European Union Dairy Policy and the Least Developed Countries:

Case Study – Africa

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Master Thesis

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Abstract

Agricultural policy within the European Union (EU) is but one of the founding pillars upon which unification was developed. Negotiated out of a post-war Europe, the Common Agricultural Policy (CAP) emphasized the protection of the domestic market, through government subsidies and payment programmes, artificially raising the price of domestic products while restricting access for the foreign agricultural producers. The objective of this paper is to explore the link between the agricultural decisions made by the EU and the effects on citizens in the Least Developed Countries (LDC). To develop a comprehensive understanding of the issue at hand a review of the existing literature will be necessary, as well as an analysis of the available quantitative data. The findings revealed that the CAP is but one factor that impacts development of agriculture in LDC’s, many other factors, such as international and bi-lateral trade agreements, government institutions, and political lobbying also influence the outcome.

Keywords: Common Agricultural Policy, dairy quotas, European Union, Least Developed Country, Mali, Kenya, export refunds
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<tr>
<td>ACP</td>
<td>African, Caribbean and Pacific Group of States</td>
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<td>AoA</td>
<td>Agreement on Agriculture</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>CMO</td>
<td>Common Market Organisation</td>
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<td>EC</td>
<td>European Community</td>
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<td>ECOWAP</td>
<td>West African Agricultural Policy</td>
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<td>ECOWAS</td>
<td>Economic Union of West African States</td>
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<td>EDF</td>
<td>European Development Fund</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>EU</td>
<td>European Union</td>
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<td>FSTP</td>
<td>Food Security Thematic Programme</td>
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<td>FCFA</td>
<td>Franc Communauté financier d’Afrique</td>
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<td>GATT</td>
<td>General Agreement on Trade and Tariffs</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>KCC</td>
<td>Kenya Cooperative Creameries Limited</td>
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<td>KDB</td>
<td>Kenya Dairy Board</td>
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<td>LDC</td>
<td>Least Developed Country</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MS</td>
<td>Member State</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>SAP</td>
<td>Structural Adjustment Programme</td>
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<td>SMP</td>
<td>Skimmed Milk Powder</td>
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<td>SOMIEX</td>
<td>Société Malienne d’Impôts et d’Expôts</td>
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<tr>
<td>STE</td>
<td>State Trading Enterprise</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
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<td>WFP</td>
<td>World Food Programme</td>
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<td>WMP</td>
<td>Whole Milk Powder</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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1. The CAP and African Dairy Production

*We think that there is some substance in the feeling of disquiet among primary producing countries that the present rules and conventions about commercial policies that are relatively unfavourable to them*¹ (Fritz, 2005 p.7)

Cooperation in the agricultural policy field of the European Union (EU) is one of the oldest and most developed supranational areas of collaboration within the EU. Originating in 1962, in the aftermath of the Second World War, a time when food security and agricultural issues were at the forefront of the political agenda, the formation of the Common Agricultural Policy (CAP) was developed as an internal market support system² to allow Europe to become self sufficient in agricultural production, while stimulating economic growth in the region (Pissoort, 2006). Today, the EU utilises these market support policies to fund domestic production, which artificially raises the price of the domestic products while restricting access for foreign agricultural producers (Fowler, 2002).

One of these market interventions that the CAP has developed is the dairy quota programme (1984), which was proposed to cope with the constant surpluses in milk production, while generating a more stable market for both the producer and the consumer (Binfield, 2009). The programme was seen as an effective way to manage the supplies of milk, while also providing security to the EU farmer by ensuring the demand. However, with constant dairy surpluses, the EU began to expand its market influence beyond the domestic sphere by exporting processed powders and condensed forms of dairy to developing markets around the globe.

Unlike the European dairy industry, the Malian industry is still in its infancy. Lack of government support, poor transportation infrastructure, land tenure issues, disease, improper storage facilities and equipment all create a market advantage for foreign (subsidised) producers. When European dairy is so readily accessible, the Malian farmers even find difficulty in competing against imports in their own domestic markets. As investment in infrastructure remains low, and access to cheap European milk powder remains (Coulibaly, 2008; Pissoort, 2006), the political capacity for change is met with ignorance for the rural producer, and more concern with the urban consumer who is granted this access, thus creating a system where reliance upon imports becomes a political issue. So, while the EU is supporting its rural

¹ The Haberler Report (a GATT panel of trade), in 1958, found that developing countries have been unable to obtain significant benefits from trade.
² The CAP has remained the main source of economic transfers from the EU to the Member States and accounts for 43% of all EU spending (Hausner, 2007).
(farming) population through government subsidies, the Malian government is actually supporting its urban (consumer) population through these very same subsidies.

Kenya, however, is an entirely different story. With a dairy history dating back over one hundred years, the industry is well established and holds some political power. Thus when faced with the prospect of increasing imports of milk from the EU it is able to use economic instruments to adjust to the influx. These allow Kenya to have more control over its domestic production and under the right circumstances could lead to Kenya playing a larger role in dairy exports to the region, thus competing directly with the European industry.

The purpose of this paper is to explore the link between the political decisions made by the EU and what effects they can have on citizens beyond the European borders. To approach this issue I must initially analyze the dairy quota system that was introduced to the CAP in the 1980’s, first on the creation of the system, its original application, what it has developed into today, and how this policy affects dairy development in Africa. However, considering the complexity of the issue, I must also consider the benefits the CAP may bring, and the role that domestic (Kenyan and Malian) policies play to exasperate both the negative and positive effects on their citizens.

2. Objectives and Methodology
The paper will evolve around five main chapters; (i) the development of the CAP, from its original intentions to its current (EU and non-EU) influences; (ii) the development and progression of an EU dairy quota regime; (iii) the European perspective on excess agricultural supply and the trade that develops beyond this; (iv) the importing African nations dairy and trade policy, and how EU trade in dairy products affects the livelihood of Malian and Kenyan producers; and finally, (v) how Mali and Kenya can respond to EU policy, and vice versa.

The objectives of the thesis are to explore the motives behind EU dairy trade and the complexities that arise to illustrate the policy behind the actions. A greater understanding of the history of the issue is hoped to be achieved, and a general awareness of the future directions of the affected parties is also desirable. However, the reality of the situation is that barriers are often met, assumptions are made, and the overall scope of the original issues more often than not leads to more queries. So why choose Kenya and Mali? The simple answer is the shared history of these two nations being intimately tied with key members of the EU, and the potential that both countries have in achieving a dairy self sufficiency threshold which could (perhaps) develop beyond their own borders. The more complicated answer is that these two nations, although bound by the same continent face very different challenges with regards to
their respective roles on their continent, their internal strife, their desired outcome, and their overall competitiveness.

The methodological approach for this thesis focuses around a literature review to attempt to understand the intricacies of the CAP, the dairy quota regime, EU-African trade, and Malian and Kenyan dairy policy. The use of quantitative data was also important to develop the statistical analysis. A specific theoretical approach was not taken in this paper as there have been several theories used to explain all the details of a complicated issue. For this reason I have included (in Appendix 1) a short summary of the relevant theories and approaches that influenced my writing.

In all papers there are limitations and biases that must be declared, and this paper is no different. The limitations to this study were that neither a visit to Mali nor Kenya was possible given the short time frame of the paper. In an ideal situation interviews would also take place with the relevant players in all governments involved, but again this step was bypassed in favour of a qualitative analysis of the relevant government publications. There was also some difficulty in collecting the quantitative data as there is limited information available, especially with regard to the two African nations. Inevitably there were also some simple assumptions proposed on complicated issues, these of course, represent the thoughts of the author.

3. The Common Agricultural Policy

Sometimes you queued for hours for a plate of soup made from unpeeled potatoes, or for a mash of sugarbeet and beetroot. But the hunger was so great, an inspector reported, ‘that the central kitchen very often served food, approved for human consumption, but which animals would refuse.’ (van der Zee, 1982 p. 70)

3.1 History

The aforementioned quote depicts a bleak time in European history, just prior to the end of the Second World War, when food was in short supply and food security was yet an unused term, but a regular occurrence. The importance of the passage cannot be underestimated, as it is the setting for the discussions of a unified Europe, and more importantly, for this paper, the milieu upon which the CAP was developed.

European countries began using economic incentives to import and export agricultural products from as early as the 19th century (Koning, 2006; Grant, 1996). As populations grew (in Europe) at the onset of the industrial revolution, imports of food were welcomed and accordingly many European countries abolished their import tariffs on agricultural products. However, by the late 19th century, with the development of new railways and the expansion of motorised vessels
cheapened agricultural imports from around the globe\(^3\) flooded Europe. European farm incomes began to decline and there were demands for domestic protection, thus all countries in Western Europe began to introduce protective trade measures (Koning, 2006).

The introduction of these protectionist schemes was a response to falling global prices and overproduction domestically. Once individual countries began to overproduce, the surplus had to be sold on the international markets, which would involve a financial loss or a subsidy to bridge the difference between the protected domestic prices and the lower world market prices. The decline of agricultural prices in the 1920’s and 1930’s, coupled with the Great Depression, left many countries with large surpluses that could not be disposed of on the international market (Koning, 2006). However, with the onset of War in the late 1930’s, agricultural policy and food production were forced to the periphery.

In the years following the Second World War discussions of a European agricultural policy were held, as many of the original European Economic Community (EEC\(^4\)) members were experiencing shortages in meats, sugars, and fats\(^5\) (Gardner, 1996). Germany was still not self sufficient in food production and wanted to ensure their supply, whereas France was already exporting to its colonies, and looking for ways to further exploit the European market (Gardner, 1996; Grant, 1997). According to Grant (1997), the development of the CAP was essentially a compromise between France and Germany\(^6\); France wanted to secure a market for its agriculture, whereas Germany needed a market for its manufactured goods.

Within the global context, trade was becoming vital to economic growth, and the post war General Agreement on Trade and Tariffs (GATT), which did not prescribe for free trade for farm products (by allowing countries to protect their agricultural industries), was a key component for agricultural protectionism (Koning, 2006). So when the EEC was formed, two crucial conditions already existed; firstly, all Member States (MS) had developed protectionist policies for their agricultural sectors, and secondly, these original members had signed the GATT. The EEC simply needed to harmonise the farm policies between the MS’s to create one supranational policy.

When the EEC nation’s met in the 1950’s agriculture was an important sector to each economy, therefore a common policy needed to incorporate the objectives of the varying partners. Covered by articles 38-45 in the Treaty of Rome, it is article 39 which essentially sets out the objectives of the CAP as they remain today; (i) to increase agricultural productivity; (ii) to

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\(^3\) Especially trade in grains and cereals from North America (Gardner, 1996).
\(^4\) The EEC became the European Community (EC) in 1967 which subsequently became the European Union (EU) in 1993.
\(^5\) The exception being France.
\(^6\) These two nations continue to dominate the EU agricultural agenda.
ensure a fair standard of living for the agricultural community; (iii) to stabilize markets; (iv) to assure the availability of supplies; and, (v) to ensure supplies reach consumers at reasonable prices (EEC, 1957).

The CAP functioned as intended until the 1980’s when surpluses began consuming the EU budget, as this excess had to be traded at a loss by utilising export subsidies. These measures had a high budgetary cost, distorted world markets, and did not always serve the best interests of the domestic farmers. Prices remained high and exports were possible only through a system of export rebates which paid the exporter the difference between the world market price and the higher internal EU price (Nedergaard, 2006).

