Studies and Analysis

Agriculture: for a regulation of world trade

Placing development at the centre of WTO negotiations on the Agreement on Agriculture

Recommendations on the occasion of the 6th WTO Ministerial Conference, Hong Kong, 13-18 December 2005

Coordination SUD
Solidarité Urgence Développement

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(Solidarité - Urgence - Développement)

Coordination SUD (Solidarité - Urgence - Développement) was founded in 1994. Today, it is made up of more than 120 French international relief and development NGOs.

Coordination SUD ensures a dual mission: supporting and reinforcing French international solidarity NGOs and national platforms of NGOs, as well as representing and promoting their positions vis-à-vis public or private institutions in France and abroad.

- Representing international solidarity NGOs

In France, Coordination SUD maintains relations with French public authorities in order to act on behalf of NGOs. It studies the evolution of public development cooperation policies and especially overseas development assistance (ODA) policy, in order to lobby public authorities for an increase in ODA and better-quality assistance.

At the European level, Coordination SUD strives to see that the concerns of French NGOs and their partners are taken into account in European policy, and it follows the issues related to development aid policy. It also monitors the terms of access by NGOs to European Union financing.

At the international level, Coordination SUD represents French NGOs during international discussions at the United Nations and other multilateral bodies such as the WTO, World Bank or the IMF. Coordination SUD also participates in building an international citizen movement by weaving ties with the national federations of NGOs in countries of the North and of the South: ABONG in Brazil, VANI in India, CONGAD in Senegal, etc.

- Support for actions by French NGOs
  Through working groups and commissions

Through working groups and commissions. Coordination SUD working commissions represent occasions for exchange and the drawing up of common positions among international solidarity organisations. They work on major issues of international solidarity (financing and capacity building, European cooperation, emergency humanitarian aid, education, agriculture and food, etc.).

Via a resource centre. The role of the resource centre is to reinforce the abilities of French international solidarity organisations through various tools (training sessions, information service, publications, and individualised advice).

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Coordination SUD's Agriculture and Food Committee

Chaired by GRET and CFSI, Coordination SUD's Agriculture and Food Committee (C2A) brings together international solidarity NGOs that act to ensure that the lot of farmers in developing countries is taken into account in international trade negotiations.

The group aims to coordinate work by its participants, ensure consultation among member NGOs, and advocate for them to social stakeholders and international policy makers.

It agrees on the positions held in the name of Coordination SUD in a number of arenas (Concord Europe, FAO, WTO, UNCTAD) and exchanges information on current international stakes. It has been mandated by Coordination SUD to take positions in the name of the group during the principal international meetings on agriculture and food.

The Committee is made up of two groups: CRID and CFSI, and the following NGOs: Agir Ici, AITEC, CCFD, Fédération Artisans du Monde, GRET, IRAM, Peuples Solidaires, Secours Catholique, Secours Populaire Français, VSF-CICDA.

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Recommendations of the French International Solidarity NGOs
on the occasion of the 6th WTO Ministerial Conference
Hong Kong, China, 13-18 December 2005

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What future are the WTO negociators preparing for us?

● Henri Rouillé d'Orfeuil
President, Coordination SUD

Liberalization is, in theory, an "impassable horizon". What's more, this is obvious: if we think of the world as a huge market, take all of its natural and human resources and let a computer combine them at will according to pre-defined productive functions, there is no doubt the result will be an impassable optimum. Of course, each constraint we introduce will oblige us to scale down our expectations. Land can't change places: that's a pity. Work is usually contained behind borders: that's too bad. But even if these two key factors lack mobility, that is not reason enough to question the fine idea of a world market. The World Bank has proved it: there are some 300 billion dollars to be gained by fully liberalizing agricultural trade. The bank explains that it is a win-win situation: everyone is a winner! The northern countries will economize on the 360 billion dollars in subsidies, while the southern countries will conquer formerly unattainable markets. And to allay any lingering doubts, the bank produces figures to show that the ultimate winners will effectively be the poorest among the poorest countries and their citizens.

The WTO sets out the three conditions required to reach the top of the greasy pole and obtain the 300 billion dollars: abolish tariff and non-tariff barriers, export subsidies and domestic support.

But if everyone is set to win a share of the jackpot, why are we – slow-witted citizens of the world that we are – so hesitant?

We do indeed have serious doubts.

Firstly, history does not abound with examples of agricultural systems that developed in situations of totally open trade.

We also have some doubts as to the benefits of the liberalization process of the last ten years, that is, since the Uruguay Round and Marrakesh agreements. Sub-Saharan Africa is a case in point. Liberalization processes were taken to extremes there under the direction of the international financial institutions, which are entitled to impose macro-economic conditions on countries obliged to negotiate with their creditors and placed under a supervisory authority. The application of the principles of the Washington Consensus, together with those of the Monterrey Consensus, which liberals regard as much purer than the commitments made under WTO auspices, is far from conclusive. The report of the Commission for Africa, chaired by Tony Blair, states that, in the space of twenty years, Africa has lost two-thirds of its global market share. And even then, the remaining 2% include mining industries, which are almost totally in the hands of multinationals, and the South African economy, which is not particularly African. It has been said that liberalism is ill-suited to Africa. Who is right, then: Africa or liberalism? And why do the IFIs, in their structural adjustments, double the WTO's dose of free-trade measures? Is it the fault of the northern countries? But then why were the African countries set on the path to change before the external conditions were right? And what should we believe in economics: doctrine or reality? History teaches us that if there is conflict – and trade is a permanent conflict – then there are conflicts of interests. We would do better to recognize, unless we want to contradict History, that there are always those who win and those who lose.

And there are no lack of losers. UNCTAD is bold enough to break the silence and admit that the least developed countries (LDCs) have not benefited from the last ten years of liberalization. It is stated rather timidly, to avoid giving the impression that the organization is attacking free trade itself: the LDCs do not possess the necessary institutions and means to win a global trade war or wars. But in that case, once again, why engage the LDCs in trade battles they cannot hope to win?

For a clearer picture of the situation, the NGOs are calling for a rigorous, independent and comparative assessment of the impacts of liberalization on the various categories of natural person and legal entity involved in the economy. It was decided at Marrakesh to proceed in stages and conduct an assessment at the end of each stage. We would like to see this assessment take place, but we want it to address the reality of the situation.

Finally, and this is the key point in our eyes, the members of Coordination SUD have noted, through their involvement with their partners in local actions, that farmers in every region of the world are in difficulty and that throughout whole regions, they are in the very depths of poverty. Our contacts in farmers' organizations tell us that such situations are becoming worse and more widespread. In Andhra Pradesh, in the centre of India, our partners from the Centre for Environment Concerns (CEC) say that suicides among indebted, impoverished farmers are taking on epidemic proportions. In Western Africa, our friends from ROPPA, a network of farmer and agricultural producer organizations, describe the distress of farmers who are losing their local markets, glutted with surpluses and by-products from Europe or America, and risk being shut out of the world peanut and cotton markets. The same messages are being received from everywhere and the same trends are being observed around the globe.

This might have been enough for us to define the positions we will defend in Hong Kong. We wanted to take the issue further though with some of our partners and proposed that they assess the impact of liberalization on a number of world markets for agricultural products and study their state at present. With these partners from the various continents, we chose to focus on the markets for cotton, bananas, sugar, rice, frozen chicken and milk. The result of this work is presented here, in this report. The findings coincide throughout: the imbalances that are observed and the prices that are current on these world markets are helping to destroy the agricultural economies, which are powerless to protect themselves, and plunge the farming communities into profound crises.

In the context of overproduction in every sector of agriculture – bearing in mind the concept of solvent demand – and the possibility of substantial productivity gains, the creation of a world market encompassing all domestic markets will effectively wipe out large sections of the farming communities. A farmer in the Sahel faces multiple handicaps: insufficient infrastructures; inexistent cold chains; deficient government policies; difficult access to resources, markets, credit or information; and often unfavourable natural conditions. The WTO, by making all agricultural producers – and there are still nearly three billion men, women and children directly dependent on agricultural production – do combat on the same world market, is triggering no less than a global agricultural war! With greater liberalization, the battle for access to resources and markets will intensify, dragging the farmers into a process of impoverishment and then exclusion. We know that it would take only 2-4% of agricultural producers to nourish mankind, ensure a supply of agricultural raw materials for industry and even produce bioenergy. The process of exclusion is gathering pace and has no reason to come to a stop before having squeezed 2.8 billion farmers out of agriculture, as it has already done for the 1.3 billion peri-urban dwellers now in serious difficulty. And of course it is the countries that have 60-70% of their populations in agriculture that will pay the heaviest tribute. And what do the "expert optimum seekers" have to offer these billions of excluded people? Nothing at all.

What the WTO negotiators are promising us is neither realistic nor acceptable. Given the social chaos that has been created, one day or other we will have to go back on steps. So why embark on this catastrophic course? Why not take advantage of Hong Kong to go back to the drawing board and start laying the foundations for a system of international trade that will serve the interests of local, national and regional development?

Naturally, the solutions put forward in this report bear little resemblance to what is being said in Geneva. But, since there are already so many exceptions to the free-trade rule, why not take the plunge and recognize that it is becoming indispensable to start again at the WTO on sound bases – bases that could enable farmers from around the world to develop and bases that could enable international trade to serve this development. ●

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Introduction: Liberalize, they said!

In Thailand, the government and the international institutions that finance it have chosen to devote whole regions to the intensive rice farming for export. But in the zones set aside for rice farming, small-scale farmers under pressure to modernize their farms and increase the productivity of rice for export have become over-indebted. As a result, they are often reduced to "stealing" rice from their own fields and hiding it for family consumption before the arrival of the dealers who harvest the rice to pay off the debts. The environment has been damaged by massive use of chemical products, production costs are rising, and in the mean time the price of rice has fallen. Thai small-scale farmers are being sacrificed to make the country the world's leading exporter of rice, while fierce competition worldwide is likely to deprive the country of its leadership. Though international trade does not meet the most pressing needs of Thailand's rural community, it seems to be the sole concern of the policies implemented.

A peasant leader from Ban Thungyao, Muang District, Lampoon, Thailand[1]

This bitter observation on the part of a Thai peasant leader lies at odds with the basic premise underlying the negotiations under way at the World Trade Organization (WTO), namely that to overcome poverty and foster development in the poorest countries, all it takes is to facilitate international trade.

In theory, opening borders and eliminating anti-competitive practices should make it possible to regulate markets and achieve a better use of resources, thereby enhancing the well-being of all of the planet's citizens. The southern countries, whose available arable land and cheap labour give an advantage over their northern counterparts, could develop their exports and reinvest the profits in other sectors of the economy. The northern countries, on the other hand, would benefit from cheaper foodstuffs, allowing them to channel the savings into supporting more profitable sectors of their agricultural industry.

Just a few days from the WTO's ministerial conference, which may decide to pursue and even step up the current liberalization process, we have to admit that the policy has not achieved its goals: between 1995 and 2001, the number of undernourished people in the world increased by 18 million to reach a total of 852 million and nearly 80% of these are poor, small-scale farmers. In many countries, the liberalization of agricultural trade has in fact heightened the food insecurity it was meant to overcome.

Most importantly, a structural decline in the prices of agricultural primary products has seen a steady, inexorable worsening in the terms of trade. Instead of the stable prices promised by the advocates of increased agricultural trade liberalization, we are witnessing a dramatic decrease in the incomes of small farmers. According to UNCTAD, foodstuff prices fell around 3.3% a year (in real prices) for the period 1990-2000 alone[2].

1 RRAFA report.

2 Proceedings of the seminar: "Dynamique des prix agricoles internationaux", Coordination SUD, CERI, CIRAD, GEMDEV, 7 June 2005, http://www.coordinationsud.org/article.php3?id_article=2116.

Apart from these overall figures and the theoretical concepts, the Coordination SUD report draws on studies carried out with southern organizations on six products and aimed at measuring, in concrete terms, the impact of trade liberalization on the fight against hunger and poverty. These studies can be found in the appendix to this report.

The six products in question were chosen to illustrate different facets of the agricultural trade liberalization issue.

- **Rice**, a key product for food security in many developing countries, is destined primarily for local consumption. The 4% of production that goes to international trade is nevertheless the subject of fierce bargaining and reflects the complexity of the impacts of agricultural trade liberalization. In addition to the unfair competition imposed by US subsidies and ill-judged use of food aid, there is increasingly widespread and fierce competition amid southern countries themselves, at the expense of the most vulnerable producers.
- **Sugar** is a product in which there is substantial international trade, but it is governed by complex regulations. It illustrates the consequences of the WTO rule stipulating non-discriminatory treatment of trading partners.
- **Banana** is the leading fruit traded on the international market and a major source of employment in many export countries. The banana industry generates huge income and five firms represent 80% of international trade. The divergent interests of banana-exporting developing countries and the economic importance of the industry have sparked a banana war.
- **Chicken meat** is at the centre of a fierce commercial battle between developing and developed countries. The industrialization of production has resulted in lower selling prices, giving imported produce a competitive edge over more traditional equivalents, even without subsidies.
- **Milk** is mainly exported by the European Union as powdered milk, aided by export subsidies that create unfair competition with regard to local produce and check its development. Even so, milk is a foodstuff with numerous advantages, lending itself to small-scale processing and improving not only nutrition but also incomes in farming communities.
- **Cotton** was at the centre of discussions at the Cancun Ministerial Conference, and cited as an illustration of North-South disagreements. The reality is in fact more complex though: the United States and the European Union are not the only ones to support their cotton industry; some developing countries do likewise. The difficulties experienced by West African cotton industries are not due solely to subsidies in wealthy countries but also to internal problems. They are exacerbated though by the heavy dependence of Africa's cotton-exporting countries, for which cotton is often the premier source of foreign currency.

Case studies show that, in the majority of cases, liberalization worsens the agricultural crisis in developing countries. The root of these problems lies in the uniform application of rules that are unsuited to the diversity of situations. The 1.3 billion-strong global agricultural workforce comprises around 900 million family farmers that are either land-owners, tenants or share-croppers, a few million "agricultural contractors" who are more businessmen and investors than farmers, and a growing number of agricultural workers (450 million, among the poorest workers)[3].

The examples discussed in this report show that those who stand to gain most by the liberalization of agricultural trade are in fact the most powerful economic stakeholders, contrary to the stated aims of such policies, namely fighting poverty. Economic discourses and theories

3 FAO-ILO-IUF report, September 2005.

on one hand and the realities experienced by the bulk of the population on the other hand are manifestly at odds.

The report also underlines the fact that the flexibility and protection measures brought in by the WTO are all too often devoid of sense in contexts where numerous constraints prevent the countries from enjoying the benefit of such measures. Several reports, summarized below, highlight the inconsistencies between International Financial Institution policies, regional or bilateral trade agreements, and public development aid policies. Moreover, such measures are proving inadequate in addressing an overly hasty and widespread liberalization.

Ill-suited rules and local government policies shaped entirely by trading policies are depriving them of their levers. We are a long way from the Millennium Development Goals to which the countries of the world, and in particular the French government and the European Union, committed themselves. We are also light years away from the official goal of the WTO, which opted to devote the current cycle to combating poverty. And this moreover is the reason that has prompted us to make recommendations in this report, aimed at refocusing trade negotiations on development.

1

Current Findings

I. Unmitigated trade liberalization has had disastrous results

In the majority of developing countries, agriculture plays a decisive role, providing income and a means of support for 2.5 billion people, according to the FAO. History shows, moreover, that few countries have managed to achieve rapid economic growth and overcome poverty without at the same time developing agriculture. As it happens, though, the liberalization of agricultural trade initiated by the signature of the Marrakesh Agreement in the mid-1990s and currently at the centre of the Doha Round of WTO negotiations, is ruining the majority of peasant farmers in the southern countries, which are sinking deeper into poverty.

1. A narrow vision of trade regulation

The World Trade Organization (WTO) was established in 1995. It took over from the GATT (General Agreement on Tariffs and Trade), set up in 1947 to promote the gradual liberalization of trade. The creation of the WTO crowned the GATT's final round of trade negotiations, the Uruguay Round (1986-1994). To coincide with the establishment of the WTO, the nations adopted a set of agreements (known as the Marrakesh Agreement) covering not only the traditional sector of manufactured goods but also the services, agriculture and intellectual property sectors.

The WTO's mission was to facilitate international trade by administering the Marrakesh Agreement and providing a permanent forum for negotiations to reinforce free trade and extend it to new fields. The creation of the WTO gave precedence to a narrow conception of international trade regulation, excluding in particular such aspects as market and price regulation, or sustainable and fair development. The situation is all the more worrying as the WTO (like the International Financial Institutions) is not affiliated with the United Nations. Moreover, its rules have special binding force in international law, due to the existence of a dispute settlement body responsible for enforcing WTO rules and able to bring economic sanctions to bear in the event of failure to comply.

In addition to the WTO, a certain number of countries also undertook to negotiate regional trade agreements. The latter often impose on southern countries an even greater opening and liberalization than that advocated by the WTO, especially with regard to intellectual property and markets for non-agricultural goods. Examples include the 2004 agreement between the United States and Morocco, the Central American Free Trade Agreement (CAFTA) and the Economic Partnership Agreement between the European Union and the African, Caribbean and Pacific states (ACP) currently under negotiation. This situation is encouraged by the fact that the WTO submits regional agreements to the common law of reciprocity between contracting parties. It does not therefore require regional agreements to make allowance for the difference in situation between developed and developing countries, nor to offer the latter greater flexibility in their commitments.

The liberalization of agricultural trade instituted by the Marrakesh Agreement should foster development in the southern countries. The aim was to extend the precepts defended by free trade advocates to agriculture, which until then had not been included in international negotiations. It was thought that increased agricultural trade would boost growth in developing countries by providing a means to generate new export income, subsequently reinvested in other sectors of the economy, and acquire products to feed their population. It is in the name of these same principles that the WTO today hopes to pursue the liberalization process.

Focus on the WTO Agreement on Agriculture

The Agreement on Agriculture (AoA) is part of the Marrakesh Agreement, which came into effect in 1994. Its provisions cover not only WTO member states' trade policies but also certain aspects of their agricultural and rural development policies. From the WTO standpoint, certain internal measures are believed to distort international trade and therefore need to be subject to controls adopted under multilateral arrangements. The Agriculture Agreement accordingly addresses three distinct components:

- **Market access**

This component covers all of the protective measures each country lays down at its borders to control the entry of imported products (tariff rates, quotas, technical and sanitary regulations, etc.) The aim is to persuade each country to declare the protective measures it implements, to convert non-tariff measures into tariffs and to lower tariffs.

- **Domestic support**

This comprises the aids provided by the governments to their national producers to help them produce, invest, undergo training, transport their produce, cope with natural disasters, protect natural resources, etc. The WTO divides such aids into three categories: those that have a marked distorting effect ("amber box"), those that have little or no distorting effect ("green box") and those that have a medium distorting effect but which are designed to limit production ("blue box"). The aim of the AoA is to have its member governments declare to the WTO all support they practice, and reduce those with a distorting effect (amber and blue-box aids).

- **Export competition**

This component includes all of the aids and measures through which the governments help their national producers sell their produce on foreign markets (direct subsidies, export credits, state trading enterprises, non-genuine food aid, etc.). Here again, the aim is to obtain the declaration and reduction of such aids.

2. Rules that run counter to development

Whether designed to facilitate market access or to define strict conditions for agricultural support policies, measures that apply across the board to all countries in fact deprive the poorest of them of the means for their development.

2.1 Market opening: A high price for the poorest

In its ongoing bid to liberalize agricultural markets, the WTO intends to further lower tariff rates and open up markets, thereby encouraging the southern countries to export more, in a direct continuation of the policies promoted by the International Financial Institutions (IFIs). Judging by the results recorded to date, these are questionable means to employ.

Tariff cuts: A real opening, greater than that provided for in the WTO agreements

Under the WTO's agricultural agreement, countries were given a choice of two options for harmonizing and reducing tariffs:

- declare a general ceiling for tariffs across all their imports (bound tariff), with provision for a certain flexibility in the choice of rates;
- binding based on the rates in use for each product prior to the Agreement on Agriculture, combined with a Special Safeguard clause allowing governments to raise the rate in the event of a massive influx of imports.

Most developing countries opted for bound tariffs and so cannot use the Special Safeguard clause. The only compensation: under Special and Differential Treatment (S&D) provisions, they were able to bind their tariff rates at more advantageous ceiling rates than those permitted for OECD countries, and they obtained a longer timeframe in which to reduce their tariffs, with the poorest countries dispensed from tariff reductions.

In actual practice, most developing countries have applied rates well below the bound rates negotiated at the WTO. As a result, the rates effectively applied by developing countries are often lower than those applied by OECD countries, which apply their bound ceiling rates.

Bound duties and effectively-applied rates

Country	Bound rates	Effectively-applied rates
Brazil	Average 35%	Average 11%
Egypt	62% over the reference period; should be lowered to 28% in 2004	Average 18.5%
India	Average 116%	Average 26%
Senegal	Average 150%	Varies between 0 and 20%
Jamaica	Average 100%	Average 20.2%
Malawi	Generally 125%, except for a few products whose ceiling rates stand at 50%, 55% and 65%	Average 15%

Source: FAO, 2002

This situation stems from the inconsistencies between the rules laid down by different international institutions. Under World Bank and IMF (International Monetary Fund) leadership, many indebted developing countries were forced to liberalize their economy in the mid-1980s as part of Structural Adjustment Programs (SAPs).

A number of measures were introduced to reduce government's role in agricultural markets. These included the removal of quantitative restrictions on imports; the elimination of marketing boards and subsidies to producers and consumers; the end of measures to support and stabilize agricultural prices; the privatization of land; the reduction of tariffs, which are now lower than those negotiated under WTO auspices, and so on. Regional common markets, such as the WAEMU (West African Economic and Monetary Union) and the CEMAC (Central African Economic and Monetary Community), were subject to the same constraints when introducing their common external tariffs (CETs), which were set very low. The consequences of the stronger opening imposed by the IFIs may be very damaging to local productions, as shown by the example of chicken in Africa.

➤ **WEST AFRICAN CHICKEN**

VICTIM OF THE INCONSISTENCIES OF INTERNATIONAL INSTITUTIONS

The devastating effects on local producers of the massive importation of cheap frozen chicken cuts into the countries of Western and Central Africa showed up the flaws in the treatment of developing countries by the WTO and the International Financial Institutions. The very high bound rates negotiated by the African countries under WTO auspices[4] should have enabled them to effectively protect themselves against invasions of cheap chicken, but they were not applied: the structural adjustment programs negotiated by the majority of these heavily-indebted countries effectively demand a radical dismantling of trade barriers.

The countries of Western Africa joined forces to form a customs union: created in 1994, the WAEMU[5] decided to establish a common, simplified system of tariffs. Four tariffs were established, with the highest tariff set at 20% for the most highly-processed products (the category containing frozen chicken cuts). These rates have proved vastly inadequate for protecting vital sectors of the local economy.

Minimum market access at the root of destabilization

The Agreement on Agriculture obliges member states of the WTO to open their market to imports to satisfy at least 5% of their average domestic consumption.

In many cases though, applying this rule leads to a pronounced destabilization of the domestic markets, even if the quantities involved are relatively small. This is because some countries regulate their national supply in order to stabilize the domestic price at an equilibrium price that is neither too high for consumers nor too low for producers. The obligation to take in imports can jeopardise this equilibrium however and have significant knock-on effects, as the rice example has shown.

