

Farmgate

The developmental impact of agricultural subsidies



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Acronyms

Executive Summary

The next four years will determine whether governments in the developed world are willing to embrace development objectives in trade negotiations on agriculture. The World Trade Organisation's (WTO's) Agreement on Agriculture (AoA) is currently being re-negotiated and the EU's Common Agricultural Policy (CAP) will be reformed by 2006.

The impact of existing agricultural trade rules, that favour rich countries and large-scale producers, has been to threaten or destroy the livelihoods of millions of farmers, undermine development in poor countries and contribute to environmental degradation. If developed countries' governments' interest in eradicating poverty is genuine, they must ensure that these negotiations deliver trade rules that are fair and designed to combat hunger while promoting food security.

To date, there is little evidence that this will happen. In a massive breach of faith, instead of complying with the spirit of the WTO's AoA and reducing agricultural subsidies, many developed countries' governments have actually increased them. Subsidies in the Organisation for Economic Co-operation and Development (OECD) countries have grown by about 5-10% in nominal terms over the last 15 years. The total amount of support to agriculture in developed countries now stands at some \$300 billion per annum – about twice the global wealth of all least developed countries or six times the current annual level of total overseas development assistance to poor countries.

During the WTO Uruguay Round of negotiations on agriculture, rich countries committed themselves to reducing agricultural subsidies by about 25% by 2001. The outcome should have been that both rich and poor countries would be able to trade on a much more level playing field. This has not happened because the rich countries had some tricks up their sleeves. During the negotiations they devised a complicated set of rules that stated that only 'trade distorting' subsidies (i.e. Amber Box subsidies) must be cut. As it turned out, these were the very type of subsidies that were in common use in poor countries.

Meanwhile, the European Union (EU), United States (US) and some other developed nations negotiated two other categories of allowable agricultural support. These are known as the Green Box and the Blue Box and are deemed not to affect, or only partially affect, production or trade. This has allowed both the EU and the US to re-design their subsidy systems and move payments into these new categories.

Green Box and Blue Box subsidies are directed at individual farms and farmers, so using them, therefore, depends on being able to process a mass of individual claims each year – something which would be impossible in countries where levels of literacy are low, civil services are small, and there is extremely limited access to banking.

Furthermore, in developing countries it is common for the majority of the population to earn their living from farming. This means the non-farm tax base is very small and it is impossible for those earning their living in other ways to support their nation's agricultural sector in any meaningful way. Many countries are dependent on World Bank loans and aid from donors, who thus have enormous influence over agricultural and other policies. Indeed, the World Bank and other donors, in the name of trade liberalisation, have forced developing countries to severely cut or completely eliminate the support payments made to their farmers. As a result, India, for example, has reduced its subsidies to an annual \$1 billion for its 110 million landholders, equivalent to just \$9 (£6) per year per farm.

The level of subsidies in the industrialised nations is having a major impact on developing countries and is widening the gap between the rich and the poor. For example, every wheat farmer in the EU currently receives a subsidy of approximately £35 per tonne. Research by ActionAid in Pakistan has revealed that small-scale wheat producers receive nothing. For sugar, the EU artificially supports the price of the commodity to protect sugar producers and processors. At times, the EU's internal price for sugar is three times that prevailing on the world market. Developing countries simply do not have the same financial resources, or the flexibility within the WTO's AoA, to support their producers to the same degree.

Executive Summary



Mark Phillips/ActionAid

Subsidies have contributed to the continuing over-production of agricultural goods in developed countries, which itself contributes to the decline in world agricultural prices. Furthermore, subsidies allow the EU and US to sell crops at artificially low prices, creating unfair competition with farmers in the developing world in both their domestic market and markets overseas. Indeed, both the EU and US dispose of surpluses on to world markets at less than the cost of production. In effect, these goods are dumped. For example, in the United Kingdom (UK), each tonne of wheat and sugar is sold on international markets at an average of about 40% and 60% respectively below the cost of production. Artificially cheap products can undermine production in developing countries and force small-scale farmers out of business. Cheaper imports can also contribute to a shift in consumption patterns away from locally produced goods, aggravating the situation for local farmers. In addition, when production levels are high, rich countries have dumped the surplus in developing countries in the form of food aid – this too, distorts local markets and can be a disincentive to production.

ActionAid has investigated the impact of dumping and low-priced imports of wheat in a number of poor countries. In Kenya, low-priced wheat flour from Egypt undermined the domestic industry and jeopardised local wheat producers. There are strong suspicions that subsidised US and possibly EU wheat (significant quantities of which have been dumped in Egypt) has been used to make the flour, or that the cheap imports have been used to cross-subsidise high-cost Egyptian flour production. Indonesia recently established that the EU and other large exporters were guilty of dumping wheat flour on to its domestic market. Changing consumption patterns, from rice to noodles and bread, have increased demand for wheat flour. An increasing proportion of wheat-derived products are now manufactured from cheap imported flour. This is undermining the activities of small domestic mills and affecting the production and consumption of rice, a staple food in the country. Low-priced and subsidised wheat imports into Nigeria – which produces very little wheat itself – have also increased bread consumption at the expense of locally grown staple crops. All these countries are becoming increasingly dependent on imports and thus vulnerable to price increases on the world markets and exchange rate volatility.

In the European Union, agricultural subsidies are proving to be poor value for money for taxpayers and consumers. Government subsidies through the taxpayer are costing every man, woman and child in the UK at least £50 per annum. Agricultural support has also inflated consumer prices, and the approximate cost to every person in the UK is an additional £50 each year. Despite the costs, subsidies have failed to stem the demise of rural communities and have encouraged the use of environmentally unsound methods, such as the use of large quantities of chemicals. Inequalities in the

distribution of subsidies mean that the larger the farm, the greater the amount of subsidy received. In the UK, some large farms are receiving subsidy cheques of over £500,000 every year. No other type of private business is financed in this way. But the majority of UK farmers are small-scale producers and get subsidies of less than £5,000. Despite government support, many of these small-scale farmers are not making a profit and are being forced out of business.

Unfortunately, radical reforms of the subsidy system seem unlikely without concerted pressure from a wide range of civil actors and concerned governments. New EU CAP proposals, published in July 2002, appear to promote major change but, significantly, do not reduce the overall sum dedicated to subsidies. Without reductions, little will change. ActionAid does not believe the proposals go far enough to truly 'decouple' subsidies from production, and is disappointed that, beyond existing commitments, there are few moves to reduce market price support. If implemented, the proposals will ensure that the majority of EU subsidies will be compliant with WTO rules and not subject to any further reduction requirements.

However, it is by no means certain that the CAP proposals will be agreed. Opponents of CAP reform have been given additional ammunition with the announcement in 2002 of the US Farm Bill, which provides for massive increases in subsidies to US farmers over the next five years. Mediterranean countries and Ireland, for example, are known to oppose the CAP proposals and will argue that this would be extremely unwise when the US, the EU's strongest competitor, is moving in the opposite direction.

ActionAid believes that the only subsidies that should be permitted are those that deliver 'public goods' – for example conserving the environment, enhancing rural development, promoting more sustainable agricultural

practices, supporting small-scale producers and, particularly in developing countries, addressing other market failures (such as food distribution to the poor) and supporting food security crops and products. Currently, subsidies in the developed world do not provide these goods and in fact deliver 'public bads' – not only are they heavily skewed in favour of large producers but they lead to over-production and depressed prices that distort trade and result in dumping.

In highlighting these issues, ActionAid is calling for the EU and the WTO rules to be reformed to:

- Eliminate all types of export subsidies (i.e. credits and refunds) immediately.
- Substantially reduce the level of agricultural support in the developed world.
- Phase out, as soon as possible, agricultural subsidies in developed countries that distort production and trade (and which lead to dumping).
- Redirect remaining subsidies in the developed world towards conserving the environment, promoting rural development and target them primarily at small-scale farmers and more sustainable agricultural practices.
- Support the introduction of a Development Box within the AoA to enable developing countries to protect small-scale farmers and to develop their own agricultural sectors.

ActionAid is also calling on member states in OECD countries to:

- Put all information on subsidies (export refunds, export credits, direct payments, market price support etc) into the public domain.

1. Introduction

The next four years will be pivotal for farmers in both rich and poor countries. The European Union (EU) is currently reviewing the Common Agricultural Policy (CAP) and will be introducing reforms by 2006. Concurrently, World Trade Organisation (WTO) members are setting out the 'modalities for re-negotiations' on the Agreement on Agriculture (AoA). Formal negotiations on the AoA will start in 2003 and are due to be completed by the time of the WTO Ministerial in 2005. Both sets of negotiations will be critical in determining the way that agricultural production and trade is supported and financed in the future. The outcome of these reviews, reforms and negotiations will determine the fate of many producers, particularly those on low incomes and operating at a small scale.

ActionAid is far from confident that the pending EU reforms of the CAP and the re-negotiations of the AoA will have any meaningful impact on the level of subsidies in developed countries. Support to farmers is a sensitive political issue in both the US and the EU, particularly during times of national and local elections (the German elections will be held in late 2002). The new Farm Bill in the United States is projected to increase support to agriculture by 70-90% per annum over the next five years and has significantly undermined the efforts of subsidy reform advocates in the EU. The European Commission's latest proposals for the CAP were published in July 2002 and do not go far enough. While moving EU subsidies into WTO-compliant categories, there is no proposal to reduce overall subsidy levels. In any case, it will be difficult to get EU-wide approval for these changes. Mediterranean countries and Ireland, for example, are known to be hostile to the proposals and may veto any attempts to alter the current system.

Current international agricultural production and trade rules are governed by the WTO's AoA, agreed in 1994. The outcome of the negotiations effectively constituted a bilateral agreement between the US and the EU, which was then imposed on the rest of the WTO membership. According to EU and US rhetoric, the Agreement would

reduce trade barriers – both tariffs and subsidies. But by using sophisticated calculations and introducing complicated definitions, developed countries have managed to evade subsidy and tariff reductions.

Between 1999 and 2001, developed countries' support to agriculture averaged about \$330 billion per annum, which in nominal terms is some 9% higher than in the period 1986 - 1988 (see Table 1). However, developing countries are unable to afford anything like these levels of subsidies. Many small-scale farmers in the South have been driven out of production because subsidised exports from the North have been dumped in their markets (ie, sold on the world markets at less than the cost of production in the exporting country).

Table 1

Levels of support to agriculture within OECD countries* (\$ billions)^{1,2}

	1986-1988 (annual average)	1998	1999	2000	2001	1999-2001 (annual average)
OECD	302	339	357	321	311	330
US	69	91	99	92	95	95
EU	110	125	130	102	106	113

* As the OECD points out, any changes in the level of support to agriculture has less to do with major policy changes – rather it reflects international prices and exchange rate movements.

The use of agricultural subsidies is influenced not only by the WTO, but also by the World Bank, the International Monetary Fund (IMF) and the regional development banks. Developing countries are not obliged to reduce their subsidies under WTO rules as long as the aggregate value of this support does not exceed 10% of the total value of the product. Yet their subsidy levels have decreased significantly over the past fifteen years. Poor countries have been unable to resist World Bank and regional development banks' pressure to end subsidies, and simultaneously remove tariffs that protect local farmers from foreign competition in the name of free market efficiencies.

¹ OECD, 2001a. *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2001*. Organisation for Economic Co-operation and Development, Paris. <http://www1.oecd.org/publications/e-book/5101101E.PDF>

² OECD, 2002. *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2002*. Organisation for Economic Co-operation and Development, Paris. <http://www.oecd.org/pdf/M00030000/M00030609.pdf>

ActionAid believes that overall support to agriculture in developed countries needs to be dramatically reduced and remaining subsidies should be redistributed and retargeted towards the delivery of public goods – for example conserving the environment, enhancing rural development, promoting more sustainable agricultural practices and supporting small-scale producers. 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 products. ActionAid believes that developing countries may require more scope within WTO rules to deliver subsidies to develop their agricultural sector and to protect small-scale producers. We support developing country proposals for increased flexibility for poor countries in the AoA rules through the creation of a Development Box (*see page 20*).

Primarily through the use of case studies in the wheat and sugar sectors, ActionAid will:

- Provide **evidence** that domestic subsidies in the UK (and the EU) have a significant bearing on production, trade and prices. Overall support to agriculture in developed countries has increased and consequently has contributed to over-production, particularly in arable crops. In addition, the level of production throughout the UK and the EU is also influenced through the use of export subsidies (also called export refunds) that have enabled exporters to dispose of surpluses cheaply on the world market.

- Reveal that the **distribution** of domestic agricultural production subsidies at global and national scales is iniquitous. Small-scale farmers in developed countries receive only a fraction of the subsidies available to large landowners who also enjoy massive economies of scale. Yet by comparison, many small-scale farmers in developing countries do not receive any subsidies at all. Worldwide, subsidies are widening the gap between the rich and poor.
- Highlight the serious **impact** of developed countries' domestic subsidies and export refunds (and some food aid) on developing countries. Because of the use of subsidies many EU agricultural products, including wheat and sugar, are dumped in developing country and other markets because they are sold at less than the cost of production in the EU. When production levels for wheat and other cereals are high, rich countries have also dumped the surplus in developing countries in the form of food aid.
- Reveal that the **pressure** to reduce domestic agricultural production subsidies in developing countries has been influenced as much through loans and lending programmes of the World Bank, the IMF and the regional development banks as well as by commitments in the AoA.

The impact of current production and trade rules in favour of developed countries and large-scale producers has been very serious. They have threatened or destroyed the livelihoods of millions of farmers, contributed to environmental degradation and undermined development in poor countries.

2. Support to the Agricultural Sector in the EU and the UK

2.1 Introduction

Support to the agricultural sector in the EU is mainly applied through three mechanisms:

- 1 Commodity support regimes (Pillar 1 of the CAP accounting for 90% of the CAP budget).³
- 2 Support for structural adjustment, diversification and environment management (Pillar 2 of the CAP accounting for about 10% of the CAP budget).
- 3 Indirect measures such as State Aids.

