Briefing

Food Fight

The story of rich country hypocrisy at the WTO

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Global Justice Now

Nairobi will be the scene of an important battle between richer and poorer countries in December when the World Trade Organisation (WTO) meets for its ministerial. On one side, countries like the US and UK subsidise their agricultural sector to the tune of billions of pounds but don't want to allow other countries to do so. On the other side countries like India, are demanding equal treatment and the freedom to buy farmers' crops in order to distribute them to those too poor to buy them at market prices.

Agriculture at the Nairobi ministerial: what's at stake

The Nairobi ministerial, taking place on 15-18 December 2015, is just the latest of many meetings to discuss the WTO's Doha Development Round, a process that has been stalled since 2001.

The Doha Round was meant to be about promoting development and poverty alleviation in countries in the global South. In reality, however, the process has stalled because rich countries have insisted upon trade rules, that would actually make poverty worse and give poor countries less control over their economies. By far the

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Members of small-scale farmers' movement La Via Campesina oppose the WTO at its 2013 meeting in Bali, Indonesia.

most contentious area has been agriculture. Rich countries demanded that poor countries refrain from subsidising their farming sectors while dragging their heels on giving up the huge subsidies paid to owners of farmland in countries like the US, UK and France. This has meant deadlock for 15 years as many countries refused to accept these unequal conditions.

This battle came to a head at the last ministerial held in Bali in 2013, which was a showdown between India and a number of rich countries like the USA. The rich countries demanded that India scrap or severely water down its Food Security Act (see box below) that involved stockpiling subsidised food to be sold on at discounted prices to the poor. The Indian delegation resisted this by threatening to deadlock the ministerial. Finally, after negotiations that ran into overtime, a compromise was reached. The sides agreed a Peace Clause allowing India to continue its subsidy programme until a permanent agreement is reached at the Nairobi ministerial in 2015.

Now as Nairobi is almost upon us we can expect many of the same battles to be repeated. India will again lead the argument for a fairer deal for developing countries while the US, UK and other rich countries are likely to use every trick in the book to ensure that poor countries are stopped from supporting their farmers while continuing to plough billions of pounds into their own relatively wealthy farming sectors. They will be supported in this by corporate lobby, whose interests many of the delegations will be defending. Companies like Nestle, Kraft Foods and sugar firm Tate & Lyle have gained many millions of pounds in subsidies from the EU.[1]

Explaining agricultural subsidies

The idea behind agricultural subsidies is simple, though the debate within policy and academic circles around whether they actually work is anything but. There are two major categories of subsidy:

Consumer subsidies involve buying agricultural produce at market price and selling it at a loss to people, are generally not challenged at the WTO as they are closer to being a sort of welfare scheme.

Producer subsidies, however, tend to be more controversial and involve giving financial support to farmers and agribusinesses. There are many types of producer subsidy, most of which fall into one of two categories:

Production-linked subsidies are essentially a form of price support. The state offers to provide financial support based on the amount of agricultural products produced. This is usually done by the state simply offering to buy certain crops at a guaranteed high price. This kind of subsidy tends to lead to overproduction and create the wine lakes and butter mountains of popular imagination. Critics argue that these schemes can, if badly managed, be very expensive and open to abuse. But some governments argue that these sorts of stockpiles are useful for food security reasons and can allow them to smoothe out changes in food prices, ensuring that food is affordable to the poor. India's National Food Security Act is an example of this kind of scheme.

Non-production linked subsidies are not linked to what quantity of a certain product is farmed. Cash is handed over to farmers for just existing and owning agricultural land even if they don't use it (some schemes even encourage farmers to leave land fallow). Most of the EU's subsidies under the Common Agricultural Policy and most US subsidies are of this type. Some are linked to environmental protection measures or regional development, but many subsidies essentially amount to giving a few very rich landowners piles of cash for doing absolutely nothing. High profile beneficiaries in the USA include Jon Bon Jovi and Bruce Springsteen. Though smaller farmers also benefit to a lesser extent, it's the ultimate welfare state for the rich.

Understanding this distinction is important because the WTO currently only really limits production-linked subsidies. This is very convenient for the rich countries that tend to make heavy use of non-production linked subsidies.