➤ **BOOMERANG EFFECTS ON THE RICE MARKET**

Japan's 3 million peasant farmers work 3 hectares of land per family, part of which is devoted to growing rice. Accordingly, Japan decided to support its producers by introducing guaranteed prices. To preserve its farmers from the negative effects of liberalization, Tokyo also obtained from the WTO a rice tariff of USD2 850/tonne, an extremely prohibitive rate. However, the country was unable to prevent 770 000 tonnes of rice being imported at a reduced rate in 2001 and 2002 in compliance with the rule obliging countries to open their borders to cover 5% of their domestic consumption. .../...

4 Benin: 79%, Burkina Faso: 150%, Cameroon: 230%, Cote d'Ivoire: 200%, Senegal: 150%, Togo: 80%.
5 Comprising Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

Forced to import rice over and above its own requirements, Japan devised a successful ploy to prevent the rice from entering its domestic market and depressing prices: it simply disposed of the rice on international markets as food aid. The volume of rice earmarked for food aid amounted to 706 830 tonnes in 2002-2001, tallying almost exactly with the minimum-access quota. And the volume was three times the 218 928 tonnes donated the previous year, before the quota restriction was introduced.

The consequences were not long in making themselves apparent and the exports had harmful repercussions on the efforts of African countries to develop their own rice production. This behaviour is however perfectly legal under WTO rules. The organization does not limit the volumes of food aid granted by its members, even when the latter is manifestly improper.

On the other hand, for countries such as the Philippines or South Korea, where rice plays an equally significant role in the rural economy, the minimum access of 5% has very negative effects. Because they do not have the economic or political means to set up a "ploy" like Japan, they have been obliged to dispose of the low-cost imported rice on their domestic market. The ensuing direct competition for their own producers threatens to force the weakest ones out of business.

Encouraging exports: a policy that weakens small-scale farmers

In addition to opening their markets, the southern countries are urged to export more in order to bring in extra resources that will go towards furthering their development. This situation has sparked a fall in world prices, especially as the systems that used to regulate the supply of agricultural products have been abolished. Numerous FAO and UNCTAD[6] reports point to the underlying decline in world agricultural prices and the continuation, or even worsening of this decline since the introduction of policies to liberalize production and agricultural trade.

The FAO, in a report entitled The State of Agricultural Commodity Markets 2004, estimated that the real prices of basic agricultural commodities have decreased by around 2% a year for the last forty years. The most striking example is coffee, whose price plummeted 70% between 1997 and 2001, jeopardising the livelihoods of 25 million people and triggering food emergencies in several African and Central American countries. According to the FAO's report on the state of agricultural markets in 2004, "this steep decline left coffee prices lower than they had been thirty years earlier". Under these circumstances, the terms of trade have deteriorated. Between 1961 and 2001, the average prices of agricultural commodities sold by LDCs (least-developed countries) dropped nearly 70% against the price of manufactured goods bought from developed countries.

The United Nations agency attributes this as much to the over-supply of certain commodities (e.g. coffee and sugar) as to Western countries' export subsidies. "The long-term decline of real commodity prices threatens the food security of hundreds of million of people in the poorest countries of the developing world, where the sale of such commodities is often the only source of cash income", concludes the FAO.

Furthermore, encouraging the southern countries to increase their exports strengthens their dependence. Only a few countries manage to reduce their dependence on commodities. Fourteen of the southern countries have seen their dependence on a single agricultural commodity increase between 1986-1988 and 1997-1999. Only 7 have managed to reduce their

6 United Nations Conference on Trade and Development.

dependence on a single commodity[7]. For countries that are heavily dependent on a particular production, a drop in international prices has immediate and dramatic effects, as shown by the example of Africa's cotton industries.

TURMOIL IN THE COTTON INDUSTRY

Though African cotton represents only a small proportion of the international cotton trade (10-15% of global exports), this product, grown commercially only since 1949, is a vital source of foreign currency for the cotton-growing countries and a key source of direct employment for 6 million people in Western and Central Africa. However, this specialization in cotton monocropping is making these countries and their producers ever more dependent on cotton exports and hence on world cotton prices. And this dependence is exacerbated by the fact that the cotton-growing countries of Western and Central Africa export 95% of their cotton.

More than two-thirds of the cotton is produced in countries that support their industry through government aids, whether taxes or subsidies. The United States, China, Greece, Spain, Turkey, Brazil, Mexico and Egypt are the 8 countries that directly support cotton-growing, to the value of between 3.8 and 5.3 billion dollars a year, on average, between 1977 and 2002.

The effect of cotton subsidies is to artificially boost production at the same time as they lower world cotton prices, which in turn harms the developing countries whose export earnings rely heavily on this particular commodity. Fluctuations in cotton prices are increasingly marked, from peaks at $1.10/pound in 1995 to troughs at $0.30/pound at end-2001, with a steady underlying decline over the long term.

In addition, the tightening of phytosanitary measures and other requirements laid down by the northern countries, however legitimate they may be for consumers, curb exports from developing countries which, for want of technical and financial skills, have difficulty adapting to these sanitary and commercial standards. Moreover, the members of the Codex Alimentarius, responsible for establishing international sanitary standards at the FAO, mostly come from developed countries and do not take into consideration the ability of the southern countries to comply with such standards.

Protective measures: inadequate tools

The AoA (Agreement on Agriculture) allows countries to employ a number of special measures to reinforce border protection in certain well-defined cases. But these measures are insufficient and, more importantly, difficult to apply for the poorest countries most affected by low-cost imports. The AoA also allows quantitative restriction in certain cases:

- import restrictions on sanitary grounds;
- anti-dumping legislation to guard against volatile world prices, as Jamaica did, for example, with the Safeguard Act in 2001;
- the Special Safeguard Clause, in the event of a surge in import volumes or prices. However it can be applied by only a handful of developing countries – 22 in all – that chose tariffication rather than binding. Furthermore, the procedure is complicated to put into practice and brings only limited remedies (the reference price is too low; the rise in tariffs is too limited and temporary). Only six developing countries have used the mechanism in 10 years.

7 Report on the Less Advanced countries, UNCTAD.

However, the IFIs very often oblige countries to dismantle protective measures beyond what would be required under WTO rules. This leaves local producers to contend with competition from cheaper imported products, like the Philippine rice growers faced with Thai rice.

PHILIPPINE RICE GROWERS SORELY TESTED

In the Philippines, rice growing is the main revenue source for 30% of the 11.2 million peasant farmers and waged agricultural workers. Given the importance of this cereal in the country's economy and diet, the government, under pressure from the small-scale farmers, sought to maintain protective measures. As a result, rice was the country's only agricultural raw material to be accorded the benefit of quantitative import restrictions when the country joined the WTO in 1995. This exemption was permitted by Annex 5 to the AoA, under the Special and Differential Treatment that allows a temporary measure (10 years) to impose quantitative restrictions for an agricultural product "that is the predominant staple in the traditional diet of a developing country Member".

Since then, however, the government has acceded to pressure from donors (the Asian Development Bank in particular) and private importers and in the late 1990s, the maximum quota was called into question. Rice imports far exceeded the maximum quota declared to the WTO. Even after the application of a tariff rate of 50%, the imported rice is still cheaper than the domestic product. Philippine rice growers are paid an average 9 pesos per kilo, taking the wholesale price of local rice to an average 20.2 pesos per kilo. But rice imported from Thailand, after levying of the 50% tariff, reaches a wholesale price of 18.9 pesos/kg. Of lower quality than the local products, it nevertheless appeals to urban consumers, who are not the only ones to find it to their advantage: cheaper to import and distribute on urban markets, Thai rice saves merchants the trouble of collecting locally-grown rice from all over the archipelago. Today the question of abolishing the import quota is increasingly to the fore – bad news for local producers, who feel the end of their livelihood is just a matter of time…

Governments can also adopt an economic policy that consists in adjusting the exchange rates. The drop in duties is then amply offset by an adjustment in the exchange rates, which allows them to continue protecting the market. However, the practice of devaluing exchange rates makes imported inputs very costly for farmers and increases production costs. This in turn pushes up the price of agricultural products, making them less competitive compared to imported products.

2.2 Results at odds with the desired goal

The instruments used by the WTO to promote the liberalization of agricultural markets have only weakened the southern countries' poorest small-scale farmers. The growth in imports and greater international competition have deprived them of their outlets. Ongoing trade liberalization may call into question the preferential advantages that some zones, such as the European Union, granted developing countries.

Small-scale farmers deprived of outlets

In many southern countries, the liberalization of agricultural trade has contributed to an increase in the proportion of imported food in comparison with local products. The tables below show, for two countries, how this situation has resulted in a decrease in the cover rate for commodities, meaning that local production is less and less capable of covering local needs.

Agricultural imports, in US$m

	1989-91	1999	2000	2001	2002
Bangladesh	735.3	2 088.5	1 684.3	1 400.5	1 404.2
Senegal	384.7	498.2	407.6	504.3	526.2

Source: FAOSTAT

Coverage ratio (ratio of production to consumption)

Country	Sugar			Vegetable oil			Cereals		
	1985-89	1990-94	1995-2000	1985-89	1990-94	1995-2000	1985-89	1990-94	1995-2000
Bangladesh	0.90	0.94	0.78	0.29	0.38	0.30	0.89	0.87	0.91
Senegal	0.95	0.74	0.62	1.78	0.98	0.78	0.65	0.59	0.53

Source: FAO

Food supplies, in particular for urban populations, is not longer provided by local producers but through import channels. Rural producers, deprived of these outlets, either migrate to the towns or are increasingly encouraged to specialize in export crops, thereby increasing small-scale farmers' dependence on the state of the world market.

In the case of tropical products though, the liberalization of trade, and hence of production levels, has provoked sharp drops in prices. As a result, export earnings are constantly on the decline. Coffee, cocoa and tea, produced exclusively by developing countries, are today in upheaval. Admittedly, coffee prices have gradually picked up over the last couple of years, as coffee growers, especially in Latin America, have responded to falling prices by curbing supply, but the situation remains very difficult. The turnaround recorded in the cocoa market in 2000 started to lose momentum in late 2003 when there was another glut. The market was then weakened by competition from "cocoa butter equivalents", after a European Union (EU) directive authorized "the addition of certain vegetable fats other than cocoa butter" to replace cocoa butter in chocolate products. Tea prices have also come under heavy pressure, as production levels, anticipating growth in demand, reached new peaks in 2003. While the situation for sugar and cotton is different, since they are produced both by developing countries and northern countries, the problem of falling prices is the same. Record production levels and surplus stocks continued to hold down world sugar prices in the second half of the 2003-2004 crop year.

The result is that farmers, just to survive, try to increase production in order to raise or stabilize their income. In a developing economy that relies primarily on foreign currency from exports to import the foodstuffs necessary for domestic food security, this is a vital reflex. However it sustains the vicious circle in which the producers find themselves: increasing the quantities placed on the market, when demand is stagnant, pushes prices down even further…

Slanting the rules of the game

The market opening negotiated under WTO auspices was carried out in a context of enormous discrepancies among the countries, in terms of democracy, the way access to resources is managed, productivity, and the organization of agricultural production. The markets are now more open, but not all of the countries are starting out on an equal footing. The intensive agriculture typical of the North and certain agro-exporting countries of the South (Brazil, Thailand, Vietnam, etc.) is in direct competition with diversified, un-assisted family-run agriculture.

As a result, many countries, not only in the North but also in the South, have been able to export products sold at very low price, taking advantage of productivity gains brought by intensive production methods and encouraged by production incentives, including subsidies under European and American agricultural policies, rice stabilization policies introduced in Thailand, and massive government spending on sugar and soya beans in Brazil. Not all countries have achieved such results though. Over half of the South's familyfarming communities still use manual tools and animal draught power, and many developing countries generally cannot afford to apply incentive measures for their producers. The result is that work productivity varies from one group to the other, on average, in a ratio of 1 to 500.

➤ UNFAIR COMPETITION FOR THE MILK PRODUCERS OF BURKINA FASO

In 2002, Burkina Faso imported 560 tonnes of European powdered milk, capable of yielding 4.3 million litres of reconstituted milk. The numerous small-scale milk-processing plants are increasingly using imported powdered milk, at once more convenient and cheaper than the local fresh milk. It is formidable competition for the small local dairy farmers. Fresh milk, produced and pasteurized locally, costs CFAfr500 a litre, whereas reconstituted milk made from a 25kg bag of imported powdered milk works out at CFAfr200 a litre.

There is no comparison between milk production in Burkina Faso and milk production in Europe. There is a huge difference between a traditional Burkinabe farm with 5 to 20 cows, each yielding 110kg of milk a year, and a European dairy farm with an average of 30 cows (up to 100 heads in some cases), each yielding 6 000kg a year. Milk production in Europe is increasingly concentrated, as those producers not wealthy enough or big enough to adopt intensive farming methods have been squeezed out of business. Selective breeding and continually enhanced stock feeds have increased milk yields. In Burkina Faso, on the other hand, the local herds are still low-yield breeds, fed essentially by grazing on low-yield pastures.

Heightened competition

While competition on world agricultural markets was long reduced to a North-South divide, the opening of borders encouraged by the WTO has changed the established order: certain developing countries that are major exporters of agricultural products are now competing with other developing countries.

Countries like India and Brazil have set up numerous measures to develop subsistence cropping and later exportation. In India, for example, a string of agricultural revolutions – yellow (oilseeds), green (rice and wheat) and white (milk) – has enabled the country to achieve self-sufficiency in staple foodstuffs. Though for a long time India was absent from the international marketplace, it opened up its agricultural sector in 1994, easing restrictions on imports and exports and introducing government measures on the domestic market. In Brazil, internal events such as the 1990 tariff reform and the establishment of MERCOSUR[8] in 1995 played a significant role in boosting exports. The extension in the areas under cultivation since the 1970s, together with strong growth in yields, placed Brazilian exports in a favourable position on the world market. The end of export controls in the 1990s and the abolition of export

[8] MERCOSUR: Southern Common Market in Latin America, whose members include Argentina, Brazil, Paraguay and Uruguay.

taxes in 1996 then contributed to the increase in the volume of exports. Unfortunately, this economic development does not benefit the country's poorest inhabitants: in Brazil, debt levels in rural areas, and the income gaps between small and large-scale farmers continue to grow.

The current move towards a greater liberalization of agricultural trade – notably via negotiations of the Agreement on Agriculture – is fraught with consequences in terms of the development of inequalities. Admittedly, it may pave the way for further growth in these countries' exports (through reduced internal support in industrialized countries and reduced protection for products that compete with Brazilian exports, etc.). However, if these countries can aspire to northern countries' markets (EU and United States) for such products as sugar, soya beans, beef or poultry, the development of such exports is also likely to harm the poorest developing countries.

Eroded privileges

What is even more worrying in this case is that the poorest developing countries, which, for the time being, enjoy preferential access to developed countries' markets for their exports, are likely to see this privilege challenged. The negotiations currently under way provide for tariff cuts in developed countries for all of their trading partners. The developing countries that concluded bilateral agreements for market access or preferential prices are likely to bear the cost of this policy. The erosion of these preferential margins will bring a decrease in their export earnings and may endanger these countries' food security, now heavily dependent on their ability to buy staple foodstuffs on the world market. The ACP countries are a particularly striking case in point.

➤ THE ACP COUNTRIES HIT BY THE REFORM OF THE EUROPEAN UNION'S SUGAR REGIME

The reform of the European sugar policy has dealt a serious blow to the privileges granted to the ACP (African, Caribbean and Pacific) countries. Two main mechanisms have been adopted: incentives to reduce production level in the European Union, and a 40% reduction in the prices paid to producers, in addition to which border protection measures have also been reduced. The lower internal production should bring European supply more into line with demand and prevent the surplus sugar from being disposed of on third-party markets with the help of export subsidies. However the drop in prices not only jeopardises the least competitive European producers, it is also very damaging to the handful of developing countries that enjoy preferential access to the European market.

Until this reform came into effect, the Sugar Protocol guaranteed the ACP countries and India preferential access to the European market, in terms of both quantities and prices. The EU undertook to buy 1.3 million tonnes of sugar from them each year, at the current price on the European market, i.e. more than three times the world price. The reform does not go back on this preferential import quota, which remains unchanged. However, the quantity exported by these countries within this quota will be paid for at the new European market price. As a result, for the same quantity exported, the ACP countries and India will receive 40% less in earnings. It is hardly surprising then that the countries concerned emphasize that "access (to the European market) without a remunerative price is meaningless".

3. Domestic support for agriculture: Dual standards

As well as introducing measures to facilitate market access, the WTO agricultural agreement aimed to review the internal support granted by the States to their agricultural sectors. Its guiding principle here was to eliminate all trade-distorting policies, such as agricultural price support. On the other hand, forms of support that are authorized without restriction have been grouped into a "Green Box". These are mostly publicly-funded government programmes that do not drain funds from consumers. Under these circumstances, direct income support for producers is allowed. Cf. box page 26.

3.1 Reduced flexibility for developing countries

The European Union and the United States have prided themselves over recent years on modelling their agricultural policies on these new guidelines. They have modified the form of their support measures to bring them into line with "Green Box" criteria, but without changing the overall amount – a sleight of hand known by observers today as "Box shifting". The reform of the European PAC in June 2003, with the introduction of "decoupled" supports, is a prime example.

The situation is completely different for developing countries, for whom the supports authorized by the AoA are often inaccessible because too costly. Budget restrictions and the commitments to public spending cuts made under structural adjustment programmes have effectively curbed governments' flexibility. Developing countries cannot afford to pay their producers direct aids and affordable measures, such as action on prices, are restricted by the WTO. Every year, the FAO stresses, in its report on "The State of Food Insecurity in the World", that it is essential to adapt agricultural policies to each national and regional situation if we are to achieve agricultural development, and in particular productivity gains in staple crops.

In this context, the "Special and Differential Treatment" granted to developing countries under WTO auspices has often proved ineffective because inapplicable by the governments concerned.

3.2 Government intervention policies become rare

Many governments had developed agricultural support policies that entailed setting a minimum production price, guaranteeing official purchases and controlling imports with the aid of semi-public services. From the early 1980s onwards, as liberalization inched forward, governments phased out intervention policies designed to domestic production and international trade (subsidies were cut back and prices deregulated).

Furthermore, tariff cuts deprive developing countries of a resource that could have been channelled into protecting their agricultural industries

RICE GROWERS CONTEND WITH UNEQUAL TREATMENT

Rice is a staple cereal in the diets of numerous developing countries and, like a number of other cereals, is still the subject of stabilizing trade measures, in particular through public purchases and minimum production prices. Governments still step in to mitigate the transfer of depressed international prices to their domestic markets. The main exporters provide substantial support to their rice-growing industry. Thailand for instance

The WTO puts agricultural supports into boxes

The "Green Box"

The green box contains supports that have little or no distorting effects. They are generally support measures that are not tied, or coupled, to the volume of production or to the price. These measures are not considered to act as an incentive on production and therefore, are considered as not trade distorting.

The main supports contained in the Green Box are as follows:

- public service programmes: research, training and popularization, infrastructures, campaign to combat animal and phytosanitary diseases, public stockpiling for food security purposes, domestic food aid, etc.;
- direct payments to producers, which are not tied to production volumes or production factors. These supports are known as decoupled income support. Producer support measures also include crop-failure assistance mechanisms (as part of relief from natural disasters);
- environmental protection programmes and development programmes for depressed areas;
- specific measures for developing countries: input subsidies for low-income farmers, investment subsidies, support to help farmers shift away from illicit crops (narcotics).

Green Box supports are not subject to reduction and are not limited. Member States are free to determine the budget to be allocated to the Green Box.

The "Blue Box"

The Blue Box contains supports that are partially "decoupled" and allocated to producers under programmes to limit production. They include, for instance, per-hectare aids paid to compensate farmers for idling a certain percentage of their land.

The Blue Box was created in fact for the United States and the European Union, the only two countries to have used such supports since the Agreement on Agriculture was introduced. Blue-Bbox supports are not subject to reduction commitments, but cannot be increased.

The "Amber Box"

The Amber Box mainly contains price-support measures, along with other aids that do not fall into either the Blue or the Green Box. These supports are designed to keep domestic prices higher than on the international market in order to guarantee producers' income. Price-support measures by State-run equalization funds fall into the Amber Box. These guaranteed prices are considered to distort competition on world markets. Amber-Box supports, deemed particularly distorting, must be reduced.

The De-minimis Clause

The De-minimis Clause exempts countries from the reduction commitment:

- if the value of the support for a given product is less than 5% of the total production of that product (or less than 10% for developing countries);
- if the value of non-product-specific support is less than 5% of the country's total agricultural production (or less than 10% for developing countries).

For developing countries only, agricultural investment subsidies, input subsidies for low-income farmers and support for replacing illicit crops are not subject to reduction.

LDCs are not subject to reduction commitments.

brought in a policy of price support for producers, under which the Thai authorities conducted vast market-intervention programmes to support paddy-rice production prices. The guaranteed prices established by the Thai government are a powerful incentive to increase domestic production levels.

The United States, which has around 15 000 rice growers, also allocated substantial emergency budgetary aid under the Fair Act to cope with falling prices. Since 2002 and the entry into force of the Farm Security and Rural Investment Act (FSRIA), price-support and income-support measures for the rice industry have been further reinforced.

The other major rice-exporting countries – Vietnam, India, China, Pakistan and Indonesia – have all established support prices for their rice growers, with the trend in recent years being for these prices to rise[9].

African countries, on the other hand, give their rice-growing industry only slight support. "In African countries, despite the governments' desire to reach high levels of self-sufficiency in rice production and thereby lessen their reliance on imports, specific support for the rice industry was rather low over the last couple of years", regrets the FAO. In the markets of Ouagadougou, local rice is sold alongside American, Vietnamese and Thai rice. And yet Burkinabe producers receive neither direct aids, like their American counterparts, nor the benefit of price support, like producers in South-East Asia.

3.3 Wrong priorities for the Northern countries

Contrary to the usual practice in developing countries, OECD countries maintain – or even reinforce – substantial domestic supports, while measures to manage supply and regulate prices are abolished.

Unequal competition

This choice leads to conscious, chronic overproduction. As a result, the competition is all the more unequal for developing countries. This is especially true where the agricultural sector was given only very little support so that it would become more "efficient", whereas it plays a vital role for a large part of the country's poor. Rice growing in the United States is typical of this unequal competition.

➤ AID POLICIES TO THE RESCUE OF AMERICAN RICE EXPORTS

One-third of the rice grown in the United States is exported. In 2003, this amounted to 3.8 million tonnes. To reinforce the position of American rice on international markets, the country set up powerful incentives, using two types of instruments:

- guaranteed export credits, a mechanism by which the government covers the cost of the non-reimbursed loans granted by American exporters. Each year, 15% to 25% of American exports of coarse and processed grains are covered by this mechanism. In 2003, export credits for rice amounted to US$184 million;
- Food aid, most of which is delivered as agricultural products in kind (including rice). One of the stated objectives is to "… develop and extend export markets for agricultural primary products from the United States" (PL 480 act). The percentage of American rice exported as food aid, for instance, grew from 5% to 11% over the period 1997-2002.

9 For detailed country-by-country prices, see the FAO report on policies concerning staple foodstuffs, 2003.

Export subsidies maintained contrary to commitments

Western countries, and in particular the European Union, continue to maintain their export subsidies. These subsidies, used to compensate producers for the difference between their production costs and the world price at which they sell their products when they export them, deal a blow to farmers in developing countries by enabling products from OECD countries to arrive on the markets of certain developing countries at a lower price than local products. As a result, consumers go as far as changing their diet to take advantage of the low prices and the local products no longer find outlets!