The first two – commonly known as Pillar 1 and Pillar 2 – are administered through the CAP. The CAP also has influence on State Aids that are used to support the agricultural sector through member states' budgets. These are defined by separate rules and are targeted at particular circumstances, such as disease control, regional income disparities, etc. For example, in 1999 most of the notifications to the European Commission came from Germany (restructuring in the former German Democratic Republic), Italy (restructuring in Sardinia) and in Belgium (the dioxin crisis).⁴

A number of authoritative sources have commented that the use of subsidies – and even some subsidies that are supposedly production neutral – have been responsible for keeping production levels artificially high.^{5,6,7} ActionAid fully agrees with this view. As production has risen, so have trade levels, with producers – particularly the EU and the US – disposing of surpluses in other countries. Much of this is dumped on world markets at less than the cost of production in the exporting country.

ActionAid has chosen to restrict the following analysis to Pillar 1 subsidies. They are acknowledged to have the greatest impact in distorting production and trade. They also currently make up 90% of the CAP budget that stood at about €43 billion in 2000.

2.2 Commodity support regimes (Pillar 1)

2.2.1 Market price support

The term 'market support' – also known as 'price support' – covers a range of policies that are used within the European Union to keep internal agricultural prices high within the single market. The three most important, complementary components of market support are intervention buying and storage, import tariffs and export refunds. These measures are commonly acknowledged to be key factors contributing to over-production and the creation of surpluses.

For some sectors – most notably beef and veal, dairy, cereals and sugar – EU prices are kept artificially high through the use of intervention support prices. The EU purchases farm goods that are in over-supply (known as intervention buying) to prevent the market being flooded and maintain high internal prices. In the aftermath of the food shortages experienced during World War II, this was one means of boosting production in order to achieve self-sufficiency.

Box 1: How intervention buying works

The European Commission sets an intervention support price for certain commodities. Storage agencies within each EU member state have an obligation to purchase these commodities at this price from producers.

Intervention buying at minimum guaranteed prices keeps the price of commodities artificially high (this is very noticeable in the sugar sector). These prices are passed on to consumers by way of higher retail prices, meaning that it is consumers who indirectly support the farming sector through this means.

³ European Commission, 2001a. *EU agriculture and the WTO*. Directorate-General for Agriculture, Brussels.

⁴ European Commission, 2001b. *The Agricultural Situation in the European Union – 2000 Report*. Brussels.

⁵ AgraEurope, 2000. *US 'neutral' subsidies influence production*. 20 October 2000.

⁶ OECD, 2000. *Decoupling: A Conceptual Overview*. Organisation for Economic Co-operation and Development, Paris.

⁷ USDA, 2000a. *US Farm Program Benefits: Links to Planting Decisions and Agricultural Markets*. Economic Research Service of the United States Department of Agriculture. <http://www.ers.usda.gov/publications/agoutlook/oct2000/ao275e.pdf>

Other mechanisms used to keep EU prices high include the application of import tariffs to protect the market from external competition, and the provision of financial assistance to exporters (i.e. export subsidies or refunds) at times when the EU price is significantly higher than world prices. If surplus products remained within the EU, this would depress the EU internal price. To ensure this does not happen and that the product is exported outside the EU, the EU refunds to the exporter the difference between the EU price and the world price. High import tariffs and export refunds thus help to keep EU supply and demand in balance and keep prices high. An example of these practices at work in the EU sugar sector is set out in Section 3.3.

Box 2: Determining the level of market price support to farmers

The range of market support mechanisms result in EU consumers financially supporting farmers because domestic retail prices are higher than prices in global markets. For those agricultural products that benefit from market price support in the EU (see Table 2), one commonly used method of determining the level of market price support to farmers is to multiply production volumes by the estimated gap between the domestic and world market price.⁸

For example, using the statistics in Table 2, EU annual production of wheat in 1999/2000 was about 100 million tonnes. The gap between domestic and world prices was €15 per tonne. Thus, the level of market price support to farmers across the EU for wheat was approximately €1.5 billion (or about €90 for every hectare grown). However, if the EU domestic price comes into line with (or falls below) world prices, market price support for that commodity falls to zero. This has occurred in the wheat sector for most of the period between 2000 and 2002.

While consumers rather than taxpayers pay most of the bill for market price support through higher prices, there are various costs associated with the implementation of market price support and intervention buying which are paid by taxpayers through the CAP budget. The three most significant are the costs of purchase by the buying agencies, costs of storage and export refunds. These three instruments are still an important component of Pillar 1 but their use is declining. Before 1992 they accounted for over 90% of the CAP budget but, by 2006, they will comprise only 21%.⁹ This decline is a result of the EU's commitments under the AoA. Under WTO rules, set out in the Amber Box of the AoA, price support is deemed to be 'trade distorting' because minimum price guarantees provide a direct incentive to farmers to produce as much as they can.

Table 2

Comparison between EU-Global prices for certain 'price-supported' UK/EU agricultural commodities (€/tonne 1999-2000)¹⁰

	EU	Global
Wheat	133	118
(White) Sugar*	650	250
Beef	2780	1776
Sheep meat	3333	1476
Skimmed milk powder*	2055	1419
Butter*	2954	1307
Cheese*	3500	2154

* These commodities – as well as fruit and vegetables – do not receive direct payments.

2.2.2 Direct payments

Market price support is deemed to be WTO incompatible and developed country members including the EU are committed to reduce its use. However, during the Uruguay Round negotiations of the AoA, developed country producers, particularly the EU, devised a new category of subsidies. These are supposedly 'production-limiting' in

⁸ A number of institutions and publications use this method to calculate the level of market price support. For example, the Department for Environment, Food and Rural Affairs (DEFRA) has used this method to determine the level of market support across each sector in the UK. See DEFRA, 1999a. *Reducing Farm Subsidies – Economic Adjustment in Rural Areas. Working Paper – 2. A Discussion Document. August. (then the Ministry of Agriculture, Fisheries and Food)*. <http://www.defra.gov.uk/farm/agendtwo/stage3/workpap2.pdf> Calculation of the 'market price support' through this means is crude and has rightly been questioned by a number of analysts, particularly in the South. It effectively measures the degree to which government intervention through price support artificially keeps national prices above those pertaining in the unfettered global market. But international prices are also artificial in that they are depressed by high levels of subsidies in the North. Whilst recognising the limitations of this method, we continue to use it here.

⁹ European Commission, 2001a. *Op cit. Section 4.*

¹⁰ European Commission, 2001c. *Everything But Arms Proposal. Possible Impacts on the Agricultural Sector. EU Trade Concession to Least Developed Countries.* http://europa.eu.int/comm/trade/pdf/eba_ias.pdf

2. Support to the Agricultural Sector in the EU and the UK

that they are not directly linked to production but paid on the basis of area grown and/or a fixed number of livestock. Known as direct payments, these were introduced within the EU under the CAP reform process in 1992, either to compensate various sectors for cuts in market price support (arable, beef) or simply as a means of giving further support to a sector (sheep). In the WTO, direct payment subsidies fall within what is known as the 'Blue Box'.

Direct payment support to the arable sector in the EU is given on the condition that land is compulsorily 'set-aside' i.e. taken out of productive use (farmers can also voluntarily set-aside land). The level of compulsory set-aside is established periodically by the European Commission and currently stands at 10% of arable land.

Reforms to the CAP in 1999, under the EU's Agenda 2000, continued the earlier process of reducing market support for some products and increasing direct payments in compensation. By 2006, direct payments will make up about 68% of the current CAP budget.¹¹

2.3 Distribution of subsidies

As will be demonstrated below, subsidy payments are skewed in favour of the largest producers. However, it should be noted that there are technical complexities and information gaps that cause problems when making distribution assessments. Most farms receive subsidies, both in the form of direct payments and market price support, but farm-by-farm figures are not available either from the EU or the UK's Department for Environment, Food and Rural Affairs (DEFRA). In the US, the Department of Agriculture was ordered by the courts to allow public access to subsidy records and, as a result, individual payments to farmers are now published.¹² In contrast,

DEFRA considers such information to be 'commercially sensitive' and will not release it. More general data on subsidies is available in disaggregated forms but is rarely completely up-to-date. The OECD has produced a widely used measure covering both direct payments and market price support, known as the Producer Support Estimate (PSE). The PSE is broken down to provide data regarding the overall level of support to each commodity in the EU, and the average support to each producer within the EU,¹³ but does not analyse the distribution according to farm size.

Because of the difficulty in measuring the degree of market intervention by farm size, studies have tended to focus on direct payments.

2.3.1 The extent and distribution of subsidies in the EU

The Australian Bureau of Agriculture and Resource Economics (ABARE) has conducted one of the most recent studies of the distribution of direct payments within the EU. Using statistics from 1996, they found that the largest farms in terms of area and those with the highest gross margins received the greatest share of subsidies through the CAP. 17% of farms – those that fall into the EU's definition of 'large' and 'extra large' farms (essentially over 50 hectares) – received 50% of agricultural support.¹⁴

2.3.2 The extent and distribution of subsidies in the UK

Although it is difficult to be absolutely precise given the lack of recent and detailed figures, Table 3 shows how direct payments in the UK's arable, sheep and beef sectors were distributed for the year 1997-98.

¹¹ European Commission, 2001a. *Op cit.* Section 4.

¹² EWG, 2002. *EWG Farm Subsidy Database.* Environmental Working Group. <http://www.ewg.org/farm/>

¹³ According to the OECD, the annual PSE to each farmer in the EU between 1998 and 2000 was \$16,000. For the US, each farmer received \$20,800 whilst the OECD average was \$11,300. OECD, 2001a. *Op cit.* Page 31.

¹⁴ Podbury, T., 2000. *US and EU Agricultural Support: Who Does it Benefit?* ABARE research programme on agricultural trade liberalisation. Canberra, Australia. http://www.abareconomics.com/pdf/CJ%2002_AG.pdf

¹⁵ DEFRA, 1999b. *Agriculture in the United Kingdom 1998.* Department for Environment, Food and Rural Affairs. http://www.defra.gov.uk/esg/work_html/publications/cf/auk/For_auk98/auk98.htm

¹⁶ Hansard, 1999. *IACS Payments.* House of Lords written answers. 12th May, Column WA155.

¹⁷ DEFRA, 1999a. *Reducing Farm Subsidies – Economic Adjustment in Rural Areas.* Working Paper – 2, A Discussion Document, page 60.

<http://www.defra.gov.uk/farm/agendtwo/stage3/workpap2.pdf>. For example, the level of price support to all sugar beet farmers in 1998 was £140 million. In the same year, 189,000 hectares was grown giving a market price support per hectare of £740.

¹⁸ European Commission, 1999. *CAP Reform: The Arable Crops Sector.* http://europa.eu.int/comm/agriculture/publi/fact/cereals/index_en.htm

Assuming payments were the average of each range, the total payments were approximately £2,730 million (this is consistent with DEFRA official statistics on direct payments for this year).¹⁵ An approximate calculation by ActionAid reveals that 16% of holdings (36,761) received 69% of subsidies (£1,885 million), reinforcing the commonly used statistic that 20% of holdings receive 80% of subsidies.

Table 3 Distribution of direct payments in the UK 1997-98¹⁶

Amount	No of Holdings
>£1 million	4
£500,000-£1 million	29
£100,000-£500,000	2,068
£50,000-£100,000	5,790
£30,000-£50,000	8,847
£15,000-£30,000	20,023
£5,000-£15,000	48,377
<£5,000	145,032
Total	230,170

Some slightly dated statistics are also available for direct payments for the arable sector and these are considered in more detail in section 3.1. Crops within the arable sector for which payments are eligible include cereals, oilseeds and proteins (i.e. beans). Direct payments to the arable sector are based on average regional yields in the period 1986 to 1991. Because cereal yields were higher in England, so the yield factor is some 13-17% higher in England than it is in Northern Ireland and Wales, favouring the larger English farm structures. Although it is an arable crop, sugar beet does not receive arable area payments but benefits from market price support (see section 3.3 on sugar).

Because market price support is a significant component in many of the UK agricultural sectors (see Table 2 above), ActionAid believes, despite the paucity of data and the difficulty in measuring support, that it is necessary to at least attempt to determine how much each farmer is receiving through this means.

The UK's Ministry of Agriculture, Food and Fisheries (now part of DEFRA) has estimated the level of market price support that farmers received for each commodity in the UK. From this it is possible to determine the level of market price support to each UK farmer for every hectare or tonne of cereals and sugar beet.¹⁷ In the late 1990s,

beet farmers were receiving some £740 per hectare in market price support. ActionAid believes the current level of market price support that each UK beet farmer is receiving from the consumer is roughly similar (see Table 4). It is no wonder that for UK farmers, the growing of sugar beet is one of the most profitable agricultural commodities.

Additional information relating to the distribution of subsidies in the wheat and sugar sectors is presented in sections 3.1.3 and 3.3.6 below.

Table 4

Market (price) support to cereals and sugar in the UK in 1998

Commodity	Level of support	Comments
Cereals	£12 per tonne (equivalent to £80 per hectare)	Under Agenda 2000, the intervention price for cereals was reduced by about 15%. ¹⁸ For most of 2000 and 2001, market price support for wheat had effectively fallen to about £0/tonne or £0/hectare
Sugar beet	£14 per tonne (equivalent to £740 per hectare)	No change under Agenda 2000 and under reforms to the Sugar Regime in 2001. Estimates of market price support in 1999, 2000 and 2001 are roughly similar (taking into consideration internal EU and world market prices for sugar and exchange rate movements).

2.4 Subsidies and production

The EU and US have argued successfully at the WTO that there are categories of subsidy that have little or no impact on production levels and so have little or no impact on the market or trade. ActionAid disputes this claim.

Many variables influence the level of EU crop production in any one year, the most important being the weather. In this context, the extent to which subsidies may affect production is difficult to gauge. Nevertheless, it seems safe to assume that farmers will not grow crops if they know that the farmgate price will be lower than the cost of production. ActionAid's study of the wheat sector in this report reveals that, had subsidy payments not been included in their calculations, most farms would have been making a loss on their wheat in 2000-2001. It therefore seems clear that subsidy payments are factored into farmers' calculations when deciding which crops to grow. A similar situation exists for sugar.

