Negotiating oppression: A developed-country approach to agricultural trade

By Patrick Tsai January 31, 2014

Michael Punke - Deputy USTR. Day 2 of the WTO's Ministerial Conference, Bali, 3 December 2013.
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Food insecurity is a lucrative endeavor for U.S. agribusiness corporations. As a matter of course, hunger has taken a backseat to maintaining a dominant trade position when it comes to U.S. trade negotiations and domestic policy. As long as the U.S. holds its position as the world's largest agricultural exporter, and import-dependent countries continue to be bound by rules that exploit their vulnerability to volatile commodity markets, U.S. agribusiness will profit indefinitely at the expense of the most vulnerable.

In order to address global hunger effectively, the U.S. government will have to acknowledge the effect its current agricultural policy has on global food security and extend the same lenience to allow developing countries the reestablishment of sovereignty in their own food systems without threat of dispute settlement or retaliatory trade sanctions. As it stands, wealth, subsidy classification, export credits and food aid contribute to a system of subjugation and persisting power disparities.

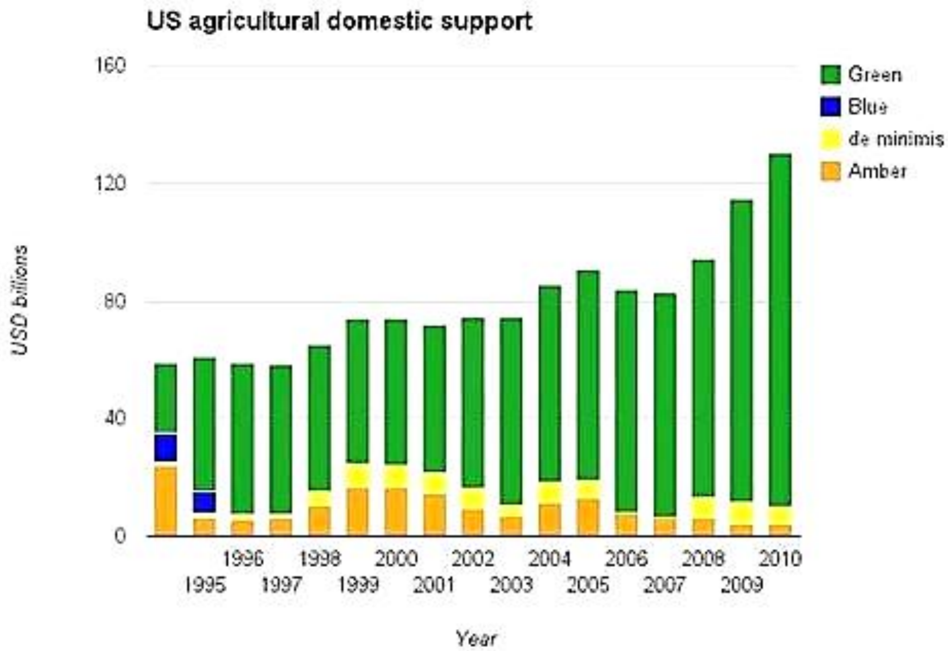
Inequalities in power between nations exist before negotiations begin. Initial positions of wealth determine the degree to which countries can leverage the allowed subsidies outlined within international agricultural agreements to promote food security and rural development. Developed countries' subsidies comprise the "lion's share" of global spending supporting agriculture (though they are, in theory, bound by greater reduction commitments under trade agreements). This raises the question, “Given the inequality in initial positions, must [the situation] inevitably result in inequality in outcomes?” (Matthews 2008, 82). Developing countries’ stagnant progress toward food security and rural development, compared to developed countries relative effectiveness, attests to the importance of economic wealth.

Power disparities are further exacerbated through exploitation of the WTO’s Agreement on Agriculture (AoA). The AoA, a byproduct of the General Agreement on Tariffs and Trade (GATT) Uruguay Round (UR) negotiations, was agreed upon in 1994. The AoA guides agricultural trade for WTO member countries, and the text acts as the basis for the WTO’s agricultural subsidies categorization system. The categories signify the extent of trade distortion and what is allowable. For the most part, agricultural subsidies fall under one of three classifications:

- Amber box or Aggregate Measure of Support (AMS): the most trade distorting and subject to limits and reductions
- Blue box: subsidies dealing with production limiting criteria, as defined in Article 6.5 of AoA
- Green box: subsidies said to have no or minimal trade- and production-distorting effects and are subject to no agreed upon limits or reductions, as defined in Annex 2 of AoA (Brink 2009, 4,5)

