

WTO agricultural negotiations and their impact on trade of agricultural products among the OIC Member States

US and EU agricultural subsidies and their impact on OIC Member States

Jacques Berthelot (jacques.berthelot4@wanadoo.fr) SOL, November 17, 2020

The main sources and forms of the EU and US agricultural dumping

The examples of cotton, cereals and poultry

The wrong analysis of China, India and African group minimizing the dumping impact of the blue box and green box subsidies

All investments and inputs subsidies are trade-distorting

All Annex 2 subsidies are trade-distorting

\$12.8 bn of US domestic food aid on 8 products was in the AMS in 2012

Alternative Agreement on Agriculture and food to reach the SDGs

The main sources and forms of the EU and US agricultural dumping

Without going back to colonial times the main reason of the persistence of the EU and US agricultural dumping lies in the criminal definition of dumping in GATT article VI: « no dumping as long as exports are made at the domestic price »

The EU & US used this definition to devise bilaterally the AoA rules while revising radically the CAP and Farm Bill (1992-93): large cuts in minimal administered prices (*intervention prices* in EU, *loan rates* in US), offsetting their impact on farmers by granting large domestic subsidies alleged non-trade distorting: blue & green box + de minimis

The main sources and forms of the EU and US agricultural dumping

It is a pity that most WTO Members, including DCs, are ignoring that the Appellate Body (AB) has ruled four times – in Dairy Products of Canada case of December 2001 & 2002, US cotton case of March 2005 and the EU sugar case of April 2005 – that all domestic subsidies (including the decoupled ones) must be included in assessing dumping.

At the same time the Appellate Body has given in the Dairy Canada case a clear definition of dumping as « *exports at prices lower than full average national production cost without subsidies* ».

Taking into account Green Box subsidies in assessing dumping

Decoupled aids are the most trade distorting as they can rise without limits. US and EU aids to specific products add the same share of GB as that of its value in whole agricultural production value. We take US GB notified to WTO minus 93.1% of domestic food aid (6.9% is a subsidy to farmers for Rashmi Banga), minus notified decoupled support plus \$2 bn of irrigation subsidies (GAO and CRS reports) and energy subsidies notified to OECD at \$2.385 bn up to 2012, \$1.038 bn up to 2016 before revising at \$811 M from 2007 and at \$777M from 2015 to 2019! EU domestic food aid is insignificant and we delete decoupled income (taken already for each product) and add €2 bn of irrigation subsidies and €3 bn of energy subsidies (from OECD data).

The scandalous cotton subsidies of the US and even more of the EU and their disastrous impact on African producers

The best example of the absurdity of the AoA dumping rules is given by cotton: although the EU has the largest subsidy per tonne (t) and exports more cotton than Benin, Mali or Burkina, it notifies zero non-trade distorting subsidy to the WTO as 1/3 is notified in the Blue Box (BB) and 2/3 in the Green Box (GB), with average subsidy per tonne of \$2,800 from 2010 to 2018, 6.6 times higher than the US \$426 in the same period but the US subsidy rose to \$557 in 2018 and 2019 (Market Facilitation & COVID-19 Programs).

The scandalous cotton subsidies of the US and even more of the EU and their disastrous impact on African producers

Even if the US has exported 9.5 times more cotton than the EU, the EU subsidies have weighed a lot also on the world cotton price, to the plight of the C4 producers. Yet, even if most models have concluded that the elimination of the US and EU dumping would raise the world price by around 10%, this would not solve the C4 plight as other countries would also raise their production, pushing down again the world price. But clearly they should stop dumping.

The scandalous cotton subsidies of the US and even more of the EU and their disastrous impact on African producers

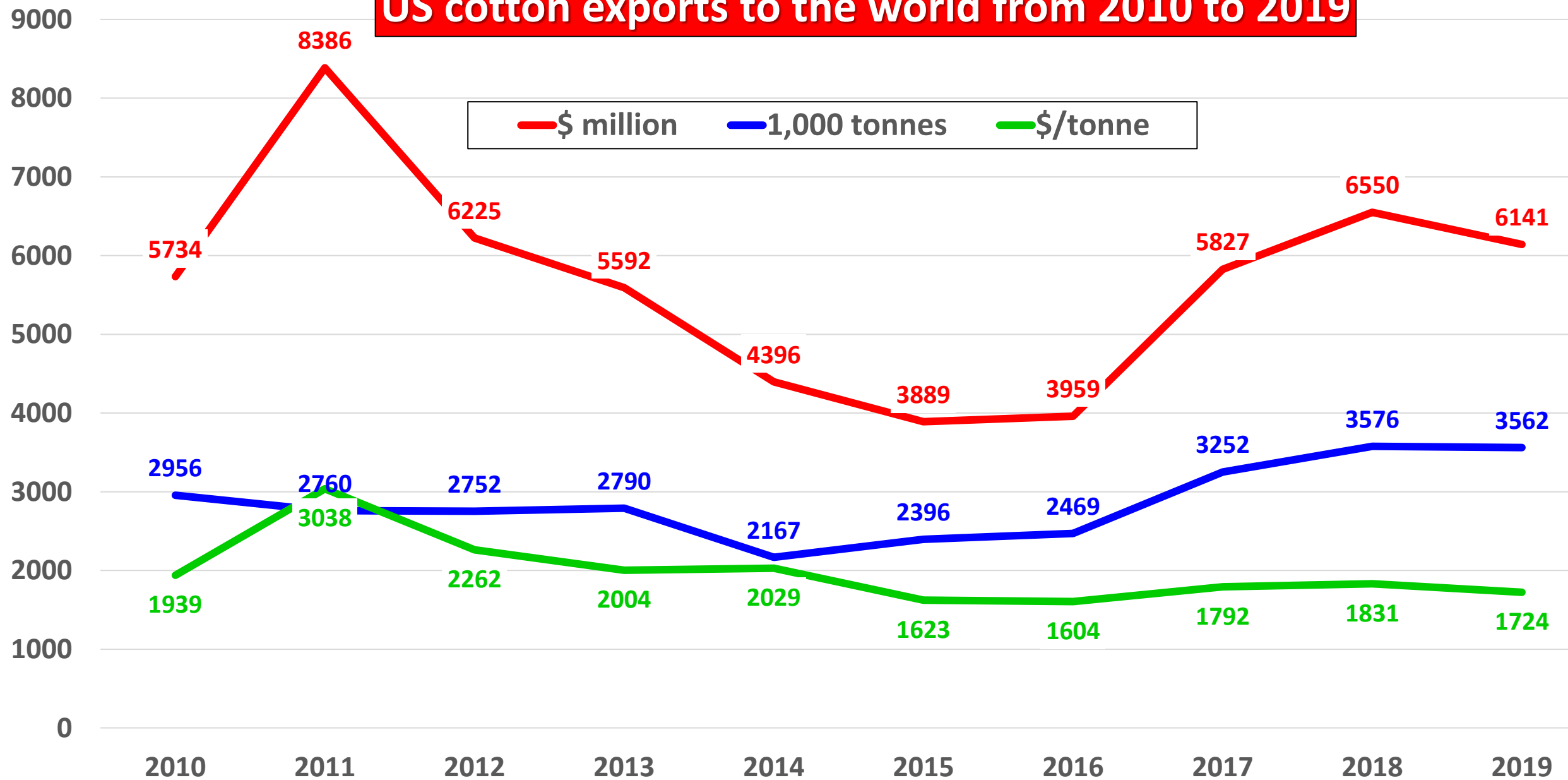
In 2019 the EU exported 1,6 million tonnes (Mt) of worn clothes for \$1.36 billion (bn) at a FOB price of 856 \$/t, of which 46% (739,000 t) to OIC at a price 40% lower (515 \$/t), and 581,000 t to SSA for \$591 M, of which \$345 M to West Africa, of which \$55.7 M to C4 (63,734 t). The EU exported 2.1 times more worn clothes than the US and 8 times to OIC.

The long term solution is certainly not to agree with the AGOA “third country duty free import of yarn and fabrics” which would cut drastically the SSA production of cotton lint.

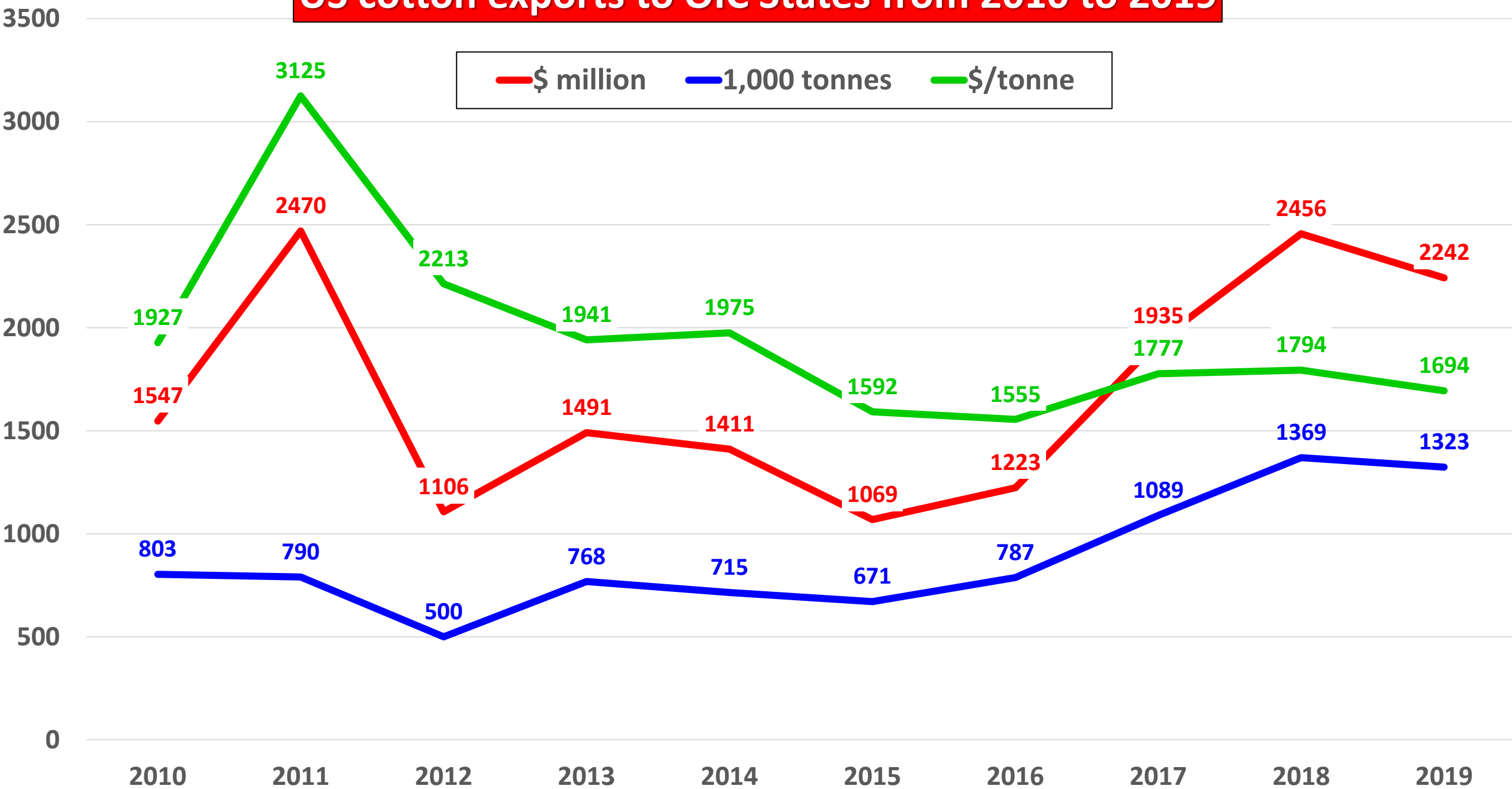
The scandalous cotton subsidies of the US and even more of the EU and their disastrous impact on African producers

As the textile industry has been at the basis of development of all developing countries and has created a huge amount of jobs, there is an urgency for Sub-Saharan Africa (SSA) to regain control of its cotton chain, processing its cotton lint in clothes to reduce exports and stop imports, including of worn clothes.