Photo: Brad Anderson/Flickr

Bruce Springsteen and Jon Bon Jovi are beneficiaries of US agricultural subsidies.

Why subsidies and stockpiling are important in the global south

Although, the most dogmatic free marketeers argue that subsidies are always wrong because they distort market prices, subsidies have demonstrably reduced malnutrition in places like India (see box). Subsidy and food stockpiling schemes can and do work if they are well designed and targeted. After all, the agricultural sector would be wiped out in much of Europe and North America without state support. However, it is also true that badly designed and managed subsidy schemes (Thailand's rice subsidy cost so much money that the ensuing crisis led to a military coup) can also drain the public purse, wasting money that could be used to invest in health, education and the welfare state.

Ultimately, it is important that poorer countries have the freedom to design policies that promote the interests of their population, including through the intelligent use of subsidies where appropriate. Countries like India, which is home to a quarter of all undernourished people worldwide, have taken the decision that action needs to be taken to support farmers and those who cannot afford to buy food at market prices. Rich countries have no moral right to tell these countries to cease pursuing policies that, while flawed, are working to reduce malnutrition and rural poverty.

One thing is certain though. Regardless of the arguments about the efficacy of agricultural subsidies, it's unfair that rich countries are able to use these policy tools while poorer countries are not. Not only must the playing field be levelled in this respect, but developing countries that have been on the receiving end of exploitative trade regimes for decades should be compensated through the establishment of a socially responsible trade system that respects concepts such as food sovereignty and the right to food.[2]

Do as I say, not as I do

The EU and US demand that developing and emerging economies refrain from assisting their farmers, many of whom live in severe poverty, while directing billions of pounds in subsidies to the pockets of large corporate farmers and rich landlords. This is sheer hypocrisy, but remains completely within the rules of the WTO as they stand. There are several ways in which rich countries have managed to make the rules work to their advantage unfairly:

- **The early bird discount.** When the WTO was created in 1995, rich countries had, as many still do, high levels of agricultural subsidy while poorer countries did not. The richer countries negotiated a deal when they joined allowing them to maintain subsidies on the condition that they would be phased out in the longer term. Since (with a few exceptions) only rich countries had the money to implement significant subsidy schemes back in 1995, poorer countries didn't get this deal. Rich countries have been allowed to maintain 'amber box' (trade distorting) subsidies in exchange for a vague commitment to reducing them over time, while poorer countries have been barred from introducing new subsidies above a certain minimal level.
- **The 1980s prices accounting dodge.** Even under WTO rules, developing countries are allowed to introduce subsidy programmes as long as they don't get too big. However, this level of permissible subsidy, the de minimis level (10% of agricultural production for developing countries) is calculated using 1986-88 prices. This gives highly distorted figures that mean that some countries are limited to less than 10% of agricultural production in practice. Developing countries have tried to argue for a recalculation based on modern prices but this has so far fallen on deaf ears. The US even went as far as commissioning DTB Associates, a private lobbying firm to come up with artificially high figures for the value of India's subsidy based on these 1980s prices.
- **Put it in the green box.** In WTO parlance, a green box subsidy is one that is allowed without restriction because it does not distort international trade. Despite being allowed to maintain more trade distorting subsidies than poorer countries, rich countries are still obligated to eventually reduce the amount of subsidies subject to WTO limits. For this reason, they have largely redesigned their subsidy programmes so they can be recategorised as green box subsidies. This has been achieved by decoupling subsidies from production. In simple terms, this means paying landowners regardless of whether they produce anything at all. Most of the money flowing to European landowners through the EU Common Agricultural Policy now works in this way. In theory, these are subsidies that are not linked to production and therefore do not distort international trade. However, there is a growing body of research that suggests that this is not true: paying farmers to do nothing can indeed

distort trade.[3] These subsidies still allow countries to produce more than they would otherwise, for example by keeping otherwise unviable farms in business. The payments also allow farmers to sell their produce at lower prices. This means countries that pursue subsidy programmes that actually help reduce malnutrition (such as India's) are not allowed but those (such as the EU's) which give rich landowners an unfair advantage over small-scale farmers in developing countries are allowed without limit.

