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EU Agricultural Policy Beyond 2000: Prospects for Global Food Security?[1]

■ *Penny Fowler*

The impact of European agricultural policy on developing countries and global food security,[2] particularly in some of the world's poorest countries has been the subject of much debate. There is renewed interest in and debate over reform of the Common Agricultural Policy (CAP) following the publication in July 1997 of the European Commission's Agenda 2000 paper, which sets out proposals for the direction of further CAP reform and will form the basis for discussions among European Agriculture Ministers over the coming months. This article examines the CAP under 3 main headings: its impact on developing countries; the relationship between the CAP and international agricultural trade rules (and the EU's role in formulating those rules); and recommendations on policy reform and new policy actions covering the CAP, wider EU agricultural policy and the World Trade Organisation.

The Common Agricultural Policy and Developing Countries

To understand the CAP it is necessary to understand the context within which it was initiated. The CAP was introduced at a time of food shortages after World War II with the objective of achieving European self-sufficiency in food production and, thus, food security for the citizens of Europe; it has been remarkably successful in achieving this aim.

A basic tenet of the CAP is to maintain prices paid to EU farmers above world market levels through a system of variable import levies and variable export subsidies, combined with intervention buying when EU prices fall below a particular level. Since the 1992 CAP reforms, farmers have also received direct income payments to compensate for a gradual reduction in price support they receive, conditional on their introduction of supply controls such as setaside[3] and quotas for livestock. Through these policy instruments, the CAP effectively insulates the EU's domestic agricultural sector from world market forces with the objectives of maintaining farmers' incomes, stabilising prices and securing food supplies.

The outcome of this policy is well known: a rapid growth in production (the EU is now self-sufficient in a number of agricultural commodities supported by the CAP); the creation of agricultural surpluses (which have been stored or disposed of at considerable cost, e.g. the grain mountains and wine lakes of the 1980s); the subsidisation of agricultural exports in order to make them competitive on world markets; and income transfers from consumers and taxpayers to farmers.

As a result of the CAP the EU, formerly a net importer of agricultural commodities, has emerged as a major agricultural exporter, the second largest after the US. Changes in European agricultural policy have a substantial impact on world agricultural markets on which many developing countries are heavily dependent.

The CAP's encouragement of production in excess of EU demand and its subsidised export of EU agricultural surpluses onto world markets affects developing countries in a number of ways. First, it depresses world prices below the level they would find in a free market. This reduces foreign exchange earnings and world market shares of actual and potential developing country exporters, thus undermining their efforts to reduce their debt burden.[4]

Secondly, where EU subsidised exports are disposed of directly in developing country markets they unfairly undercut local producers, disrupt local food markets and undermine food security strategies based on domestic production. Although it is sometimes argued that by providing developing countries with cheap food the CAP helps to alleviate world hunger, this is a very short term view. Subsidised CAP exports may save food-importing countries foreign exchange in the short term but in the long term they may undermine domestic production and create an unhealthy dependence on EU food surpluses.[5]

Thirdly, protective agricultural policies such as the CAP force price instability onto world markets to the detriment of less developed countries. The achievement of internal EU price stabilisation has been at the expense of increased world price instability as the CAP insulates EU producers from absorbing much of the burden of adjustment to changes in global production in agricultural commodities. This leaves the world market bearing the full brunt of any adjustment resulting in larger price fluctuations than would otherwise occur. A recent example was the EU's imposition of export levies on wheat and barley during a period of high world cereal prices in 1996. This measure was intended to keep stocks inside the EU that would otherwise be exported in order to prevent internal EU prices from rising too high.

The CAP is also frequently criticised for distorting world markets by other industrialised countries – notably the US – and a group of developed and developing agricultural exporting nations known as the Cairns Group (after the Australian town in which it first met).[6] However, the EU is not alone in protecting its agricultural producers. Overall the Organisation for Economic Co-operation and Development (OECD) countries collectively spend in the region of $180 billion annually on agricultural subsidies, including export subsidies. This represents 40 per cent of total OECD agricultural output. In the EU the ratio is even higher at 43%.

