

NEW VOICES IN PUBLIC POLICY

Volume IV
Fall 2009

One Hectare at a Time: How the New Land Grab in Africa Will Affect the EU's Agricultural Sector

Geoff Schaefer



School of Public Policy

ISSN: 1947-2633

Introduction

In July of 2008 two authors, Juan Delgado and Indhira Santos, claimed that the “era of cheap food is over.”¹ Ostensibly, the European Union (EU) had been thinking much the same thing. Its Common Agricultural Policy (CAP) had been adjusting its policies since 2003 in light of rising world prices and fiscal constraints brought on by the rapid accession of new member states. Current events, however, offer a different reality. The Economist, among other voices, has been highlighting a modern “neocolonialism” taking place in Africa.² Countries such as Saudi Arabia and China are buying huge tracts of land in poor countries across the continent to secure their domestic food supplies. A contentious issue in itself, this new race for land could potentially, and drastically, alter the world food price equilibrium. It thus presents two important questions: how will the EU’s agricultural sector be affected and how should it respond?

The CAP reforms proposed in 2003 do a good job of bringing the EU’s agronomy into the future. But some aspects of the proposal have not, understandably, taken into account the new phenomenon of purchasing huge swathes of land in Africa. It is hard to predict whether this trend will continue, or at what pace. However, the EU needs to prepare for marked changes in equilibrium food prices. These changes call for a more flexible policy and increased focus on investment. This paper intends to lay out the scope of the land grab, what it means for the EU and how the CAP should be adjusted to meet these future challenges. It will give a number of recommendations to hedge against a more uncertain global agronomy. In doing so the intention is to start the debate not on whether this land grab should be taking place, but how to respond to it now that it is.

So What's Going On Exactly?

As food prices climbed at a dramatic rate in 2007 and 2008, and export controls became commonplace, large countries - Saudi Arabia, South Korea, the United Arab Emirates, China, India, Egypt and Libya - turned their attention to Africa.³ These countries hoped that the large quantity of undeveloped land in Africa could help them secure a stable source of food and quell the effects of increasing world demand. Many countries in Africa jumped at the opportunity to generate income that did not come in the form of more aid. In fact, this attention came in the form of massive agricultural investment. The recipients are some of the continent's more troubled countries – Sudan, Ethiopia, Algeria, Zimbabwe, Kenya, Tanzania and Uganda.⁴

The purchasing countries, through a diverse set of government and private actors, buy or lease land in the seller countries.⁵ Depending on the contract drawn up by the negotiating parties, the purchasing countries can export all or most of the harvested crop back home.⁶ While full repatriation of foodstuffs is the impetus for this new land grab, the sellers are beginning to make that more difficult. Specifically, the African Union is developing a set of guidelines for the sale of these lands.⁷ These guidelines include stipulations that purchasing countries help develop local infrastructure, pay local taxes and seek ways to stimulate local job creation.⁸ As the scale of these land grabs becomes more immense, African countries are beginning to demand more out of the deals. (Negotiations now see Africa determining limits on expropriation and the ratio of foreign to domestic workers.)⁹

In terms of hectares, these land grabs are indeed immense. A typical deal can range anywhere from 400,000 hectares of land to 700,000.¹⁰ However, China “secured the right to grow...on 2.8 million hectares of Congo.”¹¹ A deal of that magnitude (which the Chinese are planning to repeat in Zambia)¹² signals to future buyers that almost anything is possible. The deal

also drew harsh criticism as over 1 million Chinese workers have flooded the continent, displacing local jobs. Since 2006, the equivalent of one-fifth of all the farmland in the EU has either been purchased, or been considered for purchase.¹³ Conservatively, those deals are worth roughly between \$20 billion and \$30 billion – ten times more than an emergency agricultural package put together by the World Bank.¹⁴ These statistics underscore the scale of what is taking place in Africa. As the percentage of purchased land on the continent increases relative to Europe's finite resources, the EU's ability to influence world food markets will diminish.

