

SYMPOSIUM
IRELAND'S POLICY TO AFRICA: TRADE AND AID

Improving Coherence between Irish Trade and Development Policy from an African Perspective

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1. INTRODUCTION

The recent Irish Trade Policy Statement devoted a whole chapter to the trade needs of developing countries (DETE, 2005). In it, the Government recognises the role that trade policy can play in providing economic development opportunities to emerging and poorer countries. It states that achieving the development dimension of the WTO Doha Development Agenda is the most effective way of realizing that ambition. The Statement confirms that Ireland wants to assist these countries to shape the outcome of the Doha process in their interest and in a way that provides the greatest opportunity for those in need.

The Statement contains a particularly strong commitment to achieving policy coherence between development objectives and other areas of external policy. It notes that the effects of other policy areas, particularly trade policy, may be of even greater significance to developing countries than Overseas Development Aid (ODA) flows. The achievement of development objectives is more likely if our external policy takes account of and supports those objectives. It concludes that the systematic consideration of development impacts should centrally influence policymaking and inform positions adopted in negotiations of multilateral, regional and bilateral agreements on trade and in other areas. The word 'agriculture' is not specifically mentioned in this section of the Trade Policy Statement. Yet agriculture is at the heart of much of the concern about possible incoherence between trade and development policy. Developing countries and many NGOs argue that Europe's Common Agricultural Policy (CAP) damages the development prospects of developed countries, and have called for the reform of agricultural trade policy in order to provide greater market opportunities for these countries.[†] This paper explores the implications of agricultural trade liberalisation and further CAP reform particularly for the African least developed countries (LDCs), drawing on a research project at the Institute for International Integration Studies at Trinity College Dublin supported by the Advisory Board for Development Cooperation Ireland.[‡] CAP trade barriers continue to be important for some of the African non-

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† The NGO literature is extensive. See, for example, Oxfam (2002a, 2002b, 2002c, 2002d, 2004) and Green and Griffen (2002).

‡ More on this project and its outputs can be found at the project website www.tcd.ie/iis/policycoherence.

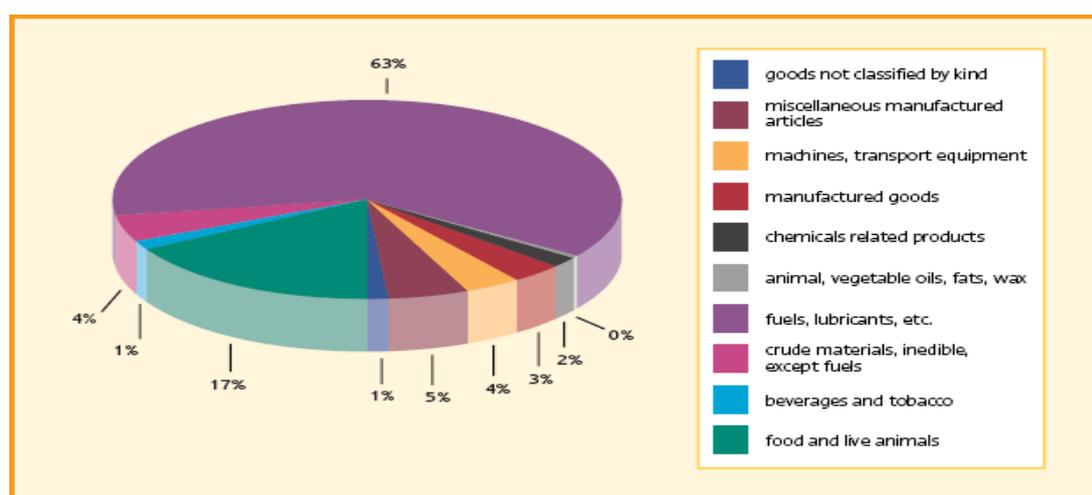
LDC economies, while export and domestic subsidies encourage the over-production of competing commodities to the detriment of African producers in all economies. Nonetheless, many of Africa's LDCs are unlikely to gain from freer agricultural markets, although there could be a positive impact on farmers' incomes and thus the incidence of poverty under certain conditions. Policy coherence must extend beyond trade policy reform to embrace support and assistance to overcome the supply-side constraints which inhibit these countries from taking advantage of market access they already have.