2. Support to the Agricultural Sector in the EU and the UK

2.5 Subsidies and developing countries

During the WTO Uruguay Round of negotiations on agriculture, rich countries committed themselves to reducing agricultural subsidies by about 25% by 2001. The outcome should have been that both rich and poor countries would be able to trade on a much more level playing field. This has not happened because the rich countries had some tricks up their sleeves. During the negotiations they devised a complicated set of rules that stated that only 'trade distorting' subsidies (i.e. Amber Box subsidies) must be cut. As it turned out, these were the very type of subsidies that were in common use in poor countries.

Meanwhile, the EU, US and some other developed nations negotiated two other categories of allowable agricultural support. These are known as the Green Box and the Blue Box (see **Box 3**) and are deemed not to affect, or only partially affect, production or trade. As seen above, this has allowed both the EU and US to re-design their subsidy systems and move payments into these new categories.

Green Box and Blue Box subsidies are directed at individual farms and farmers, so using them depends on being able to process a mass of individual claims each year – something which would be impossible in countries where levels of literacy are low, civil services are small, and there is limited access to banking.

Box 3: WTO subsidy boxes

The WTO classifies subsidies into three categories:

Amber Box – all domestic support measures that are considered to distort production and trade (they are subject to WTO reduction commitments).

Blue Box – subsidy payments that are directly linked to acreage or animal numbers, but under schemes which also limit production by imposing production quotas or requiring farmers to set-aside part of their land. These are deemed by WTO rules to be 'partially decoupled' from production, and are not subject to WTO reduction commitments.

Green Box – subsidies that are deemed not to distort trade, or at most cause minimal distortion and are not subject to WTO reduction commitments.

Furthermore, in developing countries it is common for the majority of the population to earn their living from farming. This means the non-farm tax base is very small and it is impossible for those earning their living in other ways to support their nation's agricultural sector in any meaningful way. Many countries are dependent on World Bank loans and aid from donors, who thus have enormous influence over agricultural and other policies. Indeed, the World Bank and other donors, in the name of trade liberalisation, have forced developing countries to severely cut or completely eliminate the support payments made to their farmers. As a result, India, for example, has reduced its subsidies to an annual \$1 billion for its 110 million landholders, equivalent to just \$9 (£6) per year per farm.

3. Wheat and Sugar Subsidies

To illustrate the distribution and impact of subsidies, in the EU and the developing world, two sectors, wheat and sugar, are analysed in considerably more detail. A contrast is made between the production and trade in the UK (and EU) and in Pakistan, Kenya and a number of other developing countries.

Wheat and sugar have been chosen because:

- Both crops are grown in developed countries on larger than average farms.
- The crops receive large amounts of subsidies in developed countries but significantly less in developing countries.
- Until 1999, EU wheat exports benefited from large amounts of export subsidies (refunds).¹⁹ EU sugar production still receives significant amounts of export refunds and the major beneficiaries have been the large export trading companies.
- Wheat is a key staple food crop in Europe and South Asia, but is gaining popularity and beginning to displace traditional staples in many developing countries.
- Sugar is a major domestic and export crop in many poor countries and central to the livelihoods of millions of poor farmers.
- UK and EU exports of both crops are being sold on world markets at less than the cost of production. Effectively, the world market is a dumping ground for these and other subsidised products.

3.1 Wheat farming and subsidies in the UK

3.1.1 Wheat subsidies: market price support and direct payments

The cereals sector in the EU and the UK receives a complex mixture of the two types of support regimes

described above, market price support and direct payments.

The reforms to the CAP in 1992 and 1999 reduced intervention support prices for cereals. Following the reforms in 1999, the intervention support price for wheat (and all cereals) was reduced to €110.25 per tonne (£67/tonne) in 2000 and again to €101.31 per tonne (£63/tonne) in 2001. In March 2001, import duties for wheat were established at €0-43.50 per tonne depending on quality (for example, the duty level on durum and high quality wheat was set at zero).^{20,21} As a result of cuts in the intervention support price, EU wheat prices have been falling over the past 10 years to a stage where “EU wheat production is currently relatively unsupported by market intervention [because] EU wheat prices are little different from world prices”.²² In the year 2002, world wheat prices actually moved above internal EU prices and this trend is forecast to continue to 2006 (see Table 5).

Box 4: Overview of the UK wheat sector

In 2000, the UK produced 16.7 million tonnes of wheat from 2.1 million hectares (a yield of 8 tonnes/hectare). It exported significantly more than it imported (3.7 million tonnes against 1.2 million tonnes).²³

Of UK production, about 40% goes to animal feed and 30% to milling. The balance is sent for export (25%) or is used for seed and distilling (about 5%).²⁴

In 2000, the main UK export markets outside the EU were South Korea, Israel, Cuba, Belarus, Tunisia, Poland, Norway, Mauritania, Armenia, Morocco and Bangladesh (all in excess of 10,000 tonnes). For the EU as a whole, the principal export destinations were Algeria, Morocco, Tunisia, Iran, Cuba, Poland, Yemen, Ethiopia, Egypt and Turkey (all in excess of 250,000 tonnes).²⁵

¹⁹ During 2000 and 2001, export refunds were only awarded on EU wheat exports between August 2000 and April 2001. The maximum refund during this period was €13 per tonne. In 2002 there were no export refunds until May (maximum €5 per tonne).

²⁰ European Commission, 1999. Op cit.

²¹ European Commission, 2001d. Commission Regulation (EC) No 400/2001 fixing the import duties in the cereals sector. Official Journal of the European Communities. L60/3, 1st March. http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l_060/l_06020010301en00030005.pdf

²² Sustain/UKFG, 2002. The Common Agricultural Policy: How the CAP Operates, the Key Commodities, Competitors and Markets for the EU. Sustain and the UK Food Group.

²³ DEFRA, 2001. Agriculture in the United Kingdom 2000. Department for Environment, Food and Rural Affairs. Chapter 5, http://www.defra.gov.uk/esg/work_html/publications/cf/auk/current/chapter5.pdf

²⁴ HGCA, 2002. Wheat and Barley Exports – The Growers’ Guide 2001/2002. Home Grown Cereals Authority, <http://www.hgca.com/ftpaccess/docs/a3growersguide0102.pdf>

²⁵ DTI, 2002. World Trade Atlas. United Kingdom – Exports of Wheat and Meslin. Department of Trade and Industry, Trade Partners UK, London.

3. Wheat and Sugar Subsidies

Thus, wheat farmers in the UK currently receive little assistance through market price support by way of higher internal prices. They do, however, benefit from direct payments under the Arable Area Payments Scheme (AAPS). There are two types of arable area payments. One is a subsidy paid on every hectare of wheat and certain other crops grown such as cereals, oilseeds and proteins (for wheat and other cereals in England it was £225.64 per hectare in 2001). This is paid as 'compensation' for reductions in market price support. The second is a subsidy payment per hectare of wheat and other land taken out of production as a means of controlling supply, known as set-aside (in England £225.64 per hectare in 2001). In 2000, the total claimed area under the AAPS in the UK was 4.5 million hectares. Of this, wheat amounted to approximately 2.1 million hectares (costing £458 million in direct payments) and set-aside 550,000 hectares (costing £127 million in direct payments).^{26,27}

Table 5

Projected wheat prices 2002 to 2006* (€ per tonne)²⁸

	EU wheat price	Average world wheat price
2002	115	119
2003	117	120
2004	120	125
2005	125	130
2006	127	132

* These projections will depend on €/\$ exchange rates, and production and prices may well be influenced by the new US Farm Bill

3.1.2 Production, costs, prices, returns and dumping

It is clear that arable area payments have had an influence on production levels. One way to define whether

production is 'coupled' with subsidies is to determine whether "production (and trade)... differ from the level that would have occurred in the absence of the measure".²⁹ As is demonstrated in Table 6, if subsidy payments had not been available during 2000 and 2001, there should have been a decline in wheat production in the UK because, on most farms, wheat would not have been profitable. The presence of subsidies – as an addition to the price – clearly influences farmers' production decisions. As one UK farmer has confirmed, "bear in mind that the area aid subsidy is paid to us in addition to the market price. For some strange reason all farmers conveniently forget to mention these facts when they tell everyone how awful prices are. To take wheat as an example, the subsidy added another £33/tonne [about €55 per tonne] to the market price this harvest."³⁰

It should be noted that the deteriorating levels of profitability for wheat are a result of falling farmgate prices for wheat, which fell by about 35% between 1996 and 2001.³¹

Table 6 also shows that most, if not all, of the UK's wheat that is currently exported onto global markets is effectively dumped, that is, it is sold at less than the true cost of production. In 2000 and 2001, the average world price was only about £73/tonne but the UK's average cost of production was about £113-124/tonne.³² These figures are consistent with the UK National Farmers' Union's estimated wheat production cost in 2000 of £110/tonne.³³ Average production costs across the EU are higher than the UK by some 5-15% (France is the most efficient producer – compared to the UK, costs are some 5% lower).³⁴ For the UK, each tonne of wheat sold on international markets in 2000 and 2001 was on average about 35-40% below the cost of production.³⁵

²⁶ DEFRA, 2002a. Arable Crops AAPS Overview. http://www.defra.gov.uk/farm/schemes/aap_sa.htm

²⁷ DEFRA, 2002b. Agriculture in the United Kingdom 2001. Chapter 3. Tables 3.1 and 3.2 and Chapter 8, Table 8.1 http://www.defra.gov.uk/esg/work_html/publications/cf/auk/current/auk_pdf.htm

²⁸ OECD, 2001b. OECD Agricultural Outlook 2001-2006. Organisation for Economic Co-operation and Development. Page 40. <http://www1.oecd.org/publications/e-book/5101061E.PDF>

²⁹ OECD, 2000. Op cit.

³⁰ Thriplow Farms, 2002. Annual Report 2001. <http://www.thriplow-farms.co.uk/annual.htm>

³¹ DEFRA, 2002b. Op cit. Chapter 5, Table 5.2

³² Nix, J., 1999 and 2000. Farm Management Handbook. 30th and 31st Editions. Imperial College Wye.

³³ Girling, R., 2001. Dead Meat. Sunday Times Magazine. 26 August 2001.

³⁴ UKFG/Sustain, 2001. Export 'Dumping'. A draft internal report. UK Food Group and Sustain, UK.

³⁵ According to Oxfam, EU wheat export prices are up to 50% below the cost of production. OXFAM, 2002. Rigged Rules and Double Standards. Page 115. Oxfam International.

Table 6Wheat prices, costs and returns ^{36,37,38,39,40,41,42,43}

	2000	2001
Average UK price/tonne	£70	£78
Intervention price/tonne	£67	£63
AAP/tonne	£30	£35
Cost of production/tonne		
<i>Total</i>	£113* (£90 [▲])	£124* (£103 [▲])
<i>Fixed</i> [◆]	£83* (£63 [▲])	£89* (£71 [▲])
<i>Variable</i> [●]	£30* (£27 [▲])	£35* (£32 [▲])
Average world price/tonne	€120/£73	€118/£73
Return without AAPs/tonne	-£43* (-£20 [▲])	-£46* (-£25 [▲])
Return with AAPs/tonne	-£13* (+£10 [▲])	-£11* (+£10 [▲])

AAP Arable area payments

* 'Average' UK cereal farm 100-200 hectares

▲ UK cereal farm >200 hectares

◆ Includes labour, power and machinery and overhead expenses

● Includes seeds, fertilizers and sprays

Some of the figures in Table 6 are approximate. The figures are dependent on exchange rates, yield per hectare conversion factors, and wheat prices are a mix between animal feed and milling wheat. Costs in 2001 were considerably higher due to poor weather and low yields.

Historically, EU prices for wheat have been much higher than the world wheat price (in 1992, twice as high). Yet EU wheat prices in both 2000 and 2001 were roughly in line with world wheat prices and this was highly significant. It means that the average level of market price support to EU and UK wheat farmers for most of the period during 2000 and 2001 was about zero and traders were able to

export wheat onto the world market with limited use of export refunds. However, even with less export refunds,⁴⁴ EU wheat continued to be dumped during 2000 and 2001 as a result of arable area payments.⁴⁵

3.1.3 The distribution of direct payment subsidies

Arable area studies⁴⁶ confirm the extent to which arable area payments are skewed in favour of the largest farms. Changes to the CAP regime in 1999 (Agenda 2000) have done little to change this situation. According to one farm consultant, the largest 30% of arable farms in England and Wales received 75% of arable area payments.⁴⁷ Extrapolating data supplied by DEFRA, ActionAid has calculated that the biggest 28% of UK arable farms received about 78% of payments.⁴⁸

Who gains most from UK wheat subsidies?

As we have seen in Table 3, the majority of all farmers (63%) received less than £5,000 a year in farm subsidies. For the arable sector, direct payments are distributed in a similarly unequal way with 39% of farmers receiving less than £5,000.⁴⁹ Over the past 50 years, there has been a steady decline in the number of farms in the UK, particularly small-scale farms. In the late 1950s, there were about 450,000 farms in the country; now there are about half that number.^{50,51} Some of the largest farms and richest people in the UK are benefiting considerably from arable area payments.

³⁶ European Commission, 1999. Op cit.

³⁷ DEFRA, 2002a. Op cit.

³⁸ DEFRA, 2002b. Op cit. Chapter 5, Table 5.2. http://www.defra.gov.uk/esg/work_html/publications/cf/auk/for_auk00/chapter5.pdf

³⁹ Thriplow Farms, 2002. Annual Reports 2000 and 2001. <http://www.thriplow-farms.co.uk/annual.htm>

⁴⁰ European Commission, 2001c. Op cit.

⁴¹ Nix, J., 1999 and 2000. *Farm Management Handbook*. 30th and 31st Editions. Imperial College Wye.

⁴² Lang, B., 2002. *Report on Farming in the Eastern Counties of England 2000/2001*. University of Cambridge.

⁴³ OECD, 2001b. Op cit. Page 40.

⁴⁴ During 2000 and 2001, export refunds were only awarded on EU wheat exports between August 2000 and April 2001. The maximum refund during this period was €13 per tonne. In 2002, there were no export refunds until May (maximum €5 per tonne).

