

Response to an

Open invitation to a dialogue on agricultural trade reform, subsidies, and the future of small and family farms and farmers.

from the Institute for Agriculture and Trade Policy.

For questions or comments, contact Sophia Murphy on smurphy@iatp.org

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IATP is a non-governmental organization based in Minneapolis, Minnesota. IATP works in close collaboration with farmers' organizations, environmentalists, academics and development NGOs. IATP's mission is to promote resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

The problem has been posed as between proponents of subsidy elimination and those cautious that such an approach risks undermining the viability of agriculture in Europe and the U.S. without realizing the hoped for gains for developing countries. As characterized, IATP would put itself on the latter side of the fence—we are deeply skeptical that subsidy elimination in isolation will achieve the hoped for aims, although we see subsidies as symptomatic of significant problems in developed country agriculture.

What are we ultimately after? If the goal is to generate sustainable livelihoods in developing countries, might not policies to promote local, national, even regional markets be preferable to global ones? It is perhaps simplistic, but still largely true that producers will get a higher share of the sale price from markets that are close to home than those that are half way round the world. Rather than extending our already heavy footprint as rich country consumers, shouldn't we be encouraging production for those that need it most? None of these need be absolute answers—most developing countries will want and need access to trade with the rich consumers of the North. However, might eliminating tariffs be more effective than chasing subsidies if the goal is to increase exports from the South to the North? In any case, does development of the South depend on eliminating subsidies to developed country farmers? IATP would say not.

There is much in rich country agricultural policy to cause offence. It is wasteful, hypocritical, and environmentally damaging. It fails to meet its own objectives and has largely failed rural communities. The enormous sums of money and the absurdity of aspects of the complicated programs involved make the policies an easy public target for criticism. It is rare to hear anyone argue that the system does not need urgent reform.

IATP defines subsidies as government programs that pay for a normal cost of doing business—reduced input costs, marketing assistance, preferential loan schemes, incentives to buy local, etc. Subsidies should be calculated by assessing actual expenditures; the OECD's producer support estimate (emphasis on *estimate*) is not a proxy for subsidies but an attempt to measure production as if there were no legitimate reason for costs to vary with geographical and historical circumstance. The

PSE assumes that all the milk in the world could be produced at the price set by New Zealand – a country of 3 million people with an unusually large land area devoted to pasture and with plentiful rainfall. Moreover, New Zealand in fact competes in world markets with the dumped production of the European Union and others, and there is evidence to suggest that its producers in fact subsidize milk processors and marketing firms by selling at prices below their real production costs. If we do not clearly define what we mean by a subsidy, and if we base our assumptions about the impact of subsidy elimination on false premises, we are unlikely to achieve our policy objectives.

Nonetheless, there is no question that subsidies as IATP defines them are still large, if not as large as the OECD suggests. Do subsidies help developed country farmers? Clearly to some extent, but often not much. For example, about half U.S. farmers touch no government subsidy at all. Many, many more get very little from the existing programs, while a relatively small number get a lot of money. Subsidies are often diverted to more powerful interests within the food system—large landowners (often not themselves farmers – an estimated 40% of farmed land in the US is farmed by tenants rather than owners), food processors, and exporters. IATP advocates a return to some kind of supply management system rather than the current income subsidy (decoupled payment) approach. Supply management would provide farmers with a regulated market rather than leaving them dependent on government largesse for their survival.

Supply management is important for a number of reasons. It raises prices for farmers, but not necessarily for consumers (there are many examples of the asymmetry of agricultural markets, which show that it is processors and supermarkets that determine consumer prices rather than the cost of raw commodities). Higher prices for farmers will not necessarily result in increased production if production is capped. This is essential, and farmers cannot have the benefit of price support without accepting production limitations. Exporting the production that exceeds domestic quotas, as is now common, is not an acceptable option. Higher prices in E.U. and U.S. markets, together with controlled production levels, will benefit developing country producers (both farmers and their hired labour). It will curtail dumping in their local markets, ensuring higher prices, and it will lessen the competition from dumped production in export markets, for those that export.

If NGOs achieve subsidy reform without other changes to the system, will we have advanced our goal? (For IATP, that goal is the sustainable development of rural economies around the world). If we reduce subsidies without tackling oligopoly power in commodity markets or eliminating the dumping of surplus production in world markets, we will be no closer to providing developing countries with the means to grow their economies. Many agricultural commodities contradict the assumption that a tariff-free approach to imports from South to North is an answer for development: coffee, tea, cocoa, for example, have long had tariff-free access and yet have not brought prosperity to the countries where they are grown—and especially not to the farmers and laborers that produce them.

Do subsidies hurt developing countries? Dumped production in world markets is a bad thing. IATP's regular dumping reports (2003 was a more comprehensive version) discuss the problem. Whatever advantage might accrue to certain interests from the cheap provision of commodities is undermined by the social and longer-term economic harm from undervalued production. Dumping disrupts the "signals" for

investment decisions that a “market-oriented agriculture” would send. However, while high levels of subsidies are likely to coincide with high levels of dumping, eliminating subsidies will not necessarily end the excessive production that leads to dumping. Countries such as Argentina, Australia and Canada have all eliminated their subsidies to wheat production over the past decade, yet have seen production levels rise. There is a real risk that eliminating subsidies will only increase farm size in the North, and with that will come increased environmental damage and diminished local returns to the rural economy. We have experiences to consider – might the UK Food Group do some research into countries that have eliminated their agricultural subsidies to see what impact there is on production?

Does the future for the South lie in increased trade? Trade is invaluable, and has brought wealth and jobs to many countries. However, the models tend to suggest that the biggest gainers from absolute liberalization of agriculture will be developed countries. And if we had models that looked at non-government actors, we might see that the truly greatest benefits will accrue to globally based food companies, most of whom are based in developed countries. A number of developing countries will face pressure not so much from OECD production as from other developing countries, a pressure that is already strong. Brazil and Argentina dominate food markets in Latin America, South Africa dominates southern Africa, and India dominates the sub-continent.

IATP proposes that we build a platform from common starting principles: a fair and sustainable livelihood for producers, wherever they live, together with access to adequate and culturally appropriate food for all. From there we can work towards defining an appropriate role for trade in government policies for domestic and export agriculture. It seems likely that some subsidies will make sense while others should be abolished. Rather than start with a debate defined largely by the U.S. government and European Commission at the WTO—not to mention World Bank models that build in problematic assumptions—NGOs should be working with UNCTAD, FAO and other multilateral organizations with a history of addressing commodity problems to develop a more comprehensive view of solutions.