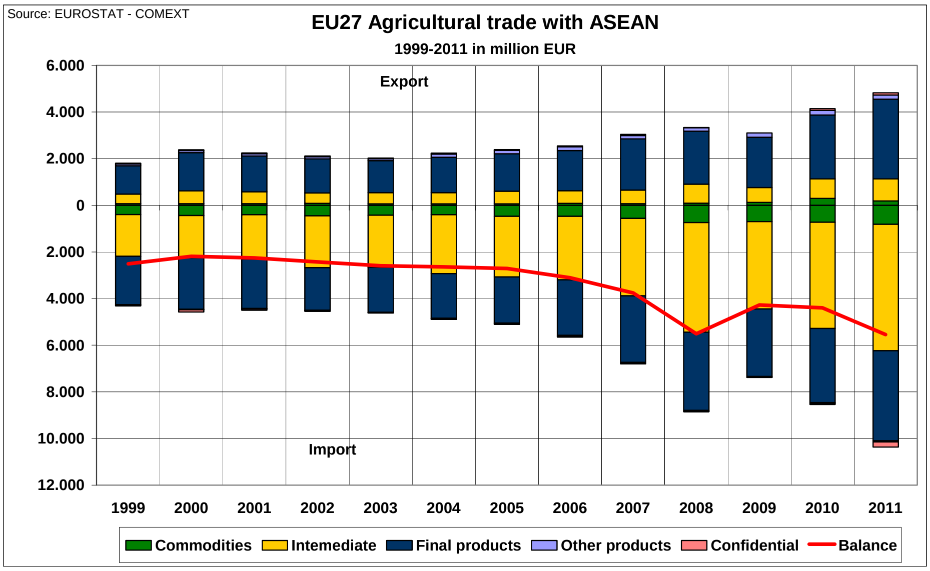
Section 7

BILATERAL: ASIA AND AUSTRALASIA

7.1. ASEAN

The EU has a negative net trade position with ASEAN countries, showing a rather downward trend (Figure 7.1). ASEAN countries receive around 5% of EU exports and they also make up for around 10% of EU imports. The EU imports mostly commodities and intermediate products, among which animal and vegetable oils (mostly palm oil) are the largest category of imports (a share of around 40% in the total imports). The surge in imports of these products was the main factor contributing to the deepening of the trade deficit with the EU over the last decade. Since 2000 in value terms imports of animal and vegetable oils have risen over threefold. Other imported categories of products include coffee and tea, meat preparations, fatty acids and alcohols, and tropical fruits and spices among others.

Figure 7.1



The EU exports such products as spirits and liqueurs, cereal preparations, wine and vermouth, and dairy products, among others. A surge of exports have been observed particularly in spirits and liqueurs, the sale of which in ASEAN has gone up over threefold since the beginning of the decade (in value terms).

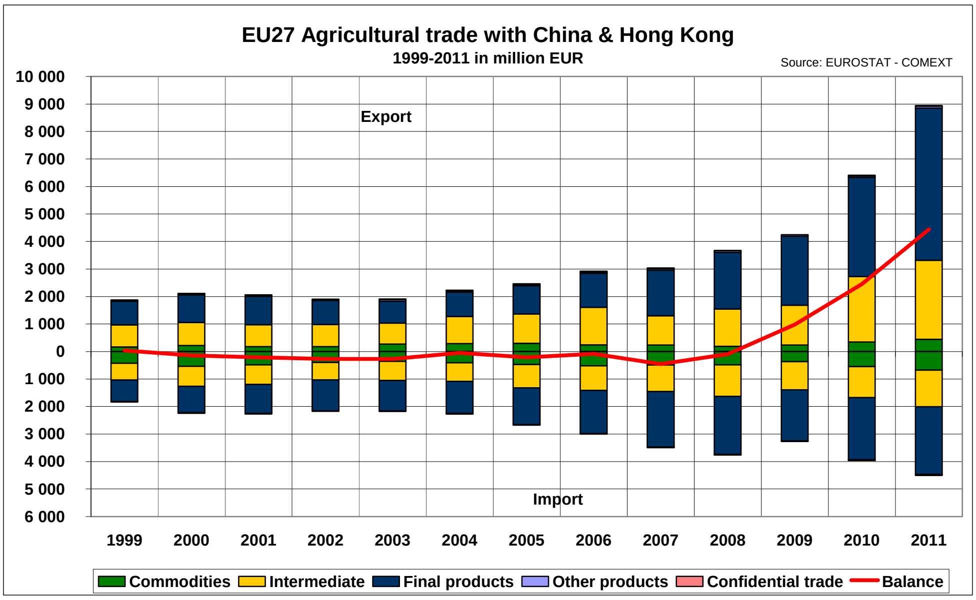
Following difficulties encountered in the region-to-region negotiations (EU-ASEAN FTA), both sides agreed to suspend negotiations in early 2009. On December 2009 the Council agreed to pursue bilateral FTAs with relevant ASEAN Countries beginning with Singapore, so as to pave the way for additional bilateral FTAs in the near future. Following the same approach, on 10 September 2010, the Council authorised the Commission to start negotiations for a FTA with Malaysia. On 29 May 2012, Member States also gave their consent to launch bilateral negotiations with Vietnam. Other ASEAN Countries also showed interest for an FTA with the EU. Therefore new negotiations should start in the coming months.

