The WTO: food for thought?

The World Trade Organization should be setting firm rules in agriculture - which is more important to poor countries than to rich ones - to ensure a sustainable future. But the developed nations want 'access to markets' and are using reform of their farm subsidies as a bargaining chip to increase their exports of services and industrial goods

By Jacques Berthelot
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The world's most severely malnourished people are growing in number: from 826 million in 1995-97 to 852 million in 2000-02. Three-quarters of these people live in rural areas; most are farmers. Of this vast global number, 204 million live in sub- Saharan Africa, where they account for one-third of the population. Here life expectancy has been falling for 20 years; farmers make up two-thirds of the workforce. There are 110 million more of them than there were at the end of the 1960s.

Sub-Saharan Africa's share in global trade fell from 2% to 1.6% between 1990 and 2004. A standard reading of this is that Africa is not integrating well enough with the world market. This is a gross misconception: in 2003 foreign trade accounted for 52.7% of gross domestic product (GDP) in sub-Saharan Africa. That compares with a global average of 41.5% - and just 19% in the United States, 19.9% in Japan and 16% in the eurozone (not including trade between eurozone countries) (1).

Setting aside the East Asian average of 70% (driven by China), the figures support a very different conclusion - but you never hear economists publicly declaring that countries' wealth is inversely proportional to their integration in world trade.

The greater the share of agricultural produce in a developing country's total exports, the greater that country's malnutrition rate is likely to be (2). Except in the tropical/exotic products sector, the shortfall between agricultural production and consumption has increased considerably. From 1995 to 2003 West Africa's food exports grew by 50% - from $4bn to $6.1bn. But the trade deficit for the agricultural sector grew even faster: it went up by 55%, from $2.9bn to $4.3bn.

The World Trade Organisation's ministerial conference in Hong Kong this month should be about setting firm trade rules for a sustainable future. These rules should take account of population
increase: there will probably be about 3 billion more human beings on Earth by 2050, 1 billion in sub-Saharan Africa. Global warming should also be a major consideration. In Brazil, for example, researchers estimate that an increase of 5.8C (3) in the world's temperature would wipe out half of the country's available land for growing soya, maize, rainfed rice, beans and coffee. A rise of just 3C would render a third of the farmland unusable (4). This is food for thought in a country whose feverish determination to export

ever-greater quantities of soya and beef is fast destroying the Amazon rainforest - and thereby making a major contribution to the greenhouse effect.

Frenzied determination

What is the WTO conference's response to these challenges? A frenzied determination that this round of trade talks - known as the Doha (4) or sometimes the development round - should be about opening up "access to markets" in all areas. The world's two commercial superpowers, the US and the European Union, have a transparent strategy applicable to bilateral and multilateral negotiations alike: since agriculture counts so little for them, they need to export more services and industrial products to achieve growth and create jobs. Agriculture generates less than 2% of GDP in the US and the EU; services make up around 75% and the rest is accounted for by industry (including processed food products).

The proportions are such that importing more food is a small price to pay for increasing secondary- and tertiary-sector exports.
Facilitating this evolution has been the sole objective of successive reforms to the EU's common agricultural policy (CAP) since 1992, of US farm policy since the 1996 farm bill, and of the WTO's own agreement on agriculture (AoA) from 1995. It remains the objective of the Doha round.

To get farmers to swallow the reforms, subsidies have had to compensate for the falling prices that these reforms engendered.
The AoA only permits subsidies that have few distorting effects on trade - in which case they are placed in the "blue box" in WTO jargon - or none at all, in which case they go in the "green box"
(see glossary). This means that subsidies must be either partially (blue box) or wholly (green box) decoupled from prices and production levels. Any claims that this system is designed to protect the environment, the countryside, animal welfare or the quality of produce are just stories to help convince taxpayers.

The EU tries to sell its reforms to developing countries in two ways. First, it has agreed ultimately to eliminate "refunds", as export subsidies are known. These were reduced from €9.5bn (then
ecus) in 1992 to €3.4bn in 2002. But neither the EU nor the US notifies the WTO about direct blue- and green-box aid, though this also helps exports, albeit indirectly. This is true for cereals, for example, and by extension it is also true for the meat of the animals that eat the cereals.

The second prong of the EU's strategy emerged on 28 October 2005 in the form of a pledge to lower its ceiling for production or price-linked aid by 70% (5), and to cut its average agricultural tariff by 46% - "sensitive products" excepted. Naturally, the EU expects developing countries to thank it for this by making equivalent offers on access to their markets for services and non- agricultural products. US proposals to cut their price-linked aid by 53% and their tariffs by 55%-90% share the same intention.

The quad no longer rules

Since the WTO’s September 2003 ministerial conference in Cancún, developing countries have been punching their weight at the organisation - the time when it was ruled by the “quad” of Canada, Japan, the US and the EU is over. The emergence of the developing country groupings G20, G33 and G90 changed the balance of power (see glossary). But now Brazil and India have replaced Canada and Japan alongside the US and EU in a new G4 that is guiding the talks - at the risk of betraying most other developing countries and further marginalising the impoverished G90 members.

The EU and US have been playing around with their coloured boxes since 1992, gradually transferring more and more of their subsidies from the amber box (which contains aid that is linked to production and prices and must therefore be cut) to the blue box and then on to the green box. Europe’s CAP reforms in June 2003 and April 2004 allowed 90% of its domestic aid to be classed as green box aid.

But developing countries are not falling for these tricks so easily any more. The truth is that both Washington and Brussels have been cheating the system on a massive scale since 1995. They fail to declare their domestic and export aid, and their reforms - to the CAP or to the farm bill - fail to meet the AoA’s requirements.