In the face of this hypocritical position taken by the established developed economies, the G33 coalition of developing countries has been calling for permissible support to be redefined to allow poor countries to subsidise certain crops for poverty alleviation or food security reasons. For example, subsidising key staple food crops encourages farmers to grow food instead of cash crops for export, which can improve food security. Having food stockpiles for domestic use can also be important in reducing malnutrition.

What could happen in Nairobi

The Nairobi ministerial is set to be a difficult few days. But there are fears among trade justice campaigners that the rich countries could get their way and maintain the uneven playing field on agricultural trade.

There are several factors that give cause for concern:

India's government is now far less progressive than in 2013. India under the country's previous Congress Party government was the major block to a disastrous deal at the last WTO ministerial. There are signs that the nationalist BJP government, led by Prime Minister Narenda Modi, is far less attached to the National Food Security Act.[4] It is also important that the talks end with a fairer deal for all developing countries, not just an exception to the rules for India.

Rich countries are threatening to end the Doha Round. While developing countries want to keep negotiating on the Doha Round, rich countries want to leave the impasse on issues in the Doha Round behind to concentrate on their new priorities, such as e-commerce, investment and trade in services. This would leave many of the priorities for poor countries, including securing market access to the EU and US for their agricultural products, unresolved. Many of these rich countries are also involved in negotiating the potentially catastrophic Trade in Services Agreement (TISA) which is a blueprint for more corporate control and privatisation of services. This is the model many of them plan to promote at the WTO if they are successful in abandoning the framework of the Doha Round.

The hosts, Kenya, want the summit to be a success at all costs. Hosting the WTO ministerial has meant that Kenya (and to a lesser extent some of its east African neighbours) is keen to avoid being seen to have hosted a failed summit. There are fears that this could lead some African countries to accept a worse deal in the interests of being able to declare the meeting a success.

All of this means it is vital that there is sufficient grassroots pressure on decision makers in this country and around the world to stop countries negotiating an unfair deal in Nairobi.

Why the WTO doesn't work for the majority world

The WTO has been criticised by campaigners for its unfair decision-making process. Although, unlike the World Bank or the IMF, almost every country is an equal member of the WTO the way negotiations work often heavily favours richer countries because they have more resources and negotiating leverage. The WTO also tends to work through backroom deals and secretive meetings. Nevertheless, compared to bilateral trade processes such as the EU-US Transatlantic Trade and Investment Partnership or the EU-Canada Comprehensive Economic and Trade Agreement, which are negotiated in secret, the WTO does at least allow poorer countries to fight the most egregious injustices.

Key anti-malnutrition schemes under threat from the WTO

Case study: India's Food Security Act

India's landmark National Food Security Act (NFSA) was passed in .2013 and was challenged by the USA at the WTO. The main idea is to guarantee 5kg a month of cheap rice, wheat and coarse grain to two-thirds of the Indian population. The Indian state provides this cheap produce from stockpiles procured from farmers at a subsidised rate. The NFSA is relatively new (so it's early days in terms of assessing its impact) but it is essentially a massive expansion of smaller and more targeted existing food subsidy schemes like the Public Distribution System and the Midday Meal Scheme. These schemes demonstrably reduced poverty and malnutrition amongst the populations they targeted. One study showed that the schemes brought 59 million people above the poverty line in 2011/12 alone and have been shown to be more effective as a policy tool against malnourishment than cash handouts.[5]

The success of these schemes in is particularly impressive considering the fact that they have come despite significant inefficiencies in the management of the subsidies. Around 40% of the food earmarked for the Public Distribution System scheme is estimated to go 'missing' in the hands of black market middlemen due to corruption and some of the food ends up being bought by middle class families using false documents.[6] Critics claim that this is an argument against having such schemes. But if even a badly managed subsidy scheme can have such positive poverty reduction and food security effects, then the obvious solution is to improve the scheme to make it even more effective, not abolish it completely.

Case study: Brazil's Family Agriculture Food Procurement Programme.

Brazil operates a targeted subsidy programme for small-scale farmers called the Family Agriculture Food Procurement Programme (more widely known by the acronym PAA). The programme aims to achieve price stability for small-scale farmers by purchasing produce for use in government nutrition schemes or local food banks. The farmers get three times as much for their produce as non-beneficiaries and the scheme promotes the use of local seed varieties and greater biodiversity. Studies have shown that the scheme has worked to increase diet diversity of both the farming communities themselves and the recipients of the subsidised food in institutions like schools. While the scheme has not yet been directly challenged at the WTO, any move by Brazil to increase the scope of the project could lead to problems at the WTO.

