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BEGGAR THY NEIGHBOUR SUBSIDIES: REPAIRING THE COLLATERAL DAMAGE

**Notes for a Presentation
by
Peter Clark**

WTO Public Symposium

**“Trade Policy and the farm income crisis
in the context of WTO negotiations”**

Geneva, Switzerland
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**SPEAKING NOTES FOR
PETER CLARK
WTO PUBLIC SYMPOSIUM**

**GENEVA, SWITZERLAND
APRIL 21, 2005**

1. When I attended the Co-ordination Sud/ITAP session yesterday I listened to farmers from around the world complaining that the negotiations on agriculture are not moving in the right direction. What they want is price support and limits on production – “supply management” was on many lips.
2. If farmers from South America, the U.S., E.U. and Africa do not like the apparent direction of the negotiations – the Framework – who are their governments listening to? And why aren’t WTO Agricultural policies more farmer friendly?
3. And not surprisingly there was much discussion of the interlinkages between domestic support in the wealthier countries and market access in the smaller, less affluent participating countries.
4. Our most recent study of U.S. subsidies to agriculture suggests that the failure to realize the advertised results of the Uruguay Round is a major contributor to the farm income crisis. I am concerned that the current negotiations are not on a track which is likely to improve this situation either because:
 - there is a very real chance of failure which will perpetuate current imbalances; or

- acceptance of the July 2004 Framework will exacerbate the problems.
5. Trade negotiators (and former negotiators) must be optimistic or be doomed to perpetual depression, but one cannot be blind to the obvious – or surrender to feelings of helplessness because of the efforts of the larger players to stage manage the negotiations.
 6. These negotiations are extremely complex – Canadian Ambassador Don Stephenson likened them to a multi-dimensional chess game – with 140 plus players all with differing offensive and defensive objectives – and different economic and political imperatives.
 7. This is an excellent description of the environment for my discussion of the impact of unrestrained and often undeclared trade distorting domestic support.
 8. We estimated that U.S. support to agriculture was some US\$138 billion in 2003. We did not pay any attention to the alleged colour of the box or claims that their subsidies are not trade distorting – for two reasons. First, the U.S. claims have been proven wrong by the panel in *U.S. – Upland Cotton*. And our own analysis indicated that the actual operations of the subsidies did not fit their claimed boxes.
 9. To measure federal support we relied upon USDA program levels (as USDA does in its own budget analysis) because program levels represent:

“...the gross value of all financial assistance USDA provides to the public. This assistance may be in the form of grants, guaranteed or direct loans, cost-sharing, professional services such as research or technical assistance activities, or in-kind benefits such as commodities.”¹

10. We added in state subsidies, which we had been unable to do in our 1998 study, and we included irrigation subsidies for the below cost water provided for irrigation in 11 western states which account for 46% of U.S. crops.
11. We took the position that cash is fungible – that is, money is money – and the U.S. has ensured that their farmers get it no matter how it is dressed up or squeezed through real or apparent loopholes.
12. Some USDA support is for what might be considered normal functions of government but as the CATO Institute reported:

“In addition to direct subsidies, the U.S. Department of Agriculture runs a massive array of marketing, loan, statistical, research, and other support programs. Also, legal restrictions and tariffs manipulate markets for products such as sugar and dairy foods. All in all, about 70,000 employees of the USDA work on farm-related programs. No other industry in America is so coddled.”²

13. This support, whichever colour is may be labeled, has become a beggar thy neighbour policy – 21st century style.
14. Many U.S. subsidies are income safety net subsidies. As the market gets worse, Uncle Sam’s pockets get deeper - and deeper. U.S. farmers do not

¹ *FY 2005 Budget Summary*, U.S. Department of Agriculture, pg. iii

² CATO Handbook for Congress, Policy Recommendations for the 108th Congress, The CATO Institute, Washington, D.C., pg 314.

need to be concerned about over-production and the low prices that result – USDA takes care of them.

15. There are interlinkages between the subsidies and market access negotiations which cannot be ignored.
16. U.S. domestic support encourages excess production and exports. It determines which crops will be planted. These surpluses must be exported, often at less than cost of production.
17. This domestic support is *de facto* an export subsidy. These subsidies unilaterally and without consultation offset and negate statutory tariff protection in other WTO members markets. The U.S. may not intend to beggar its neighbours but this has been the real effect of its current approach to farm support.
18. This very deep pockets approach disrupts markets and depresses prices for a wide range of commodities around the world. In the most heavily subsidized areas, production has expanded, creating gluts on world markets. The 2002 Farm Bill increased the amount of support provided and focussed on a selective group of largely export-oriented commodities, like corn, rice, wheat, and soybeans.
19. In the multi-dimensional chess game here in Geneva, there are very clear differences in negotiating ability and risk exposure between those countries where farmers must earn all their revenue from the marketplace – and the much wealthier countries whose farmers receive a substantial part of their

revenue from government support and safety nets – they can farm the government programs.

