

Farmgate: the developmental impact of agricultural subsidies

What is the farmgate scandal?

Governments in rich countries are paying over \$300 billion each year to subsidise their agricultural sectors - six times the total amount of aid to developing countries. That is more than enough to feed, educate and provide healthcare for everyone worldwide.

In a massive breach of faith, rather than complying with the spirit of agreements reached during the Uruguay Round negotiations of the World Trade Organisation and reducing levels of agricultural subsidies, rich countries have actually increased them. At the same time, developing countries have been forced to reduce or eliminate their subsidies under pressure from international donors. Developed countries are practising a double standard - protection for the rich and the free play of market forces for the poor.

Farm subsidies in the European Union and United States are increasing the gap between rich and poor. Specifically they have:

- undermined the livelihoods of poor and small-scale farmers
- encouraged over-production, distorted trade and depressed prices
- made US and EU farm goods artificially competitive on world markets
- resulted in the 'dumping' of cheap subsidised produce in poor countries
- failed to prevent small UK farmers from going out of business

In its new report, *Farmgate: the developmental impact of agricultural subsidies*, ActionAid uses examples from the wheat and sugar sectors to expose the double standards and damaging effect of subsidies. Case studies from Pakistan, Kenya, Indonesia, Nigeria and Swaziland show how farmers and workers are suffering, and national food security is being undermined, by unfair agricultural trade rules and practices (*Farmgate*, pp16-21 and p29).

ActionAid is campaigning for an end to this injustice: developed countries must substantially reduce their levels of agricultural support, eliminate export subsidies and phase out all farm subsidies that lead to dumping. It is also calling for changes in WTO rules that would enable developing countries to protect small-scale farmers and to develop their own agricultural sectors.

Box 1: Key Statistics

- The total amount of support to agriculture in developed countries now stands at over \$300 billion per year.
- \$300 billion would pay for clean water for everyone in the world (\$170 billion), education for all (\$6 billion), basic health and nutrition for all (\$13 billion) and pay off the public debt of the most heavily indebted countries (\$90 billion).
- Each tonne of wheat and sugar from the UK is sold on international markets at an average price of 40% and 60% below the cost of production respectively (ie, it is dumped)
- Every wheat farmer in the EU currently receives a subsidy of approximately £35 per tonne. As ActionAid research reveals, in Pakistan subsidies to small-scale wheat producers have been slashed under pressure from international institutions.
- In the UK, the richest 20% of farm holdings receive 80% of subsidies. The top 2,000 UK farmers receive annual subsidy cheques of about £100,000. The majority of UK farmers (about 60%) receive less than £5,000 a year.
- In the UK, farm subsidies cost every individual at least £50 a year. Agricultural support has also inflated consumer prices, and the approximate cost to each UK citizen is an additional £50 each year.

Why now – a chance to end the farmgate scandal

Franz Fischler, the European Commissioner for Agriculture, recently released his proposals for reform of the EU's Common Agricultural Policy and sparked off a debate that will last until a new policy emerges in 2006. At the same time, the WTO's Agreement on Agriculture (AoA) is under re-negotiation and due for completion by 2005. The next four years will be pivotal in determining whether Organisation for Economic Co-operation and Development (OECD) governments are prepared to embrace development objectives in trade negotiations on agriculture.

Trade rules on agriculture will also be part of the negotiations at the World Summit for Sustainable Development (Johannesburg: 26 August to 4 September 2002). During preparatory meetings, trade rules formed the most contentious section of the proposed declaration, with sharp divides emerging between rich and poor countries. If developed nations' governments want to demonstrate their sincere intent to eradicate poverty, it is imperative that they agree to a WSSD declaration that supports the development of WTO rules on agriculture that are fair, designed to combat hunger and promote food security. Just 500 kilometres from Johannesburg, where the summit is being held, people are dying because of food shortages. Trade liberalisation and the push to remove farm subsidies in developing countries is one of the factors contributing to this crisis.

Introduction

Trade rules to the benefit of developed countries...

Six years ago, during the WTO Uruguay Round of negotiations on agriculture, developed countries pledged to cut subsidies by 25 per cent. This has not happened. Developed countries have reneged on the spirit of the Agreement on Agriculture and, instead of reducing subsidies, have actually increased them. At the turn of the 20th Century, countries belonging to the OECD subsidised and otherwise supported their farmers to the tune of \$330 billion a year (1999-2001 average), compared with an average of \$302 billion in 1986-88 (*Farmgate, p4*).

The level of support to farmers in OECD countries is now roughly equivalent to the gross national product of the whole of sub-Saharan Africa. And the new US Farm Bill threatens to dramatically increase the OECD figure still further, bringing more problems for developing country farmers.

The EU's Common Agricultural Policy is currently under review and reforms will be in place by 2006. The WTO's Agreement on Agriculture is also being re-negotiated. ActionAid does not believe that either process will bring about significant reductions in subsidies that lead to over-production and distort trade.