Today the EU maintains one of the most protected and highly subsidised agricultural industries in the world (Gardner, 1996). It was not until the 1990’s that serious calls for reform were finally answered but as political pressures continue to mount, both internally and externally, the future of this policy still remains a volatile one. The policy faces opposition from within Europe, as there are disparities amongst MS’s over quota allotment, development funds, and market access. But, there is also opposition from outside, as trade competitors see unfair competition, LDC markets are dumped upon, and questions over Genetically Modified Organisms remain. The CAP must clearly maintain some support; however, the need to consider the effects on the global market is gaining importance as the Agreement on Agriculture7 (AoA) becomes a focal point in trade negotiations between developed and less developed countries.

3.2 Reforms
The Mansholt8 Plan of 1968 was the first attempt to reform the CAP. Mansholt recognized that the European farmers were heavily protected through subsidies and other governmental intervention policies, and thus the production intensification risk to the farmer was inherently low, thereby creating a situation where maximum production was encouraged to the point of saturation on the European markets. As prices were set artificially high by the Council, this further increased production which led to additional strains on the EU budget (Grant, 1997). Mansholt’s objective was to shift the surplus labour off the farms (into other industries) thereby removing land under cultivation and redistributing unsuccessful smaller farms as to increase the average size of the farm; however, due to the political climate this reform was not as far reaching as originally intended (Gardner, 1996; Grant, 1997). The increasing cost of the

7 The AoA is an international treaty of the WTO and entered force in 1995, but is currently being renegotiated as part of the Doha Development Round. It remains one of the most contentious issues on the international trade agenda.
8 Sicco Mansholt was the European Commissioner for Agriculture from 1958-1972 and later served as President of the European Commission.
CAP in the 1980’s\(^9\) through its tendencies to produce large surpluses in commodities, and its failure to support the majority of European landholders ultimately led to its restructuring in 1992.

The MacSharry\(^{10}\) reforms (1992) were significant in that they recognized that EU market intervention was the major cause of the inefficiencies; according to Gardner (1996) supporting markets rather than farmers resulted in support being concentrated upon the top twenty percent of the farmers who were producing over eighty percent of the total EU agricultural output. The general aims of the reform were twofold – to cut overproduction; and, to maintain rural prosperity by supplementing the incomes of small farmers through direct subsidies. The rationale to achieve this was to compensate farmers in other areas by creating set aside payments whereby money would be granted; to remove land from the agricultural reserve, direct payments made to limit production, or through the reforestation of agricultural land (EC, 2005).

The Agenda 2000 reforms built upon the MacSharry reforms by reducing EU support prices and expanding the quota system (Binfield, 2009). The EU was preparing for an influx of new MS’s from Eastern Europe, nations which were poorer, and more dependent upon their agricultural sectors (EU, n.d.). There was a desire to increase the competitiveness of European agriculture, while integrating environmental and structural reform into the production process. Another

\(^{9}\) CAP spending doubled in real terms from the mid 1970’s to the mid 1980’s (Grant, 1997).  
\(^{10}\) Ray MacSharry was the European Commissioner for Agriculture & Rural Development from 1989-1992.
important aspect was to strengthen the EU’s position in the World Trade Organisation’s (WTO) agricultural negotiations, as competitor nations started to bemoan the agricultural policy of the EU (EU, n.d.). Both the MacSharry and Agenda 2000 reforms led to small decreases in export subsidies, but had minimal effect on dairy export subsidies (Gohin & Gautier, 2003).

The Fischler reforms of 2003 focussed on three general areas; (i) export competition, (ii) domestic support, and (iii) market access. A single payment scheme, independent of production, was developed to come into force in 2005, this allowed for greater emphasis on cross compliance. A stronger rural development policy was also key, to transfer funds from direct payments for production to developing a policy coherent with rural development (EC, 2005). The 2003 reforms were to provide instruments where the farmer was allowed to produce what they wanted, not what they felt they could get the highest subsidy for (Christiansen, 2007).

The CAP still incites criticism from many angles, yet its core still remains as the set of policies created in the late 1950’s. The process of reform has begun, but according to Grant (1997) it is still a policy that absorbs a disproportionate share of the EU budget, proves disadvantageous to (EU) consumers, encourages intensive farming, imposes unnecessary costs upon the LDC’s, fractures relationships with other nations, and does little to increase the wages of small farmers. There is no question that the CAP will continue to evolve and new theories will be developed around the market failures of the CAP (Nedergaard, 2006), however, how the EU maintains one front in WTO meetings while sustaining fractured opinions within the EU will be one of the most difficult challenges the policy makers face in developing a CAP to suit national, supranational, and international needs.

3.3 The Influence of the CAP in Africa

The collection of countries that make up the African, Caribbean and Pacific Group of States (ACP) are tied to Europe through historical means. When France and Belgium joined the EEC, the trade preferences shared with their former colonies also became cemented into the framework of the Treaty of Rome. Later, when the United Kingdom joined, their former colonies also became preferential trading partners. In 1974, the trade and aid development agreement between the European Community (EC) and the ACP was negotiated as the Lomé

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11 Franz Fischler was the European Commissioner for Agriculture & Rural Development from 1995-2004.
12 Also known as “decoupling” payments.
13 A requirement to respect a set of environmental, food safety, animal and plant health criteria to keep farmland in good, environmental and agricultural condition.
14 The 2003 reforms were designed in the hope that no further changes would need to be made in EU agricultural policy (Christensen, 2007).
15 There are 77 nations in total.
16 The Yaoundé Convention was negotiated by the Euro-African Association and came into force in 1963 and lasted until 1975.
Convention\textsuperscript{17}. Basically this agreement provided free market access for any industrial goods (from the ACP countries), with limitations placed upon the export of agricultural products (again, from the ACP countries). The ACP countries; however, were not obliged to grant any reciprocal trade preferences to the EU (Körner, 2000). As the EU at this point was not an exporter of agricultural goods, the ACP countries had no need to protect their agricultural industries against the subsidised production in Europe. This all changed in the 1980’s.

The EU became a net exporter of agricultural goods in the 1980’s, utilising export subsidies of $8-12 million\textsuperscript{18} between the years 1988-1994 alone (Wiggerthale, 2004a). These subsidies were designed to decrease the prices of EU products well below the world market level. Using this method, according to Wiggerthale (2004a) the EU was and still is able to unload its agricultural surpluses, shifting the burden of overproduction to the developing countries. As figure two illustrates trade has been steadily growing between the EU and the ACP countries. There is however, in recent years, uneven growth as EU exports between 1996 and 2008 grew by 114 percent whereas the imports from the ACP, over the same period, only grew by 40 percent (Eurostat, 2009).

This development in trade would not be so concerning, until one considers the competitive advantage African nations should hold over the EU in terms of agricultural production, and the fact that much of the agricultural exports are only possible because of the aforementioned export subsidies. In this manner the CAP can prove harmful to third countries as it limits access to the EU market, and the internal subsidies place an incredible amount of pressure on world markets. Ultimately this leads to the EU to discouraging production in third countries, contradicting their own development policies (Hausner, 2007). Currently, the World Bank estimates that even a minimal compromise in the WTO negotiations on agriculture would allow the revenue of the developing countries to increase by more than that of debt relief or increases in development aid. A full opening of Organisation for Economic Cooperation and

\textsuperscript{17} In total there were four Lomé Conventions negotiated and signed; 1975, 1980, 1985, and 1990.

\textsuperscript{18} In this paper all $ symbols will refer to United States Dollars.
Development (OECD) markets to African agricultural products would raise revenue of $86 billion by 2015 thus freeing thirty million people from extreme poverty (Hausner, 2007).

Changes to the CAP in the past were largely initiated by budgetary pressures; however recently, during WTO negotiations, the EU has come under international pressure from competing nations, as well as those nations who fall victim to unfavourable trade policy. With the European producer receiving subsidies to produce, the African farmer receives no such economic support, thus the European farmer benefits from government intervention whereas the African nation governments cannot afford to intervene in a market where they have little control, in this instance the policy framework within the EU has effects outside the EU and therefore any change in EU policy will eventually be felt in Africa.

4. European Union Dairy

EU dairy dumping...is abhorrent. Protectionist policies in those countries that subsidise dairy production and exports do not consider at all the harm they inflict on developing countries. (Fowler, 2002 p.2)

4.1 Development

By June 1960 proposals were prepared and in 1964 agreements were tentatively reached within the EEC on how to effectively manage dairy. The MS’s had to cope with several issues; instability of supplies, low productivity, low farm incomes, and an annual reliance on dairy imports (Noble, 2007). By 1968, a common market for dairy was firmly established, it included the typical CAP points; relatively high support prices, subsidised intervention, storage of surplus, subsidised schemes (to dispose of surpluses internally), and export subsidies for external trade (Noble, 2007).

These measures ensured that dairy could be managed by the EU, however, as the industry modernised and production increased (through high support prices and greater returns), by the 1970’s, Europe began being a net exporter of dairy products\(^\text{19}\). High internal prices were maintained through; strict import tariffs and government purchases when prices fell below the intervention price level. Persistent surpluses were therefore expensive in that the product had to be stored, given away, or exported with a subsidy (Binfield, 2009).

With the manner in which the dairy regime was being operated (before the 1980’s), Grant (1997) postulates that there was a real threat in which the dairy sector could bankrupt the CAP as overproduction was encouraged and very few tools were available for the EU to limit expansion. Dairy producers had an incentive to generate a surplus as the Council of Ministers

\(^\text{19}\) This is in the same period that Europe became known for its, “lakes of milk and mountains of butter”
set relatively high intervention prices for milk (Grant, 1997). In 1984, the EC introduced into the Common Market Organisation\(^{20}\) (CMO) for milk and milk products, general rules for governing the implementation of a scheme of an additional levy based on a system of reference quantities for each MS, the quota system. The main purpose of the quota system was to curb the intensification of milk production in order to bind the price support in the sector to the limited quantities of milk which can be financed under the agricultural budget. The methodology was developed through fixing national production levels so that each individual MS enforced their own reference quantities, and penalised those who overproduced (EC, 1997).

From 1984, when the milk quotas were first introduced, until 2003, the EU dairy policy remained relatively unchanged. 2003\(^{21}\) was the first major challenge as significant reductions in support prices for butter (25%) and Skimmed Milk Powder (SMP) (15%), a gradual increase in milk quota allotment, and the introduction of direct payments (decoupled), were all included in the new direction for dairy. These price cuts were partly compensated for through newly introduced milk premiums that are part of decoupled payments (EC, 2009b; Bouamra-Mechemache et al, 2009). As figure three shows, the EU still remains a major player on world dairy markets. These figures show a general declining trend, as EU markets adjust to international competition and declining subsidisation rates, but regardless show the large market shares for the EU dairy products.

### 4.2 How the Quotas Work

The dairy quota regime is not an overly complicated system, but for this paper it does require a basic understanding. EU dairy quotas are confined to two paths; the wholesale quota and the direct sale quota. Wholesale quotas account for milk sold from the farm to the dairy, while

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\(^{20}\) The CMO controls the intervention price and the quota allotment

\(^{21}\) The Fischler Reforms
direct sale quotas are used on site and for small local sales. Quotas are allocated by the MS to individual farms; this is frequently based upon historical production patterns. Under the quota, if a farmer delivers more milk than is allotted, she/he can be penalised financially, this involves the payment of a superlevy\textsuperscript{22} on the excess amount. If the MS exceeds the production amount a superlevy of 115\%\textsuperscript{23} is charged to the MS by the EU on the surplus (Binfield, 2009).

The quota amounts were originally fixed to dairy production in 1983, which happened to be a very productive year for the European dairy industry, where production was seventeen percent greater than consumption (Gardner, 1996; Pissoort, 2006), and thus the quotas required adjustment in the late 1980’s and early 1990’s in an attempt to curb the continued over production (Binfield, 2009).