The most obvious losers from these policies are other agricultural trading nations, especially developing countries which are unable to subsidise their exports. Agriculture is the mainstay of the economy in most developing countries and often provides employment for the majority of the population. In 1993 for the least-developed countries as a group, the average share of agriculture in GDP (gross domestic product) was 42 per cent and 69 per cent of the active population were employed in agriculture.

In 1950, developing countries accounted for about half of all agricultural trade; today they account for just one quarter. Moreover, only a few of these countries have been able to diversify their export base away from primary commodities and many are highly dependent on just one or two commodity exports to earn the foreign exchange needed to finance imports, and to pay off their debt burden.

Paradoxically, countries which rely least on agriculture as a source of foreign exchange earnings, employment and income have been expanding their share of world agricultural markets. In the EU and the US, agriculture accounts for just over 2 per cent of GDP. However, the EU has expanded its share of world agricultural exports from 20 per cent in the early 1960s and to around 45 per cent today.[7]

Box 1: EU subsidised beef exports to West Africa and to South Africa – A case of trade policy undermining aid programmes

In the early 1990s at a time of huge beef surpluses in the EU which were extremely costly to store, large quantities were exported with the help of subsidies to the West African countries of Cote d'Ivoire, Ghana, Benin and Togo. These coastal countries were traditionally supplied with beef from the neighbouring Sahelian countries of Burkina Faso, Mali and Niger (currently the country which ranks lowest in the Human Development Index of the United Nations Development Programme). This dumping of EU subsidised beef undercut the price of beef produced in the region by up to 50%, severely disrupting regional markets and local production. Ironically this practice of dumping directly undermined the efforts of EU and EU member states' aid projects to promote livestock production in the region.

More recently subsidised EU beef exports to South Africa, followed the removal by South Africa in 1994 of quantitative restrictions on beef imports in line with its WTO/GATT (World Trade Organisation/General Agreement on Tariffs and Trade) Commitments. The EU publicly stated its commitment to help the transition to a functioning and non-racial democracy in South Africa and to assist reconstruction and rural development, but the practice of beef dumping is doing the reverse. While EU beef export subsidies have been reduced in 1997 the reduction still falls far short of the South African government's demand that all subsidies be removed. South African politicians have criticised the EU for claiming to encourage regional integration in southern Africa while at the same time obstructing an already significant part of that integration, namely, the Southern African Customs Union (SACU). Against a framework of privatisation, deregulation and tariff removal the South African economy needs support from the EU, rather than destabilising market interventions which weaken the country's already fragile economic base.[8]

The CAP, GATT and the WTO

During the last round of multilateral trade negotiations, the Uruguay Round, agricultural protection emerged as one of the most contentious issues. Agriculture was included systematically in multilateral trade talks for the first time. This was because of a widespread sense that systems of domestic support had become extremely costly and were a primary cause of instability in world markets. This resulted from the so-called subsidy wars between the US and the EU in the 1980s wherein each had competed fiercely to maintain and expand their share of world markets by undercutting each other's subsidised export prices.

The GATT Uruguay Round lasted 8 years (1986-1994), largely due to the difficulties in reaching an agreement on agriculture. The EU and the US dominated the agriculture negotiations, being the biggest exporting powers with most at stake and, as a result, the final agriculture agreement largely accommodated EU and US interests. The agreement commits signatory countries to reduce the volume and value of their subsidised exports by 21 and 36 per cent respectively and to reduce domestic agricultural support by 20 per cent. Further all restrictions on imports must be converted to tariffs and these must be reduced by an average of 36 per cent.

These commitments have to be implemented within six years from January 1995. Developing countries are allowed a longer period (up to ten years) to implement their reduction commitments and are allowed to make smaller reductions than developed countries. Least-developed countries are exempt from the commitments.