Increasing the percentage of Africa's agriculture owned by foreign interests will face hurdles though as these deals are anything but uncontroversial. Many call this modern day neocolonialism because of the nature of the contractual agreements. Most agreements are shrouded in secrecy and insulate the seller country from its own lands.¹⁵ Not everyone sees these agreements as controversial. Angola said it simply wants to diversify out of mining and industry and welcomes this new business.¹⁶ Further, a recent article in *The Atlantic* stated that investment in Africa's agriculture, assuming the continent is more assertive in benefiting from the land grab, could "feed the world and save itself."¹⁷ For the countries that *have* successfully negotiated agreements the benefits are quite tangible: revenue from land fees, job creation when purchasing countries utilize domestic labor and increased infrastructure development.¹⁸ All of these benefits incentivize the continuation of this new phenomenon. Ergo, the EU needs to take heed.

Why this is Relevant to the EU

The land grab in Africa matters to the EU for a few reasons. First, when these lands start producing and exporting crops at full capacity the world food supply and demand equilibrium will shift drastically. Such a large increase in world supply will bring down prices and make the

EU's exports still more expensive relative to market prices. Even if land-purchasing countries simply export the yield back home in its entirety (therefore circumventing world markets) it will represent a congruent decrease in global demand and reduce prices by an equal amount. Because of the relative simultaneity of these acquisitions, the purchasing countries will act as a single counterbalance to the EU for years to come. This dynamic will only make the proposed CAP reforms more difficult. For instance, one of the new objectives set out in 2003 is to "improv[e] competitiveness by gearing agriculture more to the market."¹⁹ But the effect this new faux economic bloc will have on world prices will force adjustments in EU policy in order to achieve that objective.

The June 2003 CAP reforms made headway in this area by decoupling financial aid from production quantities, helping EU agriculture respond to market forces more efficaciously.²⁰ In other words, production now floats according to world supply and demand. The older forms of subsidies were replaced with fixed single payments designed to stabilize farmers' incomes.²¹ Each farmer's allotment is determined by previously received levels of aid. But if world prices drop precipitously these fixed payments may not offer enough of a safety net to keep farmers in business. Thus, the land grab may render even post reform policies insufficient in scope.

A second threat the land grab poses to the EU deals with the security of its imports. The EU proudly espouses its status as the number one agricultural importer in the world. Specifically, many of the intermediate agri-goods it requires come from developing countries. These products make up nearly half of all imports.²² Even though seventy percent of the EU's imports come from developing countries,²³ its portfolio is still diverse enough to hedge against any immediate supply shocks (especially given the rapid *increase* in supply brought on by the land grab). But the developing world is quickly acquiring new trading partners. As persistent demand eventually

creeps back into line with supply the EU may find it more difficult, and thus more expensive, to satisfy its import needs.

Third, cross-compliance mandated by the 2003 CAP reforms could lead to further uncompetitiveness of EU farmers. This statute makes receiving the single direct payments conditional on meeting certain levels of environment protection, public health and animal welfare.²⁴ It can be argued, most likely successfully, that these reforms were necessitated by public opinion on the matter. Regardless of their popularity, these reforms exact transaction costs on production. Farmers must now factor in the monetary implications of adjusting their operation to comply with the new CAP mandates. These additional costs put EU farmers at a disadvantage when competing against the countries involved in the land grab that place very little importance on these types of issues. Further, increased costs of production lessen the relative compensation the direct single payments provide to farmers. This equates to a universal decrease in income (failing to achieve the goal of income stability) and yields less value to the EU, per Euro spent on CAP. To be fair, the Farm Advisory System was designed to help mitigate this financial burden, but it is unclear how effective it is in eliminating or reducing transaction costs.²⁵

The last reason why the land grab should matter to the EU is again related to its import sector. Even though the EU is a net importer of agricultural goods, the new member states rely on imports to a much greater extent.²⁶ Not to mention the twelve new member states exhibit a much different economic reality than the EU-15. The disparities between the two regions have led the EU to introduce what is known as cohesion policy.²⁷ The main objective of cohesion policy is to bring the least developed member states up to par economically with the rest of the EU.²⁸ Given that the main industry in the struggling member states is agriculture, cohesion policy is under threat from the land grab.

