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Protecting Agriculture: "Zero–Tolerance" on Farm Subsidies

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At the inaugural of the World Food and Farming Congress 2002, held recently in London, I found myself sandwiched at a dinner between the two poles—a former U.S. Ambassador for Agriculture to WTO and Zimbabwe's Permanent Representative. Since this was the closest I had ever got to the trade negotiators, I picked up the courage to ask the former U.S. Ambassador: "Tell me, how do you arm-twist developing countries into submission?"

The former U.S. Ambassador, and obviously one of the toughest trade masters, was taken aback. "Who gave you this idea that we arm-twist developing countries?" he asked, adding, "This is a propaganda, a figment of imagination of the international NGO community." Sensing the sensitivity of the question, I corrected myself: "You don't have to feel embarrassed. I am aware of how you have brought down India to its knees but tell me how do you do it to the other two giants—China and Brazil?" And without batting an eye, the ex-diplomat replied: "Actually, China and Brazil are not the problem. The real problem is India."

A few days later, the U.S. Secretary of Agriculture, Ann Veneman, who had earlier served on the board of Calgene—the first company to market genetically engineered foods to stores—was speaking at the International Food Policy Research Institute in Washington DC, "Some developing countries argue that they shouldn't have to open up markets until the developed countries first make domestic support reductions. This is a formula for failure." Echoing the same brand of hypocrisy, the World Bank Chief Economist Nicholas Stern, while traveling through India, denounced subsidies paid by rich countries to their farmers as "sin ...on a very big scale" but warned India against any attempts to resist opening its markets. "Developing countries must remove their trade barriers regardless of what is happening in the developed countries," he said.

These words of "economic" wisdom were strongly contested when India's Agriculture Minister, Ajit Singh, stated categorically that "There is no way we can reduce tariffs on agricultural products unless the rich nations cut their domestic support and subsidies as well as export subsidies." He was speaking to journalists at the end of his four-day visit to Geneva in January, a little ahead of the March 31, 2003 Doha deadline for agreeing on modalities of the agricultural negotiations. Agriculture negotiations under the Doha round are taking place in the Special Sessions of the Agriculture Committee. He met the WTO Director-General Supachai Panitchpakdi and his chef de cabinet and chairman of the Special Sessions of the Committee on Agriculture Stuart Harbinson, and other protagonists—the U.S., the EC, members of the Cairns Group, and some of the African group countries—and said he had put forward India's position, an outcome of countrywide deliberations and discussions.

In addition to India, many other developing countries have time and again stood up to the hegemony of the so-called free trade regime. But tactical arm-twisting by the U.S., EU, Australia, and Japan has always thwarted the rise of the collective power. In the process, what remains significant at the ongoing negotiations is not what the developing countries (in the absence of a collective stand) say but how the EU reacts to the American proposals. Even India, China, and Brazil have had a history of giving up in the final stages of negotiations. The final outcome of the ongoing agricultural negotiations, despite its serious implications for several hundred million small farmers, is not going to be any different.

It is therefore time to take stock of what is at stake. The introduction of the 2002 Farm Bill in the United States, for instance, providing an additional support of $180 billion in the next ten years to its miniscule population of farmers, is an indication of how serious the industrialized countries are about meeting the obligations of the Agreement on Agriculture. This also includes $15 million to be spent every year on promoting genetically modified foods. With the OECD countries already providing a support of $311 billion a year to agriculture, the addition of $180 billion raises the total budgetary support to agriculture in the rich countries to $491 billion.

The sheer scale of "green box" subsidies in the developed countries ensures that they distort trade because the money spent keeps producers afloat. For example, the U.S. spent $1.3 billion on income support for rice farmers in the 1999-2000 when its total rice production was worth $1.2 billion. Japan's subsidies to its farmers, on the other hand, are greater than the entire contribution made by agriculture to the nation's economy. The total transfers to agriculture amounted to 1.4% of gross domestic product in 2000, compared to the sector's 1.1% share of GDP. Like America and the European Union, Japan too defends its heavy use of agricultural subsidies, claiming it needs to protect its industry to ensure a degree of security if imports were disrupted for any reason. The country only produces 40% of what it needs and is the world's largest importer of food.

The U.S. justifies the additional federal support saying that it remains committed to reducing the "trade distorting" subsidies by 5% a year. The European Union, which is not far behind in subsidizing agriculture, has used "multi-functionality" of agriculture to justify its support, much of it by way of direct payments. "Multi-functionality" is a camouflage for agriculture subsidies under the garb of protecting rural landscape and lifestyle, as well as the welfare of livestock, even if they are not efficient. EU has been desperately seeking India's backing for its "multi-functional" agriculture.

