

Trade: US provides larger per capita domestic food aid in cereals than India

SUNS #7565 Monday 15 April 2013

South-North Development Monitor SUNS

Publisher: Third World Network, 131 jalan macalister, 10400 Penang, Malaysia



Toulouse, 12 Apr (Jacques Berthelot*) - The Indian proposal on behalf of the G-33 for changes to the rules of the Agreement on Agriculture (AoA) relating to Public Stockholding for food security, though angrily denounced Thursday by the US, are fully justified and deserve support, and is the least that can be done to set right in a limited way the present unfair and imbalanced rules and disciplines in agricultural trade.

At the informal meeting of the WTO's Trade Negotiations Committee (TNC) on Thursday, the US Ambassador to the WTO, Michael Punke, is reported (by Reuters) to have angrily denounced India over the proposal, describing it as "introducing a massive new loophole". The EU, for its part, in opposing the G-33 proposal, reportedly wants "disciplines on stockholding".

Coming from two of the biggest trading entities, not only benefiting by the unfair rules of the WTO, but not even complying with existing rules, this is rather rich.

The G-33 proposal, mooted by India on behalf of the G-33, at the informal meeting of the Special Session of the Committee on Agriculture of 14 November 2012, has called for the provisions on public stockholding for food security purposes, already included in the Doha Round draft modalities of 6 December 2008, to be taken up for a formal decision by the WTO ministerial conference (MC9) in December 2013 in Bali.

The proposal asks for deletion of the last sentence of the footnote 5 of paragraph 3 of the AoA Annex 2 on public stockholding for food security purposes, and replacing it by: "However, acquisition of stocks of foodstuffs by developing country Members with the objective of supporting low-income or resource-poor producers shall not be required to be accounted for in the AMS".

At present, the last sentence of Fn 5 reads: "For the purposes of paragraph 3 of this Annex, governmental stockholding programmes for food security purposes in developing countries whose operation is transparent and conducted in accordance with officially published objective criteria or guidelines shall be considered to be in conformity with the provisions of this paragraph, including programmes under which stocks of foodstuffs for food security purposes are acquired and released at administered prices, provided that the difference between the acquisition price and the external reference price is accounted for in the AMS".

Though the US is angry in its 'denunciation' of the G-33 proposal, in fact, the US is a larger provider of per capita domestic food aid than India. This is a result of the defects in the

Uruguay Round Agreement on Agriculture (AoA), agreed to in 1993 between the US and EU, and forced down on the rest of the membership for the conclusion of the Uruguay Round.

These defective rules have enabled the US (just as the EU), to understate its actual subsidies.

Moreover, along with the EU (which also is opposing the G-33 proposal as one weakening AoA disciplines), the US has not even been complying with existing rules in terms of notifications of actual and up-to-date figures for AMS (Agricultural Market Support).

To take the US situation, the domestic food aid to the needy that it provides is procured through the Commodity Procurement Division of its Agricultural Department. The food aid is provided through 'food stamps' or SNAP (Supplemental Nutrition Assistance Program), with the recipients using the stamps to buy food products directly at the shops.

The Commodity Procurement Programme states unambiguously its dual objectives as: "Agricultural Marketing Service Commodity Procurement Division purchases a variety of food products in support of the National School Lunch program and other food assistance programs. These purchases also help to stabilize prices in agricultural commodity markets by balancing supply and demand".

Nevertheless, the US has been notifying all the US domestic food aid in the green box, the last notification for 2010-11 being of \$94.915 billion.

[A detailed exposition of this can be found at: <http://www.solidarite.asso.fr/Papers-2013>]

In sum:

* 14.594 Mt of US cereals were indirectly consumed in 2011-12 by the beneficiaries of the US nutrition programmes, of which 4.587 million tonnes (Mt) of wheat included in the cereals and bakery products, 8.950 Mt of feed cereals incorporated in meats, eggs and dairy products and 1.057 Mt processed in the high fructose corn syrup included in soft drinks and other food preparations.

Beyond cereals, there are many other US subsidised farm products processed in the US domestic food aid, among which are milk, sugar, soybean (including in feed), rice, etc. This would render the US opposition to Indian food aid in cereals all the more scandalous.

* The total farm gate value of these 14.594 Mt of cereals amounted to \$3.685 bn, at an average farm gate price of \$252.5 \$/t. This means that each of the 80 M beneficiaries of the US nutrition programmes consumed 182.4 kg of cereals in 2011-12 for \$46.1.

But, as the SNAP concentrates 76.9% of all nutrition programmes expenditures for 46.6 M of beneficiaries, they consume 11.223 Mt of cereals for \$2.834 bn, implying an average aid of 240.8 kg of cereals for \$60.8 per beneficiary.

* The number of Indian poor receiving food aid in wheat and rice in 2010 was about 475 M of whom 325 M (65 M families of around 5 persons) are under the poverty line and 150 million above the poverty line.

They received on average only 58 kg per person, 3.1 times less than the 182 kg/person of the US 80 M beneficiaries of cereals food aid and 4.2 times less than the 241 kg for each of the 46.6 M beneficiaries of the SNAP.

* What is the logic that, because the bulk of the US food aid processed from US cereals is directly bought in agreed grocery stores without passing through a public procurement channel as in India, the WTO rules demand only to India and not to the US that "the difference between the acquisition price" and "the external reference price of 1986-88" be "accounted for in the AMS"?