Under the agreement, domestic agricultural supports which do not distort international trade are exempt from reduction commitments. These include, for example, agricultural research and agricultural extension services. Using their considerable influence in the negotiations, the EU and the US incorporated an expanded definition of the types of domestic support to be exempt from reduction commitments. Thus, direct payments to farmers that are "de-coupled" from production are also exempt.[9] Conveniently, the US system of deficiency payments and the system of compensatory direct income payments introduced by the EU through the 1992 CAP reforms were deemed to be covered by this extended definition.[10] A "peace clause" was also included in the agreement protecting this type of de-coupled support from challenge in the GATT system before the year 2003. All this means that the EU faces considerably less pressure to reduce the level of its domestic agricultural support as a result of the Uruguay Round than at first appears to be the case.

The most significant aspect of the EU's Uruguay Round agricultural commitments is that relating to export subsidies. Whether or not the 1992 reforms were sufficient to ensure that the EU meets its subsidised export reduction commitments or whether the EU will rebuild surplus stocks which cannot be exported under the Uruguay Round restrictions remains uncertain and largely subject to world market developments.

The high world grain prices in 1995-96 helped since they enabled the EU to export grains during that period without (or with a very low level of) export subsidies. The European Commission appears cautiously optimistic that the Uruguay Round export subsidy commitments can be met under the existing CAP. Therefore, the Agenda 2000 reform proposals are presented by the Commission as being necessary to prepare for the next round of multilateral trade talks, which will pursue further agricultural trade liberalisation, rather than to satisfy the Uruguay Round Agreement.

Agenda 2000

The Commission's Agenda 2000 proposals for CAP reform basically extend the 1992 reforms in terms of further shifts from price support to direct income payments to farmers. The proposals are far less radical than the Commission seemed to be considering at the end of 1995 and in early 1996. Price support for cereals is to be cut by 20 per cent in the year 2000; the beef intervention price will be reduced by 30 per cent in three steps between 2000 and 2002; the dairy quota regime will be extended to the year 2006 but the support price will be gradually reduced by 10 per cent.

Environmentalists have been very disappointed at the lack of provisions in Agenda 2000 for serious integration into the CAP of environmental objectives, despite the Agriculture Commissioner's personal commitment to this objective. In making its Agenda 2000 proposals the Commission appears more concerned to minimise change in the current balance of benefits for the EU interest groups affected by the CAP, than to implement the more radical changes needed to achieve a more socially and environmentally sound agriculture system in Europe and world wide.

It is not at all clear that Agenda 2000 proposals will stem agricultural overproduction in the EU. Farmers will be compensated for price cuts by direct income payments[11] so that the overall level of support to EU agriculture will remain high and arguably linked to levels of production. In addition, compulsory setaside[12] will be abolished, removing an instrument of supply control. This creates the potential for higher production of EU cereals which can be exported to compete unfairly on world markets as long as they are indirectly subsidised through GATT-sanctioned domestic support mechanisms rather than through direct export subsidies which face GATT limits.

International agricultural trade liberalisation and world food prices

Although the Uruguay Round introduced only limited steps towards free international trade in agriculture, the progressive liberalisation of Northern agricultural policies is expected to raise world prices for agricultural commodities. This should benefit developing country agricultural exporters or potential exporters who will earn higher prices for their exports and should be able to increase their share of world markets. If higher international prices are transmitted by developing country governments to domestic producers, they should also boost agricultural productivity and local food production in developing countries where previously agriculture has been regarded as unproductive and has been neglected.

However, in the short to medium term, higher international food prices may cause difficulties for developing countries which currently import a significant proportion of their food requirements. These countries will require special assistance to source adequate food imports until their domestic agricultural sector has had time to respond to the incentive of higher international agricultural prices.

In recognition of this, a GATT Ministerial Decision was agreed at the signing of the Uruguay Round Agreement to provide net food-importing developing countries and least-developed countries with a balanced package of compensation if they should experience difficulties in meeting their domestic food requirements as a result of the Uruguay Round reforms. The range of measures covered by the Decision include financial compensation, food aid, special treatment in agreements on agricultural export credits and technical and financial assistance to improve domestic agricultural productivity and infrastructure.

However, during the period of extraordinarly high world food prices in 1995-96, the international community failed to implement the Decision and food-importing countries have not received any assistance under the Decision to date. This was largely because of disputes between developed and developing countries over how far the world price fluctuations had been caused by the Uruguay Round reforms rather than other factors such as poor world harvests.

