The sheer madness of integrating agriculture into a transatlantic Free Trade Agreement

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The madness to launch, and a fortiori to conclude, negotiations for a transatlantic free trade agreement (TTIP) between the EU and the US is not limited to the risks for both partners but extends to the rest of world. We focus here on the agricultural aspects.

1 – The risks of the TTIP for the European agriculture

Beyond the reasons already put forward to challenge the TTIP on the issues of food safety and the food cultural model (GMOs, hormones, appellations of origin, standards on chemicals use in the food chain...) such an agreement would completely undermine the purpose of reforming the European agriculture on more sustainable lines – on the economic, social and environmental levels –, would accelerate the process of farms concentration to maintain a minimum competitiveness, reduce drastically the number of active agricultural workers and greatly increase unemployment, the desertification of rural areas, environmental degradation and biodiversity and put an end to the goal of creating short marketing circuits between producers and consumers.

Let us look at some indicators comparing US and EU production structures (population and agricultural land) and the level of tariffs to understand the huge risks involved. Let us stress that the average size of holdings hide wide disparities within both the US and EU.

Table 1 – A comparison of some characteristics of the EU27 and US agricultures

	UE27	US
Total population in 2010, in million (M)	500	310
Rural population " "	131	55
Agricultural population "	21.745	5.148
AWU (agricultural working units)* "	10.714	2.509
UAA (used agricultural area), in M ha	187	411
Arable land and permanent crops, M ha	119	162
Average UAA per farm (2007) in ha	12.6 ha	169 ha
Number of farms (2007) in M	13.700	2.204
AWU per farm	0.78	1.17

Source: FAOSTAT; * AWU: full time-equivalent agricultural worker

The table 2 compares the average applied tariffs of some basic staple foods. We see clearly that they are much higher in the EU, except for sugar. The EU tariff on wheat of medium and low quality is €95 per tonne (€/t) but only beyond a tariff quota of 3 million tonnes (Mt), of which 572,000 t for the US. And, as the representative prices of durum wheat and maize have been well above 157 €/t for several years and as the euro weakened against the dollar since 2008, no tariff is levied on them as well as on high quality wheat since 17 August 2010.

Table 2 – Average applied MFN tariffs of US and EU on cereals, dairy products and frozen meats: 2012 ou 2013

	Soft wheat	Hard wheat	Rice	Maize	Refined sugar	Butter	Concentrated milk	Frozen meats		
								beef	pork	poultry
EU27	95 €/t	148 €/t	175 €/t	94 €/t	419 €/t	1896-2313 €/t	1254 €/t	12,8%+1768 €/t	536 €/t	262€/t
U.S.	6,5 $/t	6,5 $/t	14 $/t or 11.2%	0 or 2.5 $/t	1461 $/t to 3661 $/t	1541-1865 $/t	33 to 1556 $/t	44 $/t to 26.4%	0 or 14 $/t	88 $/t to 176 $/t

Source: WTO applied tariffs data base

Clearly the EU27 has a large agricultural trade surplus with the US – €5.606 billion on average from 2007 to 2012, of which €6.614 billion in 2012 – but which is only due to beverages without which the EU27 would have had an average deficit of €541 million (of which however a small surplus of €92 million in 2012). Similarly the deficit in the trade of food products would have been of €781 million (of which €9 million in 2012), mainly because of an average trade deficit in fish and preparations of €482 million (of which €422 million in 2012). See table 3 at the end of the paper for the details per product.