US cotton exports to the world from 2010 to 2019



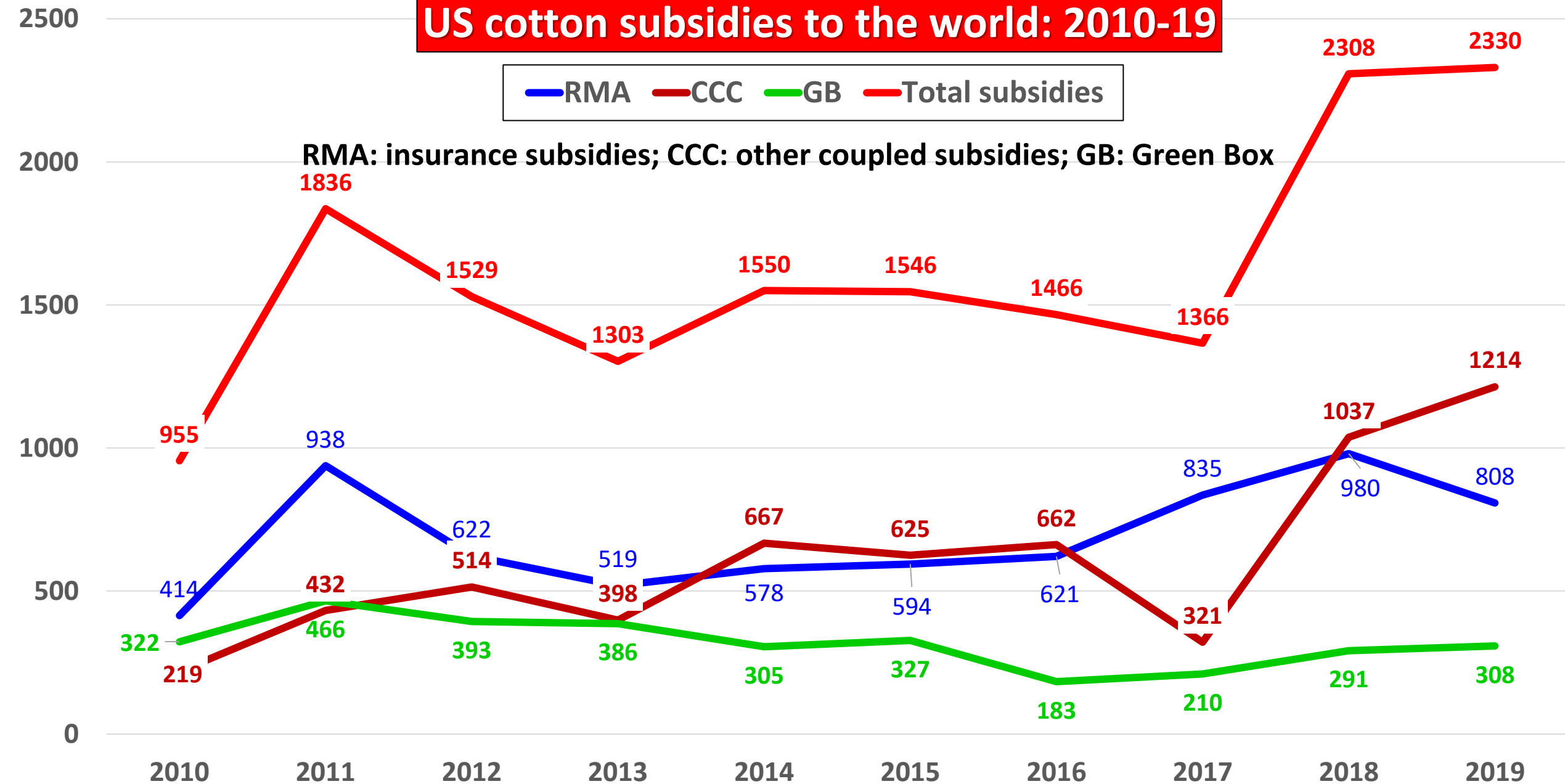
US cotton exports to OIC States from 2010 to 2019



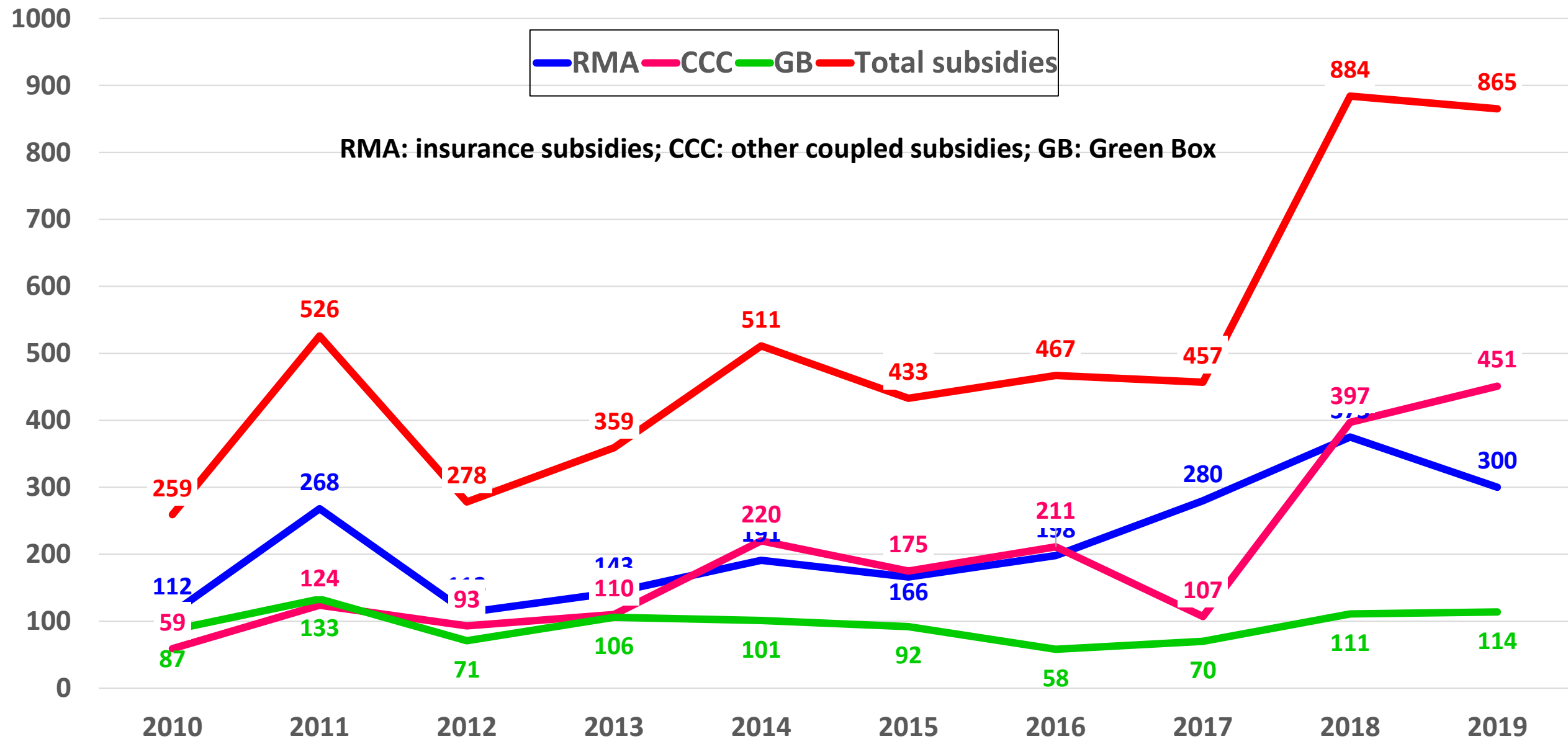
US cotton subsidies to the world: 2010-19

RMA CCC GB Total subsidies

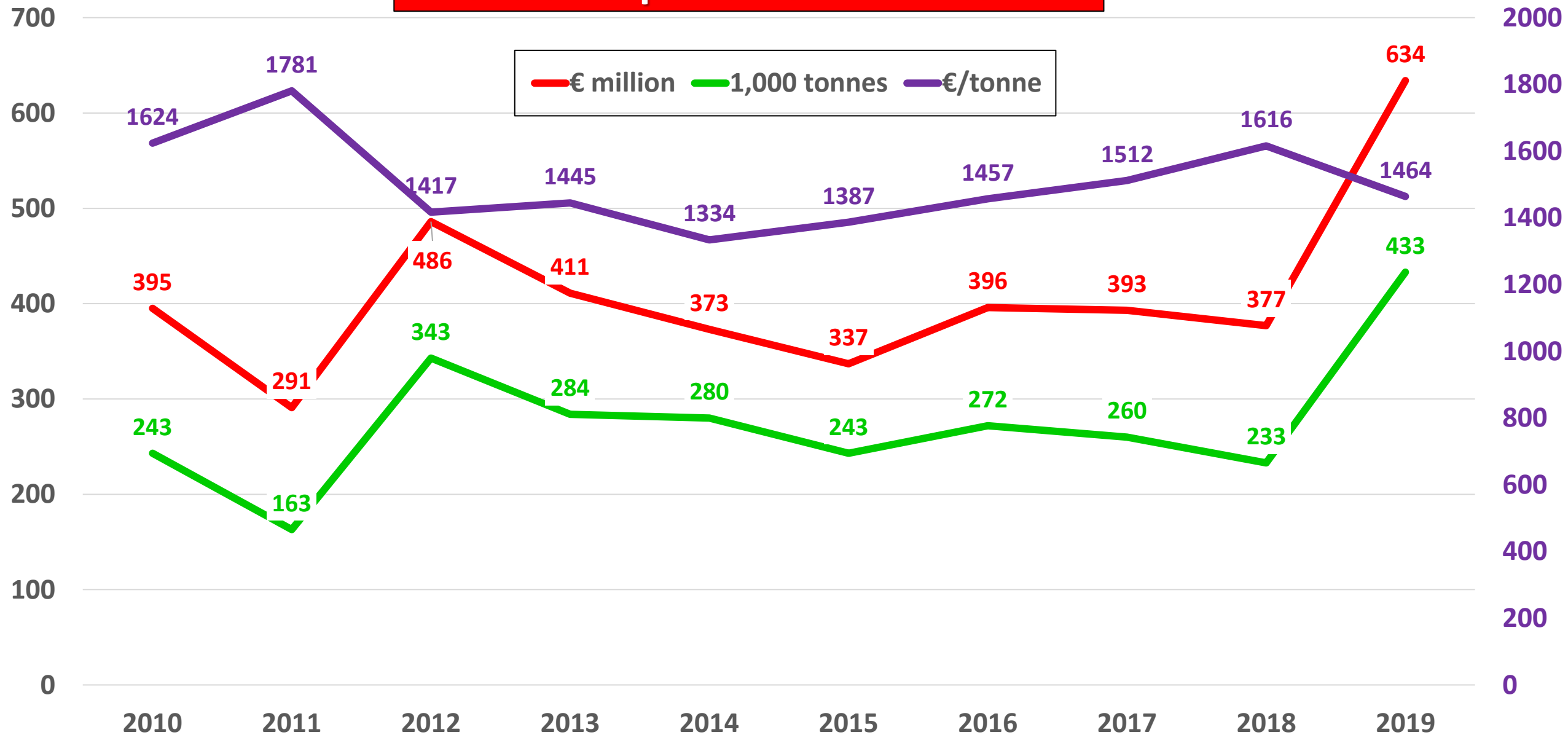
RMA: insurance subsidies; CCC: other coupled subsidies; GB: Green Box



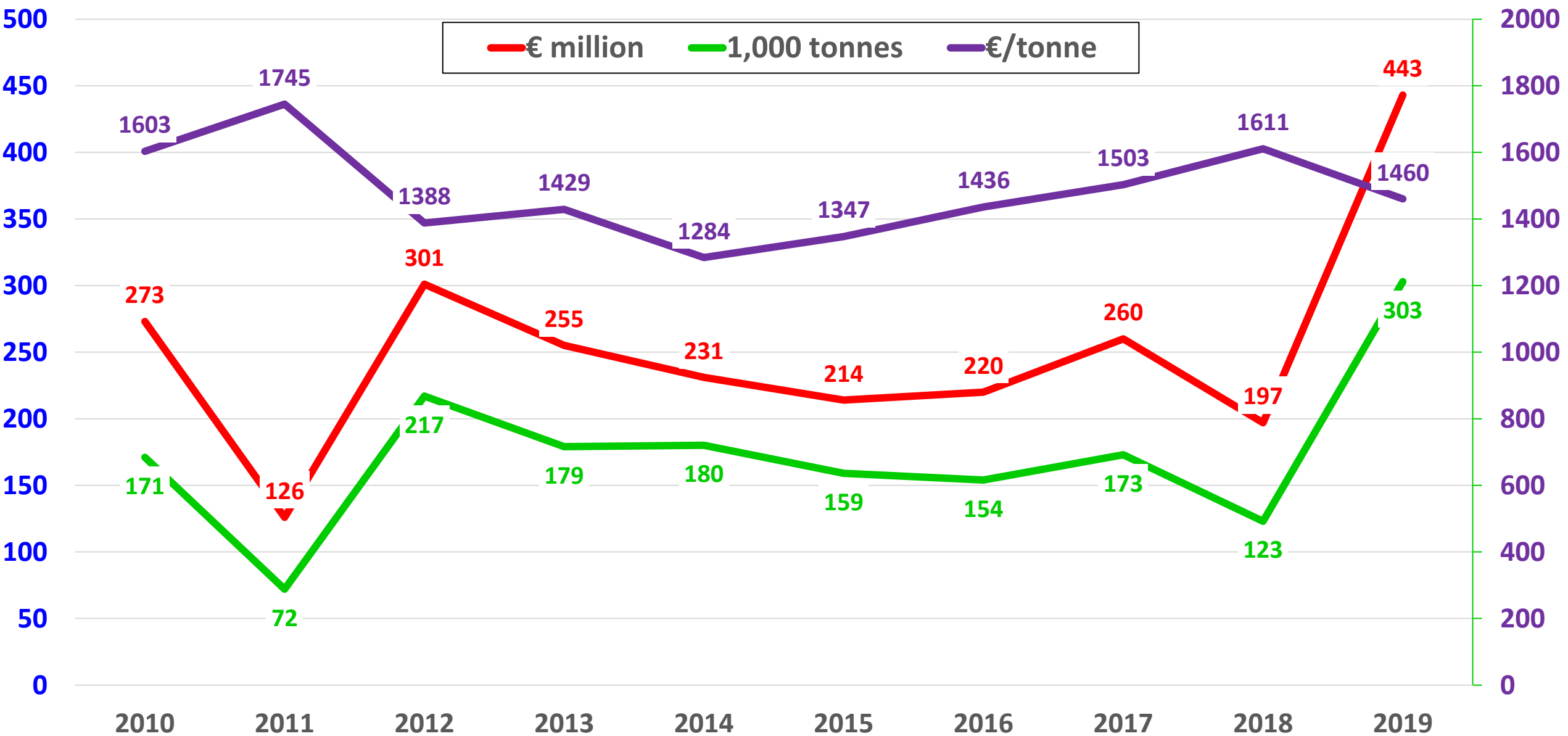
US subsidies on cotton exports to OIC States: 2010-19