2. TRADE AND AFRICAN DEVELOPMENT

The association between rapid economic growth and expanding trade is now well established; developing countries that have expanded trade more rapidly have also grown more rapidly (World Bank, 2002). Yet while many developing countries have increased their exports dramatically in the last few decades, Africa has not. UNCTAD (2003) has pointed out that Africa has seen its share of world trade fall from six per cent in 1980 to less than two per cent in 2002. The Blair Commission on Africa noted that, if sub-Saharan Africa could manage to increase its share of world exports by just one per cent, it would generate over US\$70 billion – treble the amount it gets from all its current aid flows and nearly a quarter of its total annual income (Commission for Africa, 2005).

The trade basis for many African economies is still incredibly narrow. Over three-fifths of its exports by value are fuels, with a further fifth from food and agricultural raw materials, and the final fifth from manufacturing (including mining) (Figure 1). This huge dependence on commodity exports leaves Africa very vulnerable to declining and volatile commodity prices, especially given its dependence on a narrow range of products. From 1980 to 2000, the greatest falls in prices were in cotton (47 per cent), coffee (64 per cent), cocoa (71 per cent) and sugar (77 per cent). And in a short period, losses can be very severe. Between 1986-89, sub-Saharan Africa suffered losses, associated with price falls, of US\$56 billion or around 15-16 per cent of its then GDP (Commission for Africa, 2005).

Figure 1. Sub-Saharan Africa Exports to the Rest of the World (excluding South Africa), 2003



Source: Commission for Africa, 2005, Figure 8.2

3. AFRICA'S TRADE AGREEMENTS WITH DEVELOPED

This deterioration in Africa's share of world trade has occurred despite its generally more favourable terms of access than other developing country exporters to developed country markets. All developing countries have more favourable access than Most Favoured Nation (MFN) terms under each developed country's Generalised System of Preferences scheme. However, in the case of the EU's GSP scheme, preferences on agri-food products are limited and CAP products are completely excluded. However, African, Caribbean and Pacific countries have enjoyed additional preference margins under the Cotonou Agreement and its predecessor, the Lomé Convention. This extended the agricultural preferences and included tariff rate quotas for a number of CAP commodities, including sugar, beef and bananas. Least developed countries received more generous preferences under the GSP, but in 2001 the EU introduced its "Everything But Arms" scheme which extended duty free and quota free access to 50 LDCs with transition periods for three sensitive products of bananas, rice and sugar. Other developed countries have similar preferential arrangements in place either for all least developed countries or for African countries. For example, the US African Growth and Opportunity Act (AGOA) has played a significant role in encouraging the growth of textile and clothing exports from Africa. Although the majority of LDCs are African (31 of the 50 in total), not all African countries are LDCs. Thus many African countries continue to face significant tariff barriers on their competing exports of agricultural products. While there are difficulties in summarising average tariffs over countries and commodities, Table 1 provides one estimate of how African countries fare in attempting to export agricultural products to a variety of developed country markets.

Table 1. Average applied bilateral tariffs, agricultural sector, per cent, 2001

<i>Tariffs applied by →</i> <i>Applied to ↓</i>	<i>EU25</i>	<i>US</i>	<i>Asia developed</i>	<i>Cairns developed</i>
EU25	-	5.8	22.2	15.7
US	16.2	-	28.9	5.1
Asia developed	12.5	3.7	-	6.2
Cairns developed	25.9	3.4	24.9	-
Mediterranean	7.3	4.0	14.1	3.7
Sub Saharan Africa	6.7	3.0	12.0	0.7
Cairns developing	18.3	3.8	24.0	5.9
China	13.5	5.1	21.7	8.7
South Asia	14.4	1.8	33.7	1.8
Rest of World	15.1	2.1	17.4	2.6
Average	16.7	4.7	22.5	10.8