But the "export subsidies" decried at the World Trade Organization and currently being phased out are far from being the only element of unfair competition on the world market. For the European Union, for instance, the end of export subsidies – which now represent only 5% of the value of the EU's agricultural exports – will not deter the largest producers. The income supports authorized by the WTO and introduced by the 2003 PAC reform bolster farmers' income and allow them to continue exporting their surpluses at reduced prices. This promptsmany experts to describe them as "indirect" export subsidies, as is shown by the example of milk.

EXPORTS STILL BEING SUBSIDIZED

To contend with worldwide competition on the market for dairy products, and in particular competition from New Zealand, the EU, the world's leading dairy producer, decided to bring its export prices into line with the world price by massively subsidizing its exports. In 1984, in a bid to reduce its surpluses, the EU introduced production quotas designed to cap production and share it out among producers and among regions. However the overall European quota was still in excess of consumption and the EU was forced to continue exporting its surpluses.

The European Union's export subsidies allow it to export low-cost powdered milk to developing countries. They make up the difference between the world market price and higher European prices. The importing countries are therefore victims of dumping. In 2002, EU export subsidies for powdered skim milk amounted to 760 euros per tonne (36% of the intervention price). The same year, Burkina Faso imported 560 tonnes of powdered milk from the European Union. Given that 130g of powdered milk yields one litre of reconstituted milk, the 560 tonnes of imported powdered milk are equivalent to importing 4.3 million litres of milk… one can just imagine the impact on the local dairy industry.

Faced with the high cost of the policy and its incompatibility with WTO rules, the European Union was forced to reform the policy in 2003. Unfortunately, the measure has been unable to reduce the quantities produced in the UE, nor to avoid unfair competition on the world market. On the contrary, the member states chose to raise the production quotas and lower the price of milk (by 7 euros per tonne by 2007), with the price cut being offset by the payment of income support. The likely outcome of such a policy is a concentration and greater intensification of dairy farming. European exports will then be in a position to continue at low prices, even without "export" subsidies.

Finally, the example of chicken fore cuts exported to West African markets is ample evidence that even production that is not directly subsidized by the Common Agricultural Policy (CAP) can, through the effects of liberalization, compete with local producers in a way that is nothing short of scandalous.

➤ EXPORT SUBSIDIES DO NOT ACCOUNT FOR EVERYTHING

In the case of poultry, the competition facing West African countries cannot be attributed to subsidies paid by northern countries to their farmers: these products are not subsidized in Europe, neither on production nor on exportation. The low prices of the chicken cuts exported to Africa can be explained by a number of factors. Firstly, the production cost of European chicken is lower, because the chicken feed is either imported at low cost from Latin American (soya beans) or subsidized (European wheat). Secondly, the profit margins have already been assured by selling the hind cuts on the European markets, so the fore cuts are in fact "by-products". Officially, then, there has not been "unfair competition", the condition for using anti-dumping measures.

Likewise, Brazil exports growing quantities of low-cost frozen whole chickens, as its production costs are even lower than those in Europe, without this constituting "dumping" in the strict sense. Under these circumstances, how is it possible to protect the development of poultry farming in Africa, which creates numerous jobs, fosters diversified local development and reinforces food security?

II. The Southern countries are sinking deeper into poverty

Trade liberalization has a high cost for both governments and their people, and in reality benefits only a handful of stakeholders in the agri-food chain. At the same time, though, it thwarts human rights by denying one of the most fundamental of them, namely the right to food.

1. Negative effects for governments

Over the last decade, observers have noted rising food bills in the developing countries most reliant on imported staples, while their income from tariff rates has gradually dwindled in pace with successive tariff cuts. But the liberalization of agricultural trade is not only costly in budgetary terms; it also has a disastrous impact on the environment and the use of natural resources.

1.1 Undernourishment persists

By comparison with their gross domestic product (GDP), LDCs' imported food bill is high. In the late 1990s, when raw materials prices were rising, these countries were spending 5-6% of their GDP on imported foodstuffs. For some countries, the percentage was much higher: 11-12% for Somalia and over 10% for Haiti. Not only this, but the countries that devote a far higher proportion of their export earnings to food imports[10] than the others are also those where undernourishment is rife. And despite these heavy imports, the regions vulnerable to under-nutrition cover only a small portion of their food requirements. In the majority of developing countries, a very high percentage of the population continues to be undernourished and liberalization has been powerless to reduce the numbers

In a context of stringent budget restrictions, these countries focus their efforts on the most pressing needs first, namely providing cheap food for needy consumers. This is a short-term solution though and it is difficult for them at the same time to support other sectors, such as domestic production, which could boost development and permanently reduce their vulnerability. Production-support and transport policies can play a key role in diversifying and revitalizing the economy. Implementing such policies could have a direct effect on income distribution and poverty. As it is, though, structural adjustment programmes, crippling debt, the rules of the agricultural agreement and the proportion of imports in their budget prevent them from bringing in such measures.

[10] FAO, "Trade and food security, the options of developing countries".

1.2 The environment suffering harsh treatment

The liberalization of agricultural trade also has serious consequences on the use, management and preservation of natural resources. And yet access to resources is vital for people's survival, whether rural or urban.

Pressed by the urgency of meeting their food requirements, small-scale farmers are increasingly opting for non-sustainable cropping practices. The development of cash crops, which are subsequently sold to buy food, necessitates more inputs and water. As prices are on the decline, the populations increase their production levels to maintain their income and no longer have the means to restore soil fertility: the natural resources are again over-utilized, the land for export crops and the sea for fishing.

2. An uneven distribution of profits

The liberalization of agricultural trade is costly for governments and does not benefit the populations either, especially not the most needy members. Those who gain most from this policy are in fact the major international groups, who now control every segment of agriculture and dominate world trade.

2.1 The populations face an accumulation of handicaps

The small-scale small-scale farmers suffer an accumulation of negative effects, while the underprivileged urban populations have little to hope for from low-cost food that is often inferior to the local products.

Family agriculture in crisis

Whether they produce for the local market or for export, small-scale family producers are generally the first to be hit by competition from low-cost imports or falling prices for exported products.

In both cases, the producers see their average income and their access to a healthy, balanced diet diminish. Falling prices for agricultural products, whether exported primary products or products destined for the local food supply, force the small-scale farmers to produce in ever greater quantities in an attempt to maintain their income. This policy reinforces the general precariousness by leading the family and local economy to become over-reliant on a single product – the most usual case – or at most three or four products.

Furthermore, dwindling incomes curb farmers' access to inputs and low-cost imported food products, while at the same time cutting back their production of staple crops for self-consumption or for the local market. Once over-indebted, they can no longer make a living from their farm. In India, for instance, the situation remains critical: 225 million people (23% of the total population) are still under-nourished.

Even in exporting countries, small-scale small-scale farmers directly involved in world trade are not in an enviable position. In Thailand, 68% of small peasant rice-growers are over-indebted. Their debt is three times higher than their farming income, prompting them to give up farming and seek subsistence income working in industrial subcontracting workshops, the construction industry, prostitution, etc. In Brazil, debt levels among the rural populations are rising, just like the income gaps between small and large-scale farmers. And the country that rose to become the world's fourth-largest exporter of agricultural products has been unable to curb poverty and food insecurity: 16 million people are under-nourished – nearly 10% of the population – and over 40 million of the country's inhabitants live below the poverty line. Even in the northern countries, small-scale farmers are suffering from liberalization. In the European Union, for example, domestic prices are gradually being aligned on world prices. Admittedly, the effect of these decreases on producers' income is offset in part by the payment of direct supports, but this new type of support is always more advantageous for larger farmers. The race for ever-higher yields continues, while the pace at which farms are disappearing accelerated at the rate of 3.8% per year between 2000 and 2003.

A sure sign of the crisis among family farmers is the steady increase in the number of waged agricultural workers, noted in the latest FAO report[11]. The world's 450 million waged agricultural workers are among the poorest populations and those most vulnerable to under-nourishment and disease (and in particular HIV/AIDS).

➤ SMALL-SCALE PHILIPPINE POULTRY FARMERS HARD HIT

The development of poultry farming in the Philippines in the 1980s prompted many family farmers to place their entire savings and even go into debt to invest in the industry. The liberalization initiated in the 1980s and 1990s and consolidated by the WTO agreements has intensified global competition. The rules obliging all countries to accept a minimum access for imported products and lower their tariffs (from 100% to 35% or 40%) put local producers in a difficult situation. Imports, mostly from the United States and Canada, rose from 190 tonnes in 1990 to 20 546 tonnes in 2004, with a peak at 29 388 tonnes in 1999.

A study by the Institute of Studies for the Development of the Philippines[12] shows that the crisis has effectively prompted both large and small-scale farmers to conclude contracts with major enterprises in the sector: those to derive most benefit from liberalization are the six integrator firms, which now hold 80% of the market and control not only the production of stock feeds, medicines and chicks but also processing. Aided by the liberalization of maize imports, the largest commercial farmers have been able to expand their production and absorb the others, adapting to the market by laying off their employees as dictated by the competition. The sudden jump in poultry imports in the 2000s caused 400 000 employees to lose their jobs in the sector. Small-scale poultry farmers, whether integrated or not and regardless of whether they use traditional or enhanced farming techniques, rely primarily on family workers and have been hard hit by the market's instability.

A standardized diet does not meet the populations' needs

While poor urban populations seem to benefit from the cheaper food provided by low-cost imports, the consequences of this diet are in reality less positive. Food insecurity has not totally disappeared from the cities. Even if relatively fewer people suffer from poverty and hunger in the cities than in rural areas, the proportion is steadily rising as the number of city-dwellers

[11] FAO-ILO-IUF report, September 2005

[12] "An Analysis of the Philippine Poultry Industry: the Fate of Smallholders and Independent Growers Under Trade Liberalization", September 2005, A.Glipo, F.G.Pascual.

increases (source: SOFI 2004). Over 40% of the urban populations live in shanty towns deprived of such basic services as clean water, personal space and adequate sanitary facilities. In the urban areas of developing countries, the populations typically devote over 60% of their income to food.

Additionally, the huge increase in imports of low-cost products has an effect on the population's eating habits. By a series of substitutions, the population now tends to buy cheaper, standardized products that do not correspond to their traditional diet. It is also increasingly difficult to trace the quality of imported products. For instance the "Cowbell" milk imported into Burkina Faso by the South African-based multinational Promasidor (specialized in beverages) is powdered skim milk from New Zealand that has been processed in Ghana and had 28% of vegetable fat added to it![13]

2.2 The multinationals gain most from liberalization

The liberalization of agricultural trade has been of most benefit to Western multinational companies, which control 80% of global agricultural trade, all products combined. This pattern of distribution of the gains is to the detriment of the rural populations, agricultural workers and small small-scale farmers involved in production. On the other hand, the local elite who hold the resources (land, finance, and public authorities), the middlemen and possibly the middle-classes also fare well by liberalization, as we can see with the example of rice imports into Burkina Faso.

BURKINABE DISTRIBUTORS ARE THE MAIN BENEFICIARIES OF RICE IMPORTS

Rice growing in Burkina Faso plays an active role in combating poverty. It represents a major source of employment and income for the rural population, and especially for the poor and women.

Unlike locally-grown rice, imported rice results in very little redistribution of wealth to the poor population, insofar as the profits remain in the hands of the middlemen responsible for marketing the rice (importers to a lesser extent, wholesalers and especially retailers). According to the rice joint-trade organization of Burkina Faso, the latter derive twice as much revenue from distributing imported rice as from selling domestic rice. There are several reasons for this difference. Firstly, the local rice has already been parboiled when it reaches the retailers and the rice steamers collect nearly half of the industry's added value[14]. Secondly, the lowering of the tariffs applicable to imported rice also allows the middlemen to increase their margins on the imported products. The middlemen therefore play a key role in positioning the imported rice on the Burkina Faso market and marginalizing the local rice in the domestic distribution and retail channels, with the poor rural populations of Burkina Faso being the first to suffer the consequences.

The multinational firms are today present at every level of food production. They have a policy of very low prices and generate low incomes for farmers. Moreover, to reduce transaction costs on local markets, the multinationals would like to reduce their number of suppliers by excluding the smallest ones.

[13] "La révolution blanche est-elle possible au Burkina Faso ?", Maurice Oudet, MISEREOR, July 2005.
[14] Source: rice joint-trade organization of Burkina Faso.

➤ NESTLÉ'S CONCENTRATED MILK MARKET

Nestlé is a prime example. It processes over ten billion litres of milk a year and, with a 50% share of the market, dominates the international powdered milk market. In the European Union, the multinational receives refunds that allow it to export at a lower price than that of the domestic market. In developing countries, Nestlé processes the milk after buying its supplies on the imported powdered-milk market and less and less on the local fresh-milk market. This way, the company contributes to reducing local milk production by buying ever greater quantities of imported products, which once again allows it to increase its margin.

In Jamaica, for instance, Nestlé has cut back its purchases of milk from local farmers. In 2001, it bought 10 million litres of the 25 million litres of milk produced by Jamaican farmers. In 2002, it bought only 6 million litres of locally-produced milk. Moreover, the price paid to milk producers dropped from J$22 a litre to J$18 a litre and the volume purchased is less and less guaranteed.

Global agri-food companies are constantly strengthening their grip on the industry: three-quarters of the world cereal market is in the hands of two American companies, Cargill and ADM. Two other groups, Bunge and Dreyfus, dominate the oilseed market. The extensive presence of these four companies, mainly in North and South America, allows them to spread their procurement over the different markets according to prices, labour costs and environmental and fiscal legislation. Cargill, Dreyfus, and Tate & Lylle share the sugar market, while only four companies control 40% of the coffee market and five multinationals have taken over the banana market.

➤ AN UNEQUAL DISTRIBUTION OF PROFITS IN FAVOUR OF THE BANANA MULTINATIONALS

Worldwide banana exports are estimated to top 4.7 billion dollars annually. The banana industry generates huge incomes and is a major source of jobs and export earnings for a large number of exporting countries, principally in Latin America, Africa and the Caribbean. But who really reaps the profits of this market?

The banana industry is the most highly concentrated sub-sector within the fruit sector, which is already very fragmented. The major operators – Dole Food Company, Chiquita, Fresh Del Monte, Noboa and Fyffes – alone control roughly 80% of global exports.

Multinationals	DOLE	CHIQUITA	DEL MONTE	FYFFES	NOBOA
Global-ranking	23%	22%	15%	7%	11%
UE-ranking	17%	25%	15%	20%	

This means that the technologies and strategic stages of the industry (maritime transport, the ripening rooms essential for importation, etc.) are controlled by a handful of private companies that have come together to form an oligopoly. These companies impose very low purchase prices, which are not passed on in the prices paid by consumers (supermarket margins on bananas vary between 30% and 40% of the retail price; likewise for the multinationals). What sort of equilibrium can there be between 50 000 small producers on one side and 5 transnational companies on the other? A particularly telling illustration of profit distribution is given below, for a banana produced in the Leeward Islands:

> Planter: 10%
> Carrier/Exporter: 30%
> Importer: 20%
> Supermarkets and retailers: 40%

Local industries and distribution channels (shops and supermarkets) operate on the same lines. Thirty wholesalers, often with their own supermarket chain like Wal-Mart, Carrefour and Ahold, together with hard discounters like Aldi, account for over a third of worldwide sales of food products. At the same time, certain multinationals have signed agreements with players operating in different fields, with a view to consolidating their might. One such example was Cargill joining forces with Monsanto in the sector of phytosanitary products.

3. Human rights challenged

In the context of trade in agricultural products, governments do not abide by their commitments to human rights. The policies implemented in relation to agricultural trade affect numerous internationally-recognized rights, and in particular the right to life, the right to food, the right to health, the right to work and right to non-discrimination. The International Human Rights Covenant requires ratifying states to respect and protect these rights and give them effect.

With regard to the right to food, for example, the obligation to "respect" the right means that states must abstain from taking measures that deprive anyone of access to adequate food. The obligation to "protect" the right means that states must apply the appropriate laws to prevent third parties, including individuals or powerful companies, from depriving individuals of access to adequate food. Lastly, the obligation on states to "give effect to" the right implies that they must identify vulnerable groups and apply policies designed to give them access to adequate food, by fostering their ability to feed themselves independently. In the last resort, it is the government's responsibility to provide adequate food to those unable to feed themselves. As the United Nations Special Rapporteur pointed out concerning the right to food, it is also fundamental to guarantee, at all times, the principles of participation, responsibility and access to appropriate means of redress at all levels of implementation of the right to food.

III. WTO negotiations: progress report

1. Development: the negotiators' ultimate goal?

1.1 Stated objectives

The AoA expired between 2000 and 2004, depending on the measures and the countries. Negotiations to pursue and extend the commitments made in the Marrakesh Agreement began in the late 1990s, but were interrupted by the breakdown of the Seattle Ministerial Conference in 1999. A new round of negotiations was launched in Doha in 2001, at the WTO's Fourth Ministerial Conference. The wealthy countries hoped to pursue the liberalization of international trade, but had to take into account the growing reticence of the southern countries and protests from civil society.

The governments therefore agreed in Doha to make the development of the southern countries the focus of the new round of international negotiations. Accordingly, the next stage of trade liberalization must effectively contribute to economic development and the reduction of poverty in the poorest countries. To this end, the governments decided to systematically take account in negotiations of the need to grant developing countries[15] "special and differential treatment". This special regime is designed to give developing countries greater leeway in defining their domestic policies, to ensure that trade is effectively made to serve development. They are given longer timeframes to open their domestic markets, are subject to less restrictive constraints and must be accorded support measures (technical assistance, compensations, etc.).

1.2 Unfulfilled promises

And yet the promises made in Doha are as yet unfulfilled. As we saw in the previous section, trade liberalization has most often resulted in increased poverty and inequalities in the southern countries. Also, since the signature of the Marrakesh Agreements, no amendments to the agreement have been decided on at the WTO (except on the issue of generic drugs), as the member states have been unable to reach an agreement on what constitutes greater liberalization.

The negotiating process has not been called into question, though, and the aim is still to move towards greater competition between very unequal agricultural models and the consolidation of economies based on the "all-export" model.

[15] The WTO divides countries into three categories: developed countries, developing countries and least developed countries (LDCs). In principle, developing countries can make smaller commitments and benefit from special application measures and technical assistance, etc. LDCs on the other hand are largely exempt from obligation.

2. A troubled reopening

Since 2001, the negotiations have been progressing slowly and with difficulty. There are a number of reasons for this: opposition between the United States and the European Union, North-South opposition, growing criticism from civil society, and so on. The southern countries have organized themselves into affinity groups to defend their strategic interests and development priorities. It was the refusal of certain southern countries (in particular the group of emerging countries and the group of African countries) to bend to the terms of the agreement laid down by the northern countries that led to the breakdown of the Fifth Ministerial Conference in Cancún in 2003.

Another new factor that is influencing the negotiations: the expiry of the "peace clause" in 2004 prompted a spate of actions before the Dispute Settlement Body, which pronounced numerous rulings against the United States and the European Union. In particular, it required the former to reform its domestic and export supports to the cotton sector, and the latter to reform its sugar regime.

The various positions

Broadly speaking, it is possible to distinguish three types of position on agricultural matters among the member states:

- countries that have strong agro-export potential and would like to see maximum opening of world markets. They embrace, in particular, the "G20", a group of emerging countries (Brazil, South Africa, Thailand, etc.), and the "Cairns group", whose members include some emerging countries and some agro-exporting northern countries (Australia, New Zealand, Canada, etc.);
- countries that would like to preserve their policy space in trade and protect their agriculture. They include the "G33", a group of low and medium-income countries, the group of least developed countries and the group of African countries;
- countries that would like to accede to new markets while maintaining protective and support measures for their agriculture, namely the United States and the European Union.

In 2004, the negotiations made headway with the adoption of the July Framework Agreement, establishing more precise operating procedures or objectives for a number of measures: market access, domestic support and export competition.

Other agricultural issues are also seen as matters of priority by the southern countries, including the situation of the cotton and banana markets, and the erosion of the preferences certain countries enjoyed under North-South trade agreements.

Cf. box page 39.

Agricultural negotiations: The main points

Today, negotiations on the agricultural component mainly address the following aspects.

Market access

- Definition of the method (or formula) used for tariff reduction (degree of flexibility of the formula, difference in the formula for developed or developing countries, etc.).
- The amount of flexibility open to countries in applying the formula. In particular, the issue of "sensitive products", whereby all member states were able to exempt a certain number of tariff lines from further tariff cuts.
- Adjustments for developing countries: the facility for designating, in addition to sensitive products, a certain number of "special products" that would not be subject to further tariff reduction, or only to a limited extent, because of their importance for food security, livelihood security and rural development in the country under consideration.
- Safeguard measures: these include the special safeguard clause – which the wealthy countries are almost the only ones to be able to use – and the proposed creation of a "special safeguard mechanism" whose use and remedies would be more appropriate for developing countries.

Domestic support

- Definition of the formula for reducing "Amber Box" support measures and the formula for reducing all support measures regarded as trade-distorting (Amber Box, Blue Box and De minimis).
- The criteria for defining support measures classified as Blue Box and GreenBox, as the great powers are seeking to transfer a large part of their so-called "trade-distorting" supports into these boxes.

Export competition

- The date for abolishing export subsidies.
- The type and scope of the disciplines imposed on the other forms of export competition: credits and credit guarantees, improper use of food aid to dispose of trade surpluses, unfair practices associated with state trading enterprises, etc.

2

Recommendations

IV. Priority to the right to protect agricultural markets and food sovereignty

In 2001, the WTO member states drew up the Doha Development Agenda. "International trade can play a major role in the promotion of economic development and the alleviation of poverty"[16], they stated in the declaration adopted at the conference. The goal is clear and the description of the role of international trade remains cautious: it can play a major role.

And yet it appears as if the negotiators have lost the sense of the negotiations in the process. The reference to development looks more and more like a stylistic device designed to make the poorest countries of the planet swallow the bitter pill of trade liberalization and market opening. The wealthy countries are still locked in an ideological vision in which the market's invisible hand contributes to development. Many a time, though, this policy has made the rich richer and the poor poorer, as the examples presented in the previous chapters have shown. This is why we are asking the negotiators to get the priorities right.

1. Give the priority to human rights

Human rights, and in particular economic, social and cultural rights, must take precedence over the rules of international trade. Likewise, the desire to abide by the Millennium Development Goals, adopted in 2000 by the member states of the United Nations, must guide all of the negotiators as they conclude agreements.

And yet the reality is different, as the following example shows. In 1996, one year after the establishment of the WTO, the international community gathered at the World Food Summit reaffirmed "the right of everyone to have access to safe and nutritious food, consistent with the right to adequate food and the fundamental right of everyone to be free from hunger"[17]. At the summit, the countries undertook to halve the number of people suffering from hunger in the world by 2015. Likewise, in 2000, the countries set themselves, as a top-priority millennium goal, to halve the proportion of the population suffering from hunger, again by 2015. As the WTO celebrates its tenth anniversary this year, it seems a good time to take stock of its achievements. We are obliged to admit that trade liberalization has not reduced hunger in the world. On the contrary, between 1995 and 2001, the number of undernourished people rose by 18 million[18]. It amounted to 852 million for the period 2000-2002.

[16] Document WT/MIN(01)/DEC/1, 20 novembre 2001, §2.
[17] FAO: Rome Declaration on World Food Security, November 1996.
[18] FAO: The State of Food Insecurity in the World, 2003, p. 6.

It is urgent therefore to give the priority to respecting human rights. To do so, we must stop letting the fate of the 2.8 billion people who make a living from agriculture hinge on the law of the market and trade liberalization alone. The WTO must recognize the right of populations to food sovereignty and define rules that ensure its achievement.

