

Study

Who feeds the world?

The impacts of European agricultural policy on hunger in developing countries



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Imprint



Preface



► MISEREOR has been critically examining the impacts of the European Union's agricultural and trade policy on small farmers in Africa for many years. Since the 1980s, subsidised EU exports of grain, meat, and dairy products have made a considerable contribution to the decline in world market prices, causing serious damage to African agriculture. For developing countries, it became cheaper to import food than to support their own agricultural sectors.

But is this still the case today? A significant proportion of direct export subsidies has been considerably reduced since the early 1990s. The EU is currently preparing for a reform of the Common Agricultural Policy, and MISEREOR wanted to find out how this reform should be viewed in development policy terms. What role does the EU play on today's agricultural markets? Are there other support instruments apart from export subsidies that strengthen the EU's competitiveness on the world agricultural markets? How is the European food industry reacting to the changing demands of the urban middle classes in developing countries and newly industrialised countries? Where do European exports end up and what impacts do they have on local markets?

The result of our research shows that agricultural exports to West Africa have risen massively since the year 2000. At present, European exporters are increasingly focussing on processed foods such as flour, baked goods, sweets, packet soups, or fresh dairy products such as yoghurt. This is robbing local producers in the South of their future livelihood. In order to fight poverty effectively, producers in developing countries need access to consumers with greater purchasing power in their own country without having to fight off competition that has been directly and indirectly subsidised by the EU.

MISEREOR hopes that this brochure will shed some light on the complexities of global agricultural trade and their impacts on developing countries and highlight ways in which an EU agricultural policy could simultaneously focus on the interests of both small farmers in the southern continents and farmers in Europe. MISEREOR hopes that the CAP reform will bring considerable improvements in terms of the human right to food. In this respect, it is vital that the EU ends its policy of cheap exports. To do so, export subsidies must be abolished immediately and unconditionally. However, producer prices within the EU must also be adequate, i.e. they must rise again. This would also help German farmers, who have suffered heavily as a result of the drastic fall in prices. ◀

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Summary

► The European Union has started discussing the reform of the Common Agricultural Policy (CAP), which is due to come into force in 2014. This process takes place against the backdrop of a dramatic increase in the number of hungry people in the world since 2008. This study seeks to examine the links between the EU's role on the world agricultural markets – a role that has been transformed by the CAP – and rural development and poverty alleviation in Africa in particular. It will become clear that the EU's emergence as a net exporter of important staple foods has played a decisive role in the decline in world market prices that began in the 1980s and has lasted until the early days of the new millennium. This fall in prices made it easier for the governments of many African countries to neglect small farmers and the production of staple foods and to make their countries increasingly dependent on imports.

As a result of the reforms that have gradually been implemented since the 1990s, the EU has reduced its exports

of agricultural raw materials. However, it continues to play a significant role on the world markets. Direct payments, which are no longer linked to production, allow for a generally lower price level within the EU because they cover a share of the production costs. This creates a supply of cheaper raw materials for the European food industry, which uses these raw materials to manufacture and export more processed products without having to resort to direct export subsidies. The urban middle classes in developing countries and newly industrialised countries have emerged as the most important new target markets for this industry. This development threatens to clash directly with the strategy of the German Federal Ministry for Economic Cooperation and Development (BMZ) and others to strengthen rural areas in developing countries and newly industrialised countries by promoting the processing of agricultural raw materials and their sale on regional and national urban markets. ◀



Introduction

The growing number of hungry people in the world

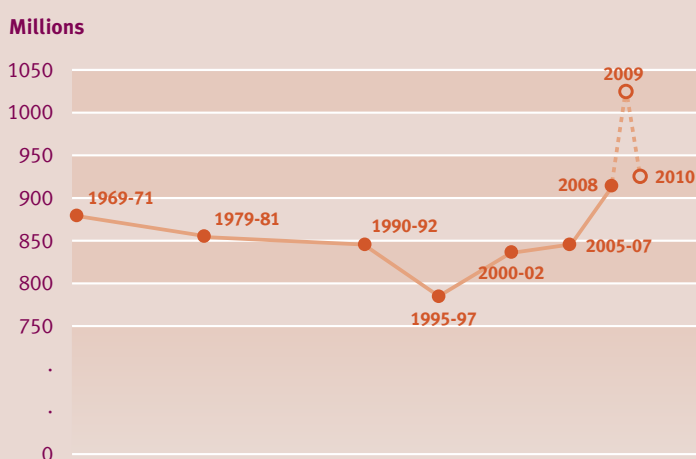
► Fighting hunger has been a focus of international politics for decades. There is certainly no shortage of more or less detailed targets and promises. At the UN World Food Summit in 1995, the world's heads of state and government agreed to halve by the year 2015 the number of hungry people in the world, which stood at approximately 820 million at the time. This target was diluted only four years later when the millennium development goals were defined in 1999. Instead of halving the number of hungry people, the target was now to halve – by the same deadline – the proportion of hungry people in relation to the total world population. Because of population growth, this target would also be reached if approximately 600 million people in the world were to be hungry in 2015. Four years before the deadline set for reaching this target, it seems likely that this diluted target will not be reached either. On the contrary, as a result of the drastic increase in world market prices for staple foods – especially rice and wheat – in 2007 and 2008 and the global economic crisis in 2009, the number of hungry people in the world has even passed the one billion mark, thereby reaching its highest level since the 1970s. Last year's increase was so dramatic because the effects of the high foodstuff and energy prices and the global economic crisis overlapped, reducing the income available to many poor population groups. For example, the number of money transfers made by migrant workers abroad to their families at home dropped dramatically.

However, it must be said that even before these dramatic price increases, the number of hungry people in the world had already risen slowly to 854 million in 2007. In short, the agricultural price crisis not only highlighted a problematic development, it also severely aggravated it. According to the FAO's most recent estimates, the number of hungry people in the world has since dropped again to approximately 925 million thanks to the modest economic recovery and the fact that world market prices have been falling since the middle of 2008.

Just how long this recovery will last is very difficult to say, especially as the prices for wheat, maize, and soya have risen sharply again.

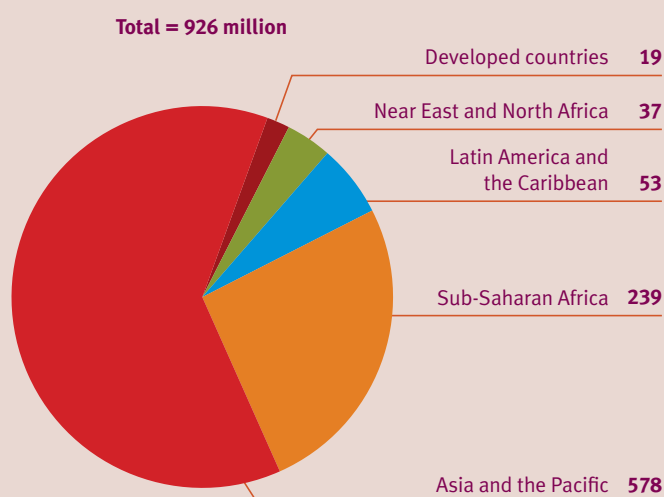
The vast majority of hungry people – some 578 million – are still to be found in Asia, in particular in the two countries with the highest populations, namely India and

Figure 1: The number of hungry people in the world



Source: FAO 2010a

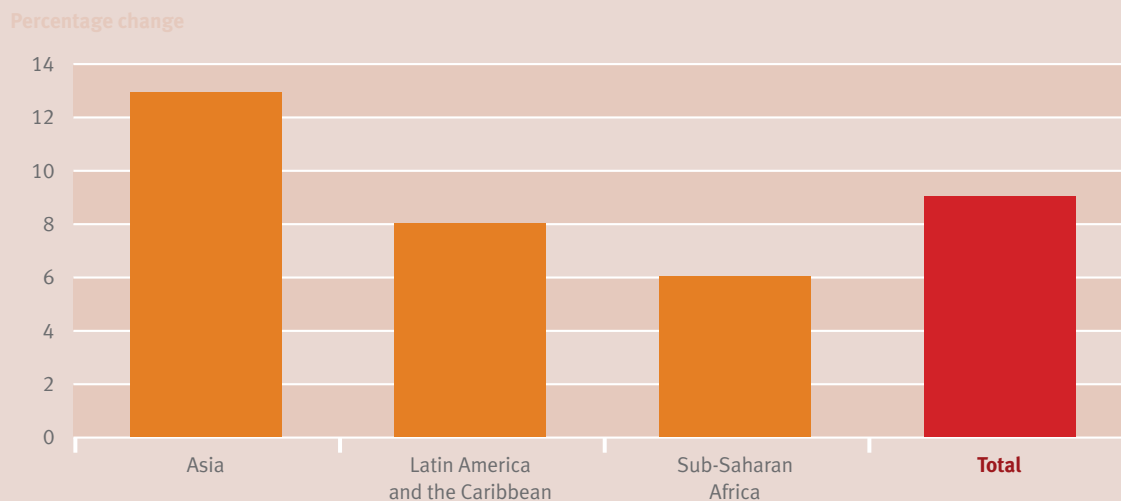
Figure 2: Number of hungry people according to regions [millions]



Quelle: FAO 2010

China. In sub-Saharan Africa, on the other hand, almost one-third of the total population is hungry, the highest proportion worldwide. At the same time, the number of

Figure 3: The effects of the economic crisis on the number of hungry people in the world in 2009 (average scenario)



Source: FAO, SOFI 2009

hungry people there has risen more dramatically than in other regions, namely from 169 million in the early 1990s to an estimated 239 million in 2010.

According to the US Ministry of Agriculture, Asia is most heavily affected by the effects of the world food price crisis and the global economic crisis. It also says that as a result, the number of hungry people on the continent – which in recent years had made most progress in reducing hunger – was between 11 and 13 per cent higher than it would have been had the crisis not occurred. However, these estimates do not take account of the effects of national and international measures introduced to counter the global economic crisis and its social impacts. The reasons these impacts are so severe are primarily related to the fact that many Asian countries have integrated themselves strongly into the world economy and are, therefore, directly affected by an economic slowdown. In southern and central Asia, for example, money transfers from migrant workers abroad make a significant contribution to the balance of payments and, therefore, to the opportunities to finance food imports. In some regions, they constitute an important proportion of the incomes in poor households. Conversely, the fact that these countries are so closely intertwined with the global economy also means that as a result of the economic recovery of 2010, the estimated fall in the number of hungry people in Asia by 80 million was particularly marked. ◀

The political reaction

▶ Grain price fluctuations on world markets and the resulting protests and unrest, which triggered the toppling of governments in some countries, have shifted the issues of world food security and agriculture from the realm of political speeches and declarations into the focus of topical political decision-making processes. In immediate response to the increase in prices, the rich industrialised nations of the G8 and countries like Saudi Arabia provided the UN World Food Programme with additional funds to allow it to buy the food needed for aid in the world's crisis regions despite the higher prices. In addition to this short-term reaction, numerous national and international initiatives sought to focus development and agricultural policies more on agriculture and in particular on the production of staple foods by small farmers, two areas that had long been neglected. At their summit in L'Aquila in 2009, the G8 declared that it would make US\$20 billion available for food security. Not only did the African states reinforce their previously established goal of spending 10 per cent of their national budgets on agricultural development, many countries also launched new programmes with the intention of boosting the production of staple foods in the short term. In doing so, they concentrated primarily on products that are imported, such as rice and maize, while the cultivation of millet and sorghum

still receive hardly any support, even though these products are of major importance for food security in many countries, especially in rural areas.