4.3 Economic Mechanisms

The EU’s dairy policy essentially utilises three economic mechanisms by which it manages the dairy system; internal market support, trade instruments, and making direct payments to farmers.

**Internal market support** – There are two major forms of internal market support; the dairy quota regime, and the intervention purchasing of butter and Skimmed Milk Powder (SMP)\textsuperscript{24}. Intervention prices play two roles: a direct one and an indirect one. The direct influence is where the public authority buys the product and holds it in storage. It is thus a floor price. However, intervention purchases by the public authority are restricted both in quantity and

**Figure 4 -- EU Market Support Mechanisms**

\begin{center}
\includegraphics[width=\textwidth]{eu-market-support-mechanisms.png}
\end{center}

(Koning, 2006 p.6)

\textsuperscript{22} This is a tax on the amount that has been overproduced
\textsuperscript{23} The super levy was increased to 150\% from 2009-2011
\textsuperscript{24} To a lesser extent certain cheeses may also be purchased and stored.
time\textsuperscript{25}. Thus the intervention price works as a floor price only when intervention is open and as long as ceiling quantities are not reached (Bouamra-Mechemache et al, 2009). The indirect role it plays is because the intervention price is set by the CMO, thus it defines a desirable price for the SMP or butter (Bouamra-Mechemache et al, 2009).

As figure four illustrates, the EU purchases all dairy that is offered at a fixed intervention price. This becomes the floor price in the market, as no seller accepts a lower price for their product. Import tariffs are also applied at the external borders to ensure imported dairy is more expensive than this floor price this protects the European industry from outside competition. Export subsidies then bridge the gap between the internal price and the lower world market price to facilitate the sale of possible surpluses on the world market (Koning, 2006). While intervention prices are set for many years, export and domestic subsidies are not. Export and domestic subsidies are adjusted in order to equilibrate the markets (Bouamra-Mechemache et al, 2008). Since the administrative prices are higher than the market equilibrium price the system produces significant production surpluses, which then have to be removed from the market at a considerable cost.

**Trade Instruments** – Between 1996 and 2006 the EU had a milk surplus in the range of 5.8 – 11.4 million tonnes annually, and milk prices were (on average) 40 - 120 percent above world market prices (Hemme & Mohi, 2009). When there is a surplus, and the domestic market price is higher the global price the EU needs to utilise export refunds (see figure five). Without these export refunds\textsuperscript{26} the EU would be unable to offload this excess milk and world prices would be higher (Fowler, 2002). In 2007 – 2008 the EU did not utilise export refunds as world prices were high, but in 2009 they were re-

\textsuperscript{25} SMP intervention is open from March 1\textsuperscript{st} to August 31\textsuperscript{st} to a maximum quantity of 109,000 tonnes; however it is under the prerogative of the Commission to purchase more if the market permits (EC, 2009b).

\textsuperscript{26} Will be explained further in the chapter
introduced (Hemme & Mohi, 2009). When the EU uses these export refunds this can be
detrimental to the producers in the country that accepts the dairy product as well as the
taxpayer that must fund the subsidies. The EU therefore not only distorts the global market
through its use of export refunds, but also imposes import tariffs on any dairy products entering
the EU in order to maintain the artificially high domestic prices.

**Direct Payments** – As compensation for reforms in intervention prices from 2004-2007, EU
dairy farmers qualified for direct payments from government. This payment scheme is based
upon the amount of quota held by the farmer. A major part of the 2003 reforms was this single
payment scheme which is based on cross compliance (EC, 2006).

The EU dairy sector is protected and supported through a complex system of price support,
production quotas, import restrictions, and export subsidies. Despite production limiting
quotas the EU still produces more than it consumes. The OECD (2008) estimates the EU
supports dairy in the amount of €16 billion per year. The regime directly costs taxpayers
around €2.5 billion, of which half is spent on export subsidies (Fowler, 2002). So, who benefits
from this regime, why is it still in place, and what direction is it heading?

5. The European Perspective

*Were those high duties and prohibitions taken away all at once, cheaper
foreign goods of the same kind might be poured so fast into the home
market as to deprive all at once many thousands of our people of their
ordinary employment and means of subsistence. The disorder which this
occasion might (present) no doubt (will) be very considerable.* (Smith,
1999 p.46)

Milk production is of major importance to the EU; more than one million producers supply 148
million tonnes of milk annually\textsuperscript{27}, worth a value of over €41 billion (European Court of Auditors,
2009). In 2005, the net expenditure in the milk sector was €2.75 billion and as world prices for
milk powder and butter are nearly always lower than prices within the EU, export refunds play
a vital role in diminishing these funds, as well as the overproduction (European Court of
Auditors, 2009). To revisit the earlier quote from Adam Smith’s *The Wealth of Nations*, the EU
favours a policy to shelter the domestic industry from imports, while supporting financially
those farmers which it also protects from the foreign market, this is much more difficult in
Africa where the funds are not available.

\textsuperscript{27} Each year approximately ten million tonnes of milk are over produced within the EU as consumption is not
nearly as high as production (Pissoort, 2006).
As figure six shows milk production has been increasing steadily since the formation of the EC. The number of MS’s has increased, and productivity has also increased leading to this upward trend. The CMO encourages this production by setting prices that are beyond what the free market would sustain, promoting further production, which creates higher costs for EU consumers, and producers who use the primary good, milk (Fowler, 2002). These high prices also lead to increased primary production, which is then stored by the EU, and eventually exported to world markets. The costs of storage and the related subsidies are all borne by the EU tax payer (Kol and Winters, 2003). The EU maintains this protective shield around its dairy industry, but balks at any other nation’s attempts to protect theirs.

However, recent trends in European dairy have seen production dropping to 4.2% below the quota allowance\(^28\) as the average EU milk price has dipped to 30c/l\(^29\) (March, 2010), which is below the historical levels, but above last year’s low of 25c/l (June, 2009). With such low prices accumulation of SMP and butter is expected to continue into 2010. As illustrated in figure seven, the CMO began intervention buying on March 1, 2009 for SMP of 231,000 tonnes, and continued beyond this to store the excess until the internal or external market is able to absorb them without disturbance (Commission of the European Communities, 2009). The Commission also reintroduced export refunds (see figure five) for dairy products as of January 2009 as a way to cope with the increasing stocks\(^30\).

\(^{28}\) This statistic is current as of March 2009 (EC, 2009b)
\(^{29}\) Cents per litre
\(^{30}\) These refunds were again removed in November, 2009.
According to the OECD milk ranks as the third highest protected commodity, the World Bank estimates that because of this support world dairy prices are 20-40 percent higher than under a free market. The OECD estimates that in 2003, the EU spent $22.5 billion on dairy products, which amounts to $911 per cow, per year\(^{31}\) (Bleimund, 2006). The main subsidised internal disposal methods include; SMP for animal feed, the manufacturing of casein\(^{32}\), food aid, and school milk programs (EC, 2006).

5.1 The Excess Supply

Export subsidies\(^{33}\) consist of all subsidies on goods and services that become payable to resident producers when the goods leave the economic territory or when the services are delivered to non-resident units; they include direct subsidies on exports, losses of government trading enterprises in respect of trade with non-residents, and subsidies resulting from multiple exchange rates (OECD, 2007 p.281).

Globally, the dairy sector is one of the most distorted of the agricultural sectors: producer subsidies are in place in many developed countries (encouraging surplus production), export subsidies are paid by governments to place the excess production on world markets, and tariff and non tariff barriers are erected both by developed and developing countries to protect their dairy sector’s from ‘unfair’ competition (Knips, 2005; FAO, 2007). These distortions have a noticeable effect on the global market, and particularly affect countries who cannot afford to

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31 Average per capita GDP in Mali is just over $400 per year.
32 Casein is a protein used in producing cheese and other products.
33 As the OECD defines export subsidies it needs to be clarified that export subsidies are the same as export refunds.
subsidise their own producers. The International Institute for Sustainable Development (2003b) identified the European export subsidy programmes for the failure of increased market access and the expected benefits it would bring to subsistence farmers in LDC’s.

As the largest supplier of milk products on the global market (see figure three), the EU has managed to penetrate developing markets (specifically Africa) through milk powders and condensed milk. Every year the EU exports approximately 40,000 tonnes of milk powder into francophone West Africa alone and the total amount of dumping of all EU dairy products has reached between €1.65 and 3.48 billion/year (Burmann, 2004). In order to maintain these exports government intervention through subsidies are necessary in order to cover the loss that would otherwise be felt by industry.

Export subsidies are among the most disruptive instruments affecting the equilibrium of world dairy prices\(^{34}\). They penalise domestic consumers and taxpayers, as well as forcing out low cost competing exporters (Rude, 2002). The evolution of the EU’s CAP, from a revenue generating import protection scheme to one requiring export subsidies to dispose of surpluses is consistent with this view (Abbott & Young, 2003; Alpha et al. 2006; Peters, 2006). Domestic support measures even if decoupled, may allow farmers to cover their fixed costs so that smaller export revenues covering the variable costs is sufficient, and thus European farmers still benefit from support, and could still distort the market (Peters, 2006).

While export subsidies remain prohibited under GATT rules for manufactured goods, they are still permitted for primary products and the absence of disciplinary measures allows the EU to use export subsidies for agricultural products in its management of surpluses generated by the CAP. However, the EU is under growing pressure from outside forces, as well as some lobbying groups from within to reform its policies (Gaisford & Kerr, 2001), but they may find it difficult to remove export subsidies as one of its coping mechanisms as the CAP will first need to be reformed (Gohin & Gautier, 2003). Gohin and Gautier (2003) note in their study that the dairy industry will be severely affected if the loss of export subsidies must be managed\(^{35}\), this is because of the amount of SMP, Whole Milk Powder (WMP), butter, and casein that is exported. These export subsidies work in a manner as illustrated in figure eight (next page).

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\(^{34}\) They account for 35 percent of global export subsidies.

\(^{35}\) Many authors show that a reduction in export subsidies will severely impact the dairy industry (OECD, 2008; Binfield, 2009; Gohin & Gautier, 2003).
Without price support, the price established in the international market is $P$; consumption in country A is $C_a$ and production is $Q_a$. Country B imports are the area from $Q_c$ to $Q_d$. If country A establishes a price support programme at $P'$, above the average international price of $P$. At $P'$, the export quantity is the area from $C_b$ to $Q_b$. The excess export quantity will reduce the world price to $P''$ and the unit export subsidy is $P'P''$. The support and export subsidy programmes in country A raises the domestic price, reduces domestic consumption and increases exports. The effects in country B of lower international prices are reduced production, and increased consumption of imports (Shapouri and Rosen, 1990). Often governments will allow for export subsidies with the explicit goal of enabling enterprises to export at prices below the domestic market level (Grethe, 2004), and this is what happens with subsidies placed on European dairy leading to export dumping.

Export Dumping\textsuperscript{36} is currently one of the most damaging of all distortions in world trade practices. Developing country agriculture, vital for food security, rural livelihoods, poverty reduction and trade, is crippled by the practice of major commodities sold at well below the cost of production prices in world markets (Institute for Agriculture and Trade Policy, 2003). As Grethe (2004) argues it is important to add another factor to agricultural dumping, and that is to recognize that the term dumping must account for the definition including the phrase selling products below the production cost, because on domestic markets goods are often sold at a level below production cost, and therefore the definition of dumping cannot be selling on an external market at less than the home market. Agricultural policies causing dumping usually result in an increase in domestic supply and sometimes also in a decrease in domestic demand. This leads to higher net exports and lower world market prices for the products affected (Grethe, 2004).

