

Updating the Indian CIF prices of 1986-88 is fully justified
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India, on behalf of the G-33, asked that the WTO MC9 deletes "*provided that the difference between the acquisition price and the external reference price is accounted for in the AMS*" in footnote 5 of paragraph 3 of the Agreement on Agriculture (AoA) Annex 2: "*Governmental stockholding programmes for food security purposes in developing countries... 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*". And paragraph 9 adds: "*The fixed external reference price shall be based on the years 1986 to 1988*".

1 – The administered prices: an ambiguous WTO concept which works in an opposite way in developed and developing countries

However the concept of administered price is not legally defined in the AoA or in any WTO agreement. Jasper Womach of the US Congressional Research Service (CRS) defined it in 2005 as "*A price fixed by policy makers in order to determine, directly or indirectly, domestic market or producer prices. All of the administered price schemes set a minimum guaranteed support price or target price for a commodity, which is maintained by associated policy measures such as... taxes and tariffs on imports; export subsidies; and public stockholding. Administered prices under the 2002 farm bill include loan rates and/or target prices, and price support levels for sugar, and dairy products*".

But there is a huge difference between the administered prices at the agricultural production level between developed and developing countries (DCs): whereas in DCs the administered prices are fixed *above* market prices to ensure remunerative prices to small farmers and to oblige the private traders to pay higher market prices, to the contrary in developed countries they are minimum prices, fixed *below* the prevailing market prices in order to reduce their level but – here lies the fundamental difference – these lower administered prices are accepted by Western farmers only because they are compensated by domestic subsidies, namely by the alleged decoupled fixed direct payments in the EU and US plus coupled subsidies, such as the US various types of marketing loan benefits, countercyclical payments and insurance subsidies. In developed countries the administered prices are always triggering subsidies, apart from the other means to render them effective: import duties, export subsidies and restrictions, land set aside, production quotas, etc. Indeed the US Farm Bills and EU CAP reforms since the 1990s have consisted in lowering by steps their administered prices to increase their domestic and external competitiveness – importing less and exporting more – through massive compensatory alleged non-trade-distorting subsidies of the blue and green boxes.

Thus the US farm gate price of rice has fallen by 32.5% from an average of 194.4 \$/t over 2000-01 to 2005-06 to 131.2 \$/t from 1986-87 to 1988-89¹ and the average export price by 31%, from 413.5 \$/t to 285.5 \$/t. The USDA confirms in 1989: "*The marketing loan moves U.S. prices closer to world prices, keeping U.S. rice competitive. The marketing loan and other forms of export assistance have enhanced U.S. rice sales in the late 1980's*". And USDA has likely said the same for wheat of which the farm gate price has fallen by 17.5% from an

¹ <http://usda01.library.cornell.edu/usda/ers/RCS//1980s/1989/RCS-10-08-1989.pdf>

average of 129.4 \$/t over 2000-01 to 2005-06 to 106.7 \$/t from 1986-87 to 1988-89² and the average export price has fallen by 44.9%, from 177.9 \$/t to 98 \$/t.

On the other hand most DCs did not and do not avail of the financial means to provide direct payments to their huge number of small farmers. This is why, to raise agricultural production and incomes, the DCs like India are obliged to use public procurement at minimum support prices (MSPs), higher than the prevailing market prices, particularly low just after harvest time, because their limited financial resources are already used to finance general agricultural services and infrastructures and to subsidize inputs.

2 – Which justifies to incorporate the product-specific subsidies in the "comprehensive price" of agricultural products

So that a balanced comparison between the US (EU) and Indian administered prices should be made by internalizing in the US low administered prices the subsidies triggered by them. It is what the OECD has done in a report of 2011 where the concept of domestic prices is defined as "*producer prices plus payments linked to the production of a specific commodity*"³. A concept that we propose to define as the "comprehensive domestic farm price". However interesting this approach might be it is still too restrictive and biased because it does not take into account the decoupled subsidies that have substituted more and more the coupled subsidies since the 2000s.