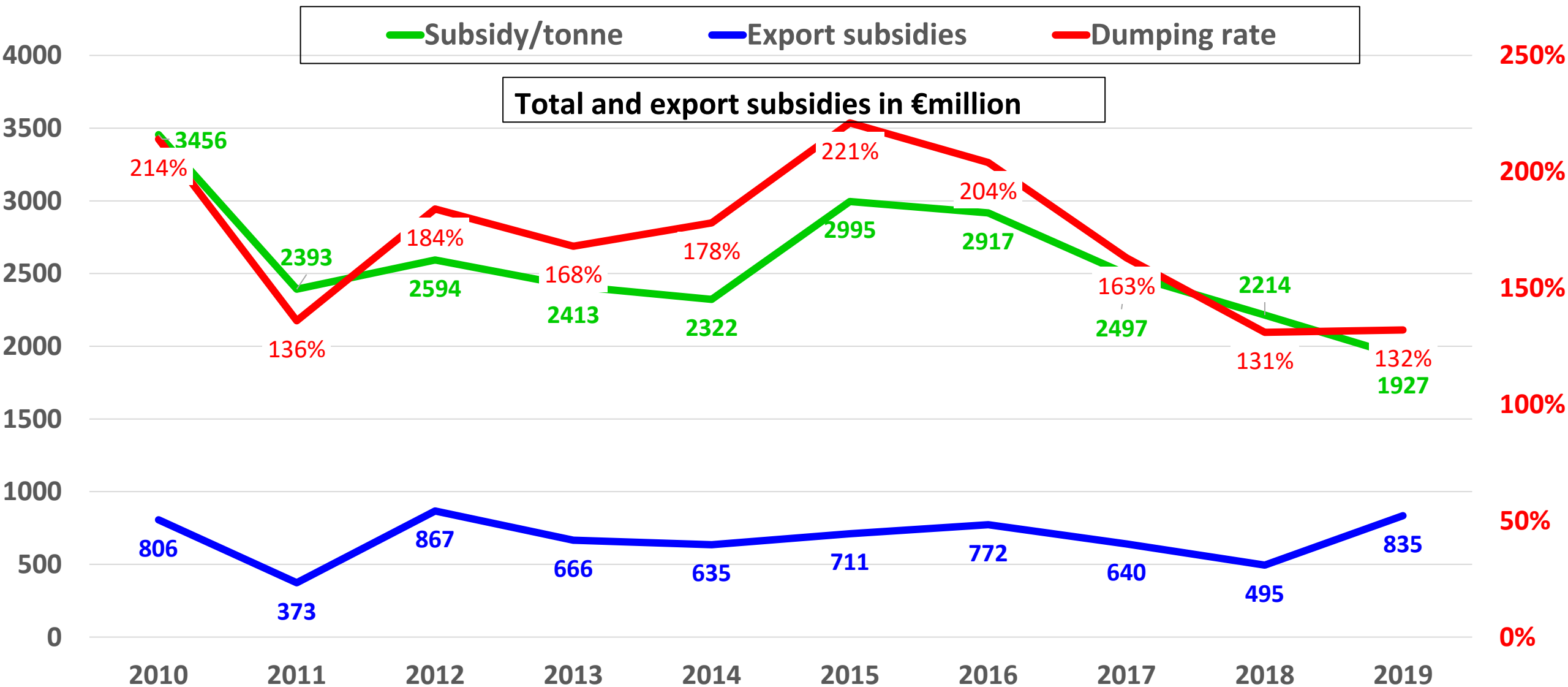
EU cotton exports from 2010 to 2019



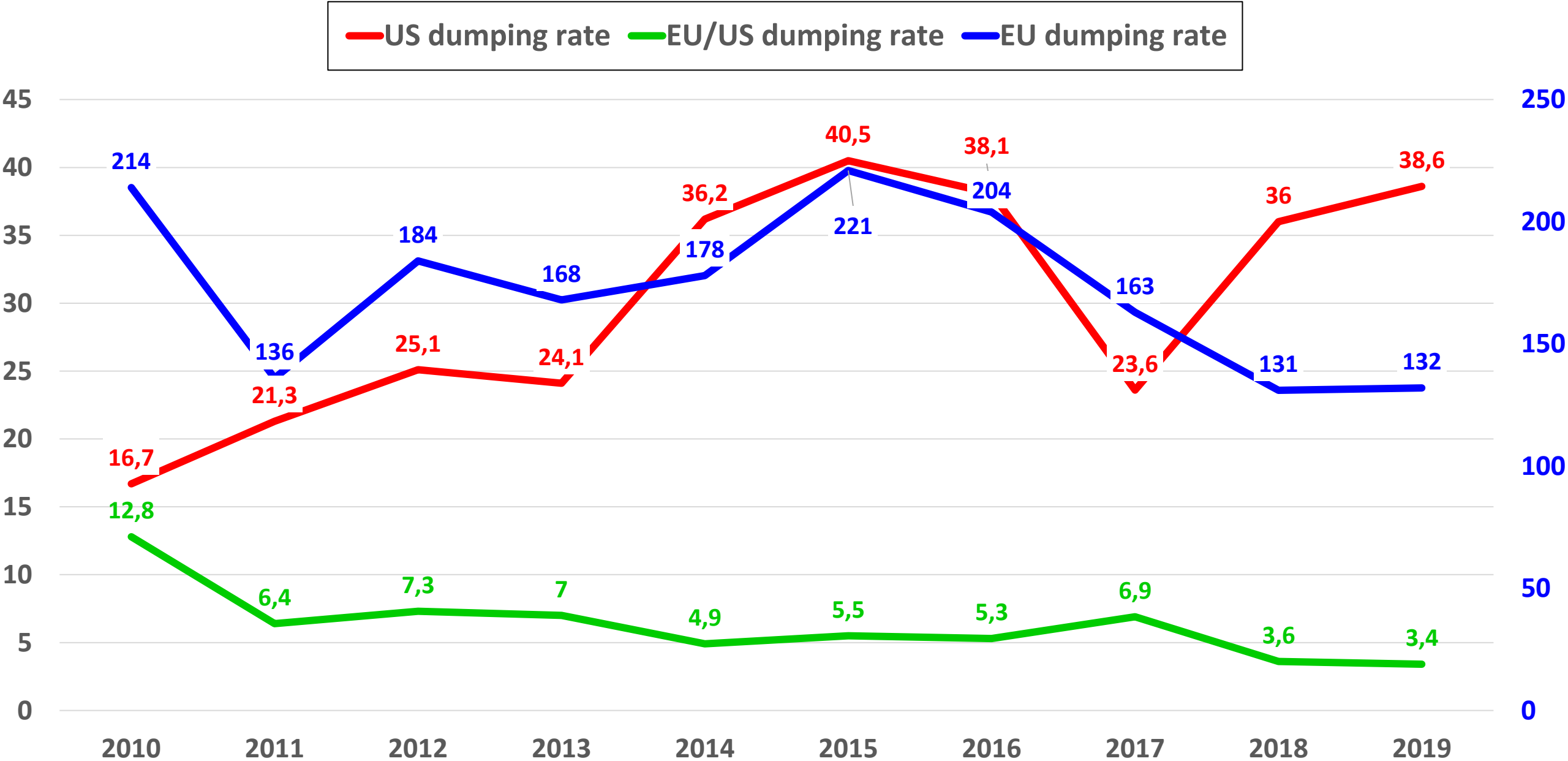
EU cotton exports to OIC States from 2010 to 2019



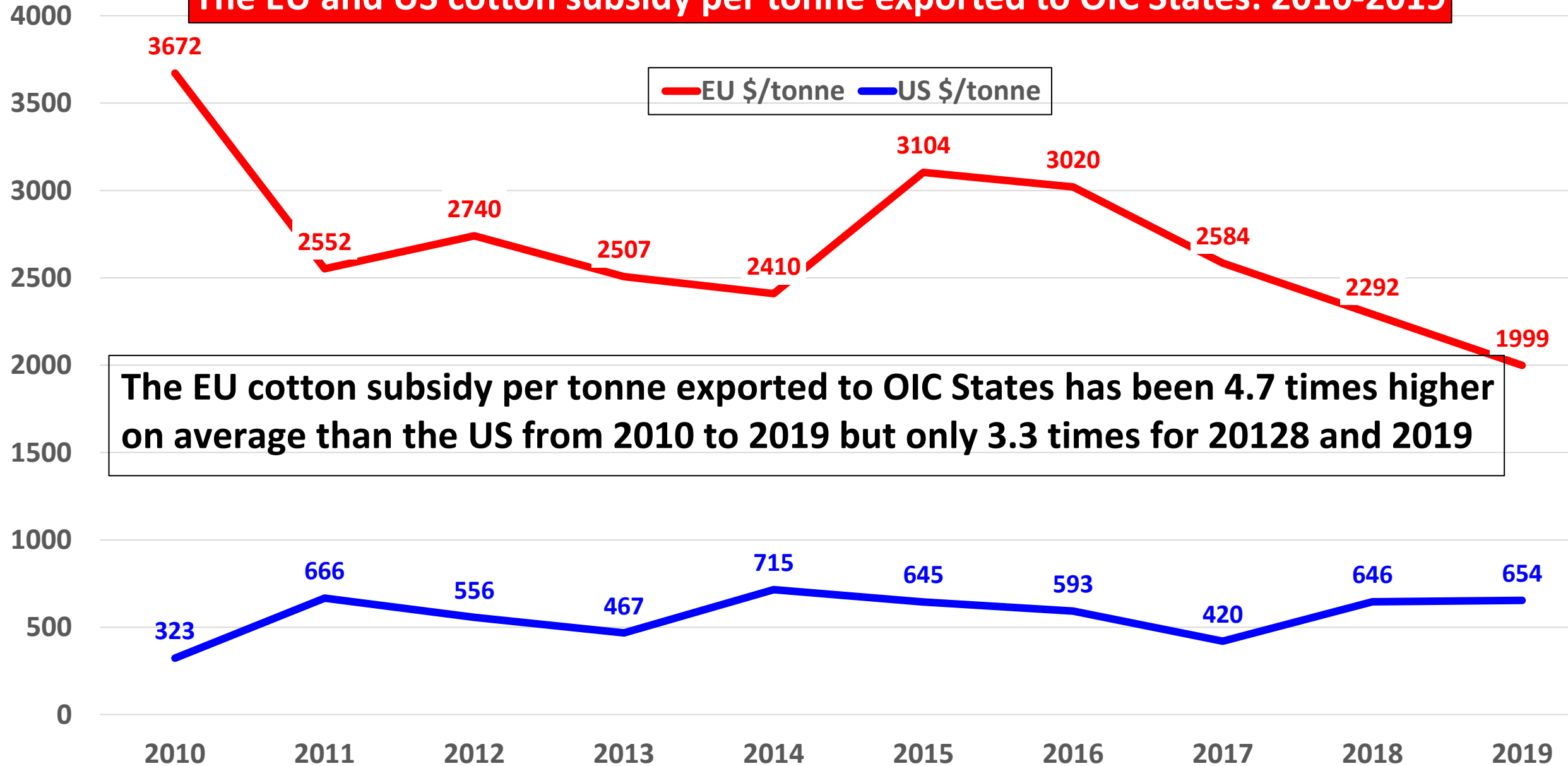
EU cotton subsidies and dumping rate from 2010 to 2019



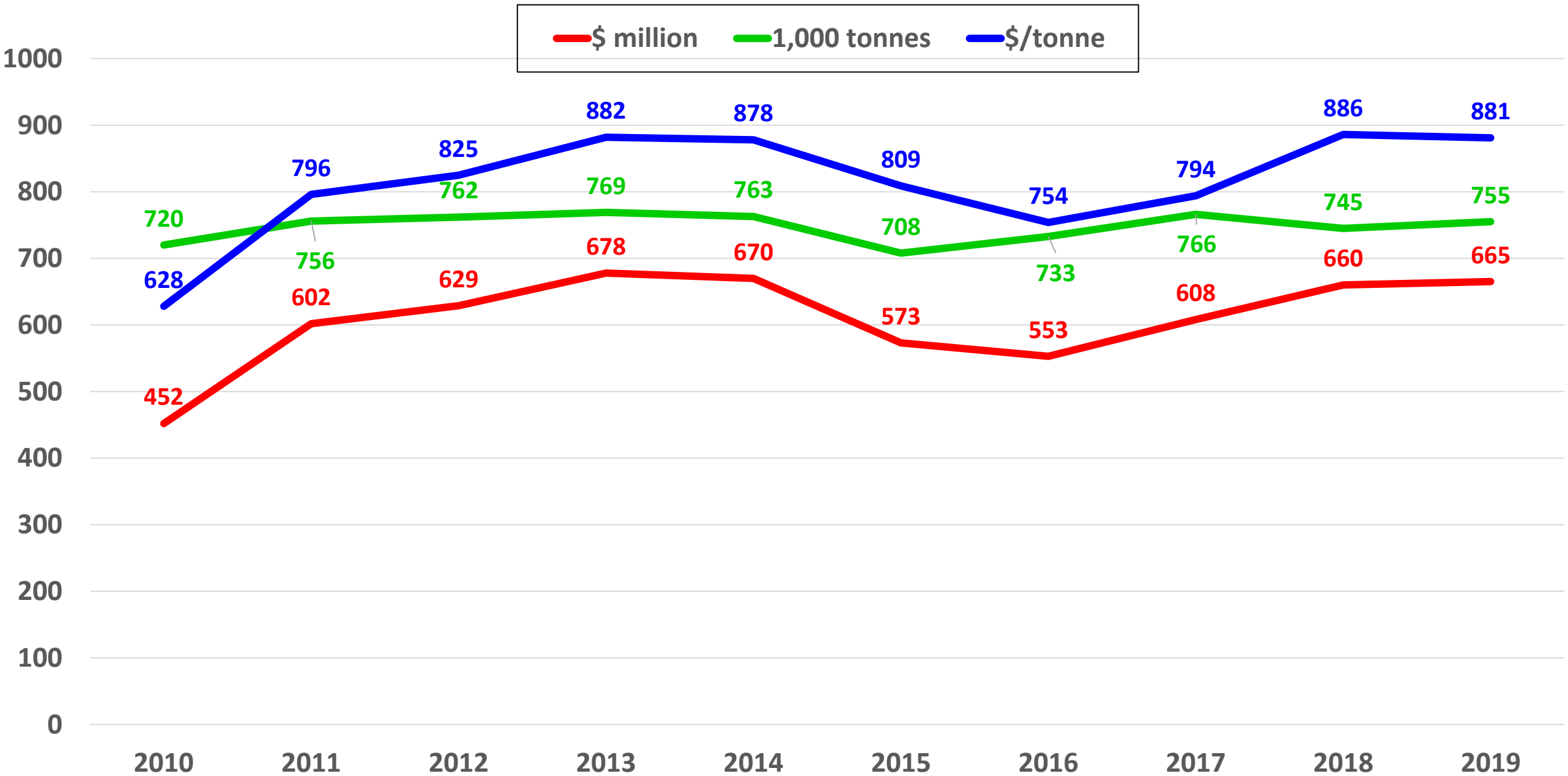
The average EU cotton dumping rate was 6.3 times higher than the US