As the US tariff is zero on alcoholic beverages, the TTIP would provide no additional opening of the US market. The second EU trade surplus item is that of dairy products (€589 million on average, of which €676 million in 2012), but this is only due to cheese as the EU has a deficit on concentrated milk and butter. Admittedly removing the tariffs on dairy would foster EU exports but, as the US tariffs on dairy are very high (as those in the EU) and are a politically sensitive area, it is very likely that the US will put dairy products in its list of sensitive products not to be liberalized. Cocoa and preparations (chocolate) is the third surplus in the EU (€501 million, of which €653 million in 2012), but its MFN tariffs are slightly higher than the US ones (8% against 6%) and their removal would rather reduce the EU exports. Preparations of cereals are the 4th EU surplus item (€481 million, of which €586 million in 2012), but here too the US tariffs are lower than in the EU, which would lose in their removal. Coffee, tea, spices and preparations are the 5th EU surplus position (€400 million, of which €472 million in 2012), and here too the US has a zero MFN tariff on coffee and preparations (representing 78% of the surplus of this class 09) against a 6% tariff in the EU which would lose a lot in the tariffs removal. Fats and oils are the 6th EU surplus position (€386 million on average, of which €401 million in 2012), which is totally due to a €545 million surplus in olive oil (of which €599 million in 2012). As the US has a zero duty on olive oil there is nothing to gain from the TTIP, the more so as the EU has very high MFN duties (1245 €/t to 1603 €/t). Preparations of fruits and vegetables represent the 7th surplus position with €321 million (of which €405 million in 2012), where canned vegetables account for 85%, and besides the around 17% EU tariff is much higher than the US one (around 7%), so again a risk to turn into an EU deficit. Products of the milling industry represent the 8th position with a surplus of €138 million (€176 million in 2012), of which 60 M € for wheat gluten where the US tariff is at 4% against at 512 €/t in the EU, and of which the €37 million surplus on starches would turn into a large deficit given the US tariff of 2.6% against 19.2% in the EU. Again the EU has everything to lose in the TTIF. Sugar and sweets are the 9th EU surplus (€108 million on average, of which €132 million in 2012), where the sweets accounted for 95% of the total class (103% in 2012) but have an EU tariff of 13.4 % against 6.3% in the US. Once again the EU confectioners stand to lose with the TTIF.

Let us now consider meats: although the EU had an average surplus of €85 million, it is probably the most risky sector. Indeed the EU surplus is limited to pork (€110 million, of which €145 million in 2012) for an average of 33,191 tonnes (of which 40,883 t in 2012), knowing that the US has been a net exporter of $2,877 billion on average (of which $3.827 billion or €2.979 billion in 2912) for 1.051 Mt (of which 1.349 Mt in 2012). For its part the

EU was a net exporter to the rest of the world of €2.689 billion (€3,835 billion in 2012) for 1.244 Mt (1.589 Mt in 2012) but the US total net exports of pork have doubled from 2007 to 2012 when those of the EU increased by only 28%. The value of the US surplus in pork rose by 132% from 2007 to 2012 against by 100% for the EU27. Above all the EU tariff on frozen pork carcasses is 12.5 times higher in 2012 than the US one (536 €/t) against (55 $/t that is 42.8 €/t) so that it would be folly to liberalize the market.

Let us look now at the main deficit position to see if it might get worse or not. It is the fruits sector with a deficit of €1.245 billion on average, of which €1.428 billion in 2012. 84% of the average deficit is due to dried fruits (especially almonds) for €1.050 billion, of which €1.292 billion in 2012 (90.5% of the deficit). If the EU tariff is lower than in the US for shelled almonds (69 €/t against 240 $/t or 187 €/t in the US), the EU almond production gets a specific aid of 121 €/ha, aid incorporated into the Single Payment Scheme since 2012 (for €87 million in 2011) and the Member States may grant State aids up to the same level. US producers are complaining that these EU subsidies restrict their exports. The second EU trade deficit on fruits with the US is raisins for €102 million on average (€100 million in 2012). Although tariffs on raisins are not high in the US (18 $/t) as in the EU (2.40%), these EU tariffs are nevertheless twice larger given the high world price. California producers complain about the high EU subsidies, as Australian producers who challenge that the aids transferred in the Single Payment Scheme have an actual dumping effect.

Precisely, agricultural subsidies are a key to take into account in the TTIP, even if they are never part of bilateral agreements, including of the EU, under the pretext that they are to be regulated exclusively at the WTO, namely in the Agreement on Agriculture (AoA). Clearly the EU producers of white meat (pork and poultry) do not receive income direct payments but, as the US ranchers, they get the direct payments included in the feedstuffs that the EU and US producers of cereals, oilseeds and pulses are getting, even if they are hidden in the Single Payment Scheme since 2005. And we know that feed is by far the largest production cost of pork and poultry and a significant cost of red meat and milk. We know that the next Farm Bill will eliminate the fixed direct payments which have been the major US subsidies in recent years as the higher market prices have removed the anti-cyclical subsidies (marketing loans and counter-cyclical payments), even if the subsidies to insurance premium are now in the first place, particularly for maize ($2.681 billion in 2012) and soybeans ($1.469 billion in 2012). But the sum of these two US aids is much lower per tonne than the EU aids to cereals, oilseeds and protein crops, hidden in the Single Payment Scheme.