It is not possible to say with any certainty how long this new focus on agriculture and the development of rural areas will continue. However, many things point to the fact that price fluctuations on the world markets – and in particular short-term price hikes – will occur more frequently, as is currently the case on the world wheat market. For this reason, it is to be expected that this issue will remain high on the political agenda.

Once again, the debate about the correct reaction to the world food price crisis showed how vital agriculture is to the fight against poverty and hunger. About two-thirds of hungry people live in rural areas; two-thirds of them are small farmers who produce food mainly for their own consumption. However, quite apart from not being in a position to build up reserves to cushion the impact of bad harvests, these farmers are often unable to harvest enough food to feed their families adequately over the course of the entire year. Measures to increase productivity in an inexpensive and sustainable manner and to increase the incomes of this population group are, therefore, particularly effective when it comes to fighting hunger and poverty. The International Fund for Agricultural Development (IFAD) therefore concludes that the fostering of staple food production provides particularly good opportunities for combating poverty.¹ Its reasons for saying so are twofold. Firstly, poor people cover most of their calorie requirements with staple foods and consequently spend a significant part of their income on such foods. Secondly, the production and sale of staple foods is the most important source of income for many poor people in rural areas. ◀

The growing instability of world markets

► The unprecedented speed and magnitude of the increase in food prices in 2007 and 2008 called into question the strategy of relying on trade and imports to ensure food security. Starting in mid-2008, grain prices fell considerably again, even dropping below 2007 levels for wheat and maize. However, the benefits of these global price drops for consumers in many developing countries were limited. In most countries, the domestic consumer prices for grain and other staple foods did not



Agricultural policy and poverty alleviation in China

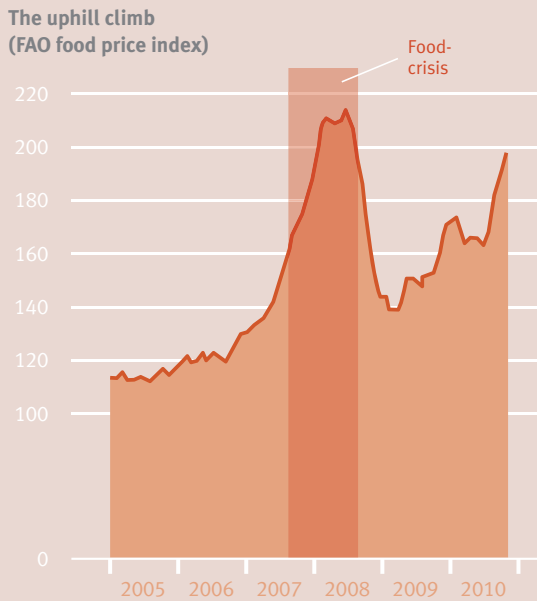
► A study conducted by the World Bank² on the reasons for the significant drop in poverty and hunger in China confirmed the vital role played by agriculture. The evaluation of statistical data on income and income distribution in China since the late 1970s leads to the conclusion that growth in agriculture and in rural areas has made the most important contribution to a reduction in absolute poverty. The reduction in poverty brought about by growth in the agricultural sector is four times as high as that brought about by growth in other sectors. At the same time, growth in rural areas reduced the differences in income both in rural areas and across the economy as a whole. A more even distribution of income means that growth reduces poverty more effectively than would be the case if income were more unevenly distributed.

At the same time, agricultural development in China did not rely on exports. What was much more decisive was the fact that enforced collectives were abolished and state-controlled prices for important agricultural products – grains in particular – were raised. The increase in prices not only led directly to higher incomes, it also created effective incentives for investment, which in turn led to increases in production. The very even distribution of land resulting from the distribution of agricultural land among the former members of the collectives had a positive influence on growth and distribution effects. ◀

¹ Bruinsma (2003), p. 219

² Ravallion and Chen (2004)

Figure 4: Evolution of world market prices from 2005 to 2010



Source: FAO, Blas, 2010

fall as much as world market prices did. This is particularly true of West Africa and South Asia.

Moreover, after the crop failures in Russia (which were caused by drought) and the subsequent export embargo, yet another change was imminent on the world markets. Within the space of only a few weeks, the world market price for a ton of wheat rose from US\$180 to almost US\$300. Unlike 2007, however, global stocks of grain are relatively high, which means that many analysts consider the current price hike to be unjustified. Countries, companies, and consumers – all of whom now have to pay for imports – are asking themselves whether the high prices were really caused by shortages or whether they were not in fact caused by speculation. Yet this question is of secondary importance; whatever the reason, they still have to pay the higher prices. As a result of the increase in bread prices, there were massive protests in Maputo, the capital of Mozambique. In response, the government agreed to subsidise bread in order to reduce the price, without actually knowing how they would finance such a move in the long run. ◀

Reform of the EU's Common Agricultural Policy

► Against the backdrop of growing hunger and unstable world markets, the European Union is launching discussions about the Common Agricultural Policy (CAP) reform that will come into force in 2014. The agricultural industry and major farmers' organisations continue to support the EU's orientation towards the world market and hope for greater export opportunities for meat and dairy products

in particular, but also for processed foodstuffs such as baked goods and confectionary. In order to remain competitive in these areas, the EU no longer wants to rely heavily on the controversial tool of direct export subsidies. Such subsidies are paid directly to exporting companies and balance out the difference between the prices on the EU's common market and the lower prices on the world market. In the 1980s and 1990s, the EU paid out export subsidies to the tune of €10 billion per annum, which made the EU a leading exporter of grain, dairy products, beef, and pork.

As part of the various reforms of the CAP that have been implemented since 1992, the guaranteed prices on the EU common market have gradually been lowered, and with them the difference between these prices and the prices on the world market that have to be balanced out by export subsidies. Accordingly, only €649 million was paid out to this end in 2009. The subsidies paid directly to farmers, however, have increased dramatically as part of these reforms. In order to partially balance out the price reductions, farmers received direct payments, which since 2003 have largely been unrelated to production. In some EU member states including Germany, these payments are based on the area being farmed; in other member states, such as France, they are based on the production-linked subsidies that each farm was paid in the past. These payments, which amount to €40 billion per annum across the EU, make it possible for farmers to market their products at prices that do not completely cover the cost of production, both in terms of the common market and for export. A further €5 billion in investment aid is also paid out, much of which is channelled into intensive livestock farming. Bolstered by such sums of money, the European agricultural industry wants to conquer new export markets. There is particular interest in the growing urban middle classes in developing countries and newly industrialised countries.

The following section outlines the structural causes of hunger, particularly in Africa, and highlights the links between these causes and Europe's agricultural policy. It will begin with an outline of Africa's historical development from a net exporter to a net importer of foodstuffs, which ran parallel to the EU's emergence as a net exporter of staple foods. In view of current developments, particular attention will be paid to the tools of the reformed CAP and the potential that the growing urban demand for processed foods opens up for small farmers and rural development. ◀

1. Hunger in Africa: structural and agriculture policy-related factors

► Of all regions in the world, Africa has the lowest level of agricultural productivity per capita.³ Between 1961 and 2007, agricultural production in Sub-Saharan Africa increased 2.55 per cent per annum, i.e. at a slower rate than the population, which grew by an average 2.8 per cent per annum over the same period.⁴ This growth was largely achieved by extending the area under cultivation and increasing labour input. The total land area cultivated for grain in Africa increased from approximately 93 million hectares to 171 million hectares, while the number of labourers increased from 96 million to 198 million. Grain yields per hectare, however, only increased by about 1.1 per cent. The reasons for Africa's low agricultural productivity are many and varied. Generally speaking, one can differentiate between natural and social or economic policy-related factors.⁵ This report shall focus on economic policy-related factors in particular because these factors can be changed.

One important reason for the low growth in productivity is the very low level of agricultural intensification. Over the past 50 years, the proportion of irrigated agricultural land has fluctuated at around the 3 per cent mark and has not grown to any appreciable degree.⁶ This means that Africa's agriculture is still largely dependent on rainfall, which has a negative effect on the sector in periods of drought. Similarly, at approximately 7 kg/ha, the average use of fertilisers is still at the same level it was in the 1970s.⁷ This corresponds to approximately 10 per cent of the amount that is used in other developing countries and is, therefore, nowhere near being at an excessively high, damaging level.⁸ ◀

1.1 The neglect of the agricultural sector

► Since colonial times, the agricultural sector and small farmers in particular have been neglected in most African states.⁹ Despite a variety of reforms and changes of direction in both economic and agricultural policies, relatively little has changed in this respect in recent decades. Once colonisation of Africa began, so-called 'cash crops' such as coffee, cocoa, and cotton were promoted as agricultural export goods. This agricultural paradigm began at the start of the twentieth century and was continued more intensively after the Second World War. It included pro-



³ Cf. Haggblade et al. (2004), p. 8

⁴ Binswanger-Mkhize et. al. (2010), p. 125

⁵ Cf., for example, Collier/Gunning (1999)

⁶ Cf. Binswanger-Mkhize/McCalla/Patel (2010), p. 125

⁷ Cf. *ibid.*, p. 124

⁸ Cf. Ehui/Pender (2005), p. 227

⁹ Cf., for example, Binswanger/Townsend (2000), pp. 1075–086.

grammes for increasing yields and combined these programmes with the cultivation of ‘new’ non-native varieties.¹⁰ As a result of this policy, small farmers were displaced by major companies on a considerable amount of cultivable land. A discriminating tax policy (e.g. capitation taxes and household taxes) forced many farmers to give up their small farms and work for the major exporting companies. Access to public services and goods was, accordingly, only granted to those running major plantations.