20. Developing countries are concerned about further market access liberalization because they have not seen subsidy reductions by wealthy countries and have not enjoyed market access improvements for their exports they expected from the Uruguay Round. Their home markets have become dumping grounds for excess production from wealthier countries, often priced well below cost of production.

21. We are not alone in reaching this conclusion. OXFAM shares this view, as they explained last week:

“Despite committing themselves to putting development at the centre of global trade talks, rich countries are still rigging agricultural trade rules against the poor. The USA and EU, in particular, have repackaged their agricultural subsidies so that they appear to be legitimate under WTO rules, allowing them to continue dumping products such as rice, corn, milk, sugar, and cotton at prices far below their true costs of production. At the same time, they are aggressively pushing developing countries to open their markets further by cutting their import tariffs.”³

22. Highly subsidized farmers have a much different view of market access negotiations than those who must rely on the market. Their support prevents imports. Indeed, the Panel and the Appellate Body in *Upland Cotton* determined that they act as import replacement subsidies – which are prohibited by Article 3.1(b) of the Subsidies and Countervailing Measures Agreement.

³ Kicking down the door: OXFAM Briefing Paper; April 11, 2005

23. How does U.S. domestic support impact on world trade and on production in smaller and less wealthy countries?
24. For cotton – one of the most glaring problem commodities – we reported that support was worth US\$910 per ton. This was the equivalent of 101% of the world price in 2001/2002 and 79% 2002/2003.
25. For rice the US\$203/MT benefits represented 116% of the world price in 2002 and 90% in 2004. These are very conservative estimates as we relied on U.S. WTO notifications which are both notoriously late – and, in our view, do not report all benefits, i.e., in the case of rice, irrigation water would be a very significant benefit.
26. According to the California Rice Commission:
- “Irrigation is essential to rice cultivation. Although rice is grown in some parts of the world without benefit of irrigation, ***this would be impossible in California.***”⁴ (emphasis added)
27. We also did a calculation for butter which reflected our allocation methodology – and the value of benefits to the U.S. dairy sector was US\$2.00/kg in 2003. If U.S. dairy farmers had to rely on the marketplace for all their revenue, this was equivalent to an extra tariff of between 100% and 200%.

⁴ http://www.calrice.org/a_balance_sheet/chap2.htm

28. And American farmers are insulated from these low prices, by deficiency payments, or counter-cyclical payments, non-recourse loans – and at times the ability to buy back their own forfeited product at market price.
29. The U.S. subsidies impact other countries – and this is about more than cotton and rice.
30. Canada has paid out more than \$2 billion in emergency farm aid over the last two years in large part to offset the low prices imported from the USA. Canadian farmers, and Mexican farmers, Brazilian farmers and farmers in many developing countries are competing with the U.S. Treasury and a vote-hungry Congress – in a battle they cannot win.
31. Canadian Agriculture Minister Andy Mitchell, after distributing yet another CAD\$1 billion emergency relief package to Canadian farmers plagued with prices which do not cover even cash costs said “it is absolutely essential that we pursue transformative change in the agriculture industry”.⁵ We disagree. The real need is to discipline the policies and massive disruptive U.S. farm subsidies which drive prices down in world markets.
32. USDA explains subsidies to U.S. farmers as follows:

“Domestic demand is no longer sufficient to absorb what American farmers can produce. Demand by well-fed Americans grows slowly with population growth. The promise of new, much faster growing markets lies overseas...As a result, the United States must consider its

⁵ “Ottawa reveals \$1 billion in aid for struggling Canadian grain, beef farmers”, Macleans.ca, March 29, 2005

farm policy in an international setting, helping farmers stay competitive while pressing for unfettered access to global markets.”⁶

33. The New York Times on December 24, 2000, described just how generous support is for some U.S. farmers:

“...the big harvest of government checks usually happens in the fall - \$40,000 for just being a farmer, another \$40,000 for emergencies like bad market conditions, more than \$100,000 for not making any money on what is grown, and \$50,000 for taking other land out of production.

Good crops or bad, high yields or low -- it hardly matters, the checks roll in from the federal government, the biggest payroll in farm country. By the end of the year, some farmers can receive up to \$280,000 simply by having another miserable year of failure.”⁷

34. The 2002 Farm Bill increased direct support by 70% and raised the cap to \$360,000. Recent efforts to reduce spending and the cap seem to be doomed to failure.

