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Research Report

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More Bones to Pick with the EU?

Controversial Poultry Exports to Africa: Sustainable Trade Policy as a Task for the G20

Bettina Rudloff and Evita Schmieg

In the course of signing Economic Partnership Agreements between the EU and African regions, an old topic became fashionable again: If the partner countries in Africa partially open up their markets, imported products such as chicken cuts, particularly those artificially cheapened due to European agricultural subsidies, could threaten local production in Africa. Critics say this could trigger food crises, rob these countries of their future prospects and ultimately add to the causes of flight. On closer inspection, however, it seems that weak African domestic production has a number of causes – solving the problem would require a whole bundle of policies.

European exports of chicken cuts to West Africa have been criticised for years by some development policy actors in parties and non-governmental organisations (NGOs). The allegation is that imports displace local production in the recipient countries. This issue is gaining a new urgency because member countries of the Economic Community of West African States (ECOWAS) and the EU recently signed an Economic Partnership Agreement (EPA). But, so far, only Ghana and Ivory Coast have ratified individual interim EPAs.

These agreements aim to further open up markets in the partner states. But to what extent does the EU's agricultural policy actually distort market prices to the detriment of production in Africa? And will this effect be exacerbated by the EPA? The EU instruments in question are export refunds and agricultural subsidies to

European producers supporting their competitiveness.

Differences in consumption and costs lead to high exports

European exports of chicken cuts to West Africa have tripled in the past decade. The reasons for this are neither EU refunds nor the lack of protection on the African side. The EU has not paid export subsidies since 2013 (except for French export licenses which ran out in 2014) and there never were any for poultry meat exports to West Africa. Internal EU subsidies for poultry meat are very low compared to cereals. Rather, the sharp rise in European exports is primarily due to differences in consumption patterns and costs.

Differences in consumption: European consumers are buying fewer whole chickens

and more chicken breasts. Selling the remaining parts such as necks, legs and wings at bargain prices still makes more economic sense than throwing them away. In West Africa, these smaller pieces of chicken are a common part of the diet. Between the mid-1990s and 2005, poultry consumption in Ghana actually increased from nine to ten kilogrammes per capita. However, local production is often not sufficient to supply the population with protein which is provided by affordable poultry meat. As a result, there has long been a constant supply gap in Nigeria of 1.2 million tonnes of poultry each year which can only be closed by imports. The situation often differs between the coastal cities and the hinterland. The majority of the population lives on the coast; consumption demand here is correspondingly high. People with low incomes often rely on being able to buy cheap chicken meat. However, small producers in rural areas benefit from higher prices.

Cost differences: Production in West Africa is expensive because the local infrastructure is poor. Most production takes place in the rural hinterland far away from the areas with the largest consumption. Local production must, therefore, fulfil certain logistical requirements in order for it to meet the country's demand. This includes the presence of cold chains. But often even the most basic necessities are lacking, including adequate amounts of feed or veterinary treatment. In Ghana, electricity and feed costs alone make production up to 40 percent more expensive than under world market conditions.

Balancing local interests

In West Africa, there is strong political and economic interest in cheap imports of chicken meat. The import firms located on the coast – often in capital cities – have the resources and political access to lobby for cheap imports with low tariffs. In contrast, it is more difficult for small producers in the hinterland to pursue their interests in

the political process for tariff protection or improved infrastructure. As a result, in recent decades, NGOs have been committed to having these interests heard – partly supported by development policy.

But what political conclusions should then be drawn, ought to be discussed and decided in the respective country. Decision-makers will have to weigh up aspects of food security, rural development and local income opportunities – also to curb increasing urbanisation – but the consumer interests of poorer social classes in cities as well. The political process for a corresponding balance of interests must be led internally and must not be taken over by foreign actors. If decisions are made in favour of local production which allow higher producer prices for chicken cuts (through tariff increases), they should also consider what measures can ensure the supply of food and protein to the poorer urban population.

Market foreclosure is not the solution per se

Higher tariffs are, however, just *one* way to increase incentives for local production. World Trade Organization (WTO) regulations offer large scope for flexibility. Nigeria can, therefore, increase its currently applied tariff of 35 percent up to 150 percent (WTO bound rate). In addition, countries could protect themselves against contestable subsidies with compensatory measures; this does, however, require a complicated justification mechanism.

What will the legal situation be if EPAs come into force? In the case of Ghana, although the agreement was ratified un-animously by its parliament, it has yet to be implemented. When this happens, WTO rules continue to apply to all other trading partners; trade with the EU is then regulated by the EPA. Poultry is excluded from liberalisation in all West African countries. Therefore, the currently applied tariff of 35 percent continues to apply. The EPAs allow additional protection – despite any criticism to the contrary – for general rea-

sons of market protection (Article 22) or explicitly for food security (Article 47 of ECOWAS EPA). The disadvantage of this rule is the administrative burden: The need for tariff protection must be proven within a generous time period of at least eight years.

