

The University of Southern Mississippi
The Aquila Digital Community


Dissertations

Spring 5-2010

Global Agricultural Price Supports: The Political and Economic Forces that Drive Unsustainable Agricultural Protectionism Policy

John Francis Hays
University of Southern Mississippi

Follow this and additional works at: <https://aquila.usm.edu/dissertations>

 Part of the [Agriculture Law Commons](#), [American Politics Commons](#), [International Trade Law Commons](#), [Natural Resources Law Commons](#), [Other Political Science Commons](#), and the [Political Economy Commons](#)

Recommended Citation

Hays, John Francis, "Global Agricultural Price Supports: The Political and Economic Forces that Drive Unsustainable Agricultural Protectionism Policy" (2010). *Dissertations*. 957.
<https://aquila.usm.edu/dissertations/957>

This Dissertation is brought to you for free and open access by The Aquila Digital Community. It has been accepted for inclusion in Dissertations by an authorized administrator of The Aquila Digital Community. For more information, please contact Joshua.Cromwell@usm.edu.

The University of Southern Mississippi
GLOBAL AGRICULTURAL PRICE SUPPORTS:
THE POLITICAL AND ECONOMIC FORCES THAT DRIVE
UNSUSTAINABLE AGRICULTURAL PROTECTIONISM POLICY

by

John Francis Hays

Abstract of a Dissertation
Submitted to the Graduate School
of The University of Southern Mississippi
in Partial Fulfillment of the Requirements
for the Degree of Doctor of Philosophy

May 2010

ABSTRACT

GLOBAL AGRICULTURAL PRICE SUPPORTS: THE POLITICAL AND ECONOMIC FORCES THAT DRIVE UNSUSTAINABLE AGRICULTURAL PROTECTIONISM POLICY

by John Francis Hays

May 2010

Agricultural tariffs and price supports are the last bastion of US and European protectionism. While all other areas of commerce have embraced change and welcomed open-market international commerce, agriculture has remained the lone holdout.

The small farmers for whom these support programs were designed no longer exist. Yet governments appropriate billions of dollars annually for the continued support of these outdated programs.

The fact that these governmental agencies resist change, even in an age of economic crises, record national debt, and one of the highest negative trade balances in history, is testimony to American civic indifference.

Public apathy precludes timely reform. While most of the population is unaware of the scope of agricultural price-support spending, or of the trickle-down effect it has on consumer pricing, the small groups that benefit from it spend millions annually in their effort to continue to receive billions in aid payments.

This dissertation posits that agricultural price supports are no longer necessary, and that they promote overproduction of certain crops, create artificially high retail costs, and may actually hinder economic progress in some less-developed agrarian societies.

If progress is to be made in the arena of international agricultural open-market economics, the organizational dynamics of the developed nations must first be replaced with institutional oversight through organizations such as the World Trade Organization.

COPYRIGHT BY
JOHN FRANCIS HAYS
2010

ACKNOWLEDGEMENTS

It is imperative that I acknowledge those who helped both directly and indirectly to give this dissertation life. I would like to express my gratitude to Dr. David Butler, who welcomed me to the IDV program without reservation, never questioning my age or my motivation. His pride in the program is infectious and his trademark ability to ask just one more question averted any propensity to be complacent.

A special thank you to Dr. Robert Pauly, who served as the chairperson on my committee. His logical-thinking approach to both his teaching technique and his administrative guidance created a bond that is alive today and will survive far into the future. I am indebted to him for his encouragement that I continue to pursue my subject to finality, and for his constructive criticism and expertise in the skill of writing.

I would also like to thank committee member Dr. Tom Lansford. His course in International Law and Organizations played a key role in my desire to continue to pursue these studies. Dr. Lansford typifies the professor who is always available and never too busy to share a few thoughts.

I must thank Dr. J. J. St. Marie, who, to my great pleasure, has become a close friend in addition to a professional colleague. Many of the ideas and theoretical approaches in this dissertation derive from courses that I took under his tutelage. Ever the critic, always upbeat and encouraging, he guided me through my coursework with a mix of humor and indulgence.