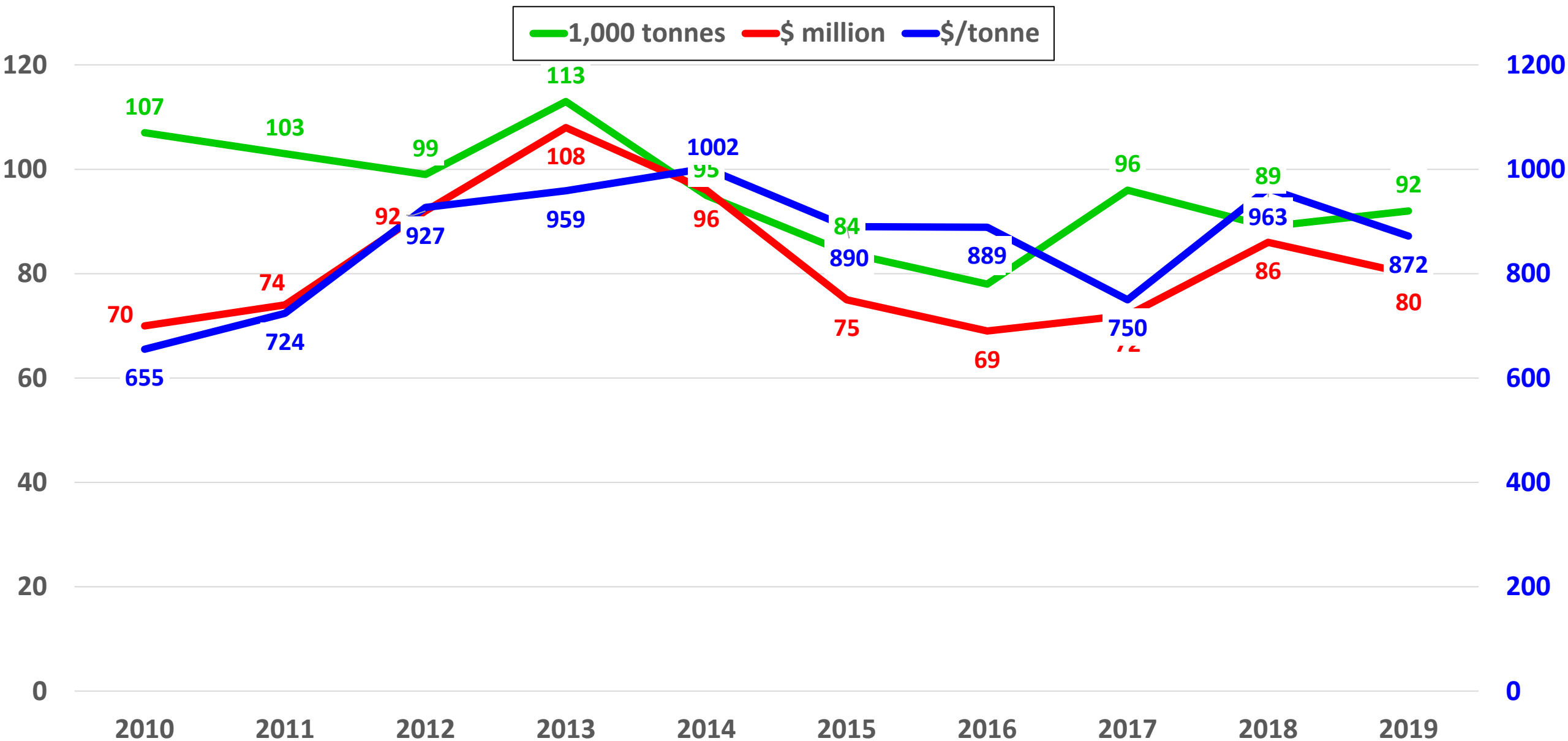
The EU and US cotton subsidy per tonne exported to OIC States: 2010-2019



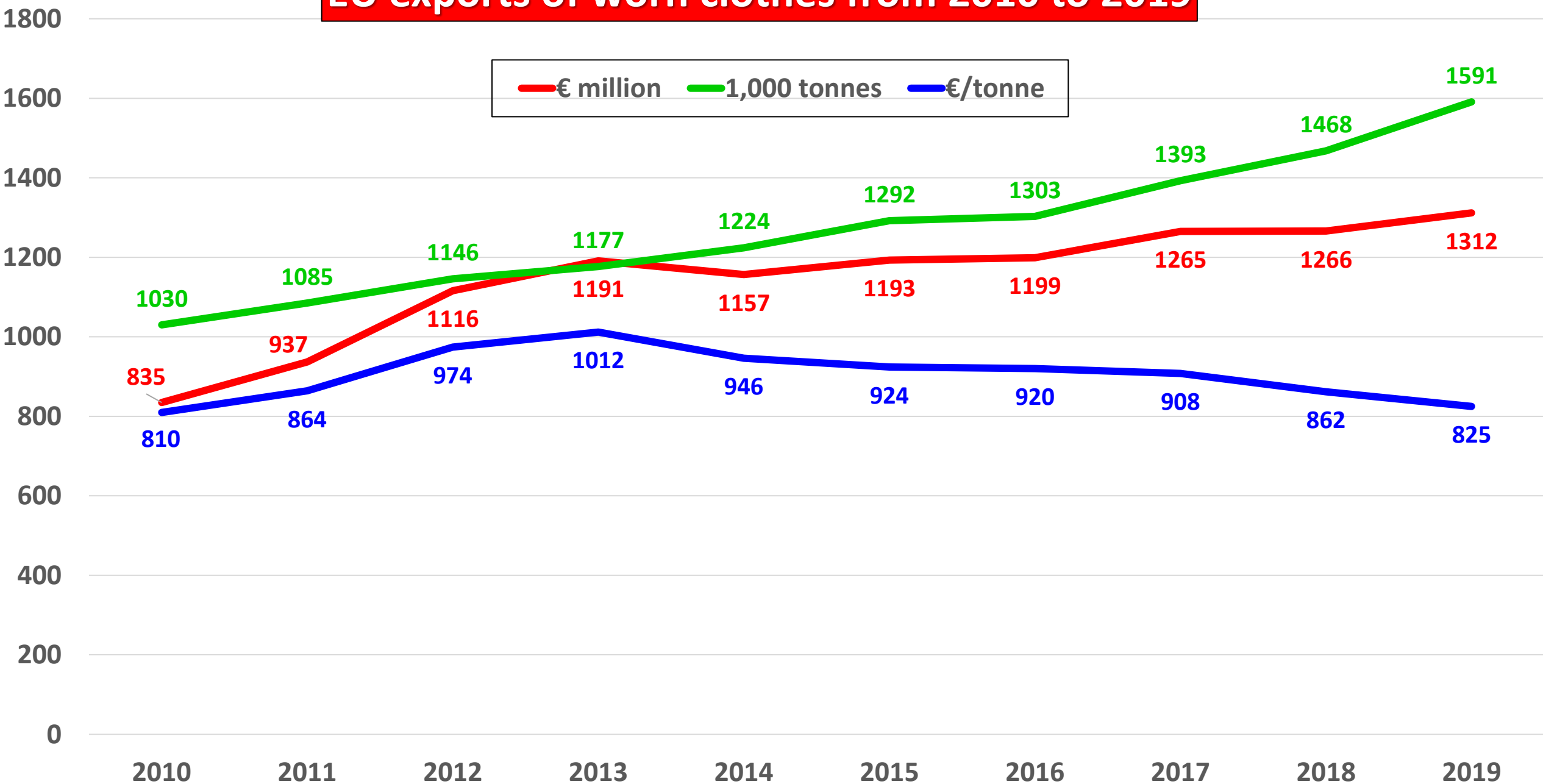
US exports of worn clothes to the world from 2010 to 2019



