Co-funded by the
Europe for Citizens Programme
of the European Union

TEPSA
Trans European Policy Studies Association

Trans European Policy Studies Association

TEPSA BRIEFS

MARCH 2021

Common Agricultural Policy and Policy Coherence for Development: Reflecting on the Impact of the new MFF in Policymaking towards Developing Countries

Sara Canali and Michaël de Clercq*

Abstract

The new Multiannual Financial Framework for 2021-2027 protects existing nominal income support for its farmers, ensuring a continuation of the current funding schemes. This brief scrutinizes earlier criticism on the effects of the CAP on developing countries and looks at the challenges ahead. It argues that the external dimension of the policy structure has not evolved significantly, and the impact on developing countries remains a cause for concern in specific sectors.

Introduction

Policy Coherence for Development (PCD) is defined in the 2017 European Consensus on Development as the requirement to "take into account the objectives of development cooperation in policies which are likely to affect developing countries".[1] In particular, Policy Coherence for Development is tied to the parallel commitment laid out in the United Nations' 2030 Agenda. The Common Agricultural Policy (CAP) has been harshly criticised by academics and civil society organisations for its negative impact on developing countries. Even though such negative impact has been substantially reduced with the successive reforms, especially in 2003 and 2013, some concerns remain. This policy brief aims at outlining the main changes in strategic objectives and policy initiatives under the new CAP and the 2021-2027 Multiannual Financial Framework (MFF) in order to identify whether or not EU's policymaking still yields negative effects on agricultural markets in developing countries, therefore undermining the EU's commitment to PCD.

[1] Council of the European Union, European Commission and European Parliament (2017). "The New European Consensus on Development", p. 52, Brussels.

* *Sara Canali* is an *Academic Assistant* at *College of Europe*. *Michaël de Clercq is a PhD researcher at Ghent University*. All the opinions expressed in this briefing are the sole view of the authors, and do not represent the position of the *College of Europe* nor of *Ghent University* nor of the Trans European Policy Studies Association (TEPSA).

The future of Common Agricultural Policy

During the two-day Council meeting in Luxembourg in October 2020, the Council concluded their general approach on the post-2020 CAP reform package, including ambitious environmental commitments and an increased degree of flexibility at the level of the state when developing their national strategic plans.[2] The Portuguese Presidency's negotiations with the European Parliament are currently ongoing, and CAP's new legal framework is expected to arrive in spring 2021 and due to be implemented in all EU Member States from 1 January 2023 onwards. Until then, a transitional regulation, which extends most of the 2014-2020 CAP rules, ensures continuity and enables a smooth transition to the future CAP strategic plans.

Nevertheless, the Multiannual Financial Framework spanning 2021-2027, which was adopted on 17 December 2020, already staked out the budgetary boundaries for the EU's agricultural policy, and the resulting maximum spending ceilings are bound to shape final CAP negotiations in the months to come.[3] Despite Member States' and Parliament's pleas to guarantee real CAP expenditure (i.e. nominal expenditure adjusted for inflation), both CAP pillars saw a reduction in real terms compared to their 2014-2020 budget. In addition to these real budgetary reductions, pillar 2 (addressing rural development) also suffered nominal losses as the Commission prioritized the protection of nominal income support through the European Agricultural Guarantee Fund (EAGF), financing pillar 1 expenditure.[4] The new CAP however, which will be significantly modernized and simplified at the Member States' request, allows for the transfer of resources up to 15% of a Member State's national ceiling between both pillars, and an additional transfer for rural development concerning climate issues as part of the increased environmental embeddedness in EU policy. Overall, the CAP's relative importance in the EU's long-term budget slightly diminished and focuses on the preservation of existing nominal income support schemes, allowing us to have a brief glance at the new CAP's role in policymaking towards developing countries.

The new CAP however, which will be significantly modernized and simplified at the Member States' request, allows for the transfer of resources up to 15% of a Member State's national ceiling between both pillars, and an additional transfer for rural development concerning climate issues as part of the increased environmental embeddedness in EU policy.

The EU's Common Agricultural Policy has often been subjected to severe criticisms with regards to its funding mechanisms, incentivizing production methods with detrimental effects for farmers in developing countries, and thereby directly impeding the EU's development objectives. Export subsidies – a major cause of local market distortions in the Global South – had already been phased out since 2015, and the European Commission's post-2020 CAP legislative proposals offered an opportunity to further improve its synergy with the EU's Policy Coherence for Development. Amongst the remaining areas of concern, the possibility for

[2] Council of the European Union (2021). "Future of the CAP post-2020", last accessed on 27 February 2021.

[3] European Commission (2021). "Negotiation process of the 2021-2027 long term EU budget & NextGenerationEU", last accessed on 27 February 2021.

[4] Matthews, A. (2018). "The CAP in the 2021-2027 MFF Negotiations", CEPS, last accessed on 26 February 2021; European Commission (2018)."Multiannual Financial Framework 2021-2027", last accessed on 23 February 2021.

Member States to aid specific agricultural sub-sectors through coupled income support is most prominent. Under this funding scheme, a maximum percentage of their annual national ceiling for direct payments may be directly linked to the output size of specifically outlined product categories. While the provision of coupled income support is capable of protecting domestic sectors that are heavily suffering from external market competition, the misidentification or overestimation of a European sector's particular difficulties comes at the risk of internal market disorientation. Such potential supply-demand imbalances can bring about grave effects for small farmers in developing countries, albeit only for a very strict set of products for which coupled income support can be enacted. Market distorting effects in the Global South through the EU's agricultural policy might seem irrelevant at a global scale, but the EU should not become inattentive towards these specific issues and the subsequent wellbeing of local small farmers in these countries. A frequent reassessment of sectors, regions and products eligible for coupled income support – rather than the scheme's removal which is unlikely in the near future – would limit such misidentification occurrences, resulting in internal market disorientation and its consequent conflicting results with the EU's local development policy.