A special than you to Dr. Robert Farkasch, who created the spark that ignited the fire that eventually led me to a master's degree and beyond. All professors should be so

fortunate as to possess his talent for connecting with others and inspiring them to ask “why”. Without his inspiration, I would not be writing this today.

I owe a great debt of gratitude to my wife, Judy, who has suffered through these past four years of study and writing. She remained loving, compassionate, understanding, and supportive throughout the process. Any recognition that I might receive must be shared equally with her.

My best friend, MacDuff, should receive some credit for this work. He remained loyally at my side and by my feet, faithfully guarding the door to my office against any intruder who might unintentionally steal time or in some other way take me away from my assigned task. I recommend that everyone have a dog close at hand while writing their dissertation. They are always ready with a happy face and a friendly nudge.

I dedicate this to my parents, the late John Francis and Bernadine Hays, who encouraged me to never back away and to never look back. This would have been the ultimate gift to a mother who never went to high school and a father who was the first man in the Hays family to complete high school since the Civil War. Hopefully this will in some small way contribute to my “thank you” for all of their hard work and sacrifice.

TABLE OF CONTENTS

ABSTRACT	ii
ACKNOWLEDGMENTS	iv
LIST OF TABLES	viii
LIST OF ILLUSTRATIONS.....	ix
INTRODUCTION	1
HYPOTHESES.....	3
CHAPTER	
I. LITERATURE REVIEW	5
The United States	
History of Sugar, Cotton and Grain Supports	
US Policy on Subsidies	
The 2002 Farm Bill	
The 2007/2008 Farm Bill	
The European Union	
Development of the Common Agricultural Policy	
What is the Common Agricultural Policy?	
II. ARGUMENTS AND METHODS	54
International Agricultural Support Programs	
Variables	
Qualitative Methodology	
Protocol Design	
III. THE UNITED STATES AND THE EUROPEAN UNION.....	69
Where Does the Money Go?	
Congressional Position	
The Small Farm Fallacy (The Myth)	
How Price Supports Affect Consumers as Well as Small Farmers	
Why Are These Farm Support Programs Still in Existence?	
Isolationism and Autarky	
Who Are the Winners?	
Is it Possible to Eliminate Agricultural Supports?	
Can the Problem Be Corrected Worldwide?	
The CAP and Its Attempt at Reform	
Conclusion	

IV.	THE WORLD TRADE ORGANIZATION.....	127
	Strengths and Weaknesses	
	History of the Negotiations	
	The Negotiating Process	
	Cancun	
	Export Subsidies	
	Food Aid	
	Tariffs	
	Tariff / Quotas	
	Domestic Support: Amber, Blue and Green Boxes	
	Amber Box	
	Green Box	
	Non Trade Concerns	
	The Cotton Initiative	
	Cotton Sub-Committee	
	The Doha Round of Negotiations	
	Conclusion	
V.	DEVELOPING NATIONS.....	209
	Subsidies	
	Surpluses	
	Corporate Farming-Political Influence	
	Dumping	
	Developing Nations	
	The World Trade Organization	
	Reform	
	Sugar	
VI.	CONCLUSION.....	261
	Conclusions Derived from the Variables	
	Limitations of the Study	
	BIBLIOGRAPHY.....	273

LIST OF TABLES

Tables

1.	Payment Rates Specified in the 2002 Farm Act	18
2.	Yearly Fixed Total Payment Levels, 1996–2001	19
3.	Target Prices for Countercyclical Payments.....	20
4.	Fixed Loan Rates	22
5.	Top Twenty Subsidy Recipients for 2005	29
6.	Recipients of Farm Subsidies between 1995 and 2006	31
7.	World’s Main Cotton Producers, Exporters, and Importers, 2007	36
8.	Gross Cash Farm Income (\$1,000).....	61
9.	Changes in the Size Distribution of U.S. Farm Production 1982-2007.....	62
10.	Top Ten Companies Receiving Cotton Subsidy Payments, 1995–2004	71
11.	Agriculture Contribution to GDP, and Percentage of Employment	106

LIST OF ILLUSTRATIONS

Figures

1	History of average wheat prices.....	182
2	History of average cotton prices.....	183

INTRODUCTION

Current agricultural price supports in the United States (US), the member states of the European Union (EU), and most of the other developed nations of the world were initially formulated during the period following World War II (WWII). They were originally designed with the dual purpose of resupplying the war-devastated globe with food and guaranteeing small farmers a profit in an effort to protect the large farm populations of the United States and the states of Western Europe.

