The coming WTO Round on agricultural trade: perspectives and trends.

The question of export subsidies and price dumping.

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1. Where are the discussions now?

Agriculture is one of the most high profile issues on the WTO's agenda. Although it has proved difficult to document, we are now beginning to work with some hard information and so can move away from the more ideological debate of the last round. Here are some of the things that I have been hearing, from governments, NGOs and farm organizations:

- the South has not significantly increased its export share of agriculture products
- the US and EU had very little to change coming out of the agreement. Their commitments were largely non-constraining.
- The Cairns Group of net food exporters has also not seen a significant increase in their world market share
- Most governments are liberalising beyond their commitments under the WTO. For many countries in the South, this is because of SAPs. In our region, NAFTA has been a cause. Still other governments believe that liberalisation is the answer to their development needs. Whatever the reason, this has made it difficult to isolate the impact of the Agreement on Agriculture, as it is often domestic policy reforms that have been the most significant force
- The model of food imports for basic food needs being paid for by increased exports does not seem to be delivering as promised. Some analysis of FAO statistics suggest that the land needed to grow exports cannot generate the revenue to lost the food foregone, let alone generate the promised surplus for other economic activities

We need a serious and coordinated effort to document these impressions and to generate analysis based on that work. IATP is doing a lot of work in this area.

2. Case Studies

Article 20 of the Agreement calls for a review of the impact of the agreement before new negotiations. This specifically refers to the "non-trade" concerns of the agreement, which includes food security. NGOs have taken it upon themselves push this work. It is difficult, given the confusion of policy factors affecting agriculture, from structural adjustment programmes and domestic reforms in member countries, to civil wars, land reform initiatives and regional integration efforts. Many governments, however, are sympathetic to this work, as they themselves are not operating in a policy vacuum, but face many different bilateral and multilateral pressures. It will be important in this next round not to allow the discussions to become too compartmentalized (what is trade and non-trade concern).

3. What has changed?

The biggest difference is perhaps that we have experience now of what happens to agricultural markets as they liberalize. Some change has been forced by the WTO. Much more is the result of domestic policy changes. Overall, the impacts have become clearer. Closely tied to this is the financial crisis, in Asia and elsewhere, that have called into question development models and the trend towards deregulated liberalization.

Some key points:

1. In agriculture and elsewhere there is a marked trend towards concentration and mergers. This is reducing choice, hurting producers and consumers, and making governments relatively less able to intervene where there is market failure. In the US, the problem is endemic, as there has been a long-standing refusal to enforce competition law in this sector.
2. Farmers are saying that decoupled agricultural payments are no less trade-distorting than payments linked to production and price levels. This economic assumption needs to be revisited.
3. The South is more organized, with UNCTAD and other's help, to articulate their specific needs and demands.
4. The IMF and World Bank are in something of a crisis and the "Washington Consensus" is broken if not dead. Many, many commentators have highlighted the food security and other problems inherent in the too rapid liberalization of agricultural sectors.
5. The crisis means the WTO itself is more concerned about public responses to its agenda. The street protests in Geneva last May were one signal. The failure of President Clinton to secure fast-track legislation was another. The popular mood is much more troubled by the WTO than was true during the Uruguay Round. There is therefore more pressure for transparency, including from free-trade advocates such as Jagdish Bhagwati.

4. Positions at the Next Round. Where do Countries Stand?

a. the Cairns Group are asking for more of the same. The Uruguay Round failed to achieve any change and so much more liberalisation is needed.
b. The EU seems a bit unsure, balancing a full load of concerns, including the proposed expansion of the union to include up to a dozen Eastern European countries. It seems clear that the deficiency payments (blue box; article 6.5) remain essential, despite the CAP 2000 proposals.
c. Japan and Korea are nervous and weak. They are making overtures to Europe.
d. Developing countries can be crudely categorised into 3 types. The first belongs to Cairns and sees its interest in more liberalisation (although for some countries, there are real fights at home about this, as many Cairns members are also net importers of some crops). The second is unsure of where to stand. They hoped for increased market access and have been disappointed, they are caught up in enormous problems with implementation, and they are distrustful of the big agricultural powers. The third group is the net food importers, who were expected to lose from the start. These countries remain sidelined and are trying to address that. They have seen extreme volatility and a refusal from the WTO Committee on Agriculture to address the Marrakech decision seriously.
e. The US is now very close to Cairns Group. Domestic reforms have made changes that the agreement itself did not require, and the US is less dependent than the EU on subsidies and tariffs. They are, like Cairns, asking for more and deeper reforms in the same areas (domestic subsidies, market access and export subsidies). They are also gearing up to block labelling of genetically modified organisms and artificial hormones. The one big difference between the US and Cairns is on state-trading enterprises. The US has made this another central push in the coming talks – to get all countries to abolish any state mechanism managing agricultural (or other) trade.