⁴⁵ See also Einarsson, P., 2000. *Agricultural Trade Policy as if Food Security and Ecological Sustainability Mattered*. A report from Church of Sweden Aid, Forum Syd, the Swedish Society for Nature Conservation and the Programme for Global Studies, Sweden. http://online.forumsyd.se/web/IFS_Globala%20studier/%23584117.0?Agrtrade.pdf

⁴⁶ Unfortunately, ActionAid has been unable to find any research focusing specifically on the distribution of direct payments to the wheat sector. Most studies review the arable sector as a whole and these are now slightly dated. Further, they only cover some arable regions of the UK such as Wales and England (although England is the most significant producing area).

⁴⁷ Andersons, 1997. *Economic Evaluation of the Arable Area Payments Scheme*. Report submitted by Andersons (Farm Business Consultants) and the University of Reading to MAFF. Final Report, November. <http://www.defra.gov.uk/farm/schemes/aapseval/report.pdf>

⁴⁸ Figures extrapolated from Rooker, J., 1997. UK House of Commons Parliamentary Answer, Hansard, 31 July Column 434.

⁴⁹ Rooker, 1997. Op cit.

⁵⁰ DEFRA, 1999a. Op cit. Page 35.

⁵¹ Harvey, G., 1997. *The Killing of the Countryside*. Jonathan Cape, London.

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Box 5: Dumping and WTO rules

Article 6 of the General Agreement on Tariffs and Trade (and now included within the WTO's Marrakesh Agreement) provides two definitions of dumping. The first is where the export price of a product is below the normal selling price in its own home market. The second definition addresses dumping when there are no normal 'prices' (and this is particularly the case in the agricultural sector where domestic and world prices are distorted by subsidies). Here, "dumping is said to exist if the export price into another market is less than the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit. This is referred to as the constructed value of the product."⁵²

Dumping has detrimental impacts. Dumped products create unfair trading advantages because they depress world prices and reduce export opportunities for other producers. This has two main effects on developing country producers. They may be driven out of business by low-cost imports (often the import price is below that prevailing in the domestic market) or they have to sell in world markets at lower prices to avoid losing market share.⁵³

Dumping is not permitted within WTO rules – but the one sector that is exempt from anti-dumping measures is agriculture. The Subsidies and Countervailing Measures (SCM) Agreement of the WTO explicitly excludes agricultural subsidies allowed under the AoA from the list of subsidies that are actionable (i.e. can be brought before the WTO dispute process). The SCM also refers to Article 13 of the AoA. This calls on WTO members to use 'due restraint' by not challenging agricultural subsidies of other members that fully conform to WTO rules (the peace clause). For the EU this effectively means export subsidies, market price support and direct payments are free from challenge by other WTO members.

Some have questioned the tightness of Article 13 and believe countervailing measures could be used against agricultural goods. However, under the SCM and Anti-Dumping Agreements, proof of 'injury' caused by subsidised imports and dumping must be proved by the importing WTO member. Obtaining concrete evidence is a very lengthy process and absolute proof is often difficult to determine. Bringing a case against large exporters may be beyond the financial and legal means of many developing countries. In addition, decisions whether to proceed with a countervailing measure may depend on economic and diplomatic considerations, particularly the unbalanced trading relationship between rich and poor WTO members.

The Duke of Westminster is the richest man in the UK and amongst the top 25 landowners in the country. He owns at least three farming estates – in Cheshire, Lancashire and Scotland - running to about 55,000 hectares in total. The largest arable production is on the 2,500 hectare Grosvenor farm near Chester which is part of the larger Eaton Estate (4,500 hectares). The farm is reported to be receiving about £300,000 a year in arable area payments.⁵⁴ The subsidy payments are broken down as follows: £150,000 a year for growing wheat on 565 hectares, almost £150,000 for growing barley and oilseed rape on an additional 565 hectares and about £30,000 for 150 hectares of set-aside land. In addition to income from

direct payments, the Duke is also reported to be benefiting from "another £350,000 a year for his 1,200 dairy cows through the milk quota system designed to support the dairy industry."⁵⁵

Lord Iliffe is reported to be the 64th richest person in the country with an estimated wealth of about £120 million. He and the Iliffe family own the 3,650 hectares Yattendon Estate in Berkshire as well as 1,600 hectares in Warwickshire and over 10,000 hectares in Scotland. 1,500 hectares of the Yattendon Estate are given over to arable (wheat, barley, oats, oilseed rape, peas, beans and linseed) and grass. Much of this is wheat and the Estate produces some 4,700 tonnes of flour per annum.⁵⁶

⁵² Ritchie, M., S. Wisniewski and S. Murphy, 2001. *Dumping as a Structural Feature of US Agriculture: Can the WTO Rules Solve the Problem?* Institute for Agriculture and Trade Policy, Minneapolis.

⁵³ Ritchie, et. al., 2001. *Op cit.*

⁵⁴ Barnett, A., 2001. *Revealed: How Britain's richest man takes a £3 million tax hand-out.* *The Observer*, 20 May.

⁵⁵ Barnett, A., 2001. *Op cit.*

⁵⁶ Suppliers – the Yattendon Estate, undated. <http://www.thebonappetitdeli.co.uk/Suppliers/yattendon.htm>

Since arable area payments were introduced in 1992, ActionAid has calculated that Lord Iliffe and the Yattendon Estate have received just under £3 million in direct payments from the taxpayer (see Table 7).⁵⁷

Because other large landowners choose not to reveal the levels of subsidies that their farming receives, Lord Iliffe should be commended for disclosing in his company accounts the amount of arable payments he is receiving from the taxpayer.

Table 7

Arable area payments and set-aside payments received by the Yattendon Estate

1992	£76,195
1993	£119,936
1994	£284,179
1995	£326,335
1996	£413,476
1997	£404,241
1998	£385,469
1999	£433,841
2000	£365,578

Lord de Ramsey is head of the de Ramsey Estate. The Estate is reported to run to some 4,500 hectares in Cambridgeshire and Lincolnshire and Lord de Ramsey farms at least half of this land around Huntingdon. The land itself is worth about £95 million.⁵⁸ Lord de Ramsey's arable holdings are split into at least three different farming companies, Lavenham Fen Farm (Lord de Ramsey owns 50%), Worlick Farm and Abbots Ripton Farm. ActionAid has not been able to determine exactly what Lord de Ramsey grows on these farms (although the area is one of the most important wheat producing regions of the UK), but these farms received a total of £495,000 in arable area payments in 1996.⁵⁹

Until 1996 and 1997, Lord de Ramsey's three farming interests reported the amounts received in arable area payments in the companies' accounts. New accounting procedures after this period means that payments are no longer disclosed (unlike Lord Iliffe's company accounts). Arable area payments have declined since Lord de Ramsey's farms received £495,000 in 1996 but about £440,000 would be a fair estimate of subsidies in 2000.

3.2 Wheat farming, subsidies and the developing world

As outlined above, subsidies, in the form of arable area payments are increasing inequalities in the UK and the EU, with mainly rich, large landowners and agribusinesses receiving the bulk of payments, while small-scale farms struggle to survive. But internal EU inequalities are far from being the only problem. Developing countries are forced to compete, both domestically and in export markets, with subsidised EU wheat. Furthermore, a combination of World Bank Structural Adjustment Policies (SAPs), the restrictions of AoA rules, and a lack of financial resources means that poor countries are unable to provide their producers with anything like the same level of support that farmers enjoy in the EU.

3.2.1 Impacts in developing countries – the dumping of wheat

Despite evidence that significant quantities of EU and US wheat are dumped in developing country markets, there is very little analysis of the impacts of this wheat on local production and changing dietary patterns.

ActionAid has been conducting research on the impact of dumping and cheap imports of wheat (and wheat flour) in a number of poor countries. In Kenya, low-priced wheat flour from Egypt undermined the domestic industry and jeopardised local wheat producers. There are strong suspicions that subsidised US and possibly EU wheat (significant quantities of which has been dumped in Egypt) has been used to make the flour, or that the cheap imports have been used to cross-subsidise high-cost Egyptian flour production. Indonesia has recently established that the EU and other large exporters were guilty of dumping wheat flour on to its domestic market. Changing consumption patterns, from rice to noodles and bread, have increased demand for wheat. An increasing proportion of wheat-derived products are now manufactured from cheap imported flour. This is undermining the activities of small domestic mills and affecting the production and consumption of rice, a staple food in the country (see Box 6). Low-priced and subsidised wheat imports into Nigeria – which produces very little

⁵⁷ Companies House, 2002a. *Company Returns on Yattendon Estates Ltd.* London.

⁵⁸ Cahill, K., 2001. *Who Owns Britain.* Canongate, London. Page 394.

⁵⁹ Companies House, 2002b. *Company Returns on Abbots Ripton Farming Co. Ltd, Lavenham Fen Farms Ltd, and Worlick Farm Ltd.* London.

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wheat itself – has increased bread consumption at the expense of locally grown staple crops undermining food security and food sovereignty (see **Box 6**). When production levels for wheat and other cereals are high, rich countries have also dumped the surplus in developing countries – for example in Bangladesh – in the form of food aid (see **Box 7**). All these countries are becoming increasingly dependent on imports and thus vulnerable to price increases on the world markets and exchange rate volatility.

3.2.2 Case study – Kenya

There are strong suspicions that subsidised US and possibly EU wheat has been used to manufacture flour in Egypt which has then been sold on to Kenya at cheap prices. This contributed to a drop in local Kenyan producer prices and discouraged domestic wheat production. Egypt is one of the top destinations for EU wheat and is the second largest market for US wheat exports: in 2000-01, the US and EU together supplied Egypt with almost four million tonnes.^{60,61} Available figures show significant quantities of this wheat were dumped on the Egyptian market because the reported selling prices were less than the cost of production in both the US and the EU.^{62,63}

Egypt and Kenya both belong to the Common Market for Eastern and Southern Africa (COMESA), which allows its members tariff-free access for commodities as long as a minimum 45% of the product originates in the exporting country. In 2000, the Government of Kenya became extremely concerned about increases in the volumes of cheap, duty-free wheat flour imported from Egypt. Wheat industry sources stated the flour was affecting the domestic market and undercutting local prices.⁶⁴ According to Government officials, the imports had a negative impact on Kenya's wheat farmers.⁶⁵

Mercy Karanja, Chief Executive of the Kenyan National Farmers' Union (KNFU), described to ActionAid how KNFU members had difficulties selling their wheat crop because of the surpluses of duty-free flour imports.⁶⁶ "Egypt suddenly started selling flour very cheaply, which led to a crisis for wheat producers. There was a huge surplus on the market, and farmers had to sell their wheat at very low prices." Moses Kinuthia, a medium-scale wheat farmer from Nakuru, told ActionAid that farmers had difficulty selling their wheat last year because there were large quantities of imported wheat, both flour and grain, on the local market. Millers were offering low prices, and Kinuthia was only able to break-even on his crop. Because of the poor price he received, he decided to cut his wheat production by half this year.⁶⁷

The Kenyan press has carried articles detailing how farmers' access to local markets has been restricted due to the surplus of imported wheat flour. The Nation reported that Kenyan wheat farmers faced ruin as producer prices plummeted by 30%. Millers threatened to shut down and refused to purchase locally grown wheat as they also could not compete with the imported flour.⁶⁸ As a result the government was able to invoke special safeguards on COMESA wheat flour imports, which now attract a 60% duty.

The Kenya Cereal Growers' Association (KCGA) told ActionAid they are convinced that, as Egypt's costs of wheat production are high, Egypt uses cheap wheat imports from the EU, US and other countries to subsidise its flour exports to Kenya.⁶⁹ Quoted in The Nation, the Chairman of the KCGA said "Egypt is importing wheat from America and other non-COMESA countries at throwaway prices, milling it then re-exporting the flour to Kenya."⁷⁰ There are also strong suspicions amongst senior government officials that significant quantities of the wheat used in Egypt's flour exports originate in the US.⁷¹

⁶⁰ USDA, 2001a. *Egypt Grain and Feed – Egypt's Wheat Imports, MY 2000-2001*. US Department of Agriculture. GAIN Report #EG1014. <http://www.fas.usda.gov/gainfiles/200106/105680869.pdf>

⁶¹ DTI, 2002. *Op. cit.*

⁶² USDA, 2002a. *Egypt Grain and Feed Annual 2002*. US Department of Agriculture. GAIN Report #EG2003.

⁶³ USDA, 2001a. *Op. cit.*

⁶⁴ The Nation, 2000. *Farmers: restore duty on Egyptian wheat flour*. 8th February.

⁶⁵ Government of Kenya, undated. *Trade Remedy – Wheat Flour*. Internal briefing.

⁶⁶ Interview with ActionAid, July 2002

⁶⁷ Interview with ActionAid, July 2002

⁶⁸ The Nation, 2000. *Op. cit.*

⁶⁹ KCGA interview with ActionAid, July 2002

⁷⁰ The Nation, 2000. *Op. cit.*

⁷¹ Kenyan Government official in an interview with ActionAid, July 2002

The Egypt-Kenya case highlights the fact that dumping via a third country can be difficult to prove, especially if the commodity is processed before trans-shipment, and that EU and US trade data often do not reveal an export's final destination. It also reveals how Kenya's food security and food sovereignty is being undermined by the policies of other governments and by international trade rules. Food sovereignty is the right of countries to determine their own policies on such an important issue as food security (such as self sufficiency). The original purpose of the EU's CAP was to support local production and ensure higher levels of self-sufficiency following the experience of food shortages during and after World War II. Maintaining a basic level of self-sufficiency is still one of its basic principles. In contrast, WTO and COMESA rules are designed to liberalise agricultural trade, on the principle that food security can be ensured via a free market in imports and exports. In the case of the trade in wheat flour to Kenya, this has had a detrimental impact on local production and markets, increasing the country's dependence on imports and making food supplies vulnerable to price increases and exchange rate volatility on the world markets.