The FAPRI's new report of October 2013 on the "*Impacts of Selected Provisions of the House and Senate Farm Bills*" presents tables on "average crop returns in dollars per acre"⁴ for the 2014-18 period where the various coupled subsidies are added to market sales which, divided by the yield per acre, give the expected comprehensive price per crop, although FAPRI does not use this concept of comprehensive price but of "return per acre". And we see that, in the House of Representatives' bill, this return would rise in 2014-18 by 9% for rice and by 6.6% for wheat in comparison with the prices expected with the prolongation of the present Farm Bill.

Everybody knows that the US is price maker for wheat, but what about rice? Daryll Ray et al. showed that "*A model was developed to track the relationship between the US and the Thai prices... Model results showed a strong correlation between the US price and the price of the leading competitor on that export market. Eighty four percent of the variation in the Thai rice price could be explained by the Texas price and the US rice stocks-to-use ratio, and a ten percent increase in the US rice price will result in a 4.7 percent increase in the Thai price. This correlation is compelling evidence that even where the US is not a dominant exporter, its commodity exchanges influence world prices*"⁵. The more so in that period 1986-88 when the US market share of global rice exports was of 18.9%, being second after Thailand (37.2%) and before Pakistan (9.5%) and China (7.3%)⁶.

² <http://www.ers.usda.gov/data-products/wheat-data.aspx#.UpZNI-LuFGY>

³ Jean-Pierre Butault, *Evolution of Agricultural Support in Real Terms in OECD Countries and Emerging Economies*, OECD, 2011, <http://www.oecd-ilibrary.org/docserver/download/5kgkdgf25x20.pdf?expires=1385386110&id=id&accname=guest&checksum=476FE82E1A92E7409C7AAE4E85F48958>

⁴ http://www.fapri.missouri.edu/outreach/publications/2013/FAPRI_MU_Report_06_13.pdf

⁵ Daryll Ray, Daniel De La Torre Ugarte, Kelly Tiller, *Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide*, APAC, University of Tennessee, September 2003, <http://www.inmotionmagazine.com/ra03/rethinking.html>

⁶ <http://ageconsearch.umn.edu/bitstream/15183/1/26020406.pdf>

Now, on the basis of both the US schedules of commitments⁷ and the OECD data on the US PSE (producer support estimate) and MPS (market price support) for the 1986-88 period⁸, the following table shows that the US dumping rate reached 137.1% on rice and 88.9% on wheat. In fact the dumping rate was significantly higher because the US schedules of commitments gives only a part of the export subsidies, those of the export enhancement programme, but not the subsidy component of the export credit guarantees and the non emergency food aid.

Table 1 – US comprehensive farm prices and dumping rates of rice and wheat in 1986-88

	Rice	Wheat
Production: Mt	4.534*	54.530
Farm gate price: \$/t	131.15	106.68
Total AMS subsidies: \$M	797.67	3377.44
" of which: deficiency payments	530.38	2617.54
" other non-excluded direct payments	226.26	331.11
" other product-specific subsidies	41.03	428.79
Total domestic subsidies per tonne: \$/t	175.93	61.94
Comprehensive farm price: \$/t	307.08	168.62
Domestic subsidies per tonne/farm gate price	134.14%	58.06%
Total export quantity: Mt	2.352	31.898
" of which with export subsidies: Mt	0.0562**	19.580
Export subsidies (exp. enhancement prog.): \$M	4.805**	593.81
Export subsidy/tonne of total exports: \$/t	2.04	18.62
Export subsidy/tonne of subsidized exports: \$/t	85.5**	30.33
Border reference price: \$/t	129.84	90.63
Domestic subsidies per tonne/border price	135.50%	68.34%
Export subsidy per tonne total exports/border price	1.57%	20.55%
Total dom.+export subsidies per tonne total exports: M\$	177.97	80.56
Dumping rate per tonne (total sub/border price)	137.07%	88.89%

Sources: US schedule of commitments; OECD, US PSE; FAOSTAT; * rice equivalent; ** export subsidy for only 2.4% of total rice exports

Let us add that the EU subsidies to wheat exports (without food aid) were of €2.181 billion for 14.1 Mt in that period, that is €154.6 per tonne against a FOB price of €115.6, implying a dumping rate of 133.7%⁹. As the combined US and EU wheat exports accounted for 53.2% of global exports, it is clear that they were responsible for the very low world prices of wheat in that period.