These price supports were implemented to help the small farms of the world retrench after six years of war, difficult times, and farm neglect. They were to be short-term interim programs with predetermined life spans that would expire as each nation's economy and agricultural production improved. But in many instances they are still in place, and in the case of cotton, grain, and sugar, they are far greater and larger than their founders ever planned.

These funds continue to be distributed, although their original purpose and focus has long passed. The result is overproduction of specialty crops that eventually find their way to less fortunate nations in the form of foreign aid. Although distributing food to poor countries has its benefits, more often subsidized agricultural overproduction is actually being sold to developing and underdeveloped nations at prices lower than those at which these nations can grow and sell their own crops. While these subsidies may help feed some of the poor in developing countries, they also prevent agrarian populations from expanding their own agricultural resources. Some believe that the inability of local farmers to sell their products at a profit stifles economic progress and promotes long-term poverty.

The overall result is that the programs no longer benefit those for whom they were originally designed, are hugely expensive to the developed countries' consumers, and are causing havoc among some of the world's poor countries that depend on agriculture for a large part of their economic development and growth.

Giant agribusiness corporations that receive the bulk of today's farm subsidies have replaced small farmers in both the United States and the member states of the EU. Some believe that the power these multinational corporations possess is so great that they control the legislation and multilateral agreements that would eliminate these wasteful programs.

The World Trade Organization (WTO) has taken a strong position on the elimination of trade barriers, and has been very successful in every area of world trade, with the exception of agriculture. The WTO has been relentless in its efforts to promote open markets and the elimination of agricultural-protectionist policies. It promotes multilateral agricultural agreements, which its leaders see as the last remaining barrier to the eventual solution of world poverty.

This dissertation will address the problems that exist, explain why they continue, and explore solutions that will benefit both producers and consumers of these protected products.

HYPOTHESES

Hypothesis 1: Agricultural price support programs were introduced in both the United States and Europe during the Great Depression and again after WWII to subsidize small farm income. Small farmers at that time were not earning enough to support their families or to maintain their farms. Existing evidence suggests that these programs became redundant as the number of small farmers declined to roughly 10 percent of the original group, and the personal incomes of those that remained rose to the level of the national average. Agricultural support programs are no longer beneficial to the small farmer.

The suspension of agricultural programs for small farmers in the United States and the EU will not adversely affect their incomes.

Null Hypothesis: If agricultural price supports are suspended, the vast majority of small farmers will no longer be able to stay in the industry.

Hypothesis 2: Today's agricultural price supports have little to do with local agrarian needs, and remain in place due to large corporate influence, and public apathy. Change and reform are unnecessarily protracted and lengthy as a result of the personal self-indulgence of politicians and industry giants.

Agricultural price supports have little to do with small farmers, and remain in place due to political factors rather than economic necessity.

Null Hypothesis 2: Agricultural price supports have remained in force because of agrarian need.

Hypothesis 3: The dumping of agricultural products, by subsidized nations, on the

markets of less developed countries, at prices lower than these products can be locally grown, is detrimental to the farmers of those nations and inhibits their economic growth.

Null Hypothesis: The dumping of agricultural products on the market of less developed countries, at prices lower than these products can be locally grown, is not detrimental to the farmers of these nations.

CHAPTER I

LITERATURE REVIEW

The United States

Price supports in the United States for certain agricultural products were initially formulated and implemented during the Great Depression. They were originally designed to help farmers sell their crops at a profit in order to support their families and maintain the small-farm lifestyle that was typical of rural America. After World War II (WWII), these price supports and import and export tariffs were put in place again in an effort to help US farmers retrench after six years of neglect and difficult times. Those postwar farm-support agendas were designed as interim programs that would eventually be discarded as the economy improved. But in many instances they are still in place, and in the case of cotton, sugar, and grain, they are far greater and larger than their founders ever planned.