The 1996 World Food Summit reaffirmed the importance of this international decision by including a commitment to fully implement the Decision in its Plan of Action. The WTO Singapore Ministerial Conference (December 1996) subsequently recommended that the food aid aspects of the GATT Ministerial Decision on net food-importing developing countries be considered by the Food Aid Committee within the context of the renegotiation of the Food Aid Convention, due to expire in June 1998.

However, it is extremely important that food aid is not seen as the only, or even the main, solution to this important issue. Long term support to increase agricultural productivity, and to develop agricultural infrastructure in these countries is essential to reduce their dependence on the vagaries of the world market which they are unable to influence.

Moving towards freer international agricultural trade

Although it can be argued that the Uruguay Round Agricultural Agreement was a step in the direction of freer trade, international agricultural markets remain highly distorted. For example, a 21 per cent reduction in the volume of subsidised exports once the Uruguay Round has been implemented means that 79 per cent of subsidised exports are still eligible for a subsidy.

Only a few developing countries were active participants in the Uruguay Round negotiations. Many signed the GATT agreement and joined the new WTO at the conclusion of the Uruguay Round. At its signing, the Uruguay Round was heralded as a positive outcome for all countries. It is now generally accepted that certain countries and regions will gain and others, particularly sub-Saharan Africa, stand to lose out as a result of the GATT Uruguay Round. An Overseas Development Institute (ODI) study in 1994 estimated that three of the world's poorest countries – Ethiopia, Mozambique and Mali – face export losses in excess of 4 per cent per annum as a result of the Uruguay Round. This is partly due to a loss in their margin of preferential access to industrialised country markets resulting from a general reduction in tariffs.

At the first WTO Ministerial Conference the least-developed countries expressed deep concern at their marginalisation from global trade and the fact that they stand to lose rather than gain from the Uruguay Round.[13] It was partly in response to this concern that a High Level Meeting of the WTO Secretariat, UNCTAD (United Nations Conference on Trade and Development), the International Trade Centre, UNDP (United Nations Development Programme), the World Bank, the International Monetary Fund, trade ministers from 38 least-developed countries and delegates from other WTO and UNCTAD member governments was organised in October 1997 to endorse an integrated trade assistance programme designed to help least-developed countries increase their ability to trade.

Existing or improved preferential market access measures for least-developed countries were announced by the EU and 18 developing and developed countries (Australia, Bulgaria, Canada, Egypt, Hungary, India, Japan, Korea, Malaysia, Mauritius, Morocco, Norway, Singapore, South Africa, Switzerland, Thailand, Turkey and the US) at the High Level Meeting and there were a number of round table debates on building trade capacity and encouraging investment in least-developed countries. With the exception of the EU, other countries presented their offers only in broad terms with no deadline by which the offers would be implemented. During the meeting 12 countries (Bangladesh, Chad, Djibouti, Guinea, Haiti, Madagascar, Mali, Nepal, Tanzania, Uganda, Vanuatu and Zambia) were the focus of separate round table sessions to match programmes of technical assistance which could be provided by the six participating inter-governmental agencies to the trade-related technical assistance needs of each country, as presented by the respective trade ministers. These countries are to be used as pilot cases for an integrated approach to trade-related technical assistance by the six inter-governmental agencies. The Director-General of the WTO will produce a full report on the outcome and follow up of the High Level Meeting by May 1998, the time of the next WTO Ministerial Conference in Geneva.

Although developing countries face lower agricultural import tariff reduction commitments than developed countries under the Uruguay Round and least-developed countries are exempt, many developing and least-developed countries are already liberalising their agricultural import regimes as part of structural adjustment programmes.

The opening of domestic markets to cheap food imports while competition in international agricultural trade remains so unequal can threaten the agricultural base vital for feeding communities in countries of the South. There are still 840 million people without access to sufficient food to live a healthy, active life. This is unacceptable as the new millennium approaches.