3 – The 30% dollar depreciation for rice and wheat from end 1985 to end 1988 is a supplementary reason to internalize the US subsidies in the Indian CIF prices

Besides the high level of US domestic subsidies from 1986 to 1988, we must take into account the large depreciation of the US dollar at the same time, which helped a lot to boost US exports of wheat and rice. According to Mathew Shane of USDA, "*The sharp decline in the dollar after 1985 reversed this process, and world prices for agricultural commodities fell. U.S. exports began to expand rapidly. Simultaneously, lower U.S. loan rates under the Food Security Act of 1985 went into effect and magnified the effects of the exchange rate. Lower prices caused great hardship in countries like Australia, Canada, Argentina, and the European Community*"¹⁰. More precisely, "*The real U.S. agricultural*

⁷ http://www.wto.org/english/tratop_e/agric_e/schedule_e/usa.pdf

⁸ <http://www.oecd.org/agriculture/agricultural-policies/producerandconsumersupportestimatesdatabase.htm>

⁹ J. Berthelot, *Analysis of the G-33's proposal to change the AoA provision on Public stockholding for food security*, Solidarité, 22 November 2013, <http://www.solidarite.asso.fr/Papers-2013>

¹⁰ <http://www.ntis.gov/search/product.aspx?ABBR=ERSAIB585>

exchange rate declined 23 percent between the end of 1985 and 1988. A sustained change of that magnitude would lead to a greater than 23-percent increase in U.S. agricultural exports, according to the CGE model... The exchange rate depreciation between the end of 1985 and 1988 accounted for 25 to 35 percent of the increase observed in U.S. farm exports. The long run effects of a sustained increase would be even greater". In particular the dollar exchange rate linked to wheat trade has depreciated by 30% from 1986 to 1988, and we can assume that the figure were about the same for rice.

Therefore, without this large dollar depreciation in that period, the US subsidies to rice and wheat would have been much larger, likely 30% larger, which justifies even more to update the Indian CIF prices of 1986-88 based on the US comprehensive export prices of rice and wheat incorporating its domestic and export subsidies. For conservative reasons however we will not add the potential increase in US subsidies linked to this dollar depreciation.

4 – Rectifying the Indian CIF prices of rice and wheat in the 1986-88 period to take into account the US dumping rates

Therefore the comparison with DCs border prices of 1986-88, e.g. Indian prices, should be made by rectifying the Indian border prices after elimination of the US dumping rate on world prices – let us limit ourselves to the US dumping, lower than the EU ones –, i.e. by multiplying the Indian CIF prices of 1986-88 by 2.371 for rice and by 1.889 for wheat, which raises them to respectively Rs 8,346/t instead of Rs 3,520/t for rice and Rs 6,687/t instead of Rs 3,540/t for wheat. Once converted into US \$ by the exchange rates of the period, the rectified border prices in 1986-88 become \$634.7/t for rice and \$508.5/t for wheat, figures which are 89.5% and 104.7% higher than the MSPs of rice and wheat respectively in 2012-13 (table 2). The MSP notified in 1986-88 was for common paddy that we converted in MSPs for rice on the basis of 660 kg of rice in 1 tonne of paddy. We use the same exchange rate for rice and wheat for that period but different rates for 2012-13 to take into account that their marketing years are not the same: April to March for wheat and October to September for rice (table 2).

Table 2 – Updating the 1986-88 Indian border prices of rice and wheat to 2012-13, Rs & \$

	1986-88	2012-13
Rice (rice paddy equivalent, with 660 kg of rice in 1 tonne of paddy)		
Indian rupee exchange rate: Rs for 1 US \$	13.1500	56.5752
Notified border price in Rs/t (and \$/t)	3,520 (267.7)	(509.1)*
Rectified border price in Rs/t (and \$/t)	8,346 (634.7)	
Minimum support price in Rs/t (and \$/t)	3,455 (262.7)	18,939 (334.8)
Wheat		
Indian rupee exchange rate: Rs for 1 US \$	13.1500	54.3519
Notified border price in Rs/t (and \$/t)	3,540 (269.2)	
Rectified border price in Rs/t (and \$/t)	6,687 (508.5)	
Minimum support price in Rs/t (and \$/t)	1,740 (132.3)	13,500 (248.4)

Source: *average FOB prices of rice include basmati rice for 2% of total exports; no MSP for basmati rice