3.2.3 Case study – Pakistan

While developed countries have increased agricultural subsidies, many developing countries have come under pressure from international institutions to reduce or remove subsidies. These pressures come not only from the WTO, but also financial institutions such as the World Bank and the IMF, usually as part of structural adjustment programmes. Often, new loans are conditional on reductions in government expenditure, including subsidies to the agricultural sector.

Over the past five years, Pakistan has produced an average of 18 million tonnes of wheat per annum ranging from 17 million tonnes in 1996 to 21 million tonnes in 2000. Imports of wheat over the same period were between one and four million tonnes. The country has been largely self-sufficient over this period but recent production increases to around 20 million tonnes have started to produce surpluses.

Little wheat is exported. Up to 70% is consumed on farms or in local areas, leaving a marketable surplus of 5-6 million tonnes. Of this, the government regularly buys in

nearly four million tonnes for strategic reserves and buffer stocks, leaving very little for disposal on export markets. The Government reserves the right to procure more wheat for reasons of food security and in 2000 it exercised this right and bought in over 8.5 million tonnes.

After procurement, the Government sells the wheat to flour mills at subsidised prices that are then passed onto the consumer. The Government has thus developed an institutional system to control and stabilise wheat prices in order to make supplies available to consumers at reasonable prices.

In late 1999, the Government announced an unprecedented increase in the procurement price from Rs240 per maund to Rs300 per maund. One maund is 40 kilogrammes, which equates to a procurement price of Rs7,500 per tonne (or \$117/tonne). If the market functions efficiently, the procurement price acts as an 'official wheat support price' since the country has traditionally been in approximate balance between supply and demand. Government intervention provides the signal to the private sector that if they do not come forward to purchase the crop, the Government will buy it at the procurement price and the private sector will then have to buy it from the Government at higher prices. Farmers who sell surpluses locally could thus expect to get Rs300 per maund (\$117/tonne).

For 2001, in theory, the support price (\$117/tonne) would have amounted to a subsidy to farmers from the Government of about \$7/tonne, since this was higher than the world market price of about \$110/tonne (see Table 8). However, in early 2001 the Government of Pakistan began to implement elements of a second loan to the agricultural sector from the Asian Development Bank (ADB), a sister organisation to the World Bank. The loan would run from 2001 to 2006 and would facilitate the move away from Government intervention towards a market-based system with an expanded role for the private sector through deregulation, liberalisation and privatisation.

In order to implement the loan conditions, the Government acted on two fronts. Firstly, it slashed its procurement target from 8.5 million tonnes to four million tonnes for 2001. Secondly, it shut down a large number of procurement centres to save money. These changes had a dramatic effect on the wheat market. Farmers had

3. Wheat and Sugar Subsidies

Box 6: Dumping and low-priced imports of wheat and flour into Indonesia and Nigeria

Indonesia

Indonesia is not a wheat producing country. The Government has been running a long-term policy to diversify away from the country's heavy reliance on rice as a staple food and encourage the consumption of noodles, bread and other wheat-derived foods.⁷² These products have been slowly replacing rice as a source of carbohydrates for more and more Indonesians.

Since the 1970s, Indonesia has imported increasing quantities of wheat flour and wheat that are processed by national companies. The Government has achieved this through trade liberalisation and tariff reductions (and subsidies on wheat flour production have been phased out under the conditions of IMF-supported policies). Import tariffs have been steadily declining. Most food items have tariffs at 5%.⁷³ For wheat and wheat products such as flour, the applied tariffs are between 0-5% and private firms are now allowed to import wheat and wheat flour. Together with growing domestic demand, this has led to a massive increase in the total imports of wheat flour.⁷⁴ For example, EU exports of wheat flour to Indonesia leapt from about 40,000 tonnes in 1998/99 to over 220,000 tonnes in 1999/2000 (see Figure 1⁷⁵).

The increasing imports of wheat and wheat flour have brought with them both winners and losers. Among the losers are local producers of rice, and small and medium-sized domestic wheat milling companies who are unable to compete with cheaper foreign imports. Cheap imports are driving down local domestic prices and increasingly marginalising rice farmers.⁷⁶ In addition, in 1999, the milling industry reported that it was suffering because imported flour at \$220/tonne was significantly less than the local price at \$280/tonne. The local industry suspected that the flour was being dumped.⁷⁷

These policies have encouraged an increasing dependence on cheap imports. As well as being the largest importer of rice in the world, Indonesia is also the fifth largest importer of wheat, wheat flour and sugar, and the ninth largest importer of powdered milk.⁷⁸ The country's increasing reliance on imports has serious implications for its balance of trade, and longer-term food security, especially in the context of fluctuating world market prices for agricultural goods.

In contrast, the current winners from cheaper imports are consumers who enjoy the benefits of cheaper local prices for food products.



Against this backdrop, the Indonesian Anti-Dumping Committee (KADI) established in September 2001 that Australia, the EU, and the United Arab Emirates were guilty of dumping wheat flour on the Indonesian market in 1998/99. They found a causal link between an increase in dumped wheat flour imports and the displacement of flour produced by local mills.⁷⁹

Despite the findings, the Business Competition Supervision Committee lobbied the Ministry of Finance against the implementation of any duties, suggesting that such a duty would only strengthen the hand and profits of the PT Bogasari flour mill, which currently controls 60% of the wheat flour market.⁸⁰ The imposition of antidumping duties was also feared to have a detrimental effect on the majority of the Indonesian people as it would increase the cost of noodles to consumers.⁸¹

Given the complexity of the situation, the Indonesian Government and Ministry of Finance finally rejected the request by KADI to impose any duties. But this does not detract from the very severe implications for food security in the country as well as the impact on local millers and rice farmers because of dumped wheat flour.

Nigeria

Low-priced imports are having a detrimental impact on Nigeria's production of staple food. Imports of wheat into Nigeria from the US have nearly doubled since 2000⁸² with import levels set to exceed three million tonnes over the next two to three years.⁸³ The country now imports 90% of its wheat from the US.⁸⁴ These record levels of imports are partially due to a reduction of import duties from 15 to 5%, but also due to aggressive marketing by US Wheat Associates.⁸⁵

Dumping and low-priced imports of wheat and flour into Indonesia and Nigeria *continued*

Cheap, subsidised US wheat is used mainly to produce bread, which is becoming more popular than locally-grown staple foods, such as cassava, yam and rice. This has obvious ramifications for the producers of staples such as gari (derived from cassava), whose input costs are also increasing.

Because very little wheat is grown in Nigeria, the burgeoning milling industry is dependent upon predominantly US wheat imports. The growth of bread consumption to the detriment of local staples makes Nigeria dependent on imports for achieving food security. Food sovereignty is being severely undermined and the country's policy towards food security is now highly susceptible to currency fluctuations and the vagaries of prices on the world market.



Thierry Geernan/Panos/ActionAid

Box 7: The dumping of food aid into Bangladesh

Food aid is often dumped as surplus production in developing countries in an attempt to maintain high internal domestic prices in the exporting country. A strong association has been observed between the amounts of food aid and world prices for wheat; as the latter falls, so food aid has tended to increase.

Historically, Bangladesh was one of the world's largest recipients of foreign food aid. However, now that the country is producing its own bumper crops of rice and wheat, subsidised wheat coming in as food aid can have negative effects on local farmers.

In 2000, the Bangladesh Government distributed about one million tonnes of wheat food aid to fill the 'food gap' for poor communities through the Public Food Grain Distribution System (PFGDS). 600,000 tonnes of this was from foreign donors, predominantly from the US through USAID.

The International Food Policy Research Institute (IFPRI) claims that bulk quantities of predominantly US wheat food aid coming into the country in late 2000 helped to undercut prices of local wheat producers and was a disincentive for local farmers to be more self reliant and to grow their own crops.

IFPRI estimates that a combination of extra, cheap private sector wheat imports from the EU and Turkey, combined with the large quantities of US food aid, depressed local wheat prices by 20%. IFPRI says "food aid may have had disincentive effects on domestic production."⁸⁶ Researchers ran a standard mathematical model that estimated that "an additional 100,000 tons of food aid resulted in a reduction of between 81-91 thousand tons of [local] wheat production."⁸⁷

⁷² USDA, 2001b. *Indonesia – Market Development Reports: Indonesian Bakery Industry 2001. Gain Report, #ID1033.73*

⁷³ WTO, 1998. *Indonesia must continue economic reforms while safeguarding access to key export markets. WTO Trade Policy Review Press Release, PRESS/TPRB/94. http://www.wto.org/english/tratop_e/tpr_e/tp94_e.htm*

⁷⁴ Dohlan, E., and L. Hoffman, 2000. *The New Agricultural Trade Negotiations: Background and Issues for the US Wheat Sector. Economic Research Service/USDA. <http://www.ers.usda.gov/briefing/WTO/PDF/Dohlan~1.pdf>*

⁷⁵ Based on figures in USDA, 2000b. *Indonesia – Grain and Feed: Wheat Update 2000. Gain Report #ID0004 and USDA, 2002b. Indonesia – Grain and Feed Annual 2002. Gain Report, #ID2003.*

⁷⁶ PAN Indonesia, 2002. *Fighting Product Against Wheat Dumping by Foot-loose-industries in Indonesia – More Import Wheat When Rice Short Fall.*

⁷⁷ USDA, 2000c. *Indonesia – Grain and Feed Annual Report 2000. GAIN Report #ID0016*

⁷⁸ PAN Indonesia, 2002. *Op cit.*

⁷⁹ *Bisnis Indonesia*, 2002a. *Wheat anti-dumping penalty void. 14th January.*

⁸⁰ *Bisnis Indonesia*, 2002b. *KPPU officially rebuffs wheat anti dumping import duty. 7th January.*

⁸¹ See Kompas, 2002. *Wheat import duty damages people for details, 7th January 2002.*

⁸² *US Imports have risen from 1.5 million tonnes in 2000 to a projected 2.5 million tonnes in 2002.*

⁸³ USDA, 2002c. *Nigeria Grain and Feed Annual 2002. US Department of Agriculture. GAIN Report #NI2009. <http://www.fas.usda.gov/gainfiles/200204/135684083.pdf>*

⁸⁴ USDA, 2002c. *Op cit.*

⁸⁵ Crossroads, 2001. *Public Affairs Section, US Consulate General Lagos, Nigeria, March 2001.*

⁸⁶ Dorosh, P., O. Shahabuddin, A. Asiz and N. Farid, 2002. *Bumper Crops, Producer Incentives and Persistent Poverty: Implications for Food Aid Programs in Bangladesh. International Food Policy Research Institute, p 21, March 2002. <http://www.ifpri.cgiar.org/>*

⁸⁷ Dorosh, et al, 2002. *Op cit.*

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increased production on the back of the procurement price of Rs300 per maund and the Government's high procurement target for 2000. With the dramatic reduction in the 2001 procurement target, farmers rushed to try to sell their harvest as fast as possible, in the hope that they could obtain the procurement price, and wheat prices began to fall.

Table 8 2001 wheat prices in Pakistan for small-scale producers

Procurement price/tonne	£81 (\$117)
Domestic price/tonne	c£58-65 (\$78-94)
Export (world) price/tonne	>£75 (>\$110)

Many small-scale producers (93% of all farm production is on holdings of between 5-12 acres) found that they could not get the procurement price and had to sell to traders and brokers at prices as low as Rs200-240 per maund as the market collapsed around them. Small-scale farmers are under pressure to sell their products quickly because they need the finance to repay high-interest loans taken from middlemen and dealers and to purchase next year's inputs. Such farmers are resource-poor and rely on credit so are unable to hold onto surplus production to see if prices will rise.⁸⁸

Only large-scale farmers were able to benefit and obtain the procurement price of Rs300 per maund because of their influence and connections. However, at best this price amounted to a subsidy of about \$5-10/tonne compared to the \$50/tonne that each UK farmer received in 2001 (see Table 6).

The complementary roles of the Asian Development Bank and WTO

Under the rules of the WTO's AoA, Pakistan was not obliged to reduce its market price support. If the aggregate value of this support does not exceed 10% of the total value of the product (the de minimis level), it is exempt from reductions. The country's market price support to the wheat sector fell below the de minimis level (a similar

picture is found throughout the developing world).⁸⁹ Increasingly, it is the influence of the regional development banks (in this case the ADB), the IMF and the World Bank that are paving the way for deregulation, liberalisation and privatisation. In Pakistan, the ADB is pushing for the phasing out of subsidies. In other countries, such as Haiti and The Gambia, the IMF and World Bank have been instrumental in lowering import tariffs.

The ultimate aim of the reforms in the agricultural sector under the ADB loan is to phase out all fixed official price intervention. The ADB requires the Government to slash the budget for wheat procurement from Rs12 billion to Rs4 billion by 2003. ActionAid contends that such sweeping reforms in such a short period will have a devastating impact, given that 45% of the population are employed in agriculture. The impact will be particularly hard on small-scale producers and in the unorganised farm sector.

The policy conditions of the ADB in forcing the Government of Pakistan to eliminate domestic support are important in relation to the Pakistan Government's position on the Development Box in the AoA. Alongside Kenya, the Government was one of the original group of countries that proposed the Box and which calls for, inter alia, greater flexibility for developing countries in allowing extra domestic support to small-scale farmers. The policy conditions of the ADB are in direct contradiction to Government policy to promote food security within the country.

The impact on small-scale farmers

Contrary to previous years, the market failed to operate efficiently in 2001 because of the external influence of the ADB. Many small-scale wheat producers had to sell their crops at a loss, which devastated the social fabric of their rural communities. ActionAid interviewed 22 wheat farmers from four districts of central Pakistan – Multan, Vehari, Muzaffargarh and Rajanpur. These small-scale farmers told ActionAid that officials either simply refused to buy the wheat at the official price, or told farmers that the crop was substandard or informed them that they had already

⁸⁸ In fact downward pressure on prices was maintained during 2001 because Pakistan found it couldn't sell its exports into normal markets – such as Iran and Iraq – for 'political' reasons. The government does not admit officially that this is the case and the problem is often put down to other factors, such as the low quality of wheat.

