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The WTO rules have increased the distortions in agricultural trade

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Free trade never existed and cannot exist and ensure food security in agriculture as agricultural markets cannot self-regulate given the large inelasticity of consumption and production to price changes. We will see two points: the facts and the rules.

I – The facts: the present agricultural trade playing field is highly distorted

Let us concentrate on few basic points:

1.1 - The more countries are developed, the lower their integration in world trade [(imports + exports of goods and services)/2 GDP], contradicting the Washington consensus' and WTO's mantra, with the exception of China which became the world first industrial workshop.

Table 1 – Trade in goods and services as a percentage of GDP in 2006

USA	Japan	EU27	India	LatinAmerica	World	LDCs	DCs LMI	SSA	China
13.50%	13.50%	14.30%	23.50%	24.50%	17.00%	29.50%	32.50%	34.50%	36%

Source: World Bank; DCs LMI: developing countries of low and middle income.

1.2 - The more countries are developed the less they depend from imports of basic foods

Table 2 – Average share of imports in domestic consumption of basic food staples from 2000 to 2009

	Cereals	Dairy products (milk equivalent)	Meats (carcass weight equivalent)
EU	5.3%	1.5%	3.7%
USA	1.9%	2.6%	3.8%
China	2.7%	9.8%	1.5%
India	0.5%	0.08%	0.01%
Brazil	13.8%	2.9%	0.3%
Subsaharan Africa (SSA)	19.4%	16.5%	8.2%
West Africa (WA)	19.3%	38.1%	7.0%

Source: Faostat

1.3 - The more countries are developed, the highest their tariffs on basic foods

Table 3 – Most recent applied MFN tariffs on cereals, concentrated milk and frozen meats

	Soft wheat	Hard wheat	Rice	Maize	Concentrated milk	Frozen meats		
						beef	pork	poultry
EU	95 €/t	148 €/t	175 €/t	94 €/t	1254 €/t	12,8%+1768 €/t	536 €/t	262 €/t
USA	350 $/t	650 $/t	11,20%	50 $/t	330 $/t	444 $/t	555 $/t	880 $/t
Japan	123 $/t	124 $/t	4300 $/t	113 $/t	35%	50%	0%	11,90%
Canada	76,50%	49%	0%	0%	3223 $/t	26,50%	0%	238%
Swizterland	32-78 $/t	78 $/t	8 $/t	42-482 $/t	3392 $/t	7959 $/t	94,5 $/t	315 $/t
Norway	355 $/t	355 $/t	0%	297 $/t	3812 $/t	5380 $/t	4107 $/t	4285 $/t
China	65%	65%	65%	65%	10%	25%	20%	20%
India	0%	0%	70%	50%	60%	30%	30%	30%
Turkey	80%	70%	45%	130%	150%	225%	225%	65%
Thailand	0%	0%	30%+87$/t	30%+87$/t	30%	50%	40%	30%
South Korea	1,8%	3%	5%	328-630%	176%	40%	22-25%	18-22%
Mexico	67%	67%	0 ou 10%	0%	63%	25%	20%	234%
Kenya	0%	35%	35%	50%	60%	25%	25%	25%
ECOWAS	5%	5%	10%	5%	5%	20%	20%	20%

Source: WTO data base on applied tariffs (http://tariffanalysis.wto.org/QueryEdit.aspx)

The efficiency of agricultural tariffs is clear not only between developed and developing countries but also between SSA DCs: Kenya rose its tariff on concentrated milk from 25% in 1999 to 35% in 2002 and 60% in 2004, and its dairy trade balance showed a decreasing deficit from 2000 to 2004 and a rising surplus after 2005. At the same time the ECOWAS (WA) tariff remained at 5% and net imports were of 65.2% of production in Sahelian countries in 2006, per capita milk consumption at 13 litres in WA in 2009 and 103 litres in Kenya.

1.4 - The EU and US large dumping of agri-food products

The average dumping rate of the EU27 exported cereals was of 54.7% in 2006 given subsidies of €1.960 billion, of which €206 million in export refunds and €1.754 billion in domestic subsidies. For €3.583 billion of exported cereals the average dumping rate was of 54.7%[1]. The EU27 average subsidies on dairy exports from 2000 to 2010 were of €168.6 per tonne of milk-equivalent with non-specific subsidies and of €122.3/t with specific subsidies only. For an average value of €431 per tonne of milk-equivalent exports, the average dumping was of 38.5% with non-specific subsidies and of 27.9% for specific subsidies only. With average subsidies of €2.271 billion on €6.833 billion of EU15 exports of meats in carcass-weight equivalent between 2006 and 2008, the average dumping rate was of 33%, of which 58% for bovine meat, 29.5% for pig meat and 35% for poultry meat and eggs[2]. With only specific subsidies the dumping rates were of 21% for all meats, of which 47% for bovine meat, 17.2% for pig meat and 22.6% for poultry and eggs. The main subsidies were on feed, particularly for pig and poultry meats which do not avail of direct payments as bovine meat.