It seems that most EU politicians are not aware that Shuanghui, the first Chinese pork producer, has just bought Smithfield Foods, the largest US producer of pork and that China has been imposing anti-dumping duties and countervailing duties on US chicken exports to China since 2009, on the grounds that the chicken feed (cereals and soybeans) is subsidized. The US responded by establishing a WTO panel against these duties and the panel will report its findings shortly. This means that China will become a major exporter of US pork and will not hesitate tomorrow to sue the EU subsidies to the feed incorporated in all its animal products – meat, eggs, dairy products – and the farce of the so-called decoupled Single Payment Scheme (and tomorrow of the Basic Payment Scheme for the CAP 2014-20) will have ended ! The more so as one of the reasons why the US will remove its fixed direct payments in the next Farm Bill is precisely because it does not want to be attacked on this point as the WTO Appellate Body ruled in March 2005 that they were not in the green box. The fact that the TTIP will not deal with subsidies will not prevent the US (and China directly) to bring the iron against the EU before the WTO Dispute Settlement Body.

This also means that the other deficit products of the EU vis-à-vis the US – particularly oilseeds (2nd deficit with €1.096 billion on average), cereals (3rd deficit with €592 million) and oilseeds meals (4th deficit with €421 million) – will be first in line to bring down the Single Payment Scheme, and tomorrow the Basic Payment Scheme, from the green box of "decoupled" direct payments to the amber box of "coupled" aids subject to reduction, the more so as the US, then without decoupled payments, will not have any reason to spare the EU at the WTO.

Therefore the proposal for the negotiating mandate that "*The goal will be to eliminate all duties on bilateral trade, with the shared objective of achieving a substantial elimination of tariffs upon entry into force and a phasing out of all but the most sensitive tariffs in a short time frame*" would result in an economic, social, environmental and political unprecedented earthquake. It is a suicidal perspective, totally opposed to the sustainable development that the proposal pretends to set as a goal, an obvious lie to achieve the only real goal of full market opening in the sole interest of multinationals and financial markets. But the prospects of such an agreement, and already the opening of negotiations, would be disastrous for developing countries (DCs), especially for ACP countries.

2 – The TTIP risks for developing countries' agriculture

Everybody knows that the state of prolonged coma of the Doha Round is primarily attributable to the agriculture negotiations, for several reasons. First, because the EU and US strategy has been from the beginning, as they have done also in their bilateral free trade agreement (FTA), to offer concessions on agriculture – reducing tariffs and "trade distorting" subsidies – in exchange for more open markets in emerging countries (and more generally in non-LDC developing countries) to their non-agricultural exports and services, including financial services.

Secondly, because developing countries have understood that the EU and US promises on agriculture were a smokescreen. We know that the main reason for the failure of the WTO "mini-ministerial" in Delhi in July 2008, which was to finalize the Doha Round before its adoption in plenary in December 2008, was the US categorical refusal to accept the demand from India and China on the "special safeguard mechanism" carried by the G33, and this because a phone call from Washington to the American negotiator required to do so in order not to settle the issue of the sharp decline in cotton subsidies provided in the draft agricultural modalities which was also on the agenda. And indeed cotton was not discussed as the US refusal put immediately an end to the mini-ministerial. On the other hand many developing countries have also understood that the so-called decoupling of direct payments, particularly of the EU Single Payment Scheme, was the dressing that did not change their trade distorting impact and therefore their dumping when the products are exported.