2. Recognize the principle of food sovereignty

Via Campesina defines food sovereignty as "the peoples', their States' or Regional State Unions' right to define their agricultural and food policy, without any dumping vis-à-vis third countries". Sovereignty therefore includes the facility for states to protect themselves when imports threaten their agricultures. This is an essential right in the fight against poverty and hunger, which hit southern family farmers first and foremost.

What is food sovereignty?

- Giving priority to local agricultural production to feed the population, and access for small-scale farmers and the landless to land, water, seed and credit. Hence the need for agrarian reform, for the fight against GMOs (genetically modified organisms) and for free access to seeds, and the necessity of maintaining water as a public good to be distributed in a sustainable manner.
- The right of small-scale farmers to produce food and the right of consumers to be able to decide what they want to consume, who will produce it and how.
- The right of countries to protect themselves from excessively low-priced agricultural and food imports.
- Agricultural prices that are tied to production costs: this is possible on condition that countries or unions have the right to tax excessively low-price imports, commit themselves to sustainable peasant farming, and control production on the domestic market so as to prevent structural surpluses.
- The involvement of populations in the choice of agricultural policy.
- Recognition of the rights of women small-scale farmers, who play a major role in agricultural production and food issues[19].

Giving priority to human rights and recognizing the principle of food sovereignty are the two main recommendations put forward by the French international solidarity organizations and their partners, notably in Africa, Asia and Latin America.

These two priorities, which must show through in all of the development policies initiated by the southern countries' different institutional partners (governments, European Union, International Financial Institutions), must also be at the centre of negotiations at the WTO.

[19] Via Campesina, 2003.

3. Recognize agricultures right to development

When contradictions emerge between national or regional agricultures and international trade, development must take precedence and international trade be made to serve it. Countries must be able to implement the development policies they wish, and which are in the interests of their people. For foreign trade, the following terms must be recognized:

- **The right of countries that are victims of dumping to protect their markets**

Countries that are victims of distortions or dumping policies on the part of third-party countries must have a recognized right to protect their domestic national and/or regional markets and regulate imports that harm their food sovereignty.

- **The right of countries to protect themselves from excessive fluctuations on international markets**

The southern countries must be able to retain considerable flexibility in establishing border protective measures, in order to protect their farmers and regulate trade flows in accordance with their development objectives, both today and in the future. In both the negotiations under way at the WTO and current bilateral agreements, this right must be translated into the inclusion of a "safeguard clause" to guard against import surges (whether or not the product is subsidized) and excessive fluctuations in agricultural prices. This clause must be readily accessible to all developing countries. It must be activated automatically, easy to implement and effective. It could be activated in the event of increased volumes or falling prices, and allow tariffs to be raised for the required duration; it could also allow the use of quotas where necessary.

- **The right of countries to protect products of a strategic nature**

The national or regional production of products of crucial importance for the food security of local populations, or for the economic and social development of a zone or country, must be protected from destructive competition. Based on the criteria set out in the 2004 July Framework Agreement, there must be broad, open recognition of special products, the list of which shall be defined by each developing country in accordance with its development needs. This category must be included in all trade negotiations, at the WTO or in other contexts alike, without the country having to "pay" for it with a greater opening for other products or services. Likewise, criteria must be defined for the category of sensitive products for other countries.

- **The right of countries to give preference to national and regional products**

The defence of national and regional products and a recognized right of preference condition the development of local economies based on the creation of short food channels. Markings and other labelling systems that identify local products are essential for promoting such local food economies, which have the dual advantage of creating local business and avoiding the environmental damage associated with long-haul transport.

4. Stabilize and regulate the world agricultural markets

To avert the growing destruction of rural economies in developing countries and the exclusion of billions of men and women either directly or indirectly dependent on agriculture, the international community is duty bound to put an end to the inequities of competition and the chronic imbalances in agricultural markets that are depressing the prices of agricultural products. Accordingly, we would like to stress the need to:

- **Abolish all direct or indirect export support**

As soon as possible, the developed countries must fulfil their commitment to abolishing all forms of export subsidies, including such practices as export credits or food aid when used as a means of disposing of agricultural surpluses on the markets of third-party countries. It is important to ban the improper use of export credits and credit guarantees, by establishing disciplines in relation to payment terms, the payment of interest, and premiums. There must also be a ban on the unfair practices associated with state trading enterprises, such as the export subsidies they receive and grant, their financing by public authorities, and the insurance against losses they enjoy.

As for the state trading enterprises set up in developing countries, it should be recognized nevertheless that their monopoly on sales of agricultural products allows a true regulation of the domestic market. The monopoly on imports enables tighter control over the arrival of imported products on the domestic market and prevents them from causing too sharp a drop in producer prices. Curbing exports when supply is lower than demand is a means of preserving the stability of domestic retail prices and ensuring food security. Special attention should therefore be paid to state trading enterprises in developing countries.

On the subject of food aid, it should be prohibited for donor countries to continue using it as a means of disposing of their surplus production and opening up new markets, competing with domestic production in the beneficiary country and seriously disrupting their markets. Food aid must correspond to a need in the beneficiary country, be exempt from any conditions, be provided preferably in the form of cash transfers (except under certain exceptional circumstances where there is a demonstrated shortage) and be founded on minimum commitments established by the London Convention on food aid.

The argument according to which the abolition of export subsidies would be harmful to least-developed and net food-importing developing countries because of the increase in world prices that would ensue, must not serve as a pretext for exporting countries to maintain unfair export competition practices.

- **Redefine the notion of dumping**

The negotiations under way at the WTO must put an end to dumping in any form. WTO negotiators will accordingly have to revise the definition of dumping, which should be defined not as "selling on the world market at a price below the domestic price", but instead as "selling at a price below the production costs, including social and environmental costs".

- **Redefine what is and is not legitimate support**

We believe that the WTO's current approach, dividing supports into amber, blue and green boxes, is erroneous and does not correspond to the objectives we attribute to agricultural policies. The WTO's role should be confined to ensuring that member states' agricultural policies do not generate unfair competition on the world market (mainly through the sale of products at prices below their production costs).

Support measures must be assessed on their effects on market equilibrium, competition between producers, and nature conservation. Domestic agricultural supports are legitimate for developing and developed countries alike, insofar as their aim is to guarantee food security, defend small-scale producers and rural employment, and protect the environment, and as long as they are not an indirect form of export support.

The negotiations under way at the WTO must not result in a challenge to the right of each country or regional group to conduct an agricultural policy in keeping with its needs in terms of food, preservation of the environment and natural resources, employment, regional development, etc. The goal of fostering respect for the right to food and the implementation of sustainable production methods must take precedence over that of eliminating trade barriers.

We request the abolition of supports that encourage the development of non-sustainable production models. We likewise request the banning of supports that encourage overproductions, as these in turn depress the prices of agricultural products. In this respect, the redefinition of the blue box proposed by the 2004 July Framework Agreement is not satisfactory. It does not open the way to a more legitimate system of support.

As mentioned above, apart from direct export subsidies, there are many other factors and practices that contribute to a situation of unfair competition on the world market. Any government support, even the "decoupled" support included in the "green box", allows the producers who receive it to sell their products at prices below their production costs. For this reason, we believe any product covered by a government support measure, in whatever form whatsoever, must not be exported on the world market.

- **Control the volumes of products traded on the world market**

The majority of global agricultural markets are structurally unbalanced. When supply exceeds solvent demand, it triggers a collapse in prices. For each production or category of production, worldwide supply-management mechanisms must be set up to regulate production and world stocks and ensure a fair distribution among producing countries. Their feasibility must be examined at national, regional and international level in order to choose the most efficient solution. Previous experiences of quotas and product agreements can be used as a basis for the new arrangements, but should be assessed first so that they can be improved and adapted to the new international situation.

With this in mind, the WTO should encourage the member states to regulate the quantities produced within their borders so that they can ensure their population's right to food is suitably fulfilled, but without imposing unfair competition on the world market.

5. Recognize products' social and environmental value

The various components of international law (commercial, social and environmental), if negotiated separately, remain cut off from each other and in an order of priority. The Dispute Settlement Body (DSB), the authority responsible for ruling on trade disputes, does not take international social or environmental law into consideration. And effectively when there is conflict between commercial priorities and social or environmental priorities, it is the commercial priorities that prevail. This is an unacceptable state of affairs and we propose to change it by:

- ensuring that human, social and environmental rights take precedence over commercial rights and are recognized and respected in the trade rules adopted at the WTO and in the rulings of the Dispute Settlement Body;

- ensuring that the social and environmental value of products is respected, through UN-controlled international standards defined on the basis of ILO conventions and environmental conventions. A system of labelling that provided consumers with product traceability could help ensure these standards were respected. Developing production processes that are more socially and environmentally sustainable is a first step towards combating overproduction and dumping on southern markets.

6. Help restore the balance of power within the agri-food industries

The way profits are distributed among stakeholders in the agri-food industries is first and foremost a question of the balance of power. And the balance of power within the agri-food industries is extremely unequal. To help remedy the situation, we suggest the following:

- establish legal instruments that will have the force to regulate company practices (products purchased at remunerative prices, stable procurement arrangements);
- combat monopoly and oligopoly positions among private marketing and distribution enterprises;
- strengthen legitimate state trading enterprises, i.e. those not aimed at facilitating export dumping.

7. Develop policies that are consistent with the fight against hunger and poverty

All of developed countries' policies must be consistent with the objectives adopted, namely combating hunger, poverty and inequalities. Three points are of particular importance:

- **Consistency between WTO rules and IFI rules**

The developed countries must ensure that the decisions made through international financial organizations and the WTO are consistent. The aim is to allow the southern countries to apply the measures drawn up for them, and without IFI measures counteracting WTO measures.

- **Policies comply with international commitments: Millennium Development Goals, economic, social and cultural rights (and in particular the right to food)**

The national and international policies of all UN member countries, in the areas of trade and development alike, must aim first and foremost for full achievement of the Millennium Development Goals. In particular, this implies giving human rights precedence over commercial law and ensuring that trade serves the sustainable development of the poorest populations. The states must also comply with, and fully meet their obligations under the Convention on Economic, Social and Cultural Rights, including the right to food, which must be given the same legal force in practice as the commercial provisions. With regard to the right to food, governments must, through their national policies and international cooperation, protect everyone's right to be free from hunger.

- **Recognition of development differences in bilateral agreements**

Furthermore, the WTO should ensure that all free-trade agreements between developed countries and developing countries includes provisions for special and differential treatment in favour of the developing countries. Reciprocity in market opening can only thwart the efforts of southern countries to regulate and protect their agriculture in accordance with their development priorities. Article XXIV of the GATT, which regulates free-trade zones, must be revised to allow non-reciprocity in regional agreements between developed and developing countries. The latter must not be obliged to open their markets to the same extent as the developed countries, nor open their markets in certain sectors that are strategic for their development. This revision is particularly important in order to lay down new bases for the negotiations in progress on the economic partnership agreements between the European Union and the African, Caribbean and Pacific (ACP) countries.

Moreover, trade liberalization automatically generates an erosion of the trade preferences granted by developed countries to certain developing countries (this is true, for example, of the special trade regime granted by the EU to the LDCs and the ACP countries). To address the erosion of preferences, it is important that the WTO recognizes a finer differentiation among developing countries than the simple distinction between LDC and developing country.

V. Conclusion: restore development to the centre of WTO negotiations

Over the last ten years, the WTO has emerged as the leading regulatory authority for international trade. The free-trade principle underpinning the agreements and the current balance of power have meant that the WTO has mainly benefited the more powerful countries and economic stakeholders.

Only a few days from the WTO's ministerial conference in Hong Kong, the examples cited in this report underline just how much the liberalization of trade in agricultural products, far from increasing food security and facilitating the development of the poorest countries, has in fact worsened the situation of many of them and fostered the growth of inequalities. It has also deprived the governments of any political leverage, contrary to the recent declaration of the G8 members. At their meeting in July, they asserted that the developing countries would have to "develop their economic strategies themselves".

There is neither a right to trade nor a duty to trade. The development of trade must be measured against its contribution to sustainable development and the fight against poverty and inequalities. It is only one of a number of means to achieve these ends.

This is why we believe that a far-reaching reform of the WTO is vital in order to:

- review its founding goal, i.e. the removal of all trade barriers. The aim of the WTO must be to facilitate the establishment of trade rules that contribute to sustainable development and are favourable to the southern populations, notably by ensuring compliance with human rights as a whole;
- ensure that all countries, and in particular the southern countries, can implement the development policies they wish, and which are in the interests of their people;
- make its workings more transparent and democratic, so that all countries can be fully involved in the trade negotiations.

Any agreements that may be concluded at the next conference in Hong Kong must work towards sustainable development and be genuinely favourable to the southern countries.

In order to put these principles into application and restore development to the centre of the coming negotiations – a goal that is the negotiators' guiding principle – it is essential to promote a new policy, diametrically opposed to the one initiated two decades ago.

3

Product Factsheets

Rice, the key food security product

in 34 developing countries, and a marker of the complexity of the issues involved in liberalising international trade

Rice is the staple diet not only in Asia, but also in Latin America and Africa.

Although only 4% of the world rice production is traded on the global market, very bitter bargaining takes place around this small percentage, and this shows the complexity of the impacts of liberalising the international trade of agricultural produce. Some of the issues include unfair competition caused by American subsidies, wrongly-used food aid, and increasingly, ferocious South-South competition, in which the weakest producers go to the wall.

Product overview

Changes in global production

Main producers in the period 1980-2004
(average per year in Mt)

Country	Production Period 1980-84	Production Period 1990-94	Production Period 2000-04
1. China	161.5	184.7	177
2. India	81.7	115.1	128.7
3. Indonesia	33.9	44.6	52
4. Bangladesh	21.3	26.7	37.7
5. Thailand	18.3	19.4	26.5
6. Myanmar	14.1	15.3	22
7. Vietnam	13.7	21.4	34
8. Japan	13.1	12.6	11
9. Brazil	8.9	9.5	11.1
10. Philippines	7.8	9.8	13.3
11. United States	6.5	7.7	9.5
TOTAL GLOBAL PRODUCTION	**427.8**	**526.2**	**592.7**

Source: FAOSTAT

The ten main world rice producers have stayed the same over the last thirty years, and their ranks have not changed greatly. (China, India, Indonesia and Bangladesh have remained respectively first, second, third and fourth producers over the last thirty years.)

Production in China, the leading world producer, has had a tendency to stagnate over the last 30 years.

The global increase (+ 139% in the period in question) is mainly the result of an average increase in productivity in intensive irrigated rice-growing systems, mainly thanks to better use of water and the impact of the green revolution in many Asian countries.

Vietnam has had the greatest increase in production over this period, with an increase of 248%. Bangladesh, the Philippines, India, Myanmar and Indonesia all increased production by more than 150% over the same period. Japan is the only one of the ten main producers to have had a drop in production over this period (84% of the original quantity).

This tendency to increase production is also seen in Africa, where production has more than doubled in the last thirty years (from 7 million tonnes of paddy rice in 1970 to over 18 million tonnes in 2004), although the continent only produces a very small part of the world's rice.

Changes in world trade

The vast majority of rice produced is eaten in the producer country, and at present less than 4% of husked rice produced is traded on the world market, which means that the world rice market is mainly an excess management market (even if some countries have a policy of deliberately producing large excesses for export, such as the United States, Thailand or Vietnam).

- **Changes in major exporters**

Main exporters in the period 1980-2004

(average per year in million of tonnes)

Country	Quantity exported Period 1980-84	Quantity exported Period 1990-94	Quantity exported Period 2000-04
1. Thailand	3.5	4.7	7.4
2. USA	2.6	2.5	3.1
3. Pakistan	1.1	1.1	1.99
4. China	1.1	0.752	2.44
5. Myanmar	0.7	0.36	0.54
6. Italy	0.55	0.63	0.6
7. India	0.48	0.506	3.04
8. Japan	0.43	0	0.162
9. Australia	0.4	0.486	0.43
10. Uruguay	0.2	0.36	0.71
11. Vietnam	0.05	1.66	3.56
TOTAL WORLD EXPORTS	12.49	15.31	26.39

Source: FAO

The rice export market is very concentrated, since the 5 leading exporters account for about 70% of total exports.

Thailand has retained its position of leading world rice exporter over the last thirty years, and has also doubled the quantity of exports (+ 208%).

Vietnam has become the second world exporter, due to the exponential growth of its exports over the period in question. From a very small start, Vietnamese exports reached 1.66 Mt in the early 1990s, and doubled (+ 212%) between then and the first years of the 21st century.

The USA has remained in the top three, dropping from second to third place, with a 117% increase in exports.

Pakistan has also kept its position as one of the main exporters over the last thirty years, doubling the quantity of rice exported.

India and China: their positions in the export tables vary according to the needs inside the country. Both countries show large variations from year to year, but India has had a notably large increase in exports from the early 90s, and China has had the same from the late 90s.

Other trends to note are the marginalizing of Japanese exports, and the way Uruguay, Argentina and Egypt have moved into place among the leading dozen or so exporters.

- **Changes in major importers**

The leading importers during the period 1980-2003

(average per year in million of tonnes)

	Period 1980-1984	Period 1990-1994	Period 2000-2003
Asia	5.91	5.8	11.44
Africa	2.82	3.8	6.15
Europe	1.85	2.36	3.15
Latin America and the Carribean	0.82	2.21	2.75
Other	0.93	0.83	1.02
WORLD	12.34	15	24.51

Source: FAO

Asia: a slight decrease between the early 80s and the early 90s, then a marked increase from the early 90s to the early 2000s (+ 197%), making an overall increase of 193% over the period in question.

Africa: an increase over the last thirty years, 134% between the early 80s and the early 90s, then 161% from the early 90s to the early 2000s. Imports increased by 218% between the early 80s and the early 2000s.

Europe: + 127% in the first 2 decades, then + 133% between the second and third, making an total increase of + 170% between the beginning and end of the period in question (1980-84 to 2000-03).

Latin America and the Caribbean: a large increase of + 267% in the first 2 decades, then a smaller increase between the second and third decade (+ 124%), making an total increase of + 332% between the beginning and end of the period in question.

So there has been a large increase in imports for all the regions studied, with the greatest increase for Latin America (+ 332%), followed by Africa (+ 218%), with imports to both these regions increase more than the global average (+ 198% for the period in question). However, for Latin America, the increase was mainly between the early 80s and the early 90s, whereas for Africa it was mainly from the early 90s to the early 2000s.

- **Main consumer countries**

Rice mainly feeds people in the South. It is the staple diet of 17 countries in Asia, 9 countries in Latin America and North America, and 8 countries in Africa[1].

There are three types of rice "consumption":

> the Asian model, in which the average per capita consumption is over 80 kg per annum (China: 90 kg, Indonesia: 150 kg, and the record is held by Myanmar, with over 200 kg);

> the subtropical developing countries model, with an average per capita consumption of 20 to 40 kg p.a. (Colombia: 40 kg, Brazil: 45 kg, Côte d'Ivoire: 60 kg);

> the western model: average per capita consumption of less than 10 kg p.a. (France: 4 kg, United States: 9 kg).

Types of rice production

- **The place of family farming**

There are about 2 billion rice producers throughout the world, and 4/5th of the rice is produced by small producers in the developing countries. However, this type of production exists alongside large-scale intensive commercial rice growing, (sometimes in the same country), and this rice is marketed by a few multinational companies, which puts huge competitive pressure on small producers, and threatens their livelihood.

- **Different types of production**

Intensive irrigated rice and traditional systems using rainwater coexist within the different producer countries, with resulting large differences in productivity (cf. below).

- **Productivity differentials**

It should be noted that there are huge differences in yield depending on the countries and the methods used. In 2004 the highest national yield was 10.07 tonnes/ha (intensive irrigated production, e.g. Australia), and the lowest was 0.75 tonne/ha (traditional rainwater system, e.g. Congo), with the global average at 3.84 tonnes/ha[2].

However, it should be noted that there is currently a trend to lower yields from intensive rice production, either due to cost of inputs (fertilisers etc.) or for environmental reasons (degradation of natural resources).

Organisation of the rice supply chain

There are many different roles in rice supply chain (producers, importers, wholesalers, retailers, transformers, input suppliers, transporters, etc.), and these aspects are organised to different degrees, which explains why they do not all have equal weight in the industry.

1 "La filière du riz", CCFD group work theme Dossier 2004-2005, data source FAO.
2 Source: FAOSTAT.

Governments tend not to consult either producers or consumers when making decisions because, all too often, they consider that neither group is important. Over the last few years, the need to include Producers Organisations in the decisions has been acknowledged (fixing market price of local rice, analysing the situation of the different types of producers in their respective countries, consulting them about how they see the future of the rice industry, etc.).

Local traders are often speculators. They buy local or imported rice, and store it so they can sell it later when prices rise. They also give credit at excessive rates to producers, who pay them back in kind in sacks of paddy rice, sometimes at their own loss. This situation can be explained by the fact that local traders often get a better profit margin from imported rice. In view of this, governments need to have a stronger policies for negotiating the position of the local industry and the distribution of profits.

Changes in prices

The rice market is one that manages surplus production, which makes world rice prices very volatile.

Nominal world rice price
(US dollars/t)

	1993-94	1997-98	2000-01	2003-04
Annual average price	294	302	184	221

Source: OECD agricultural perspectives, 2005

Analysis of the consequences of liberalisation

Maintaining unfair competition: the case of the United States support policy

The United States policy of supporting rice production and export is a flagrant contradiction of the free-trade message that they propagate in the WTO.

- **Measures supporting increased production**

Ten years after the Agreement on Agriculture (AoA) came into effect, the Act – the Farm Security and Rural Investment Act – that regulates the country's agricultural policy for 2002-2007 has strengthened support measures relating to prices and income compared with the Act that held jurisdiction over the period 1996-2001 – the FAIR Act.

American rice producers receive three types of direct aid from their government, which ensures guaranteed prices (marketing loan), income support (fixed payments) and stable income (counter-cyclical payments).

The guaranteed price for rice is twice as high for 2002-2007 as the market prices for 1999-2002 (see table below).

Market price of rice compared to the target price as indicated in the FSRIA, 1999-2007

	Average monthly price (yearly average)				Target price	
Year	1999	2000	2001	2002	2002-03	2004-07
Amount	5.93	5.61	4.25	4.10 to 4.20	10.50	10.50

Source: economic research department, USTR[3]

The three types of direct aid given to producers correspond to an internal support amounting to million of US dollars (see table below).

Summary table of internal US support measures for rice in 2001

Type of internal support	Amount paid in 2001
Fixed payments	5 billion (for all products)
GSM for rice (= Amber Box)	798[4] million
Minimis support	46 million
Blue Box payments	0

Source: United States notifications to WTO

There are two explanations for keeping this high level of internal support, in spite of the WTO's Agreement on Agriculture which limits this sort of practice:

– firstly, the WTO leaves member states comfortable room for manoeuvre in according internal support. It should be remembered that the ceiling level for internal support is not per product, but for all products together, which means that the United States did not have to commit to reducing internal support given specifically to rice producers. At the time the Agreement on Agriculture came into force, the United States effectively paid 14.4 billion US dollars in internal support for all products. On comparison, this is in fact lower than the sum committed to internal support at the end of the period of application of the AoA (17 billlion US dollars). So in practice, the AoA measures for reducing internal support have not proved to be very restrictive for the United States;
– secondly, when the AoA measures did prove to be more difficult, the United States found ways of getting around them. They do this particularly by "changing boxes", or by circumventing WTO support measures classification, for example by classifying counter-cyclical payments as Amber Box support "other than by product", whereas they are in fact related to a particular product.

3 From the WTO Secretariat report on the review of US Trade Policy, 2003, available on the WTO website.
4 763 Mn GSM per product + 35 Mn support non product specific.

