The EU historical responsibility to rebuild the agricultural policies on food sovereignty

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The large differentiation of developing countries in the food crisis

According to FAO, the food trade, fish excluded, of developing countries (DCs) has kept a slight surplus from 1961 to 1995, then has faced an increasing deficit up to $14 billion in 2007. But this overall figure does not mean anything: if we exclude the 5 first net food exporting DCs – Brazil, Argentine, Thailand, Malaysia, Chile –, the deficit of the other DCs has jumped to $79 billion in 2007. In particular that of Sub-Saharan Africa (SSA) has increased by 335% from 1995 to 2007, at $8 billion. And, if we exclude its trade in coffee, cocoa, tea and spices – which are not basic staples –, it has reached $14 billion. During that period SSA food deficit has increased 2.7 times faster than its population: by 7.1% a year against 2.6%.

The main net food exporting DCs – grouped together in the G-20 since Cancun in 2003 – have taken more and more ambiguous positions in the agricultural trade negotiations of the Doha Round at the WTO: they have defended very weakly the fair level of agricultural protection demanded by the DCs of the G-33 and G-90, which give the highest priority to defend their domestic market through the "special products" and the "special safeguard mechanism". This G-20 stance is understandable when we know that, already in 2004, Brazil had exported more food products to other DCs than to the North, and this proportion will rise more and more given the stagnating population of the North up to 2050 when that of the South will explode, particularly in SSA when it will more than double. And the G-20 has also endorsed the WTO Revised Draft modalities for agriculture of 6 December 2008 even if it would be disastrous for most DCs, given particularly the lack of denunciation of the EU and US massive agricultural subsidies that they claim to have exempted from reduction in notifying them in the so-called "green box" of the authorized subsidies.

Lastly Brazil has just agreed to receive $147 million per year from the US to improve the competitiveness of its cotton chain in return from renouncing to demand that the US would cut drastically its cotton subsidies before the passing of its next Farm Bill by end 2012, even if it was compelled to do so by two WTO Appellate Body rulings, in 2005 and 2009. In consideration of which the preservation of the huge US subsidies on its cotton exports – of $3.3 billion on average from 2005 to 2006 – plus those of Brazil and the EU – €866 billion in 2006 given that 95% of its production was exported – will have a new depressive effect on the world cotton price, to the detriment of the African producers, even if the world price is temporarily at a high level.

Let us add Brazil's crusade to develop the production of agrofuels worldwide, particularly in the July 2010 tour of President Lula in SSA, and let us stress also that the bulk of countries participating in the massive land grabbing in DCs are themselves DCs: China, India, South Korea, Libya, countries of the Arabic Gulf…

[1] This paper is a revised version of the intervention made the 23 August 2010 on "The food crisis and its ways out", at ATTAC citizen university in Arles, in a workshop on "The crisis in the South and its ways out", which explains my initial section on "The large differentiation of developing countries in the food crisis".

The historical opportunity to reform the CAP and the Agreement on Agriculture on food sovereignty

The EU is the only WTO Member to have the historical possibility and responsibility to refound simultaneously its Common agricultural policy (CAP) and the Agreement on Agriculture (AoA) on food sovereignty. We must remember that the CAP has been devised in 1962 and then reformed – in 1992, 1999 and since 2003 – in line with the trade negotiations in the GATT and then at the WTO. Therefore the CAP reform presently discussed for the 2014-20 period will have also to be compatible with the AoA which would eventually result from the Doha Round finalization, knowing that this will not occur before 2013 since the US will not reduce its agricultural subsidies before its next Farm Bill by end 2012.

Now the prospects available to the EU farmers are so gloomy that the timeliness has never been so favorable to find a social and political majority to rebuild the CAP on food sovereignty.

First because, contrary to the prevailing views according to which the EU has the responsibility to contribute to feed the rest of the world, it has faced an average agricultural trade deficit of €5.9 billion from 2000 to 2009 and a food trade deficit of €16.9 billion, of which €11.6 billion in fish, and even of €21.7 billion from 2006 to 2009, of which €13.2 billion in fish. As the EU has a structural surplus in its food trade with the other developed countries and Russia – of €16.2 billion on average from 2006 to 2009 –, its food deficit with the DCs has been of €38 billion. In other words, it is the EU which is receiving a structural massive food aid from the DCs.

Then because the direct payments to the EU farmers will fall sharply given the opposition of a large majority of Member States, reinforced in the present state of their large budget deficits, to increase the EU Budget within which they intend to the contrary to cut the share going to agriculture. Then because the European Commission has agreed, if the Doha Round is to be concluded, to reduce by 54% on average its agricultural tariffs and by 80% its "overall trade distorting supports" – all those not included in the "green box" – in relation to their authorized levels in the base period 1995-2000. Furthermore the import protection will also be reduced as a result of the multiple bilateral trade agreements already signed with DCs – to which the EU has opened tariff rate quotas with low tariffs – or still in negotiation, as that with Mercosur. Finally because the high volatility of world agricultural prices complete the gloomy prospects which do not let any chance to the EU farmers' survival in the middle run, and particularly for the younger ones who would like to set up.