The countries concerned have responded very differently to the increasing imports of chicken cuts in recent years. While Ghana increased its tariffs moderately, Cameroon, Nigeria and Senegal imposed complete import bans. Evidently, both measures were legally and politically feasible. On the occasion of the ratification of the EPA in the European Parliament, Ghana's Foreign Minister sent a letter to the Parliament's Committee on International Trade (INTA) in November 2016 which contained detailed considerations on the liberalisation of the agricultural sector. The letter suggests that, on the Ghanaian side, there were very informed and responsible policy decisions underlying the EPA. To what extent these are embedded in a comprehensive agricultural and regional policy and reflect the respective interests of different groups in society would need to be examined. Chicken cuts are not mentioned in the letter whatsoever.

But regardless of formal rules, there is still political scope for protection measures: Given the international sustainability objectives adopted in 2015 and the priorities of the EU and Germany with respect to Africa – not only in the EPA – it is politically inconceivable that small countries are sanctioned for taking measures to protect small agricultural producers. This can be seen in the import bans imposed by Nigeria, Senegal and Cameroon, to which there have been no official reactions from other states so far.

But import protection alone is not enough to promote local production. The problems mentioned above are too serious for that. In Nigeria, the import ban stopped import flows from Europe but was then replaced by illegal trade. This not only circumvents the original objectives of the

import ban, it also threatens health policy objectives since the standards of smuggled goods are not controlled: Additionally, illegal trade potentially supports corruption.

Comprehensive policy package required

A whole package of measures is needed to stimulate agricultural production in rural areas of West Africa and to secure incomes and employment. Institutions of quality infrastructure should be strengthened in order that standards can be maintained. Investment in public infrastructure, such as roads, energy and communications are other crucial elements. Tariff increases might also be part of such a package.

The Ghanaian poultry project GHABROP from 2014 is comprehensively aimed at increasing its own production. It includes tariff protection, infrastructure measures and utilisation requirements for processing domestic poultry. The programme aims to reduce imports by 40 percent. It has, however, not gone down well with domestic producers; further analyses and accompanying support are therefore needed. It is also unclear whether the privileging of domestic poultry over imports can be challenged under WTO rules – which might be done by other developing countries.

Elements of a sustainable trade policy for food security

The complexity of the problem requires agreement on various levels and on different sides. The following outlines the important elements of a possible package of measures which could contribute to greater food security in Africa.

Formulating balanced (trade) policies. African governments must themselves formulate policies that safeguard the interests of their countries. The policy packages should include compensation for disadvantaged groups and ensure their contribution to the economic process. All segments of the

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population must be able to articulate their interests in the political process. Governments should use existing WTO scope for subsidies. Developing countries have hardly done this to date, also because of their tight budgets. Development policy can promote local production in Africa but it must also support groups with fewer possibilities to articulate their interests.

In *implementing the EPAs*, the envisaged review mechanism must be introduced in such a way that it can record the actual effects of the agreement. Civil society should also be included in an appropriate manner. Where problems arise, the EPA institutions need to support informed policies of sustainable development.

Export refunds should be stopped by all G20 countries immediately and permanently. This was not only decided by the EU in the context of EPAs but also at WTO level in Nairobi in 2015. All measures with a similar effect should be abolished, also American ones.

Voluntary *G20 export restrictions* could be the counterpart to import protection by West African states. But the EU alone would not achieve the desired market relief with such a measure. The EU is only the third most important poultry exporter in Ghana (worth 50 million euros in 2015) after the US and Brazil. A concerted action by the G20 could be implemented over a certain period of time and be accompanied by an impact analysis recording the extent to which it has a positive effect on local production. Such an action would have to conform to WTO rules; in any case, it would only be feasible at the request of the African partner countries and in close coordination with them – given the consequences for local consumption and possible circumvention through smuggling.

“Real” meat prices in the EU. Consumer behaviour in the EU and other developed countries is the basic underlying reason for the existence of the huge supply of poultry cuts. The United Nations sustainability goals are the right course here; they call for a change in consumer behaviour in devel-

oped countries. Ideally, pricing should fully internalise all the external effects of poultry production, including environmental pollution (such as through nitrates). This would raise the price of meat, making African products more competitive, reducing consumption in Europe and, in addition, have a positive impact on the environment. The EU should take appropriate measures in the forthcoming reform of the Common Agricultural Policy for the period after 2020.

Given the complex relationships, it is important that specific policy measures are tailored to the particular situation. The circumstances can vary greatly among individual countries and products (not just poultry but also tomato paste or milk powder). One-dimensional conclusions are never suited to meeting the challenges of sustainable development.