⁸⁹ FAO, 2000. *Agriculture, Trade and Food Security Issues and Options in the WTO Negotiations from the Perspective of Developing Countries. Vol II, Country Case Studies. Food and Agriculture Organisation, Rome.* <http://www.fao.org/DOCREP/003/X8731e/x8731e00.htm>

⁹⁰ On 1 July 2001 the old Sugar Regime was replaced by a new regime that will run from July 2001 to July 2006. However, the changes are very limited, the main difference being a reduction of the quota levels by about 1%. Sugar was excluded from the Agenda 2000 changes to the CAP but will be affected when the revised CAP comes into force in 2007.

reached their fixed official procurement target for that area. All but a handful of farmers had to sell at prices of between Rs 200-240 per maund, considerably lower than the Government's procurement price.

Wheat farmers in Pakistan would obviously benefit from the same level of subsidies that are enjoyed by EU wheat farmers but there is no possibility that developing countries could afford these levels of payments. To create a more level playing field, it is imperative that the EU (and developed countries generally) reduces its levels of subsidies substantially.

3.3 Sugar production and subsidies in the UK and the EU

3.3.1 The EU Sugar Regime

Sugar production in the UK is determined through the EU 'Sugar Regime'.⁹⁰ When the Regime came into effect in 1967 it was designed to guarantee all producers the same level of support that they received under their previous national sugar policies. The regime is now a very complex mixture of 'market support' instruments, from minimum support prices and intervention buying, to import duties, export refunds and production quotas.

Box 8: Case studies – small-scale wheat farmers in Pakistan

Abdul Ghaffor farms nine acres of land in Vehari district. In 2001, he produced 250 maunds of wheat. Together with his brothers, he decided to sell 100 maunds to clear their financial liabilities and purchase inputs for the next crop, cotton. He relies on the arthi (brokers) to purchase his crop, which they usually do at the procurement price, but in 2001 the situation changed. After much difficulty, he eventually sold his crop at Rs240 per maund, rather than the procurement price of Rs300 per maund. Even at this price, the arthi were reluctant to buy because there were rumours that prices would fall even further. Abdul is one of those farmers who is forced to sell some of his crop immediately after harvest to clear outstanding debts, in this case on fertilisers, seeds and fuel. Because of the uncertainty regarding prices, the arthi refused to provide him with additional credit to purchase seeds and fertiliser for his cotton crop and left him with no choice but to sell his wheat harvest at a very low price. Consequently, he incurred losses of about Rs18,000 (\$300) for the year. Losses of this magnitude are pushing Abdul Ghaffor and his family further into poverty and having a very serious impact of the educational prospects of his children.

Hidatullah also farms wheat with his son on six acres in the same district. From this land he produced 150 maunds, one of the highest yields per acre in the locality. During 2001, he saw the most dramatic fall in wheat prices in his lifetime and for the first time no one seemed interested in buying his crop. When he tried to sell his crop to the officials at the Food Department at Rs300 per maund, he was turned away and had no choice but to sell it to the arthi at Rs240 per maund. He incurred losses of Rs15,000 (\$230). Because farmers required additional credit due to the losses, dealers were charging very high prices for basic farming inputs like seeds and fertilisers. When interviewed, he was still in default to creditors and was considering selling his cattle. His son had withdrawn his only child from school so he could start working on the farm to save wage costs.

Mithan, a widow, cultivates two acres of land in Rasoolpur village. The farm has provided for her and her three children since the death of her husband Abdullah. But Mithan struggled to cope last year after the Pakistan Government cut procurement levels. "I now can't arrange schooling for my children, and it would have been difficult to feed my children if they hadn't worked on the land to save on labour charges," she says. "I was forced to sell to a middleman at 180 rupees instead of last year's official price of 300 rupees," says Mithan. "Government officials didn't come to the village looking to buy wheat at the official price, as they normally do." Mithan told ActionAid she was unaware that the Pakistani Government was compelled to slash wheat subsidies to farmers due to pressure from the Asian Development Bank.

3. Wheat and Sugar Subsidies

Box 9 Overview of the UK sugar sector

In the UK, there are approximately 8,500 beet growers, mostly in East Anglia, but also in Yorkshire, Lincolnshire and the West Midlands. Together they farm a total crop area of approximately 175,000 hectares, with an approximate annual yield of 9-10 million tonnes of beet.⁹¹ In the year 2000, a yield of 9.1 million tonnes of sugar beet produced approximately 1.3 million tonnes of white (refined) sugar, with a by-product of 750,000 tonnes of animal feed. Sugar beet is one of the most highly profitable arable crops for UK farms.⁹²

Half of the UK's consumption is met from the processing of sugar cane from developing countries. In 2000, the UK exported 90,000 tonnes of sugar to EU destinations, and 608,000 tonnes outside of the EU.⁹³ ActionAid has been informed by DEFRA that because data is not disaggregated, it is not possible to confirm how much of the exported sugar comes from domestically grown sugar beet, and how much is from imported sugar cane.

Production quotas are important in that they limit the maximum amount of production eligible for market price support. Producers can produce more but the surplus has to be sold outside the EU.

At a global level, world sugar production significantly exceeds demand. The same is true for the EU. In 2000/01 the UK produced about 130% of its quota of 1.1 million tonnes, and the EU overall produced about 135% of its quota of 13.9 million tonnes.⁹⁴ EU quota levels plus preferential imports (see below) are approximately three million tonnes above the level at which the EU sugar

supply would equal consumption.⁹⁵ Most exported sugar is produced in France and Germany, with the UK being the third largest exporter.⁹⁶ The EU is the world's largest exporter of white sugar (some four to six million tonnes per annum), followed by Brazil.⁹⁷

3.3.2 Sugar subsidies: a complex confection

Through the market support instruments mentioned above – quotas, intervention prices, export subsidies (also known as export refunds), and import tariffs – sugar beet producers in the EU are supported by a system that raises the price of sugar within the EU to artificial levels far above the world price. In addition, the use of export refunds enables sugar traders to export surpluses onto the world market at prices significantly below the cost of production in the EU.

3.3.3 The A B C of white sugar quotas

Production quotas for sugar form the basis for determining levels of support to the sector. Every five years the European Commission sets levels of 'A' and 'B' white sugar quotas for member states. Member states then allocate their national quota to individual sugar producing factories who in turn negotiate contracts with beet growers. 'A' sugar is the quantity set for EU consumption. 'B' sugar is a reserve quantity, ring-fenced to safeguard against unexpected shortages within the EU. Both 'A' and 'B' sugar can be exported to third countries with the use of export refunds.

Sugar produced outside these quotas, 'C' white sugar, is not eligible for market price support and must be sold outside the EU. It does not qualify for export refunds. On average, two million tonnes of 'C' sugar is produced each year, the majority by France, Germany, the UK, Spain and Denmark.

⁹¹ DEFRA, 2002b. *Op cit.* Chapter 5, Table 5.7. http://www.defra.gov.uk/esg/work_html/publications/cf/auk/current/chapter5.pdf. Production was lower than usual in 2001 at 8.2 million tonnes. In 2000 it was 9.1 million tonnes; 1999 – 10.6 million tonnes; and in 1998 – 10.0 million tonnes.

⁹² British Sugar, 2002. *The Sugar Beet Crop*. <http://www.britishsugar.co.uk/bsweb/sfi/agricind/crop.htm>

⁹³ DEFRA, 2002b. *Op cit.* Chapter 5, Table 5.7. http://www.defra.gov.uk/esg/work_html/publications/cf/auk/current/chapter5.pdf

⁹⁴ Figures provided through a personal communication with DEFRA, June 2002. For the same year Germany produced 1.3 million tonnes above its quota of 3.3 million; France 1.55 million above a quota of 3.4 million; and only one of the 15 EU countries did not produce any surplus above its quota.

⁹⁵ Court of Auditors, 2001. *Special Report No 20/2000 Concerning the Management of the Common Organisation of the Market for Sugar*, Clause 13. *Official Journal of the European Communities*, C50/1, 15/2/2001. http://europa.eu.int/eur-lex/pri/en/obj/dat/2001/c_050/c_05020010215en00010030.pdf

⁹⁶ NEI, 2000. *Evaluation of the Common Organisation of the Markets in the Sugar Sector*. The Netherlands Economic Institute for the European Commission. Section 12.2

⁹⁷ NEI, 2000. *Op cit.* Section 3.3

Although 'C' sugar is not subsidised directly, cross-subsidisation by farmers and processors against the income from 'A' and 'B' sugar support mechanisms, means that 'C' sugar can still be profitable as long as the marginal cost of production is below the world price (i.e. the additional cost of producing one extra tonne on top of existing production).⁹⁸ Farmers produce some 'C' sugar unintentionally, due to over-planting to ensure that they meet their A and B quotas. However, this usually constitutes only approximately 36% of the total 'C' sugar produced. The remaining 64% is intentionally produced for added profit, outside the quota system.⁹⁹

3.3.4 High EU sugar prices – the intervention price, import tariffs and export refunds

High EU internal prices for sugar are maintained through the use of three complementary market support mechanisms, namely the intervention (support) price, import tariffs and export refunds.

The intervention price is the price at which the EU is prepared (and obliged) to buy white 'A' and 'B' quota sugar offered to the national Intervention Agencies and is a fixed minimum price for sugar in these categories. It is currently set at €631.9 per tonne. However, in reality, since 1981/2 hardly any intervention purchase has taken place, because sugar prices in the EU have always been higher than the intervention price.¹⁰⁰

To maintain the high internal EU price for white sugar, potential exporters from other countries are deterred by very high tariff barriers. In 2000, these stood at €419 per tonne, making it virtually impossible for exporters to the EU to compete with domestic producers. In addition, the EU can charge additional import duties if the import volume of the product exceeds a trigger level, or if the value of the imported product falls below the trigger price of €531 per tonne.¹⁰¹ It is important to note that some developing countries, mainly ex-colonies of the European member states, have been given preferential access for specified

quotas of sugar to the EU market through the Sugar Protocol (*see below*).¹⁰² However, this access has not yet been extended to all Least Developed Countries (LDCs) under the EU's Everything But Arms (EBA) agreement on market access, which allows duty-free, quota-free access for all products except sugar, rice and bananas, from the world's poorest countries.

Again, in order to keep internal sugar prices high, the EU ensures that surplus production, that would depress the internal price if it remained within the EU, is exported. However, the high internal price means that exporting EU sugar surpluses onto the global market is impossible without some form of subsidy. Thus, to encourage exports, the EU provides export refunds (also known as export subsidies) to the exporter that entitle them to claim back the difference between the EU price and the world price.

Tenders for export refunds happen at a national level, on a weekly basis. Companies submit bids to export certain quantities at a certain level of export refund. If their submission is equal to or less than the refund price set for that week they will be granted the export licence and refund. The beneficiaries of these refunds include major EU sugar processing companies and traders.¹⁰³

The total annual cost of sugar export refunds is some €1.5 billion.¹⁰⁴ Because this is a very high cost to the taxpayer, a production levy has been imposed to recover some of the expenditure. This levy goes to cover the cost of export refunds to sell white sugar from EU beet production and amounts to about €800 million a year, reducing the taxpayers' bill by half. This levy is split on a 60:40 ratio between producers and processors. The part of the production levy paid by processors, however, gets passed on to EU consumers in the form of higher prices.¹⁰⁵ The EU imports raw cane sugar from developing countries which is then processed into white sugar and export refunds are also available to sell this cane production outside the EU. This cost – at about €800 million each year – is met from the CAP budget.

⁹⁸ NEI, 2000. *Op cit.* Section 3.9

⁹⁹ NEI, 2000. *Op cit.* Section 7.5

¹⁰⁰ NEI, 2000. *Op cit.* Section 2.3.1

¹⁰¹ NEI, 2000. *Op cit.* Section 2.3.4

¹⁰² Official Journal of the European Communities, 2001. *Sugars & Sugar Confectionery*, Chapter 17: p135 http://europa.eu.int/eur-lex/en/archive/2001/1_27920011023en.html / see also NEI, 2000. *Op cit.* Table 2.5

¹⁰³ *AgraEurope reports the awards – quantities and refunds - for export tenders every week. It does not give the company name that receives the refund, only that they are awarded to 'traders'.*

¹⁰⁴ Court of Auditors, 2001. *Op cit.*

¹⁰⁵ Sustain, 2000. *Sweet & Sour*, Food Facts 10, p27; and Court of Auditors, 2001. *Op cit.*, Clause 80

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It is clear that there are two reasons why EU white sugar producers/traders are able to export sugar onto the world market at prices that are well below the cost of production. Firstly, they receive export refunds for any surplus 'A' or 'B' sugar that gets sold into the world market – these refunds bridge the gap between the world market price and the EU price. Referring to Table 9 for the year 2000 we can see that the EU price of €650 per tonne, less the export refund of €460 per tonne, brings the price received to an even lower level than the world market price of €235 per tonne. Secondly, as discussed above, 'C' sugar continues to be produced and exported so long as the marginal cost of the 'C' sugar is below the world market price.^{106,107}

EU market support to sugar – through intervention buying, import tariffs and export refunds – results in the internal EU price for sugar being considerably higher than world market price (see Table 9). ActionAid has calculated that the level of market support to each UK beet farmer amounts to some £740 per hectare (see Table 4). Moreover, while UK farmers do not get direct payment subsidies for sugar (which are paid for every hectare of a particular crop), they do receive such subsidies for other arable crops. Sugar beet is a valuable break and rotation crop, commonly grown with wheat and barley. Sugar beet production can therefore benefit from cross-subsidisation with cereals.