Many economists now accept that while a market approach may ensure an efficient allocation of food and agricultural resources it does not provide for their fair or equitable distribution. From a distributional perspective, the problem is that the wiuners from new export opportunities arising from trade liberalisation are not necessarily the same as the losers, at both the national and sub-national levels. Thus, without effective government intervention, the overall effect can be to widen the gap between rich and poor producing nations and rich and poor producers within specific countries.[14] The Uruguay Round failed to outlaw agricultural export dumping and agriculture remains the only area of international trade in which countries are still allowed to export products at less than the cost of production. However, importing developing countries are permitted, under GATT rules (Article VI and Part V of the Subsidies Agreement), to impose countervailing duties[15] to protect themselves from subsidised exports if the state imposing them is able to demonstrate an actual or potential injury to their domestic agricultural sector resulting from the volume or price of imports.

While the two sides outlined above may appear to be inconsistent, this is how the GATT rules operate at present. Subsidised exports (i.e. those sold on world markets at below production cost) are allowable under the Uruguay Round Agreement on Agriculture even though they contravene basic

GATT principles which apply to all other areas of trade. Under another part of the GATT rules, importing countries can theoretically protect their domestic markets from US/EU agricultural goods which have been exported with a subsidy approved under the Agreement on Agriculture if they can demonstrate actual injury to their domestic industry. The problem is the complex and bureaucratic procedures required to initiate and correctly implement such a protective measure which would be beyond the capacity of many developing countries at this time.

Recommendations

Given the evidence outlined above policies must be changed and measures introduced to reduce the structural overcapacity inherent in Northern agricultural policies, including the CAP and, concurrently, to enhance agricultural production in developing countries.

Specific proposals to advance this objective can be covered under three headings: CAP reform, other EU Commitments, and reform of the WTO

CAP reform

The following steps should be taken:

- Withdrawal of price support and other farm support payments linked to levels of production in excess of EU demand;
- A rapid phase out of all direct and indirect export subsidies;
- Redirecting CAP support to less intensive, more sustainable forms of agricultural production based on lower levels of output.

Other EU commitments

- Establish mechanisms to fully implement the GATT Ministerial Decision on net food importing developing countries and least-developed countries, ensuring that food aid is not the only nor the main instrument provided to offset the negative effects these countries are likely to experience as a result of international agricultural trade reform.
- In terms of future relations with the ACP states, which include the majority of least-developed nations, beyond Lomé

IV, the EU should establish proactive mechanisms to ensure that effects on developing countries are taken into aceount when agriculture and trade policies are formulated rather than waiting to take curative action once damage has already been done.[16] Such an approach should extend to relations with all developing countries.

- Provide technical and financial assistance and training for developing (particularly least developed) countries to build their capacity to defend their interests in future WTO negotiations and fully utilise exisiting GATT/WTO provisions where these allow protection and promotion of national food security strategies.

WTO reforms

- Extend to agriculture the WTO's anti-dumping provisions which would prohibit exports at prices which do not reflect costs of production.
- Introduce a food security clause in WTO rules which would ensure that food security is given higher priority than economic considerations and enable developing countries to protect their domestic agricultural sector up to the point of self-sufficiency in staple foods if they so choose.
- Ensure that an independent impact assessment of the Uruguay Round Agricultural Agreement on developing countries is undertaken in time to inform the 1999 Review and before further liberalisation commitments are entered into by developing countries.[17]

Conclusion

In the Maastricht Treaty the EU committed itself to take account of the development impact of its policies. The EU demonstrates a strong commitment to agricultural development and food security in both the rhetoric and practice of its development policy. It reaffirmed its commitment to consistency in external relations in the Amsterdam Treaty signed by EU member states earlier this year. Yet, clear anomalies remain between EU development and agriculture policies. This is in breach, not only of the EU's own Maastricht and Amsterdam Treaties, but also of several of the EU's international commitments such as those made at the 1992 Earth Summit and more recently the World Food Summit in November 1996.

For small farmers and hungry people in developing countries, the issue of EU policy coherence is not a matter of abstract reflection on the wording of EU treaties. It is a question of whether the European Union will start taking account of the international implications of its policies which are designed first and foremost to meet its own internal objectives. And, ultimately, it is a question of whether the EU is prepared to adjust its own system of farm support in order to allow developing country farmers to retain their livelihoods too.