The general consensus is that these programs are outdated and no longer serve their original purpose. To the contrary, those for whom the programs were originally designed no longer exist, as the number of American farmers has declined from 70 percent of the workforce to less than five percent of the US working population today. The programs are hugely expensive to the American consumer, and are causing havoc among some of the world's poor countries that depend on agriculture for a large part of their economic development and growth.

A brief history of these programs will be given before explaining past and present US policy and the relevant scholarly literature associated with it. This critique will compare the benefits and the drawbacks of these subsidies and their effect on the

American consumer, the American farmer, and farmers from developing countries. This study will contribute to the existing literature as it examines the important aspects of political and economic factors that have accompanied the evolution of these support programs. While most studies have focused on the importance of continuing to provide for small farmers, this dissertation will provide insight on the underlying reasons why these programs are self-perpetuating, and how they affect farmers differently in dissimilar areas of the world. This study will investigate the involvement of the World Trade Organization (WTO) in its role in international price control and the effect of these controls on Less Developed Nations (LDCs). It will question the WTO's price control attitude and how its efforts are changing the positions of both the United States and the international community on international trade. The literature review will examine the United States' official policy on agricultural price supports, particularly sugar cotton and grain and then review the effect of the 1996, 2002, and 2007 US Congress' farm bills as well as the EU's Common Agricultural Policy (CAP).

The contention of this dissertation is that current agricultural price-support programs no longer benefit the small farmers for whom they were designed, and that the bulk of these funds are distributed by large agribusiness conglomerates that have little need for price-support protection. The popular argument is that these price supports continue to burden US consumers while remaining important to political interest groups and well-paid lobbyists. The pros and cons of farm subsidies today focus primarily on both the cost of these subsidies and on the distribution of the money as less and less reaches the small farmers and more and more goes to large corporate farming interests. While those against wasteful government spending are critical of the *continued*

spending of billions that go to support large agribusiness, the farm lobby maintains that without subsidies, the structure of small farms would face destructive cultural and economic consequences. Nathan Ketsdever, a professor at Catholic University in Washington D.C., proposes that both sides of the argument have some merit in four contexts. First, he argues that any government intervention in the floating market price is contradictory to the US. Policy on free trade, and are in violation of the US international agreements with the WTO and the North America Free Trade Agreement (NAFTA). He then counters his own argument by saying that price supports may be necessary in order to create a stable market that will prevent price fluctuations that could, under extraordinary circumstances, push farmers in developed nations into bankruptcy. Second, subsidies are outdated, expensive, and a burden to the rest of the nonfarming American consumer. The backside of this argument is that, without support programs, prices would occasionally spike, creating uncertainty in the consumer's ability to purchase certain products. Third, overproduction due to price supports results in the dumping of crops on LDCs, which, in turn, prevents local farmers from selling locally grown products perpetuating rural poverty and accelerating migration from the farm to the cities. The counter argument here is that crop dumping is not the cause of poverty in these LDC countries. The poverty in many of these countries would actually increase if the inexpensive food products were not available. Fourth, when countries can no longer sell what they produce, they begin to rely on imports of products that were previously produced locally. This often results in internal economic growth stagnation and increased poverty. Those who advocate the continuation of price supports argue that less expensive food products for the LDC countries will free up both and labor and capital that can be

used in other more productive endeavors. Fifth, continued subsidies and agricultural products on the market at prices below the cost to grow actually interfere with LDC small farmer's right to a livelihood. Agribusiness in the United States and the EU accounts for only about 1.5 percent of their respective economies. When they ship under priced produce to a country where 50-80 percent of its economy is based on agriculture, it has the potential to derail that country's entire economic structure. Those who advocate the continuation of these programs argue that the products that are exported to these countries are staples that will insure that the poor population in the countries will have access to a complete diet heretofore unavailable.¹