Overall, the Committee on Agriculture remains dominated by fights between the US and the EU, and between Cairns Group and the EU, and a big struggle acknowledged by developing country governments is to get themselves and their concerns on to the agenda.

5. The US position

For the next round, the US has highlighted the following five issues as priority negotiating areas:

- further reductions in tariffs
- a substantial increase or effective elimination of tariff-rate quotas by reducing the tariff rate on products traded above quota levels

  - a further cut or elimination of export subsidies
  - tighter disciplines on the use of technical measures, such as unnecessarily rigid labeling requirements
  - more clearly defined and tightened rules on sanitary and phytosanitary (SPS) measures

Export Subsidies - A real issue for the US?

The US has increased the budget allocation for certain agricultural export subsidies since the conclusion of the Uruguay Round Agreements, although within the limits allowed. The 1996 Farm Bill, while changing the premise on which domestic subsidies had been managed, expanded several export credit and marketing promotion programmes. The annex to this paper has some details of the sums of money and types of programme involved.

Yet this is not the central issue.

Competition

The US has made the reduction of export subsidies a goal of the next round because it can afford to. While these subsidies are a problem, they are a small part of the equation. Competition and dumping are the big problems.

Agriculture in the US is dominated by private oligopolies and monopolies.

- There are about 2 million farms in the US, of which only 350,000 have more than US $250,000 in gross sales
- 1% of US farms produce 30% of all the crops and livestock in the country; some 12% produce about 75% of the total.
- The majority of US farmers depend on off-farm income for over half their annual income. This suggests that more than half of US farmers cannot earn a living from farming alone, despite the domestic subsidies and the size of the US export market.
- producers account for about 2% of total employment in the US
- Agricultural products account for less than 1.3% of annual GDP yet make up nearly 9% of the total value of US exports. Agriculture's share of the total value of US exports is disproportionately large.
- Agricultural products account for less than 4% of US imports.
- Four companies control the slaughter, processing and sale of 80% of beef in the US. One company alone, Iowa Beef Packers, controls 45% of the sector.
- Tyson Foods, a US company based in President Clinton's home state of Arkansas, processes and sells 21% of all poultry consumed in the US. Only two other entities produce more poultry – and they are not private companies, but China and Brazil.

The recent report of the National Commission on Small Farms, appointed by the US Department of Agriculture to examine the state of small farms in the US offers this perspective:

> "When Secretary Bergland's report, *A Time to Choose,* was published (in 1979), it warned that '...unless present policies and programs are changed so that they counter, instead of reinforce or accelerate (sic) the trends towards ever-larger farming operations, the result will be a few large farms controlling food production in only a few years."
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> "Looking back now nearly 2 decades later, it is evident that this warning was not heeded, but instead, policy choices made since then perpetuated the structural bias toward greater concentration of assets and wealth in fewer and larger farms and fewer and larger agribusiness firms. Federal farm programs have historically benefited large farms the most. Tax policies give large farmers greater incentives for capital purchases to expand their operations. Large farms that depend on hired farm workers receive exemptions from Federal labor laws allowing them the advantage of low-wage labor costs."

There are other ways to get support as well. Consider the following statement from Dan Glickman earlier this year on why the US Congress should support the current request from the IMF for further financial backing:

> "What happens halfway around the world has consequences here at home. We have a huge stake in global economic stability. That's why support for the International Monetary Fund is so important. Their job is to stamp out serious national and regional fiscal crises to prevent a global contagion. And, by and large, they do a good job. **The main reason we haven't lost more exports to Asia is because the USDA extended US$2.1 billion in export credit guarantees.** These guarantees, which depend on credit-worthiness, would not have been possible if the IMF had not stepped forward to help stabilize these economies and pushed countries towards serious financial reforms, greater market transparency, freer markets, and an end to cronyism. **Without these IMF actions, another $2 billion in agricultural exports would have been at great risk in the short-term and far larger amounts in the long-term.**" (emphasis added)

Just recently, the US passed the appropriation bill giving the IMF an allocation of US$18 billion. Agribusiness was a vocal supporter of the bill.