As imports become even cheaper (due to increases in world supply) cohesion policy becomes more expensive to maintain. Investment in the region soon becomes less attractive when compared to the import of much cheaper intermediate goods from abroad. Net importers already, it will simply become more difficult for the poorer member states to alter from the status quo. This dilemma will set back crucial development in the region for many years and could have long term detrimental effects on the EU's security. When food prices climb back up – as they inevitably will, even accounting for an expansion of the land grab – the EU will need alternative sources of supply. As of now, they are counting on the new member states' untapped capacity to fulfill these needs. But without adequately preparing for a rise in import costs, the EU may be facing food shortages and/or inflated prices while the necessary investment in its poorer region catches up.

What CAP Is Already Doing About It

The CAP reforms of the past decade are already making headway in addressing these issues. The most important aspect of the 2003 reforms was to introduce a more flexible management structure to the policy. Member states can now respond to “a whole series of parameters of the new CAP in...different ways.”²⁹ This flexibility will reduce the costs of compliance as each member state can adjust to particular CAP requirements by taking its own unique set of constraints into account. This new policy also deregulates the percentage of payments that have to be contributed to the national reserve. This policy leaves the EU with more room to maneuver whenever faced with short-term price shocks.³⁰ The EU should use this feature sparingly, however, as it could undermine long-term financial security.

Similar to flexible management, the policy of modulation is also a crucial addition to the EU's toolbox. Modulation allows funds to be transferred between what are known as the two pillars of CAP.³¹ The first pillar funds the single direct payments used to subsidize farmers' incomes.³² The second pillar is "aimed at supporting rural communities to [help them] develop and diversify."³³ Although this second pillar is the smaller of the two, it is increasing in funding, scope and importance. It is here where the issue of cohesion is addressed. Modulation allows both the EU and its member states to adjust levels of funding between these two pillars, making the financing of future investment in the poorer member states easier to source. The land grab in Africa will underscore the importance of this policy in two ways. First, as supply increases and prices drop, the EU will have the ability to adjust production in its poorer member states accordingly to offset this effect. Second, as the reliability of future imports becomes more tenuous, the EU can substitute current suppliers with ones in its own backyard. This strategy will also improve the EU's trade balance. Modulation is the catalyst for all of this to happen.

Lastly, the policy of financial discipline - also established during the 2003 reforms - helps to limit the financial burden the first pillar poses on the CAP by freezing its budget growth and imposing annual, "compulsory" ceilings.³⁴ This policy serves to both reduce the costs of CAP by further limiting subsidies, and places the focus on investment and development in the new member states. Having the focus shift from the reality of yesteryear to the reality of tomorrow is a major step in the right direction. As mentioned before, these reforms were not, understandably, constructed with the land grab in Africa taken into consideration. Therefore CAP still needs to make adjustments.

Recommendations

The biggest adjustment the EU can make is in its investment strategy. The EU needs to focus its attention, resources and development on the new member states. With the global supply and demand equilibrium subject to severe and rapid fluctuations as Africa's agriculture sector comes online, the EU needs to secure its future. This can happen with a bolder, yet non-crippling, shift of funds from CAP's pillar one to its pillar two. Cheap imports will continue to create incentives that shift attention away from domestic development, but countering this effect will be necessary as the EU takes a longer-term look at its agricultural security. Investment should be focused not only on bringing new member states' farming capacity online, but should continue to address the perpetual need for increases in productivity all across the EU. Such investments will yield quicker returns as CAP's cohesion policy starts to take effect. The EU must not confuse these measures with protectionism though. Any increase in output need not supply only domestic markets. After all, the developing world's desire for resources is fueling the land grab in Africa. There is no reason why the EU cannot diversify its export market to include these countries as well. Obviously, demand is there.

The second recommendation deals with the cost of cross-compliance. Adherence to this program makes production more expensive for farmers and reduces productivity across the board. The program is nevertheless both popular and important. The Farm Advisory System was designed to help farmers reduce the transaction costs associated with observing the cross-compliance rules and should be invested in more heavily.³⁵ This investment will prepare for an inevitable increase in demand for the advisory system's services as farming capacity in the developing member states begins to come online; they will understandably need this service a great deal. The program should also be expanded to research how *all* farmers can reduce the

costs of observing cross-compliance rules. Productivity will increase universally and the EU's agricultural sector as a whole will become more competitive. Moreover, as each farmer's individual productivity increases, his or her reliance on the direct single payments will recede. This will reduce CAP's pillar 1 costs and lessen the strain on the taxpayer.