Moreover the European Commission and most economists acknowledge that, as two researchers from the Bonn University had written in 2000 in a report financed by the Commission: because "*Only those farms, which reach a minimum degree of international competitiveness, will survive as commercial full time farms in liberalized markets in the long-term… a key task of the CAP should be to contribute to international competitiveness of the core of commercial farms on suitable locations in Europe*"[2], that is to say hardly 1 million of full-time equivalent farm workers against 11.7 million in 2008, which would increase in the mid run by 47% the 23 million of unemployed people in February 2010 in the EU-27, and likely much more as this elimination of most farmers would brought about the elimination of many people upstream and downstream the production level. And it is not with such mega-farms à la Brazilian that we will reach the ambitious objectives that the Commission puts

[2] W. Henrichsmeyer, H.P. Witzke, *Overall evaluation of the Agenda 2000 CAP reform*, Bonn University, European Commission, February 2000, http://ec.europa.eu/agriculture/publi/caprep/impact/6_en.pdf

forward and that the EU civil society demands for a new agriculture protecting more the environment, town and country planning and animal welfare.

The content of the CAP reform based on food sovereignty

The CAP must refound the basic agricultural incomes on remunerative prices, which requires to regulate production closely through an efficient import protection and a domestic supply management. This is in total contradiction with the practice of the present CAP, which did not cease to dismantle little by little all the instruments of market management which existed up to 1992, in the name of "decoupling" the subsidies – the fact that they are no longer linked to the current level of prices or production – in order to be able to notify them in the so-called WTO "green box" whereas they are sure to be condemned as actually "coupled" (not in the green box) in case of any prosecution at the WTO[3].

The remunerative agricultural prices will be guaranteed by variable levies at the import level – as fixed tariffs do not offer a sufficient protection when the world prices in dollars are low and/or when the euro is appreciating against the dollar – so that the farmers producing at most at the EU-27 average production cost for each product will get their basic income at those prices without direct payments. These ones, capped per full time farm worker, will be reserved to the farmers whose production cost exceed the EU average or who produce too little but who should stay in farming for multifunctionality reasons. Some subsidies would also be granted to all farmers with production systems generating higher public goods for the environment – such as organic farming –, on social aspects and for animal welfare, knowing that all farmers would be obliged to comply with fair norms on these three issues, including those getting their base agricultural income from prices, without direct payments. As direct payments will reach €40 billion in the 2010-11 budget, this will imply that about €20 billion could be spared on the direct payments to these farmers. This is a strong argument which should interest the Member States and the Budget Commissioner.

In order that the remunerative price would not foster an overproduction whereas the EU will stop exporting – as all the exported agricultural products are subsidized and as dumping will be strictly forbidden –, production caps will be established per product at the EU level and distributed among Member States, balancing the comparative advantages of each country with the necessity to foster mixed farming and to minimize transport costs. These national caps will be transformed in production rights per farm according to rules which might vary from one country to another. Indeed the survival of the European farmers is clearly linked to their command of the EU domestic market on which they have sold 84.7% of the non processed food products on average from 2006 to 2008. Therefore it is clearly in the EU interest to rebuild the CAP and the AoA on food sovereignty and to produce all the temperate products that it could produce at a reasonable cost, and particularly its feedstuffs, among which the 42.2 million tonnes of soyabean (in beans equivalent) imported on average from 2006 to 2009, which would require 27 million hectares to grow the EU oilseeds and pulses whose content in protein of high quality is lower than that of soyabean. This strict interdiction of dumping will not prevent the EU to export in the middle to long run when the world agricultural prices will be higher that the EU ones without subsidies. Let us remember that the WTO Appellate Body has ruled several times, since the Dairy products of Canada case of December 2001, that dumping should be defined as exports made at a price lower than the

[3] J. Berthelot, "The CAP subsidies are incompatible with the WTO Agreement on agriculture", Seminar "*Can the CAP manage without market regulation after 2013?*", Collectif Stratégies Alimentaires, Brussels, 31 March-1st April 2010, http://www.csa-be.org/IMG/pdf_Jacques_Berthelot.pdf; http://www.solidarite.asso.fr/Papers-2010.html?debut_documents_joints=10#pagination_documents_joints

average domestic price without any export and domestic subsidy.