In addition to the market access dimension, these FTAs will also include a Chapter on intellectual property rights, including geographical indications, a priority sector for the EU in these emerging markets.

7.2. China and Hong Kong

China together with Hong Kong is the EU's 4th supplier (5% of EU total imports in 2011). On the export side, it is noticeable that Hong Kong receives nearly as many EU exports as China does (EUR 4.8 billion for China and EUR 4 billion for Hong Kong). As figure 7.2 shows, the EU net trade balance with China and Hong Kong is positive and rising, which is a sign of an increasing demand for EU products. China and Kong are also the fastest growing markets for EU agricultural products. In 2011 they were the markets where the EU absolute export gains over the year were the biggest (EUR 2.5 billion combined). This makes China alone EU's fourth major destination for agricultural exports (third, if counted together with Hong Kong).

Figure 7.2



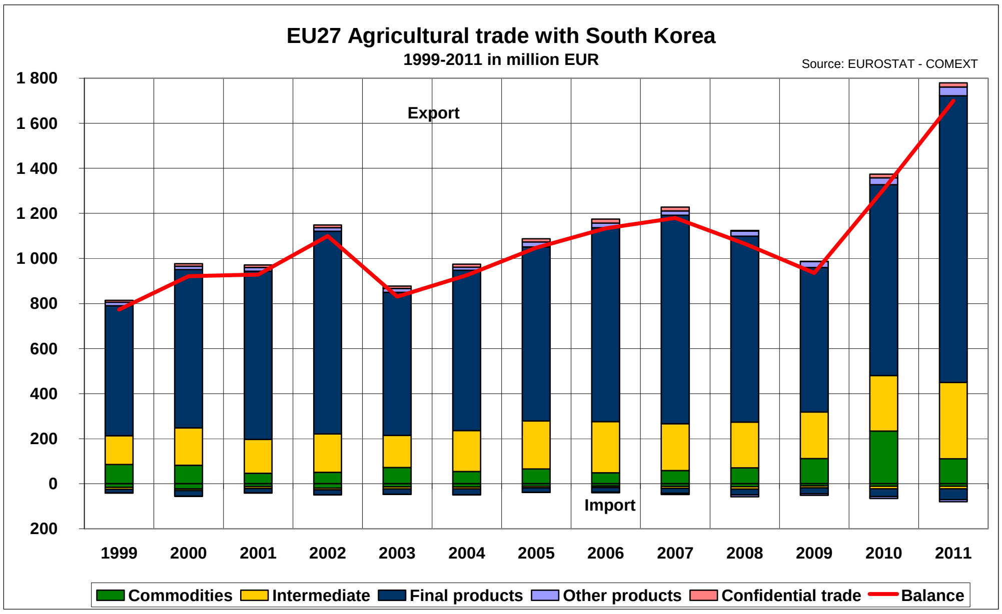
The main categories of products exported by the EU include raw hides and skins, wine and vermouth, cereal preparations, and spirits and liqueurs. Pork meat is also an important export product. The EU imports mainly fruit and vegetable preparations, animal products unfit for human consumption, vegetables, (other) products of oilseeds, and wool and silk, among others.

7.3. South Korea

The trade balance with South Korea is positive for the EU and shows an upward trend (see figure 7.3). The main products exported to South Korea include spirits and liqueurs, pork meat, gluten and starch, cereal preparations, and sugar confectionery, among others. Following the entry into force of the FTA with South Korea in July 2011, the EU agricultural exports have surged, especially in such categories as pork, spirits and liqueurs and chocolate.

Products exported by South Korea comprise cereal preparations, waters, tropical resins and extracts, and other vegetable products, among others.

Figure 7.3



Trade between the EU and South Korea takes largely place under the Free Trade Agreement (FTA), which has been provisionally applied since 1 July 2011. The FTA provides for a substantial market liberalisation for EU agricultural exports. It also covers valuable tariff rate quotas for several agricultural products and foresees mutual protection for EU and South Korean geographical indications by each party. The Agreement established several institutional bodies to ensure the smooth development of the EU – South Korean trading relationship in the future. The most important of the bodies is the Committee on Trade in Goods. A working group on geographical indications is also in place.