Jargon buster

De minimis – The maximum amount a member of the WTO is allowed to subsidise its producers. For most developing countries this is 10% of the value of the country's agricultural output in 1988 prices. For rich countries, this is 5% but most of these countries have negotiated generous individual terms

Stockpiling – The practice of accruing excess production which happens when countries buy products from farmers at a fixed (usually above market) price. Countries do this for food security reasons or simply to augment the income of their farmers.

Green Box subsidies – These are measures that are subject to no limits by the WTO because they do not distort agricultural trade. Some economists argue that this is not true and that green box subsidies also affect international trade. Governments of countries in the global south argue that subsidies paid for development-related reasons such as reducing malnutrition should also be categorised this way.

Amber Box subsidies – These are subsidies judged to be distorting international trade and therefore must be reduced. These are mostly subsidies linked to production like price guarantees. A group of 30, mostly rich, countries are allowed to maintain higher levels of these subsidies, a situation that is seen by campaigners and developing countries as unfair.

Dumping – The practice of selling subsidised produce for export at below cost price.

Decoupling – The process by which (mostly rich) countries moved their subsidies from the amber box to the green box by breaking the relationship between production and the amount of subsidy a farmer receives. So instead of paying subsidies as a higher price for produce, they are paid to farmers regardless of whether they produce anything at all.

What needs to happen

In the longer term, there needs to be a radical overhaul of international trade institutions and policies. The current trade system needs to be replaced with one that promotes social and economic justice and the fight against climate change, where trade interests do not trump labour and human rights. Trade in agricultural goods should be organised to allow countries to provide for vulnerable sections of their own populations. It needs to support and encourage food sovereignty, small scale farmers and the right of communities to control their own food systems instead of supporting the further dominance of corporate agribusiness.

Nevertheless, any significant progressive change along these lines is not on the agenda at the WTO ministerial. Realistically, the objective of progressive forces in Nairobi is to stop the richer countries getting their way on issues like agriculture. This also means campaigning to stop rich countries putting new issues, such as investment and public procurement, on the agenda instead

It is also important to understand what is happening at the WTO within a wider context of what is going on in world trade. Large groups of mainly rich countries are negotiating a range of mega trade deals, such as TTIP, CETA and the Trans Pacific Partnership outside of the WTO. These deals share a common neoliberal agenda to liberalise public services; lower hard won labour and environmental standards; and give corporations new powers to protect their profits. If they are agreed, they will establish a world trade system which benefits corporations above all else and where poorer countries must abide by rules which they played no part in negotiating.

Stopping these deals is just as important as what is going on inside the WTO.

Global Justice Now is committed to campaigning for trade which puts people before profit, where the benefits of trade are shared widely and help bring about social and economic justice.

1 For more information on major corporate Common Agricultural Policy recipients see http://farmsubsidy.openspending.org/. Recent figures on recipients of subsidies under the Common Agricultural Policy have become hard to procure since the EU changed the rules in 2012 in a way that drastically reduced the level of transparency.

2 For more information about alternative trade systems, see the Alternative Trade Mandate https://www.tni.org/files/download/trade-time_for_a_new_vision.pdf

3 See for example: Banga, R. (2014). *Impact of Green Box Subsidies on Agricultural Productivity, Production and International Trade*. Background Paper No RVC-11.UNCTAD. June 2014. http://unctad.org/en/PublicationsLibrary/ecidc2014misc1_bp10.pdf

4 http://www.hindustantimes.com/columns/is-the-govt-threatening-to-dismantle-national-food-security-act/story-gpiZyzKppLs3KPuu0NLZLL.html

5 Abhijit Sen, H (2013). In-Kind Food Transfers – I: Impact on Poverty. *Economic & Political Weekly*. vol XLVIII. No. 45 & 46. November 2013. p53

6 Khera, R. (2011). Trends in Diversion of Grain from the Public Distribution System. *Economic & Political Weekly*. Vol XLVI. No 21. May 2011.

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Global Justice Now

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We used to be the World Development Movement.

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