This is why, despite the often unfair and illogical nature of the AoA rules, all developing countries would much rather try to improve the WTO rules than to continue signing bilateral free trade agreements with developed countries, particularly the EU and US, where their bargaining power is much lower[1]. The more so as at least the WTO Dispute Settlement Body

[1] Jacques Berthelot, *Rebuilding the WTO Agreement on Agriculture on food sovereignty to solve the crisis of multilateralism*, Solidarité, 22 September 2012:
http://www.solidarite.asso.fr/IMG/pdf/Rebuilding_the_Agreement_on_Agriculture_to_solve_the_crisis_of_multilateralism_22-09-2012.pdf

has allowed developing countries to condemn developed countries several times, namely Canada on Dairy Products (December 2001 and December 2002), the US on cotton (March 2005) and the EU on sugar (April 2005). The most dramatic situation, if not criminal, is that of the Economic Partnership Agreements (EPA) imposed by the EU to ACP countries.

Now it is clear that the possible signing of the TTIP would have a chain of dramatic consequences for developing countries. First, the increased trade liberalization – including in the areas "WTO +" not negotiated in the Doha Round, the four "Singapore issues" and others – would be required not only in other FTAs but also in the new WTO rules if the Doha Round if finalized or in other agreements, including in plurilateral agreements that already have the wind in their sails. But all developing countries that have signed FTAs with the EU and the US will be cuckolded since the tariff preferences opened to them in these agreements will be eroded or completely removed.

Indeed, let us not forget the warning of the World Bank Representative at the WTO, in a workshop on EPAs the 5 October 2005 in Brussels: "*MFN tariffs in ACP countries need to be lower, otherwise there will be trade diversion putting EU exporters in a monopolistic position; MFN tariffs should gradually be reduced to 10%; government revenue losses of 10% to 20% are to be expected; measures are needed like the introduction or improvement of VAT or excise; or a uniform tariff of e.g. 5%*"[2]. The IMF has *a fortiori* a similar position: "*Consolidating the applied tariffs at levels close to the applied levels would increase the credibility of Africa's trade policy*"[3]. Thus, for the World Bank and IMF, far from allowing ACPs to rise the tariffs of their regional groupings, as they are allowed to do given the large margins remaining with the bound tariffs of their Member States at the WTO, the EPAs should to the contrary be a means to reduce their existing MFN duties to avoid a trade diversion in favour of the EU. This is a huge threat that ACPs have not taken into account in their assessments of EPAs, and particularly of their losses in fiscal revenues, given the pressures almost insuperable exerted on them by the World Bank and IMF.

Conclusion: signing the TTIP would establish a total free trade for the EU and would dismantle the European integration

This warning from the World Bank and the IMF applies a fortiori to the TTIP where the EU will be forced to eliminate its tariffs on imports of all products, not just those from the EU. This results also from the GATT Article 1 on the so-called "Most Favored Nation" clause: "*Any advantage, favour, privilege or immunity granted by any contracting party [now Member] to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties. This provision concerns customs duties and charges of any kind imposed on import or export or during import or export*".

In this context all outstanding texts on the future CAP 2014-20 and more widely on the 2014-20 fiscal perspectives in all areas will be totally undermined. We must condemn with the utmost force the hidden agenda of the Commission and the European Parliament, which has already agreed to open the negotiations, as the TTIP would definitely dismantle fifty years of European integration by removing all protections on imports vis-à-vis all countries, implementing the total free trade so much awaited by Margaret Thatcher and the global

[2] http://agritrade.cta.int/fr/content/view/full/2036
[3] IMF, *Regional economic outlook, Sub-Saharan Africa,* May 2005. http://www.imf.org/external/pubs/ft/AFR/REO/2005/eng/01/SSAREO.htm

financial markets ! This is the biggest geopolitical challenge that the EU has ever faced. May the European Council of 15 June find a majority of Member States to extinguish the smoldering fire and save the European integration!