Directly after independence, governments intervened heavily in the agricultural sector. They did away with taxes that discriminated against small farmers and subsidised farm input, fertilisers in particular.¹¹ Many African states established heavily centralised political, institutional, and financial systems for rural development. In 60 per cent of African nations, the governments were in complete control of the procurement and distribution of fertilisers and seeds.¹² In some cases, however, the focus on major agribusinesses continued into the post-colonial era, meaning that subsidised fertilisers and credits were often made available at conditions that were out of reach for small farmers.¹³ The trade in export crops was also dominated or entirely monopolised in many countries by state marketing authorities that had been set up in the 1950s and 1960s. These authorities were in a position to fix correspondingly low purchase prices. In other words, it was as if a tax was being imposed on agricultural exports. Moreover, direct taxes were imposed in many countries on the export of agricultural goods and in particular on classic cash crops such as coffee, cocoa, and cotton.¹⁴ Another important aspect was the fact that the currencies in many countries were overvalued and remained so into the 1980s. These overvalued currencies contributed to the lower prices for farm inputs, which were generally imported. They also made food imports cheaper and reduced revenues (in the national currency) from the export of agricultural products.

Overall, the agricultural sector in Africa was taxed more heavily than it was supported. At almost 20 per cent, net taxation was particularly high in the 1970s, when governments found themselves increasingly unable to pay farm input subsidies, increased the taxes on export agriculture in particular, and simultaneously insisted on maintaining their overvalued currencies. Ever since, net taxation has dropped to approximately 5 per cent, which is primarily a result of exchange rate realignment. In this regard, there is a marked difference between Africa and the majority of Asian countries, which have been more successful in alleviating hunger. Asian countries provided rela-

tively high support for agriculture to the tune of approximately 20 per cent of the entire production value of the sector.¹⁵

In the 1970s and 1980s, state support schemes for agriculture – especially costly subsidies for fertilisers – were cut drastically. Between 1980 and 2005, public expenditure on agriculture and rural infrastructure accounted for only approximately 5–7 per cent of the total budget. In Asia, on the other hand, this proportion was in some cases much higher, namely between 6 and 15 per cent.¹⁶ During this period, donor countries in the North began to focus less on agriculture in their development cooperation activities. Falling world market prices and the unsatisfactory outcomes of many rural development programmes seemed to indicate that it was not worthwhile to continue their involvement in this area. While official financial development aid (ODA) increased from US\$7 billion in 1980 to US\$27 billion in 2006, the proportion of money being channelled into the agricultural sector decreased from 20 to 4 per cent. It also decreased in absolute terms. Most of the money from the North was now being invested in education and health programmes.¹⁷

This resulted in a clear under-capitalisation of the agricultural sector in many African states.¹⁸ This multi-layered neglect and even hindrance of small farm productivity means that many small farmers are now no longer even able to feed themselves, have no surplus produce to sell, and are consequently unable to generate any income.¹⁹

Attempts to modernise agriculture in Africa along the lines of the ‘green’ revolution that took place in Asia and to make it more productive by intensifying the use of fertilisers, pesticides, and high-yield crop varieties, were implemented half-heartedly and their effects were cancelled out by other economic policy measures. However, the negative impacts of the ‘green’ revolution on the environment and social structures have since been

¹⁰ Cf. Delgado (1995), p. 3 f.

¹¹ Bello, (2010), p. 94 f.

¹² Cf. Binswanger/Townsend (2000), p. 1077 f.

¹³ Cf. Binswanger/Townsend (2000), p. 1077 ff.

¹⁴ Cf. Morgan/Solarz (1994), p. 65

¹⁵ Binswanger-Mkhize/McCalla/Patel (2010), p. 129

¹⁶ Cf. Benin/Fan/Mogues (2009), p. 1

¹⁷ Cf. Benin/Fan/Mogues (2009), p. 1 f.

¹⁸ Cf. Binswanger-Mkhize/McCalla/Patel (2010), p. 124

¹⁹ Cf. Holmén (2004), p. 15



acknowledged. The intensive use of farm inputs such as fertilisers and pesticides have destroyed soil fertility in many areas of Asia and Latin America and have caused water pollution.²⁰ However, alternative approaches that would have made a greater effort to make existing methods of cultivation more productive and more sustainable and to adapt them better to agroecological

conditions and natural nutrient cycles were largely ignored by those in charge of agricultural policy and were never even tried despite the fact that initiatives and projects launched by non-governmental organisations in particular repeatedly showed that such approaches allow for considerable yield increases at a relatively low financial cost.²¹ ◀

1.2 The role played by the structural adjustment programmes of the IMF and the World Bank

► The effects of the structural adjustment programmes (SAPs) of international finance institutions, which have been applied since the early 1980s in particular, are still the subject of controversial debate. There is now widespread agreement between both the World Bank's analyses and those of its critics on the negative impacts of these programmes on the supply of fertilisers and other farm inputs. When state-run bodies and international donors withdrew from the market, it was expected that private players would take over the provision of important services such as the supply of fertilisers, thereby allowing for a more targeted, less expensive supply. However, this only happened in very few countries. The reasons for this failure can be traced back to market structures and the fact that many African states are land-locked, which in turn leads to high transportation costs. Moreover, because African importers only buy small amounts of fertilisers,

they pay higher prices. The problem is compounded by an unnecessarily high product differentiation between similar fertilisers. The costs for importing and exporting goods to and from land-locked states is on average US\$50–100 higher per ton than for other countries. Poorly organised sales networks and the difficulties involved in financing imports and sales also contribute to the high price level and the low use of fertilisers.²² It is even less surprising that private companies were not able to close the gaps left by public bodies in the field of agricultural research and the development of rural infrastructure.

²⁰ Albrecht and Engel (2009), p. 65 f.

²¹ Pretty and Hine (2001)

²² Cf. World Bank (2001), p. 1 f.

The withdrawal of the state from the markets and the dismantling of subsidies were key elements of the SAPs. Above all, the reduction in agricultural taxes and the devaluation of currencies had an effect on export-orientated sectors. Farmers in these sectors received a greater proportion of world market prices, which should, in principle, have resulted in higher producer prices (farm gate prices). However, world market prices for the export-produce of many African states dropped drastically in the 1980s, which not only completely cancelled out any positive income effects for the farmers, but also led in some cases to lower incomes.²³ Critics assume that this decline in prices was not an unfortunate coincidence, but that it was rather an indirect effect of the SAPs, which simultaneously supported the cultivation of export crops in many countries, thereby leading to a glut on the world markets.²⁴ For farmers too, who largely cultivated staple foods for the domestic market, the effects were contradictory. In principle, the devaluation of the currencies should have led to higher prices for imported foodstuffs and, consequently, also to higher producer prices and market prices for competing home-produced staple foods. For many African farmers, this was of little relevance because their products could only be marketed on a small scale because they needed much of their produce to feed themselves and because of the high transportation costs and the perishable nature of their produce. Here too, other impacts worked against them. The SAPs required not only currency revaluation, but also the dismantling of tariffs on staple foods, which was implemented at a time when prices on the world market were falling considerably. As a result, imports, which had increased as far back as the

1970s as a result of the overvalued currencies and food aid,²⁵ remained attractive. Many governments who sought first and foremost to feed their growing urban populations (a policy known as ‘urban bias’) did not consider this to be a major problem. The urban elites in particular had much more political and economic clout than the rural population.²⁶

Overall, the impacts of the SAPs on small farmers were predominantly negative. The dissolution of state marketing bodies contributed to growing price volatility and to the decline in human and physical infrastructures (agents who provided advice, storage space etc.). Rising input prices and the lower availability of seasonal funding led to a stagnation and in some cases even a decline in productivity. Because of the financial barriers, private players focused on profitable niches, thereby neglecting other important areas. In addition to putting small farmers at a disadvantage, the reforms also had a negative impact on agricultural exports, the quality of which declined, thereby making them even less attractive for the international markets.²⁷ Sustained competition from cheap imports from outside the region, the fact that it was more difficult to access cheap credit, and the abolition of input subsidies led to an overall reduction in the amount of modern seed being sown and a further drop in the use of fertilisers.²⁸ However, these were not replaced by agro-ecological methods of cultivation, which often allow for even better yields and incomes. In fact, the area under cultivation in Africa that produced low yields was extended considerably²⁹, which led to deforestation and conflicts with nomadic livestock farmers. ◀

1.3 Trade policy and subsidised agricultural exports

► As was the case in other developing countries, the balance of trade for agricultural products in Africa worsened. While developing countries as a whole boasted a surplus of export over import for agricultural products of US\$6.7 billion in the early 1960s – a figure that rose to US\$17 billion by the mid 1970s – the 1980s were characterised by strong fluctuations, although the balance of trade in agricultural products remained positive overall. These fluctuations continued into the 1990s. Since then, developing countries have, as a whole, tended to be net importers.³⁰ Although a few countries in South America and South-East Asia are indeed major exporters, the vast majority of developing countries are net import-

ers. A World Bank study conducted in 1999 came to the conclusion that over two-thirds (105) of the 148 developing countries examined for the study are net food-

²³ Binswanger-Mkhize/McCalla/Patel (2010), p. 131

²⁴ Bello (2010), p. 101 f.

²⁵ Cf. Delgado, p. 7

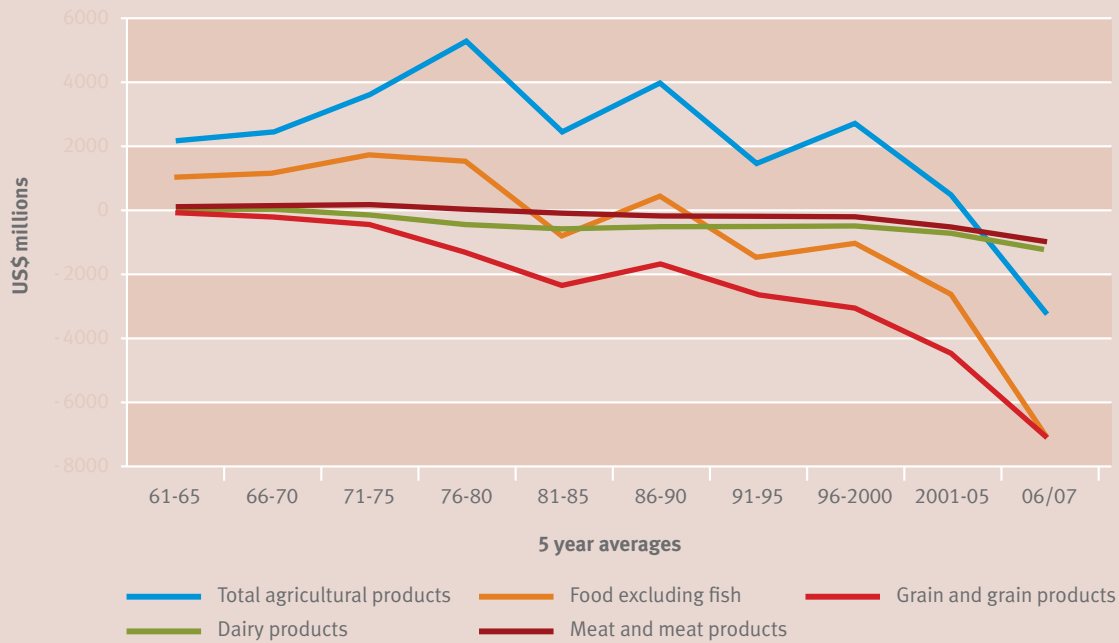
²⁶ Cf. Binswanger/Townsend (2000), p. 1077

²⁷ Cf. *ibid.*, p. 283 f.