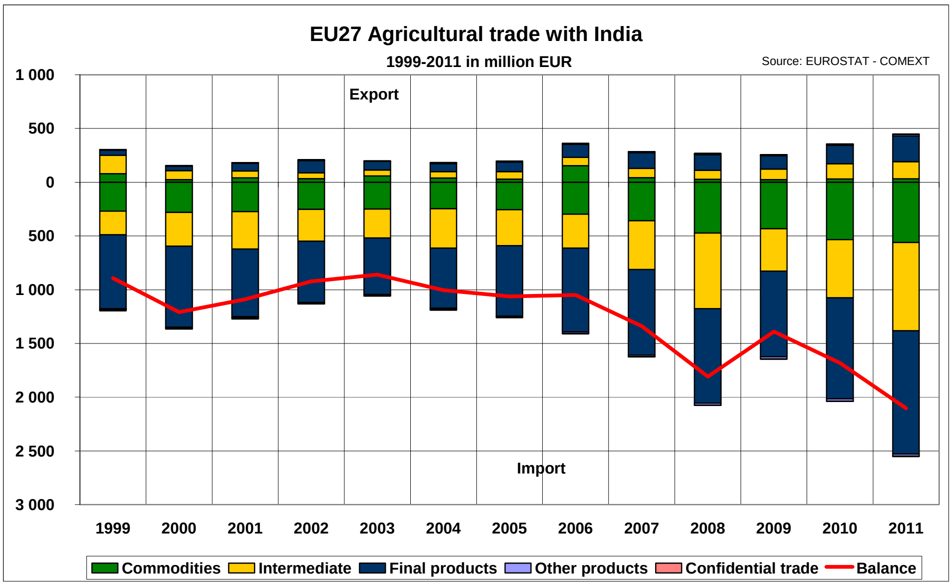
7.4. India

The EU is currently a modest partner for India in agricultural trade but with high potential (see Figure 7.4). Exports to India over the last ten years have been oscillating around EUR 250 – 300 million (peak in 2011 of EUR 450 million). On the other hand, Indian exports have approached EUR 2.5 billion and as a major producer of Basmati rice it also supplies most of total EU imports of Basmati (the other producing country is Pakistan). Another major category is coffee, fruit and nuts, vegetables, spices.

FTA negotiations began in 2007 and are reaching the final stages. The most important priorities for the EU are wines and spirits, and other key agriculture exports (dairy, olive oil, malt, processed agricultural products). India's key export interests in the FTA are rice, sugar, fruit and vegetables (both fresh and processed).

The EU views India as a significant market for the future. It is hoped that the FTA will secure greater market access for main EU export products through lowering of tariffs. As an example, current duties on wines and spirits are 150%.

Figure 7.4



Geographical indications are an important factor in EU-India relations. Provisions on geographical indications are expected to be built into the intellectual property chapter of the FTA. India has registered a geographical indication in the EU (Darjeeling – see also the box text in section 4.5.1 above) and has expressed interest in future applications. EU operators have already registered a number of geographical indications including Champagne, Cognac, Scotch Whisky, Porto and Douro wines.

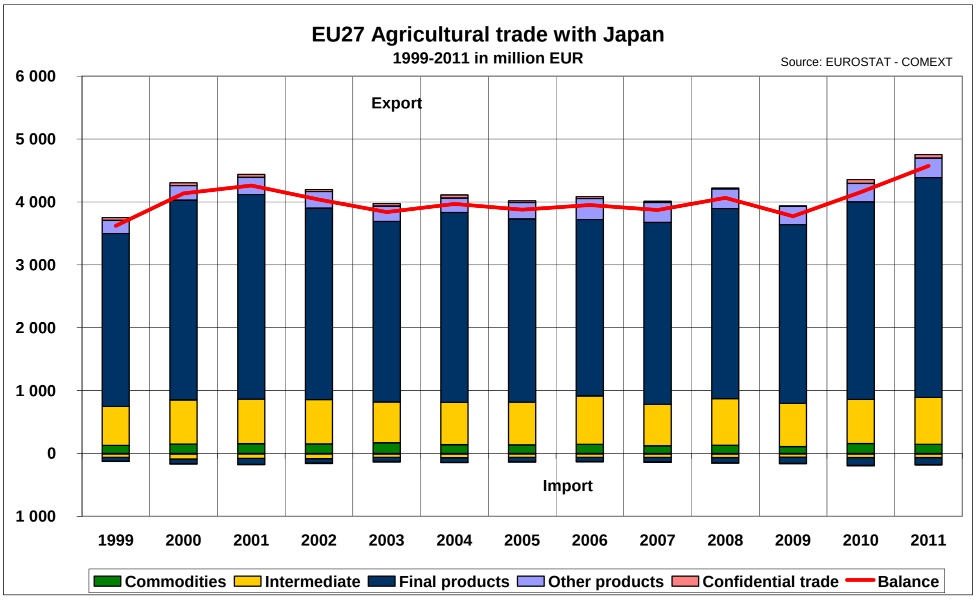
Bilateral relations take place on agriculture in the forum of the Joint Working Group on agriculture and marine products. Broader issues are dealt with within the EU-India Joint Commissions

7.5. Japan

Japan is a very important destination for EU products as it ranks as the 5th export destination for EU products. Trade flows (see Figure 7.5), however, have remained more or less constant over the last decade, although in recent years some growth has been recorded in exports of pork meat and cheese. The main products exported by the EU to Japan include pig meat, wine and vermouth, cigars and cigarettes, waters, dairy (cheese), and spirits and liqueurs. The EU imports mainly coffee extracts and soups, other vegetable products (vegetable seeds), cereal preparations, and other animal or vegetable oils (wool grease, vegetable waxes).