Box 2: What the 2002 CAP Proposals do not do...

- * Give consideration to developing country concerns
- * Reduce the overall level of EU support to agriculture
- * Radically change the two CAP 'untouchables' – dairy and sugar
- * Provide any scope for large reductions in price support or export refunds
- * Decrease inequalities in the distribution of subsidies by providing a sufficiently low subsidy 'cap' on payments going to any one farm

Under the World Trade Organisation's Agreement on Agriculture - effectively a bilateral agreement between the US and the EU imposed on other WTO member countries - subsidies that 'distort trade' must be cut. As it turns out, 'trade distorting' subsidies are precisely those most commonly used in developing countries because of ease of administration. The AoA also created new categories of agricultural support deemed 'not to affect' or only 'partially affect' production or trade. Since 1996, the EU and the US have substantially redesigned their subsidy systems in order to move payments to farmers into these new categories and evade subsidy reductions. Unfortunately for developing countries, even if they could afford to subsidise their farmers, these 'Blue Box' and 'Green Box' subsidies - generally involving direct payments to individual farmers rather than price support - require a fully staffed and efficient civil service, sophisticated accounting and banking systems, and high levels of literacy that are beyond most developing countries (*Farmgate, p10*).

...but to the detriment of developing countries

Thus, EU and US farmers continue to receive subsidises. These encourage over-production and much of the additional produce is then dumped - sold below the cost of production - in developing countries. This depresses prices and makes it difficult for their farmers to compete. As a result, many have been driven off the land.

Developing countries are not obliged to reduce their subsidies under WTO rules if their support to agriculture does not exceed 10 per cent of total food output. But the use of agricultural subsidies in poor countries is also influenced by the conditions of loans through the International Monetary Fund, the World Bank and regional development banks.

The rules and policies of the WTO, the IMF, the World Bank and regional development banks, have actually coerced developing countries to reduce, sometimes eliminate subsidies to their agricultural sectors. Aid has often been made conditional on this. As a result, the use of farm subsidies in developing countries has decreased significantly over the past 15 years.

While many farmers in developing countries now receive no help at all, large landowners in Europe are benefiting hugely (see box 3).

Box 3: The poor and the rich

In the Rasoolpur village of Pakistan, Mithan, a widow, cultivates two acres of wheat, which provides for her and her three children. But Mithan is struggling to cope after the Pakistan government cut its support for farmers because of pressure from the Asian Development Bank. 'Government officials didn't come to the village looking to buy wheat at the official price, as they normally do. I now can't arrange schooling for my children', Mithan told ActionAid.

Mithan, like millions of small-scale, resource-poor farmers in Pakistan receives no subsidy to help her produce wheat. It's a very different picture for the EU's large-scale, resource-rich farmers.

Inequalities in the distribution of EU farm subsidies mean the larger the farm, the greater the subsidy. In the UK, the Duke of Westminster, for example, with farmholdings of about 55,000 hectares, receives almost £300,000 a year in farm subsidies from the taxpayer.

The farming enterprises of Lord Iliffe and his family, owners of around 15,000 hectares, have received nearly £3 million in direct payments from the taxpayer in the last ten years. Lord de Ramsey, head of the de Ramsey Estate, has 4,500 hectares spread over at least three large farms. These farms received £495,000 in subsidy payments in 1996 (*Farmgate, pp14 - 15*).

Wheat

Subsidies have led to surplus production and dumping in developing countries, exacerbating the problems of their small farmers. Wheat provides a classic example of the damage subsidies can do.

Wheat is a staple food crop in many parts of the world. The US, EU, China and India dominate world wheat production with about half of all wheat (and wheat flour) traded on world markets coming from the EU and US.

The EU has decreased wheat subsidies with one hand and increased them with the other...

The EU has historically ensured that returns to its wheat farmers are artificially high. Farmers in the EU have been encouraged to produce wheat with a combination of market price support - including through intervention buying and export subsidies - and direct payments. Both contribute to overproduction and surpluses.

Under intervention buying, the European Commission sets a minimum price for certain commodities, including wheat. The intervention price has historically been higher than the world price. Storage agencies in each EU member country are obliged to purchase farm produce in oversupply at this price.

The reforms to the EU's Common Agricultural Policy in 1992 and 1999 reduced the intervention support price for wheat. As a result of these cuts, EU wheat prices have fallen; since 2000 they have been little different to world prices, whereas in the early 1990s EU wheat prices were about two times higher than the world price.

The cost of producing wheat in the UK (and the EU) is currently higher than the price farmers receive. Left to the market, this means that it would no longer make sense for UK farmers to grow wheat. But UK farmers are by no means left to the market. To compensate them for reductions in the intervention price, they are compensated through direct payments under the Arable Area Payments Scheme. Introduced in 1992, this continues to ensure large-scale wheat growers a reasonable return. The scheme provides farmers with about £30 a tonne of wheat. It gives farmers the incentive they need to carry on overproducing wheat (*Farmgate, pp11-12*).