- **Powerful incentives to export**

As a starting point, it should be remembered that US rice exports (3.8 million tonnes in 2003) account for over a third of the production (10.5 million tonnes for the 2004-2005 harvest).

This is explained by the fact that the United States has created powerful incentives to export. They use two types of instruments for strengthening the position of American rice on international markets:

> firstly Export Credits Guarantee, a mechanism whereby the government covers the cost of unpaid loans made by American exporters to foreign importers. Each year, 15 to 25% of American exports of raw and transformed grains are covered by Export Credit Guarantees[5]. In 2003, export credits for rice amounted to 184 million US dollars[6];

> secondly Food aid, which is mainly delivered as gifts in kind (including rice), and for which one of the explicit goals is to "…develop and enlarge export markets for agricultural commodities from the United States" (Act PL 480). And indeed from 1997 to 2002, the proportion of American rice exported in the form of food aid increased from 5% to 11%[7].

South-South competition

After their green revolution, both Thailand and Vietnam, two of the leading exporters, had large exportable surpluses and had become very competitive. They continue to set up production incentives and programmes for stimulating exports, which are mainly based on controlling internal prices (setting up storage mechanisms, and fixing bottom prices for domestic production.) Both countries also sell on credit to major importers, and have set up agreements between governments for rice trading.

These policies mean that rice from these countries is very present on the global market. It finds it way to many developed and developing countries.

In the Philippines, for example, rice is mainly imported from Thailand and Vietnam, where it is sold more cheaply than the locally produced rice. In the Philippines, the wholesale price of Thai rice that comes on the market after 50% customs duty is added is 18.92 Filipino pesos per kilo (i.e. 0.336 USD), and Vietnamese rice is 19.08 pesos/kg (0,339 USD), whereas Philippine rice sells wholesale at 20.2 peso/kg (0.359 USD)[8].

Thai and Vietnamese rice is not only very present on the Asian import market, but it even reaches African markets. In Burkina Faso, Thai broken rice can be bought at 200 FCFA/kg (0.37 USD) while, at the same time, locally produced rice is being sold at 240 FCFA/kg (0.44 USD)[9].

This shows the real South-South competition now occurring in the rice trade.

Opening the markets: minimum access and dismantling the customs protections

There are several obligations in the AoA referring to opening markets, including removing quotas, lowering customs duty and commitments to minimum access.

5 Source: AgriUS Analyse, n° 82, May 2002.
6 Source: USDA.
7 See the US Ministry of Agriculture table.
8 Source: Ignacio J., "Trading-off Philippine Rice", Integrated Rural Development Foundation of the Philippines (IRDF), March 2005.
9 Source of figures: Oudet Maurice, "À qui profite l'aide alimentaire ?", available on the abc Burkina website. Converted to USD at current rate on 23/09/05.

- **The minimum access clause and its consequences: the case of Japanese food aid**

The first pillar of the AoA, entitled "Market Access", requires signatories to commit to decreasing tariff protections[10], but also to ensure minimum access to imported products[11], equal to 5% of the average internal consumption for the period 1986-88. This had to be achieved by 2000 for the developed countries and by 2004 for the developing countries. This is the minimum access clause or 5% clause.

It was because of this measure that, from the year 2000, Japan found itself obliged to import a yearly minimum 770,000 tonnes of rice (in husked rice equivalent).

Because Japan was obliged to import rice over and above its needs, it decided to dispose of the rice on the international market in the form of food aid.

So in 2000-2001, 706 830 tonnes of rice was used as food aid, which corresponds almost exactly to the minimum access requirement. This was three times as much as the previous year (when the condition was not yet in place), when the amount of food aid was 218,928 tonnes[12].

This food aid is poured into domestic markets of developing countries, where it has drastic effects on national production.

So, for example, since 1995, Japan has been giving over 6500 tonnes of rice a year to Burkina Faso in the form of food aid, which represents 8 to 10% of Burkina's national production. The latest donations have been monitored, and this has revealed that it is fact American rice imported by Japan and re-exported as food aid. However this food aid rice is sold at 233 FCFA per kilo, compared with 240 FCFA/kg for rice produced in Burkina[13].

- **Dismantling quantitative restrictions: the case of the Philippines**

The AoA carries an obligation to convert quantitative restrictions into customs duty. The only exception allowed concerns primary agricultural products that are the predominant staple diet of a member developing country (Annex 5 of the AoA).

This allows the Philippines to limit their rice export to 238,940 tonnes taxed at 50% (i.e. a non-prohibitive customs duty). The purpose of this measure is to keep control of the offer on the Philippine market, and so control domestic prices. The government of the Philippines is doing this so that the domestic price reaches an equilibrium level that is neither too high for consumers nor too low for producers.

However this marketing policy is threatened:

Firstly by the obligation of opening an import quota (see table below). Once this quota was opened, there was immediately a large increase in imports (see table below).

Secondly, the policy is also threatened because the possibility of maintaining quantitative restrictions on imports is only temporary (cf. the AoA annex 5 exception mentioned above). It expires 10 years after the AoA came into force, i.e. July 2005[14] .

So the Philippine government can only maintain quantitative restrictions on rice imports temporarily.

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[10] Except for the LDC.

[11] For those products, customs duty has to be kept at a non-prohibitive level so that all exporters can have good conditions for accessing the market.

[12] Source: FAO, "Examen des politiques relatives aux produits alimentaires de base", 2003, p. 25.

[13] From retail price in Ouagadougou market (for Food Aid imported rice) and Koudougou market (for local rice). Source: Oudet Maurice, "A qui profite l'aide alimentaire ?", available on the abc Burkina website.

[14] At the moment, the Philippine government is negotiating with its trade partners to extend the right to keep restrictions on the quantities of rice imports until 2012, in exchange for a further quota enlargement, which would go from 238,940 t to 350,000 t.

Progressive increase in the rice import celling levels in the Philippines

Year	1995	1999	2004
Level of quota announced to the WTO (in metric tonnes)	59 730	119 460	238 940

Source: Philippines notification to WTO

Change in the proportion of imported rice in national rice consumption in the Philippines

Year	1981-85	1986-90	1991-95	1996-2000	2001-03
% of imported rice in national consumption	2.82	3.65	1.51	14.9	11.6

Source: BAS

Once this quota has been abandoned, customs duty will go from 50% to 100% on an unlimited quantity of imports, in order to comply with the AoA tarification principle i.e. conversion of quantitative restrictions into custom duties.

But this level of protection will not be enough to prevent rice imports. According to a study carried out by the Integrated Rural Development Foundation of the Philippines[15], with 100% customs duty, the wholesale price of imported rice will be between 24.70 et 29.4 peso/kg depending on its origin, compared to 20.2 peso/kg for wholesale domestic rice. However, the author points out that this price difference is too small to dissuade rice importers and traders from preferring imported rice, because it is easier to access. (Imported rice is concentrated in a port on arrival, whereas local rice costs a lot to collect because it is dispersed around the whole country.)

Moreover, according to WTO obligations, once the quota has been transformed into customs duty, the duty will have to be reduced[16]. The current renegotiations of the AoA are aiming to keep this trend.

According to the Philippine Institute for Development Studies[17], the poorest members of the Philippine population are the ones who would suffer the most from liberalising rice imports[18]. Once the domestic market is open, the positive effect in terms of consumption resulting from a drop in retail price of rice will not be enough to compensate for the negative effects related to the loss of income.

● **The decrease in customs duty: the case of Burkina Faso**

In Burkina Faso, the government pulled out of the rice industry to comply with the Structural Adjustment Plan in 1991, and there was a drop in the tariff protection applied to rice imports (see table below).

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15 Ignacio J., "Trading-off Philippine Rice", Integrated Rural Development Foundation of the Philippines (IRDF), March 2005.

16 For developing countries such as the Philippines, the current reduction obligation is 10% over 10 years. The renegotiation of the AoA should prolong this trend, since substantial reductions for all products are announced (Cf. Framework Agreement 31st July 2004). It is true that this uses the notion of special products, but the July text mentions less reduction commitments and not exoneration.

17 "Rice Reforms and Poverty in the Philippines", A CGE Analysis, Cesar B. Cororaton, Philippines Institute for Development Studies, Discussion Paper Series nº 2004-14, June 2004.

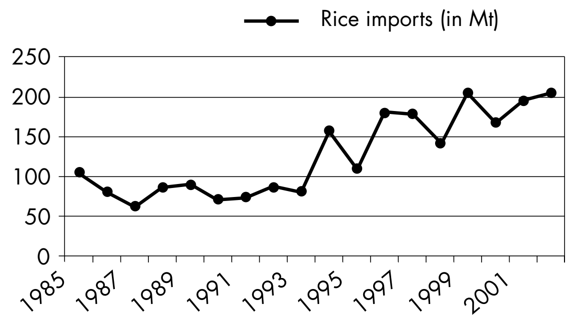
18 The study breaks the Philippine population down into eight categories. It is the least qualified workers in both rural and urban areas who suffer the most from opening markets.

Change in taxes on rice imports (CD = customs duty)

Year	Taxes
1985	CD: 6% + Equalisation equivalent to 39% border price
1992	CD: 11% + Conjunctural Import Tax (CIT)
1996	CD: 10 and 12%. CIT abandoned
2000	CD: 5% and 10%[19]

Source: interprofession du riz du Burkina Faso

Evolution of Burkina rice imports, 1985-2002



Source: ICAC

The drop in customs duty has resulted in a great increase in rice imports into Burkina Faso over the last twenty years, with an even more marked trend from the mid 90s.

The rice industry started to function badly once it was privatised, and that together with the increase in rice imports is largely responsible for marginalizing national rice production. At present, 80% of the demand for rice in Burkina Faso is met by imported rice.

The national rice industry is an important source of work and income for the country's rural population – particularly the poor rural population and the women, because over 50% of the added value of the national industry goes to the women operating the rice husk stoves. The imported rice industry, on the contrary, has very little trickle down effect on the poor.

The increase in rice imports mainly brings profits to the rice importers and retailers in Burkina, importers, wholesalers, and particularly retailers. According to the "Interprofession du riz" in Burkina, retailers make twice as much from distributing imported rice as they do from nationally produced rice.

Conclusion

In the rice industry, maintaining unfair competition and enormous differences in competitiveness means that an increasingly open market has disastrous consequences for food security and small farmers in the South.

[19] For the current customs duty, the WAEMU CET is applied. 10% for paddy rice and seeds (classified as commodities) and 10% for all other rice (classified as intermediary consumer goods).

Falling sugar prices: marginalising the poorest

Sugar is a special product on the international scale. It is both the most traded commodity in the global market, and the one for which the most complex trade agreements have been made.

We have chosen here to set out the consequences for small sugar producers of the World Trade Organisation rules on "non-discriminatory treatment of trade partners".

Product overview

Trends in global production

In 2000-2001 the world sugar production was 130.4 million tonnes.

More than 70% of the world sugar production comes from sugar cane, which comes mainly from Asia, Latin America, Africa and Oceania. Most beet sugar is produced in Europe (80%). Another 10% comes from North America, and 8% from Asia. Over the last few years, Brazil has replaced the EU as the world's leading sugar producer, with 21.4 million tonnes in 1998-1999 compared with 17.6 million for the EU.

The other major producers, in order of size, are India (16.9 million tonnes in 2000), China (9.7 million tonnes) and the United States of America (7.5 million tonnes). The average annual production of the ACP countries (Africa, Caribbean, Pacific) totals 3.9 million tonnes.

Trends in world trade

Sugar is one of the most traded agricultural products in the world, with about 37 million tonnes traded each year, i.e. almost 28% of the total global production. About 10% of these exchanges are covered by preferential trade agreements. The most important of these are the United States tariff contingents (1.8 million tonnes in 1998), the EU sugar protocol and the special preferential sugar agreements with the ACP countries (almost 1.7 million tonnes).

- **Trends in major exporters**

World trade is dominated by a handful of countries. Between them Brazil, the EU, Australia, South Africa and Thailand cover almost 70% of all exports.

- **Trends in major importers**

Five importers – Russia, Indonesia, the United States, the EU and Japan – account for almost one third of all sugar imports. The EU is the only entity that is both a major exporter (of white sugar) and a large importer (of raw cane sugar).

Changes in international trade of refined sugar
(as a percentage of world trade)

Imports	1980	1985	1990	1995	2000	2001	Exports	1980	1985	1990	1995	2000	2001
USSR/Russia	12.8	2.3	0.3	13.5	1.9	0.9	EU (15)	53.2	49.0	57.7	49.3	46.6	42.5
EU (15)	8.1	10.4	12.5	11.5	13.7	17.5	South Africa	0.0	1.0	1.7	0.6	3.9	1.5
Indonesia	4.8	0.0	2.3	1.6	7.9	6.8	Brazil	7.1	12.3	5.3	10.0	12.5	22.5
Iran	4.6	5.1	7.1	7.2	0.0	0.0	Korea	3.5	3.3	2.6	1.6	1.8	1.7
Israel	2.0	2.3	2.7	2.5	2.9	2.9	Malaysia	0.2	0.9	1.8	0.6	1.5	1.6
Mexico	0.0	0.0	10.0	0.2	0.2	0.2	Thailand	0.0	1.6	5.6	6.6	10.2	5.7
Sri Lanka	2.5	2.9	0.4	0.0	3.1	2.8	Mexico	6.9	3.5	3.9	2.5	0.5	0.6
Syria	1.9	3.8	2.2	1.8	2.5	5.3							

Source: FAO

Changes in international trade of raw sugar
(as a percentage of world trade)

Imports	1980	1985	1990	1995	2000	2001	Exports	1980	1985	1990	1995	2000	2001
USSR/Russia	20,8	24,0	23,8	6,9	22,1	24,1	UE (15)	2,3	0,9	0,4	0,5	0,6	0,4
EU (15)	12,2	11,5	14,0	10,6	8,7	8,1	South Africa	4,3	5,2	4,3	1,5	3,5	5,4
Korea	4,2	5,0	6,4	7,2	7,1	6,8	Australia	12,0	14,1	16,1	19,8	18,9	15,1
Iran	0,0	0,0	0,4	0,2	5,3	3,4	Brazil	10,8	7,6	5,2	24,1	20,4	31,0
Japan	12,3	10,7	10,0	9,6	7,6	6,8	Thailand	2,5	9,6	9,8	14,1	10,9	9,7
Malaysia	2,6	3,3	4,8	5,7	5,8	5,7							
Mexico	5,9	0,0	4,1	0,1	0,0	0,1							
United States	20,1	14,1	10,5	8,8	6,5	5,7							

Source: FAO

● Changes in consumption

During the 1990s, world sugar consumption grew regularly by an average of 1.4% per year. The growth of consumption is small in the industrialised countries, which together account for about a third of the world consumption. Elsewhere, consumption is growing in parallel to the population growth, and should increase by about 1% per year over the next 25 years[1].

Types of production in the sector

● The place of family farming

The place of family farming in the sugar industry varies enormously from one country to another, as shown by the ACP and LDC countries that have preferential agreements with the

[1] European Audit Office Report.

EU. So sugar is mainly produced in small family smallholdings in the Caribbean "sugar islands" and in Mauritius. In Mauritius, for example, the farms are small and there are many producers.

Spread of growers as a function of surface area in Mauritius in 2003

Size of farms (ha)	**Surface of cane sugar harvested** (ha)	**Number of growers**
0.01–1	8 995	22 007
1–5	10 861	5 624
5–50	4 575	493
> 50	18 279	47
TOTAL	42 711	28 171
Plantations and factories	28 285	
Total surface harvested	70 996	

Source: Mauritius Agricultural Statistics 2003

The situation is different in the LDC exporting countries such as Sudan, Mozambique, Malawi, Zambia, Tanzania and Ethiopia where small, independent growers are fairly unusual. In Sudan, most sugar complexes are integrated. There are no independent farmers, only salaried workers[2]. In Mozambique, there were only 85 independent growers listed, working for just one of the four production plants in the country, and producing less than 1% of the sugar cane.

In Brazil, there are 60,000 independent producers, and the average size of the smallest farms is 150 ha. These independent producers supply 27% of the country's total production.

- **Productivity differentials**

Productivity differentials are enormous between the different producing countries, depending on the predominant production structures.

The lowest production costs in the world are in Brazil (200 USD/t in 2000), whereas costs in the Caribbean islands are among the highest in the world (1243 USD/t en 2000)[3].

Organisation of the sugar supply chain

The added value from sugar refining mostly remains in the developed countries and in some major food exporting countries such as Brazil and Thailand.

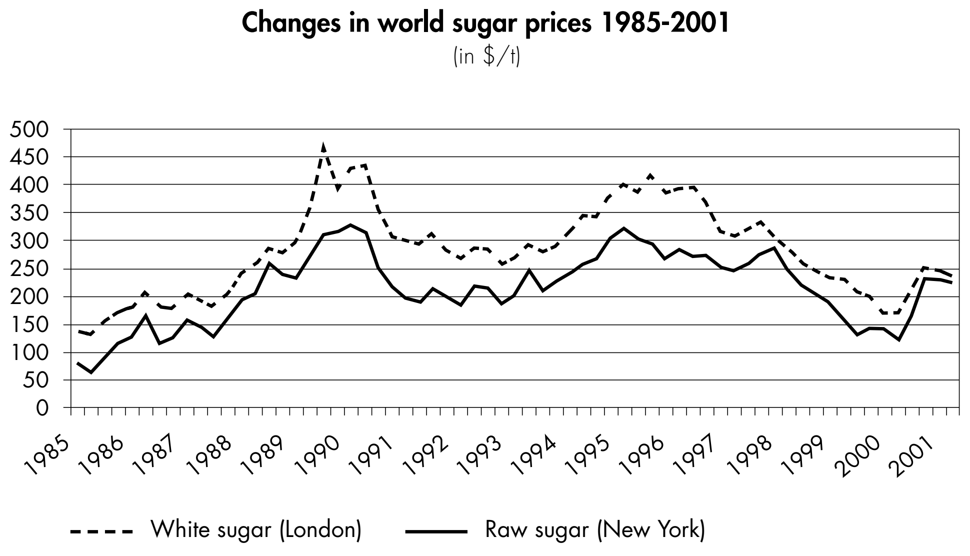
For example, the European Union imports mainly raw (brown) sugar and exports mainly refined (white) sugar. The United States also imports mainly raw sugar from the developing countries. Brazil and Thailand export more and more refined sugar (cf. table "Changes in international trade of raw sugar" above).

2 "Sugar and development, implications of preferential agreements and opening up markets", Lacoste E., Les cahiers de Cyclope, Issue I, May 2004.

3 See table "Comparison of production costs in different sugar producing countries" below.

Changes in prices

World sugar prices are very volatile (cf. table below) particularly because the demand in the industrialised countries is not very sensitive to price variations. This is because sugar is considered to be a commodity for which few substitutes exist, so the demand is very rigid. Consequently, variations in the offer lead to price variations that are rapid and more than proportional.



Source: USDA

The impacts of the change in European sugar policy

The alignment of European sugar policy with WTO rules

- **Constraints imposed by the WTO**

On September 27 2002, Brazil, Thailand and Australia lodged a complaint to the WTO against EU subsidies granted to export their sugar surplus. The complaint attacks both exports of surplus sugar produced in the EU (estimated by Brazil at 3.6 million tonnes) and sugar imported from the ACP countries with preferential access (Sugar Protocol) which is refined in Europe then re-exported at subsidised prices (1.6 million tonnes).

Following the complaint, the EU was ordered to stop export subsidies for its surplus production and decrease subsidies given for re-exported sugar imported from the ACP countries.

This measure obliges the EU to limit its sugar production and reinforce the competitiveness of its sugar industry, which has largely dictated the direction of the reform in European policy.

Another problem is that the preferential access imports that the EU set up with ACP countries do not comply with WTO rules, because they go against the principle of free trade and non-discriminate treatment of trade partners. For the moment the EU has a temporary exemption, but this must change by 2008.

- **The main lines of the European policy reform as presented by the European Commission on June 22 2005**

On June 22 2005, the European Commission presented proposals for changing European sugar policy to bring it into line with WTO rules.

The main measure of the plan was a 39% reduction of the internal European price of sugar by 2009.

The second main measure was to launch a voluntary restructuring plan of the sector to encourage a drop in European production. The plan offers financial assistance to factories ceasing activity and foregoing their production quota, and indemnities to farmers who stop their production due to these factory closures.

On the international level, for the moment the reform does not affect the preferential import quotas from the ACP and LDC countries. However, imports from the ACP and LDC countries will from now be paid for at the new European price, i.e. 39% lower.

These propositions are under discussion at the moment in the Council of Ministers of Agriculture. On October 25 2005, eleven EU Member States, in a letter addressed to the European Commission, declared that they were strongly opposed to the suggestions.

Impacts on the sugar industry

- **The transforming industries are strengthened**

CAOBISCO, the European association of Chocolate, Biscuit and Confectionery Industries, welcomed the price reduction in the European market, and even stated that the reduction should have been larger.

It is clear that the EU sugar processing industries are the big winners of the reform, since the decrease in the European price makes them more competitive.

- **Concentration of production in the European Union**

The drastic cut in the price of sugar in the EU will reinforce the concentration of a production sector that is already very concentrated.

As shown in the table below, 8 European structures control over 70% of production.

With the drastic cut in the European sugar price, only the most competitive factories will survive. The other will have to close, which will force the producers who depend on supplying them to abandon their sugar-producing activity.

The European Commission itself states that sugar production in Greece, Ireland, Italy and Portugal "will be greatly reduced or even disappear", and that production in the Czech Republic, Denmark, Finland, Hungary and Spain will be in a "borderline" situation in which production "should continue, but at a much lower level". The only countries expected to experience a "limited" drop in production are Austria, Belgium, France, Germany, the Netherlands, Poland, Sweden and the United Kingdom[4].

[4] Source: AgraPresse.

Main European sugar producers

Company	% of European production	Geographical situation
Südzucker (with St Louis)	21.4	Germany, Belgium, Austria, France, Poland
Beghin Say	13.3	France, Italy, Brazil, Hungary, Slovakia
British Sugar	7.8	United Kingdom
Danisco	7.3	Denmark, Germany, Sweden
Nordzucker	7.2	Germany
Ebro	5.4	Spain
Pfeiffer und Langen	4.2	Germany
Suiker Unie	4.0	Netherlands

Source: World Community Survey, 2003-2004

- **Disappearance of preferential access: the ACP and LDC countries marginalized**

Comparison of production costs in different sugar producing countries

Country	Cost of production (USD/tonne) in 2000
Brazil	200
Guyana	345
Belize	449
Barbados	844
Jamaica	875
St Kitts	926
Trinidad	1 243

Source: Raffique Shah for the ACP [5] ; FIAN for Brazil [6]

The new European price will drop from 682 to 385 euros per tonne, which corresponds to a change from 833 to about 470 US dollars. The table above shows that, at 833 USD/t, most of the ACP countries (except St Kitts and Trinidad) cover their production costs. However, at 470 USD/t, only Belize and Guyana would still be able to supply sugar, and the other countries will be excluded.

The phenomenon that observers call the “erosion of preferences” refers to the consequences for the poorest countries, which have until now had preferential access to markets in industri-

5 Raffique Shah, quoted in E. Lacoste, “Sugar and developing countries: implications of preferential agreements and of opening up markets”, Les cahiers de Cyclope, Issue I, May 2004.

6 “Economic, social and environmental impacts on Brazil of accelerated liberalisation of the EU sugar market”, FIAN International, October 2002.

alised countries, of the liberalisation of world trade. It is quite obvious, in the case of sugar, that the alignment of the European market price to the world market price will lead to marginalizing the smallest producers, because these are the ones with the highest costs.