²⁸ Cf. Adesina (2009), p. 7

²⁹ Albrecht and Engel (2009), p. 35 f.

³⁰ FAO (2003), p. 234

Figure 5: Sub-Saharan Africa: net trade in agricultural products

Source: author's own graphics using data from FAOstat

importing countries.³¹ Some 60 per cent of all Sub-Saharan states fit into this category.³²

In Sub-Saharan Africa, where national economies are largely agrarian, the shift from net exporter to net importer of agricultural products only took place in recent years. However, the surplus of export over import has been falling since the early 1980s. The trade in foodstuffs excluding fish has even been in deficit since the early 1980s. The negative trade balance in Sub-Saharan countries has grown from just over US\$1 billion in the early 1990s to over US\$7 billion in the years 2006/2007, the most recent years for which comprehensive data is available. One important factor in this regard was the drastic increase in prices for foodstuffs in 2007. This was particularly true of grains, of which all African countries were increasingly importing more than they were exporting. Since the start of the new millennium, the trade deficit for meat products has risen rapidly, while for dairy products, a slow yet continual increase in net imports has been observed since as far back as the 1970s.

A negative balance of trade for agricultural products does not necessarily have to have a negative impact on food security. In countries where the necessary imports can be paid for by increased exports of other goods, it

can even lead to better efficiency and to the creation of additional jobs in the agricultural sector. In African countries, which are predominantly agrarian, this was not the case. It would be more true to say that the export of other agricultural commodities such as coffee and cocoa was increasingly insufficient for the financing of the net import of grains and other staple foods, the demand for which was rising. The reasons for this are the drastic increase in the volume of imported grains and dairy products in particular, which continues unabated to this day, and the stagnating demand in industrialised countries, the most important markets for African agricultural exports. The world food price crisis of 2007/2008 further compounded the situation in that drastically higher prices now had to be paid for the greater volumes being imported.

The reasons for the high rise in food imports in Africa can be found in the neglect of the agricultural sector and, in particular, the production of staple foods by small farmers outlined above. A decisive factor that not only

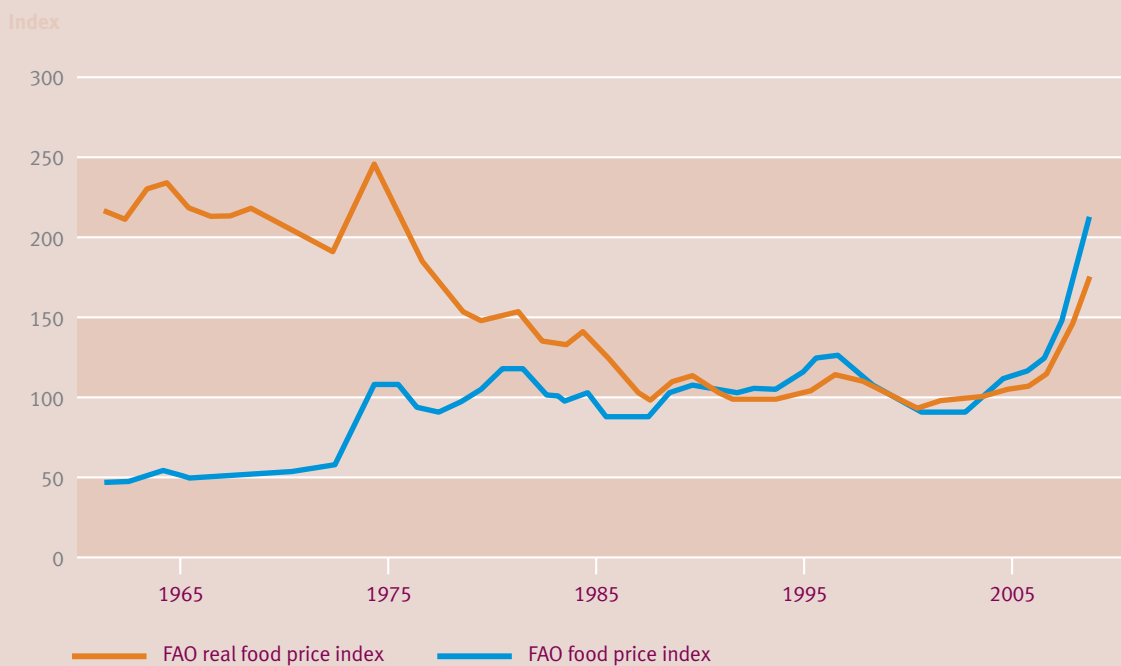
³¹ McCalla and Valdés (1999), pp. 7, 10

³² McCalla and Valdés (1999), pp. 7, 10



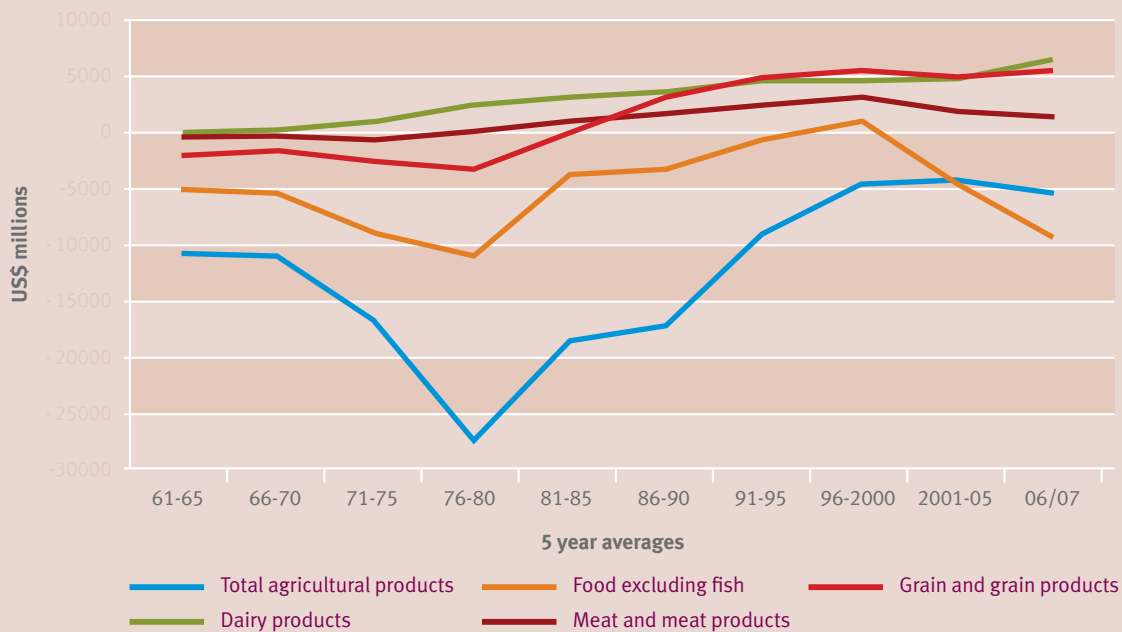
Photo: Fittner/MISEREOR

Figure 6: Price indices for food, 1961–2008



Source: FAO: State of Food Insecurity in the World 2008, p. 7

Figure 7: The EU's net trade in agricultural products



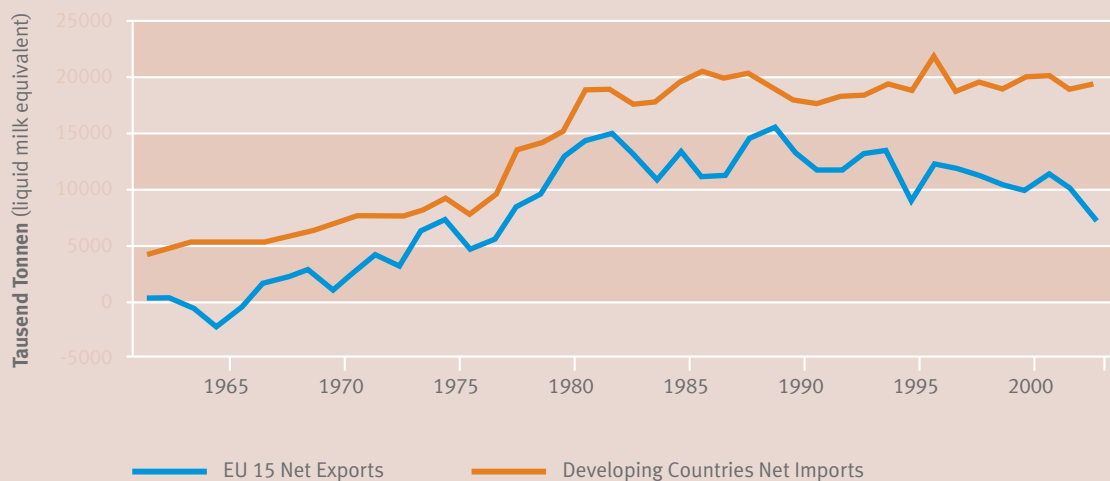
Source: author's own graphics using data from FAOstat

2. The European agricultural policy and the role of the EU as an exporter of foodstuffs

► The fact that the EU either turned from a net importer into a net exporter of important agricultural products – as was the case with grain and meat – or increased net exports significantly from a relatively low level – as was the case with dairy products – played an important role in the decline in world market prices in the 1980s. Figure 6 shows that the real world market prices for foodstuffs (i.e. prices adjusted by general inflation) fell relatively continually from the mid 1970s to the mid 1990s. While they did fluctuate, they remained at a low level until the start of the new millennium. Then, in 2007, prices rose drastically to a level not seen since the first oil crisis in the 1970s. The drastic drop in foodstuff prices between the mid 1970s and the mid 1980s corresponds exactly to the period in which the EU considerably reduced its net food imports and even became a significant exporter of important products. In the second half of the 1990s, the EU was actually for a time a net exporter of food.

The development of the EU's agricultural trade in the 1970s and 1980s was virtually a mirror image of Africa's agricultural trade over the same period. The EU's net imports of agricultural goods in general and of food dropped considerably; it even became a net exporter of important products. Africa, on the other hand, became a net importer of foodstuffs in the 1980s; grain imports in particular increased significantly (cf. Figure 5). In terms of the trade in grain too, the biggest change was noted in the position of the EU, which went from being a net importer to a net exporter.