5 – Comparison with updating the 1986-88 CIF prices according to three levels of Indian excessive inflation rates

Now we can compare the proposals to update the notified CIF prices of 1986-88 according to three possible "excessive" inflation rates up to 2012-13 (25 years). As Anwarul Hoda and Ashok Gulati "do not see any reason for making less than full adjustment for the rates of

inflation, particularly keeping in view the high rates of inflation in the country"¹¹, this implies to update with the average inflation rate of 8.03% over these 25 years. We can also compare with the G-33's proposal that the "excessive" inflation rate is that exceeding 4%, i.e. 4.03%. But, rather than using 4% that we do not know where this figure comes from, it is sufficient and fair to take the inflation rate exceeding the 2.75% average rate of the OECD's Western Members, that is 5.28%. Table 3 shows that, if we update on the basis of the notified CIF prices, only the full average inflation rate of 8.03% gives a reference price higher than the MSP of 2012-13, whereas updating with 4.03% or even 5.28% let us significantly below the MSP. The reason is that the rupee exchange rate has depreciated much, being 4.3 times lower than in 1986-88 for rice and 4.1 times lower for wheat.

Now we can update the rectified CIF prices with these three inflation rates, in which cases even the 4.04% excessive inflation rate proposed by the G-33 permits to get an updated reference price higher than the MSP of 2012-13.

Table 3 – Updating the 1986-88 Indian border prices of rice and wheat to 2012-13, Rs & \$

	1986-88	2012-13
Rice (rice paddy equivalent, with 660 kg of rice in 1 tonne of paddy)		
Indian rupee exchange rate: Rs for 1 US \$	13.1500	56.5752
Minimum support price in Rs/t (and \$/t)	3,455 (262.7)	18,939 (334.8)
Updating notified border price with actual inflation rate (8.03%)	3,520 (267.7)	24,274 (429.1)
Updating notified border price with G33 proposed rate (4.03%)	3,520 (267.7)	9,452 (167.1)
Updating notified border price with 8.03-OECD rate (5.28%)	3,520 (267.7)	12,741 (225.2)
Updating rectified border price with actual inflation rate (8.03%)	8,346 (634.7)	57,556 (1017.3)
Updating rectified border price with G33 proposed rate (4.03%)	8,346 (634.7)	22,410 (396.1)
Updating rectified border price with 8.03-OECD rate (5.28%)	8,346 (634.7)	30,208 (533.9)
Wheat		
Indian rupee exchange rate: Rs for 1 US \$	13.1500	54.3519
Minimum support price in Rs/t (and \$/t)	1,740 (132.3)	13,500 (248.4)
Updating notified border price with actual inflation rate (8.03%)	3,540 (269.2)	24,413 (449.2)
Updating notified border price with G33 proposed rate (4.03%)	3,540 (269.2)	9,505 (174.9)
Updating notified border price with 8.03-OECD rate (5.28%)	3,540 (269.2)	12,813 (235.7)
Updating rectified border price with actual inflation rate (8.03%)	6,687 (508.5)	46,115 (848.5)
Updating rectified border price with G33 proposed rate (4.03%)	6,687 (508.5)	17,955 (330.3)
Updating rectified border price with 8.03-OECD rate (5.28%)	6,687 (508.5)	24,204 (445.3)

Source: *average FOB prices of rice include basmati rice for 2% of total exports but there is no MSP for basmati rice

Conclusion

Once the CIF prices updated for a fair comparison with the MSPs of 2012-13, India will have a large leeway to implement its National Food Security Bill. However a definitive solution for DCs will be to delete at MC9 in Bali footnote 5 of AoA Annex2 Paragraph 3.

In fact there are many other excellent technical and political arguments to change the AoA rules for DCs and let them notify all their public procurement for food security stocks in the green box as the US is doing. As the Indian food aid subsidy of \$26.8 per person in 2012 represented only 2.1% of the total US food aid of \$1,250 per person or 1.7% of the \$1,608 per beneficiary of food stamps, the AoA rules are clearly totally illogical and unfair, being justified on the only futile pretext that India's food aid is released after a public procurement at remunerative prices to poor farmers whereas the US food aid does not need to follow the same route, given that its farmers get already large subsidies to complement their prices.

¹¹ <http://ictsd.org/i/publications/175214/?view=document>