\textsuperscript{36} Defined by, the practice of selling products at prices below their cost of production
Another mechanism that can be used by governments as a form of subsidy is the State Trading Enterprise (STE). STE’s are governmental or nongovernmental organisations that control certain sectors of the trading economy. 75 percent of those STE’s registered with the WTO are involved in agriculture (FAO, 2002). These organisations are generally non-transparent, and thus of concern to the WTO, but they can play a favourable role in emerging economies. The STE can work in the following manner; domestic price stabilisation, market regulation, and control and promotion of exports (FAO, 2002). STE exporters may be able to gain a competitive advantage is the form of subsidies or discriminatory interest rates, whereas STE importers can manipulate quotas and disguise true costs. Over the last 20 years many governments have reformed or eliminated their state trading enterprises due largely to structural adjustment reforms imposed by the WTO (Abbott & Young, 2003; Alpha et al. 2006).

The EU dairy quota system leads to inefficiencies in encouraging a supply side which outstrips demand, inevitably causing overproduction, and misallocation when dumped on an external market unable to adjust economic terms into a favourable balance of social and economic gains. Currently the EU is using export subsidies to dispatch its excess milk, and dumping it in markets around the globe which not only harms the foreign market but is a cause for social injustice by exploiting weaker regimes through the use of subsidization. The EU is accomplishing this even at a time when production levels are below what is allowed, as the market price of milk increases so too will the amount of milk in Europe and thus due to the elasticity of demand larger stores of SMP and butter will be required.

5.2 Trade

If, however, a contracting party directly or indirectly (applies) any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product (GATT Art. XVI.3)

The General Agreement on Trade and Tariffs (GATT) did not include provisions regarding developing countries when it was first signed in 1947; rights and obligations were the same for all signatory countries. However, through further negotiation a new clause was added to the original charter which allowed national protective measures to support economic development and reconstruction of industry and agriculture (Fritz, 2005). The problems of the LDC’s were (and continue to be) exasperated by the protectionism in the agricultural sector of the developed countries. Looking at the above quote it seems that essentially, if a country has the political, economic, and financial power it may seize its equitable share (on the global market)

37 See appendix
38 When GATT was signed, 11 of the original 23 countries were considered developing
through subsidies, as it is uncertain who defines “equitable”. The LDC’s, originally a minority on international trade talks, needed other charters and agreements to help defend its borders and promote its products.

The United Nations Conference on Trade and Development (UNCTAD) became that agreement as the most significant institution with which the LDC’s could pursue their trade and economic agendas. Under the influence of UNCTAD, in 1964, Article XXXVI was introduced to the GATT allowing for non reciprocity between developed and developing countries essentially allowing the developing country to control the openness of its market (Fritz, 2005). This was an important step in world trade as it acknowledged the differences in economic power between the nations, and became the first step in a series of reforms. Later (1979\(^{39}\)), the Enabling Clause further extended the leniency for the LDC encompassing four main themes; (i) preferential market access for developing countries; (ii) differential and more favourable treatment of developing countries with regard to the GATT; (iii) the conclusion of preferential agreements between developing countries; and, (iv) special treatment and recognition for the LDC (Fritz, 2005; McMahon, 2006). Following GATT, the WTO became the main body for which trade agreements and disputes were created and settled.

Established in 1995, the WTO deals with agricultural trade and reform. As one of the most contentious issues within the GATT rules, the WTO needed to apply safeguard mechanisms to protect food sovereignty and trade barriers in both the developing\(^{40}\) and developed world. Agriculture remains the largest stumbling block in world trade negotiations, as the LDCs seek protection for their industries as well as a way to open the developed nations barriers (Fritz, 2005). According to Fritz (2005), the Uruguay Round (1986-1994) saw the developing countries pursue self interests, and therefore did not tackle the question of agriculture until the next round in Doha. The Doha Declaration also obliges Member States to effectively take account of their (developing countries) developmental needs, including food security and rural growth.

Agriculture is the crucial economic and social pillar common to nearly every developing country; and vital for food security, employment creation, and general economic welfare. All UN Member States must, under international law, protect and promote the universal right to food, and economists are now beginning to recognize the important role that agriculture plays in the development of economies, whereas earlier, developing countries were encouraged to industrialise their agricultural sectors, now the development of small holder farms can be seen as a pillar for growth (IISD, 2003b). Increasing rural wealth reduces overall poverty because it boosts local employment and capital flows. In the 1980’s and 1990’s international financial

\(^{39}\) The Tokyo Round of trade negotiations

\(^{40}\) Now membership includes 76 developing countries
assistance was conditional upon removing tariff barriers and increasing export production. These programmes shifted economies and agriculture (IISD, 2003b).

While protectionism in the agricultural sector remains a stronghold of the developed countries, it is generally frowned upon by these very same countries who claim that it will inhibit growth. However, recently in Japan, South Korea, and Taiwan heavily protected agricultural industries lead to growth in the sector. While there is general agreement that trade liberalisation can contribute significantly to global economic growth thereby reducing poverty, the extent to which the rural poor have been affected by liberalisation seems generally to be classified as negative as many African nations are highly dependent on agriculture for development beyond the sector.

5.2.1 WTO Mechanisms
The WTO assumes a separate role for Kenya and Mali. Mali is classified as a LDC and thus exhibits the lowest indicators of socioeconomic development, whereas Kenya has now moved beyond the scope of an LDC, so is now treated with equal manner as the other non LDC members of the WTO. It is important to differentiate between the two levels, as LDC countries are generally not required to follow the same trade rules as the other nations. I will first look at Kenya and the role it plays in the WTO, after which I will look at Mali.

WTO provisions have affected Kenya in two ways. First, the Kenyan dairy industry has to compete directly with the major producers of processed dairy products, such as the EU, the United States, Australia, and New Zealand. Secondly, with the absence of import restrictions dairy products within Kenya may have to compete with the cheaper global imports. One of the steps taken by the Kenyan government in accordance with the WTO was to eliminate trade distorting subsidies which led to a collapse of government subsidised agricultural marketing boards (which gave low interest loans to farmers). Over the past fourteen years the country has become a net importer of milk powder, and lost a sizeable export market for dairy products. Although Kenya has the ability to apply tariffs there is severe pressure from the WTO and its members to maintain a barrier free relationship. However, the WTO’s failure to develop the AoA, which considers internal subsidising and the advantages European countries have on African nations such as Kenya, creates situations where dumping or import surges can expose Kenyan markets to cheaper imports.

GATT Art XVI provides for measures against dumping caused by government subsidies, although the importing country carries the burden of proof, thus developing countries often do not have the capacity to act when there is a trade dispute (Wiggerthale, 2004b) Dumping is not only about granting export subsidies but must be defined as the export of products below production costs in the exporting country. The AoA which governs world agricultural trade has resulted in a warped trading regime that allows the rich countries to continue spending vast
situations where some businesses protect the interests of their producers while placing immense pressure on developing countries to liberalize their agricultural market access. It has allowed rich countries in the North to dump their subsidy driven surpluses on the world market, depressing prices to levels at which local producers in the South can no longer compete (Wachira, n.d.).

Countries like Mali that are considered LDC’s are continually pressured to liberalise at a fast pace under the IMF and World Bank loan programmes, while the EU maintains overtly protectionist policies. If European governments want to put development before short term commercial interests their policies should follow suit. Free trade between countries at completely different stages of economic development magnifies rather than diminishes the disadvantages. The EU proposes opening up the African agricultural sector to greater international competition41, even though this could be ruinous for rural poverty reduction and food security (Bailey et al. 2002). According to a study by International Relations and Peace Research Institute, protectionism and subsidies by developed nations cost LDC’s about $24 billion annually (Diao et al, 2003).

5.2.2 The EU and the ACP

1957 was the first trade and aid agreement between the EEC and Africa. Articles 131-136 in the Treaty of Rome accounted for the Overseas Countries and Territories. These colonies or newly independent states were granted duty free access to the EEC markets, and access to the European Development Fund (EDF). When the United Kingdom joined the EEC, negotiations towards the first Lomé Convention (1975), economically linking the EEC to the ACP for years to come42 was established. The most important aspects of this cooperation included: securing food supplies, encouraging rural development, fisheries development, energy and mining exploration, regional integration, and trade promotion. Although originally intended to promote trade and development, since the inception of the Lomé Convention the ACP’s share of world trade has actually decreased, and their share in the EU market has also decreased43 (Wolf, 1997, Laaksonen et al. 2006).

In 2000, at the expiration of the fourth Lomé Convention the Cotonou Agreement was signed. This agreement went beyond a typical trade agreement incorporating aspects of sustainable development and poverty reduction. However, these non-reciprocal trade agreements which the EU has been granting to the ACP countries have received criticism from the WTO, as they discriminate against developing countries outside the ACP group and are therefore in conflict with GATT Part IV (Borrmann et al. 2005). WTO conformity requires that barriers to trade be

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41Under Economic Partnership Agreements
42 Lomé Agreements were renegotiated in 1980, 1985, and 1990
43 Global exports from the ACP accounted for 3.2% of world trade in 1975, in 2000 it accounted for 1.3%. EU imports from the ACP in 1975 were at 6.7%, in 2000 it was at 2.8% (European Communities, 2002).
dismantled on both sides, introducing, for the first time, an element of reciprocity into trade relations between the EU and the ACP countries.

To alleviate the pressure from the WTO the EU has embarked upon another strategy to create reciprocal trade agreements as part of a comprehensive package of trade related measures and EU assistance, Economic Partnership Agreements (EPA’s). The EPA’s have four fundamental principles; (i) the creation of economic partnerships, (ii) to develop regional integration within the African Union, (iii) to be used as instruments for development, and (iv) provide linkages to the WTO (European Communities, 2002). The ACP markets will have to be further exposed to EU products, as all barriers to trade will be removed between parties, thus creating a more competitive market. Under the Cotonou Agreement (Article 37:7 and 35:3) the EPA’s must be formulated to take into account the level of development, the socio-economic impact of the planned trade liberalisation and the adjustment capacity of the ACP country (Borrmann et al, 2006).

The EU, despite years of protecting its own agricultural industry, does not support the ACP desires to protect their individual small holder farms from international competition, with several studies stating that the agricultural sector in the ACP countries would be adversely affected by the further trade liberalisation that is associated with the EPA’s (Borrmann et al, 2006). However, if the EU exposes its market for agricultural products the ACP countries could have a comparative advantage and see national wealth grow. It is in the EU’s economic interest to see Gross National Product (GNP) rise in these countries as this could create an even larger market for export (Wolf, 1997).

6. The African Perspective

It is often argued that the beneficiaries of export subsidies, which are granted mainly by developed countries, are urban consumers in developing countries, who thus have access to low cost food products. This generally proves to be no more than a short-term benefit, for it is often eroded by balance of payments difficulties, so the real beneficiaries are the producers in the developed countries, whose income levels are maintained through subsidies (Abbott & Young, 2003, p.6).

Agriculture provides livelihoods for approximately sixty percent of Africa’s labour force, and accounts for seventeen percent of the total continental Gross Domestic Product (GDP), despite

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44 The citizens of Mali have voiced their opposition to the EPA’s (EU and République du Mali, 2008)
45 The EU has offered to remove export subsidies on key crops such as wheat, oil seeds, olive oil, and tobacco, but not on politically sensitive issues such as sugar and dairy
this, imports of agricultural products have risen faster than exports, and Africa has remained an agricultural net importing region since 1980 (Sharma, R., 2005). For many years the major agricultural exporting countries have been developing and utilizing policy tools which pursue the development of their own agricultural agendas often at the expense of third nations (Alpha et al. 2006). These interests have been followed with little reflection of the consequences beyond their borders, and have had detrimental effects on the LDC's. The International Monetary Fund (IMF) recently estimated that if developed countries removed all subsidies and trade barriers to agriculture it would lead to a 1.24% increase in GDP in Sub-Saharan African countries (McLoughlin, n.d.).