The parallels between the development of the EU into a net exporter and the simultaneous increase in imports in other regions applies not only to Africa, but to developing countries as a whole as far as important products are concerned. Figure 8 shows the rise in EU net exports of dairy products (converted into fresh milk) in terms of volume, compared with the increase in imports of all

Figure 8: Dairy net trade: developing countries and EU 15

Source: FAO (2006): World agriculture towards 2030/2050, p. 49

developing countries measured on the same scale. In the 1970s in particular, there was a parallel strong increase in the number of exports from the EU and the number of imports in developing countries; since the 1990s, the volume of the EU's exports has been on a downward trend while the imports of developing countries has been stagnating.

The decisive reason for the EU's changed role in world agricultural trade was the Common Agricultural Policy (CAP), which came into force in 1963. The most important objective of the CAP was to produce more food in order to reduce Europe's dependence on imports. Other objectives included an increase in both the productivity of the agricultural workforce and the land. It was hoped that the policy would also have some positive side effects such as increased income for those working in agriculture and a reduction in the number of people working in agriculture, thereby freeing them to work in the rapidly expanding industrial sector. The CAP's most important instrument in all this was the increase and stabilisation of prices on the European market in order to create incentives for farmers to invest in more modern methods of production and to create production incentives. To this end, a series of measures was implemented:³⁶

- one key measure was the introduction of state-guaranteed 'intervention prices' for most processed agricultural products. If prices in the EU fell below the intervention prices, the state would intervene by

buying surplus produce from processing companies (e.g. creameries and slaughterhouses) and putting it in storage, thereby creating an artificial shortage that would push prices up.

- As a supplementary measure to the state's purchase and storage of produce, subsidies were paid for the exportation of European agricultural products by paying exporting companies the difference between the guaranteed EU price and the lower world market price.
- In addition, the EU's agricultural markets were protected by the introduction of flexible tariffs and restrictions on import volumes. Only those products that European farmers could not produce themselves or could not produce in sufficient quantities, were imported. In this way, the tariffs were regularly adapted so that the prices for imported foodstuffs in the EU were always at least as high as the guaranteed prices for European farmers.
- For some products, output volumes within the EU were also limited. This was the case for sugar and milk in particular.

The CAP reached its original objectives to an impressive degree. Above all, agricultural productivity has increased considerably since the end of the Second World War,

³⁶ CTA (2009), p. 1



Photo: FKLIB-Bundesstelle

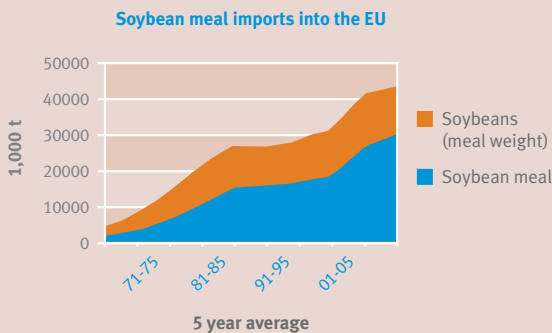
meaning that the degree of food self-sufficiency rocketed. At the same time, the number of farms fell. The drop in people working in agriculture was even more dramatic. Nevertheless, by the end of the 1970s – i.e. about 15 years after the introduction of the CAP – the EU was already self-sufficient in terms of almost all important foods. That being said, the increased production of animal-based foods (e.g. meat, milk, and eggs) was only made possible by rising animal feed imports (see Figure 9).

The continued incentives to increase production soon led to over-production of the most important foods. In

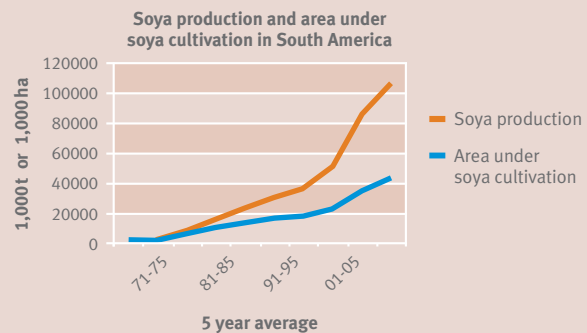
order to prevent the decline in prices on the European market, the state had to intervene by purchasing large amounts of surplus produce. In order to ensure that storage costs remained low, the lion's share of these surpluses were sold on the world market with the help of export subsidies. Export subsidies paid the difference between the intervention price and the lower world market price. This made it worthwhile for trading companies involved in the export of this produce although they were buying goods at a higher price than they could get for their sale in other countries. The differences in price were for a time incredibly high. For example, in October 1993, the export price for wheat was US\$65 per ton while the EU intervention price was US\$176.³⁷ These measures were also necessary for sugar and milk although production and marketing quotas had been fixed for these products. The quotas were, however, much higher than the domestic consumption of these products in the EU. Export subsidies were also paid for processed goods such as sweets, biscuits, and baked goods, depending on the proportion of raw materials such as flour, sugar, or milk products that were used in their production and were purchased at the domestic EU price. Despite the increased export of staple foods, the EU consistently remained a net importer of agricultural goods. Responsible for this were not only imports of tropical foodstuffs such as coffee and cocoa and agricultural raw materials such as cotton and rubber, but also and primarily increased imports of animal feed, especially soya.

³⁷ Germanwatch 1994

Figure 9: Imports of soya into the EU; production and area under cultivation in South America



Source: FAO



Source: FAO

The EU's initially rather involuntary emergence as one of the world's leading exporters of agricultural products led to major disputes with the United States. In order to defend its dominant position on the world agricultural market, the United States also began massively subsidising its exports, thereby contributing to a continuing fall in world market prices. The biggest losers in this scenario were on the one hand the competitors of the EU and the US on the world market, who could either not afford to pay subsidies or did not want to. These competitors included the developed countries of Australia, New Zealand, and Canada, as well as developing countries such as Brazil, Argentina, and Thailand. On the other hand, the low world market prices made it possible to neglect small farmers in Africa and other developing countries without this neglect actually having direct, negative effects on the supply of urban populations.

In the mid 1990s, Von Braun et al. (1995) took the example of grain as a basis for an investigation of possible incoherencies between the EU's grain market policy and its development policy in the African ACP states. They came to the conclusion that the regulation of the EU grain market was responsible for falling world market prices. They concluded that world market prices for grain were between 10 and 15 per cent lower in the years leading up to 1992 than they would have been without the EU grain market policy.³⁸ The authors pointed to the fact that other possible grain exporters on the world market struggled to cope with the low prices caused by the EU's grain market policy. On the one hand, their income fell; on the other, low world market prices offered no long-term incentives for domestic production and made investment in grain production unattractive.³⁹

Imports of cheap grain not only suppress the level of domestic production in importing countries, they can also change consumer habits as well. In many developing countries, traditional foods such as millet or sorghum can be substituted by wheat and maize and are therefore displaced by indirect competition and by low import prices. Von Braun et al. (1995) provided evidence that grain imports increase the consumption of wheat, maize, and rice to the detriment of native agricultural products such as sorghum and millet.⁴⁰ For small farmers in many African countries, it is hardly possible to adapt to such changes in consumer preferences. Either the imported varieties of grain cannot practically be cultivated there, as is the case with wheat in West Africa, or much greater amounts of farm input – such as fertilisers, pesticides, and, in some cases, irrigation – are required in order to grow these crops. As already illustrated above, it is very hard for small farmers

in particular to get their hands on this input. Moreover, the cultivation of such grains often brings with it much greater environmental problems, such as soil erosion in the case of maize cultivation.

The lack of incentives for domestic production and the changes in consumer behaviour increase these countries' dependence on imports. Von Braun et al. pointed out that it would seem as if export subsidies were used in a targeted manner to maintain trade interests or to safeguard market shares and export markets. The EU grain market policy stands in contradiction to its development policy and above all works counter to the objective of food security in African ACP states.⁴¹

In a 2006 study on the impacts of agricultural export subsidies and food aid in developing countries,⁴² the French agricultural research institutes GRET and CIRAD came to similar conclusions in some of the investigated regions and for different products. When considering the effects of subsidised milk powder exports to Mali, they noted that the development of milk production to supply the urban population had the potential to have a very positive impact on the income of the nomadic livestock farmers in the north of the country. Because milk is a highly perishable product, such development would have to include considerable investment in infrastructure, especially in terms of transportation and refrigeration. However, the availability of cheap and easy-to-handle powdered milk imports makes such investments very unattractive. In this way, subsidised European exports are one of a number of obstacles to the development of the dairy sector in Mali.⁴³ ◀

³⁸ Von Braun et al. 1995

³⁹ Von Braun et al. 1995

⁴⁰ Von Braun et al. 1995

⁴¹ Von Braun et al. 1995

⁴² Alpha et al. 2006

⁴³ Alpha et al. 2006, p. 168

3. EU agricultural exports after the CAP reforms: lower volumes, higher values

► Although the problems and conflicts caused by subsidised EU exports have been known since the early 1980s, the first fundamental CAP reform was only undertaken in 1992. Intervention prices for grain, oilseeds, and beef were lowered to bring them closer to the world market price level. The aim in doing so was twofold: firstly, to reduce the incentive to over-produce and secondly, to allow the EU to be competitive on the world market even without the payment of direct export subsidies. This was done with a view to taking into consideration the interests of the export-oriented agricultural and food industry that had emerged in the 1980s. Although the CAP catalogue of objectives was not expressly extended in order to achieve these aims, the policy was actually designed with a view to maintaining the EU's world market shares.

Farmers were to be compensated for the loss of income caused by the drop in prices largely by direct payments. These direct payments were not linked to current production, but to historical areas and yields or heads of livestock. However, certain plants still had to be cultivated and certain animals still had to be reared and fattened in order to qualify for the direct payments. Moreover, the EU was also able to link direct payments to the condition that part of the area under cultivation would have to lie fallow if excessive over-production of certain products was feared. Nevertheless, the reforms hardly reduced food production in the EU at all. For example, grain production in the EU did not drop as a result of the reform, but actually continued to grow. At best, it can be assumed that the growth was smaller than it would have been without the reform. However, it was possible to reduce the reliance on export subsidies for two reasons:

- Total grain exports declined because it was worthwhile using grain as animal feed because of the lower prices.
- The difference between European prices and world market prices was significantly reduced. This meant that only a much smaller amount was balanced out using export subsidies.

Moreover, two important sectors (sugar and milk) remained practically unaffected by the CAP reforms of 1992. For this reason, exports and export subsidies for sugar remained practically unchanged and those for dairy products decreased only slightly. There was no adjustment of the production or marketing quotas to suit domestic EU

consumption or if there was, it was inadequate, despite the fact that quota regulations had been in place for both products for quite some time.