Thus the US is probably willing to forgo its formal export subsidy programmes in return for an EU commitment to do the same. Some of the current increases may only be a way to ensure they have something to bargain with. Several years running, actual export subsidy spending has been considerably less than the export subsidy budgeted.

State Trading Enterprises and Competition

These are also at the heart of the fight. The US government has explicitly targeted the state marketing boards of Japan, Indonesia and South Korea, as well as Canada, New Zealand and Australia. The US wants to disband these boards, and loses no opportunity to say so. Yet the government has been silent on the very closely related issue of privately held monopolies. Perhaps because many of the world food markets are so heavily dominated by private, often US, companies?

Interestingly, a recent paper by M. Keyzer and M. Merbis, working at the Centre for World Food Studies in the Netherlands cites evidence that:

> "...while it has become more difficult for countries to keep producer's prices high through protectionist measures on trade, it has become more attractive to seek and maintain monopoly power on international markets (as a result of the Uruguay Round agreements)."

A focused critique of US non-compliance with its own highly developed anti-trust legislation would seem a clear and useful objective. By extension to the world of international trade, US export prices violate article 6 of the GATT on dumping and offend trade law. So does the encouragement of monopolies.

6. What are NGOs exploring?

a. Exemptions that would serve the South – a blue box approach (trade-distorting but essential) or a "food security box" (mixing tariff and expenditure measures, maybe taxes)
b. Pricing policies and dumping. What provision is there for extremely low prices and their effect on farmers, for example. Do agricultural markets meet the theoretical assumptions of economists? How to address the real causes of low prices forced by US agriculture policy?
c. A reworked international system to address food security, from the Food Aid Convention through to FAO and human rights committees, that includes trade provisions. How to protect against many scenarios, not invest all our energy in assuming that free trade will work.
d. Blocking patents on life, especially on seeds. Promoting *sui generis* and community-rights based systems.
e. Case study reviews as mentioned above.
f. La Via Campesina, campaigning for food sovereignty wants to see agriculture taken out of the WTO purview altogether.
g. Documenting transnational corporation behaviour and influence in international trade agreements and domestic agriculture reforms.

Annex 1

I. US Compliance with the WTO Agreement on Agriculture (a summary)

The following comments are drawn from a study IATP commissioned earlier this year. The study reviewed US compliance with its Agreement on Agriculture commitments in the wheat and dairy sectors. The study looked at the three broad areas covered by the agreement: domestic support to producers, market access and export subsidies.

Domestic Support

The US found it easy to comply with its domestic support commitments – in fact, most of the required changes had been made before the implementation period even began. Moreover, the special dispensations agreed in the bilateral US-EU Blair House Agreement of 1992 ensured that much of the existing policy in this area was untouched in the final agreement. These are the measures referred to as the "blue box", which deal with deficiency payments.

Market Access

The US found it less easy to meet its market access commitments, especially in the dairy sector where previously existing quotas were converted into tariff equivalents. The dairy sector was one of the commodities most heavily protected under US farm policy. Nonetheless, the US has implemented its commitments in this area, although prices for dairy products are still considerably higher than world market prices.

However, the WTO agreement allowed countries considerable leeway on how they implemented their market access agreements within sectors. The US used voluntary, bilateral deals to manipulate the allocation of market access guarantees among dairy products and also aggregated its commitments for fat and non-fat dairy products (excluding cheese) to meet the 3-5 percent minimum import requirement. The result has been continued protection of the butter and non-fat dry milk sectors.

Export Subsidies

The US has complied with export subsidy commitments as promised in its WTO schedule. But good-faith compliance has not been good – the US has obeyed the letter rather than the spirit of the law. Export subsidies were not binding during the first year of implementation, and the US increased the volume of subsidized dairy and wheat exports in 1995 over 1994 levels, clearly going against the intent of the agreement. Then, historically low wheat stocks and high grain prices in 1995 and 1996 enabled the United States to reduce wheat export subsidies to levels well below the WTO ceiling for this period.

But the 1998 Budget Summary appropriates $500 million for Export Enhancement Programme (EEP) subsidies, which go largely for wheat exports. This is very close to the US allowable ceiling of $524 million. The 1998 budget projects further increases for EEP through the year 2000. The US is making full use of its allowed subsidized export quotas, despite record low world prices and pressure from some of the US farmers and commodity groups that are suffering from the low prices.

Conclusion

By its own admission, the US did not have to work hard to meet its technical obligations under the Agreement on Agriculture. Nor does it appear to be trying very hard to meet the spirit of those same agreements, except in some key areas. Nonetheless, the US is unquestionably liberalizing its agricultural production. It has passed domestic legislation that goes much further than its WTO commitments.