Trade in agricultural products between the EU and Japan mainly takes place under MFN-conditions of the WTO. Trade irritants or other issues are tackled through the specific committees of the WTO or bilaterally. Bilateral contacts involving agriculture consist of an agricultural policy dialogue and specific information exchange meetings on trade in pig meat.

Figure 7.5



In 2011 at the EU-Japan Summit leaders agreed to start the process for parallel negotiations for:

– a deep and comprehensive Free Trade Agreement (FTA)/Economic Partnership Agreement (EPA), addressing all issues of shared interest to both sides including tariffs, non-tariff measures, services, investment, intellectual property rights, competition and public procurement; and

– a binding agreement, covering political, global and other sectoral cooperation in a comprehensive manner, and underpinned by their shared commitment to fundamental values and principles.

The two sides have been engaged in discussions with a view to defining the scope and level of ambition of both negotiations.

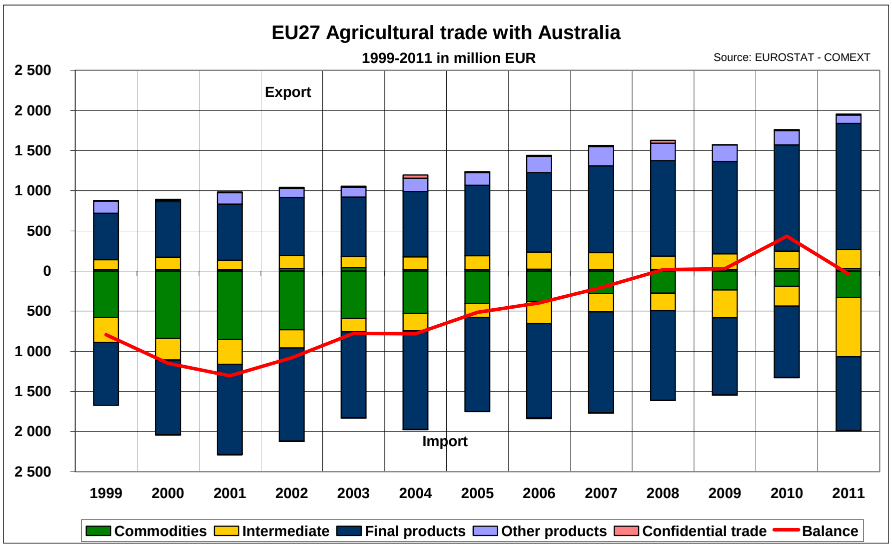
7.6. Australia

Australia is an important EU trade partner. As seen in figure 7.6 below, over the last decade the EU was constantly improving its net trade position with Australia. This was mainly due to declining imports of wool and silk from Australia and increasing exports of final products, including cereal preparations and sugar confectionery. 2010 was the first year where the EU changed its position from a net importer to a net exporter. This was mainly caused by a decline in imports which in absolute terms was greater than the rise of exports. Products which experienced a decline compared to 2009 included wine and vermouth, products of oilseeds and wheat (2009 was an exceptional year where Australian wheat exports to the EU reached a decade high). A rise in exports was observed mainly in the case of processed products to Australia e.g. cereal preparations, sugar confectionery, spirits and liqueurs. In 2011, however, the balance plunged slightly below zero, due to a sharp increase in imports of other products of oilseeds (mainly rape or colza seeds).

As far as imports are concerned, around 25% of wine and vermouth imported by the EU comes from Australia alone. The country still remains an important supplier of wool and silk (a share of around 25% in total EU imports) and wheat.

On the export side, Australia is a destination for only 2% of the EU exports. The largest proportion is constituted by products such as cereal preparations, sugar confectionery, spirits and liqueurs, fruit and vegetable preparations.

Figure 7.6



Given the importance of wine in EU-Australia trade, an agreement governing trade in this product was signed by the two parties in 1994. Further negotiations led to a second agreement which entered into force on 1 September 2010, replacing the previous agreement. The new agreement safeguards the EU's wine labelling regime, protects geographical indications, including for wines intended for export to third countries, and includes a commitment by Australia to protect EU traditional expressions. It also provides for the phasing out of the use of a number of important EU names such as Champagne, Port, and Sherry on Australian wines within a year of the agreement coming into force. The agreement is managed by a Joint Committee meeting at least annually.

Beyond the agreement on wine, the importance of this trade relationship has led to the creation of a permanent mechanism for dialogue and consultation on trade topics related to agriculture, ATMEG (*Agricultural Trade and Marketing Experts Group*). ATMEG is held annually, alternately in the EU and Australia.