The next important stage of reform was the decoupling of direct payments from the production of certain agricultural products in 2003. Depending on the member state in question, all premiums paid until that point were merged either at farm level or regional level and paid out as a flat single payment or a single area payment (area premium). The reforms did not, however, impact as heavily on the grain sector as the 1992 reforms. There were, however, important changes in the milk and sugar sector. The guaranteed prices for milk and sugar were lowered. The price reduction was also partially balanced out by direct payments that were channelled into flat single payments or direct regional payments. In the milk sector, the production quotas have been raised since 2008 while those for sugar have been reduced and made more strict in order to comply with a decision of the World Trade Or-



ganisation (WTO). The obligation to let land lie fallow (the ‘set aside scheme’) was removed in 2008.

In addition to the shift from supporting prices to direct payments, targeted programmes for the promotion of rural development were either introduced or existing ones were significantly extended. Programmes to promote the development of rural areas are funded as part of this so-called ‘second pillar’ of the EU’s agricultural policy. The objectives of the relevant EAFRD regulation for rural development are many and varied:⁴⁴

- an increase in the competitiveness of agriculture and forestry through the promotion of restructuring measures (e.g. vocational training and information measures, investment and infrastructure, incentives for food quality);
- protection of the environment and rural areas by supporting land cultivation (e.g. sustainable farming of agricultural areas, agri-environmental measures and animal welfare measures, disadvantaged areas);
- an increase in the quality of life in rural areas and the promotion of economic diversification (e.g. services for the rural economy, village renewal, diversification to non-agricultural activities).

It is above all investment incentives – which account for more than a third of payments in the second pillar across the EU – that support the marketing of products at prices lower than full production costs. In the marketing year 2006/07 – the most recent year for which aggregate

data is publically available – a good €4.5 billion, including national co-financing, was channelled into investment incentives. This meant that it accounted for one-fifth of total expenditure for the second pillar and was the second-highest item after the agri-environmental programmes at €5.5 billion.⁴⁵ In many countries, the investment incentives were channelled above all into the construction of new sheds for livestock and therefore into the increasing of capacity in the pork, poultry, and milk production sector.

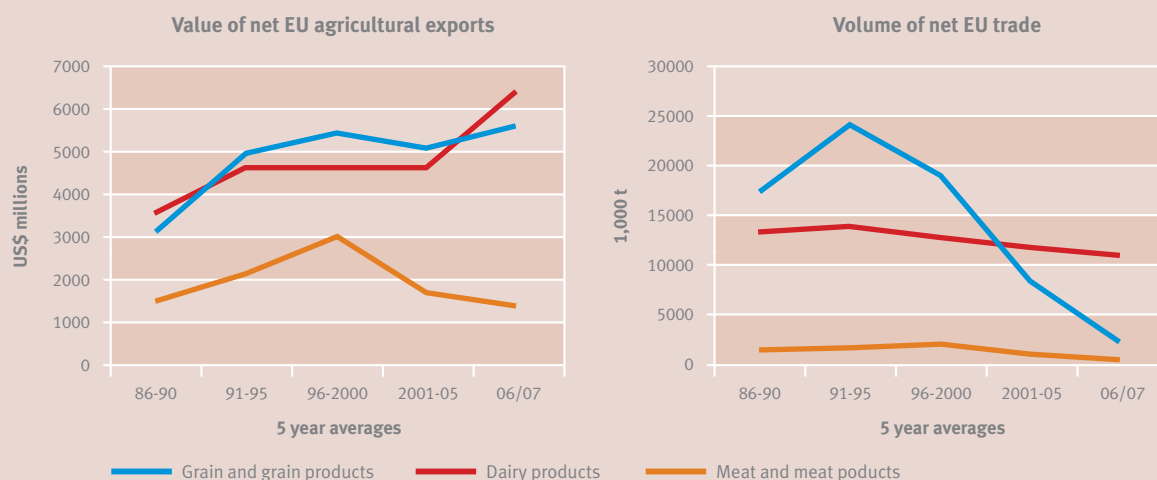
In total, the EU spent about €43 billion per annum on attenuating the effects of lower prices (€38.6 billion in direct payments) and on reducing production costs through publically supported investments (approx. €4.5 billion investment aid, including the obligatory co-financing by member states). In addition, almost €5 billion was spent on agricultural research, veterinary services, infrastructure, training, and similar areas. On the other hand, not even €8 billion in total was spent on agri-environmental programmes and the support for agriculture in disadvantaged areas.

As a result of reforms, market prices in the EU have moved closer to world market prices; in the case of grain, they are at practically the same level. This adjustment is currently taking place in the milk sector. Guaranteed prices have been lowered, while delivery quotas, which had the

⁴⁴ European Communities 2007

⁴⁵ WTO, 2010

Figure 10: EU net exports of important product volumes and values



Source: author's own graphics using data from FAOstat

Dairy products

► Exports also feature largely in the trade in milk. The exportation of skimmed milk powder rose by 80.2 per cent from January to October 2010 on the same period in the previous year.⁴⁶ Creameries are focussing on the growing demand in China and India. European milk is, however, also exported to African markets. Oxfam has calculated that in 2007, about 68 per cent of EU dairy product exports were exported to developing countries. Between 2005 and 2008 alone, milk exports to the world's least developed countries (LDCs) rose by 45 per cent and to West Africa by 48 per cent.⁴⁷ And contrary to the original assertions of the German Minister for Agriculture, Ilse Aigner, LDCs were not spared from export subsidies in 2009.

MISEREOR's 2005 study on Burkina Faso illustrated the distorting impact that this situation can have.⁴⁸ In 2005, milk powder from the EU was sold in this West African country for the equivalent of 30 cents per litre. This price is not only 18 cents below the average production costs of a German creamery, it is also seven to ten cents lower than the local production costs of the Peul nomads in Burkina Faso. The logical effect was that Burkinabe creameries opted to switch almost completely to the use of subsidised milk powder from the EU, which meant that local products never found their way onto supermarket shelves. Local livestock breeders, whose development was blocked by this behaviour, make up approximately 10 per cent of the population and have been hit disproportionately heavily by poverty and hunger ever since.

Brot für die Welt and the Church Development Service (EED) identified similar damage to local dairy sectors in Cameroon last year, while Oxfam has proven such damage in Bangladesh. In February 2009, Minister Aigner defended the export subsidies for products exported to Bangladesh in an interview by saying that there were no dairy farmers in Bangladesh. A short time later, news agencies reported on the public protests staged by these very dairy farmers. Frustrated by the high level of imports and the low producer prices, they – like their European colleagues before them – emptied the contents of their milk churns onto the streets. Producer prices had fallen significantly since January 2009 as a result of cheap imports from India, Pakistan, and the EU. This was



the very month in which the EU (temporarily) reintroduced export refunds for dairy products. According to Oxfam estimates, 7 million people, whose small farms depend on the production of milk, faced drops in income of between 7 and 16 per cent.⁴⁹ In 2009, Bangladesh was the fifth-largest importer of subsidised skimmed milk powder from the EU. ◀

⁴⁶ Marktbericht der AgrarMarkt Austria, 10. Ausgabe vom 7. Jänner 2011, p. 25

⁴⁷ Press release from Oxfam-Deutschland: Oxfam kritisiert Diskussionsvorlage „Milch“ des Agrar-Rats, 12.7.2010

⁴⁸ Oudet, Maurice: Agrarsubventionen schaffen Armut. Das Beispiel der EU-Milch in Burkina Faso, published by MISEREOR 2005

⁴⁹ Oxfam Deutschland, "Abgedrängt": Niedrige Milchpreise treffen Ärmste am härtesten. Billigimporte von Magermilchpulver in Bangladesh", (Oxfam 2010)

price-stabilising effect of restricting supply, have simultaneously been raised. The Commission plans to abolish them altogether in 2015, which will further increase the pressure on milk prices. There is hardly a farmer in the EU who can produce at such reduced prices and at the same time cover costs, which is why the direct payments remain necessary. The low price level for agricultural products means cheaper raw materials for the food industry. This is reflected in the EU's foreign trade.

The structure of EU exports changed in that the proportion of high-quality and processed products being exported increased. While the value of net exports of grain and grain-based products such as flour, biscuits, and

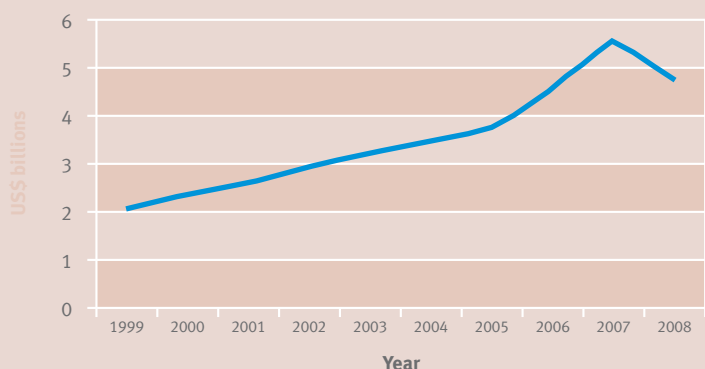
baked goods as well as dairy products remained high even after the first CAP reform in the 1990s, export volumes fell noticeably. In the case of grain, this drop in export volumes was drastic. Only in the case of meat did export volumes and values remain unchanged. The second graph in Figure 10, which shows the volumes traded, does not include processed grain products. The first graph on the other hand, which shows the value of trade, includes unprocessed grain and grain products. For this reason, the trend towards higher-quality exports is exaggerated. For dairy products such as milk powder, butter, and cheese, the amount of liquid milk required for their production is given. The considerable increase in the value of net exports in 2006/07 is the result of the drastic increase in the world market price in this period.

This changed composition of European agricultural production and exports was an intentional consequence of the various stages of the CAP reform. Representatives of the EU Commission explained that the EU could not compete with Latin American, Australian and New Zealand exporters when it comes to the production of unprocessed, standardised agricultural goods. This applies both to the world markets (where European exporters have almost always had to rely on export subsidies and still do) and, in view of the intended continuing liberalisation of trade, on the common market. In view of the stagnating population, an increase in demand in terms of volume within the EU is not to be expected. For this reason, the EU has to focus on the production and export of specialities and processed foods in order to remain competitive.⁵⁰ The low raw material prices on the common market, which are made possible by direct payments and investment aid, are intended to help the food industry.

The growing middle classes in the larger developing countries and newly industrialised countries such as China, Brazil, and India, are generally given as the most important sales markets for these higher-quality EU exports. However, poorer countries are still important and dynamic sales markets too. Between the year 2000 and 2007, the export of processed foods to West Africa in US\$ almost tripled; in 2007, almost one-quarter of all exports of flour and other milled products were exported to ACP states – twice as much as ten years previously.