If the EU cared really about contributing to the world food balance in the long run – instead of pursuing the CAP dismantlement as a bargaining chip in the agricultural trade negotiations of the Doha Round and bilateral agreements to open new markets to its exports of industrial products and services in DCs –, it would keep enough farmers to feed itself in 2050 so as to let to Asia and the Near East the possibility to find on the world market the surplus food that South America will still be able to provide.

The different EU stakeholders will gain in this new CAP

The EU farmers are the first to hope for this new CAP given the gloomy prospects already mentioned but also their willingness to get their income from prices as any other private profession and to cease to be considered as people receiving permanent welfare hand-outs.

It will seem difficult at first sight to convince the EU large private agro-industries to rebuild the CAP and the AoA on food sovereignty as this would have the triple effect to raise the prices of their agricultural raw products on the domestic market, to prevent importing them at the world prices and to eliminate all their agri-food exports. Yet their survival is linked, as much as that of the EU farmers, to the command of the domestic market on which they have traded 77.4% on average of their processed food products from 2006 to 2008, excluding the €5.942 billion of products reexported under the inward processing regime and processed from duty free imports of agricultural products which would have had to pay tariffs otherwise. Indeed they will not remain competitive on the domestic market if the Doha Round is finalized according to the Draft modalities for agriculture of 6 December 2008 and even less if a free trade agreement is signed with Mercosur. The more so as, for the WTO, the Doha Round is only a step since its long term objective is to dismantle, along new Rounds to come, all import protection and trade-distorting domestic subsidies.

On the other hand, it will be much easier to convince the firms selling agricultural inputs (agricultural equipments and annual inputs, agricultural loans and insurances and various services providers) of their obvious interest to the maintenance of a living agriculture and countryside in the EU, and this concerns also large firms, private or cooperative, covering at the same time activities upstream and downstream agricultural production.

It remains to convince consumers whose purchasing power has been eroded by the crisis. Yet they will pay less taxes to finance the CAP, there will be much less unemployment, a less polluted environment, a better quality of food and a more vibrant countryside. One part of the lower agricultural subsidies and public expenditures to repair or compensate the perverse effects of the present CAP will permit to help the deprived citizens to cope with the temporarily higher food prices.

In fact the level and duration of the increase in food prices will be limited since the EU consumers' budget going to food is only of 15% and the weight of agricultural prices in the food prices is only of 20%, hence of 3% of households' budget. It results that an average 30% increase in the agricultural prices in relation to their average level in the 2000-06 period, hence of 6% in food prices, would raise the share of food at 3.9% of the households' budget, or 0.9% more than to-day, if a strict control of the margins of the other operators in the food chain does not change them in absolute value. Spreading the increase in agricultural prices over 6 years, the share of food in the EU households' budget would rise to 15.9% in year 6 and would not increase beyond that. But, as we can expect that the EU GDP per capita will raise on average at a pace of 1.5% per year in two years from now – once the EU economy will recover and knowing that the EU-25 per capita GDP has increased by 2% on average from 2000 to 2005 – this would increase the households income by 9.34% in year 6 and the weight of food in their budget will reach a ceiling of 15.6% in that year and decline afterwards. And, as this CAP reform is linked to rebuilding also the AoA on food sovereignty, the higher development of DCs that will result will benefit the European economy as a whole, hence its consumers.

Strategy to reform the Agreement on agriculture on food sovereignty

If the EU takes firm and definitive commitments to eliminate rapidly all its subsidized agricultural exports, including its domestic subsidies to them – and all the EU agricultural exports are subsidized, the more so as the alleged full "decoupling" of the Single farm payments (SFPs) does not allow to attribute them to specific products –, it will be easy enough to find a consensus at the WTO to rebuild the AoA on food sovereignty. Besides, this will not be a revolution as, up to 1994 included, before the WTO, the GATT had tolerated large exceptions to its rules for agriculture, and in particular it did not put any limit to the level and the forms of import protection: the variable levies extensively used in the EU and the import quotas extensively used in the US explain the dramatic expansion of their production. Alas, the GATT authorized also the export subsidies which will be rigorously forbidden in the new AsA.

Indeed it will be easy enough to convince the net exporters of agricultural products of the G-20 that the loss of their outlets on the EU market will be more than compensated by taking over the EU shares on the world market. The more so as rebuilding the CAP and the Farm Bill on food sovereignty will put an end to the Doha Round since the EU and the US will have lost their bargaining chips – the drastic reduction of their agricultural tariffs and trade-distorting subsidies – vis-à-vis the DCs which will no longer be obliged to open their domestic markets to the EU and US exports of industrial products and services.

As for the net food importing DCs of the G-33 and G-90, the refoundation of the AoA on food sovereignty will go much beyond the "special products" and "special safeguard mechanism" that they have so much difficulty to impose in the Doha Round negotiations. Besides, they will be able to protect efficiently their domestic market from the highly competitive exports, albeit with few subsidies, of the other G-20 countries.