Table 3 – Balances of agri-food trade between the EU and US from 2007 to 2012, HS classes 1-24

€ mllion	2007	2008	2009	2010	2011	2012	Moyenne	2012/07
Agricultural trade according to the Harmonised System (HS)								
1- Live animals	87,3	49,8	3,5	37,1	108,8	95	63,6	109%
2- Meats	139	79,9	102,5	84,7	48	58,3	85,4	41,9%
3- Fish	-594	-576	-380	-356,6	-381,6	-398,1	-447,7	67%
4- Dairy produce	594,8	567,8	521,3	557	616,2	676,1	588,9	114%
5- Products of animal origin	-20,4	-26,7	-42,6	-21,6	-6,2	-28,8	-23,4	141%
6- Live trees and other plants	19,1	15,4	14	12,6	12,6	11,5	14,2	60,2%
7- Vegetables	-7	-18,4	11,7	-17,5	-11,6	-33,4	-12,7	477%
8- Fruits	-1160,3	-1177,3	-1115,7	-1226,7	-1359,3	-1427,6	-1244,5	123%
9- Coffee, tea, spices	330,1	365,5	330,4	380,3	523,9	472,4	400,4	143%
10- Cereals	-935,7	-1018,7	-233,4	-396,9	-654,2	-312	-591,8	33,3%
11- Milling products	115,4	122,4	116,8	129,7	168,1	173,1	137,6	150%
12- Oilseeds	-956,2	-1470	-759	-1175,1	-1115	-1102,4	-1096,3	115%
13- Lac, gums, resins	38,6	-5,9	-20,8	28,7	16,6	71,9	21,5	186%
14- Vegetable plaiting materials	20,4	11,5	14,3	-13,5	-8,1	-7,6	2,8	-37,3%
15- Animal and vegetable fats and oils	428,4	376,3	362,1	433,8	311,5	401,4	385,6	93,7%
16- Preparations of meats and fish	30,6	2,5	18,1	17,2	14,9	34,6	19,7	113%
17- Sugars and sugar confectionery	75	83,9	102,1	118	136,4	132,5	108	177%
18- Cocoa and cocoa preparations	373,4	359	388,3	617,2	617,7	653	501,4	175%
19- Preparations of cereals	470	445,4	423,9	459,6	501,2	585,6	480,9	125%
20- Preparations of vegetables, fruit	361,1	277,5	242,4	335,6	303,3	405	320,8	112%
21- Miscellaneous edible preparations	-35,7	-60,9	-102,7	-17,9	-24,4	1,9	-40	-0,1%
22- Beverages	6223,3	5251,6	4635,4	5204,4	5708,9	6614,3	5606,3	106%
23- Residues, oilseeds meals	-345,5	-408,5	-238,3	-566,2	-527,8	-438,1	-420,7	127%
24- Tobacco	-235,1	-158,3	-176,1	-210,8	-219,7	-265,7	-211	81,5%
Total classes 1 to 24	5016,6	3087,8	4218,2	4413,1	4780,2	6372,9	4649	127%
Fish preparations in class 16	-29,8	-42,9	-27,6	-37	-41,8	-24,3	-33,9	81,5%
Fish and preparations	-623,8	-618,9	-407,6	-393,6	-423,4	-422,4	-481,6	67,7%
Meat preparations in class 16	60,4	45,4	45,7	54,2	56,7	59	53,6	97,7%
Classes 1-24 less fish & preparations	5640,4	3706,7	4625,8	4806,7	5203,6	6795,3	5130,6	120%
Agricultural products outside 1-24	-105,7	-2,9	-2,7	-54,2	-134,6	-89,4	-64,8	84,6%
Total agricultural products in AoA	5534,7	3703,8	4623,1	4752,5	5069	6705,9	5065,8	121%
Total without beverages	-688,6	-1547,8	-12,3	-451,9	-639,9	91,6	-540,5	-13,3%
Food trade according the SITC nomenclature								
Classe 0: food products	-578	-996,7	100,5	41,6	-58,5	560,8	-155	-97%
Classe 11: beverages	6183	5190,3	4588,5	5158,7	5664,5	6651,5	5572,8	108%
Classe 22: oilseeds	-935,4	-1422,9	-741,6	-1158,2	-1057,8	-1056,2	-1062	113%
Classe 4: fats and oils	452,6	405,4	406,4	492,4	375,6	486,2	436,4	107%
Total	5122,2	3176,1	4353,8	4534,5	4923,8	6642,3	4792,2	130%
Total without fishs	-1060,8	-2014,2	-234,7	-624,2	-740,7	-9,2	-780,6	0,009%

Source: Eurostat