The role of the EU and its influence on the world markets would seem to have changed since the 1990s. In terms of volume, exports are falling and consequently tend to have a less marked price-reducing effect on the international food markets. The almost complete

Figure 11: EU exports of processed foods to West Africa



Source: UN COMTRADE

Figure 12: Proportion of EU cereals and milled products exported from the EU to the ACP states



Source: UN COMTRADE

⁵⁰ CTA (2009), p. 12

Poultry

► The EU's exports of poultry meat also increased in 2010; from January to July they increased by over 20 per cent to over 660,000 tons. Germany became the second-largest European producer after France.⁵¹

Most poultry meat exported from the EU to Africa is leg or wing meat, for which there is only very low demand in the EU, but which are naturally 'produced' when rearing poultry for the breasts alone, which are in greater demand. Because production costs are generally covered by the sale of the parts of the bird that are in high demand, the remaining parts can be exported at extremely low prices. The alternative – paying for disposal – would certainly be more expensive. This means that EU exports are unbeatably cheap, even without export subsidies.

Almost 10 per cent of EU chicken exports (62,400 tons) end up on markets in Benin. These imports increased by over 40 per cent in 2010 alone. This made Benin the most important importer of poultry meat in the region. It is unlikely that these frozen chicken parts remain in the country, which has a population of 9 million, and are not sold on to its neighbouring countries, Niger, Nigeria, and Burkina Faso.

Case studies on poultry in Cameroon, Ghana, and Benin show how exports from the EU flooded local markets, posing a threat to and infringing the small farmers' human right to food. The exportation of poultry meat to Africa more than quadrupled



between 1996 and 2009, bringing local production to an almost complete standstill. Small, local distributors simply cannot compete with the cheap competition from Europe. ◀

⁵¹ AGRA-Europe 44/20, Markt und Meinung, p. 5

abolition of state-sponsored stockholding as a means of price stabilisation has a role to play in this development. In the 1980s and 1990s, the EU used price increases on the world and/or common market to reduce state-sponsored stocks, thereby contributing to a rapid drop in prices. In view of the fact that hardly any intervention stocks remain, this effect no longer exists. Moreover, the fact that export subsidies are no longer permanent, but are only used in isolated cases, reduces the pressure on world market prices. However, as was the case in the milk sector in 2009, when used as an 'emergency measure', export subsidies still have an intensifying effect on price fluctuations on the world markets: they are introduced when prices are (very) low, thereby intensifying the drop in prices by artificially increasing the supply from the EU (or keeping

it at a high level). Conversely, when prices rise, they are stopped again, thereby tending to intensify the price increase.

Independently of the development of the CAP, the relative weight of the EU in world agricultural trade has diminished because production and exports from other countries – in South America and South-East Asia in particular – have increased more than they have in the EU. Nevertheless, European agricultural exports will in future continue to have a strong influence on smaller, geographically close regions such as West Africa. In this context, both exports of mass products such as milk powder, which will be subsidised in exceptional cases, and the export to poor countries and regions in particular of lower-quality foods and by-products, which are almost impossible to

sell in the EU, can still play a role. This is increasingly the case in the meat industry because of the heightened industrialisation of production and processing procedures and the trend towards marketing only certain parts of the animal in the EU (e.g. chicken breasts and pork escallops). For urban consumers with low incomes in developing countries, such 'leftovers' as chicken wings or pork bellies are attractive because they are not only unbeatably cheap, they are also much easier to handle than live animals or entire animals reared locally.

For the European (and international) agriculture industry, exports of processed products such as sweets, biscuits, baked goods, and preserves are certainly more economically interesting for population groups with more disposable income in the cities of developing and newly industrialised countries. In these areas in particular, the increased urbanisation of the world's population will be reflected in the growing demand for food that is easier to store and to prepare.

In principle, the increasing urban demand for these products in developing countries creates opportunities for processing such products in rural areas, thereby developing additional opportunities for income and employment.⁵¹ A range of analysts sees the greatest potential for African producers on these national and regional markets.⁵² On these markets, they don't have to sell products at world market prices, which they would have to do if they exported the products, while also having to cover transport costs. In fact, transport costs and, if necessary, tariffs could offer a degree of protection against cheap imports. Furthermore, quality standards and hygiene regulations are generally lower at national and regional level than they are on the international markets and are easier for producers to understand and implement.

On the demand side, national and regional markets have great potential for growth. Already, the value of staple foods marketed in Africa is much higher than the value of all agricultural exports from the region, and it is expected that this demand will double by 2020.⁵³

Pork

➤ 2009, over 100 million tons of pork was produced worldwide. China is the world's largest producer and consumer of pork. With over 22 million tons – over 5 million tons of which are produced in Germany – the EU is the world's second-largest producer.⁵⁴ In 2009, the degree of self-sufficiency in Germany was 110 per cent, which meant that pork had to be exported.

At 2.19 million tons, 40 per cent of total production, exports for this sector reached record levels in 2008 according to the Federal Office of Statistics. This means that Germany is the world's second-largest exporter of pork after the United States.⁵⁵ And exports continue to rise: in the first 9 months of 2010, exports of pork in Germany rose by 21 per cent.⁵⁶ Good news for the food industry; bad news for farmers outside Europe.

In the past ten years, Côte d'Ivoire has been devastated by floods of pork offcuts imported from the EU: the annual import volume increased from 5,000 tons in 2000 to 35,000 tons in 2009, while local production collapsed by 60 per cent. According to research conducted by the Church Development Service (EED), frozen pork from Europe could be bought on Cameroon markets for 1 per kilo, while fresh local produce cost more than twice that. The EED estimates that some 210,000 people lost their jobs in the process.⁵⁷ ◀



⁵⁴ Der fortschrittliche Landwirt, Heft 13/2010, p. 27 ff.

⁵⁵ 'Exportrekord für deutsches Schweinefleisch in 2008', *agrar heute*, 11 March 2010, <http://agrarheute.com/?redid=291228>

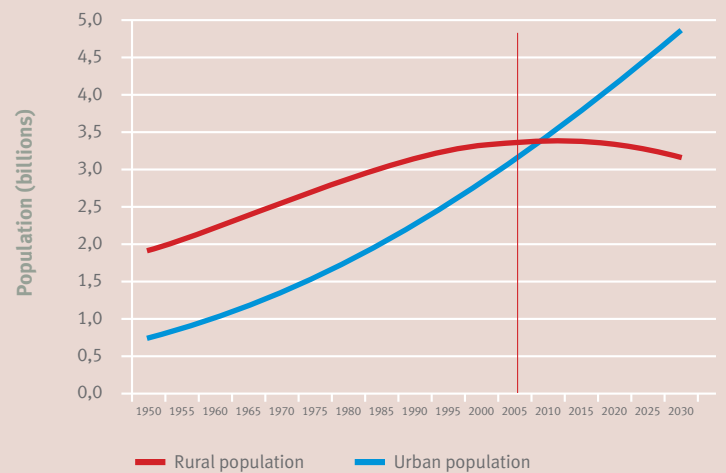
⁵⁶ *agrar heute*, 27 December 2010, <http://www.agrarheute.com/schweinefleischexport> (accessed for the purposes of this paper: 17.1.2011)

⁵⁷ From the television programme 'Report Mainz' on the German television station ARD on 28 April 2008

Data relating to the processing of foodstuffs in developing countries for national markets are very hard to obtain because this processing generally takes place in the informal sector and in micro-enterprises and is, therefore, either not registered statistically or only partially registered. According to an estimate dating from the end of the 1990s, only 10–15 per cent of agricultural production was processed, compared with 80 per cent in the industrialised world.⁵⁸ It is estimated that at the end of the 1990s, the processing of foods in developing countries only achieved a value-added level of US\$40 per ton of raw material compared with US\$184 in the industrialised world.⁵⁹ Data compiled by the UN organisation for industrial development seems to indicate a significant increase in processing in developing countries as a whole. However, many of these developing countries have a higher gross domestic product than most African countries. While the proportion of the gross domestic product made up by processed foods in the developing countries examined was 2.3 per cent in 1995, it rose to 5.9 per cent in 2005, i.e. its proportion increased two-and-a-half fold (see table).

According to data compiled by the UN Conference on Trade and Development, the proportion of processed raw material exports to total exports in many of the world's least developed countries (LDCs) has dropped from

Figure 13: Urbanisation of the world population



Source: UN (2006): UN World Urbanisation Prospects, the 2005 revision, fact sheet 1: World urban population

⁵⁸ Yumkella, Roepstorff, Vinanchiarachi, Hawkins(1999): Globalization and Structural Transformation in Sub-Saharan Africa, Workshop on Agricultural Transformation in Africa, Nairobi. p. 11

⁵⁹ Yumkella, Roepstorff, Vinanchiarachi, Hawkins(1999): p. 12

Table 1: Contribution of agri-food industries to GDP

		Agri-food value added in total MVA* (%)	MVA/GDP (%)	Agri-food value added in total GDP* (%)
1995	Industrialized countries**	15.9	19.5	3.1
	Developing countries***	10.9	21.5	2.3
	World	15.2	19.9	3.0
2000	Industrialized countries	16.4	17.7	2.9
	Developing countries	22.0	20.4	4.5
	World	16.9	18.2	3.0
2005	Industrialized countries	15.8	15.7	2.5
	Developing countries	29.0	20.3	5.9
	World	16.7	16.6	2.8

* MVA: Manufacturing Value Added; GDP: Gross Domestic Product

** For industrialized countries, data was available for 29 countries in 1995 (2000: 40 countries, 2005: 17 countries)

*** For developing countries, data was available for 20 countries in 1995 (2000: 37 countries, 2005: 15 countries)

Source: UNIDO calculations based on the UNIDO Industrial Statistics Database 2006

Figure 14: Agricultural trade flows in West Africa



Source: Pannhausen/Untied (2010): Regional Agricultural Trade in West Africa, A focus on the Sahel region. gtz, Eschborn, p. 3

approximately a quarter in the early 1980s to approximately one-eighth at the end of the 1990s.⁶⁰ It is to be assumed that the processing of foods for the domestic market also fell during this period, which coincided with the implementation of the structural adjustment programmes. A successful development process should, in fact, unfold in exactly the opposite way, namely a rise in processing should create more income and employment for raw material producers.

However, just because more processed foods are produced in a region does not necessarily improve the sales markets for local farmers. In Africa in particular, processed products such as bread or yoghurt are often made using imported raw materials such as wheat flour and milk powder. This is clearly illustrated by the important regional trade flows in West Africa in the diagram below. Wheat (flour), rice, and milk products are exported from the coast to the land-locked states in Africa's interior despite the higher potential for producing grain and animal products there. This, in other words, is transit trade, which allows imports from the EU and other states to be passed on.