Source: Bouet et al., 2005

4. IMPACT OF OECD AGRICULTURAL POLICY REFORM ON AFRICA

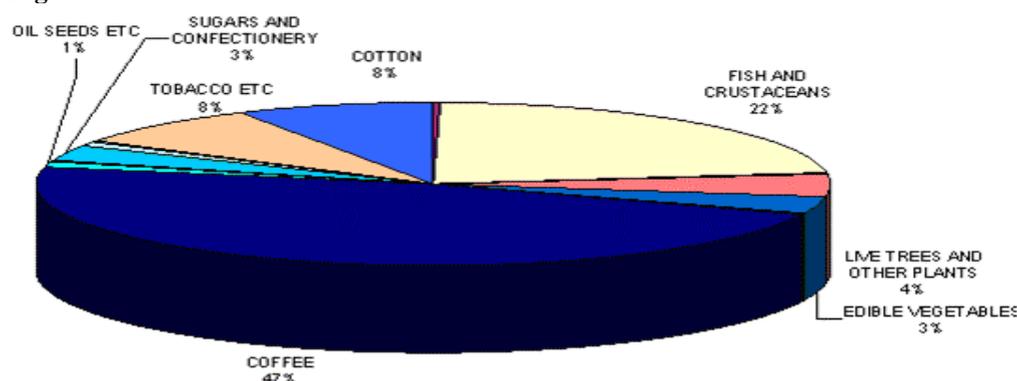
The EU Commission makes the point that the EU, through its various preferential trade arrangements, is already very open to African agri-food exports. It highlights that the value of EU farm imports from Africa averaged €7 billion annually between 2001-02, way above the value of imports by the US, Africa's second biggest importer which are just one-sixth the value of those that go to the EU. Also, US imports are largely cocoa and coffee, while almost half of the EU's

imports from Africa are non-tropical products including fruit and vegetables (other than bananas), meat and oilseeds (DG AGRI, 2005). It also highlights that the successive changes to the EU's Common Agricultural Policy over the years have greatly reduced the trade-distorting support which Europe's farmers receive. While this is true, the fact remains that Europe's agriculture remains significantly protected, and the positive level of tariffs faced by African food exporters into Europe suggests there is some basis for the belief that they could benefit from further moves to liberalise these. There is now an extensive literature on the extent to which Africa is likely to benefit from further agricultural trade liberalisation by developed countries. While our focus here is on EU agricultural trade policy, it is appropriate to broaden this to include other OECD countries given that further agricultural trade reform is currently being negotiated on a multilateral basis in the context of the Doha Development Reform. Most studies report the results for OECD country trade liberalisation as a whole, without identifying the separate contribution of the EU to that total. Unfortunately, there remains substantial disagreement on the overall welfare effects on Africa of further agricultural trade liberalisation. While Anderson et al. (2005) take an optimistic view, a more negative view is found in Bouet et al. (2005) and Bureau et al. (2005). A thorough review of the reasons for these differing conclusions is beyond the scope of this paper. It is worth noting, however, that much of the projected gain in the Anderson et al. study comes from developing countries' own liberalisation. This means not only that individual African countries are assumed to benefit from undertaking their own liberalisation, but they also benefit from easier access to their neighbours' markets and not just OECD country markets. The more negative assessment in the Bouet et al. study stems from negative terms of trade impacts and preference erosion. We can examine these phenomena more closely.