US exports of worn clothes to OIC States from 2010 to 2019

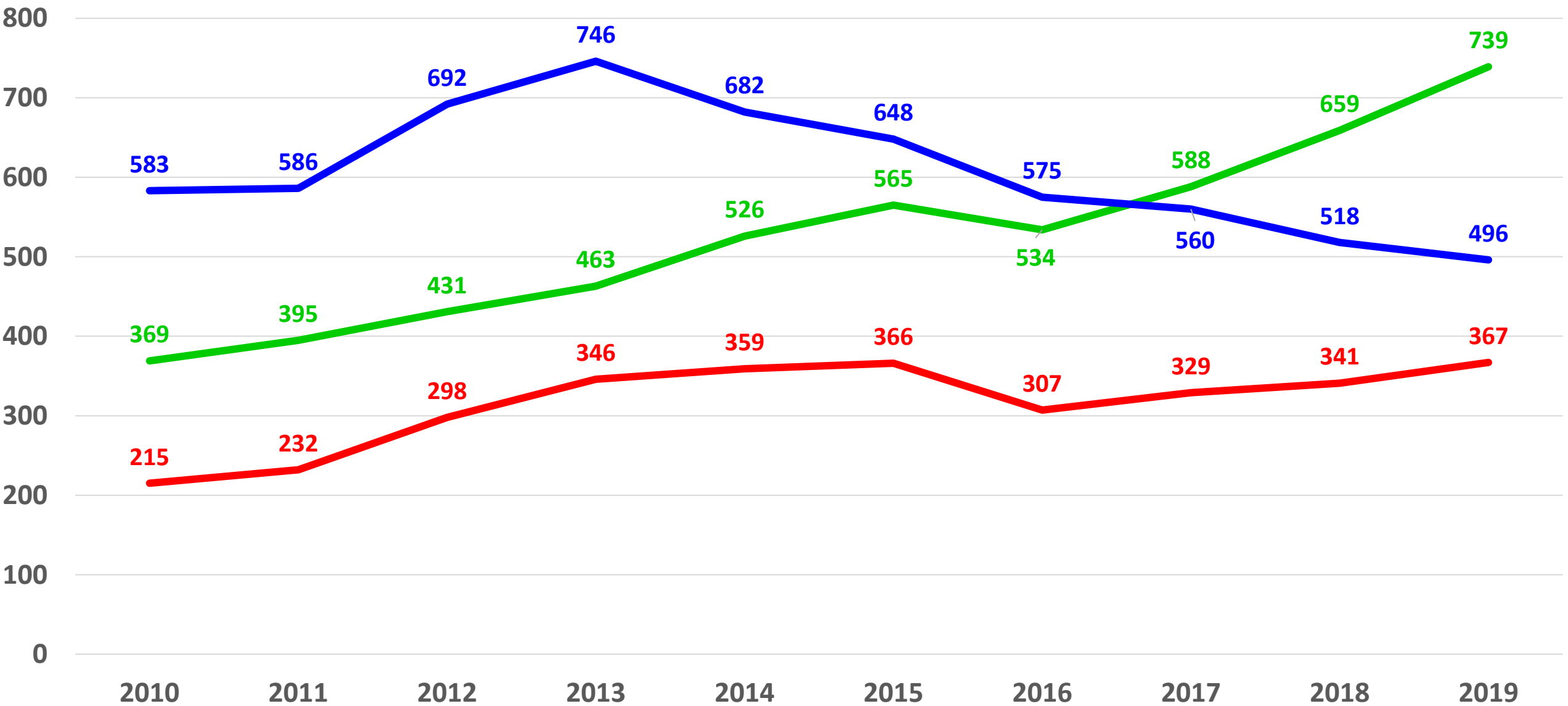


EU exports of worn clothes from 2010 to 2019



EU exports of worn clothes to OIC States from 2010 to 2019

— € million — 1,000 tonnes — €/tonne

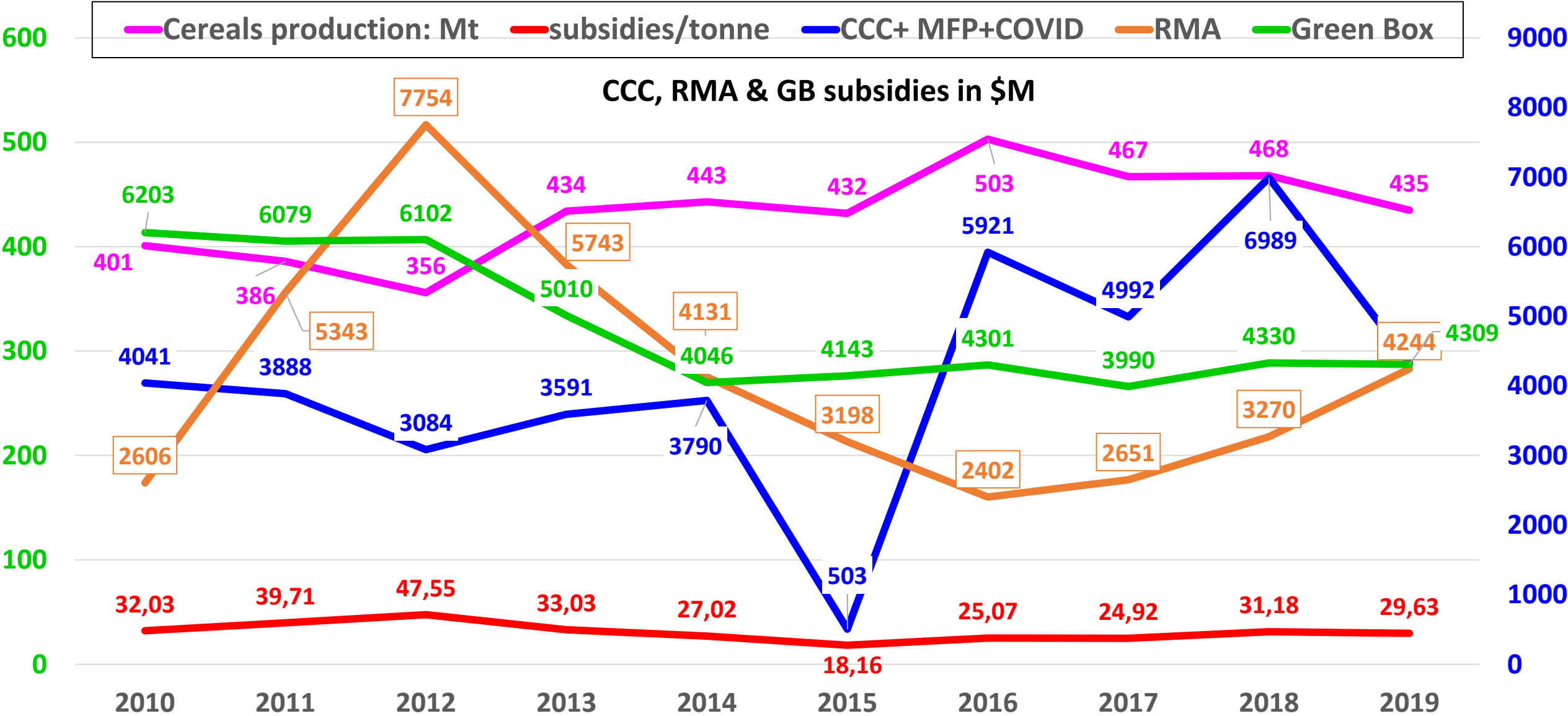


US and EU cereals exports to OIC States, 2010 to 2019

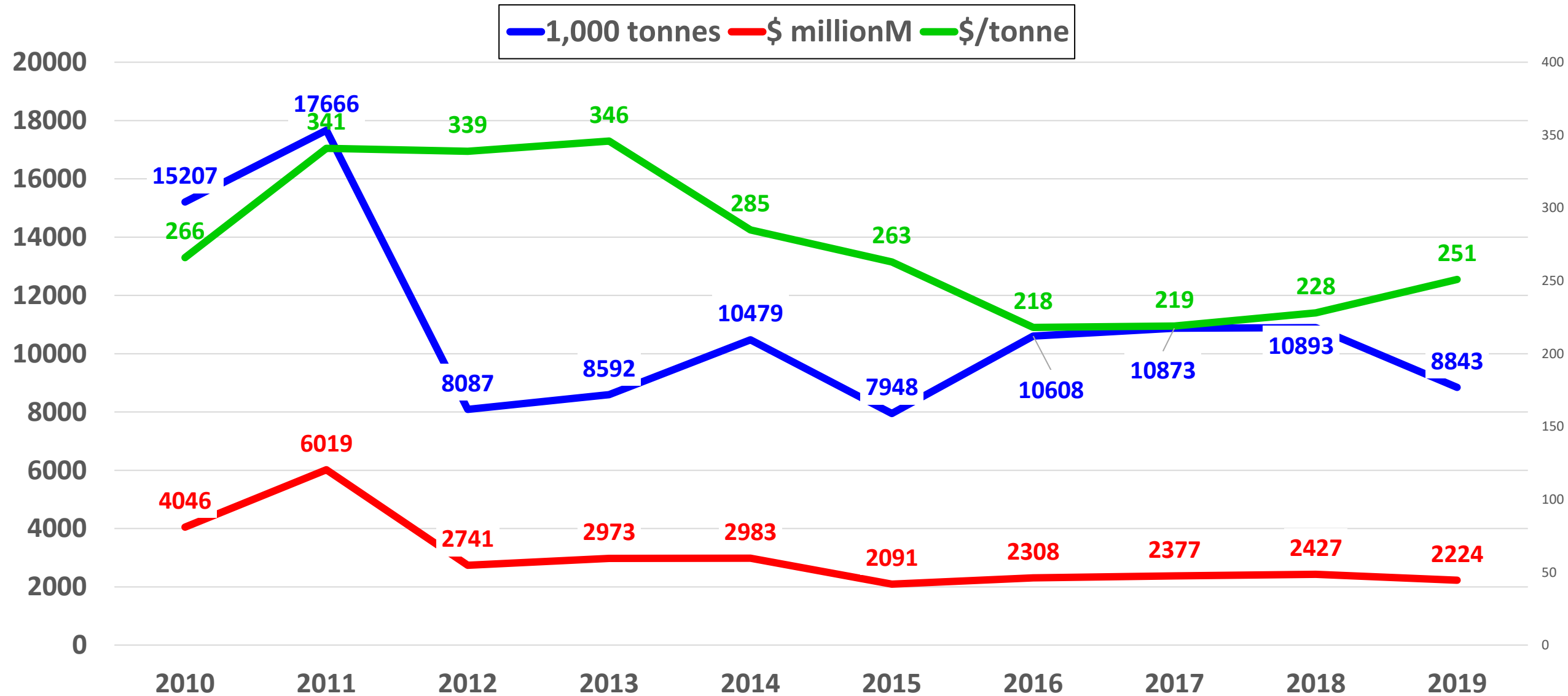
EU exports of cereals to OIC – in cereals weight equivalent (CWE) with the raw cereals included in processed cereals – were 42% larger on average than US exports (15,8 million t, Mt, against 11,1 Mt) although with an average FOB price 25% lower (205 \$/t against 273 \$/t in the US).

As the US is the first exporter & price maker of cereals, the EU average subsidy/t of CWE, from 2010 to 2019, was twice the US one (63.8 \$/t against 30.8 \$/t), the more so as the share of raw cereals in processed cereals was much lower than in the EU: 0,7% of all CWE, against 5,5% for EU. EU average dumping rate remains 3 times higher than the EU one: 33% against 11,4%.

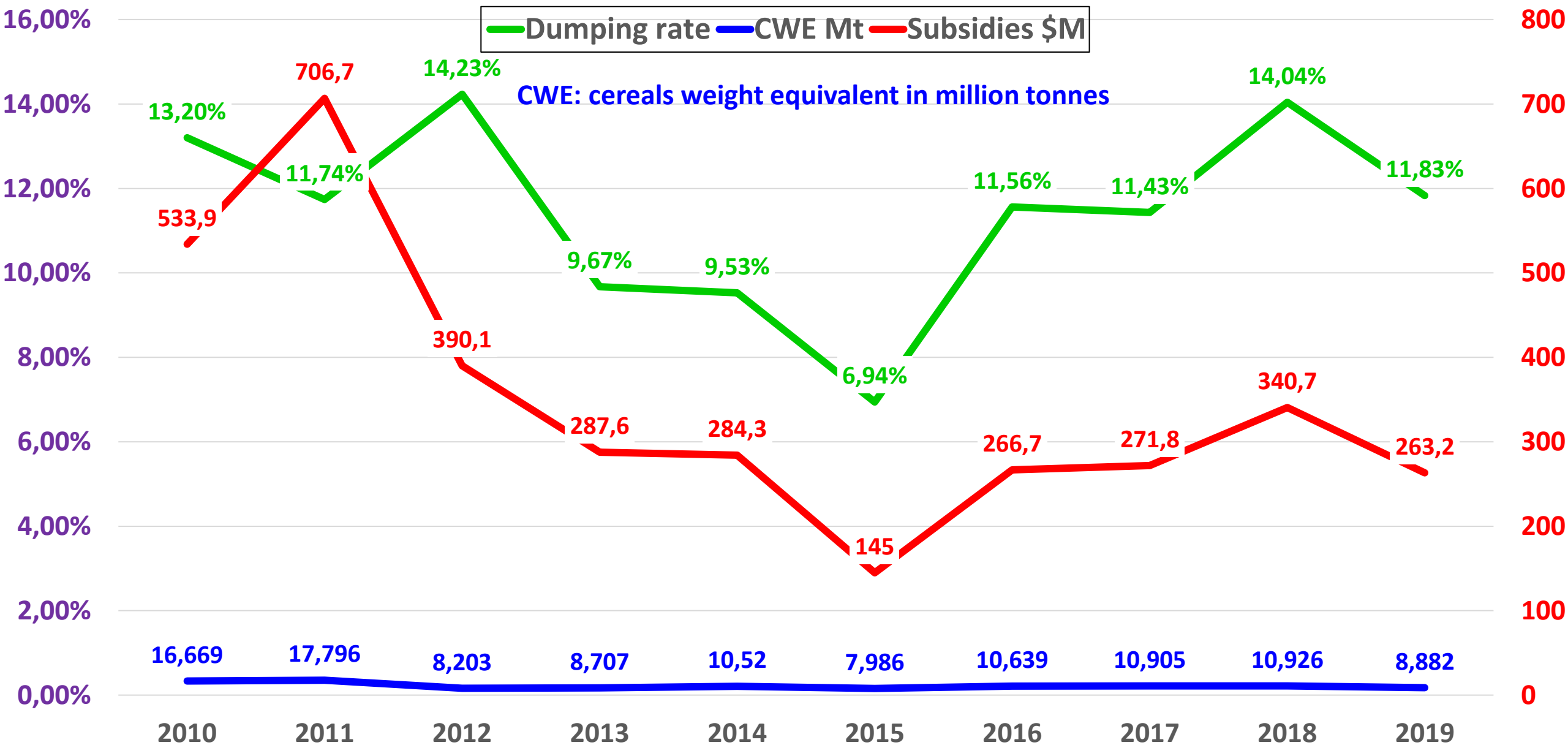
US subsidies to total raw cereals from 2010 to 2019



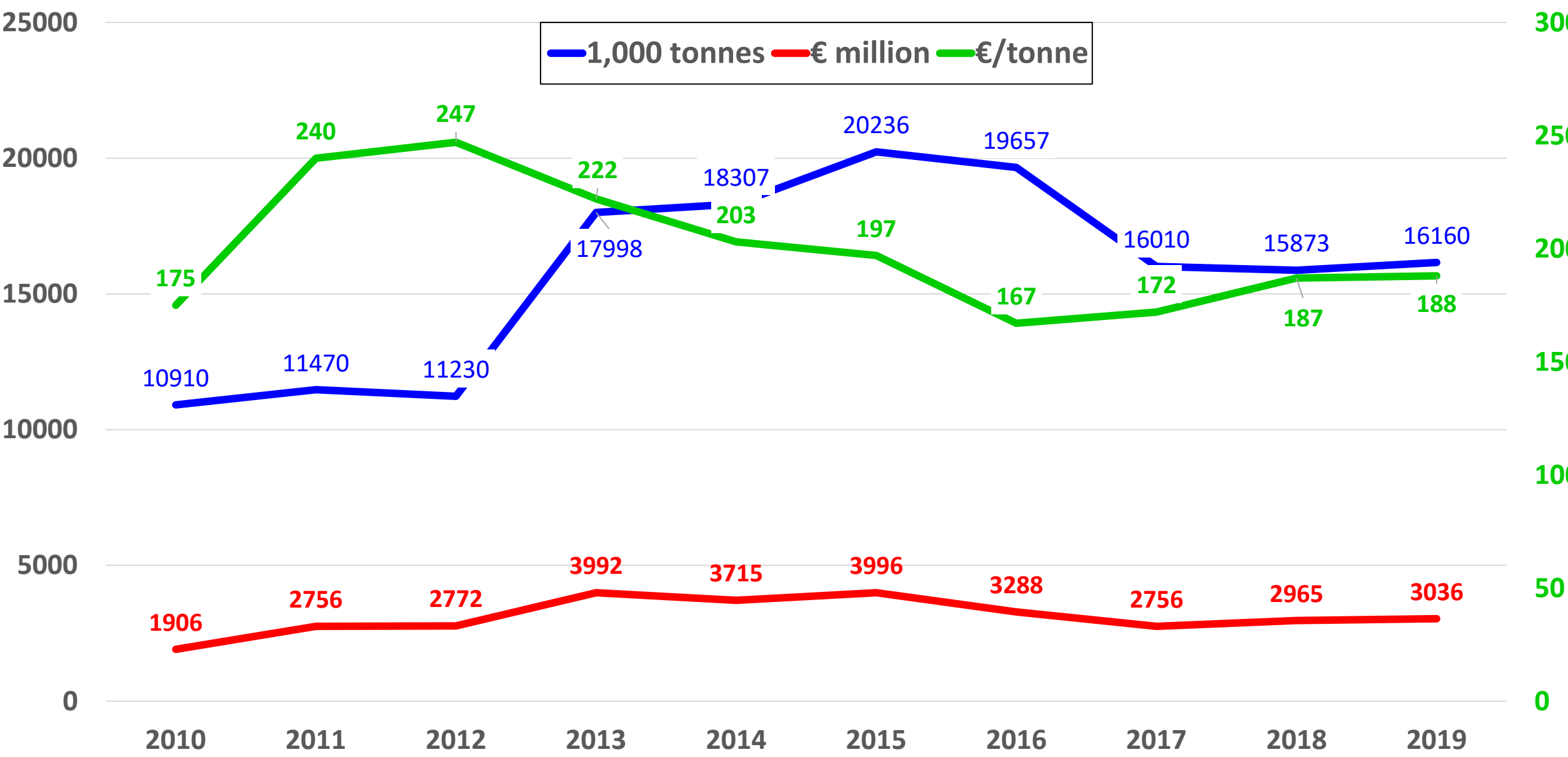
US exports of raw cereals to OIC States: 2010-2019