Roberto Bissio of Uruguay, the global coordinator of Social Watch, which monitors the social policies of countries around the world, terms this is a hoax: "With European Union subsidies it would be possible to send every European cow around the world on a business class ticket." In any case, the amount of subsidy a cow in Europe and America receives per day—$2.70 per cow—is more than twice the average daily income of a small and marginal farmer in the Third World. The disparities are glaring: each of the one million cows in the OECD countries is fed exactly according to its body's needs, while over 800 million people go to bed with empty stomachs in the majority world, a third of them in India alone. Yet dairy subsidies are justified as helping mitigate nutritional deficiencies in the developing world.

All subsidies are not transparent. Some are woven so intricately into the system that careful scrutiny is necessary to identify them. A recent decision of the WTO Appellate Body, for instance, has found the Canadian government's supply management system for the domestic market subsidized production of export milk as a trade-distorting export subsidy. This verdict reverses an earlier decision, clearly suggesting that a significant number of subsidies still remain hidden. Following this decision, Canada's dairy exports are expected to substantially decline from the current level of Canadian $415 million. On the other hand, India—the world's biggest producer of milk—is unable to export as it cannot meet the internationally prevailing low milk prices due to its inability to subsidize its dairy industry. India has no subsidies on dairy and as per the WTO norms is now prohibited to provide any government support.

In addition to subsidies, refunds have also been raised several times in Europe and America as a result of which world market prices get depressed thereby hitting domestic producers in developing countries. Butter export subsidies paid by the European Union, for instance, are currently at a five-year high and butter export refunds have risen to an equivalent of 60% of the EU market price. Consequently, butter oil imports into India have grown at an average rate of 7.7% annually. This trend has already had a dampening effect on prices of ghee in the domestic market.

The level of subsidies is so great that American wheat is available at Chennai

in south India at a landing price much lower than that of the home-grown golden grain. Food processing units in south India therefore find it more economical to import wheat than to transport it from northern parts of the country. The result is that while the wheat surplus in the northwestern parts of the country (wheat cannot be grown in south India) rots in the open, traders and food processing industry relies on imports. Wheat growers in north of the country suffer, and many of them have gone bankrupt. The government too is reluctant to purchase any more wheat, thereby creating an unprecedented crisis for the farming community.

Food Dumping

Food dumping has now become a global phenomenon. Take, for instance, the British way of dumping cheaper wheat onto the global market. In 2000, the world price of wheat was £73 a ton, the production cost of UK wheat was £113 a ton, and the UK wheat price was £70 a ton. The selling price of UK wheat was therefore £43 below the production cost. Former GATT Ambassador BL Das has explained the process that enabled the UK farmer sell below the production cost. Huge subsidies were paid by the government in the form of direct payments—to compensate for reducing the previous system of price support—and wheat farmers were paid £226 per hectare in 2001 and subsidies for "set-asides" (another £226 per hectare). In 2000, £458 million was paid for 2 million hectares of wheat and another £127 million for set-aside for 550,000 hectares.

Producer subsidies are also being converted into processor subsidies so as to meet the obligations of the WTO subsidy reduction commitments, at least on paper. According to an estimate, in 1995-96, EU provided $48 billion under "amber-box" subsidies and another $40 billion under "blue" and "green box" subsidies. In 2002, it shifted and juggled the figures to provide $34 billion in amber box and $52 billion as blue and green box subsidies. The net subsidy level however did not show any significant shift, and in fact remained at almost same levels: $88 billion in 1995-96 and $86 billion in 2002. For the farmers in the developing countries, such combinations do not bring any reduction in their misery and suffering because of their dependency on global market forces.

While talk of providing market access to developed country markets has increased, actual access remains as elusive as other commitments. As a result, exports from developed countries have increased compared to the exports from the developing to the industrialized countries. Exports from the developing countries have been blocked with higher tariffs and or stiff sanitary and phytosanitary measures.

Such is the level of sensitivity to imports from the developing countries that even minor horticultural produce is blocked. Argentina faced the music when its honey exports to the United States were greeted with tariffs of up to 66%, effectively shutting it out of the market. The U.S. decision, which came in November 2002, dealt a serious blow to an industry that provides a livelihood to thousands of farmers. Earlier, orange exports from Argentina had met the same fate. And a few years back, cut flower exports from India to Europe attracted a hefty import duty thereby exerting a big blow to the nascent domestic flower industry.