Structural Adjustment Programmes (SAP's) and economic liberalisation at the hands of the IMF and World Bank has played a role in this stagnation, along with internal conflict, poor health, education, infrastructure, weather conditions, and erroneous government policy (Kydd et al. 2004). Being a complex issue, it is difficult to pinpoint one aspect that undermines the difficulties of development in Africa, but rather there are several factors worth considering. This paper attempts to tackle one issue, the relation between the CAP in Europe and the effects beyond and into two African nations, Mali and Kenya.

Agricultural imports disrupt local markets in both Kenya and Mali, and many of these cases can be classified as import surges, where sudden increases in imports coincide with external market variables that are not under the influence of the African governments. These import surges are related to domestic subsidies in the exporting country, coupled with reduced tariff barriers in the importing country making it easier for these countries to dump commodities in the developing world, and have become more common since the implementation of the WTO (Sharma, R. 2005).

Considering the large rural farming population in Africa, which maintains both a static and comparative advantage in agricultural production, policies towards a balanced competitive situation between the EU and Africa needs to be adopted in order to curb the negative effects of using the CAP to out compete African production. This is necessary because; the agricultural sector has large multiplier effects in these economies; it is a major source of livelihoods and income for those living in rural areas; agricultural development is an efficient way of preserving livelihoods of the rural poor; and, agricultural development in Africa has evolved (largely) in

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46 The EU, Canada, the United States
47 Far beyond what international aid can achieve
48 In sub-Saharan Africa eighty percent of loans were tied to agricultural pricing reforms
49 There has been zero percent per capita growth in sub-Saharan Africa between 1965 and 1995, and negative growth from 1980 when SAP's were first introduced (Sharma R, 2005)
50 Kenya has experienced 25 such cases in dairy alone from 1982-2002, whereas Mali has experienced 14 such cases in the same period (de Nigris, 2005).
response to policies dictated by the developed nations (Gayi, 2006; Kydd et al. 2004). Of the total amount of agricultural trade displaced by industrialised countries, EU countries are responsible for more than half and of this as EU policies have a greater effect on Africa because of the close trade relations (Diao et al, 2003).

6.1 Introducing two Nations: Mali and Kenya
The intention of this thesis is to explore the relationship between the EU’s CAP and its affects in Africa, specifically dealing with aspects related to dairy policy. Two countries in particular, Mali and Kenya (see figure nine), are chosen because of their historical ties to the EU, and the manner in which each nation approaches similar predicaments. Kenya has a long history of dairy production and is keen on expanding its role in dairy development within Africa, whereas the Malian industry is still attempting to find the direction and aspiration to become a self sufficient dairy producing nation.

Kenya and Mali are prime examples of African nations at opposite ends of the dairy spectrum. Mali has the considerable resources to become a self sufficient milk producing nation but lacks the political know how to make it happen, whereas Kenya boasts one of the largest dairy industries on the continent. Represented, are two separate approaches to a common problem, as it can be argued that Mali needs to protect its industry in order to promote the development of the rural poor in the creation of an economic base for dairy, whereas in Kenya, the base is already established; they need to find measures to open the global market to their dairy.

6.1.1 Mali
As a landlocked sub-Saharan country with dilapidated infrastructure and facilities, Mali employs a rapidly expanding population of 13.5 million people growing at a rate of three percent per annum. The urban population in 1980 accounted for 18% of the population; whereas in 2009 this figure had nearly doubled to 32% of the total population, and it is estimated to be at nearly
45% by 2020 (FAO, 2009). Nearly 64% of Malians live in poverty\textsuperscript{51}, however, in recent years poverty rates have declined, but the gap between the rural poor and urban poor is widening\textsuperscript{52}. A common trend is developing as the share working in the agricultural sector fell to 78.1\%\textsuperscript{53} in 2006, compared to 85.4\% in 1990. These numbers are not uncommon around the globe as cities become refuges for citizens seeking a better way of life, but in a country where so much reliance is placed upon agriculture\textsuperscript{54} this can lead to a host of urban/rural concerns. Currently Mali ranks 178 out of 182 in the 2009 United Nations Development Programme (UNDP) Human Development Index.

In the early 1980’s the Malian economy faced serious crises through drought, unfavourable trade conditions and a host of endogenous factors\textsuperscript{55}. Therefore, in 1986 (under the guidance of the World Bank), Mali began liberalising its trade regime by first eliminating export monopolies and simplifying import licensing. Cotton, gold, and livestock account for ninety percent of total exports (World Bank, 2008), and the EU is the main trading partner accounting for 37\% of these imports\textsuperscript{56} (IF, 2004). As a landlocked nation, much of this trade must transit through neighbouring countries and thus Mali is heavily dependent on relations with its neighbours, especially Côte d’Ivoire to export its products. This can be problematic in times of instability, and became a major obstacle in recent years with civil unrest in Côte d’Ivoire (IF, 2004). As Mali tries to develop closer ties to routes through Senegal, the underlying simplified account to

\textsuperscript{51}Poverty defined on living on less than $1 per day, in this instance the statistical breakdown is 75\% live in rural areas, while 25\% live in urban areas (FAO, 2009)
\textsuperscript{52} 73\% of rural dwellers are considered poor, whereas 20\% of city dwellers are poor (EC, 2007)
\textsuperscript{53} Government assistance for agricultural workers fell by 700\% from 1990 to 2006 (FAO, 2009).
\textsuperscript{54} 35.7\% of the national GDP is accounted to agriculture (FAO, 2009)
\textsuperscript{55} Limited resource base, land-locked status, low levels of human development, underdeveloped infrastructure, vulnerability to external shocks and weak administrative capacity (IF, 2004)
\textsuperscript{56} Trade within Africa accounts for only ten percent of Mali’s total exports.
summarise Mali’s most serious problem is the fact that the government runs a chronic trade deficit, as export value only covers generally half of imports (FAO, 2005a).

Small scale traditional farming continues to dominate the agricultural and economic sectors, with subsistence farmers cultivating over 90% of the land under development (FAO, 2005a). Agriculture is a crucial sector for the majority of people in Mali, it is variable though as the reliance on rains and other natural phenomenon makes it difficult to predict. Agriculture is mainly a family based business, using few agricultural inputs making it difficult to manage drought and poor soil quality with little water holding capacity. Livestock farming, which accounts for 30% of primary sector the GDP, has potential for development and an important role in food security, household savings, and the domestic economy (OECD, 2008).

During the period between 2003 and 2006 the Malian economy grew on average 5.3%\textsuperscript{57} thanks largely to the expansion of gold mining activities\textsuperscript{58} and newfound government stability (OECD, 2008). However, this growth was largely felt in the urban centres, and very little growth was experienced in the rural, agricultural areas of Mali. The government recognises this as an issue and in their latest Growth and Poverty Reduction Strategy paper Mali has set itself some ambitious targets for agricultural production, with cereal production targets increasing by 39%, cotton by 29%, and livestock by 31%. To achieve these lofty heights the government is hoping for increased yields, and more industrialisation expansion, however, with so much reliance on world markets, and weather conditions, it is difficult to imagine that these targets can, firstly; be met; and, secondly, be maintained. With this in mind though the government has developed The Law on Agricultural Orientation (adopted in 2006) confirming the government’s commitment of investing 20% of its budget in this sector, which currently sits at 13% (OECD, 2008).

When economies like Mali’s are so heavily reliant on one industry the multiplier effect plays a significant role in developing the economy further. When investment is made into the sector these investments trigger spending which in turn trigger more spending. The opposite is also true, when there is job loss in any sector the impact spills over into other sectors but the effects are particularly pronounced when the economy is based on agriculture.

\section*{6.1.2 Kenya}

Kenya lies on the Indian Ocean on the East Coast of Africa. Population growth has been rapid in the past thirty years, and the urban population has grown relatively little compared to other African countries with an urban population of 20% of the total (2009) compared to 16% in 1980. At independence, in 1963, Kenya inherited a relatively open and export orientated economy

\textsuperscript{57} 2007 figures show growth rate at 1.5% (according to IMF numbers)

\textsuperscript{58} A capital intensive industry
that was favourable to the agricultural sector. For the first twenty years of independence the agricultural sector thrived under good governance and favourable trade conditions, but the next twenty were marked by political stagnation, poor governance, and general economic decline (Winter-Nelson and Argwings-Kodhek, 2007).

Over the past several decades Kenya has maintained a declining income per capita, and a growing disparity between the rich and the poor. The number of people living below the poverty line (2001) was 17.1\textsuperscript{59} million people (Library of Congress, 2007), and Kenya ranks 147\textsuperscript{th} on the UNDP Human Development Index. Again, as with Mali, the agricultural sector employs a large portion of the population (nearly 75 percent) accounting for 37 percent of the total GDP. GDP grew at a rate of 6.5 percent for the first decade after independence, but dropped to 1.5 percent during the nineties; recently it has rebounded and grown at a rate of 5 percent. Kenya is reliant on a few key industries which leaves it vulnerable to external shocks while typically managing a substantial trade deficit (Library of Congress, 2007).

The agricultural sector was encouraged to reform in the 1990’s (with help from the WTO) and government funding and agricultural incentives were removed in an attempt to liberalise the market. In return for foreign aid Kenya was obliged to pursue policies which reduced government support for farmers, cutting tariffs and de-regulating markets, and as a condition of joining the WTO, Kenya liberalised even further (Traidcraft, 2005). Smallholder\textsuperscript{60} farms were pushed on the brink, and the economy suffered, today though, the smallholder sector accounts for 95 percent of holdings.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure11.png}
\caption{Kenya Population Trends (FAO, 2010c)}
\end{figure}

\textsuperscript{59} 54\% of the total population
\textsuperscript{60} Smallholder sector is defined as 12.5 hectares or less
The share of agriculture in the economy is larger than the indicators would signify as there is a large employment within the sector (again, the multiplier effect). The expansion of agriculture from 1955-1980 is mainly due to the fact that they increased their cropped area, however, agricultural land per agricultural worker halved from 1980 onwards as there was population growth. Agricultural policy up until independence was largely motivated by the need to make the East African railroad profitable. (Winter-Nelson & Argwings-Kodhek, 2007).

6.2 Dairy in Africa
Depressed international dairy prices have mainly benefited urban consumers in importing African countries, but have also made it difficult on rural producers to develop a domestic industry that can compete against cheap imports, particularly when there are also internal constraints to production (FAO, 2007). However, according to Sissoko et al. (1990) with several African nations being dependent on dairy imports, and seeing the adverse effects on their balance of payments, it has led many of these countries to embark upon programmes to increase domestic production. This is a possibility for Mali, and is something that Kenya has the capacity to execute. Importing LDC’s wanting to enhance their dairy capabilities need to implement the appropriate trade and development policies towards domestic production, marketing, and processing (FAO, 2007). Inadequate marketing and transportation infrastructure are major constraints to dairy production and need to be managed by the governing body. There also needs to be cohesion between the formal and informal market to create linkages to the international market (FAO, 2007), as many African nations have significant cattle herds61 there is the potential to develop commercial dairy industries.