5. IMPACT OF CAP REFORM ON IRISH AID PROGRAMME COUNTRIES

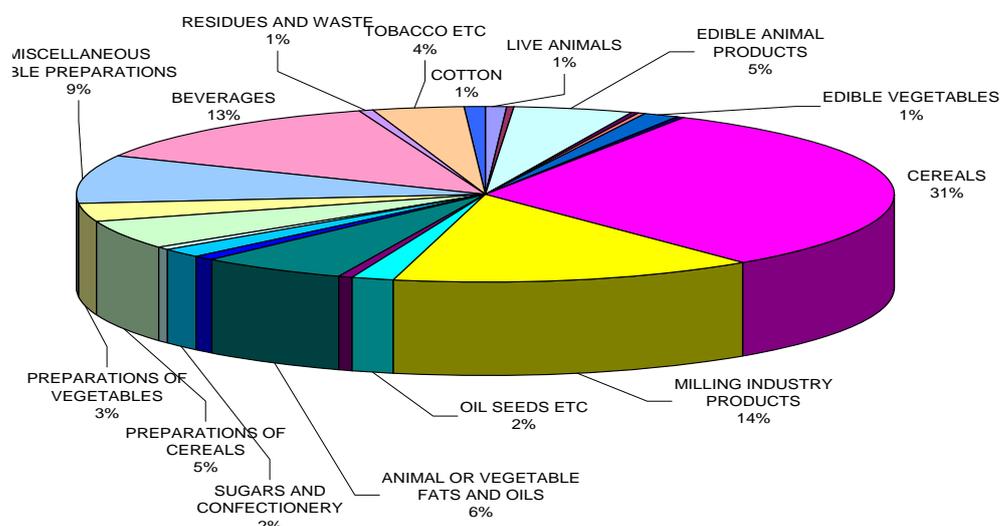
The differential impact of agricultural policy reform can be illustrated by examining the likely impact of OECD country liberalisation on Irish Aid's six partner countries in Africa: Ethiopia, Uganda, Tanzania, Zambia, Mozambique and Lesotho. Figures 2 and 3 illustrate the composition of their food trade with the EU-15, their major market though not representing all their trade. Fully three-quarters of their food exports are comprised of tropical beverages and fish, both of which are exported free of duty to the EU with the aid of a preferential margin against third country exporters. Almost half of their imports are cereals or cereal products, whose price is projected to increase following OECD agricultural policy reform.

Figure 2. EU-15 imports from the Irish Aid programme countries by value, 1995-2003 average



Source: Chaplin and Matthews, forthcoming, based on Eurostat.

Figure 3. Distribution EU-15 exports to Irish Aid countries by product for the period 1995-2003



Source: Chaplin and Matthews, forthcoming, based on Eurostat.

It is thus not hard to understand that these countries have little to gain and indeed much to lose from OECD agricultural trade liberalisation. Table 2 presents the results of a specific simulation of a partial liberalisation of agricultural policy using the ATPSM model.[§] In this simulation, least developed countries are not required to make any reduction to their agricultural tariffs. Thus, the simulation represents the combined impact of OECD country plus developing country liberalisation. Results are given for two of Ireland's partner countries, Tanzania and Uganda, as well as for the rest of SSA. The figures suggest that, overall, partial agricultural liberalisation will have little overall impact one way or the other on these countries. Indeed, because the ATPSM model cannot take account of preferences and preference erosion (see next section), the outcome in practice is more likely to be negative than positive. For the rest of Sub-Saharan Africa, the simulations are even more definite that this is the more likely outcome.

Table 2. Welfare effects of the Harbinson proposal, \$m

	EU	US	Tanzania	Uganda	Rest of SSA
Producer surplus	-41,258	-2,293	+47	+42	+656
Consumer surplus	+27,834	+106	-53	-42	-992
Government revenue	+20,462	+2,050	0.8	0.2	-9
Total welfare	+7,038	-136	-6	0	-345

Source: Giblin and Matthews, 2005.

§ ATPSM, the Agricultural Trade Policy Simulation Model, was jointly developed by UNCTAD and FAO. Details can be found on the UNCTAD ATPSM website <http://192.91.247.38/tab/ATPSMabout.asp>. The simulation is based on the Harbinson proposal for an eventual agreement which may not be too far from what the eventual outcome may be.

Focusing only on the aggregate welfare impacts on developing countries may underestimate the impact which EU agricultural policy reform might have on poverty in these countries. As is clear from Table 2, the aggregate impacts net out the gains to producers and losses to consumers from higher farm prices. These distributional effects of trade liberalisation are usually far greater than the aggregate impacts, whether in OECD countries or in the developing world. Where poverty is concentrated among rural food producers, as in much of Africa, it might be expected that OECD agricultural trade liberalisation will have a pro-poor effect. However, if there is also preference erosion which hurts rural producers, this positive pro-poor effect may not materialise. These results assume that domestic prices change to reflect the changes in world market prices following OECD country agricultural policy reform. However, there is considerable evidence that, in many least developed countries, poor market infrastructure means that border price changes never get transmitted to the rural poor in the first place (Atingi-Ego et al., forthcoming, Kilima, forthcoming). This creates a double whammy for these countries. For export commodities, the failure to pass back the higher price world market prices means that rural producers fail to benefit from the agricultural policy reform. For imported commodities, it means these countries must absorb the full terms of trade loss without being able to mitigate this by moving some resources into the import-competing sectors or letting higher prices encourage consumers to substitute now-cheaper local alternatives for the more expensive imported foods.