The positive effects of processing are heavily reduced when imported raw materials are used: no additional sales markets are created for farmers and, as a rule, processing capacities are not created in rural areas but in the cities, in close proximity to the sales market. The trend towards greater consumption of processed foods can, therefore, only release its full potential in terms of rural development and poverty alleviation if the markets are not flooded by either imported and often artificially cheapened finished

products or by corresponding preliminary products. For both products, the EU continues to play a highly problematic role in West Africa in particular. This is clearly illustrated by the trade in dairy products. Exports of dried milk products from the EU to the West African ECOWAS region (Benin, Burkina Faso, Côte d'Ivoire, Ghana, Guinea, Mali, Nigeria, Senegal) have increased drastically in recent years from just under 55,000 tons in 1992 to 137,500 tons in 2009, i.e. a two-and-a-half fold increase. In 2009 alone, when the EU re-introduced its export subsidies for dairy products, exports to the region increased by 6 per cent (some 7,700 tons) on the previous year. By far the most important product in this sector is whole milk powder, which has also seen the biggest increases in recent years. Here in particular, we find the fiercest competition for local dairy products. Both local creameries and consumers mix the whole milk powder with water to make milk that may not taste as good as fresh milk, but is certainly much cheaper. This can then be processed to make yoghurt or other dairy products or can be consumed directly as it is. In 2009, the EU exported 88,600 tons of whole milk powder to West Africa. This corresponds to over 700,000 t of fresh milk, almost a quarter of the milk produced in the region. ◀

⁶⁰ UNCTAD 2002, LDC report, p. 106

4. Conclusions and demands

► Since the 1980s at the latest, the EU's Common Agricultural Policy (CAP) has played a highly problematic role on international agricultural markets. By boosting the production of staple foods such as grain, milk, and meat to the extent that it was not only self-sufficient, but became one of the largest net exporters on the world market, the EU has made a substantial contribution to the continuing decline in world market prices for agricultural goods. This price decline has made the production of staple foods in many developing countries unprofitable and has allowed governments in many African countries in particular to neglect small farmers. International development cooperation also steadily reduced its support for the agricultural sector for a number of reasons including the apparently less expensive alternative of importing staple foods. As a result, Africa has become a net importer of foodstuffs. This has not, however, led to a reduction in hunger and malnutrition. On the contrary: with the world food price crisis of 2007/08 and the subsequent global economic crisis, the number of hungry people in the world rose sharply and is now only falling at a slow rate.

Although the reforms of the CAP, which began in the early 1990s and have been continued at intervals ever since, have reduced the problems caused by the EU on the global markets to a certain extent, they have certainly not eliminated them altogether. Direct export subsidies have been reduced significantly by lowering guaranteed prices. This has reduced the strength of the EU's position as a net exporter for many important products. With the exception of beef, exports of important products were, however, kept at a low level. Nevertheless, single farm payments or single area payments (area premiums) are paid out make it possible for farmers to market their products at prices that do not even cover the full cost of production. This gives the European food industry access to cheap raw materials that were made in the EU, allowing them to export the finished and semi-finished products manufactured using these raw materials onto the world markets at competitive prices – even without the support of export subsidies.

As a result of these reforms, the EU now plays a smaller, less price-reducing role on the raw materials markets than it used to. In absolute terms, the EU's net exports of many important products have fallen. What is more important, however, is the growing role of other, major exporters, particularly in Latin America and Eastern Europe/Central Asia, a role that reduces the

relative significance of the EU in the world trade of agricultural raw materials. Nevertheless, the EU will continue to play a significant role on the world market. However, the EU's strategy of increasingly relying on the exportation of processed products, thereby opening up new markets in developing and newly industrialised countries, could in the future lead to bigger and potentially growing problems in the field of development. The growing urban middle classes in these countries could be an important market for the national and regional agricultural sector. In order for this to happen, however, corresponding regional value chains that process regionally produced raw materials and turn them into ready-to-eat foodstuffs must develop. The processing of locally/regionally sourced raw materials in mills, bakeries, dairies, and slaughterhouses opens up huge opportunities for rural development. This is the objective of the new concept drawn up by the Federal Ministry for Economic Cooperation and Development on the development of agriculture and rural areas, which seeks to promote such processes. As far as this strategy is concerned, it is very difficult when young, emerging companies face competition from European finished products on their sales markets. These European products are very attractively priced because of the fact that direct payments and investment aid keep raw material prices in the EU artificially low. They are also very attractive because of the companies' vast experience in shaping brands and designing product packaging. Depending on the size and dynamism of the national markets and how they develop, this indirectly supported competition can hamper or even completely destroy any opportunities for the development of national value chains.

Furthermore, Africa in particular is faced with the problem that a growing amount of 'edible waste products' are being generated by the European agricultural industry, especially in the meat sector. Such products include those parts of the animal for which there is not much demand within the EU but which are naturally 'produced' along with those parts of the animal that are in high demand. Typical examples of such animal parts include chicken wings and chicken legs, which are automatically 'produced' even when chickens are being reared for the chicken breasts alone. Because production costs are, as a rule, covered by the sale of those parts of the animal that are in demand, the remaining parts can be exported and sold at extremely low prices. The alternative – paying for the disposal of these parts – would certainly be more expen-

sive. Producers on the markets to which these products are exported simply cannot compete with these dumping prices, and huge numbers of them are forced to give up.

The non-governmental organisations cooperating within the framework of the Agriculture and Food working group at the German Forum on Environment and Development have formulated their demands regarding the reform of the EU's agricultural policy. These demands are outlined below.

1. _____
In the next stage of the CAP reform, international responsibility must be defined as a fundamental objective and must be specifically taken into account when designing the relevant instruments. In this respect, the EU should declare its explicit support for the precedence of the right to food and define as its objectives the safeguarding of world food security and the balanced development of the world agricultural markets. Consequently, the CAP must be organised in a way that it is in line with development policy objectives, including the millennium development goals, to ensure that the implementation of social human rights, such as the right to food, are not hindered, but fostered both inside and outside the EU.

2. _____
In order to avoid a further distortion of world market prices by the CAP, it must be ensured that producer prices (farm gate prices) in the EU reflect the full cost of production. Flat direct payments to producers, which have thus far been used to balance out any loss of income resulting from low prices, cannot be continued in this form. Public payments should only be made for public services. Such services include the conservation and upkeep of production methods and systems that are particularly valuable in environmental terms, high animal welfare standards, and the safeguarding and creation of jobs in disadvantaged areas.

3. _____
At the same time, the basic conditions that ensure that the producer prices paid to farmers allow for both sustainable, environmentally friendly methods of production and ensure an adequate income must be provided. What form these conditions take must be determined on the basis of the specific product in question. For the milk market, which is particularly sensitive, a flexible, demand-oriented quantity regulation that would regulate the amount produced in accordance with demand on the common market should be investigated. To this end, the EU would have to

create the legal framework that would involve both farmers and consumers in the regular calculation and specification of production volumes in an appropriate and effective manner.

4. _____
All export refunds must be abolished and struck from the list of legal market regulation instruments. This step must not be made dependent on an agreement within the WTO and corresponding concessions from other players. The export subsidies must not be replaced by other export promotion measures such as export credits, trade promotion instruments, or public private partnerships that seek to open up markets.

5. _____
Measures that seek to promote modernisation and increase efficiency may only be fostered if they serve primarily environmental goals. In particular, investment aid that seeks to increase capacity in exporting areas – such as pig rearing, dairy farming, poultry rearing, and grain production – must be abolished.

6. _____
Support for or protection of the agricultural sector by means of subsidies, tariffs, or the regulation of quantities must not be allowed to contribute to the cross-subsidisation of exports. The exportation of partial products must be banned for heavily subsidised product groups that benefit from high direct payments or a protective tariff – even if these payments are made for environmental or social reasons. Alternatively, an exportation tax must be imposed to balance out the support received or quantity regulation must be imposed accordingly as a restrictive measure. The same applies proportionately to the creation of value for processed products in this category of goods.

7. _____
The reform must trigger a climate policy paradigm shift in the agricultural sector in Europe. It must create rules and incentives to move away from intensive stock rearing and overfertilisation, which contribute to climate change, and towards the protection of the soil (increase humus content) and pasture land. It must reduce dependence on imported animal feed by rewarding the cultivation of native protein feed (leguminous vegetables) as part of a crop rotation system. Moreover, the agricultural sector must be obliged to assume its responsibility for climate protection. Its greenhouse gas emissions should be reduced by 40 per cent by the year 2020.

8. _____
 For animal feed in particular – but for all other agricultural products too – the development of international product and process standards in a manner that is sensitive towards development policies is necessary within the framework of qualified market access. The import of products whose cultivation has a very negative greenhouse gas record or damages areas of great biological diversity must be restricted. In contrast, products that meet key work standards stipulated by the International Labour Organisation (ILO) and internationally recognised environmental standards such as the international umbrella organisation for environmental agriculture (IFOAM) should be granted easier access to the market. Furthermore, tariff escalation, which puts the import of processed products from developing countries at a disadvantage compared to unprocessed raw materials must be abolished. Escalation in the field of standards must also be abolished.

9. _____
 In the agricultural sector in particular, the EU must distance itself from its ‘Global Europe’ trade policy strategy, which seeks a comprehensive, unilateral opening up of the market for European goods, services, and investment. In particular, the scope for the implementation of social human rights and environmental protection in developing countries must not be restricted. This also includes granting such countries the opportunity to protect their agricultural markets from cheap imports and to regulate the establishment of branches of European supermarket chains in their countries

10. _____
 The EU and its member states must use and intensify competition law in order to counter the rapid consolidation process that is taking place in the food industry and the retail sector, because it is this process of consolidation that bears a large part of the responsibility for the growing gulf between producer prices and consumer prices. European governments must ban unfair purchasing practices by European supermarkets and intermediaries, which can lead to the abuse of labour rights and human rights along the supply chain or to environmental damage both inside and outside the EU. In order to ensure that this is verifiable, European companies must be obliged to disclose their supply chains and to render account of the observation of social and environmental standards.

11. _____
 In order to assume its international responsibility, the EU must establish international agricultural policy as an independent part of the Common Agricultural Policy. In international negotiations in the agricultural sector, the EU must stand up for sound basic conditions and rules for the protection of natural resources, for an agricultural sector that respects the climate, for the safeguarding of the biological diversity of useful plants, for human rights and labour rights, for good governance at national level, for the setting of standards that are sensitive to development policy matters, and for a balanced development of world agricultural markets. The EU must make money available to the least developed countries in order to improve their negotiation capacities in the agricultural sector and to allow them to better represent their interests during international negotiations. They must receive funding from the agricultural budget in order to meet the increased technical and legal requirements regarding product quality and process standards and in order to be able to implement new international regulations such as policies for dealing with epidemics, biosecurity, environmental legislation, and trade policy. ◀

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