The prospective development in dairy could stimulate economic growth and lead to a more favourable balance of trade, thereby enhancing the chance of emerging from poverty stricken situations (Sissoko et al. 1990). The outlook is important for two main micro-economical reasons: first, it is a labour intensive industry, which is important for employment creation; and second, it is associated with relatively large income and price elasticities of demand, which imply that increases in

Figure 12 -- Price and Income Elasticities

61 Kenya has a well developed dairy herd, whereas Mali has largely been for meat production (Sissoko et al. 1990).
the domestic market supply are not likely to lead to severe decreases in prices. As figure twelve (A) illustrates, when quantity increases (from \( S_0 \) to \( S_1 \)) by a large amount the price only decreases slightly. This infers low price elasticity. When household income increases (B) (from \( D_0 \) to \( D_1 \)) the demand for the product only increases slightly. This infers low income elasticity. These terms are important to recognise as it means that as new entrants come into the industry the domestic market does not receive great shocks in supply and demand. However, with this representation it also should be noted that it is not a good argument for increasing European milk into the market. The African producers are already competing with a highly subsidised good that is not sold at market value in their economy. This is frustrating for the African producer as the true costs of production from the EU dairy are not passed onto the African consumer, but are rather paid for by the European taxpayer.

However, simply creating a dairy sector is wrought with difficulties as the development of any agricultural venture in Africa will always be threatened by the following inherent attributes; weak collection services, small volumes supplied per producer, seasonality of supplies, dispersed and relatively low income retail markets, high ambient temperatures, and poor infrastructure (Nell, 1990; van Mierlo, 2009). In general, private large scale dairy farming is quite limited in sub-Saharan Africa simply because of these issues as producers have insufficient freedom to set producer prices. Small, family farms have more potential and require less government and business interventions and more entrepreneurial spirit (Nell, 1990).

Through this though, there are those farmers who manage to develop their trade, and in sub-Saharan Africa there are five main practicing milk producing systems. Pastorialism is the nomadic form where herds are ushered to any free space for feeding and milking. Agropastorialism is where farmers grow food crops and keep dairy cows to supplement their income. Mixed farming is associated with cash crops and again where cattle are kept for additional food or income from milk. Intensive dairy farming is less common, but in these circumstances farmers use all their land to grow crops to feed the cattle and milk is the main source of farm income. And lastly, peri-urban dairying occurs around cities where demand for milk is high; milk is sold directly to consumers in the city and is the main source of income for the farmer (Nell, 1990).

### 6.2.1 Mali – Production and Consumption

In 1969, Mali was recognised as having one of the largest cattle herds in West Africa and received World Food Programme (WFP) aid for dairy development to occur in and around Bamako\(^{62}\). The expected result of the project was to create a network of dairies around the capital in order to become a self sufficient dairy producing region. The project never reached its desired potential and ten years later, (in 1979) it was abandoned. Since 1984, (the

\(^{62}\) Mali’s capital city
introduction of EU dairy quotas) Mali has been a reliable net importer SMP and other dairy products in order to meet its growing needs (Coulibaly, 2008). These imports are maintained as foreign SMP (reconstituted as a ‘fresh’ milk product) can be sold at a price below the cost of domestic milk and sold in direct competition with the locally produced milk. As the SMP is imported by the Société Malienne d’Impôts et d’Expôts (SOMIEX), an STE which has a monopoly on imported commodities, the economic benefits gained from the sale of the SMP go to the government of Mali where its intended use to finance the dairy industry is never truly realised (Coulibaly, 2008; Pissoort, 2006).

The taxed funds raised from importing the SMP are instead reinvested into other areas of the economy, and not into developing the local dairy industry. By marketing a cheaper foreign import the dairy industry has been unable to develop beyond its very limited scope, and today, continues to show signs of underdevelopment63 (Shapiro et al. 1990). As figure thirteen shows Mali’s dairy production has been increasing, however, as population has been increasing at an even greater rate, the Malian dairy producers are falling far short of demand, while consumption per capita is falling.

Still today, Mali maintains the largest cattle population in West Africa; with 2005 estimates placing the herd at over 7.5 million cows. However, the productivity of these cows64 is very low at 1.5 litres per day over 180-210 days of the year. Aside from these common Zebu cows, there are also the crossbred cows (Montbéliard, Red Steppe, and Holstein) which can produce up to 8 litres of milk per day over 270 days, while the least common (in Mali) are purebred dairy cows which can produce 20-40 litres of milk per day for 270 days of the year. With such large numbers of cattle, the dry season poses a serious risk to production as milk supply falls far short of demand during the months of March, April, and May. These months are where imports become necessary to fill the gap between supply and demand, as Mali currently does not have the capability to produce condensed or powdered forms of milk. With low yields and

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63 Marketing is an issue in Mali, as nearly eighty percent of dairy is reserved for home use
64 The most common of the dairy cows is the Zebu Cow
dilapidated infrastructure it is difficult for farmers to envision dairy becoming a constant reliable source of income, however, as demand is rising, this demand is being met by outside producers\textsuperscript{65}, which under the right circumstances could potentially be met by the local dairies.

As a young industry, the Malian dairy sector responds to market demands as it develops. The demand is largest around the urban centres, thus dairying cooperatives are generally located within close range of the cities. This is due, in part, simply to market size but also to the fact that in Mali, distribution costs for dairy are estimated to be between fifty and seventy percent of the total cost of the milk product (Pissoort, 2006). The producer in Mali, being in competition with the subsidised producers of Europe sees declining returns the further it gets from its market, creating a situation where imported milk powder is replacing the local fresh milk sector\textsuperscript{66}. And, of these imports ninety percent come from Europe (Pomeranz, 2006). These depressed dairy prices that come with the cheap imports benefit the consumers of Mali (mainly in Bamako) by providing them cheaper access to goods, however, as this is an agrarian based economy, many of the consumers are directly linked to farming and through purchases at the foreign subsidised price, long run economic and social benefits fail to materialise (Bleimund, 2006).

As these dairy imports account for approximately 50-80 percent of the local consumption; local production remains very low in terms of marketing, and covers a meagre 20-40 percent of demand (Pomeranz, 2006; van Mierlo, 2009). With prices for foreign milk powder as low as FCFA\textsuperscript{67} 240 per litre, and local fresh milk costing between FCFA 350-500 per litre, the local producers have a tendency to favour the imports (Pissoort, 2006; Coulibaly, 2008). Local shops also provide a barrier to development as it is common to stockpile the imported products for reasons of product quality, year round access to the market, and price (Pissoort, 2006). However, according to Coulibaly (2008) many of the statistics remain uncertain as imports of milk are often done illegally through Côte d'Ivoire, thus the economic gains through taxation do not even reach the government.

The Government of Mali currently recognises its shortfall in the dairy industry and has begun to develop a more cohesive dairying system, putting plans in place to stimulate milk production locally through three common production systems. These systems are trying to market milk as a cohesive unit and generally fall into one of three categories; (i) the traditional system, where local breeds are used on suburban pastures, milk production is low at 1-2 litres per day; (ii) the modern production system, where dairying is practiced on farms owned by civil servants, milk production is relatively high at 5-12 litres per day (with crossbreeds); and, (iii) the semi modern

\textsuperscript{65} In Bamako 94% of the population consume imported dairy products (Pissoort, 2006).
\textsuperscript{66} Multinational corporations control the processing and distribution chains as milk powder is imported and then reconstituted into liquid form (Pissoort, 2006)
\textsuperscript{67} Franc Communauté financier d’Afrique
systems, are established on private farms which raise cattle on pasture, the milk production is low at 2-5 litres per day (Bonfoh et al, 2005). The project is focussed on poverty reduction and is funded in the amount of $30 million, designed to establish over forty milk basins around the country with each one contributing enough product to its area of coverage. The government will also set up eight milk transformation units so that the market can reach as far as Bamako (Dairy Mail Africa, 2009b). However, as long as the Government favours the import of cheap EU milk powder, with minimal customs duties\(^68\), dairy production will not have a chance to develop (Coulibaly, 2008).

**6.2.2 Kenya – Production and Consumption**

The development of the modern dairy industry in Kenya dates back to the beginning of the 20\(^{th}\) century when exotic dairy bulls were imported to breed with the local cows (Mbogoh & Ochuonyo, 1990). At first the cows were plagued with disease and had problems adapting to the climate, regardless, in the 1920’s with the formation of Kenya Cooperative Creameries Limited\(^69\) (KCC) the first dairy processing factory was opened (Conelly, 1998). The industry was dominated by large scale industrial farmers for the first forty years of production, but with independence (1963) small holder farms\(^70\) began to control the sector, contributing over eighty percent of milk production (Mbogoh & Ochuonyo, 1990). Up until 1969, the sector operated as an open market, with various independent dairies being active players, but between 1969 and 1992 a monopolistic market was developed by the government to maintain greater control over the industry; however under trade liberalisation the government reintroduced a competitive market from 1992 onwards.

What allows the Kenyan dairy market to develop (and something that the Malian industry lacks) is a sectoral board that lobbies on behalf of the industry providing a unified front for the dairy sector, the Kenya Dairy Board (KDB). The KDB was established as an Act of Parliament in 1958\(^71\) its mandate is to efficiently and sustainably develop, promote and regulate the dairy industry in Kenya. These are achieved through the following measures; (i) to organise, regulate and develop the efficient production, distribution and supply, marketing of dairy produce; (ii) to make relevant regulations regarding quality standards for milk and dairy products; (iii) to promote, undertake and coordinate research, extension and training in dairy and related industry; (iv) to advise the government on aspects deemed to be in need of policy and legislative attention; and, (v) to permit and promote enterprise and efficiency in the dairy industry. The KDB controls much of the dairy policy in Kenya and has played a key role in the

\(^68\) Tariffs applied are 5% for milk powder, and 20% for processed products, whereas Kenya has benefitted by having 60% tariffs plus interventionist public policies (Pomeranz, 2006).

\(^69\) KCC enjoyed a protected monopoly on milk and milk products up until 1992 (Export Processing Zones Authority, 2005)

\(^70\) Nearly 600,000 small scale farms (no larger than 20 hectares) presently service the sector (Wachira, n.d.)

\(^71\) The Dairy Industry Act
Rural Dairies Development Programme to promote the formation of rural dairy cooperative societies and provides financial support to any societies that prove they can organize themselves in an efficient manner.

In Kenya, from 1980 to 1990 milk processing rose by over 100%, but in the nineties this fell dramatically. The decline was mainly due to the further deregulation of the KDB, and the substitution of cheap imported milk powders, as imports rose from 48 tonnes to over 2,500 tonnes, with much of this entering from the EU (KDB, 2004). Cheap powdered milk glutted the Kenyan market (see figure fifteen). Dairy farmers became desperate and protested against the governments import tariffs, seen as being set to low. The Kenyan government listened and increased tariffs on imported milk products. The Dairy farmers of Kenya iterated that they understood that they had to be more competitive, but they just need short term protection from the fluctuations on the international market (KDB, 2004). In Mali, there is no such way to organise the dairy industry, and thus this proves disadvantageous when having to unite against policy.

Recently the Kenyan dairy sector has been under extreme stress, output was declining during the 1990’s, and government policy failed to develop equilibrium in the market (ADB, 2001). The policy of the government has been to achieve self sufficiency in milk, and to achieve this they provided varying levels of subsidies and maintained producer prices fairly high. However, with the introduction of SAP’s (1980’s) subsidies were forcibly removed and services that were usually offered by the government such as artificial insemination and other veterinary services were privatised (ADB, 2001; Wachira, n.d.).