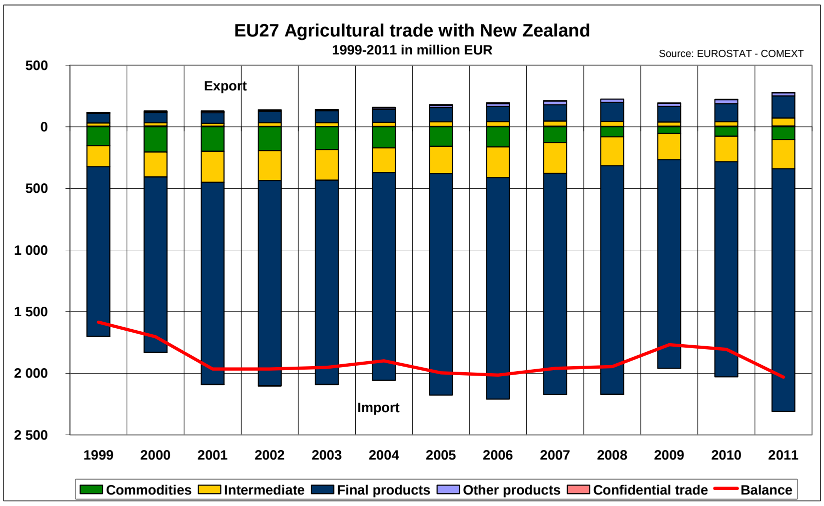
7.7. New Zealand

The EU records a constant deficit in trade with New Zealand, oscillating around EUR 2 billion (see Figure 7.7). The country accounts for a great majority of supplies (85%) of sheep and goat meat to the EU market. As a major world dairy producer, New Zealand also supplies over 80% of total EU imports of butter. Another major category is fruits – in which dried currants and kiwi fruit stand out as the top specialty products provided by the country to the EU. Other important products exported by the New Zealand include, among others, wine and vermouth, bovine meat and wool and silk.

The EU exports are rather negligible compared to imports (around EUR 200 million). The top exported categories include spirits and liqueurs, fruit and vegetable preparations, wine and vermouth, pig meat.

A permanent mechanism of dialogue and consultation on trade topics related to agriculture, the *Agricultural Trade Talks*, is convened annually alternately in the EU and New Zealand.

Figure 7.7



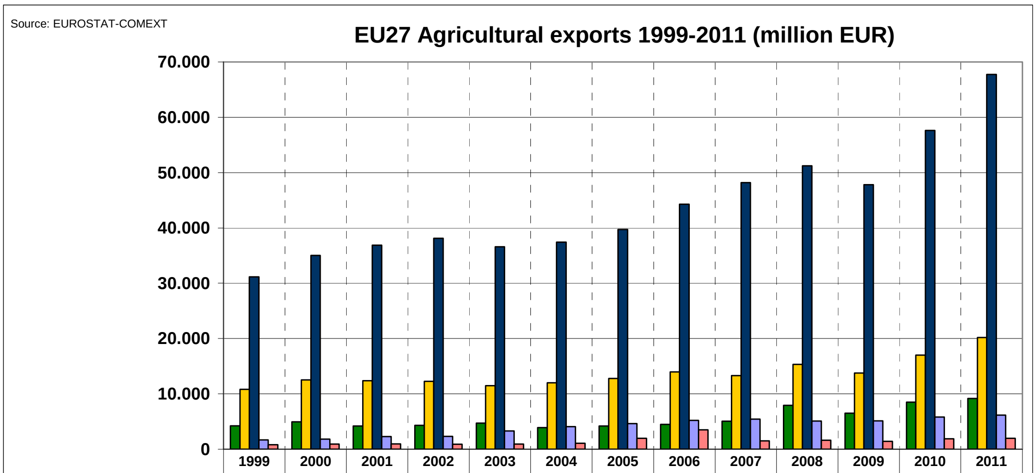
Section 8
QUALITY AND STANDARDS

8.1. The EU's strength in value-added goods

The EU's agri-food sector builds on its high quality reputation to sustain the competitiveness and profitability of the sector and to differentiate its produce from commodities.

The EU's strengths lie increasingly in the production and export of final products, such as wine, processed meats, cheese, spirits and liqueurs (final products which are ready or almost ready for sale to consumers without further processing). The export value of final products is approaching EUR 60 billion (2009-2011 average), Figure 8.1).