One such specific cause for concern is the EU's dairy sector, which is still tied to coupled income support in most Member States. It finds itself at the centre of the debate on the compatibility of EU's internal protectionist stance on agriculture and its adherence to objectives pertaining to food security and economic growth in developing countries. In particular, the local dairy industry in West Africa has been increasingly complaining about EU's dumping practices concerning powder milk, which has resulted in extremely cheap milk overcrowding their local markets and pushing local producers out of business.[5] The West African countries most affected by this dumping practice are Burkina Faso, Mali, Mauritania and Senegal.

The powder milk flooding West African markets combines a low-quality milk product with vegetable fats, making its cost incredibly competitive compared to the local dairy products in a country where, on average, cows produce significantly less milk than they would in Europe. Such pressure resulted from trade agreements concluded two decades ago and has become ever more significant since 2015, when the EU lifted its quotas.[6] Concerns over the negative impact of the coupled support mechanisms for the dairy industry has also been voiced by experts[7]. The EU's response to criticism coming from West African local farmers has been offset by the belief that the export of powder milk from the EU is essentially contributing to guaranteeing food security in the African region. However, the general issue of EU's negative impact on developing countries' local food markets has been significantly improved since the lifting of export subsidies and the decoupling of direct payments for European farmers for most sectors, with the exclusion of the most vulnerable product categories. This means that the evolution of the EU's Common Agricultural Policy has been heading in the right direction and remains problematic only for specific categories of products and in specific geographical areas where the EU is an important player, such as West Africa, whereby EU products account for over half of the imports.[8] The future of CAP is now looking at contentious issues such as those of food

[5] Politico (2020). "The EU milk lookalike that is devastating West Africa's dairy sector", last accessed on 25 February 2021.
[6] Politico (2018). How EU milk is sinking Africa's farmers", last accessed on 26 February 2021.
[7] Euractiv (2020) "CAP gets too much flak for effects on developing countries, says expert", last accessed on 22 February 2021
[8] Ibid.

sovereignty, trade-related issues, and sustainability.

Conclusion

The new MFF for 2021-2027 comprises a reduction in real expenditure for both pillars of the EU's Common Agricultural Policy but preserves the level of existing nominal income support. The funding schemes behind these subsidies have been progressively decoupled from production size since the early 2000s and have adopted an increasingly market-oriented approach, reducing external market distortions in the Global South. However, the new CAP does not substantially change the most recent support architecture. In fact, concerns remain with regards to those specific sectors relating to products eligible for coupled income support. Particularly, the European dairy sector has distorted local markets in West Africa, as a consequence of EU's market disorientation. These practices conflict with certain aspects of the EU's development policy and undermines the EU's commitment to achieve its Policy Coherence for Development objectives. These specific distortions are not expected to change in the near future. A frequent reassessment of sectors, regions and products eligible for coupled income support should consistently incorporate the vision and the concerns of farmers in the Global South and would reduce the risk of misidentification and overestimation as a cause of European market disorientation, while protecting vulnerable domestic industries in the EU.

References

Council of the European Union, "Future of the CAP post-2020", 2021, last accessed on 27 February 2021, https://www.consilium.europa.eu/en/policies/cap-future-2020/.

Council of the European Union, European Commission and European Parliament (2017). "The New European Consensus on Development", p. 52, last accessed on 26 February 2021, https://ec.europa.eu/international-partnerships/system/files/european-consensus-on-development-final-20170626_en.pdf.

Euractiv (2020) "CAP gets too much flak for effects on developing countries, says expert", last accessed on 22 February 2021, https://www.euractiv.com/section/agriculture-food/news/cap-gets-too-much-flak-for-effects-on-developing-countries-says-expert/.

European Commission (2018)."Multiannual Financial Framework 2021-2027", last accessed on 23 February 2021, https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/mff_2021-2027_breakdown_2018_prices.pdf.

European Commission (2021). "Negotiation process of the 2021-2027 long term EU budget & NextGenerationEU", last accessed on 27 February 2021, https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/negotiations_en.

Matthews, A. (2018). "The CAP in the 2021-2027 MFF Negotiations", CEPS, last accessed on 26 February 2021, https://www.ceps.eu/wp-content/uploads/2018/12/306-311-Forum%20Matthews.pdf.

Politico (2020). "The EU milk lookalike that is devastating West Africa's dairy sector", last accessed on 25 February 2021, https://www.politico.eu/interactive/the-eu-milk-lookalike-that-is-devastating-west-africas-dairy-sector/.

Politico (2018). How EU milk is sinking Africa's farmers", last accessed on 26 February 2021, https://www.politico.eu/article/eus-milk-scramble-for-africa/.

College of Europe
Collège d'Europe
Brugge
Natolin

Trans European Policy Studies Association

Rue d'Egmont 11, B-1000

Brussels, Belgium

To know more about TEPSA visit: www.tepsa.eu

Follow TEPSA on:

@tepsaeu

@tepsa.eu

TEPSA – Trans European Policy Studies Association

College of Europe - Bruges Campus

Dijver 11, 8000,

Brugge, Belgium

To know more about College of Europe visit: https://www.coleurope.eu/

Follow College of Europe on:

@collegeofeurope

@College.Of.Europe

Co-funded by the Europe for Citizens Programme of the European Union