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72 The Kenyan Government, similar to that of the EU, when coping with surpluses would initiate school feeding programmes (ADB, 2001).
73 A fresh milk equivalent of 408,000 litres to 21,000,000 litres (Sharma, 2005).
74 At this time the tariffs on imported dairy products were twenty percent.
With liberalisation, KCC began having management problems. The outcome was confusion in the industry and in 1997 it nearly collapsed. It was difficult to organise collections, and the producers found it easier to just use the reliable imports. However as indicated in figure fourteen the industry has recovered and government intervention has played a role in this recovery. Kenya has a bound ceiling of 100% tariff for all agricultural products. Before 1999 they maintained a 25% tariff on dairy products, this was increased to 35% in 2001, and then increased further to 60% in 2002. This ensured that local products could once again be sold on the internal market. KCC was restructured and in 2002 began production of WMP. Currently though, Kenya is self sufficient\(^75\) in milk production and even exports in years when there is not drought (within Africa and the Middle East). The industry is experiencing growth and they have the capacity to produce a further 900 million litres per year. They also have the ability to condense and evaporate their own milk while imports of dry milk have been decreasing (Export Processing Zones Authority, 2005).

### 6.3 Agricultural Policy in Africa

Globally, agriculture provides a livelihood for more people than any other industry, and plays a crucial role in reducing poverty, ensuring food security, and promoting regional development. Growth in the sector is an essential element to raise rural incomes and to meet the growing demand of urban populations. Within both Mali and Kenya agriculture has developed with a suggestion of outside influence, especially with the role that the IMF and World Bank have contributed to shape the policy of both countries governments to industrialise the sector into mono cropping, to encourage production for trade development, and to decrease trade

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\(^75\) Kenya produces 24 percent of all milk in sub-Saharan Africa (Export Processing Zones Authority, 2005)
barriers. The EU (which also holds considerable sway at both the IMF and World Bank) has also been influential\textsuperscript{76} in defining terms of trade and creating favourable conditions for European agriculture. While important decisions have been made outside Kenya and Mali, blame cannot be pointed strictly to those external bodies, the individual governments of both nations need to show some responsibility for the current development trends.

In the 1960’s developing countries had an overall agricultural surplus of about $7 billion, by the 1970’s imports had increased and the surplus shrank to $1 billion, and by the end of the 1980’s the surplus had disappeared\textsuperscript{77}. This wouldn’t be so concerning from an outside perspective, however, as the African nations hold a comparative advantage in agricultural production it seems as though they should continue to be a net exporter, but with so much energy focussed on so few crops (where they have little control over international prices), the domestic industry has somewhat collapsed. This has left many nations exposed to the fluctuations on the international markets as they become more reliant on imported agricultural products to meet their domestic needs. Generally, with trade liberalisation African producers have needed to adapt to competing with global producers, this with the trade liberalisation has left them exposed to dumping, import surges, or any other term assigned to events where subsidised European producers can out compete the African ones. The ability for governments to carefully regulate imports has been severely eroded especially through the process of structural adjustment and free trade agreements. As shown in the Kenya example, increasing tariffs is one of the most important instruments that governments can use to curb the immediate effects of import surges and dumping. But, the government can also look at import quotas to reduce the amount of any given product entering the country and other non tariff barriers.

Surges and dumping of agricultural products are disruptive to local markets, with negative effects on prices, production, and food security in rural areas. Surges are classified as any above normal increase in the volume of imports over a period of time, often what classifies as abnormal is a certain percentage over the three year average, or some other predetermined criteria. Dumping on the other hand occurs when an exporting nation sells its product for less than it cost to produce it. Between 1982 and 2002 Mali experienced the majority of their import surges with pork (11 cases), and dairy (3 cases WMP, 2 cases SMP, 5 cases cheese, and 4 cases butter). These statistics were based upon an increase in monetary value\textsuperscript{78}, however if you measure it by volume, Mali experienced 10 surges in SMP alone, (32 in total for dairy) (FAO, 2005b).

\textsuperscript{76} According to Sharma (2005), the CAP has reduced African dairy exports by nearly ninety percent.

\textsuperscript{77} In 2001 the trade deficit was $11 billion

\textsuperscript{78} Surges can be measured in two ways; (i) by volume; or (ii) by monetary value
6.3.1 European Mechanisms

Currently, the most contentious trade issue arising politically between Africa and the EU is the formal negotiations of the EPA’s. According to Künemann (2009) the EPA’s are one of several ongoing initiatives trying to drastically reduce the policy space of the African states to protect their markets and their vulnerable producers. Even within the current trade regime European imports are a threat to the African farmer as evident by the 600,000 Kenyan dairy farmers who were exposed to European dairy dumping in the 1990’s and lobbied the KDB to raise tariffs. The EPA’s will be the most comprehensive trade and aid agreements negotiated by the EU and the ACP countries, and are being pursued by the EU, as the African Union has voted as a block in the WTO negotiations for the AoA (Künemann, 2009). The EU would prefer to have single trade agreements negotiated with many members of the ACP as the EU will have more power, than when negotiating the whole or as part of the WTO. The EPA’s have met resistance amongst many of the ACP nations, and have come under criticism by many European organisations.

Künemann (2009) identifies five destructive elements of the EPA’s; (i) they are essentially opening the market to all imports from Europe, and only 20% of the products can be excluded and put on a list of sensitive products; (ii) a standstill clause requires African states to freeze all import tariffs immediately at the current levels; (iii) the Most Favoured Nation clause requires African States to offer to the EU the same tariffs which they offer to other major trading partners, thus preventing sub regional development; (iv) they would have to adopt a treaty that essentially prevents farmers from saving and exchanging seeds and make them dependent on transnational seed companies; and they (v) promote a freeze of current export taxes and duties. The potential trade gains for African nations are minimal as 34 of 47 countries have tariff free access to EU markets anyhow under a special arrangement for LDC’s. Thus far most African countries have refused to sign the EPA’s, but as most ACP countries are so reliant on the EU, there is that political pressure to sign.

The EU still maintains that dumping does not exist within the agricultural sector (Kleinwechter, 2004). However many documents find that this statement is untrue and both Kenyan and Malian dairy farmers are forced to compete against one of the most highly protected dairy sectors in the world. Wachira (n.d.) has found that the EU would be unable to export SMP and WMP without export subsidies which are in violation of Part II, article 3.1(b) of the WTO subsidies agreement, yet they remain unpunished. However, it is not just the imports that are hurting the African farmers, it is the fact that the EU exports compete with the intra-African trade. The EU exports goods which are in direct competition with Mali and Kenya, these go to the coastal countries of the sub region. Products such as Malian beef find difficulty in

79 The ACP countries, for the most part are negotiating in blocks.
maintaining their markets in Benin and Côte d’Ivoire, while Kenyan dairy also finds EU products in the Middle East and northern Africa. These markets should be markets that both countries could exploit, but instead find themselves outcompeted by subsidies in the EU.

6.3.2 African Mechanisms

The institutional framework within many African nations, provide difficulties when trying to develop and implement policy, Kenya and Mali are no different. The successful Asian green revolutions were not achieved under liberal markets, and there are few examples of successful bids for African nations to lead a policy of protectionism that has proved beneficial for the producers and the consumers (Kydd et al, 2004). The institutional framework within many of the African nations is not fertile for a coherent, cohesive national agricultural policy, let alone organised in such a manner where smallholder agriculture can flourish. According to Kydd et al. (2004) smallholder agriculture is in a perilous state (in sub-Saharan Africa), if growth in this sector can be achieved then inroads will be made for poverty reduction. However, given the current trend towards the global liberalisation of markets, both Kenya and Mali will need to consider the appropriate direction to develop.

Currently Kenya’s economy has adapted towards products in which it has a competitive advantage. Kenya has seen agricultural exports increase as a total percentage of their exports from 1980 it accounted for 54% of its exports whereas in 2000 it accounted for 57.5% of exports. Contrast those figures to Mali’s and we see a very different story. In 1980 agriculture accounted for 91% of total exports, by 2000 this number had dropped to 44% of total exports (Laaksonen et al. 2006). So although both Kenya and Mali have the agricultural potential, only Kenya seems to be taking advantage of this, and at the core of this paper is the comparison between these two countries and how their dairy industries have reacted to the CAP.

With Kenya expanding its dairy potential, the Malian government has not made things any easier for the domestic dairy producer as there are several factors that discourage the industry; (i) low national tariffs so that domestic dairy producers must compete with low distorted international prices, the government did not protect the industry and rather aggravated it further by implementing low tariff barriers in order to favour imports; (ii) multilateral trade liberalisation has seen the WTO enforcing the reduction of trade barriers leading to import surges; (iii) there are relatively high cost structures of local production leading to storage constraints; (iv) inadequate marketing and transportation infrastructure have stunted the linkages to domestic markets; and, (v) the variation in national exchange rates has a direct impact on imports (FAO, 2007).

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80 Kenya’s biggest export to the EU is cut flowers and buds accounting for nearly 30% of exports (Eurostat)
Strengthening rural communities is paramount to reversing poverty. If farmers do not make money then no one else in that community does. When farmers do make money they spend it in the community. This multiplier effect is much stronger in small scale rural agriculture than any other sector in LDC’s. The harm done by the subsidies in developed countries far outweighs the benefits of development funds (Pinstrup-Andersen, 2005).

7. **The European and African Outlook: A Review**

...it is dumping that is the major issue. The problem is that most of the milk imported [into Kenya] is heavily subsidised by the governments of the countries of origin. Kenya lacks the capacity to do the same. It is therefore very unfair for our local producers because they cannot compete effectively (Fowler, 2002 p.2).

7.1 **CAP Reform?**

The cooperation in the agricultural policy field of the EU is the oldest and most supranational cooperation agreement established within the EU. The CAP, developed in the early 1960’s, leads to disparities on global markets, and distortions on the internal market. This is achieved at a cost to LDC producers, and creates a barrier to the future development whether it is a self sufficient nation, or a net exporting nation. The barriers that are erected as part of the process limit imports into the European market, while the export refunds allow for competitive entrance to foreign markets, driving down international prices in the process; however, the CAP is not as black and white as some papers, governments, groups, and politicians would like to suggest. There is no simple solution to imperfections in the agricultural markets. The current position of the EU as one of the largest traders in agricultural products on the global context carries with it some responsibility to its own farmers as well as trying to incorporate policy which follows the basis of previous agreements. Trying to develop a policy suitable for all while being lobbied by farmers in the EU (especially the original EEC members), creates a situation where taxpayers cover much of the bill set forth by the protests of these groups. Governments within the EU must also negotiate with each other the most favourable terms for its citizens. Within Europe there are disagreements between MS’s on how the CAP should be managed, but also as mentioned earlier, nations beyond Europe become frustrated with the tactics the EU uses for trade.

Radical reform to the CAP is difficult to envision. As the EU grows, more nations, and more stakeholders have to be accounted for, this becomes a stumbling block for internal negotiations. However, as the EU grows and develops there is the need for change as the budget constraints become more obvious, and the needs of the MS’s change. As Grant (1997) states there are three policy methods to change the internal distortions of the CAP; (i)
rentalisation of agricultural policies; (ii) changing it to a common rural policy, or (iii) rewriting its treaty objectives. If you approach the issue through renationalisation, the smaller EU countries will likely lose, as they are no longer covered by the security of the CAP, one need to look no further than what Ireland has achieved under the CAP as they have developed a strong agricultural sector and have benefitted from rural development initiatives. However, as any supporter of neo-functionalism would realise, this would undercut market unity and is not really a logical measure as many nations would see it as a step away from Union. If the real purpose of the CAP is to achieve a higher level of economic and social support in rural regions, then the CAP is not achieving this and some policy towards rural development would be more appropriate. In the latest Health Check of the CAP this was one of the main arguments to be posited. As the EU attempts, through territorial cohesion to bring rural areas up to the same economic status as urban areas, it is clearly not achieving this goal. And as a final concern, the objectives of the CAP were drawn up at a very different time, when all agricultural products were in short supply, these very basic objectives have not been reformed, and perhaps there is the desire to revisit these principles in an attempt to reformat the path that the CAP follows.