Article 6.2 of the AoA notes that farm input subsidies (used for raw materials, feed and so on) are only exempt from “domestic support reduction commitments” in developing countries. Rich countries should treat them as distorting subsidies - and get rid of them. Since 60% of cereals, oilseeds and protein crops produced in the US and the EU are used as “input” for livestock (farm animals eat them), it follows that 60% of the €9bn of aid that helps produce these crops each year should be treated as input subsidies. Yet the EU classes them as blue-box aid, and the US as green-box. In three recent landmark decisions, however, the WTO’s dispute settlement body has established that all subsidies that benefit exports - including those classified as green-box - contribute to dumping and should be treated accordingly.

The G20, G33 and G90 are all pressing for developed countries to ban refunds and drastically reduce tariffs and subsidies. None of these groups questions the legitimacy of the WTO, considered a far less risky alternative to bilateral free-trade agreements. The bilateral deal that the EU intends to impose on the African, Caribbean and Pacific Group of states (ACP) in 2008, for example, is iniquitous in the extreme. The three groupings also all refuse to open up their markets for services and industrial products until they are satisfied that the developed world has ended agricultural dumping and opened up its food markets to imports from the South. As India’s commerce and industry minister, Kamal Nath, said last month, “The test of this round is whether it benefits those who earn a dollar a day or $5,000 a month” (6).

Protecting domestic markets

Where the groups' positions start to diverge is in their attitude to protecting domestic markets. The G20 is split down the middle.
Its nine most competitive members - the Mercosur countries (7) plus Thailand - all want to maximise their own access to foreign markets, including those of other developing countries. Ten other members of the group - those who also belong to the G33, including the giants, China, India and Indonesia - are against this. They feel they need to protect their markets from developed and developing country imports alike. In 2004 51% of Brazil's food exports went to other developing countries, as against 23% in 1990.

As for the G90, its members are rightly alarmed at the idea of a steep reduction in non-preferential tariffs by the EU and the US:
such a reduction would effectively end the tariff preferences that are still of considerable benefit to these poorer countries.

The AoA's rules are unfair. They allow domestic farming subsidies even though these lead to dumping and reduce rich countries'
demand for imports (by placing an artificially low price on domestic produce). Rich countries have the resources to subsidise their farmers; poor countries do not. Yet the rules are forcing them to cut the only defence available to them: protective tariffs on imports.

The best solution for all parties is food sovereignty (8). This means a return to effective protection against imports. It should also include a ban on all exports at prices lower than what the average production cost would be without subsidies, direct or indirect. Paradoxically, this is ultimately the least protectionist way for countries to support their farming sectors, since it employs a tool that is available to all.

Recasting the CAP and the AoA according to the principles of food sovereignty is clearly in the EU's interest. For 2000-03 its exports to non-EU countries accounted for only 10.7% of total cereals production, 6.9% of meat and 9.5% of dairy produce.
Currently, the EU uses agriculture as a bargaining chip in its negotiations at the WTO and with Mercosur, in order to prise open new markets for its services and industrial exports. But at this game Europe stands to lose more than just the livelihoods of its
11 million farmers. Agriculture is a "multifunctional" activity - as well as producing food, it plays a key role in preserving the environment, landscape and socio-economic structure of rural areas.

The US is in a comparable situation. Its agricultural surplus is constantly falling - it dropped from $26.8bn in 1996 to $14.3bn in
2001 and to $7.3bn in 2004. The forecast for 2005 is $4bn, and a widening deficit is expected to emerge thereafter.

There is an easy way to get the US and the EU to adopt a policy of food sovereignty: make them stop cheating. This would entail huge cuts in agricultural subsidies. Farmers would not stand for it, and would soon force their governments to reform the CAP and the farm bill in such a way as to guarantee viable prices for agricultural produce, based on protection against imports.

Of course, such a move would be incompatible with the WTO's raison d'être. There are two possible ways around this problem. One is a return to the special status that agriculture enjoyed under the
pre-1995 General Agreement on Tariffs and Trade (Gatt), which permitted all forms of protectionism. The other, better, way would be to hand over the regulation of agricultural trade to a different body - perhaps the UN Food and Agriculture Organisation or the UN Conference on Trade and Development, or an entirely new body created for the purpose. This body's role would be to control supply at the international level to avoid structural overproduction, and to set minimum prices, especially for tropical goods.

Jacques Berthelot is an economist and the author of L'Agriculture, talon d'Achille de la mondialisation (L'Harmattan, Paris, 2001)

(1) World Bank Country Data Profiles:
www.worldbank.org/data/country data/...

(2) UN Food and Agriculture Organisation, Review of the State of Food and Agriculture, November 2005.
www.fao.org/unfao/bodies/conf/ c2005...

(3) The Intergovernmental Panel on Climate Change predicts that temperatures will rise by 1.4C-5.8C this century.

(4) This round of negotiations began in Doha, the capital of Qatar, in November 2001.

(5) This includes blue-box subsidies, plus more distorting forms of aid, which the jargon places in an amber box.

(6) www.ourworldisnotforsale.org/s howar...

(7) Common Market of the South (of America): Argentina, Brazil, Uruguay and Paraguay, soon to be joined by Venezuela.

(8) "Food sovereignty" is a term popularised by the international peasants' movement, Via Campesina, which first used it on a pamphlet at the 2002 World Food Summit in Rome. The Peoples Food Sovereignty Network defines food sovereignty as: "The right of peoples to define their own food and agriculture; to protect and regulate domestic agricultural production and trade in order to achieve sustainable development objectives; to determine the extent to which they want to be self-reliant; to restrict the dumping of products in their markets."