...to the detriment of developing countries

Each tonne of UK (and EU) wheat sold on international markets sells at about 40 per cent below the cost of production - in other words, it is dumped. As demonstrated by ActionAid's case studies in Pakistan, Nigeria, Indonesia and Bangladesh, this is having a detrimental impact on farmers and food security in developing countries (*Farmgate, pp15-21*).

Sugar

Another highly subsidised EU product with detrimental impacts in developing countries

Through farm supports, such as quotas, intervention prices, export subsidies and import tariffs, sugar beet producers in the EU are supported by a system that raises the price of sugar in EU countries to artificially high levels - far in excess of the world price. One way of maintaining high internal prices for EU sugar is to export surpluses. Export subsidies are available to exporters to bridge the gap between the high EU price and the lower world price (*Farmgate, pp22-25*).

For many developing countries, sugar is an important crop; for some it is a key export earner. Sugar is an agricultural sector in which developing countries have a distinct cost advantage over the European Union.

Sugar producers and processors in EU countries stay in business only through the use of subsidies. The EU's subsidies to the sugar sector are causing huge problems for small-scale farmers in developing countries, eradicating their competitive advantage. Export subsidies enable sugar traders to export surpluses at prices significantly below the cost of EU production. Again, as with wheat, the product is dumped.

Countries who make up the African, Caribbean and Pacific (ACP) group have preferential access to the EU sugar market, but other sugar producing countries are denied access. Even ACP countries can run foul of EU subsidies (*Farmgate, p26 – 28*).

Swaziland, for example, produces sugar at less than half the cost of EU countries, and yet is unable to compete with the EU imports that increasingly dominate its market - and also neighbouring markets. The sugar industry plays a crucial role in the Swaziland economy. Subsidised dumped EU sugar products (primarily confectionary products) are seriously undermining the Swazi sugar processing industry, leading to the loss of about 16,000 jobs in the Swazi sugar industry and 20,000 jobs indirectly linked to the industry, such as packaging and transport (*Farmgate, p29.*)

Consumer prices and food security

The cheap price of dumped food imports may appear to benefit consumers in developing countries. In the short term this can be true. But low imported staple food prices also undermine the livelihoods of local farmers, and the farm workers they employ, often driving them from their land.

In turn, this leads to an increasing dependence on imports to ensure national food security and greater vulnerability to world price increases and exchange rate volatilities. The cheap supplies can dry up at any time, and local agriculture crippled by dumping is in a weak position to produce once more for local markets.

It is widely predicted that reducing subsidies in developed countries would increase world prices. While this would benefit poor countries' exports, it would have a detrimental impact on developing countries that are net-food importers. As a cushion from this impact, developed countries should use some of the money they no longer pay in subsidies to create a revolving compensatory fund for net-food importing countries.

Higher prices at the farmgate would enable all farmers to achieve better returns from their labour. Currently most of the profits from farm produce go to the traders, manufacturers and retailers. In the UK, retail prices are currently increasing while prices to farmers are decreasing. Therefore a reduction in subsidies does not have to mean an increase in prices for consumers, if the revenues from the food are shared more equitably (*Farmgate, p30*).

Public goods

Sustainable development is currently the focus of debate at the WSSD Summit in Johannesburg. EU and US farm subsidies have encouraged the use of environmentally unsound methods, such as the use of large quantities of chemicals, which are inherently unsustainable. In line with the urgent need for sustainable development, developed countries should redistribute and retarget their agricultural subsidies towards the delivery of public goods - such as conserving the environment, enhancing rural development and promoting more sustainable agricultural practices.

In addition, particularly in developing countries, subsidies should also be targeted at addressing other market failures, such as food distribution to the poor and supporting food security crops and produce.

Conclusion

Northern subsidies need to be reduced and retargeted

WTO rules permit OECD countries to continue to provide massive support to their agricultural sectors. These subsidies distort production, trade and prices with detrimental impacts on developing countries. They widen the gap between rich and poor countries and farmers. While they themselves make use of heavy farm subsidies, developed countries put pressure on poorer countries not to use them. It adds up to an international “farmgate” scandal. It is a scandal that must end.

Decisions about the Common Agricultural Policy in the EU and the Farm Bill in the US should be consistent with the EU and US development goals.

ActionAid is calling for EU, US and international trade rules to be reformed to:

- ✓ Substantially reduce the level of agricultural support in the developed world;
- ✓ Phase out, as soon as possible, agricultural subsidies in the developed world that distort production and trade and which lead to dumping;
- ✓ Eliminate all types of export subsidies immediately;
- ✓ Redirect remaining subsidies in the developed world towards conserving the environment, promoting rural development and target them at small-scale farmers and more sustainable agricultural practices;
- ✓ Introduce a Development Box into the WTO Agreement on Agriculture to enable developing countries to support and protect their small farmers and key food security crops, and feed their people.