Accordingly, the US subsidies to exported rice reached $159 per tonne on average from 2000 to 2010, which, for an average FOB price of $363 per tonne, represented a dumping rate of 45.8%, declining from 130% in 2000 to 17.2% en 2010[3].

II – The AoA rules and the Draft on agricultural modalities of 6 December 2008 are profoundly biased against DCs

2.1 – The AoA rules are profoundly biased against developing countries

2.1.1 – The unfair definition of dumping and allowed subsidies: for the Agreement on Anti-dumping Article 2 and AoA article 9.1.b, there is no dumping as long as products are exported at domestic prices, even if they are below production costs. This definition explains why and how the EU CAP and US Farm Bill were reformed since the 90s: lowering by steps domestic prices to their world levels (or close to) and compensating farmers with allowed subsidies of the blue and green boxes raised the competitiveness of their agricultural products at the export and import levels and the profits of their agro-industries.

However the WTO Appellate Body ruled four times – in the Dairy Products of Canada case of 3 December 2001 and 20 December 2002, the US Cotton case of 3 March 2005 and the EU Sugar case of 28 April 2005 – that dumping must take into account domestic subsidies to the exported products and not only export refunds. And the EU €36.8 billion of Single Payment Scheme (SPS) in 2011 are not in the green box: 1) after the WTO ruling on cotton the EU SPS will be easily put in the amber box as there are production interdictions or caps on many more

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[1] http://www.solidarite.asso.fr/IMG/pdf/The-dumping-rate-of-the-UE-27-exported-cereals-in-2006.pdf
[2] J. Berthelot, *Time is up to stop the EU-ACP EPAs negotiations*, Solidarité, 23 June 2012 http://www.solidarite.asso.fr/Papers-2012
[3] J. Berthelot, *The US subsidies to rice exports*, Solidarité,5 June 2012, http://www.solidarite.asso.fr/Papers-2012

products: milk and sugar production quotas, wines plantation rights, caps on cotton, tobacco, olive oil; 2) the SPS is coupled to agricultural area (need of eligible hectares); 3) a large part of the SPS is for feed and feedstocks for agrofuels, both input subsidies in the amber box for developed countries (AoA article 6.2); 4) the SPS is coupled because it coexists with blue or amber payments for the same products; 5) as the SPS cannot be assigned to a particular product, it lowers the sale price of all products below the EU average production cost and all exports can be sued for dumping.

2.1.2 – The product-specific AMSs linked to administered prices are fake market price supports: in the 1995-00 base period for the Doha round, actual subsidies were of only 10% of the EU €48.4 billion of notified AMS, and 36.7% of the US $8.9 billion of notified AMS.

2.2 – The agricultural modalities draft of 6 December 2008 increases biases against DCs: as it helps the EU and US to maximize their allowed OTDS (overall trade-distorting domestic support) during the base period 1995-00, levels they agreed to cut by respectively 80% and 70% at the end of the Doha Round implementation period. The Draft changes the rule on the allowed product-specific (PS) *de minimis* (dm) – in 5% of the total value of agricultural production in the base period instead of 5% of the value of production of each particular product having a PS AMS in the AoA – and ignores the feed subsidies having conferred PS AMSs to all animal products. Hence the EU allowed OTDS falls from €110.3 billion to €90.5 billion and its reduction by 80% would cut it to €18.1 billion at the end of the Doha Round implementation period[4] and the US allowed OTDS falls from $48.224 billion to $42.9 billion and, once cut by 70%, to $12.9 billion at the end of the implementation period[5].

Conclusion: the only way to ensure a level playing field in agricultural trade and food security is to rebuild the AoA on food sovereignty, the right of each country or group of countries to use import protection to ensure remunerative prices to its farmers but to exclude all exports of subsidized products. This would not be a revolution but a simple return to the pre-WTO period where the GATT tolerated exemptions for agriculture: no cap on the level of tariffs and possibility to use variable levies (largely used in the EU) and import quotas (largely used in the US) although the exemptions on export subsidies should be totally abolished and extended to all domestic subsidies to exported products.

[4] J. Berthelot, *The CAP subsidies are incompatible with the WTO Agreement on agriculture*, Solidarité, April 1, 2010, http://www.solidarite.asso.fr/Papers-2010?debut_documents_joints=10#pagination_documents_joints
[5] J. Berthelot, *The US cannot reduce at all its agricultural supports in the Doha Round*, Solidarité, August 1, 2009, http://www.solidarite.asso.fr/Papers-2009