US subsidies to cereal products exports to OIC: 2010-19



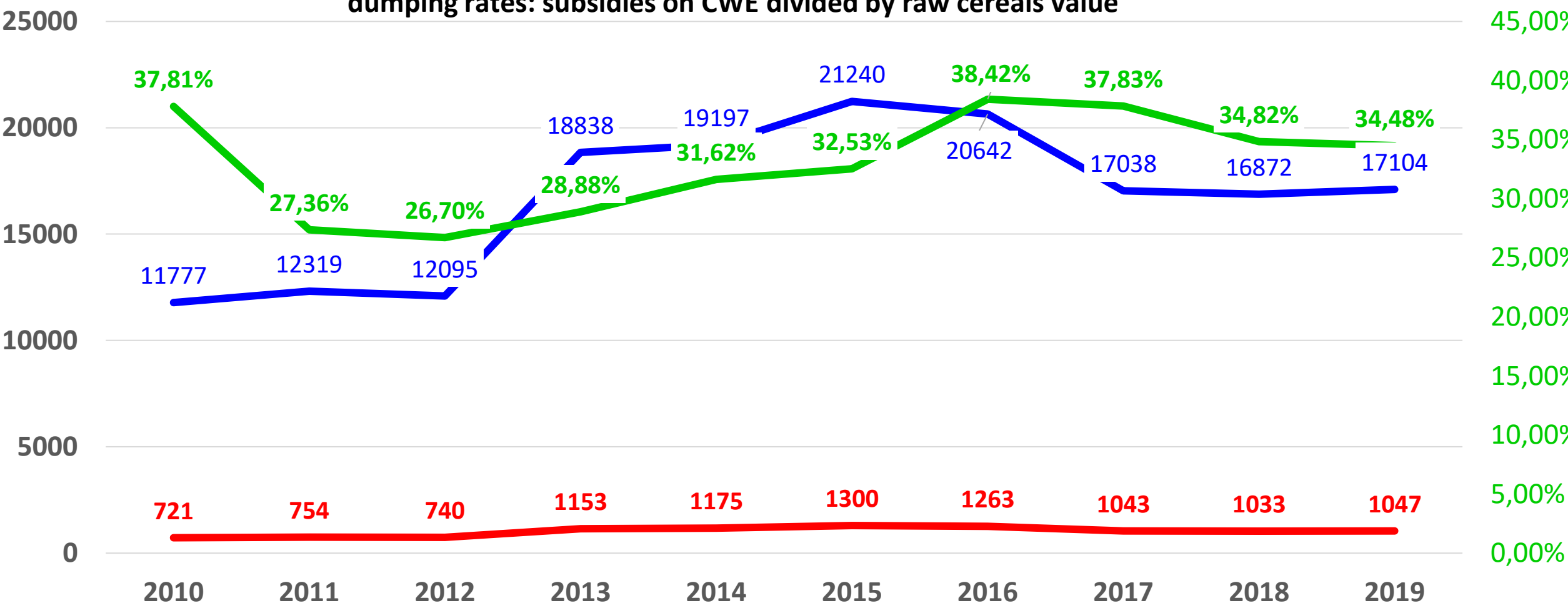
EU exports of raw cereals to OIC States from 2010 to 2019



EU subsidies to cereals exports to OIC States : 2010-19

CWE Subsidies Dumping rate

CWE: 1000 t of cereals weight equivalent; subsidies in € million;
dumping rates: subsidies on CWE divided by raw cereals value



US and EU exports of poultry to OIC States from 2010 to 2019

Feed subsidies are almost the only ones to poultry (and hogs) farmers in the EU and US, if we except the EU refunds up to 2013, as they did not receive direct income aids. But the US and EU deny the reality of feed subsidies to the producers of animal products (meat, eggs and milk) as they are received by the producers of feed crops – cereals, oilseed meals, pulses (COPs) – even though 2/3 are devoted to domestic feed. Indeed the US and EU animal producers get actually these feed subsidies as they would have to buy them at much higher prices if the producers of COPs did not receive these subsidies: it is the concept of « cross-subsidization » which also denies the false OECD concept of « excess feed cost ».

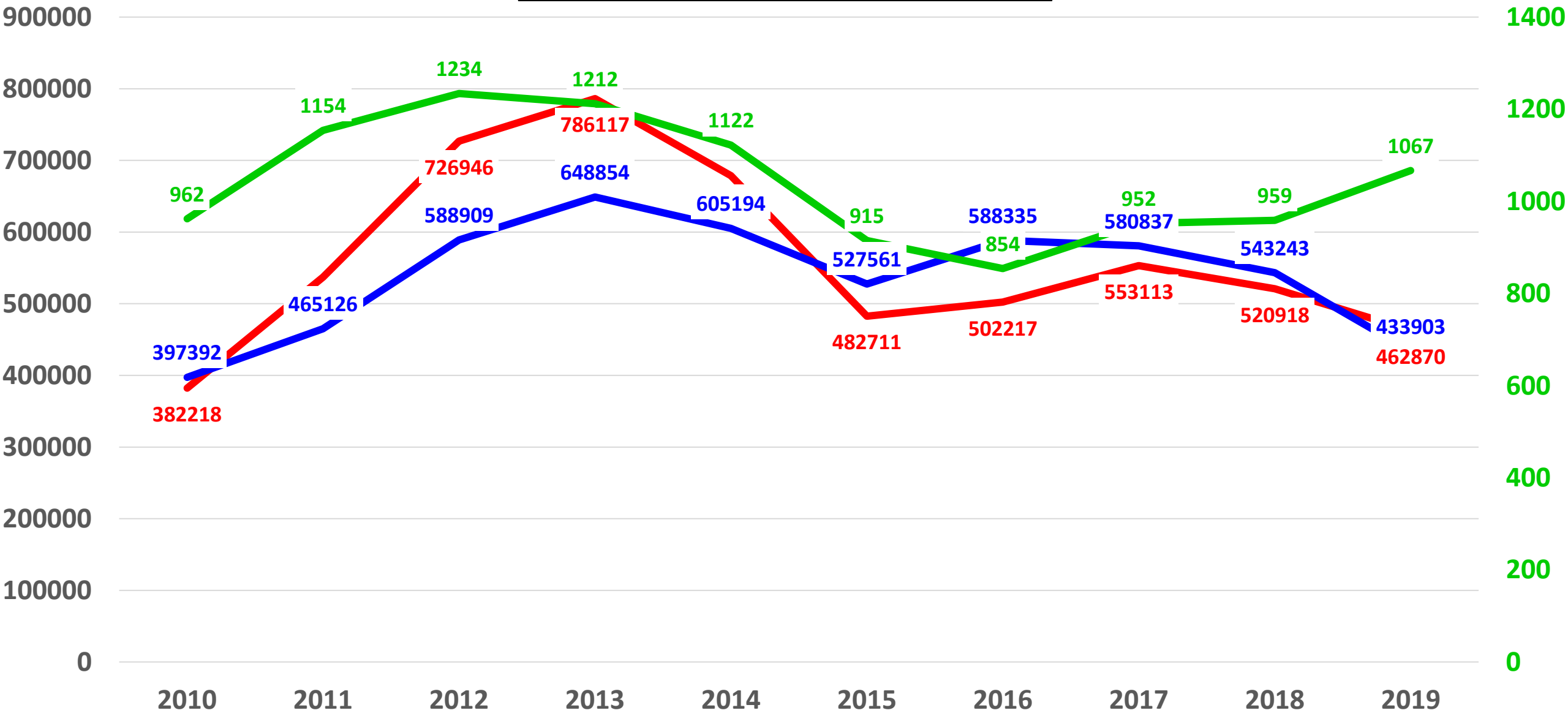
US and EU exports of poultry to OIC States from 2010 to 2019

After showing the quantity, value and FOB prices of the US and EU poultry and eggs exports to OIC – where the US exported 57% more on average : 538,000 t against 342,000 t – we divide raw poultry export tonnage by 0.72 to get liveweight tonnage, times 2 to get feed weight, of which 75% is made of cereals and 25% of soymeal. As the EU soymeal is imported and gets no subsidies the protein feed of EU origin (oilseed meals and pulses) is of 10% only.

The EU subsidy/t of CWE in US \$ has been 2.6 times higher on average than that of the US because of export refunds up to 2013 but only 1.7 times higher in 2019. The EU dumping rate has been 27% higher than in the US on average but 28% lower in 2019 because of the MPF and COVID-19 programmes.

US exports of poultry to EAC States from 2010 to 2019

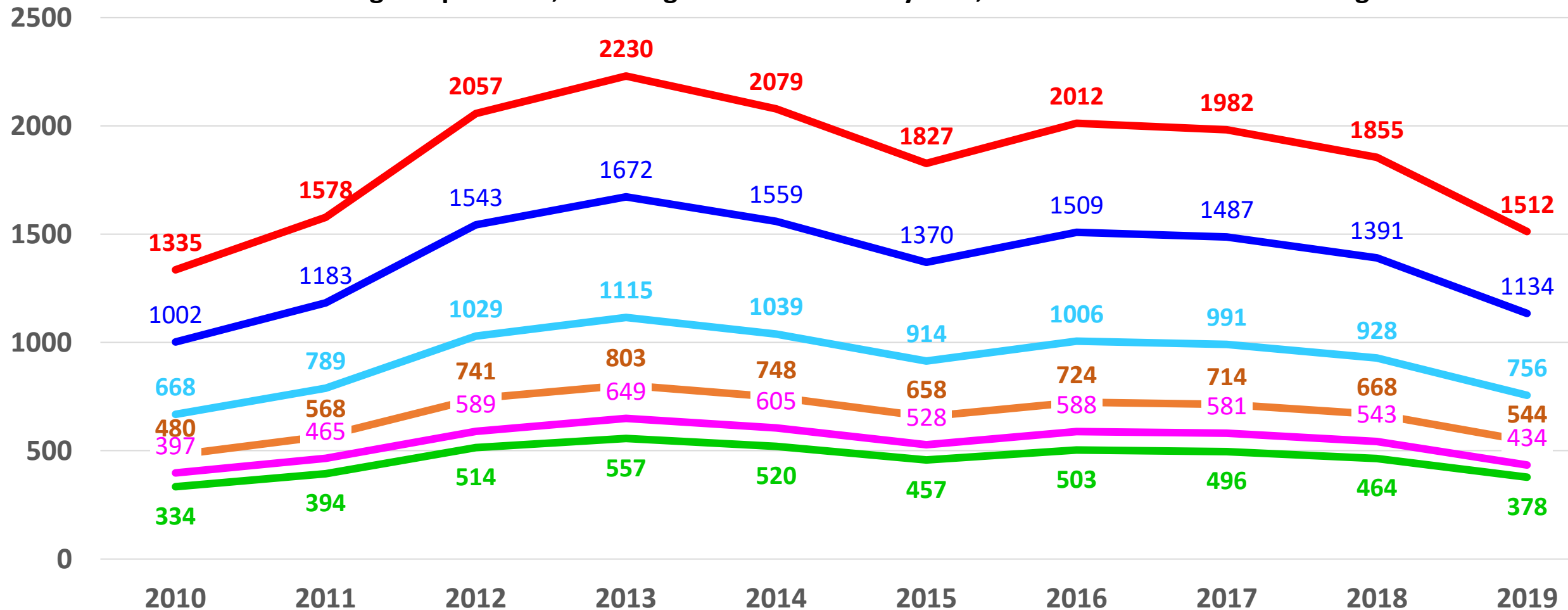
—\$ 1,000 —tonnes —\$/t



From raw weight of US poultry exports to OIC to total feed, from cereals and soymeal, 1,000 t, 2010-19