Indeed, the US reference prices of 1986-88 were so low that the present US domestic prices of cereals are much higher than those prices. Hence, the US should notify \$2.792 bn of cereals AMS for the cereals included in its nutrition programmes in 2011-12.

* If the AoA rule would not be changed so that the gap between the minimum support price (MSP) and the reference price times the procured quantity should be counted in the AMS, the present rule would have permitted India to maintain the additional wheat AMS below the de minimis level from 2007-08 to 2010-11, but likely not in 2011-12 and 2012-13.

* The eligible production to assess the market price support (MPS) component of the AMS linked to the administered prices (minimum support prices in India) should be the procured production and not the total production.

However, when a WTO Member has notified in its Schedule of commitments to the WTO that its eligible production was total production as the US did in 1993 for milk, it cannot notify afterwards only the share of the milk included in butter, non-fat dried milk and Cheddar cheese as the US has done since 2008.

* Comparing the administered prices with the fixed reference prices of 1986-88 is absurd in pure economic logic, since administered prices by themselves cannot maintain high domestic prices without the intervention of the most determinant factors: import protection, exports restrictions or subsidies, production quotas, land set-aside, phytosanitary rules, etc.

Above all, the WTO Members should understand that the allegedly market-price support (MPS) represented by the gap between the present administered price and the fixed reference price of the 1986-88 period is a fake market price support which does not imply any subsidy. Therefore, notifying these fake MPS has only blurred the Doha Round negotiations and misled WTO Members.

The more surprising is that these AMS supports continue to be presented as the most trade-distorting ones. What they are clearly distorting is the understanding of the WTO Members! At least several of the prominent agricultural trade economists have denounced it.

Thus, in the 1995-00 base period for the Uruguay Round commitments, the EU subsidy component of its average annual AMS has represented only 10% of its 48.425 billion euros notified AMS, 90% being a fake market price support, which for the US also was 56.9% of the US AMS.

* Despite a mistake in its announced methodology to assess its specific AMSs of grains in the 1986-88 base period, the US did not use MPS for grains in that period (except for peanuts) but non-exempt direct payments, particularly deficiency payments.

Then despite subsequent box-shifting - from deficiency payments to blue box, then to green box - the US total notified AMS evolved from \$23.879 billion for 1986-88 to \$6.214 billion already in 1995-96, rose to \$16.862 billion in 1999, declined to \$6.950 billion in 2003, rose to \$12.938 billion in 2005 and then collapsed to \$4.119 billion in 2010 (last notified year).

In fact, the total AMS of 2010 was at least of \$15.091 billion if we add the crop insurance subsidies and the fixed direct payments that the WTO Appellate Body had ruled in March 2005 not to be in the green box and to be crop specific. And, although the notifications have not been made yet for 2011 and 2012 and even if there would not be any other type of subsidies, the grains specific AMSs will already exceed their de minimis levels.

* Though the EU did notify an average AMS MPS for cereals of 14.259 billion euros or \$15.731 billion for 1986-88 over a total AMS of 79.299 billion euros in that period, it managed to eliminate most of that AMS through successive CAP reforms so that its last notified AMS for 2009-10 collapsed to 8.764 billion euros despite its enlargement to 27 Member states (against 12 in 1986-88).

This was achieved owing to the sleight of hand of transferring in the blue box and then in the green box most of the fake MPS linked to administered prices. One evidence that most of the AMS was a fake MPS is that the average CAP budget for 1986-88 was of 25.292 billion euros (including green box subsidies) when the total AMS only (amber box) was notified at 79.299 billion euros.

In fact, the EU should have notified in its AMS for 2010 the 17.163 billion euros of direct payments to the 281 Mt of EU27 cereals (without rice), of which 16.442 billion euros is hidden in the allegedly fully decoupled Single Payment Scheme and Single Area Payment Scheme.

(See also Berthelot J, SUNS#5633 of 10.08.2004, and SUNS#6609 of 12.12.2008.)

* The very low world wheat prices of the 1986-88 are clearly the result of the massive dumping by the US and EU through several channels: explicit export subsidies, share of their domestic subsidies that benefited their wheat and flour exports, export credit guarantees and the high level of their foreign food aid.

During that period, the average cumulative US+EU dumping rate of wheat and flour was 93.2%, of which 86.1% was for the US and 129.9% for the EU.

And given that the average total US+EU quantity of wheat and flour exports accounted for 53.2% of global exports we can understand their huge responsibility in depressing the world prices of wheat and wheat flour in that base period.

In that context, it is imperative that the provisions on public stockholding for food security purposes proposed by the G-33, and already included in the draft modalities of 6 December 2008, be taken up for a formal decision by the WTO ministerial conference (MC9) in December 2013 in Bali.

Moreover, the analysis developed here suggests strongly that the WTO developing countries Members, particularly of the G-33, should impose much more drastic changes in the WTO rules on agricultural supports of Articles 1 (on the definition of AMS), 6 and 7 and of the annexes 2, 3 and 4 on the green and amber boxes.

(Jacques Berthelot is a civil society activist based in Toulouse, France. He is an agricultural economist and a former lecturer in economics at the National Superior Agronomic College of Toulouse (ENSAT) and a former Jean Monnet Chair in European economic integration at the National Polytechnical Institute of Toulouse. He contributed this article on request to SUNS.)*