6. CAP REFORM – THE CASE OF SUGAR

These results highlight the importance of terms of trade effects of EU agricultural policy reform on developing countries. Preference erosion is another aspect of the complexity of the impact of EU trade policy reform which is highlighted by the recent EU sugar reform. A number of ACP countries benefited under the Cotonou Agreement Sugar Protocol from access to the highly protected EU sugar market for a limited quantity of their sugar exports. The reform of the EU sugar regime in November 2005 by lowering the internal EU price adversely affected the export earnings of these countries. The EBA countries had similarly hoped to share in the rents from EU sugar protection once the transition period for sugar ended in 2009 and they would gain totally free access to the high priced EU market for all their domestically produced sugar. Indeed, it was the likelihood that the EU market would act as a suction pump for EBA sugar which was one of the numerous factors which eventually forced the EU Council of Agricultural Ministers to bring in the reform (Chaplin and Matthews, 2005a). It was not surprising that these countries fought hard to maintain the high sugar price though not necessarily in a way which EU sugar farmers would have found palatable. Their preferred option was to make room for the additional EBA imports by slashing even further the allowed quota production of EU farmers. The EU Commission proposal rightly recognised that trying to defend a system whereby EU sugar prices were three times the world market price was not sustainable in the context of the Doha Round negotiations. The agreed compromise was to reduce the EU support price by 36% over four years, a level of reduction which has forced the closure of the Irish sugar industry. EU and Irish sugar beet farmers received generous compensation for this price reduction, equivalent to around two-thirds of their total revenue loss. The question of compensation for ACP producers remains to be decided, but looks likely to be much less generous (Chaplin and Matthews, 2005b). What the sugar case illustrates is that trade policy reform creates winner and losers, not only between producers and consumers in the same country, not only between countries which are exporters and those which are importers or a commodity, but also between those exporters with preferential access and those without. Trying to use trade policy to target development beneficiaries is likely to be a very blunt instrument, but it is clearly important when trade policy reform is undertaken that the impact on the poorest countries is assessed and appropriate compensation to assist them to adjust is built into the reform package.

7. MARKET ENTRY, NOT MARKET ACCESS

The trade statistics quoted at the outset of this paper show that African countries do not appear to be taking advantage of market access opportunities which are open to them. Thus, even where poorer countries gain market access *opportunities*, turning these opportunities into additional trade flows will require support. Furthermore, where countries or population groups within countries may be potential losers, for example, from the unravelling of preferential access arrangements, there is a need to find ways to compensate them or to assist them to diversify. Awareness of these issues has led to a growing interest in trade-related development assistance (TRA). TRA covers four categories of actions: assistance for trade policy formulation and participation in negotiations; assistance for trade development including actions aiming at relieving supply side constraints which prevent developing countries exploiting their international trading potential; assistance for trade adjustment, including measures to mitigate the adjustment costs of trade liberalisation; and assistance to support trade-related infrastructure. 'Aid for trade' (A4T) is an increasingly important agenda item on the Doha Development Agenda, and the WTO Hong Kong Ministerial Declaration in December 2005 invited the Director-General to create a task force to provide recommendations on how to operationalise Aid for Trade which is to report by July of this year (WTO WT/MIN(05)/W/3/Rev.2). The more important barriers to African agri-food exports to Europe are often not tariffs but non-tariff barriers, particularly the costs and difficulties in complying with the increasingly rigorous food safety standards now being demanded to protect European food consumers. Exporters may face difficulties in entering the EU market not necessarily because their products are unsafe but often because their countries lack the monitoring, testing and certification infrastructure that would make it possible for them to demonstrate compliance with import requirements. The cost of meeting legitimate SPS standards is large, and African countries need help to address the weaknesses in their food safety and quality control systems, and the associated institutions. They also need assistance for the establishment and strengthening of verification and certification bodies in order to demonstrate compliance with food safety and other traceability requirements. In many African countries, the withdrawal of governments from direct involvement in agricultural marketing has left large gaps which the private sector is not yet able to fill. Firms often lack trade support services, including trade finance, general business services, telecommunications and transport services, and trade promotion and marketing services. Where such services are provided, this is often through public trade promotion organisations which by and large are not effective (OECD, 2002). Increasingly, therefore, 'aid for trade' projects focus on the micro- and firm-level, on encouraging improvements in product presentation and the production process as well as developing the capacity of export promotion organisations. Support for training of exporters, strengthening local associations and enterprise networking, providing trade information, and promoting investment are other examples of initiatives which can be taken. An important factor in the success of such projects is the degree to which the private sector in developing countries is actively involved in setting priorities and determining the uses to which assistance is put.