From a strictly economic point of view, the mechanism can seem to be legitimate, (applying the theory of comparative advantages). However, in reality it poses serious problems, because the ACP sugar-producing countries have very few possibilities for diversifying their production. The future looks bleak for small cane sugar growers in these countries…

- **The position of major Brazilian plantations in the global market reinforced**

Alignment with conditions of global competition (since a drop in price, and thus in European production, is an important step toward an alignment) will be to the advantage of the large plantations in the main food exporting countries.

At a world market price currently around 220 USD/t, the table above shows that the only country able to supply the market would be Brazil.

The banana war

Bananas are both the leading fruit in terms of world trade and an essential commodity like rice, wheat or maize, which make them a very sensitive product on the economic, political, environmental and social level.

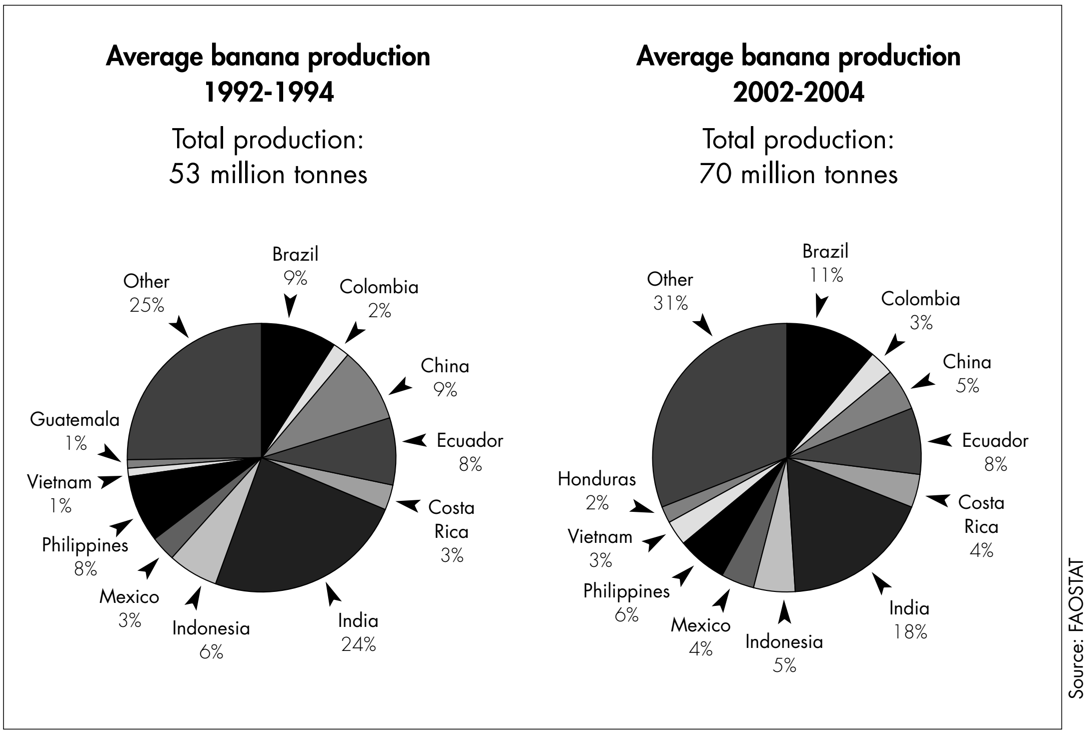
According to the FAO, the total annual global banana export figure is over 4.7 billion dollars. Some producer countries are not very involved in international trade, which explains why only one fifth of the banana production is exchanged internationally. But the banana industry, 80% of which is concentrated in the hands of five major companies, creates colossal incomes and is a major source of jobs and export revenues for producer countries in Latin America, Africa and the Caribbean.

These colossal sums of money, and the very divergent interests of the export countries are behind what has become known as the "Banana War".

Overview of the world banana trade

Organisation of the world market

- **World production of dessert bananas**



- **World banana exports**

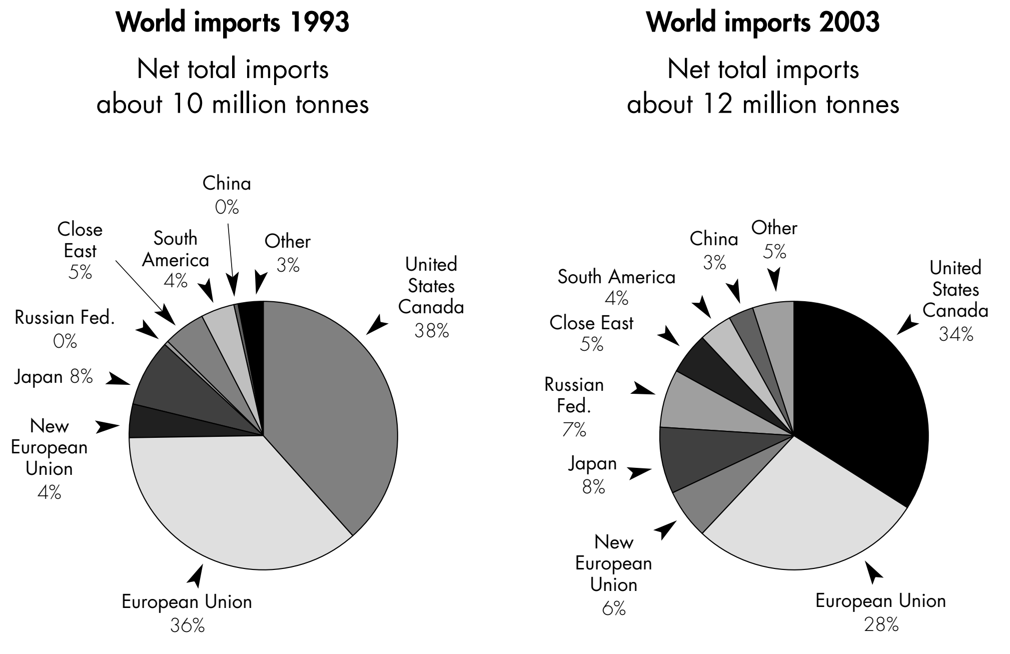
3 main export zones:

> dollar bananas: from Central and South America;
> ACP bananas: from the Caribbean, Cameroon and Cote d'Ivoire;
> Asian bananas: from the Philippines.

% export share	1993	2003
Ecuador	23	33
Costa Rica	18	14
Colombia	15	11
Philippines	11	14
Panama	7	3
Honduras	6	4
Guatemala	4	7
Cote d'Ivoire	2	2
Cameroon	1	2
Brazil	1	2
Dominican Republic	1	1
Winward Islands	2	1

Source: FAOSTAT

- **World banana imports**

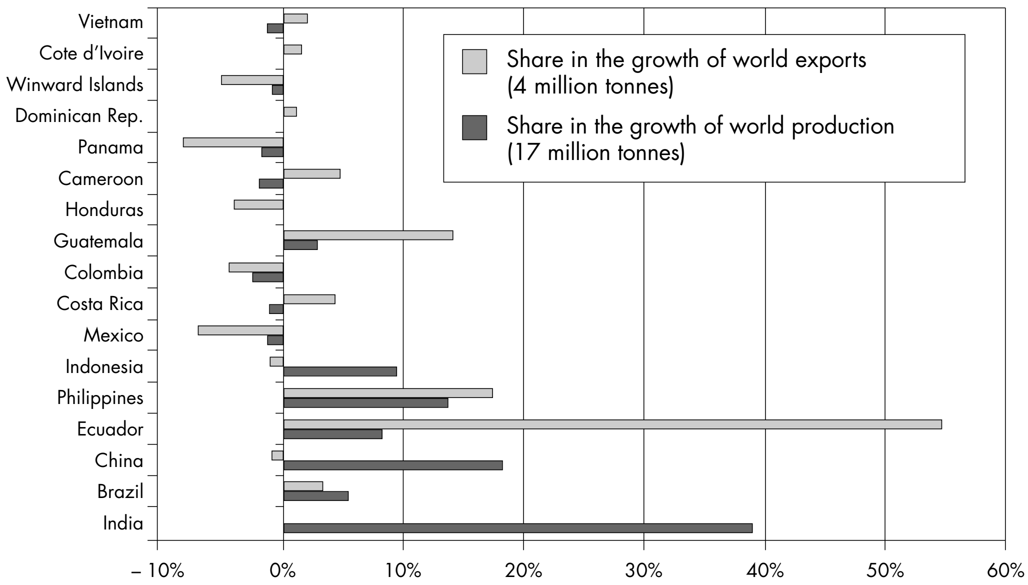


Source: FAOSTAT

North America remains the largest importer, and almost all its imports come from Latin America.

In 2003, out of a total of 4.1 million tonnes of European imports, 63% came from Latin America, 12% from Africa, 9% from the Caribbean and 18% was produced internally.

Ten years of banana production and exports: winners and losers 1993-2003



Source: FAOSTAT

Banana Companies[1]

The banana industry is the most concentrated sub-group in the very fragmented fruit industry. The major companies in the banana industry have not changed. Dole Food Company, Chiquita, Fresh Del Monte, Noboa and Fyffes still control about 80% of world exports.

Multinationals	DOLE	CHIQUITA	DEL MONTE	FYFFES	NOBOA
World rank	23%	22%	15%	7%	11%
UE rank	17%	25%	15%	20%	

Production costs and prices

- **Production systems and costs**

The 2 main production systems are:

> Export plantations. About 17% of banana production – which covers 80% of world export – takes place on plantations of 100 to 4.000 hectares. Production systems are

[1] The information in this chapter is based on company sources (Annual Reports, archives 10K and press releases). Other sources are given.

industrial, make intensive use of inputs and are technologically sophisticated. This type of production is found in Latin America, West Africa and the Philippines. The average yield is around 25-30 tonnes/ha for the most traditional plantations and up to 55-60 tonnes for the most modern plantations in the export zones.

> Small-scale plantations. Most of the world production takes place in small plantations of 0.1 to 10 ha, with an average yield that varies from 4-5 tonnes/ha to 15 tonnes/ha, depending on soil, climate and what else is grown. This type of plantation is mainly found in the Caribbean, but only accounts for 10% of all exports.

Some examples of yields and export prices (production costs)

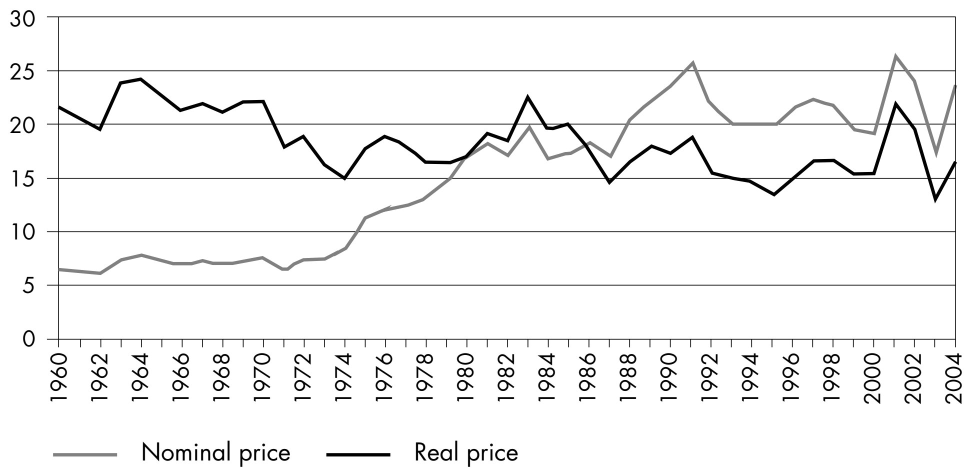
Country	Yield	Price at export in dollars per 18 kg box
Ecuador	26.8 t/ha	3.20 to 4
Costa Rica	46.8 t/ha	5.33
Brazil	11 to 30 t/ha	2.8
Philippines	40 t/ha	3 to 3.5
Windward Islands	7 t/ha	5.5
Jamaica	8 to 16 t/ha	10 to 11

- **Price**

It is not possible to have an international reference price, because the market is so segmented, due to differences in transport costs and varying import policies.

Since bananas enter the American market with no restrictions, the American banana price can be taken as the closest indication of historical price trends.

Trends in terms of trade for bananas from 1960 to 2004 (in US cents/lb)



Source: UNCTAD, based on the monthly commodity price bulletin

Impacts of liberalisation on the banana trade

At present, only a short time before the ministerial conference in Hong Kong, difficult and complex negotiations have opened between the European Union, the United States, the ACP countries and Latin America. These are about the reform of the CMOB (Common Market Organisation of the banana), i.e. the European regime of quotas and tariffs set up in 1993 to regulate the banana trade in the European Union. Today almost all the world banana trade has been liberalised, with the exception of the EU still, and Japan, whose seasonal import tariffs have also been attacked by the WTO.

After 10 years of trade conflicts between the EU and the USA and some Latin American countries, the WTO has obliged the EU to liberalise its banana market by ending the system of quotas and tariffs, and replacing it by a single tariff to be applied to all bananas without distinction. The changes in this market and those still to come have a major impact on the world market and on the main export zones. The issues are fundamental for many producer countries who are very dependant on the banana trade.

European regime

The stated objective of the European regime on bananas is to organise the market so as to allow for "satisfactory supplies of high quality bananas to the EU market at a fair price for producers and consumers, while ensuring a balance between the different sources of banana supplies in the market". More specifically, this aimed to: remove internal trade barriers to allow free movement of bananas within the community; keep the preferences for the ACP countries in order to protect their production; protect European producers (France and Spain) in order to guarantee that this economic activity is maintained; and lastly to give European banana companies greater trade opportunities.

Social and environmental dumping: competition for the bottom prices

A small handful of private companies, operating as oligopolies, control technologies and the strategic stages of the business (sea transport, ripening facilities without which there are no imports, etc.). They impose very low purchase prices, which are not reflected in the prices paid by the consumers. (Supermarket margins on bananas vary between 30 and 40% of the retail price, and the same is true of the multinationals). What sort of balance can exist between 50,000 small producers on the one hand and 5 transnational companies on the other?

In the banana market, there is a general agreement that production costs are lower in the Philippines, Central America and the Caribbean. The reasons are as follows:

> Production systems in large plantations favour economies of scale.

> There are much greater savings on labour costs, because employment rights are limited or not applied, and union rights are difficult to implement.

> Yields are also higher due to intensive use of chemical fertilisers, pesticides and fungicides. This is intensive monoculture with high environmental costs.

> Moreover, in the Caribbean, small producers have heavier costs because of the steep slopes, small size of plantations, poor soils and frequent hurricanes that destroy their production. Transport costs are also higher.

Liberalising the European market will speed up the disappearance of small plantations and benefit the big ones. And this is independent of the tariff.

- **For Latin America**

With the end of the system of quotas and licenses, only the producers and companies with the lowest production costs will be able to stay competitive. This will result in a great deal of pressure for the Latin American countries, where production costs are higher, particularly due to higher social and environmental standards.

Countries such as Costa Rica and Panama will then try to bring their costs down, inevitably by lowering social and working conditions of the farm workers.

In a single tariff system, the uncontested winner will be Ecuador, and the latest arrival on the export market, Brazil, which is developing new plantations with the help of multinationals in the poor NordEste region where there are no trade unions.

- **In the English speaking Caribbean**

Small producers in these regions cannot be as competitive as the dollar banana producers, for the reasons given above.

The price drops and the uncertainties about the future of the banana market have already affected these islands. In the last nine years, dollar bananas have become so competitive that the market share of Caribbean bananas has been decreasing constantly. The first result of this has been that a growing number of small producers have given up their plantations and migrated to the cities or overseas. 2/3 of producers have stopped work since 1993.

The small economies of the Windward Islands are very dependent on bananas. In Dominica, bananas account for 50% of the export income. For each dollar in circulation on the island, 60 cents come form banana growing. So the reform of the European regime could have a devastating effect on economic, social and political life.

The findings of a mission by EMPs in 1997 were that a change in regime would lead to massive unemployment and increased poverty.

Over 50% of the active population of St Vincent and 30% in Saint Lucia and Dominica is employed in the banana industry. The region would inevitably become very unstable if all these jobs were lost. This would also have repercussions on the entire eastern Caribbean because of the common currency, and on the whole region due to the strong trade links between the countries.

- **In the French West Indies**

Banana production is a fundamental part of the economy in the 2 islands. Bananas account for 42% of the agricultural production in Martinique and 27% in Guadeloupe. The 1275 plantations occupy 87% of the agricultural land. In Martinique, bananas account for 70% of the value of exports, and employ 15% of the working population, i.e. almost all the rural jobs.

If quotas were stopped and dollar bananas arrived on the European market, Guadeloupe and Martinique would be in an impossible situation. In these islands, 50% of the production costs are the salaries. They could never remain competitive against a country like Ecuador, where salaries are 8 times lower for a longer working week.

Apart from the social and economic impact, it is important to remember the impact on the environment. Liberalisation would lead to more large plantations and more intensive production in general. The harm this type of production does to health and the environment is well known and documented.

Figures for a large plantation

For one banana produced, the equivalent of 2 bananas in waste is produced.
1/3 of the entire world consumption of pesticides is used in the banana industry.
In the large plantations in Latin America, 20 times as much pesticides are used as in the North.

The erosion of preferences and small producers in danger?

The CMOB gives European and ACP bananas preferential access to markets through quotas and tariffs that the Latin American countries do not have. These countries have brought an attack on the regime before the WTO, since their access to the market has been restricted since 1993. Whilst waiting for the definitive reform in 2006, which should put an end to preferences, and to satisfy the plaintiffs, the regime had been gradually modified, and the preferences given to the ACP countries are going to shrink rapidly.

The Lomé Convention, adopted in 1975, includes a banana protocol with the main purpose of protecting ACP banana imports on the EU market. Article 1 of this protocol says that no ACP country can be pushed into a lower position in the banana export tables than previously or at present. The EU has had to take this into account for the ACP countries.

In spite of the Lomé Convention and the banana protocol (cf. the box), all ACP countries have felt the effect of the erosion of preferences, with new opportunities given to dollar bananas on an increasingly free market after the 1993 regime was adopted, particularly because of the disagreement brought before the WTO.

- 1995 : a marked increase in quotas, and thus an increase in the quantity supplied by dollar banana producers.
- 1999 : suppression of the initiatives to encourage operators to import ACP or EU bananas, which weakened the commitment to import ACP bananas, for which the profit margins are lower.
- 2002 : ACP quota reduced in inverse proportion to the extended quota for dollar bananas.

This gradual erosion of preferences hit the Caribbean countries in particular. The Windward Islands and Jamaica were very badly hit. For example, when the average banana exports for the three years before the first regime (1989-92) are compared with the figures for 1999-2002, the Windward Islands lost 55 million euros (50% of the 1989-92 turnover) and Jamaica lost 4.2 million euros (15% of the 1989-92 turnover). This has had a serious effect on unemployment in the Windward Islands, where the number of registered banana growers (almost all small producers) plummeted from 24,000 in 1993 to just over 7,000 in 2001.

On the contrary, Belize, Cameroon, Dominican Republic and Cote d'Ivoire have all profited from the regime. Belize increased exports to the EU, going from 25,000 tonnes in 1991 to 66,000 tonnes in 2000. The Dominican Republic (which is considered by the regime as an non-traditional ACP supplier, and so had to meet a certain number of specific requirements) increased exports from a mere 4,000 tonnes in 1990 to 60,000 tonnes in 2000.

Negotiations in Hong Kong: divergent interest and risks of blockage

- **Developing countries will no longer have the same unique position. Why divergent interests?**

For the Caribbean (including the West Indies): Small Caribbean producers cannot be competitive in a totally free and open market. Their bananas can only be sold on a protected market where prices are higher than the international market. In other words, in order to remain attractive to consumers, their bananas must keep their preferential access to the European market. So they will either need to keep the status quo, with preferential access, even if this has gradually dropped since 1993, or else they will need to negotiate a sufficiently high single customs tariff that will be equivalent to keeping a sort of status quo. This is because a high tariff would limit the increase of dollar banana exports. The Latin American countries, and particularly the more competitive ones such as Ecuador, would want a totally free market that they could access freely. They would be sure to increase their share of the market, because they can supply the cheapest bananas.

The 2 African exporting countries, Cameroon and Cote d'Ivoire, although more competitive than Caribbean producers, would also gain from keeping their preferential access to avoid competition from dollar bananas, which are much cheaper (although this is increasingly relative) and available in greater quantities. These countries have staked a great deal on the banana trade, particularly in terms of jobs and infrastructure, which has drained resources away from developing other exports, such as mango and pineapple. In a recent press statement, Cameroon and Cote d'Ivoire producer associations pointed out that both countries rank far below their Latin American competitors on the UNDP development index (141st and 163rd out of 175).

Whichever scenario is adopted, consequences for the economies of some export countries or regions will be very serious. However, without focussing solely on the level of tariffs, moving from quotas to a purely tariff system will have an impact on the social situation in these countries.

The EU has drawn up four scenarios of the consequences of a system based solely on tariffs (i.e. without quantity restrictions), and intends to apply four different rates[2]:

> SCENARIO I (75 euros per tonne) – tariff demanded by Latin American countries
Drop in market price and rise in consumption. Caribbean suppliers would no longer be competitive, although African producers would be able to keep supplying to a certain extent. The cost of the regime supporting the EU suppliers would increase by 100-150 million euros.

> SCENARIO II (175 euros per tonne)
Less drop in market price and less rise in consumption compared with Scenario I. ACP products would still be less competitive and exports would decrease. The cost of the internal support regime would increase by 50-100 million euros.

> SCENARIO III (275 euros per tonne) – minimum demanded by the ACP countries and the European producers
The level of competition of ACP suppliers would vary, but the global price on the EU market would be similar to the current price. There would be no impact on internal expenditure, although this could vary from year to year because the prices would be much less stable.

2 Council proposition amending Council ruling n° 404/93 (EEC) dated 13th February 1993 on the Common Market Organisation of bananas. Recommendation of Council decision authorising the Commission to open negotiations on the amendment of the consolidated customs tariff for bananas, (Brussels Com) 1999, Annex 1.

> SCENARIO IV (375 euros per tonne)
> Increase in market price and drop in consumption. All ACP suppliers would be competitive, and the market share of Latin American suppliers would drop. The cost of the EU support regime would decrease.

- **Towards the same scenario as in Doha?**

Due to these divergent interests, the EU is trying to arrive at a tariff agreement in order to avoid a full-scale banana war in the midst of the WTO Ministerial Conference in Hong Kong, which would be a repeat of what happened at the 4th Conference in Doha in 2001. But none of the options seems to be able to satisfy all parties. So given the current situation, it seems very likely that the Hong Kong Conference will be a repeat of 2001.

The Latin American countries, who want the lowest possible tariff, could block negotiations in Hong Kong, as the Latin American presidents clearly announced at their meeting in San José, Costa Rica on 7th July this year. They could base their action on the EU commitment to liberalise the market made during the Doha Round of negotiations. They could use the July 2004 Framework Agreement, which calls upon WTO members to respect their commitment to totally liberalise trading in tropical agricultural products. This commitment would include bananas for these countries.

In a joint statement, the presidents of Colombia, Costa Rica, Ecuador, Honduras and Panama warned that this commitment would need to be implemented if the WTO members wanted to conclude the Doha Round of negotiations.

As for the ACP countries, they could use the following paragraph of the same agreement which underlines the importance of longstanding trade preferences, and asks WTO members to bring up the problem of the erosion of trade preferences in the Doha Round negotiations. For the ACP countries, a tariff of under 230 euros would be an example of this erosion.

What are the solutions for fair and sustainable banana trade?