Figure 8.1

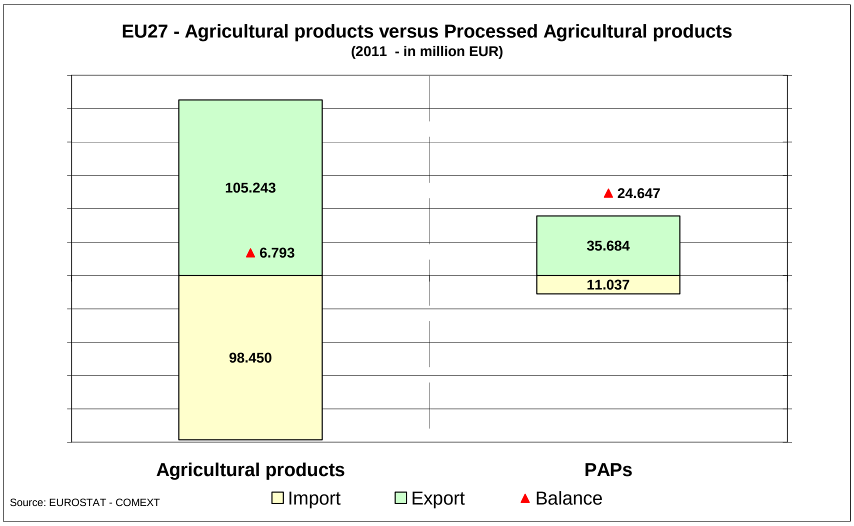


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commodities	4208,31	4940,57	4191,03	4302,21	4716,25	3923,25	4180,73	4472,46	5044,23	7900,63	6489,03	8486,63	9188,52
Intermediate	10813,5	12522,4	12366,1	12250,3	11482,2	11994	12784,7	13986	13308,7	15324,3	13768,3	16999,1	20190,6
Final products	31166,7	35021,4	36876,7	38108,3	36608,6	37423,1	39719	44298,8	48182,9	51225	47804,2	57632,7	67758,2
Other products	1672,86	1817,13	2290,53	2304,3	3305,29	4058,31	4610,5	5212,48	5409,87	5085,55	5122,85	5807,16	6143,75
Confidential Trade	815,002	930,751	958,674	879,083	910,179	1046,52	1966,64	3465,3	1505,95	1609,39	1401,85	1869,03	1958,4
Agricultural products	48676,4	55232,3	56683	57844,2	57022,5	58445,2	63261,6	71435	73451,7	81144,9	74586,3	90794,6	105239

A further indicator of EU strengths in the agriculture sector is the proportion of processed agricultural products or 'PAPs' in the total agricultural exports. 2011 data show that PAPs products, such as spirit drinks (i.e. Scotch whisky (10% of all PAPs); and Cognac (5%), food preparations (11%) and beer (6%) account for 34% (EUR 35.7 billion) of the value of agricultural products exported (EUR 105.2 billion) (See Figure 8.2).

Farmers and most agri-food processing businesses are small and medium sized enterprises that sell most of their output into the distribution and retail chains where the sector is far more concentrated. Small producer-suppliers are placed at a disadvantage in terms of bargaining power. This has consequences for the price paid to the producer as well as affording the retailer and distributor scope to add value through branding and thus increase the value added that accrues to the downstream operators.

Figure 8.2



However, in the marketplace a growing segment of consumers are looking for product characteristics and attributes derived from the farming input. To respond to this the EU promotes organic products and products identified by their geographical indications – regional and local products intrinsically linked to their place of origin. These schemes are at the heart of the EU's agricultural quality policy, and are promoted to markets world wide. The marketing challenge facing producers in these niche sectors is twofold:

– farmers and agri-food producers must offer products with the qualities consumers want, and

– consumers need to have confidence that the information about the qualities of products in the market is reliable.

EU producers are able to meet these demands.

8.2. Quality products and quality policy outside the EU

European high quality products – such as regional specialities and organic foodstuffs – are also sought after world-wide and the EU seeks to ensure that exporters can access export markets without encountering barriers to trade. The EU market is attractive also for exporters from outside the EU marketing products with specific characteristics and farming attributes to EU consumers. This gives an additional added value in the market. As well as using the EU schemes, such as geographical indications and selling product labelled as organic, specific products can also be marketed under private label schemes, such as fair trade and sustainability labels.

By demonstrating the value of agricultural products' quality, more and more non-EU countries have adopted specific schemes of this type, notably for the protection of geographical indications, traditional agricultural product, and products of organic farming.

Protecting geographical indications

High-quality, renowned products are frequently the target of counterfeiting, in particular the copying and passing off of well-known geographical indications, such as '*Chablis*', '*Manchego*' or '*Parma*'. This is a problem that affects all kinds of intellectual property rights and results from weak legal systems of protection and enforcement. The Commission supports producers and exporters of quality products by engaging with trade partners bilaterally and multilaterally in the WTO, to put in place robust systems of registration and protection.

The EU has concluded agreements that include mutual geographical indication protection with many partners including Australia, Chile, South Africa, Central America, the Caribbean, Colombia, Korea, Switzerland, Mexico, Ukraine and Peru. Negotiations with China, Mercosur, India, Canada, and ASEAN members, among others, are ongoing. The main elements of these agreements include:

– High level protection for geographical indications, covering misuses and evocations of the name;

– Prevention of registration of future trade marks covering non-authentic products that contain geographical indications;

– Ensuring the right of use of the geographical indication on authentic products, even where a prior trade mark has been registered for a different product;

– Direct protection via the agreement of a specific list of EU geographical indications, at least those covering the main quality products exported;

– Prevention of the erosion or loss of protected status by generic usage.

A significant benefit of the geographical indication policy, both bilateral and multilateral initiatives, has been to encourage non-EU countries to adopt and develop systems of protection for their speciality and regional products – to the benefit of consumers and producers in the countries concerned. The EU has granted protection for many non-EU geographical indications in wines, spirits and agricultural products and foodstuffs in the EU through bilateral agreements and direct registrations. As well as making available such quality products to EU consumers, this process has helped to build a global consensus for the protection of local and regional speciality products.

In an increasingly globalised marketplace, geographical indications stand out as an instrument to protect at international level what is unique and valuable at the local and regional level.