II. The Domestic US Farm Context: Freedom to Farm

On April 4, 1996, the United States implemented federal legislation that dramatically changed the mission, structure and workings of US farm policy and propelled the United States much closer to the full agricultural liberalization. This legislation is known as FAIR, the Federal Agriculture Improvement and Reform Act, or sometimes just "Freedom to Farm".

The 1996 Farm Bill

The 1996 Farm Bill was the culmination of a decade or more of economic thinking and agri-business lobbying that sought to liberalize and deregulate public management of the agriculture sector. Three important changes introduced under FAIR were:

1. Separating (decoupling) income support from production and price levels.
2. Fixing loan rate caps.
3. Eliminating supply management and Farmer Owned Reserve (FOR) programs.

First decoupling income support: To use WTO jargon, this moved government payments to farmers from the "blue" to the "green" box (from article 6.5 of the Agreement to exemptions covered in annex 2). Instead of deficiency payments, making up the difference between world market price and the cost of production, farmers receive "production flexibility contract payments" that are not linked to price or production. These payments are set on a descending scale, and will be eliminated altogether by 2002.

In terms of WTO strategy, the effect has been to reduce possible tensions between the US and the Cairns Group and to isolate the European Union and a few other developed countries that continue to depend on deficiency payments (the blue box).

The Cairns Group, which consists of 15 developing and developed countries, has consistently promoted increased liberalization in order to increase their share of world markets in agricultural products.

Second: capping the loan rate has guaranteed low prices for the grain companies that buy and export the crops. The loan rate is now set lower than the cost of production.

Since the 1930s, the US government had provided farmers with a floor price, through a system of loan rates and managed stocks. The government would lend farmers money for their planting in the spring, based on an estimate of a fair price for the crop. Come harvest, if the price was lower than had been decided, the government accepted the farmers' crop as payment for the debt and absorbed the loss. If prices were higher, farmers were able to sell their crop on the market and repay the loan in cash. It was a way to protect farmers from risk, maintain a floor for prices, and ensure a reserve of food for the country. The government also maintained publicly held stocks through the Farmer Owned Reserve (FOR) programme. This programme paid some farmers to keep crops on their farm for up to three years, thereby ensuring a constant reserve in case of bad years.

Third, the elimination of supply management and reserve programmes ended set-aside programmes except in ecologically fragile zones (under the Crop Reserve Programme or CRP). Farmers are now allowed to plant any crop except vegetables and fruits on acreage that had been under supply management programs.

Export Subsidies under FAIR

These liberalizing moves were not echoed on the export subsidy side. There funding was increased. These programmes help agribusiness by reducing the costs of selling on the international market and transferring the risks from the exporting companies to the government and taxpayers. Export subsidies do nothing for farmers, who continue to receive extremely low prices for their crops.

Export enhancement, credit guarantee and other subsidized marketing programmes were expanded. Funds previously dedicated to export subsidies, now restricted under the WTO Agreement on Agriculture, were re-targeted to market promotion programmes covered in Annex 2 (the green box) of the agreement. These programmes give agri-business a government guarantee that any sales they make on credit, especially to low-and middle-income countries, will be paid back. By removing the risk to US traders in the market place, they create a considerable distortion, but they are not included in WTO definitions of subsidies. FAIR mandated that a minimum of $5.5 billion be allocated annually toward such schemes. An additional $1 billion has been granted over the seven-year implementation period to make export credit available for sales to "emerging markets". The legislation also explicitly encourages the use of credit provision for high-value products in place of staple grains, which were the historic target of the programmes.

FAIR also allocated US$90 million per year to the Market Access Program (MAP). MAP funds product promotion abroad and has been criticized almost from its inception in 1990 for subsidizing some of America's most profitable agribusiness corporations, such as McDonalds, Tyson Foods and Sunkist. Despite this criticism, USDA officials have argued for the continuance of MAP, saying it is allowed under the green box. Lawmakers retained the program in 1996 but drafted provisions to limit its funds to small businesses, farmer cooperatives and trade associations. However, as noted in a report by the Journal of Commerce in June 1997, some of America's largest agribusiness corporations, such as Hershey's International, continue to receive government subsidies through MAP under the guise of the "Chocolate Manufacturer's Association". A study by the US Public Interest Research Group found that the same agribusiness MAP recipients were major campaign contributors in previous congressional elections.