1. Market administration and implementing (or maintaining, in the case of the EU) import quota systems, along with parallel restrictions on producer country exports. These are the only measures that can stop overproduction on the international markets.
2. Implementing coherent trade policies (nationally and in the WTO) based on sustainable development principles, and taking into account the differences in costs and productivity between small producers and large plantations.
3. Reinforcing dialogue between stakeholders in the banana industry and producer and consumer countries within the international institutions, and via a discussion forum (no going back to unilateral trade policies).

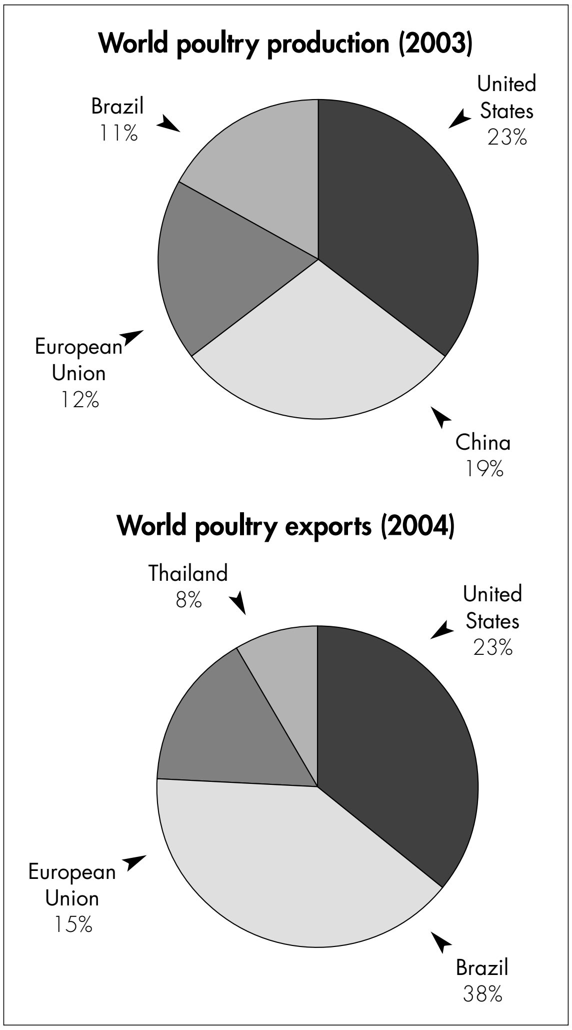
For these measures to be effective, other elements are also needed:

4. Transnational companies and distribution chains need to reinforce laws on competition, in order to limit the negative effect of the concentrated buying power of supermarkets, and to prevent retail price manipulations that are not related to real market conditions.
5. Companies and governments need to apply and respect rights of association and rights to bargain collectively, because these are two vital elements to ensure decent salaries and working conditions.
6. Developing measures to help independent producers keep or gain market access.
7. For all the aspects mentioned above, independent control and verification procedures need to be implemented, in collaboration with public authorities and trade unions.

Concentration, relocations: Chicken exports hurt the most vulnerable

A fierce international trade war is being waged between a few large industrial groups that have sites in both the industrialised and the developing countries.

Costs have been cut by industrialising production, integrating the different parts of the agribusiness, and intensifying the production of feed. There is acute competition between producers in the industrialised and emerging countries. As for producers in the poorest countries, their products find no buyers on the local markets, as the price of imported products is so much cheaper than the price of traditionally produced chicken, even without subsidies.



Source: Ofival

Product overview

A concentrated production

After pork, poultry is the world's most eaten meat (12.3kg per capita per year in 2004)[1]. Production worldwide was 78 million tonnes in 2004.This production has increased at a rate of 2.7% per year over the last ten years, with a more marked increase in the developing countries (especially China and Brazil) than in the developed countries.

Production is fairly concentrated, and this tendency is increasing, given that 4 countries (United States, China, European Union and Brazil) produced 66% of the total quantity in 2002, compared with 60% in 1992.

Brazil has become the leading exporter

In 2004, 8 million tonnes of poultry were exchanged, representing almost 10% of

1 "Le marché des produits avicoles en 2004" (The market of poultry products in 2004), OFIVAL, 2005.

the total production. So the world poultry trade has tripled in 10 years, and competition is very stiff, firstly between the United States and Europe, but also with Brazil, Thailand, and now China too. In 2004, Brazil became the leading exporter, with 38% of world exports, ahead of the United States with 34%.

The proportion of cut products in the total world poultry trade is growing all the time. This proportion, which was 42% of the total in 1996, reached 62% in 2002. As an example, between 1996 and 2002, European exports of chicken pieces increased by 83%.

Increased competition: looking for new markets

The three leading importers are: (1) Russia, (2) the Near and Middle East (NME) and (3) the European Union (EU).

Poultry meat imports in 2002

	Russia	NME	EU
Quantities imported (1 000 tec)	1 664	838	616
% imports	25%	13%	9%

Source: Gira

Since the mid 90s, West Africa has become an increasingly important market, even if in terms of percentages and quantities it is still very small in comparison with the three leading importers, Russia, the Near and Middle East and the EU. Sub-Saharan Africa accounts for less than 1.5% of the world chicken production[2]. It has practically no weight in terms of world trade. South Africa is the only country to have developed exports of whole or cut poultry, which mainly goes to neighbouring countries.

The growth in exports to West Africa is largely due to the EU, whose exports of cut products to the region increased by 485% between 1996 and 2002.Thus the EU share of the total exports of chicken pieces to West Africa went from 5% in 1996 to 14.9% in 2002.

Intensification of breeding methods to cut costs in traditional poultry-producing countries

The type of poultry production practised differs according to the country's rank in world production.

In the leading poultry-producing countries, aviculture is increasingly concentrated[3] and production is intensive and soil-free. This degree of concentration and these production methods have serious consequences for the environment and create over-dependence on this single economic sector.

Cheaper labour, the availability of low cost animal fodder and easy access to land are all factors which allow countries like Brazil to produce cheaper poultry meat. Many producers are now subcontracted to large companies, whose methods replace traditional methods. In West Africa, on the contrary, aviculture is still a family affair (70% of all poultry breeding),

2 FAO, 2003.
3 In France, two-thirds of production is concentrated in the Brittany and Pays-de-la-Loire regions.

Comparison of production costs in 2001

	France	Brazil	United States
Cost euros/kg of carcass	1.25	0.74	1.12

Source: ITAVI

providing a source of protein and also some extra income, a sort of "savings account on legs". Production costs are very low.

There are efforts to develop so-called improved aviculture in order to meet the needs of the cities, but difficulties encountered include problems in finding funding, lack of infrastructure and the massive arrival of imports.

Horizontal and vertical concentration: fewer and fewer industrial groups in the market

There is a great concentration of activity, both horizontally and vertically, in the poultry sector.

In France, for example, five companies share 62% of the business. They are DOUX, LDC, GASTRONOME, UNICOPA and ARRIVE. Doux is the European leader and ranks 4th in the world, with a turnover of 1.6 billion euros in 2001. The company employs 150,000 people on over 57 industrial sites throughout the world.

But the concentration is also vertical, in the sense that one company covers, or tries to cover all the following activities, by taking over or buying out others.

> Fodder supply: selecting, growing, harvesting and transporting raw plant material.

> Genetics and animal health: research into race improvement, animal selection and consultancy for breeders.

> Animal feed: research and development, manufacture and distribution of feed.

> Production: advice for optimising production and production factors (buildings, etc.); advice from veterinarians and breeding experts, etc.

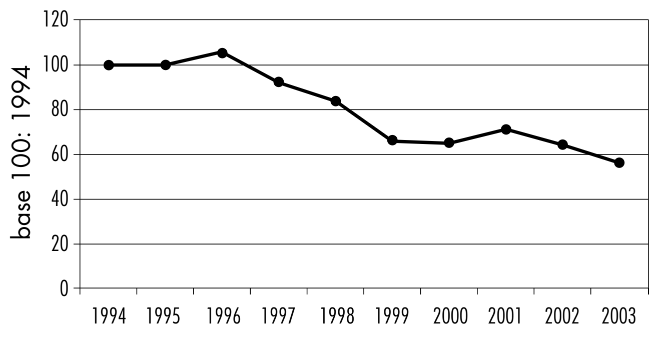
> Marketing-distribution: collection, transport, slaughtering, marketing (special agreements with hyper- and supermarkets, etc.).

> And even now the environment: consultancy for breeders on complying with specifications, research into feed in order to limit nitrogen and phosphorus emissions.

Ever cheaper meat on the global market

Poultry meat is the cheapest meat to produce because it has the best rate of animal/plant protein conversion. According to the FAO, the price of poultry meat on the international markets dropped by 45% between 1994 and 2002.

International market price of chicken



Source: FAO

Analysis of the consequences of liberalisation

A product indirectly affected by dumping

After the World Trade Organisation (WTO) Agreement on Agriculture, European subsidies for poultry exports were reduced. Today only 25% of the quantities exported by the EU receive export subsidies, and this is concentrated on whole frozen chickens for the Near and Middle East.

However, with the CAP reform in 1992, the price of cereals dropped, and thus the price of poultry feed, which is the heaviest cost in poultry production. Since then, European exports have increased by 150%. The decrease in the price of feed has caused a 25% drop in the cost of marketing poultry in West Africa[4].

As mentioned above, today the proportion of poultry cuts in total exports is 62%. For West Africa, these parts are mainly wing, rump, neck and carcass. Once the poultry breasts and legs have been used for the European market, ensuring the cost-effectiveness of the operation, the other parts are a source of extra income for European businesses, which can export them cheaply. Since these parts have no market value on the European market, the very low prices asked are largely artificial.

Relocating to other countries in order to reduce costs further

The poultry industry has undergone major changes due to increased production and consumption, and also due to the increasing concentration described above. Vertical integration is increasing, since it is a model that is particularly well adapted to a short production cycle. Because of the large quantities produced, and the quest for economies of scale, there is now increasing coordination between the different stages of the industry (multiplication, hatching, animal feed, breeding, transformation and marketing).

The concentration of the food industry goes together with relocation of production and cutting sites. Access to cheap supplies of raw materials (corn and soy), sanitary and environmental regulations, and labour costs, all vary enormously from country to country, and are all used to the advantage of the food industry in seeking to become increasingly competitive. This has led several poultry-producing companies to relocate to countries like Brazil. This investment explains why Brazil is now the world's leading exporter. Today 60% of the turnover of the biggest companies comes from these countries.

Multiplying health hazards

Intense poultry breeding methods open the way to certain health hazards. Overcrowded conditions in poultry breeding give rise to problems of growth, broken legs, etc. These conditions are ideal for propagating diseases such as avian influenza ("bird flu").

Although frozen chicken pieces are often presented as an advantage for poor urban populations, it should not be forgotten that the quality of this "protein source" is often poor. These cheap cuts that are not eaten in Europe are constantly defrosted and refrozen in countries where it is difficult to maintain the cold chain. A study carried out in 2003 in Cameroon by the Cameroonese NGO SAILD[5], assisted by the Institut Pasteur in Yaoundé, showed that over 83.5% of the poultry cuts on the market were unfit for human consumption.

4 Agritrade, Quoi de neuf ?, nº 30, September 2004.
5 Service d'Appui aux Initiatives Locales de Développement / Support Service for Development Local Initiatives.

Inconsistent international policies

Policies advocated by international bodies and imposed to African governments also help increase exports to West Africa.

With a view to "adapting countries to the conditions of market economy", the World Bank and the International Monetary Fund (IMF) make their prime rate loans and debt relief measures subject to the conditions of the Structural Adjustment Plans, and now also to poverty reduction strategy programmes. These measures and programmes force African countries to reduce their trade barriers and lower their agricultural subsidies, to drop price control or to promote exports of one or several products that have a "comparative advantage".

African countries have also been encouraged to create customs unions and regional integration zones. Thus the West African Economic and Monetary Union (WAEMU), created in 1994, includes Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. Common external tariffs were agreed, but, under the influence of international banking institutions, the cap OK was fixed at 20% for the most highly transformed products (the category that includes frozen chicken pieces) - and this has proved to be far below what is needed.

However, the WTO allows developing countries freedom to decide on the level of their customs tariffs (and then they are known as tariff ceilings). Most countries have chosen this option, and so cannot use the special safety clause, because the ceiling levels are supposed to be sufficient to protect their rights.

Here are some of the tariff ceilings in Africa: Benin: 79%, Burkina Faso: 150%, Cameroon: 230%, Côte d'Ivoire: 200%, Nigeria: 150%, Senegal: 150%, Togo: 80%. These tariff ceilings are not applied, because the Structural Adjustment Plans require trade barriers to drop.

Apart from these customs barriers, some countries can adopt measures to prevent massive imports flooding the national market. Anti-dumping measures are an example of this. However, in the case of poultry, anti-dumping measures are of limited use. Since poultry meat is not subsidised in the EU, there is no proper legal case to claim unfair competition.

Milk: export subsidies ruin small producers

Milk is mainly exported by the European Union in the form of milk powder, thanks to export subsidies that create unfair competition with local producers. However, milk is a very important foodstuff, and can be processed on a small scale to improve the nutritional situation and incomes of small-scale farmers. But in order to use milk to its full potential, dumping must be eliminated, and producers in developing countries must be able to protect themselves from low cost imports.

Product overview

Global production

Over the last 20 years, world milk production has grown steadily. It went from 483 million tonnes on average each year during the period 1980-1984 to 601.5 million tonnes during the period 2000-2004. In 2004 the world production was 611.5 million tonnes according to the FAO. The latest trends are due to the amounts produced in Oceania (New Zealand, Australia), Asia (India), South America (Brazil, Argentina, Uruguay) and North America (United States).

Milk production in million of tonnes

(average per year over periods 1980-84, 1990-94, 2000-04)

1980-1984		1990-1994		2000-2004	
GLOBAL TOTAL	483	GLOBAL TOTAL	532.5	GLOBAL TOTAL	601.5
EU	136	EU	126.5	EU (15)	146.9
United States	61	United States	68	India	87.2
India	36	India	56.9	United States	76.6
Poland	16	Russian Fed.	45[1]	Russian Fed.	32.8
Brazil	12	Ukraine	18.5[1]	Pakistan	27
Pakistan	9.5	Pakistan	16.3	Brazil	22.2
Canada	7.5	Brazil	16	China	17.8
New Zealand	7	Poland	13.6	New Zealand	13.7
Australia	5.6	New Zealand	8.5	Ukraine	13.5
Argentina	5.4	China	7.9	Poland	12

Source: FAO

1 Average for the years 92-94.

The table shows that over the last twenty years the three largest milk producers have remained constant. They are the European Union, the United States and India.

European production dropped in the first ten years (when quotas were instituted) and then stabilised, although when 10 new member states joined in the last period, this inflated production.

Production in the United States and India has continued to grow throughout the period. In fact, for the years 2000-2004, India became the world's second ranking milk producer (87.2 million tonnes per year on average). Pakistan and Brazil also increased their milk production, while China's milk production rocketed during the last period.

The world milk market only accounts for 6.5% of all production. However, the world market for milk and dairy products is very important, because it is part of the industrialised countries' "food strategy" for developing countries. Also, milk and dairy products – particularly in the form of powders and concentrates – are part of the staples along with flour, oil and sugar. Governments of developing countries try to ensure that local populations have good access conditions to all these products.

Whole milk powder production increased over the last twenty years from 1.9 million tonnes in 1984 to 2.6 million tonnes produced in 2004. However, the production of skimmed milk powder dropped, although it remains higher than whole milk powder production (3.1 million tonnes in 2004).

The main milk powder producers are the European Union, the United States, Australia, New Zealand and Brazil.

Production in thousands of tonnes per dairy product

	1984	1994	2004
Whole milk powder			
WORLD	1 900	2 300	2 688
European Union	822	846	813
New Zealand	125	332	557
Brazil	170	175	420
Australia	44	92	186
Skimmed milk powder			
WORLD	4 520	3 437	3 189
European Union	2 403	1 200	1 174
United States	529	558	640
Australia	112	206	206
New Zealand	219	140	301

Source: ICAC, 2004

Exchanges

- **Exports**

3.5 million tonnes of milk powder were exported each year on average over the period 2000-2003. For the last twenty years the main milk powder exporters have been the European

Union, New Zealand, the United States, Australia and Canada. The European Union is the leading exporter with 40% of milk powder exports (1.5 million tonnes on average each year for the period 2000-2004). Since 1984, New Zealand has been the second exporter, and today exports 800,000 tonnes.

Trends in milk powder exports
(average per year in thousands of tonnes)

	1980-84	1990-94	2000-03
WORLD	2 500	2 800	3 574
European Union	1 800	1 747	1 416
New Zealand	263	393	808
United States	190	72	134
Canada	107	33	43,7
Australia	91	195,8	394

Source: FAO

Since the beginning of the 90s, India and Indonesia have gradually developed their milk powder exports. India exported an average of 12,000 tonnes per year over the period 2000-2004 compared with 2,522 tonnes per year on average in 1990-1994.

Over the last few years, milk powder exports have increased more rapidly than for any other product, because the demand is very varied.

- **Imports**

Milk powder imports are less concentrated in a few countries than are exports. For example, the ten main importers only account for half the market. However, since 1984, there have been four main importers: the European Union, which is the biggest milk powder importer, Mexico, Algeria and Malaysia all increased their imports throughout all the period in question. China became a major milk powder importer in the years 2000-2004.

Trends in milk powder imports per country for 1980-1984 and 2000-2004
(average per year in thousands of tonnes)

1980-1984		1990-1994		2000-2004	
WORLD	2 655	WORLD	2 874	WORLD	3 212
1 - EU	894	1 - EU	836.7	1 - EU	783.9
2 - Mexico	137	2 - Mexico	214.7	2 - Algeria	211.6
3 - Japan	102	3 - Algeria	203.5	3 - Mexico	176.6
4 - Venezuela	95	4 - Philippines	112	4 - China	155
5 - Malaysia	74	5 - Malaysia	88.9	5 - Philippines	150.8
6 - Algeria	68	6 - China	107	6 - Malaysia	116

Source: FAO

- **Consumption**

Certain countries in South-East Asia (Philippines, Thailand, Malaysia and Indonesia) and China bought far more powdered milk recently in order to meet the growing internal demand, which is due to the rapid increase in income in these countries.

In 2003, the member states of the EU (15) remained the largest per capita consumers of milk and dairy products in the world. Finland is the biggest consumer in the world of milk drinks, with 174.5 kg/person/year.

In Africa, powdered milk is used a great deal in towns and cities. Local fresh milk is marketed less and less because it is more expensive than reconstituted milk. Local milk processing industries purchase imported milk powder rather than fresh milk from local producers.

North-South production differentials

In dairy farming, there are enormous differences between farms in the developed countries and farms in developing countries. European farms can have up to 100 cattle (an average of 28 in 2000), whereas in Burkina Faso herds vary from 5 to 20 maximum, and a traditional dairy farmer produces between 3 and 10 litres per day. Yearly productivity in Burkina Faso is estimated at 110 kg p.a. per cow, whereas in Europe, it is 6,000 kg p.a. per cow.

In Europe, production has been increasingly concentrated since 1990, with a decrease of 50% in the number of dairy farmers. Moreover, the average yield is still growing (+ 40% from 1984 to 94) and average production per farm has been multiplied by 2.3. This increased yield is due to selective breeding of dairy cattle and to a more and more intensive feeding of cattle (soy cake and cereals, instead of grass). In Burkina Faso, on the other hand, milking is still done by hand, preferably just after the calving, and the yield is very poor during the dry season.

The role of different stakeholders

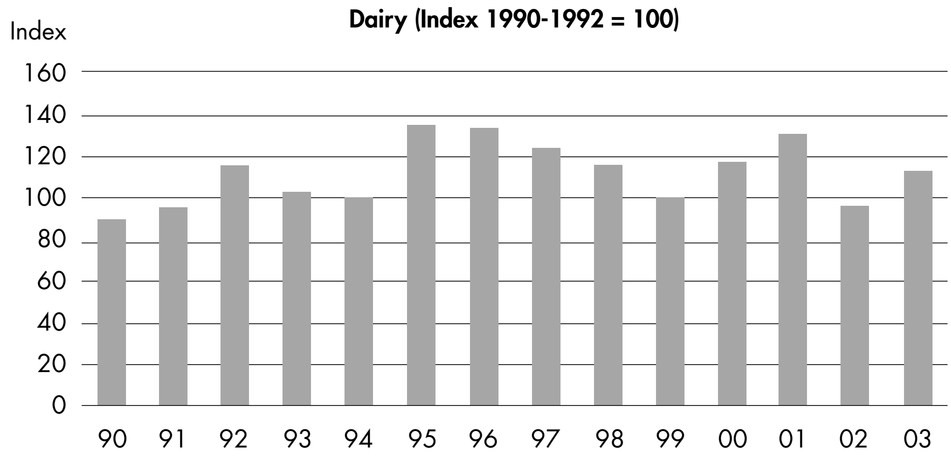
The food industry plays a very important role in the dairy industry. In Europe, 40 dairy companies deal with 65% of the milk produced in the European Union. The capacity of these companies increased from 19711 tonnes in 1985 to 29710 tonnes in 1997.

Nestle, for example, processes over ten billion litres of milk per year, and dominates the world milk powder market, accounting for over 50% of the global market. In New Zealand, the Public Dairy Products Office has merged with two major dairy cooperatives (Zealand Dairy Group and Kiwi) to form the Fonterra Cooperative Group. Today it is the world's largest multinational dairy product exporter, with 13,000 producers exporting to 150 countries. It accounts for one third of all milk and dairy products traded in the world.

Australia and Canada both have a state-run milk marketing company (the Canadian Dairy Commission and the Australian Dairy Corporation). In 1974, India launched its operation "flood" programme, which set up a vast and well-organised cooperative network to collect and process milk from local producers. Today the cooperative milk development programme is a three-tiered marketing system. Around 57,000 companies own 172 dairy producers' associations. The National Dairy Development Board is the national organisation dealing with dairy products. This is a project that opens up new circuits between isolated rural producers and urban consumers.

World prices

Trend in world prices for the period 1990-2003



Since 1990, world prices have been fairly unstable. They dropped over the period 1993-94 and again in 1998-99 (lowest New Zealand market prices). The last drop in world prices began in the second half of 2001 and continued until the very end of 2002.World dairy products prices stabilised in the second half of 2003 and increased in 2004.The rise in international prices is due to a slackening of production in exporting countries in Oceania, South America and some parts of Europe, which leads to a limited export offer.

This was accompanied by a drop in export subsidies paid by some producer countries in the North, where cost prices are high.

Approximate export price of dairy products

	2002	**2003**	**2004**
	October	November	November
		(dollars EU/tonne, f.o.b.)	
Skimmed milk powder	1 361	1 823	2 188
Whole milk powder	1 352	1 853	2 175

Source: Median of the range of prices published by Farmnet New Zealand and USDA

In spite of this increase in the world price, powdered milk is still cheaper than local fresh milk. Burkina Faso is a concrete example of this, because here, milk reconstituted from imported milk powder is the cheapest option for people.

Products	Price per litre
Milk reconstituted from a 25kg sack of milk powder	200 FCFA
Locally produced fresh milk delivered to the dairy	300 FCFA
Milk reconstituted from a family pack of milk powder	400 FCFA
Locally produced milk pasteurised in the dairy	500 FCFA
Imported UHT milk	800 FCFA

Source: Maurice Oudet[3]

Analysis of the consequences of liberalisation

The price of powdered milk is dropping

● World milk prices

The world milk market is a rather unusual case, in that only 6.5% of production is exchanged on the international market. The world price is aligned with the New Zealand price, since New Zealand is the largest and most competitive dairy product exporter, and exports via its monopoly company, Fonterra.