*** In addition to these three subsidy classifications, developing countries may use the classification of "special and differential treatment" (found in Article 6.2) and all member countries may use “De minnimis” rules for spending on product specific support, developed countries 5 percent and developing countries 10 percent of value of production.*

It is believed that countries subject to AMS reductions and limits, such as the U.S., exploit the system through “box shifting,” the practice of re-categorizing trade-distorting amber box subsidies into the blue or green box without making any substantive reform to subsidy programs (ICTSD 2007 2). Box shifting best characterizes the changes in U.S. agricultural policy stemming from the 1996 Farm Bill in order to conform to the newly implemented AoA. Domestic food security programs, seen as minimally trade distorting by the WTO, have historically comprised a large portion of U.S. agricultural subsidies and after the 2007-08 financial crisis these allocations grew even more. The degree to which the U.S. leverages and continues to grow green box subsidies is apparent in the following slides from WTO economist Diwakar Dixit, in particular: “Us Green Box and AMS spending from 1995 to 2010” (WTO disciplines on Domestic Support) and the ICTSD chart below.



US subsidy spending from 1995 to 2010 Source: http://ictsd.org/i/news/bridgesweekly/146491/

Subsidies are critical for helping producers adequately address risk and in helping achieve higher levels of food security. In 2010, the U.S. allocated $120.5 billion to green box subsidies, $94.9 billion of which went to domestic food aid (WTO 2012 G/AG/N/USA/89). Though the U.S. takes full advantage of green box subsidies to provide food security to its own people, the World Bank reports 5 percent of the U.S. population is undernourished (~15.6 million people[1]). At the recent Bali ministerial, the U.S. actively denied developing countries, such as India which experiences 18 percent undernourishment (~219.8 million people undernourished[2]), from taking measures to subsidize further development of food security programs. India allocates about one-ninth the amount of money to food security programs[5] while managing a population approximately 4 times the size[3] and suffering 14 times the amount of hunger[4] as the U.S. The G-33, a “coalition” of developing countries facing similar trade and economic issues (including India), proposed three amendments to the AoA at the Bali WTO ministerial. The G-33 proposal allows more leeway in terms of how money can be used for food reserves and how AMS is calculated (see also, ICTSD 2013). Adoption of the G-33 proposal could result in greater food security for countries able to leverage the revised language by establishing stockholdings that reduce price volatility in domestic markets and provide a source of emergency food relief.

The U.S. argues that the G-33 proposal centers on trade-distorting supply-management structures. The argument is predicated on free market ideology, the tenets of which the U.S. circumvents through misidentified subsidies and its own trade-distorting green box subsidies. The U.S. decoupled subsidy payments under the 1996 Federal Agriculture Improvement Reform Act (FAIR) to follow Green box criteria, however ICTSD points out that the OECD (OECD 2001), World Bank (de Gorter 2003, 5) and USDA ERS (USDA 2002, 12) have found decoupled payments trade distorting. (ICTSD 2007 25,26) For many, the laissez-faire economic paradigm is seen to perpetuate hunger by reducing sovereignty in the agricultural sector of developing countries through reductions in government support, removal of protectionist policies and opening markets to increased imports of cheap and below production cost commodities (ActionAid, 7, IATP/UNCTAD, Food First).

Timothy Wise of Tufts University aptly describes the U.S. position on the G-33 proposal as hypocritical and an "attack on the right to food." Some may argue that the U.S. position on the G-33 proposal comes as no surprise due to the fact the U.S. has not accepted the right to food under the human rights framework (IFPRI 2007 1, the Nation, Righting Food) and was the only dissenting country, out of 181, to vote against a 2008 U.N. "resolution on the right to food, by which the assembly would 'consider it intolerable' […] that the number of undernourished people had grown to about 923 million worldwide, at the same time that the planet could produce enough food to feed 12 billion people, or twice the world's present population. (See Annex III)" (GA/SHC/3941). Indeed the U.S. continues to adhere to a course guided by infamous precedent. (for projections for reaching WFS and MGD hunger goals read: The State of Food Insecurity in the World: The Multiple Dimensions of food security, 2013, FAO).