Table 9 A/B white sugar in 2000

EU price	c€650 per tonne (£395/tonne) ¹⁰⁸	
Intervention Price	€631.9 per tonne (£379/tonne) ¹⁰⁹	<i>This intervention price remains unchanged.</i>
Average cost of production (EU)	€730-770 per tonne (£470/tonne)	<i>As a benchmark, ActionAid has used EU production costs from the period 1994-98 (\$667-710/tonne).¹¹⁰ Our consultations and further calculations lead us to believe that the cost in 2000 remains broadly the same. Costs in euros for 2000 are artificially inflated compared to the mid- to late-1990s because of exchange rate fluctuations.</i>
Average cost of production (UK)	€600 per tonne (£360/tonne)	<i>As a benchmark, ActionAid has used UK production costs from the period 1994-98 (\$450/tonne or £285/tonne).¹¹¹ Our consultations and calculations lead us to believe that UK costs may have risen in the year 2000 to \$550/tonne (£360/tonne) due to higher energy costs and unfavourable weather conditions (resulting in lower than usual yields).¹¹² DEFRA confirms that UK sugar production costs remain below the EU average and amongst the lowest in the EU.¹¹³</i>
Average maximum export refund	€460 per tonne (£280/tonne) ¹¹⁴	<i>The range of export refunds in 2000 was €392-530 per tonne (£240-320/tonne).</i>
Average world market price	€235 per tonne (£140/tonne) ¹¹⁵	<i>\$220/tonne (c10 cents/lb).</i>

Some of the figures in this table are approximate due to the paucity of data as well as depending on exchange rate fluctuations.

¹⁰⁶ Court of Auditors, 2001. Op cit. Clause 96.

¹⁰⁷ NEI, 2000. Op cit. Section 3.9

¹⁰⁸ European Commission, 2001c. Op cit.

¹⁰⁹ NEI, 2000. Op cit. Table 2.1

¹¹⁰ NEI, 2000. Op cit. Section 7.3

¹¹¹ NEI, 2000. Op cit. Section 7.3

¹¹² Personal communication with Oxfam, June 2002.

¹¹³ Email correspondence from DEFRA, 24/4/2002.

¹¹⁴ AgraEurope reports the maximum refunds on a weekly basis.

¹¹⁵ USDA, 2001c. Sugar and Sweetener: Situation and Outlook Yearbook. US Department of Agriculture, Figure 5. <http://usda.mannlib.cornell.edu/reports/erssor/specialty/sss-bb/2001/sss231.pdf>

3.3.5 Production, costs, prices, returns and dumping

Whilst the quota system limits the supply of white sugar onto the EU internal market, there is no constraint on the production of sugar for the global market other than the profit margins of producers and processors. If fixed costs are recovered through high EU internal prices and export refunds for 'A' and 'B' quota sugar, 'C' sugar will continue to be cross-subsidised and produced as long as the marginal cost of production is below the world price. According to a report by the Netherlands Economic Institute: "Through this mechanism, the Sugar [Regime] stimulates C sugar production."¹¹⁶

Because of market support, EU internal prices have often been some three times higher than those prevailing on world markets. In 2000, they were about 2.8 times the global price. At the same time, the production costs of major exporters of refined beet sugar (almost exclusively countries in the developed world) are about 80% higher than the production costs of major exporters of refined cane sugar (predominantly produced in developing countries).¹¹⁷

The EU's exports of white sugar onto the world market would not be profitable were it not for the support mechanisms enjoyed by sugar producers and processors. The EU does not have a competitive advantage in sugar production, yet as a result of protectionist measures outlined in this report, processors and producers in the EU are able to reap significant profits.

Table 9 reveals that in 2000, world export prices for UK production were about 60% below the cost of UK production (for the EU as a whole, export prices were about 70% below the cost of EU production¹¹⁸). Consequently, white sugar from the UK sold on world markets is dumped.

Were it not for the Sugar Regime, it is estimated that the EU would export five million tonnes less sugar and would import seven million tonnes more sugar than it does under the current system. This amounts to a difference of 12 million tonnes. Representing approximately 10% of the total world consumption of sugar, this has a clear trade distorting impact. If all current forms of support for the sugar sector across the OECD were removed (and about 40% of this support falls within the EU¹¹⁹), it is calculated that world sugar prices would increase by between 30-38% and EU sugar prices would fall by 40%.¹²⁰

3.3.6 The distribution and impact of EU sugar subsidies: who wins and who loses

As with wheat, support to sugar producers, processors and traders is unevenly distributed. The current winners are the big farmers, the sugar beet processing companies, and companies benefiting from export refunds including the major exporters of white sugar. Some African, Caribbean and Pacific (ACP) countries also benefit.

The immediate losers are consumers in Europe, non-ACP country sugar producers in the developing world who wish to export to the EU, and all developing countries who grow sugar but have to compete with subsidised EU sugar both in their domestic and export markets. In addition, there are environmental costs involved in the intensive production of sugar.

Winners the companies

Across the world there is an increasing concentration taking place in the sugar processing industry. The top 10 sugar companies worldwide account for 20% of all sugar production. Six of these are based in the EU and several have become multinationals in the last decade through overseas acquisitions.¹²¹

¹¹⁶ NEI, 2000. *Op cit.* Section 3.9.

¹¹⁷ NEI, 2000. *Op cit.* Section 7.3.1.

¹¹⁸ According to research by Oxfam, EU export prices are only one quarter of production costs. Oxfam, 2002. *Op cit.*

¹¹⁹ OECD, 2001a. *Op cit.* Pages 183 and 212.

¹²⁰ Borrell, B. and L. Hubbard, 2000. *Global Economic Effects of the EU Common Agricultural Policy.* Institute of Economic Affairs. It should be added that, in the longer term, world prices may well change again as world production reacts in response to higher world prices.

¹²¹ Court of Auditors, 2001. *Op cit.* Annex II and Clauses 10 and 12

3. Wheat and Sugar Subsidies

Over 50% of the sugar quota in the EU is held by just 14 companies and in some member states the whole quota is held by just one or two companies. This is the situation in the UK, where British Sugar has the complete national quota. The parent company of British Sugar – Associated British Foods – reported increased operating profits in 2001 from the division responsible for sugar.

As a result of the EU Sugar Regime, “normal competitive forces do not operate and in several cases sugar companies have been fined for abuses of competition”.¹²²

Sugar processors such as British Sugar could potentially ‘lose’ should the Sugar Regime change. If market price support was significantly reduced or eliminated, the processing of white sugar would be considerably less profitable.

Winners the farmers

As demonstrated above, sugar beet is a highly profitable crop because of market price support. The allocation of quotas, combined with the fact that beet is grown as a break crop with cereals means it is common for sugar beet to make up about 10% of an arable farm. Most sugar beet is produced in eastern England where the average farm size is well above the national average.¹²³ While small to medium-scale farms also benefit from the growing of sugar beet, the main beneficiaries are the large arable farmers.

A theoretical example of an 800 hectare farm in East Anglia illustrates the benefits to farmers. The crops grown would be mainly wheat, but also sugar beet, barley, peas, beans and oilseed rape. Sugar beet would make up approximately 80 hectares, with a yield of approximately 58 tonnes/hectare, providing about 4,640 tonnes of sugar beet. This in turn would produce roughly 700 tonnes of white sugar. This farm in the late 1990s would have received the equivalent of a subsidy of £740 per hectare of sugar beet grown (estimates of market price support in 1999, 2000 and 2001 per hectare are roughly similar, see

Table 4). Market price support would thus provide the farm with an annual subsidy income of about £60,000 for the sugar beet alone, with the other crops receiving subsidies via direct payments.

Farmers could potentially ‘lose’ should the Sugar Regime change. If market price support was significantly reduced or eliminated and EU internal prices fell, the growing of sugar beet would be considerably less profitable. This could mean that farmers have to switch to other (‘break’) crops but it is estimated that it would not eliminate sugar beet from the EU cropping regime.¹²⁴ Those that might survive would be the largest, most efficient producers in the low cost areas of the EU – the UK, France, Germany, Netherlands and Belgium.

Winners ACP sugar producers

Some ACP sugar cane producing countries have historically benefited from the EU Sugar Regime through the Sugar Protocol. This provides a preferential market for quotas of sugar cane from some ACP countries and India (referred to as Preferential Sugar). This sugar receives a price equivalent to EU internal prices as the EU links the guaranteed price for ACP sugar to the intervention price for EU sugar. Currently some 18 countries benefit from a total preferential quota of some 1.5 million tonnes. However, the benefits are unevenly spread. Mauritius is by far the largest beneficiary, with an annual import quota of nearly 500,000 tonnes. Some least developed sugar-producing countries in Southern Africa benefit only minimally.¹²⁵ For some nations such as Mauritius, Barbados, Guyana, Jamaica and St. Kitts, over half their production is sold into the EU at the higher internal price. In addition to Preferential Sugar, ACP states and India also benefit from the Special Preferential Sugar (SPS) arrangement, which covers the Maximum Supply Needs (MSNs) of the seven EU raw cane sugar refineries.¹²⁶

¹²² Court of Auditors, 2001. *Op cit*.

¹²³ Lang, 2002. *Op cit*.

¹²⁴ CTA, 2002. *Sugar – Executive Brief*. CTA: Technical Centre for Agriculture and Rural Cooperation ACP-EU. http://www.agricta.org/agritrade/sugar/executive_brief.htm

¹²⁵ CTA, 2002. *Op cit*.

¹²⁶ NEI, 2000. *Op cit*. Section 2.3.9. Of the seven EU cane refineries there are two in the UK, two in Portugal, two in France and one in Finland

Losers the consumer

The Court of Auditors has estimated that the economic cost due to higher prices to consumers within the EU is in the region of €6.5 billion.¹²⁷ This is about €20 for every person within the EU. Others have calculated that EU consumers would save an estimated \$2.2 billion a year (about €2.4 billion in 2000) if the intervention price was reduced by 40%.¹²⁸

One danger for European consumers if prices are lowered and the reductions are passed onto them, is that this might induce greater consumption of sugar. Since sugar is implicated in a number of health problems such as obesity, diabetes, heart and circulation diseases and dental decay, governments may have to invest in public information campaigns to prevent increased consumption.

Losers the environment

There are a number of environmental impacts from sugar production. Pesticide use on sugar beet is very high as is the application of nitrate fertilisers and water for irrigation.

Losers developing countries

Despite that fact that a number of ACP countries gain through the Sugar Protocol, overall, ActionAid believes that developing countries have been net losers from the EU's Sugar Regime. All EU sugar exports into developing country markets are sold at less than the cost of production (i.e. dumped). This is considered in more detail in the following section.

3.4 EU sugar production and subsidies and the impacts in the developing world

ActionAid believes that the EU Sugar Regime needs fundamental reform. In any event, under WTO trade rules, market price support will have to be reduced and, in the long term, intervention buying and export refunds are likely to be eliminated. Thus the EU Sugar Regime as it is currently comprised, would no longer exist. This has mixed implications for developing countries and ActionAid

believes it is necessary to manage the transition carefully so as to minimise detrimental impacts (*see Recommendations in Section 4 below*).

The EU does not have a competitive advantage in sugar production and only keeps producers and processors in business by the use of subsidies. Conversely, sugar is one sector in which developing countries have a distinct cost advantage over most developed country producers.

3.4.1 Impacts on developing countries

The EU Sugar Regime affects developing countries in four main ways. The first, as outlined above, is that a considerable quantity of surplus sugar (both quota and 'C' sugar) is dumped into their markets by EU (and other) producers. Secondly, this surplus production is depressing world market prices and developing countries have to sell at these low prices or lose market share. The third is that, were it not for the Sugar Regime, the EU would produce significantly less sugar and the shortfall could be made up from increased developing country exports. Fourthly, some developing countries actually benefit from the EU Sugar Regime through the Sugar Protocol.

Whilst a number of the ACP countries have preferential access to the EU sugar market, there are a number of non-ACP LDCs that also produce and trade sugar that do not. The EU's EBA initiative will benefit all sugar-producing LDCs when the EU market for sugar is gradually opened up and quota-restricted access is removed over a transitional period from 2001/2 to 2008/9. By the end of this period LDC sugar exporters should benefit from unrestricted duty free access for their sugar. However, the EBA will be at the expense of non-least developed ACP sugar producers, like Swaziland, Zimbabwe and the Caribbean nations, whose quotas exports to the EU are being cut back to accommodate the increased exports from EBA countries.¹²⁹ Sugar cane producers – particularly those in developing countries – have a cost advantage over beet growers and processors but their competitiveness is substantially reduced because of EU subsidies.

¹²⁷ Court of Auditors, 2001. *Op cit.* Clause 81.

¹²⁸ Sheales, T., S. Gordon, A. Hafi and C. Toyne, 1999. *Sugar International Policies Affecting Market Expansion. Australian Bureau of Agricultural and resource Economics Research Report 99/4. November.* www.abare.gov.au

¹²⁹ ACTSA, 2002. *Taste the Bitterness. Briefing, Action for Southern Africa (ACTSA), January 2002.* http://www.actsa.org/Trade/taste_the_bitterness.htm

3. Wheat and Sugar Subsidies

Box 10: Sugar subsidies in the developing world

Many developing countries do not, or cannot afford to, support their sugar cane production with subsidies. Whilst UK and EU production is subsidised through market price support (and runs into many hundreds of pounds per hectare), Kenya for example does not provide any support to sugar cane farmers.

If market price support was reduced in the EU, this would have obvious implications for developing countries dependent on sugar production and exports under the Sugar Protocol. In 2000, the European Commission estimated that a 25% reduction in the EU sugar price would decrease ACP sugar exporters' earnings by some €250 million per annum.¹³⁰

- Some of the losses of more efficient sugar producing ACP countries such as Zimbabwe, Zambia, Malawi and Swaziland¹³² could be counter-balanced by increased exports to the EU, albeit at lower prices. Indeed, it is reported that Zimbabwe, Malawi and Zambia are amongst the top seven lowest cost producers of raw sugar in the world.¹³³
- Less efficient producers – such as Mauritius and other island states in the Caribbean and the Pacific¹³⁴ – would struggle because the new world/EU price may not cover production costs. Again, compensation and financial assistance should be forthcoming (*see Recommendations*).
- Those countries that do not have preferential access to the EU sugar market – the non-ACP developing countries such as South Africa, Brazil, Thailand, Cuba, Colombia and Guatemala – would potentially benefit from the dismantling of the Sugar Regime because of higher world prices and greater access to the EU market.