Finally, the EU should couple an increase in investment with a larger focus on biofuels. However, the cultivation of biofuels is a contentious issue. It has been argued, plausibly, that an increase in the land dedicated to growing these crops helped to contribute to the food crisis experienced in 2007/2008. Regardless, a deal made between China and Congo allows China to grow biofuels on over 2.8 million hectares in Congo. If a second deal goes through in Zambia, China will increase the amount of land dedicated for this type of production to just under 5 million hectares.³⁶ Clearly there is a market for these types of crops. They are also economically rewarding. Due to high demand biofuels have large profit margins. Investing in these higher-value crops would further wean EU farmers off of subsidies. Similarly, higher-value crops would help to reduce the European Union's trade deficit.

Conclusion

The land grab in Africa has uncovered weaknesses in the EU's agricultural sector. Still dealing with uncompetitive practices and a lack of domestic investment, the EU agronomy is in danger of having its future determined by farmers other than its own. The CAP reforms of the past decade have done a good job of preparing the EU to deal with the future. But these reforms simply formed a foundation for action. Now the EU must do more. Investment in the EU's developing member states must be priority number one. This investment must be followed by a greater push to reduce costs on all fronts to improve the agronomy's competitive position.

Finally, the EU must be more proactive in adopting what the market says are the newest and smartest trends.

It's not all bad news. On the contrary, the countries purchasing huge tracts of land in Africa are spending dearly to do so. Additionally, some of these countries have already spent billions at home in failed agricultural projects. Africa also has a difficult history in producing sustainable farms and arable land.³⁷ But this does not mean the EU should become complacent. These new trends show no sign of abating. After all, necessity is the mother of invention. As the developing world wakes up, necessity will not be in short supply. This renders the future of agriculture uncertain. Take heed Europe.

Notes

¹ Juan Delgado, Indhira Santos. *The New Food Equation: Do EU Policies Add Up?*
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² “Buying Farmland Abroad: Outsourcing’s Third Wave,” *The Economist*, May 21, 2009,
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³ Margareto Pagano, “Land Grab: The Race for the World’s Farmland,” *The Independent*, May 3, 2009,
<http://www.independent.co.uk/news/business/analysis-and-features/land-grab-the-race-for-the-worlds-farmland-1677852.html>

⁴ Ibid.

⁵ International Institute for Environmental Development, Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development, *Land Grab or Development Opportunity? Agricultural Investment and International Land Deals in Africa*, 2009.

⁶ Ibid., 87

⁷ Margareto Pagano, “Land Grab: The Race for the World’s Farmland,” *The Independent*, May 3, 2009

⁸ Ibid.

⁹ “Buying Farmland Abroad: Outsourcing’s Third Wave,” *The Economist*, May 21, 2009

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

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¹⁷ Shelburne, Elizabeth Chiles. “The Next Breadbasket? How Africa Could Save the World – And Itself,” *The Atlantic*, September, 2009, 72-73

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²⁰ Ibid.

²¹ Ibid.

²² European Commission. *EU Agri-Trade: Moving Through Turbulent Times*. 2009.

²³ Ibid.

²⁴ “Common Agricultural Policy: Reform of the Common Agricultural Policy.” *Fact Sheets on the European Union*. European Parliament.

²⁵ “Common Agricultural Policy.” *The First Pillar of CAP: II. Direct Aid To Farmers*. European Parliament.

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²⁷ Barnier, Michel. “EU’s Cohesion Policy Gets Lisbon Agenda Makeover.”
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²⁸ Ibid.

²⁹ “Common Agricultural Policy: Reform of the Common Agricultural Policy.” *Fact Sheets on the European Union*. European Parliament.

³⁰ Ibid.

³¹ Ibid.

³² Land Use Policy Group. *CAP – Pillar II*. <http://www.lupg.org.uk/default.aspx?page=126>

³³ Ibid.

³⁴ “Common Agricultural Policy: Reform of the Common Agricultural Policy.” *Fact Sheets on the European Union*. European Parliament.

³⁵ “Common Agricultural Policy.” *The First Pillar of CAP: II. Direct Aid To Farmers*. European Parliament.

³⁶ “Buying Farmland Abroad: Outsourcing’s Third Wave,” *The Economist*, May 21, 2009.

³⁷ Ibid.

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