35. According to former U.S. Agriculture Secretary Dan Glickman:

- federal subsidies are not so much about food supply as they are about keeping the least populated parts of the country afloat;
- support to farming has “become largely an income transfer program”;
- without government support thousands of farmers (nearly 1 million) and businesses that depend on them would be broke in a year or two;⁸

⁶ USDA: Food and Agricultural Policy: Taking Stock for the New Century, <http://www.usda.gov/news/pubs/farmpolicy01/fpindex.htm>, p. 51

⁷ “Failing Farmers Learn to Profit from Federal Aid”, The New York Times, December 24, 2000

⁸ “Failing Farmers Learn to Profit from Federal Aid”, The New York Times, December 24, 2000

- many of these payments are keeping large sections of rural America from “going down”.
36. No one wants to see unemployed farmers; not the 2 million or more Mexican farmers who have been forced off their farms or farmers anywhere. No one wants to see ghost towns in the American heartland or farm families in Mexico, Africa or Asia forced to become urbanized with serious declines in their standards of living. Exporting misery and destitution to farmers next door and further away is not the proper answer to U.S. farm problems. Beggar thy neighbour policies did not work in the 1930s. They are not the answer today.
37. And “beggar thy neighbour” is not too strong a term.
38. At Cancun, the Trade Minister of Mali, H.E. Mr. Choguel Kokalla Maiga, said:
- “These subsidies are without doubt harming millions of African farmers in the world’s poorest regions, thus plunging millions of people into a more and more precarious situation.
39. This is the effect of the beggar thy neighbour policies of large cotton producers. When I use the term “beggar thy neighbour” I am using it in the context of “effect” not “intent” on the part of the USA. Collateral damage was a term used earlier in this symposium – not inappropriately.

40. At the Cancun Ministerial, I was struck by how often Ministers from around the world spoke about the need to discipline the domestic support activities of wealthier countries.

41. At Cancun the Uruguayan Minister, H.E. Dr. Didier Operti Badan, said:

“This reform is no longer the wish or demand of a more or less broad group of countries. It has grown to an international outcry, impossible to ignore or to sidestep any more.”⁹

42. These subsidies hurt the weak and the poor most. As Minister Saavedra Bruno of Bolivia told his colleagues at Cancun:

“To a large extent, Bolivia’s agricultural sector is made up of peasants and indigenous people. How can we require of them, who are truly the poorest among the poor, liberalization which farmers in rich countries refuse to accept? How can we ask the under-developed countries to assume the cost of liberalization which developed countries are evading?”¹⁰

43. These Ministers made it clear that it is unfair and inequitable to try to impose the same obligations on farmers heavily supported by governments and those who must earn their living solely from the market.

44. There were many appeals for relief from below costs imports at Cancun, from the corn farmers in the streets to Ministers from all continents, complaining about the evils and distortions of domestic support.

⁹ WT/MIN(03)/ST/25

¹⁰ WT/MIN(03)/ST/83

45. Why does the USA subsidize so generously? – because without the subsidies, hundreds of thousands of their farmers would fail, with devastating impacts on the small rural towns in the U.S. heartland.
46. It is far more politically expedient to:
- use all the economic leverage available to the USA to persuade others to open their markets;
 - continue to subsidize in a way which stimulates production, creates surpluses and drives prices down; and
 - manipulate the rules to ensure that flexibility to provide financial farm supports is not restrained.
47. We hear a lot about their good intentions to make international agricultural trade truly free of distortions – which are not backed up by actions by the wealthier WTO members. They talk the talk, but they don't walk the walk – and the crippling and devastation of farmers around the world – 96% of them in developing countries – according to OXFAM, is dismissed as collateral damage.
48. There can be no solution to the global farm income crisis unless and until there is a rebalancing of the Uruguay Round results. This does not mean clawing back. This means ensuring that subsidy commitments are transparently and honestly met.
49. Rules have been changed – or (more politely) clarified by WTO dispute settlement. But these “clarifications” have not been extended to or observed

by all WTO members. The WTO is not self policing. But where the USA exports grains, oilseeds, cotton, rice and other subsidized products at less than cost of production, they too appear to have run afoul of Article 9.1(c) of the Agreement on Agriculture – and these export subsidies are subject to deduction.

50. Is the answer negotiations – where one would pay again for concessions already paid for or in dispute settlement where the interpretations in *Canada – Dairy, E.C. – Sugar* and *U.S. – Upland Cotton* can be extended to other products?
51. These subsidies – and the U.S. is not alone in this – create such a serious imbalance in the multidimensional chess game, there is not a scintilla of justification for pursuing “one-size fits all” approaches to market access – while ignoring the very real interlinkages between financial support and the need for border protection.
52. Good negotiators who support farmer friendly trade policies will not buy the same fish twice.