Ultimately, the Sugar Regime will have to be substantially reformed to comply with WTO rules. It is estimated that the reforms would result in EU production falling by five million tonnes and imports rising by some seven million tonnes to meet demand. In addition, EU prices would fall and world prices would rise. Some of the implications can be summarised as follows:

- There would be considerably less, if any, dumping of surplus EU sugar in developing country markets.
- LDC and ACP exporters would have to sell into the EU at the lower EU price. It is predicted that if all distortions were removed on EU sugar, the losses to ACP countries would be in the order of €400 million per annum.¹³¹ These losses could be compensated through the net budget savings on the CAP for sugar production which stood at some €800 million in 2000 (*see Recommendations*).

Much depends on whether some of these countries are able to take advantage of increased market access either through extra production or diverting trade from elsewhere. However, the merits of increased production, possibly at the expense of staple food crop production and overall food security, should be considered carefully by developing country producers.

¹³⁰ CTA, 2002. *Op cit*.

¹³¹ CTA, 2002. *Op cit*.

¹³² NEI, 2000. *Op cit*. Section 7 and the Court of Auditors, 2001. *Op cit*.

¹³³ SADC, 2002. *Southern African Development Community Statistics - International Sugar*. <http://www.illovosugar.com/wprld/intstats.htm>

¹³⁴ Court of Auditors, 2001. *Op cit*. and CTA, 2002. *Op cit*. Page 5.

Box 11: The impact of sugar dumping – A case study from Swaziland

Swaziland produces sugar at less than half the cost of the EU, and yet it is unable to compete with the EU confectionary imports that increasingly dominate its, and neighbouring, markets.

The sugar industry plays a crucial role in the Swaziland economy, where sugar production amounts to some half a million tonnes. Small-scale growers produce a significant proportion of this. Over the period 1995-6 sugarcane growing accounted for 53% of agricultural output and 34% of total agricultural wage employment. In addition to sugarcane growing Swaziland has established a sizeable sugar manufacturing industry. During the same period 1995-6, sugarcane milling contributed 37% to total manufacturing output and 22% to total manufacturing wage employment. Over the period 1990-96 sugar exports comprised 22% of total exports. In addition to the fiscal benefits, the sugar industry makes important contributions in terms of social service provision, including healthcare, education, housing, water and recreation. Medical care to the local community is provided through clinics and hospitals at heavily subsidised prices.¹³⁵

Swaziland – as an ACP country – has an annual import quota into the EU of approximately 117,000 tonnes,¹³⁶ and relatively little EU sugar is exported to Swaziland.¹³⁷ Nevertheless, subsidised dumped EU sugar products (primarily confectionary products) are seriously undermining the Swazi sugar processing industry. For example, the Sugar Daddy factory used to produce sugar confectionary products for the South African market, providing 300 jobs for local people. However, in recent years the South African outlets have increasingly switched to buying cheaper, subsidised EU sugar confectionary imports and in 2001 the Sugar Daddy factory was forced into liquidation. (EU industrial users of high priced internal sugar - such as confectionary producers - also receive an export subsidy to enable them to sell processed sugar goods on the world market.)

The Ilovo Ubombo sugar mill in Swaziland produces 375 tonnes of sugar per hour, supports 649 permanent jobs and provides free medical care, housing, water and subsidised schools to the local community. But, the increasing impact of EU-manufactured sugar products in the Swazi market leads the manager of the Ilovo mill to fear for its future. Already the dumping of EU sugar products has led to the loss of some 16,000 jobs in the Swazi sugar industry and 20,000 jobs indirectly linked to the industry, such as packaging and transport.¹³⁸



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¹³⁵ Dlamini, O., undated. Chairman's Message. The Swaziland Sugar Association. www.swazibusiness.com/swazisugar/chairman.html

¹³⁶ NEI, 2000. Op cit. Section 2.3.9

¹³⁷ DTI, 2002. Op cit.

¹³⁸ ACTSA, 2002. Op cit. And see http://www.actsa.org/News/features/011001_sugar.htm for more details.

4. Conclusions and Recommendations

4.1 Conclusions

There are two important overall conclusions to draw from this study of EU agricultural subsidies. The first is that the WTO has permitted OECD countries to continue to provide massive support to their agricultural sectors. Many developing countries simply cannot afford to pay anything like the level of subsidies enjoyed, for example, in the EU or the US, thereby increasing inequalities between countries in the developed world and countries in the developing world. In addition, inequalities are being compounded in developed countries because EU subsidies are distributed in favour of large farms which are already benefiting from economies of scale and higher margins.

The second is that subsidies distort production, trade and prices with detrimental impacts in developing countries. Subsidies allow the EU (and US) to sell agricultural products at artificially low prices creating unfair competition with farmers in the developing world. Indeed, both the EU (and US) are able to dispose of surpluses onto world markets at less than the cost of production. In effect, these goods are dumped and severely undermine existing and potential local domestic agricultural production.

ActionAid is far from confident that the pending EU's reform of the CAP and the re-negotiations of the AoA will have any meaningful impact on addressing the levels of subsidies in developed countries. The European Commission's latest CAP proposals came out in July 2002. ActionAid does not believe that they will significantly reduce trade-distorting subsidies. In any case, any fundamental changes will meet with strong opposition.

ActionAid believes that the only subsidies that should be permitted are those that deliver 'public goods' – for example conserving the environment, enhancing rural development, promoting more sustainable agricultural practices, supporting small-scale producers and, particularly in developing countries, addressing other market failures (such as food distribution to the poor) and supporting food security crops and products. Currently, subsidies in developed countries do not provide these goods and in fact deliver 'public bads' – not only are they heavily skewed in favour of large producers but they lead to over-production and depressed prices that distort trade and result in dumping.

Further, whilst subsidies should be redirected away from production towards supporting the delivery of public goods, other policy measures need to be considered to facilitate this move. For example, green taxes and public procurement could be used to assist in the move towards more sustainable agricultural practices. Another important policy initiative – and central to the demands of small-scale farmers worldwide – is the ability of producers to receive a fair price for their produce. This may mean using supply management measures, not only to ensure appropriate, fair and sustainable farming and food production but also to restrict production and thus potentially raise farmgate prices.

Higher prices at the farmgate need not necessarily mean that consumers have to pay more for their food. Of the average loaf of bread in the UK that costs 50 pence, only some 2-3 pence goes to the farmer. Similarly, in mid 2002, the price of milk at the UK farmgate was 14 pence a litre, down six pence per litre from the previous year and for some farmers this is five pence below the cost of production. But milk prices to consumers remained constant at about 45 pence per litre.¹³⁹ In both cases, some of the difference between the farmgate price and the consumer price is due to transport and processing costs, but it is clear that the main profits in food are going to manufacturers and retailers not to farmers. As part of a more sustainable approach to agriculture, the distribution of revenues in the food chain needs to be shared more equitably. This may mean introducing policies that ensure farmers are protected from unfair business practices.

4.2 Policy recommendations

The case study on sugar provides a graphic illustration that policy recommendations cannot be targeted solely at subsidies. Issues surrounding market access are invariably tied to the subsidy regime within the EU. ActionAid believes that subsidies need to be significantly reduced in the North but also that tariffs or other complementary mechanisms should be considered by developed countries as a means whereby preferential access is given to agricultural products from the world's poorest countries and which benefit small-scale producers.

¹³⁹ Just-Food, 2002. UK: Farmers milked over farmgate prices while supermarkets cash in. 9 July. http://www.just-food.com/news_detail.asp?art=50442

ActionAid believes that, with very few exceptions, all current agricultural subsidies distort production and trade. As the OECD comments on subsidies, “it seems difficult to contend that any policy measure can be entirely production or trade neutral.”¹⁴⁰ Farmers will inevitably use a financial contribution to their farming enterprise to cross-subsidise other parts of their operation. For this reason, ActionAid makes the distinction between those subsidies that are known to be ‘trade distorting’ (i.e. market price support and direct payments) and those that are least or ‘minimally trade distorting’ (i.e. environmental measures). It is important that subsidies that fall into the latter category are fully (or as far as possible) ‘decoupled’ from production and trade.

4.2.1 Overall policy recommendations at a global level

ActionAid is calling for the CAP reform process and the WTO negotiations to:

- Eliminate all types of export subsidies (i.e. credits and refunds) immediately.
- Substantially reduce the level of agricultural support in developed countries.
- Phase out, as soon as possible, agricultural subsidies in developed countries that distort production and trade (and which lead to dumping).
- Redirect remaining subsidies in developed countries towards conserving the environment, promoting rural development and target them primarily at small-scale farmers and more sustainable agricultural practices.

In the event that these remaining (‘decoupled’) subsidies continue to distort production and trade (and lead to dumping), ActionAid believes that additional policy measures need to be considered. These would include the use of export taxes on subsidised products that are sold on world markets. Another policy option would be for the OECD, for example, to calculate and publish the full production costs for all agricultural products in developed countries and major exporting nations so as to provide a ‘point of reference’ against which the dumping of goods can be measured. The reference could be used to trigger the use of countervailing duties.

ActionAid is also calling for the WTO negotiations to:

- Support the introduction of the Development Box within the AoA to enable developing countries to protect small-scale farmers and to develop their own agricultural sectors.
- Review the use of the Green Box classifications within the AoA to assess their impact on trade and to ensure that they cannot be used to circumvent subsidy reduction commitments.

Given the difficulties in obtaining comprehensive and up-to-date data, ActionAid is also calling on member states in OECD countries to:

- Put all information on subsidies (export refunds, export credits, direct payments, market price support etc) into the public domain.

The implications of some of these policies will be different for each sector and because of economic and social impacts both in the North and South, these policies may have to be phased in over transition periods.

Box 12: Higher import bills and the Marrakesh Decision

World prices (i.e. for cereals) are predicted to rise as a result of CAP and AoA reforms that are outlined in this report. This will have a detrimental impact on some LDCs and on Net Food Importing Developing Countries (NFIDCs). To cushion these countries from the impact of higher food import bills, it is essential that developed countries should implement the WTO’s Marrakesh Decision with regards the creation of a revolving compensatory fund.

4.2.2 Wheat

The following policies within the EU should be implemented in the short to medium term:

- Support to the wheat and cereals sector through intervention buying should be phased out (in effect, the current level of market support for wheat is minimal or close to zero because world prices are on a par with internal EU prices).

¹⁴⁰ OECD, 2000 *Op cit.*

- The use of export refunds should be eliminated.
- Direct payments to wheat (and other arable crops) should be phased out.
- Subsidy payments should be eligible for all types of farms but devised so that they are fully (or as far as possible) 'decoupled' from production and based on, for example, specific environment and rural development criteria. Payments should be tapered so that the vast majority of subsidies are targeted at small-scale farmers and the upper level of subsidy to any one farm capped.
- Additional rural development programmes should be introduced for measures which would address social issues as well as the maintenance and enhancement of natural resources and habitats.

4.2.3 Sugar

ActionAid believes that the EU Sugar Regime needs fundamental reform. Because this has positive and negative implications for developing countries, changes must be managed so as to minimise detrimental impacts.

Unless otherwise stated, almost all these policy changes within the EU should be implemented in the short to medium term. The eventual elimination of price support would have to be implemented over the long term (*see first point*).

- EU market price support level should be decreased gradually so as to minimise the economic and social impacts to ACP countries and producers in the EU from lower price support levels. In the long-term, market price support should be phased out.
- The EU should bring the EBA initiative into effect immediately (i.e. there should be no phase-in period for sugar). All EBA sugar producers and exporters should provide indications of likely annual exports to the EU over a ten year period. Prices of EBA sugar should be linked to the decreasing EU intervention (support) price and maintained at the same price as Protocol Sugar.
- The ACP Sugar Protocol should be continued at the same quotas as before the EBA initiative. Prices of Protocol Sugar should continue to be linked to the decreasing EU intervention (support) price and maintained at the same price as EBA sugar.
- EU national sugar quotas should be reduced to EU consumption levels less the EBA imports and ACP quota imports. The new national quotas should be targeted at small-scale producers.
- Exports from the EU should be discontinued and the use of export refunds should be prohibited. Surplus sugar should be stored and held against the national quota in the following year.
- Financial (or other) assistance should be given to developing countries that are affected by falls in the EU sugar price. Assistance should be targeted particularly at those countries that are heavily reliant on the exports of one or two commodities into the EU market and which rely on higher prices within the EU. This would also enable them to diversify their agricultural production, become more competitive, add value and invest in more sustainable agricultural practices. The costs of such assistance could be met by decreases in current CAP payments for export refunds (i.e. in the sugar sector).
- Transitional assistance should be given to small-scale beet (and some cane) growers within the EU who cannot compete at the lower sugar prices.
- Subsidy payments should be eligible for all types of farms but devised so that they are fully (or as far as possible) 'decoupled' from production and based on, for example, specific environment and rural development criteria. Payments should be tapered so that the vast majority of subsidies are targeted at small-scale farmers and the upper level of subsidy to any one farm capped.
- Additional rural development programmes should be introduced for measures which would address social issues as well as the maintenance and enhancement of natural resources and habitats.
- Because of the environmental and health implications of sugar production and consumption, the European Commission should be adopting policies to reduce the consumption of sugar throughout the European Union. Any reduction in consumption should be reflected in reduced national quotas.

Acronyms

AAP	Arable Area Payment
AAPS	Arable Area Payments Scheme
ABARE	Australian Bureau of Agriculture and Resource Economics
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AoA	Agreement on Agriculture
CAP	Common Agricultural Policy
COMESA	Common Market for Eastern and Southern Africa
DEFRA	Department for Environment, Food and Rural Affairs
EBA	Everything But Arms
EC	European Commission
EU	European Union
GATT	General Agreement on Tariffs and Trade
GDR	German Democratic Republic
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
KADI	Indonesian Anti-dumping Committee
KGCA	Kenya Cereal Growers' Association
KNFU	Kenyan National Farmers' Union
LDC	Least Developed Country
MSN	Maximum Supply Needs
OECD	Organisation for Economic Co-operation and Development
PFGDS	Public Food Grain Distribution System
PSE	Producer Support Estimate
SAP	Structural Adjustment Programme
SCM	Subsidies and Countervailing Measures
SPS	Special Preferential Sugar
UAE	United Arab Emirates
UK	United Kingdom
US	United States
WTO	World Trade Organisation

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