The European Union produces excess quantities, and exports its large surplus (10% of its production) to the world market at a low price, which is the New Zealand price.

● EU dumping

European Union export subsidies allow it to export low cost milk powder to developing countries. These refunds are supplied to compensate the difference between the world market price and the higher EU prices. So importing countries are victims of dumping. In 2002, EU export refunds amounted to 760 euros per tonne for skimmed milk powder (36% of the intervention price).

The refunds vary depending on world prices, fluctuations in exchange rates and in national prices. They guarantee a fixed price and a foreign market for the dairy processing and export industry.

● Local production

In developing countries, on the contrary, production costs are very high and productivity is low. In Burkina Faso, for example, the nomad Peul (Fulani) people are the traditional herdsmen, the herds are small and the methods are extensive. These herds generate 95% of the milk production, in spite of the low yield (3 to 10 litres per day) and this is used in home consumption and in dairy products for the urban population. So in the developing countries, the low yield fresh milk from traditional herds is in competition with low cost imported milk powder.

2 Maurice Oudet, « La révolution blanche est-elle possible au Burkina Faso, et plus largement en Afrique de l'Ouest ? », SEDELAN, June 2005.

What are the impacts of dumping, the world milk price and low local productivity?

- **An increase in low cost imports**

Milk powder imports have increased in the developing countries since trade exchanges began to be liberalised. In Tanzania, they increased by 40% between 1997 and 2003. In Jamaica, milk powder imports have increased 4-fold since the sector was liberalised in 1990. In 2002 in Burkina Faso, 560 tonnes of milk powder were imported from the European Union. Given that 130 g of milk powder are needed to produce one litre of milk, the 560 tonnes of imported milk powder are the equivalent of 4.3 million litres of imported milk… It is not hard to imagine the impact on the local dairy industry.

- **Drop in local production**

A large number of small local milk producers have gone out of business because they cannot compete with the price of imported milk. In 1998-99 for example, 500,000 litres of locally produced milk were thrown away because there was no market for them. In 2002, Jamaican milk producers only supplied 12% of the local milk market, whereas in 1999 they still supplied 35% (with 27.5 million litres). The same scenario is happening in Tanzania, where 90% of the quantities of milk marketed come from imported products. Here too, large quantities of powdered milk are used locally to make liquid milk, because it is cheaper than locally produced fresh milk for the milk processing industry.

- **Milk processing industries purchase less milk from local producers**

Imports of cheap milk powder threaten the livelihood of local producers, while local and multinational industries increase their profit margins by buying imported milk powder.

In Senegal, for example, small processing units purchase imported commodities, and supply Dakar and the large urban markets with liquid milk, butter, yoghurts, etc. In Jamaica, the multinational company Nestle has reduced its purchases from local producers. In 2001 it still purchased 10 of the 25 million litres of milk produced in Jamaica. In 2002, this had dropped to 6 million litres. Moreover, the price paid to milk producers dropped from 22 $JA per litre to 18 $JA per litre, and there is increasingly less guarantee as to the quantity purchased. Small retailers and small local processing industries also buy less and less from local producers, which adds to the drop in local prices and production.

- **Less local infrastructures linking the producer with the consumer**

Local industries face a difficult situation. In the past, the government supported a few structures involved in collecting, processing and selling milk, who thus formed a link between producers and urban consumers. In Jamaica in particular, the government has reduced this intervention, and this fact, along with the increased imports of milk powder, has contributed to these structures closing down.

- **The right to protect market against imports**

Developing countries must be able to protect their market in order to develop and vitalise local industry.

In 1994, the Jamaican anti-dumping commission found the United States and the European Union guilty of dumping their produce on the local Jamaican milk market. They recommended a 137% anti-dumping tax as the only way to help local producers. However, the FMI and World Bank Structural Adjustment Plans do not allow this level of customs duty… so Jamaica spends over 10 million euros per year importing milk powder…

In the case of the WAEMU, there are 4 tariffs for customs duties:

Categories	Products	Custom duties
0	Social goods	0%
1	Raw materials, equipment, basic necessities	5%
2	Intermediate inputs	10%
3	Finished goods	20%

Source : FAO

Dairy products are classified in category 3, with a 20% customs duty, whereas milk powder is in category 1. There is only a 5% customs duty on milk powder. So this encourages imports of low cost powdered milk. The government itself can make this choice in order to ensure that the population has access to a staple product. However, we have seen the negative effects on local producers since the sector was liberalised. So it is important to apply a higher customs tariff to milk powder and encourage and support the dairy industry in these countries.

Cotton, or the risks of being dependant

Cotton was a central issue during the 5th Ministerial Conference in Cancun, and was used as an illustration of disagreements between North and South. It is a fact that the fall in the price of cotton is catastrophic for million of small growers, mainly in West Africa, for whom it is the main source of income.

However, the reality of the world cotton market goes far beyond a simple North-South confrontation. The United States and the European Union are not the only ones to support their cotton industry. Developing countries do the same. The difficulties of the West African cotton industry are not only due to subsidies in rich countries, but also to internal problems. The problems are also exacerbated by the fact that many Africa exporting countries depend very heavily on cotton, which is often their main source of hard currency.

Product overview for cotton

Global production

Cotton fibre comes from the down that surrounds the cotton seed. These fibres are the product that is traded, marketed and used in the textile industry.

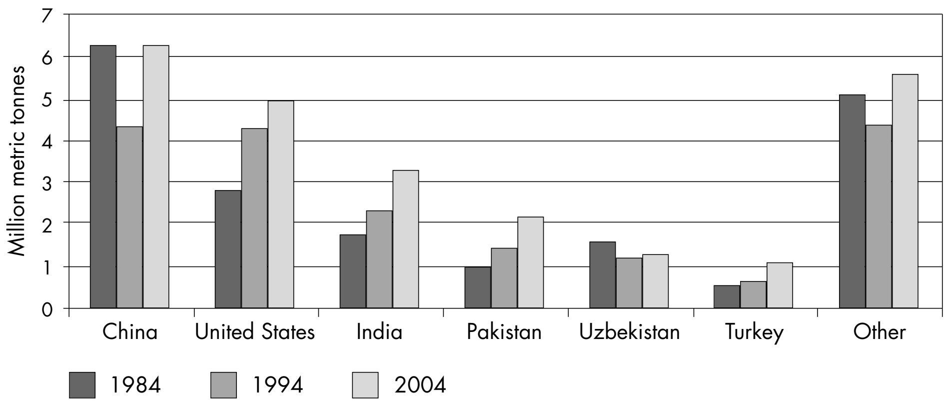
Production of cotton fibre

(in million of tonnes)

	1984	1994	2004
GLOBAL TOTAL	19.244	18.761	24.79
China	6.26	4.342	6.3
United States	2.826	4.281	4.97
India	1.82	2.355	3.32
Pakistan	1.008	1.478	2.21
Uzbekistan	1.622	1.248	1.28
Turkey	0.58	0.628	1.06
Other	5.128	4.429	5.65

Source: ICAC, 2004

Cotton production



Source: ICAC, 2004

Over three quarters of cotton is produced in developing countries, where it is often the only cash crop, and so a vital source of hard currency and a means of subsistence.

In 2004, about a hundred countries produced cotton. However, seven of these countries produced 80% of the world production (China, United States, India, Pakistan, Uzbekistan, Turkey and Brazil.) The West and Central African cotton producing countries (Mali, Cote d'Ivoire, Burkina Faso, Benin, Cameroon, Togo, Chad and Senegal) together rank sixth. Mali is the leading producer in the zone, and ranks 12th in the world.

There are large differences in production costs and productivity differentials between traditional African family production and intensive, mechanised American or Brazilian production. Global markets and prices would reflect these differences, but for the fact that the United States in particular subsidises production and export, leading to massive dumping.

Costs of cotton production in 2000

United States	70.8 cents/pound
Australia	51.4 cents/pound
Brazil	43 cents/pound
Pakistan	36.1 cents/pound
Benin	31.1 cents/pound
China	27.8 cents/pound

Source: Towsend, 2002

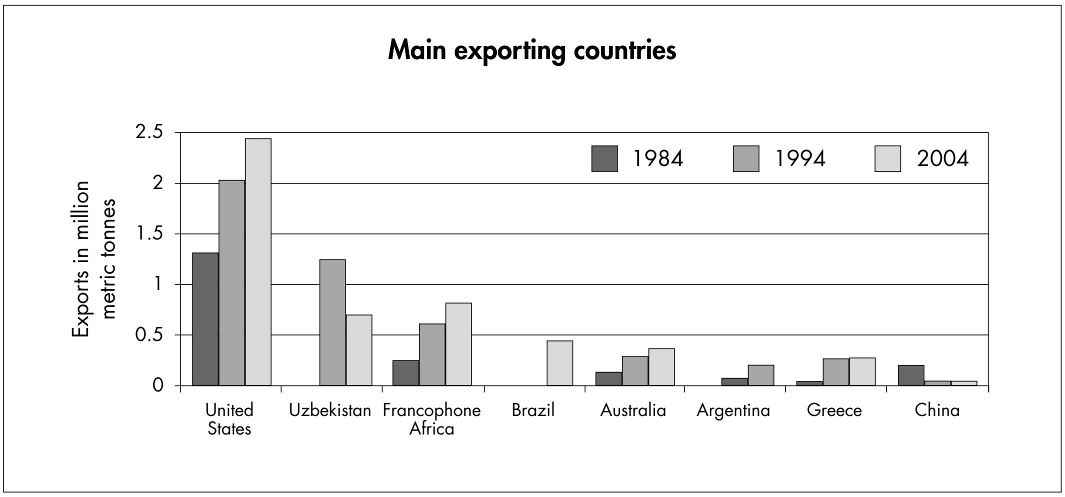
World Trade

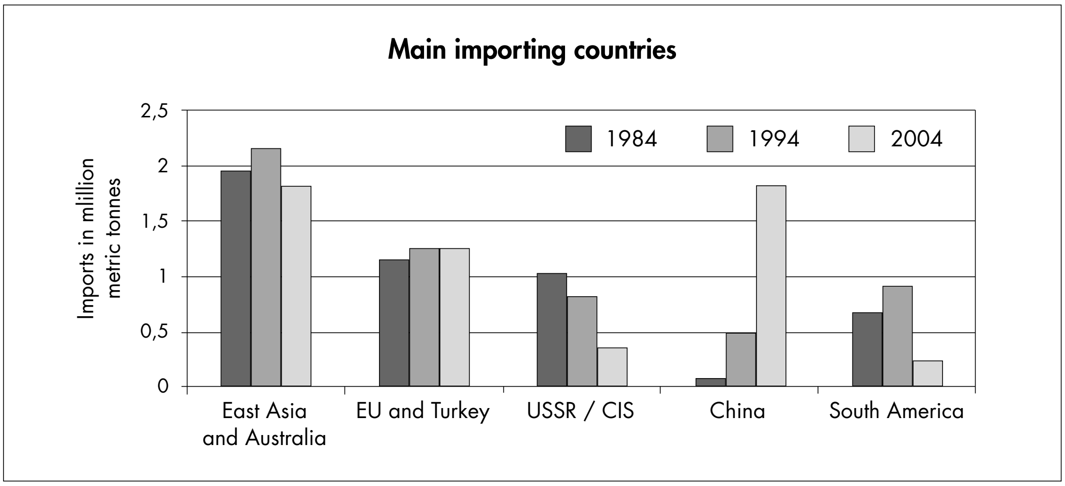
A third of all cotton production is traded internationally each year. The four leading export countries (United States, Uzbekistan, francophone Africa and Australia) account for two thirds of the exports, whereas four of the main producers (China, India, Pakistan and Turkey) do not export, and sometimes import to meet the demands of their textile industry.

% of exported production

	1984	1994	2004
Global total	23%	34%	27%

Source: ICAC



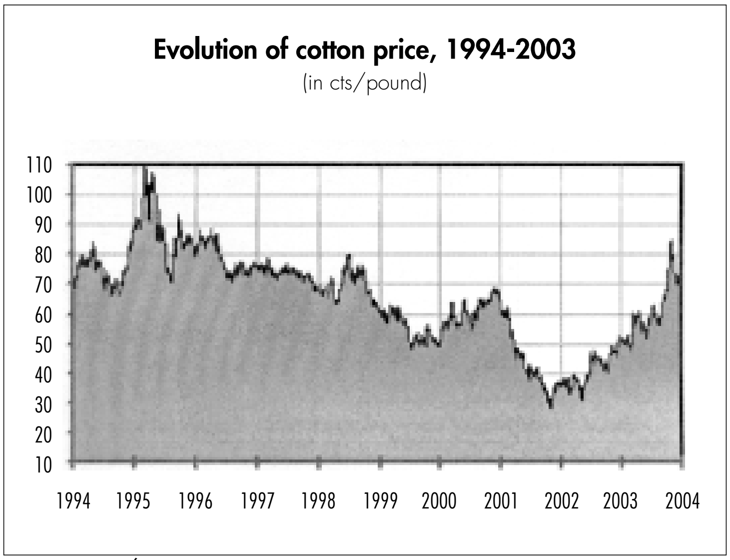


Source: ICAC

Prices

There are various factors in fixing the price of cotton. The major ones are the differences in variety and quality of fibres, government subsidies, and also the competition from synthetic fibres, which depends on the trends in oil prices.

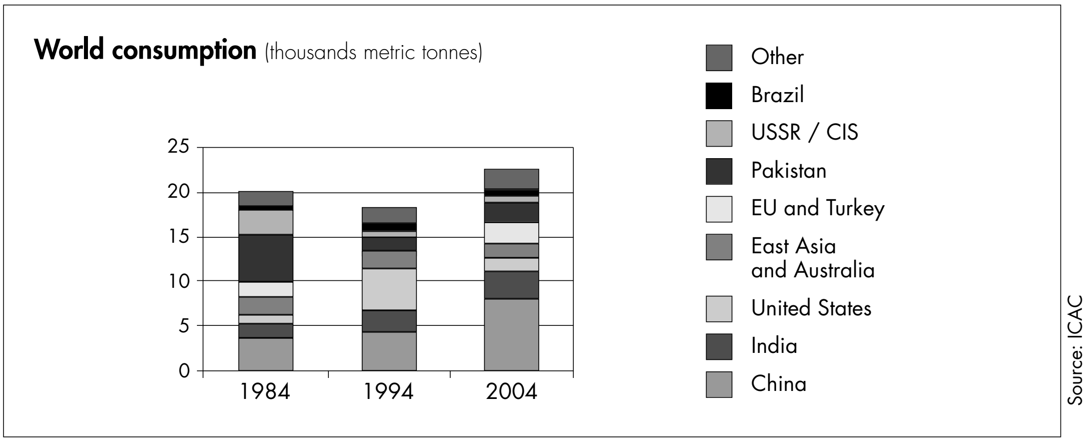
Prices are increasingly fluctuating, with peaks at 1.10 $/lb in 1995 dropping to 0.30$/lb at the end of 2001, although the overall long-term trend is downward.



Source: Les Échos, December 2003

World consumption

Based on the demand from the textile industry, since the 1940s the world cotton fibre consumption has increased proportionally to the yearly annual production average, i.e. about 2% per year. Since the end of the 1990s, the demand has come increasingly from the developing countries, due to relocating and concentrating the textile industry in countries with low labour costs. The main consumers are also the main cotton producers, such as China, the United States, India and Pakistan. However, West and Central Africa, which exports 95% of its cotton, is a very small consumer, and processes practically none of its production itself.



Analysis of the consequences of liberalisation

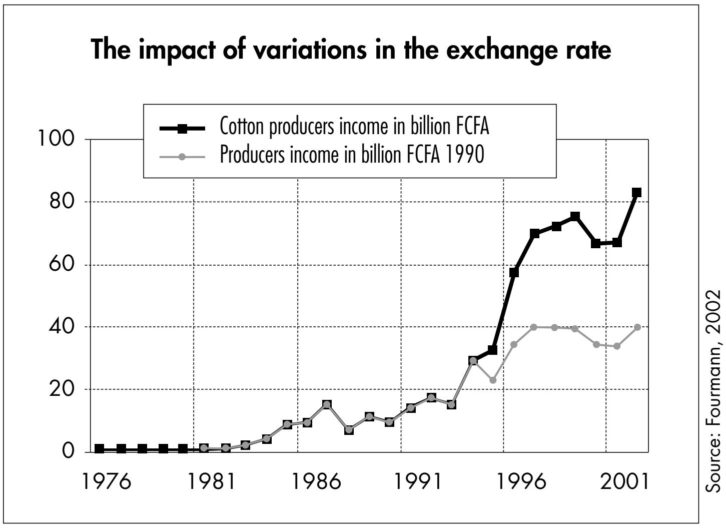
Specialisation and dependence

In spite of the small place of African cotton in international trade, (10 to 15% of world exports), this product, which has only been cultivated since 1949, is a vital source of currency for cotton producing countries, and provides jobs directly for 6 million people in West and Central Africa.

However, by specialising in this monoculture, these countries and their producers have become very dependant on exporting cotton, and on its price, and thus on the world price. Cotton helps to reduce the poverty level in cotton producing countries. In Burkina Faso for example, cotton producing areas are in the regions with the least poverty, cotton producers have more access to credit (56% compared to 3% for the country as a whole) and to management services (42% vs. 20%), they use more fertilisers (82% vs. 12%) and more animal traction (50% vs. 20%). So when prices drop and cotton growing is abandoned, there is a very serious effect on a micro-economic level, on growers' families and on the whole region.

This is particularly because the added value in the cotton industry is very unequally spread. The West and Central African cotton producing countries export 95% of their cotton. The textile industry needed for processing the production is not sufficiently developed in these countries, and at the same time, the IMF and World Bank recommendations to liberalise the African industry destroy existing initiatives. So most of the added value of finished textile products remains in the processing countries such as China, the SE Asian countries and Turkey.

The impact of variations in the exchange rate



The theory of comparative advantages, which says that the low production costs of African cotton should make it very competitive on a global level, is inadequate. Other structural or cyclical factors which are not taken into account by free trade theories regularly penalise African cotton. Examples are variations in currency exchange rates for producers in West and Central Africa. This is because the world cotton price is fixed in US dollars, whereas these countries pay their producers in CFA francs. The table shows the impact of fluctuations in the exchange rate on producers in Benin.

Privatisation and deregulation

Faced with the worsening financial situation of public African cotton companies, due to low world prices and bad management, the Bretton Woods Institutions push for liberalising the cotton trade, under the auspices of the Structural Adjustment Plans. These monopoly companies are broken down into several private companies dealing with ginning, marketing and distribution of seeds, fertilisers and pesticides at free prices fixed by the market. But the services rendered by monopoly companies, which are a source of stability and an incentive to production, are not taken into account.

So the results of the first attempts at liberalisation are not satisfactory. In Benin, which is the furthest advanced in liberalising the cotton trade so far, production has dropped, and, more importantly, producers' income has not been substantially or sustainably improved.

These West and Central African countries are often caught in the horns of a dilemma between internal malfunctions and readjustments of an industry in the throes of liberal reform, and distortions to the rules of international trade by countries that are supporting their production and exports in an unfair manner. This situation highlights the huge inconsistencies between development policies and agricultural policies in industrialised countries. For over 20 years now, funding countries have advised African countries to specialise in order to make the most of their comparative advantages. But today, the agricultural policies of the very same funders compete with African producers by paying subsidies and by overproducing, and requiring the African countries to open their markets.

In 1995, the United States deregulated its cotton industry by cancelling management programmes and stocks which, until then, had kept a balance between supply and demand. The subsequent massive increase in production caused a huge drop in world prices. The following year, the American government decided on a new agricultural act, rather than reinstate a stock management policy. Under this act, direct subsidies were paid to producers to compensate for low world prices without reducing production, and these have been renewed regularly ever since. With the help of these subsidies, America continues to overproduce, in spite of having one of the highest production costs in the world.

Cotton subsidies

Over two-thirds of all cotton is produced in countries in which the government supports production, either by taxes or subsidies. The 8 countries that directly subsidise cotton production are the United States, China, Greece, Spain, Turkey, Brazil, Mexico and Egypt. Total subsidies were estimated at an average of between 3.8 and 5.3 billion dollars p.a. from 1977 to 2002. For the financial year 2001-2002, direct subsidies totalled 2.3 million dollars for American producers, 1.2 million dollars in China and 0.8 million dollars in Europe (Spain and Greece). Producers in Turkey, Brazil, Mexico and Egypt received a total of 150 million dollars in subsidies.

Cotton subsidies result in an artificial growth in production and depreciation in world prices. This subsequently harms developing countries, whose export income is heavily dependant on cotton, and eliminates small producers, both in the North and the South.

Since 1930, the number of American cotton farms has dropped by 98%, from over 2 million to 31,500 in 2000, although the acreage cultivated has only dropped by 25%. From 1995 to 2002, half the direct American subsidies, i.e. a total of 1.68 billion dollars, were apparently paid to 285 American cotton exporters and spinners. Most of this aid went to 12 of the biggest companies in the industry, including Cargill, which apparently received over 87 million dollars.

This is a prime example of dumping. The exact size of the impact differs according to the way the economic calculations are done, but remains extremely high.

Evaluations of the impacts of cotton subsidies

Study	Impacts of cotton subsidies	
Quirke (2002)	Eliminating production subsidies in the United States and the European Union	Price rise in 2001-2002: 10.7% Drop in American production: 20% Drop in Chinese production: 50%
Centre for International Economics (2002)	Eliminating production and exports subsidies	Price rise in 2001-2002: 2.2% Drop in American production: 15.9% Drop in Chinese production: 19.5%
FAPRI (2002)	Total removal from the commodities market	Price rise (average over 10 years): 12.7% Drop in American production: 6.7% Drop in American exports: 3.5% Drop in European production: 70.5% Increase in African exports: 12.6%
CCIC-FAO (2003)	Eliminating direct subsidies	Price rise in 2000-2001: 30% Price rise in 2001-2002: 71%
	Eliminating American subsidies	Price rise in 2000-2001: 14% Price rise in 2001-2002: 26%
Goreux (2003)	Eliminating all cotton subsidies	Price rise: 12.5% Loss in currency for the Western and Central African countries: 250 million dollars in 2001-2001

Source: J. Baffes

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Agriculture:
for a regulation of world trade

Placing development at the centre of WTO negotiations on the Agreement on Agriculture

Recommendations on the occasion of the 6th WTO Ministerial Conference, Hong Kong, 13-18 December 2005

"International trade is […] not the answer to the priority needs of rural Thailand, but it seems to be the only concern of the policies implemented."

This statement by a Thai farming leader reflects the despair expressed by numerous organisations, partners of Coordination SUD's members working in rural areas. It challenges the validity of the postulate that guides the trade negotiations underway and maintains that all one needs to do is facilitate international trade to overcome poverty and ensure the development of poor countries.

In this report, Coordination SUD's Agriculture and Food Commission attempts to make more explicit the extent to which the trade policies of the past two decades have or have not made it possible to attain the proclaimed goals of fighting hunger and poverty. This work was done in partnership with organisations in the South, through case studies of six particularly sensitive agricultural products: rice, sugar, bananas, chicken, milk and cotton. Each of these products illustrates different facets of the stakes involved in commercial trade liberalisation on the multilateral level.

Based on the observation that trade policies as they are currently conceived do not benefit the poorest, this report sets forth a number of proposals that aim to replace development at the centre of trade negotiations, and especially the negotiations that will take place during the WTO's Sixth Ministerial Conference in Hong Kong from 13 to 18 December 2005.

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