In 2010 the Commission proposed a legislative quality package, designed to strengthen the existing policy and the current tools, to ensure that more farmers can benefit from them. This will help to strengthen the coherence of EU legislation and the effectiveness of the EU position in international negotiations.

Concerning organic products, the EU has secured recognition of EU organic rules in several important markets for EU exports, including Argentina, Australia, Costa Rica, India, Israel, Japan, Tunisia, and Switzerland. Discussions are on going with all other Latin/Central American countries, China, Thailand, Taiwan, Turkey, Canada, and the US. The emphasis in the future will be to secure reciprocity i.e. third country recognition of EU organic products.

8.3. Standards

International trade of agri-food products has endured several changes in the past decades. Liberalisation of agricultural trade, whether multilaterally or bilaterally, has been done against the background of a growing development and enforcement of product standards.

The Uruguay Round began a tariff dismantling process aimed at a more liberalised scenario for world trade. Following this process, many countries, feared that the growth of standards on agri-food products could work as a disguised barrier to trade. To ensure that this was not going to be the case, the WTO adopted two agreements: the Agreement on Technical Barriers to Trade (TBT), and the Agreement on Sanitary and Phytosanitary Measures (SPS), which require Members to consult on new regulations or standards, use international standards wherever possible, and choose standards and regulations that are proportionate to the health and safety goals being pursued.

8.3.1. Sanitary and phytosanitary standards

Trade of agri-food products must take place within a framework of regulations and standards so that actors all along the supply chain work to ultimately provide consumers with safe products. EU legislation is aimed at ensuring that all products placed on the EU market, whether produced in the EU or imported from outside, comply with the import requirements set by EU legislation regarding food safety, animal and plant health and certain animal welfare aspects (to the extent that they have sanitary and quality implications – i.e. the protection of animals at the time of killing). This ensures that all food placed on the EU market, whatever its provenance, meets the EU's high standards of hygiene and safety.

Publicity given to food safety issues and incidents has highlighted the importance of reinforcing compliance with these standards, both in respect of European products and for imports.

EU food safety measures are where possible based on relevant international standards. However, in many cases there are no such standards and the EU has therefore to rely on standards developed at the Union level. The EU food safety policy is consistent, science based and in the case of lack of an international standard, it is supported by the European Food Safety Authority (EFSA). EFSA is the corner stone of EU risk assessments regarding food and feed safety. It provides independent scientific advice.

EU product safety standards are set according to objective assessments of risk in order to protect consumers in the EU. For products of animal origin, pre-export conditions shall be met and specific import guarantees may be required. Food of plant origin from certain countries may also be subject to import conditions and to increased levels of import controls in response to critical findings.

As for pesticide residues, the first element to be considered is the protection of the safety and health of consumers, based on scientific risk assessment. The maximum residue levels are, mostly far lower and are set at a level that is achievable in the case of a proper use of the pesticide.

In certain cases, it would not be possible or appropriate to expect producers in third countries to generally abide by EU domestic rules, or vice versa, rather than national legislation. As regards standards relating to farming methods including relevant environmental conditions are normally governed by local law. Some plant protection products and veterinary products that are not authorised for use in the EU can be used in the production of product outside the EU and imported into the EU:

- Certain products are designed to attack diseases and pests that do not occur inside the EU (e.g. tropical pests). In these cases, a residue level is laid down, even though the manufacturer has not applied for the plant protection product to be approved *for use* in the EU.

- In a few cases, such as the use of, bovine somatotropin to increase milk yields, the product is banned because of animal welfare concerns, although the foodstuff is deemed to be safe for consumers, and so can be imported from non-EU countries.

- Substances that have not been approved in the EU for reasons of environmental protection or worker safety, or simply because the manufacturer has not made an application, cannot be used in EU production. However, the product of non-EU countries that has been produced with such substances can be imported if it poses no risk for the EU consumer or there is no detectable residue.

Sanitary and phytosanitary standards are subject to WTO rules, particularly those contained in the Sanitary and Phytosanitary Agreement. Specific international standards are agreed in a number of standard setting bodies, including the *CODEX Alimentarius Commission*, *International Plant Protection Convention (IPPC)*, and the *World Animal Health organisation (OIE)*, in which the Commission actively participates.

8.3.2. Commodity and quality standards

Outside the sphere of sanitary and phytosanitary rules, there is a wide range of different standards and regulations in the agri-food sector governing the quality, production and marketing of agricultural product in order to smooth the flow of trade. These include regulations related to origin, product certification, environmental standards, product labelling, and other regulations. In general, standards may be classified as private or public, voluntary or mandatory, product standards or standards related to production and processing methods.

The EU is present in the main agricultural standard setting fora such as the UN *Economic Commission for Europe* and *Codex Alimentarius Commission*, which establish norms for commodity trade, labelling, and product definitions. Once a norm is established by a recognised standard-setting body, there is a presumption derived in particular from the WTO agreement on Technical Barriers to Trade (TBT), that the norm applies.

By participating in the international bodies that set agricultural standards, the EU ensures that the international norm adequately covers EU products and is not set in a way that disadvantages EU producers.