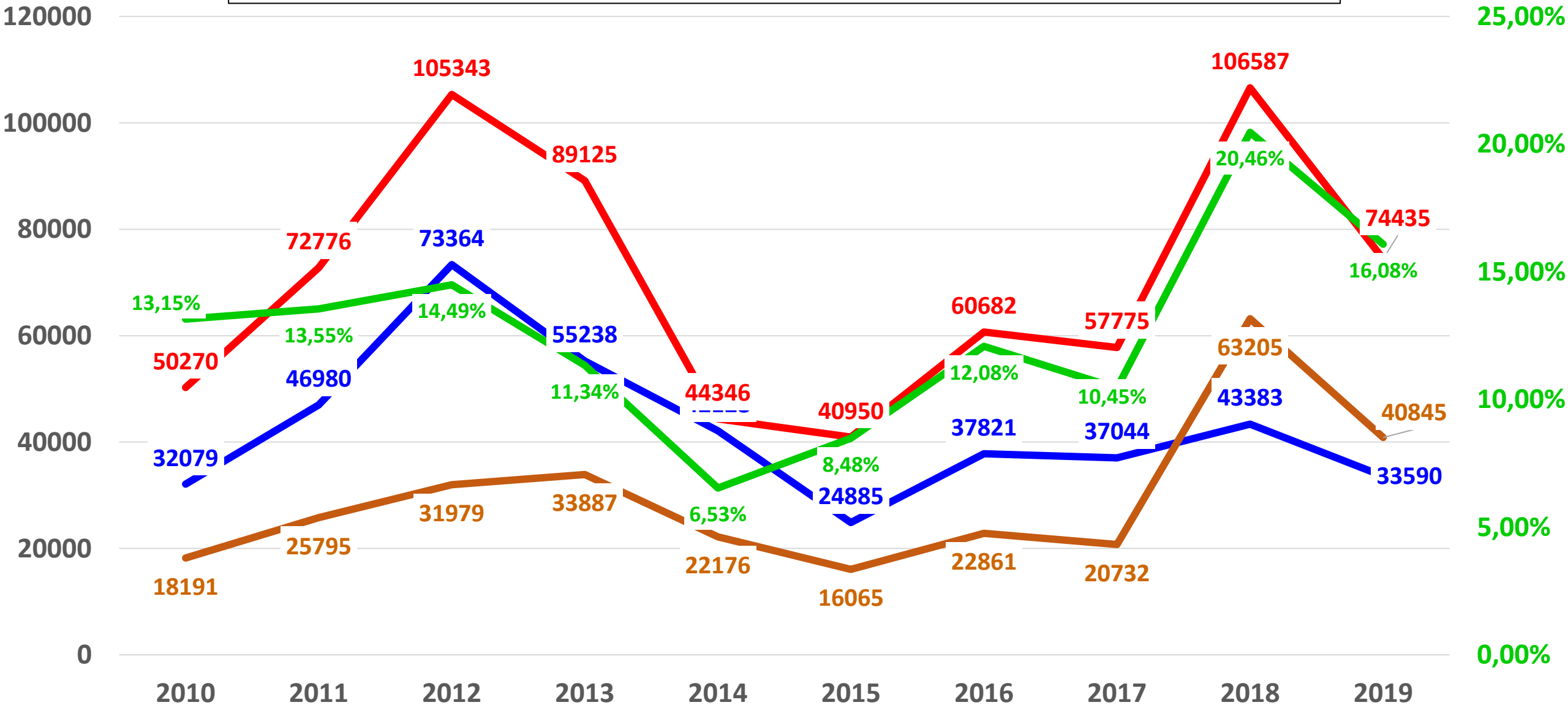
Raw weight CWE Liveweight Total feed Cereals feed Soymeal

CWE: Carcass weight equivalent; live weight: CWE divided by 72%; Total feed: twice the live weight

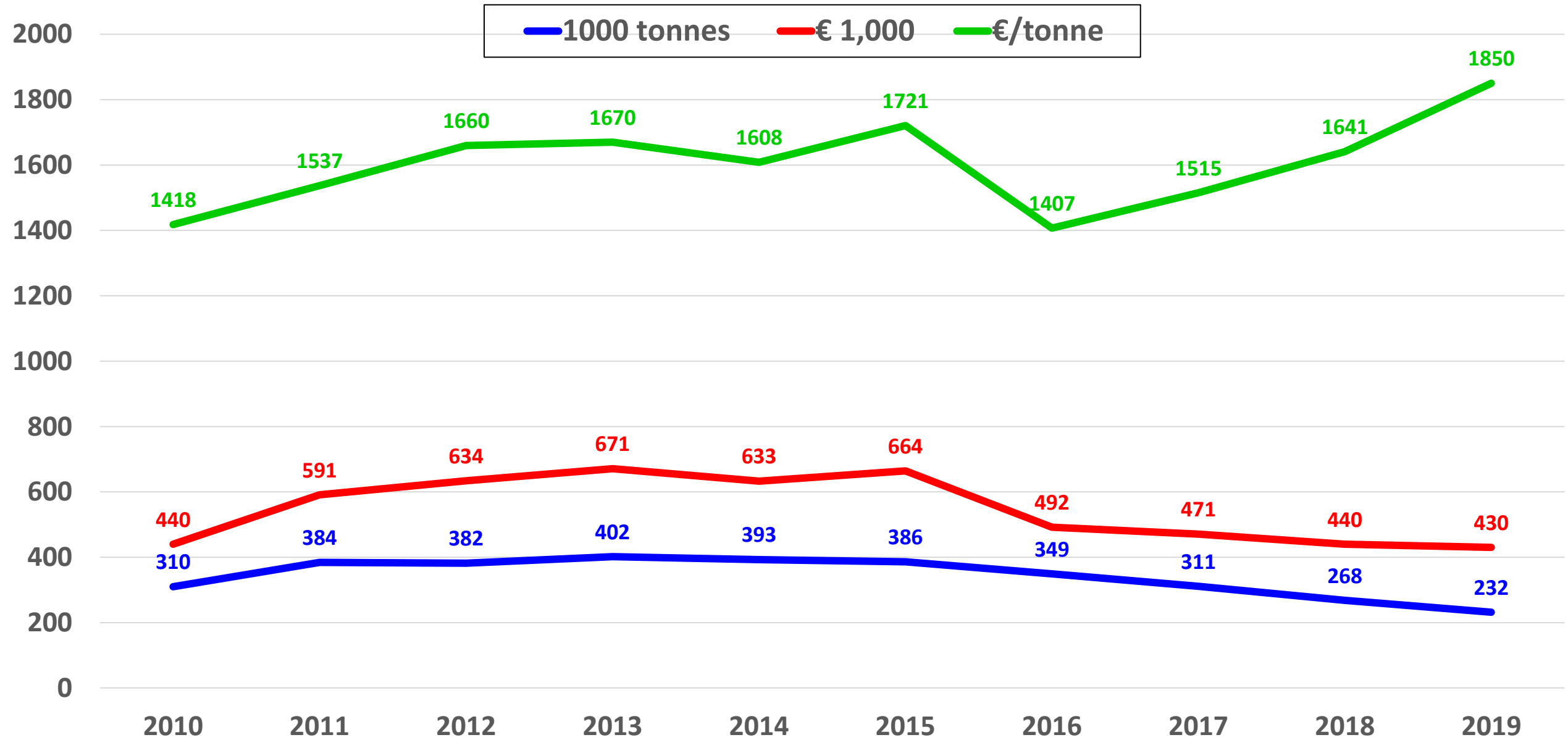


US feed subsidies to poultry exports to OIC, \$M: 2010-19

Subsidies/cereals feed Subsidies/soymeal Total subsidies Dumping rate



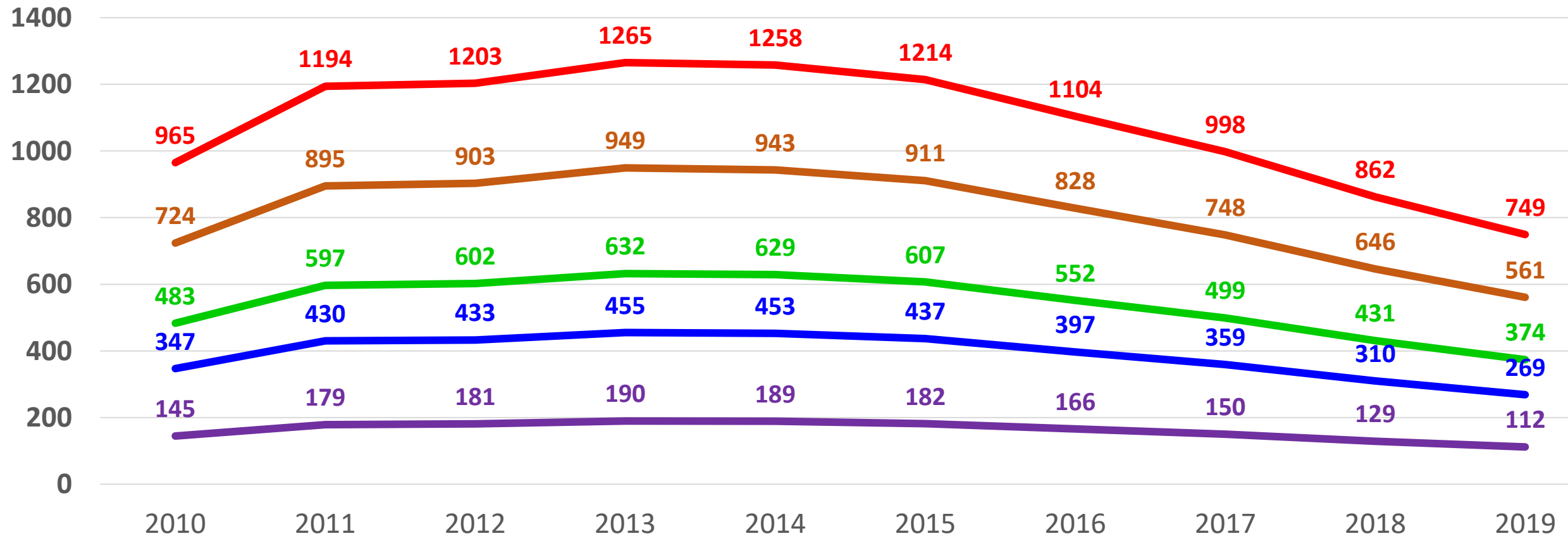
EU exports of poultry to OIC States from 2010 to 2019



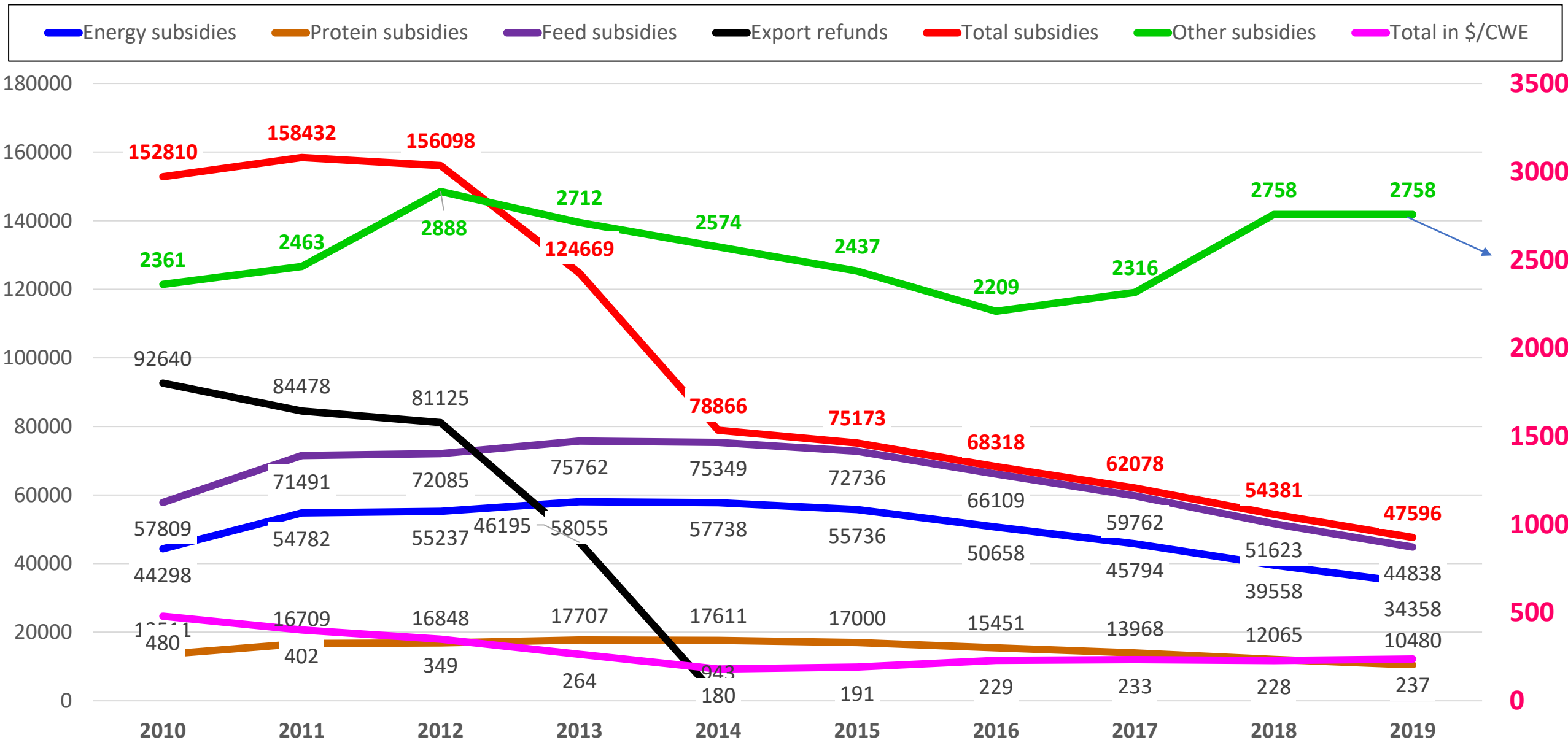
From raw weight of EU poultry exports to OIC to feed weight, of which in cereals and EU oilseed meals and pulses: 2010-19