Aside from the above mentioned ideas of policy reform, there is also the economic argument that food processing industries in Europe fall behind in global competitiveness, thereby creating a market disadvantage for European firms on the global scale. Even within the agricultural support industry in Europe, there is the very real chance that it can fall behind, as the food processing industries in Europe could be more competitive on world markets if they did not have to pay artificially high prices. As markets become more and more liberalised, European producers that are reliant on government support will become less competitive, and this can be no clearer than in the export subsidies that remain in the dairy industry. These companies that are reliant upon export subsidies to gain economically will need to adapt, and will likely lobby for import restrictions on basic goods to be removed.

Although the EU has played a role in the agricultural development of both Kenya and Mali, it is debateable whether that role has been an entirely negative one. With access to the European Development Fund (EDF) these nations have for many years\(^{81}\) been able to benefit from EU funding for purposes of agricultural improvement, infrastructure building, transportation access, and many other developmental grants. The main purpose of the EDF is to promote economic and social development with a particular focus on reducing and alleviating poverty in the long term, by providing beneficiary countries with technical and financial assistance (EC, 2002). These development funds, although large in numerical terms, are neither as beneficial as a reduction in trade barriers, nor do they outweigh the benefits that could be achieved through CAP reform.

\(^{81}\) The first EDF was developed in 1957
The EU is on schedule to remove dairy quotas by 2015, and the effect is being forecast by many models and many institutions, however the full impacts will be unknown until they are completely phased out. The impact on milk production is likely to be small, but will lead to restructuring within the EU as the MS’s with the most productive dairies will likely see an increase in production, and other shifts will occur. The EU has also virtually agreed to remove export subsidies as one of their economic tools, but they will remain an option for dairy exports. The Doha Round of WTO negotiations should also lead to significant cuts in import tariffs (Binfield, 2009), but the abandonment of a milk supply management system combined with the reduction of milk prices should lead to increased production in Europe and therefore exports will increase (Pissoort, 2006).

7.2 Emerging Economies
Agriculture is an important sector for developing economies; it’s a vital source of nutrition for families and the community; it provides income for farmers, and farm workers, thus stimulating the local economy; and it can be a source of export revenue. The affects of agriculture are particularly influential in both of these emerging economies in Kenya and Mali, thus policy reform within Europe is only one ingredient necessary in a policy mix to facilitate growth, development, and poverty reduction in these countries, domestic policy reform is as vitally important and cannot be ignored when questioning agricultural dumping and surges, and specifically who is to blame for these events.

The dairy industry can provide valuable export income in Kenya, and it can provide that stimulus in Mali, both of these nations can benefit from expansion in the sector, or at least a break from the onslaught of subsidised dairy products from the EU. The current dairy regime (negatively) affects the Malian and Kenyan industry in four distinct ways; (i) by depressing global market prices; (ii) by forcing Kenyan exporters out of third markets; (iii) by erecting trade barriers so neither Mali nor Kenya can access the EU market; and, (iv) by directly undermining domestic markets in their economies (Fowler, 2002; Kol & Winters, 2003; Peters, 2006). All of these events create a situation that is favourable to European producers and unfavourable for the Malian and Kenyan producers.

In these emerging economies of Kenya and Mali there is an urgency to keep pace, to develop the market infrastructure and institutions essential for economic growth. Market demand centres on urban areas and market demand dictates what is supplied. However, with rural poverty being so persistent, policy must address the strengthening of communities in rural areas which generally creates a multiplier effect where spending begets spending. The multiplier effect as demonstrated by Brokken (1990) and Nell (1990) is stronger in the agricultural sector than any other field, and both further claim rural dairy is likely more
beneficial (than other agricultural sectors) in terms of its potential contribution to broad based agricultural and economic development.

Mali has maintained a relatively open and transparent trade regime through the adoption of the WAEMU\textsuperscript{82} Common External Tariff. This tariff has four rates: (i) zero tariff on social, cultural, scientific, agricultural inputs, capital goods, computer and data equipment that are not available through local production; (ii) five percent tariff on raw materials, crude oil and cereals for industrial use; (iii) ten percent tariff on intermediate goods, diesel and fuel oil, and other cereals; and (iv) twenty percent on consumer goods (IF, 2004). This leads to easy access for the European producers, and at times causes internal market distortions. These trade issues are prompted not just by the EU, but rather the agreements that allow the EU to take advantage of the situation. Internally, Mali can focus on improving its infrastructure, and modernising its services, only then will the dairy producers in Mali have access to its potential market. However as long as these challenges remain, attempts to reform trade will be in vain, as the Malian producers will be unable to meet demand.

As opposed to Mali, Kenya has the infrastructure. They are a nation that can become an exporter in the region. They may not be able to export to the EU simply because of policy restrictions with regard to milking methods and health concerns. However, Kenya can become competition for the EU. The African market is very much controlled by European dairy imports, and if trade negotiations within Africa start to out compete the proposed EPA’s then Europe will need to find other markets for its subsidised dairy.

Another Government coping mechanism has emerged with the partnership of the West African Agricultural Policy (ECOWAP). ECOWAP\textsuperscript{83} was designed in response to the rising food prices of 2007-2008, and the continued environmental constraints faced by the sector\textsuperscript{84}. The former agricultural policy tools were mainly geared towards commercially viable cash crops, rather than attempting to achieve food security, rural employment, and integration into the regional market. However, the purpose of ECOWAP is to guarantee food security and decent incomes for agricultural workers while promoting efficient family farms (ECOWAS, 2008). Although modelled after the CAP, the EU sees this policy as a threat to trade and is showing concern over future trade agreements in particular the development of the EPA’s (Koning, 2006).

7.3 Concerning Agreements
As economic development, poverty reduction, gender equality, environmental sustainability, food security, and hosts of other popular phrases become the rhetoric of institutions around

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{82} West African Economic and Monetary Union
\item \textsuperscript{83} Developed in 2005
\item \textsuperscript{84} There has been a 25\% decline in rainfall in the region over the last 50 years
\end{itemize}
\end{footnotesize}
the globe, sometimes it becomes clouded, and entwined as to what these international agreements and national policies are meant to achieve. No governmental institution whether national or supranational creates or signs agreements with the intent of ignoring them, but by looking at just a brief list of conflicting agreements it becomes obvious that many of them offer mere lip service as an attempt to save face amongst its citizens and the global players involved.

(The EU) "will continue to work to improve food security, at international, regional and national level." This statement was in reaction to the African food crisis of 2007-2008, as the European Parliament adopted a resolution on rising food prices, aiming at implementing the (global citizens) right to food, further the EU sought to develop policy with the FAO to promote a global partnership for food and agriculture in an attempt to "bridge part of the financing gap" in the areas of agriculture, food security, and rural development (EC, 2008). The recognition of such a crisis by the EU conflicts with the sudden re-introduction of export refunds in 2009.

Furthermore, the example of food dumping is a clear contradiction of UN Human Rights treaties and international trade policy. The human right to adequate nourishment is established under international law in Article 11 of the International Covenant on Economic, Social and Cultural Rights (ICESAR). With ascension into the ICESAR, countries commit themselves to respecting, protecting and guaranteeing peoples existing access to food. Thus they should not take governmental measures that deny these rights. CAP tools such as the export subsidies mentioned in this paper undermine the abilities of nations to produce their own food, and in the case in Mali and Kenya this is stunting development (Buntzel-Cano, 2004).

The Food Security Thematic Programme (FSTP) is another programme spearheaded by the EU. The objective of the FSTP is to improve food security in favour of the poorest and most vulnerable and contribute to achieving the first MDG, through a set of actions which ensure overall coherence, complimentary and continuity of Community interventions including in the area of relief from relief to development. The FSTP will play an important role in placing food security on the international agenda. The EU recognizes food security as an issue in Africa but does not see its own policies as a cause for food insecurity, but rather focuses on disaster and risk assessment, policy development and harmonisation, and sustainable management of natural resources (EC, 2007b).

By signing the Millennium Declaration in 2000 the EU, Kenya, and Mali all committed themselves to opening the trade system for the poor, to deal with chronic debt problems of the poorest nations, and to provide more aid. Agreed to by 189 world leaders eight goals were established to be achieved by 2015, which include measurable targets. However, the goals will fail to meet their targets, the only true success has been with China and India, in reality the MDG’s are going backwards as there were 800 million victims of starvation in 2000 and in 2004
there were 840 million, the first goal of halving malnutrition and hunger by 2015 is under threat.

The set of policy tools that make up the CAP and the dairy quota regime lead to market imperfections within Europe and beyond Europe. Reform of these policies has been a theme in the 1990’s and early 2000’s; however, the reform was mainly targeted to curb spending in the EU. Now the effects outside the EU are becoming magnified, and action is needed to remedy these externalities. Mali and Kenya are just two countries chosen for this paper, it could have been other countries within the ACP and perhaps the same results would appear, perhaps more distinct results, perhaps more indistinguishable results. However, even within the scope of the CAP there is hope of things improving, when governments are held accountable to their signed agreements and promises, when citizens realize the market imperfections, and when nations unite under a common goal like the Millennium Declaration. Positive steps are being taken by all the governments, but these changes need to be more abrupt and more common if they are to be effective.
8. Appendix – The Influential Theories

This paper proved to be one where a single theory proved impossible to explain in detail the system of agricultural trade that occurs between the EU and the African nations. With so much written on development theory, trade theory, and economic theory, there seemed to be an abundance of ideas to follow and to utilise. However, as this paper evolved it was clear that a single theory was not appropriate to discuss the intricacies of the issue. With this in mind three general influences were worked into the paper as a means for discussion.

Multiplier Theory – Although some argument over whether it is a theory, it is an affect. Developed by John Maynard Keynes, it addresses exogenous increase in spending. Being a Keynesian model it looks at government spending and how it stimulates further spending. For this paper I used it to explain any spending in the agricultural sector spills over to other sectors. So if there is investment in the dairy sector, this will create jobs which will stimulate the economy which will lead to more spending. If these jobs are removed then the spending is also removed. The multiplier effect can have an influential rule in rural development.

Theory of Justice – As taken from the writings of John Rawls (1971). Rawls expanded on the previous work of Jeremy Bentham and John Stuart Mill in their utilitarian approach to economic theory. In A Theory of Justice where he proposed that, "Each person possesses an inviolability founded on justice that even the welfare of society as a whole cannot override. For this reason justice denies that the loss of freedom for some is made right by a greater good shared by others." This is the foundation of the theory and can play a role in the development of trade theory between the LDC’s and the EU. This theory can be used for international justice and inequalities, and that is where I found it useful for my paper.

Theory of Comparative Advantage – Comparative advantage was first discussed by Robert Torrens in regard to the British Corn Laws of 1815. He successfully argued that it would be more beneficial to acquire grains through trade with Portugal even though the grains could be produced more cheaply in Britain. For example, if Country A can produce both cheese and paper at a lower input cost than Country B, however, Country B can produce cheese cheaper than it can produce paper, it should focus its industry on cheese and trade for paper, as the time and inputs required to produce paper is far greater than that of cheese. Thus country A should specialise in paper, while Country B specialises in cheese.
9. References


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