And yet, there seems to be no respite. Developing countries cries of "foul" have fallen on deaf ears. As the President of Nigeria, Olusegun Obasanjo, recently told an international gathering at Rome: "Hopes for fairer markets have been dashed by the strategic protection given by the developed countries to their agriculture through export subsidies, tariffs, quotas, and other restrictions on commodity imports from developing countries." With the political leadership of the majority world clearly divided or too weak to stand up, the European Union, United States, and the Cairns group of countries continue to play the macabre dance of free markets exacerbating marginalization of the farming communities in the south.

Regardless of the impact on south, the big boys go on merrily strengthening the inequalities. They come out with their own rules of the games, and the developing countries are expected to appreciate and clap. The U.S. favors the "Swiss formula" to lower trade-distorting domestic support to an amount equal to 5% of the value of a country's total agricultural production. This would lead to greater reductions in domestic subsidies in countries that currently have the highest levels of trade-distorting support, and would have the effect of reducing the European Union's limit on such subsidies from $62 billion to $12 billion and the U.S. limit from $19 billion to $10 billion. All of this is on paper only, knowing that the shifting of subsidies to more suitable "boxes" is already going on.

The European Union's proposal (which is still to be endorsed by each of the member countries) is to reduce direct payments to farmers by 3% a year up to a total reduction of 20%, leading to an estimated savings of

between 500 and 600 million euros in 2005. The proposal also aims to cap direct payments to an individual farm at 300,000 euros. Many will say that the EU proposal is a step forward. While the phase-out is in progress, developing countries should open up. Many of these same people will not realize that the direct payment that the EU proposes as the upper limit is more than the annual earning of more than 1,000 farming families in India's hinterland!

The Cairns group has called for tighter definitions of eligible "green box" programs. These food-exporting countries have been fighting for the elimination of farm subsidies and unconditional opening of the markets. But some food exporting countries like Indonesia, also part of the Cairns group, have serious reservations about reducing tariffs that could lead to rising imports, putting its domestic producers out of business. Such a move will prevent it from providing enough rice through domestic production for its population of over 200 million. Indonesia had recently faced a glut of imports of cheap rice from Vietnam while its own producers waited endlessly for buyers. India too is under tremendous pressure to be a part of the Cairns group, not realizing what the country requires is a food management system that focuses on utilizing the abundant manpower and natural resources for building a self-reliant food economy.

Already the phase-out and removal of tariffs has brought in a flood of cheaper imports in 14 countries, an increase of 30% in Senegal to 168% in India, from 1990-94 and 1995-98. Food import bills have doubled for the two giants—India and Brazil—and increased by 50 to 100% for Pakistan, Peru, Thailand, Morocco, and Bangladesh. Considering that importing food is like importing unemployment, the greater the imports the greater the destruction of agriculture-based economies. Food imports have a strong negative correlation with the multitude of small and marginal livelihoods in the South; a fact that is widely acknowledged but routinely ignored.

The ostensible benevolence of the "Swiss formula," the EU proposal, and the Cairns group's "level playing field" strategy is not aimed at helping farming communities in the developing countries. Repeated proclamations of an average cut in export subsidies by 45%, a cut of 55% of domestic trade-distorting subsidies and an average tariff cut of 36%—like in the EU proposal—are merely a mirage, a deception. These are measures that come with only one underlying aim—to protect the food industry and the family farms in the rich and industrialized countries. What happens in the process to the very survival of millions of small and marginal farming communities in the south is not even a remote concern.

Developing countries cannot afford to be silent spectators. Globalization has to be on equal terms and based on the principles of equity and justice, not economic superiority. If the western countries can protect their agriculture, there is no reason why the developing countries should feel shy in doing the same. Instead of succumbing to pressure tactics that coincide with a proposed package of policies creating a "development box" that helps in minimizing damage to food security while at the same time protecting the agriculture subsidies in the west, a collective stand based on the following two planks appears to be the only way forward to protect agriculture, the mainstay of the developing economies:

- "Zero-tolerance" on agricultural subsidies: Developing countries should make it categorically clear that the negotiations will move ahead only when the subsidies (under all "boxes") are removed. The Agreement on Agriculture should wait until the subsidies in the west are grounded. Any agreement without the subsidies being removed will play havoc with developing country agriculture. In fact, the removal of subsidies should be linked with the removal of quantitative restrictions. This alone will be the safeguard that the developing countries are looking for.
- An "agriculture shield" for developing countries: Following Mexico's announcement of an "agriculture shield" program aimed at ensuring that the country's farmers are not harmed by unfair competition from the United States, developing countries need to unilaterally adopt the shield program. Mexico's agricultural shield program includes compensatory tariffs on some food products that would enter Mexico duty free as of January 1 under the North American Free Trade Agreement. Such a tariff complies with World Trade Organization policies allowing nations to take protective action when the viability of agricultural sectors is threatened by foreign competition.

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