—CWE —Live weight —Total feed —Energy feed —Protein feed

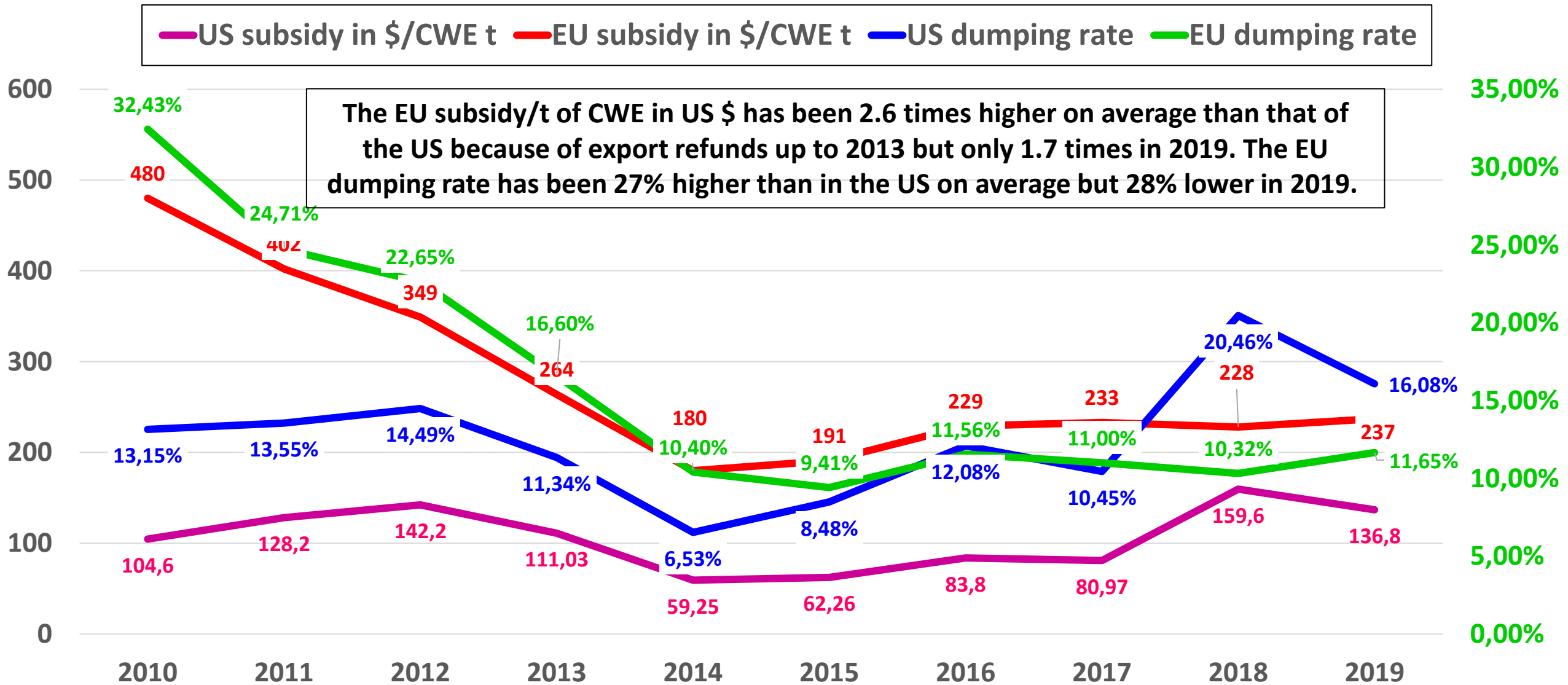
CWE: Carcass weight equivalent; live weight: CWE divided by 72%; Total feed: twice the live weight; 1,000 tonnes



Subsidies to the EU poultry exports to OIC States: 2010 to 2019



US & EU subsidies per tonne & dumping rates of poultry exports to OIC: 2010-19



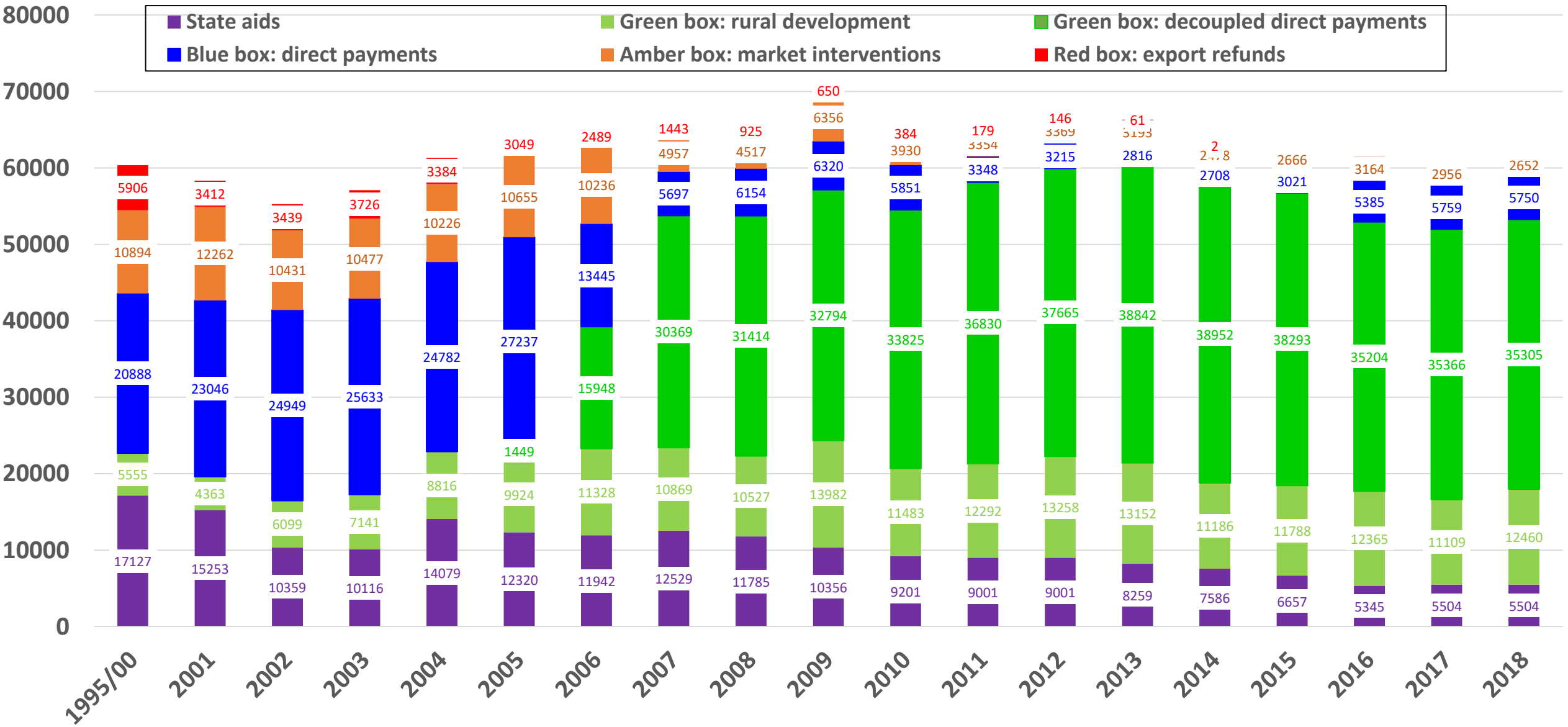
The wrong analysis of China, India and the African group minimizing the dumping impact of the blue box and green box subsidies

It is very unfortunate that China, India and the African Group at the WTO have focused their main criticisms against the developed countries amber box – so called AMS –, the more so as they did not realize that about 90% of their notified AMS is a fake market price support (MPS) not implying actual subsidies, because it does not bring additional support to that of other measures: import duties, export restrictions, land set aside, production quotas, foreign and domestic food aid. If the MPS is notified in the supporting table DS:5, when the products get actual subsidies they are notified in supporting table DS:6 (non-exempt direct payments) or DS:7 (other product-specific AMS).

The developed countries AMS is a fake market price support

In 8 Western developed countries the MPS accounted for 72.8% of their notified AMS, of which 98.1% for Canada, 96.6% for the EU28 and even 106.8% for Norway (!), so that the actual subsidies in the AMS was of only 27.2%. If the MPS is of only 38.8% of US AMS, it is because it has deleted the dairy MPS since the 2014 reform of the Farm Bill. And, from 2008 to 2013, it has hugely under-notified its dairy MPS, with a huge impact on its allowed final bound AMS which is not at \$19.1 bn but at \$16.6 bn.

The EU28 agricultural budget outturn among boxes: 1995/00 to 2018, € million



The diversion of AoA article 6.2 by the developed countries

According to the AoA article 6.2 “investment subsidies which are generally available to agriculture in developing country Members and agricultural input subsidies generally available to low-income or resource-poor producers in developing country Members shall be exempt from domestic support reduction commitments *that would otherwise be applicable to such measures*”.

If this article is understood as the DCs « development box », the developed countries have ignored the last words “*that would otherwise be applicable to such measures*” and did not notify to the WTO in their AMS but in the Green Box most investments subsidies and inputs subsidies, particularly the largest: to feed.

Other AoA provisions on inputs and investment subsidies

Annex III paragraph 13 provides: “Other non-exempt measures, including input subsidies and other measures such as marketing-cost reduction measures”.

For Annex IV paragraph 4: “Measures directed at agricultural processors shall be included to the extent that such measures benefit the producers of the basic agricultural products”.

Why all AoA Annex 2 provisions are trade-distorting

Paragraph 1.a: "*the support in question shall be provided through a publicly-funded government programme... not involving transfers from consumers*": the distinction between market price support – financed by consumers – and subsidy – financed by taxpayers – is not convincing since the vast majority of taxes are ultimately passed on to consumers.

Paragraph 1.b: "*the support in question shall not have the effect of providing price support to producers*": even decoupled income support provides clear price support to producers as the prices would necessarily be higher without these subsidies.

Why all AoA Annex 2 provisions are trade-distorting

Paragraph 2.g states that expenditures on agricultural infra-structures "*shall not include subsidies to inputs or operating costs*".

Paragraph 11 on "*Structural adjustment assistance provided through investment aids*" are in the GB only "*in response to objectively demonstrated structural disadvantages*", a limit that developed countries have ignored. All EU investments subsidies are in the CAP "second pillar" on rural development notified in the GB.

Even Annex 2 subsidies are actionnable under the Agreement on Subsidies and Countervailing Measures when specific and causing adverse effects to other WTO Members.

Other AoA provisions on inputs and investment subsidies

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For Annex IV paragraph 4: “Measures directed at agricultural processors shall be included to the extent that such measures benefit the producers of the basic agricultural products”.

The EU decoupled income support is in the AMS

1) It is coupled to agricultural area: farmers must show they have eligible hectares; 2) it is coupled with the BB "*under production-limiting programmes*", among which to cotton, coupling their decoupled aid losing a full production flexibility; 3) decoupled aids to feed and biofuels are input subsidies; 4) it contradicts condition that "*No production shall be required... to receive such payments*" but the EU requires to maintain "*minimum stocking rates*"; 5) as it cannot be assigned to a particular product, it can be assigned to any product of which it lowers the sale price below the EU average total national production cost, AB dumping definition.

The developed countries AMS is a fake market price support

In 8 Western developed countries the MPS accounted for 72.8% of their notified AMS, of which 98.1% in Canada, 96.6% in the EU and even 106.8% in Norway (!), so that the actual subsidies in the AMS were of only 27.2%. If the MPS is of only 38.8% of the US AMS, it is because it has deleted the dairy MPS since the 2014 reform of the Farm Bill. And, from 2008 to 2013, it has hugely under-notified its dairy MPS, so that its allowed final bound AMS is not \$19.1 bn but \$16.6 bn.

Denouncing the US stance on Public stockholding for food security purposes

As the US refuses DCs arguments the same absurd methodology shows the US DFA was of \$12.8 bn in 2012 for 8 basic DFA products

Table 1 – US AMS of 8 products of domestic food aid in 2012

\$/t	1000 tonnes	Administered price 2012	Reference price 86-88	Admin-refer. prices	AMS \$ Mn
Wheat flour	3664	337	90	247	904
Corn flour	1067	319	79	241	257
Rice	417	582	408	130	154
Beef	1667	5758	1523	4236	9379
Pork	1194	2266	1465	801	1271
Poultry	2250	1913	1085	829	2477
Milk equiv	12540	421	176	245	3072
Eggs	671	1405	779	626	420
Total	22180				12785

Alternative Agreement on Agriculture and Food to reach the SDGs

The objective of the AoAF is to contribute to food sovereignty of WTO Members, unlike the AoA first objective prioritizing access to other Members' market with "*substantial progressive reductions in agricultural support and protection*". This implies that Members shall refrain from any export dumping and from importing agricultural and food products violating human, social and environmental rights in their countries & exporting countries.

This does not imply food self-sufficiency, that many Members are unable to achieve, but the freedom to choose the openness of its agricultural and food imports, including their free trade.

Alternative Agreement on Agriculture and Food to reach the SDGs

The distinction in the AoA and the Agreement on Subsidies and Countervailing Measures (ASCM) between non-specific subsidies and specific subsidies, and between export subsidies and domestic subsidies in the Amber, Blue or Green Boxes, has no scientific basis and should be abolished: all subsidies reduce the export price below the national average total cost of production and increase the competitiveness of the products receiving them. They have both a dumping effect when exported and an import substitution effect identical to that of customs duties.

Alternative Agreement on Agriculture and Food to reach the SDGs

The AoAF will rest on a hierarchy of norms subjecting WTO agricultural trade rules to international human, social and environmental rights rules. To make them effective, one of the three members of the Panels and Appellate Body appointed for a dispute should be an expert in international conventions on human and social rights and the environment.

Thanks so much to have read these slides

Please send your comments at: jacques.berthelot4@wanadoo.fr

Look <https://www.sol-asso.fr/analyses-politiques-agricoles-jacques-berthelot-2020/>

Recommended papers (most are in French but I mention only the link to English ones)

<https://www.sol-asso.fr/wp-content/uploads/2017/10/Reconciling-the-views-on-a-permanent-solution-to-the-issue-of-public-stockholding-for-food-security-purposes-1.pdf>

<https://www.sol-asso.fr/wp-content/uploads/2017/01/Analysis-of-the-main-controversies-on-domestic-agricultural-supports-29-July-2016.pdf>

<https://www.sol-asso.fr/wp-content/uploads/2017/01/SOLs-alternative-methodology-to-IATP-assessment-of-agricultural-dumping-January-1-2017.pdf>

<https://www.sol-asso.fr/wp-content/uploads/2019/12/Unifying-the-developing-countries-stances-on-the-Green-and-Blue-Boxes-SOL-12-13-2019.pdf>

<https://www.sol-asso.fr/wp-content/uploads/2020/01/Rebuilding-the-WTO-for-a-sustainable-global-development-J.-Berthelot-July-12-2020.pdf>

<https://www.sol-asso.fr/wp-content/uploads/2019/01/Agreement-on-Agriculture-and-Food-AoAF-SOLs-proposal-of-22-January-2019.pdf>