It is true that U.S. food aid has saved lives, however the net effect is arguably detrimental. U.S. food aid and hunger relief programs have been associated with undermining local food systems resulting in vulnerability and dependence on world markets (Clapp 2004, Hansen-Kuhn 2012, OECD 2000). The failing trajectory for both international goals to halve hunger (Figure 3), the World Food Summit (WFS) and Millennium Development Goals (MDG), warrants sincere consideration of food aid critique. Two notable areas of controversy in U.S. policy, said to address hunger, are the export credit guarantee program (GSM-102) outlined in the current Farm Bill (PL 110-246 section 3101) and Public Law 480 (PL 480), the 1954 Agricultural Trade and Development Assistance Act otherwise known as Food for Peace. The latter institutionalizes the dumping of U.S. overproduction on vulnerable countries feigned as food aid (Weis 2007, 67).

While appearing charitable, the use of export credits takes advantage of poor nations' vulnerability to high prices and the need to feed their large populations on small budgets. Officially supported export credits are characterized by below market interest rates, longer repayment schedules, reduced/no fees and government guaranteed repayment of loans (OECD 2000, 8,Clapp 2004, 1441). These attributes result in lower purchasing prices for importers, effectively subsidizing exporter goods. (OECD 2000, 8) The current Farm Bill outlays 5.5 billion dollars a year for the program, though not always used in its entirety (FY 2013 $3 Billion). The OECD determined that due to the immense size of outlays and the excessive use, US export credits have a much greater trade distorting effect on world markets than any other country. The OECD also found that historically the US extends a very small proportion of overall export credits to countries most in need, least developed countries (LDC) and net food importing developing countries (NFIDC) (Clapp 2004, 1442). In addition to trade distortion, the burden of export credit debt acts to retard progress in developing countries by diverting funds for social programs to debt repayment (Eurodad, 2011).

PL 480 Title I is controversial for many of the same reasons as export credits. The title outlines policy on food aid sold under concessional terms, "grace periods of five years, repayment periods of up to 30 years, and below market interest rates" (Clapp 2004, 1442). Furthering the controversy, Title I has the explicit purpose to "improve commercial markets abroad," (Clapp 2004, 1442) and therefore is not necessarily a tool dedicated to relief, but rather a title used to promote the U.S.'s own trade interests. Titles II and III of PL 480 pertain to U.S. in-kind food aid. Most U.S. food aid is purchased from U.S. producers (at least 75 percent by law) and shipped as in-kind donations to countries in need (Hansen-Kuhn 2012, 1). In-kind food aid sales are seen to "distort international trade by displacing commercial trade," and are inefficient compared to other forms of assistance (Clapp 2004, 1442). Alternatively, food aid programs focused on local and regional procurement offer monetary donations that stimulate local economies by providing means for local purchases from farmers in the afflicted country or region. There are also less costs due to reduced distances of travel (Hansen-Kuhn 2012, 1; Murphy 2005, 12). The current U.S. food aid titles have addressed hunger to some extent, however it can be argued that their usage has, to a greater extent, amplified power asymmetries by undermining sovereignty and local food systems, making these nations more reliant on imports and subservient through debt.

Sadly, agricultural trade has become an art of identifying loopholes and re-categorizing subsidies that curtail risk to profits at home while perpetuating hunger abroad. Trade dominance amounts to how well a country can leverage subsidies exempt from World Trade Organization (WTO) limits and reduction commitments, and maintain programs that create and expand markets in vulnerable regions. Developing countries suffer under the brunt of these actions in the form of food insecurity. The issue of hunger has found a blind spot in the purview of developed country trade negotiations, which are focused more on maintaining powerful trade positions than ceding any control that might bring about food security and food sovereignty to developing countries.

Advocating rules that obstruct a country's ability to feed its hungry is an act of subjugation. By leveraging trade agreements and perverting the intentions of trade rules, the U.S. is negotiating the terms of global oppression where it could be genuinely helping others.

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[1] U.S. pop. 311.6 million (2011 World Bank) X 0.05 (2011 World Bank) ~ 15.6 million

[2] India pop. 1.221 billion (2011 World Bank) X 0.18 (2011 World Bank) ~219.8 million

[3]World Bank numbers 1.221 billion (India pop.) / 311.6 million (US pop.) ~ 4

[4] 219.8 million / 15.6 million ~ 14

[5] India's GAIN 2009/10 stockholding numbers compared to US WTO domestic food aid notification for year 2010 G/AG/N/USA/89