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Footnotes

1 This article is an edited version of a paper presented to an OXFAM in Ireland-Trócaire joint seminar on Agricultural Trade Policy and Global Food Security, in Dublin on 16 September 1997. Trócaire acknowledges permission from Oxfam in Ireland to publish it.

2 Food security is dependent upon three factors: availability, stability and accesssibility of food supplies. To achieve national food security, a country must be able to grow sufficient food or have enough foreign exchange to enable it to import food. The basic causes of food insecurity are low productivity in agriculture combined with fluctuations in food supply and

low incomes. Spccial Programme for Food Security, Food and Agricultural Organisation (FAO) of the United Nations.

3 Setaside works as a supply control mechanism by providing compensation ro farmers for restricting the amount of crops they produce by not cultivating a proportion of their land. The amount of compensation provided for land setaside is based on a notional use of the land for cereals production – that is, what would be produced if the land was being cultivated.

4 This applies only to countries producing the same products as the EU or substitute products.

5 See Alan Matthews *The Common Agricultural Policy and the Less Developed Countries*, 1985, Gill and Macmillan and Tróeaire, for a very detailed and balanced discussion of the issues around whether higher world food prices would benefit or adversely affect developing eountries. Matthews concludes that the impact would be different for individual developing countries and for various groups within developing countries. The author recognises food and other subsidised exports have a role in emergencies. Food and EU intervention stocks are likely to be larger in sueh cases than relying on privately held stoeks in some "reformed trade" scenarios.

6 The countries in the Cairns Group are: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, The Philippines, Thailand and Uruguay.

7. This may in part reflect the difficulties of developing countries in expanding production and exports of tropical products rather than competition from very different exports from developed countries.

8 Based on research by M. Roberts, "Out of joint: Report on research inro EU beef dumping in South Africa", Christian Aid, 1997

9 "De-coupled" payments are those which do not affect farmers' production decisions, i.e. payments that are not dependent on the production of any crops or levels of stoek holding, and which, it is therefore argued, have no potential to distort international trade.

10 Until the US Federal Agricultural Improvement and Reform (FAIR) Act of 1996, US farmers were entitled to deficiency payments if the market price realised for their produce was less than a guaranteed level. The payment made up the deficiency between the guaranteed and the lower market price.

The 1996 FAIR Act replaced deficiency payments with a new system of contract payments for which producers can sign seven year contracts to receive fixed payments (based on previous crop bases) regardless of what they grow on their contract acreage. An exception is fruit and vegetables which may not be grown on contract acreage.

The 1992 MacSharry CAP reforms introduced a system of direcr income payments intended to compensate farmers for the cuts in price support introduced as part of those reforms.

11 These payments are made on a per heetare basis, according to the area of land eultivated and yields achieved by farmers in the past. Taking cereals as an example of direct payments, sinee farmers must plant cereals in order to receive the cereals area payment these payments clearly affect farmers' production decisions and, therefore, levels of production.

12 Abolishing eompulsory setaside creates the potential for higher production of EU cereals because it is a supply control measure that requires farmers to restrict the area of land they cultivate.

13 "We note with disquiet that the Least Developed Countries as a whole may be adversely affeeted by the agreements of the Uruguay Round of Multilateral Trade Negotiations". Statement by Bangladesh to the 1996 WTO Ministerial Meeting on behalf of the Least Developed Countries' Ministerial Meeting, New York, September 1996.

14 See OXFAM International Report "Growth with equity: An agenda for poverty reduction", September 1997. This contains a number of case studies which explore the issue further.

15 Countervailing duties are special import duties levied for the purpose of offsetting any subsidy bestowed, directly or indirectly, upon the manufacture, production or export of any merchandise.

16 See also "The future of the Lomé Convention", European Development NGO Position Statement, September 1997. The Convention is an aid, trade and political agreement between the EU and 70 ACP states. Lomé IV expires in 2000 with negotiations already underway for its successor.

17 This was proposed at the Commission for Sustainable Development in 1995.