Irish Aid is also supporting a number of initiatives to help the least developed countries to participate more effectively in the trade negotiation process itself. One of these is the Integrated Framework (IF) for Trade-related Technical Assistance to Least Developed Countries. This is a multi-agency, multi-donor programme designed to mainstream trade into national development plans such as Poverty Reduction Strategy Papers and to assist in the coordinated delivery of trade-related technical assistance. Irish Aid also funds the activities of the Agency for International Trade Information and Cooperation (AITIC), an intergovernmental organisation established by the Swiss Government and based in Geneva with the brief to assist the least developed countries to participate more effectively in the work of the WTO and other trade-related organisations in Geneva.

8. CONCLUSIONS

The Irish Government in its 2005 National Trade Policy Statement has made a praiseworthy start at highlighting the importance of EU trade policy for development and at committing itself to pursuing a greater degree of policy coherence between our common EU trade policy and development objectives. It also recognises the importance of ensuring a successful outcome to the WTO Doha Development Round as well as ensuring that there is a substantial development dimension in that agreement.

Developing countries have made clear that agricultural protectionism in the developed countries is, for them, the key issue of this round. The more developed of the developing countries have made clear that they will measure the extent of ambition in the cuts they are prepared to make in non-agricultural market access and services (which, of course, will also benefit other developing countries including the least developed countries) by the level of ambition shown by the developed countries in their agricultural offers.

For Ireland, with its vocal and politically powerful agricultural lobby, delivering on this commitment is clearly very politically sensitive. The Taoiseach has made clear that any WTO agreement should not affect the parameters of the CAP reform agreed in Luxembourg in 2003. The current EU agricultural offer on the table in the negotiations, dating from October 2005, would probably necessitate some further CAP reform before 2013. Some improvement on this offer, particularly in limiting the number of sensitive products which would be sheltered from the full brunt of the tariff reductions, will be necessary to reach a final agreement, and the EU Trade Commissioner has indicated that a further offer would be forthcoming but only when other trade partners show more of their hand. When and if a final deal is achieved, it is to be hoped that the Irish government will be prepared to back it as a way of honouring its commitment to policy coherence.

However, the other major lesson from this analysis is that a Doha Agreement on agriculture is likely to do very little for the very poorest African countries which are the development partners of Irish Aid. There must a question mark over how much their producers will benefit from higher world market prices following CAP reform, given the limited degree of integration which appears to exist between domestic market price formation and world market prices in these countries. If we also take into account the interests of their consumers and their existing dependence on preferential access, EU agricultural trade liberalization could even make them worse off. For these countries, market access is necessary but not sufficient to ensure market entry. Agricultural policy reform must be complemented by an aid for trade package to help them increase their capacity to produce and to export.

From the point of view of Irish trade policy, this means ensuring that the problems of meeting rising EU food standards are minimised through technical assistance and assistance with certification and compliance. It means increased aid for trade facilitation; helping to modernize and improve customs administration and export licensing formalities as well as transport and logistics. It means focusing an increasing proportion of our development cooperation programmes on facilitating the private sector and providing training in export marketing and export promotion. Finally, it means providing additional assistance to the poorest countries to enable them to mainstream trade into their poverty reduction strategies.

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