In the case of organic farming, the *Codex Alimentarius Commission*, in its food labelling committee, adopted in 1999 (revised in 2007 and again in 2010) the

Guidelines for the Production, Processing, Labelling and Marketing of Organically Produced Foods. This was the product of years of negotiations in which the EU played a leading role. As a result, the EU organic standard laid down in regulation is closely aligned to this global standard. This gives legal security to EU organic farmers that the EU rules cannot be undermined, as well as providing guarantees of authenticity to consumers of internationally traded organic produce.

The most common way to guarantee conformity of a product with a labelling or quality standard is through certification. This normally requires third party audit of the production process to ensure compliance and is becoming increasingly common for assuring compliance with EU schemes, private label schemes, and safety and hygiene standards.

Compliance with standards as well as certification plays a vital role in helping producers to communicate with consumers across the food chain. When used well, labelling schemes improve the bargaining power of the producers of quality products since the distributor and retailer can only use the protected logo, quality term (like 'organic'), or protected geographical indications on goods if they purchase the authentic, certified product.

The EU is ensures the measures it adopts or those of other WTO Members are consistent with international rules and standards. The EU is active in removing barriers to trade whenever undue measures are applied by trade partners

8.4. Non-tariff measures in export markets

In the context of ever-decreasing tariffs, non-tariff measures may present an additional obstacle to be overcome by exporters in order to obtain real market access. A case in point is the EU-Korea FTA, where the gradual elimination of tariffs on bovine meat will not correspond with greater market access until Korea eliminates its unjustified non-tariff measures regarding past Bovine Spongiform Encephalopathy (BSE). Non-tariff barriers have in effect become in many cases substitutes for tariff barriers. It is therefore a goal of the EU to ensure that non-tariff measures are not used as protectionist measures, but instead respond to real concerns (for example, to human health concerns), thereby ensuring fair market access for its exporters.

Specifically concerning agricultural products, the European Commission works to improve market access conditions for EU exporters where they have been blocked by unjustified technical barriers or sanitary or phytosanitary (SPS) measures in other countries. The Commission has developed a Trade Market Access strategy and toolbox for identifying, prioritising and solving market access problems across all sectors. Particular attention is given to SPS problems in the SPS market access working group. This coordinated effort by Commission, Member States and industry has borne fruit, and it should be reinforced. An SPS Export Database has been developed to help identify export problems by providing an overview on difficulties encountered. The SPS Database also provides the necessary background information to set priorities and define strategies. The database is linked to the market access database managed by the European Commission. The Commission also produces a regular newsletter on sanitary and phytosanitary issues. It negotiates SPS chapters in FTA's with partner countries.

The significance of technical barriers to trade (TBT) has increased considerably over the past years, as tariffs steadily decline and governments worldwide introduce more and more regulatory requirements to address inter alia health, safety or environmental concerns. Depending on the country and on the type of barrier, the EU has a variety of means at its disposal for tackling an unjustified TBT and improving market access for EU exporters. These include submitting written comments under the TBT notification procedure; raising the issue in the WTO TBT Committee meetings, taking place three times per year; working together with stakeholders (Member States, European industry, technical experts) in the Market Access Partnership to gather information, seek solutions and ensure a coordinated approach; bilateral discussions with the authorities of the country concerned, on a case by case basis or in the framework of EU Regulatory Dialogues; including a specific Chapter on Technical Barriers to Trade in all Free Trade Agreements (FTAs) that the EU is currently advancing; negotiating agreements on Conformity Assessment and Acceptance of Industrial Products (ACAAs) with eligible countries in the European Neighbourhood; ensuring efficient implementation of the EU's Mutual Recognition Agreements; and providing TBT-related capacity building to developing countries.

8.5. Promotion campaigns in export markets

Buying food and drink produced in the EU means buying safe and quality products, chosen from a rich diversity reflecting the different traditions and regions in the Community. Consumers around the world know this: the EU’s agri-food sector has a reputation for high quality thanks to decades or even centuries of hard work, investment, innovation and attention to excellence.

The EU finances campaigns to promote farm products and inform consumers about how they were produced. The assistance is normally given to professional producer organisations, for example associations representing specific agricultural products, or associations promoting particular approaches to agriculture, such as organic farming.

Promotional campaigns highlight the quality, the nutritional value and the safety of EU farm products and food based on these products. They also draw attention to other intrinsic features and advantages of EU products, such as specific production methods, labelling, animal welfare and respect for the environment.

The campaigns can run inside the EU or beyond its borders with the objective of opening up new markets for EU producers. Between 2000 and 2011, 156 promotional programmes implemented outside the EU received EU co-financing. Total budget of all campaigns added up to EUR 330 million out of which EUR 165 million was co-financed by the EU. Most campaigns focussed on the meat, dairy, wine and spirits, and fruit and vegetables sectors.

With a view to shaping a more ambitious promotion policy for its agricultural products, the EU is currently reviewing its promotion regime in terms of content, budget and management structures. New regulatory proposals will be ready by the end of 2012.