While the arguments for both sides are strongly opinionated, Brian Riedl's position on the elimination of price supports is strong and direct. He points out that, all other issues aside, the small farmer is gone and those who receive these payments in 2005 reported an average income of over \$200,000 and a net worth of over \$2 million. These subsidies cost the American consumer billions each year in higher taxes and food costs, and no longer serve the original goal of helping the small farmers.² Bradley Doucet in his paper, "Why on Earth---Should Agriculture be Subsidized at All,"³ claims that subsidies not only are no longer needed by the small farmers, but actually encourage inefficiency in production practices as farmers attempt to grow subsidized crops on land not well suited for them which in turn raises the cost to the consumer. While much has been written on the subject of agricultural price support programs, most of it supports the abolition of a large part of the programs that are currently in effect. The exception comes from those who support the cotton and sugar industry, big agribusiness interests that work

¹Ketsdever, Nathan. 2007.

² Riedl, Brian M. 2008.

³ Doucet. 2009.

through government lobbyists and a growing coalition of organizations who fear that the elimination of supports may cause a reduction of excess grain products that now go to indigent countries. While some, such as Alexander Werth, a consultant for the Organization for Economic Cooperation and Development,⁴ fear a freefall into permanent poverty if these programs are discontinued, others such as Kevin Watkins, who is head of research for Oxfam, claim that the base cause of poverty is the actual dumping of excess products.⁵

The World Trade Organization (WTO) is very much involved in the global attempt to unravel both the cause and the solution to the effect of agricultural support programs on the world and in particular the LDC countries. Its original focus was on the elimination of all agricultural price supports. As more information has come to light during the Doha round of negotiations, the WTO has changed directions and now supports programs that apply separately to each individual LDC country. The three agricultural areas that are the primary focus of this dissertation are cotton, sugar, and grain crops. These three are most essential to the economic success of poor and developing countries and are, ironically, also the most subsidized worldwide.

History of Sugar, Cotton, and Grain Supports

In the 1930s, there was a case to be made for protective agricultural programs, which were established to see American farmers through the Great Depression. Over a period of years, the US economy slowly recovered, and local and international markets began to prosper under the precursor of market economic theory. However, the subsidy programs designed to implement that recovery remained, and actually continued to grow.

⁴ Werth, 2006

⁵ Watkins, 2006.

Although less than 30 percent of the farmers remained, the majority of those who continued grew large, wealthy, and powerful, in part as a result of the subsidies. With profits subsidized by American taxpayers dollars, they can afford to be extremely generous to the representatives they send to Washington. Representatives and lobbyists from big farm states work overtime to keep these programs in place.⁶

Although the original motivation for these programs has ceased to exist, the basic structure of farm-subsidy programs has changed little in the past seventy-five years. Agricultural policy has tended to grow and mature, to be revised and increased as agricultural co-ops and large corporate farmers grow stronger.

US Policy on Subsidies

Since the 1930s, the US government has encouraged overproduction by sugar producers with an arcane price-support system, while the manufacturers of sugar-intensive products such as candy, cookies, and cereals are subject to the give-and-take of the free market. Each year, the US government distributes farm subsidies in the form of so-called loans to the co-ops that refine sugar. The actual amount of each loan is based on a guaranteed price per pound on the sugar they expect to produce. For example, in 2002 the per-pound prices of 18 cents for raw sugar and 22.9 cents for refined beet sugar had no connection to the real-world marketplace. In addition, the US government also restricts sugar imports in an effort to keep the price per pound inflated within the United States.⁷

The US government pays these farmers subsidies of billions of dollars annually to overproduce; the producers in turn dump their excess product on the international market

⁶ Chastain, 2002,

⁷ Ibid.

at below-market prices, often with the result that farmers in smaller, less developed countries (LDCs) are not able to sell their products at a profit. The backside of this is that the United States Agency for International Development (USAID) then sends aid to these same countries to keep them from starving. The US taxpayers lose on both ends. For example, US aid to Mali in 2002 amounted to \$37.7 million, compared with that state's foreign exchange losses of \$43 million due in part to US cotton, sugar, and grain subsidies.⁸

At any given time, sugar sells for about five cents a pound on the world market. In the United States, sugar costs 17 to 22 cents a pound as the result of a government-imposed price floor. The total cost to American consumers from the higher sugar price is about \$1.2 billion each year, according to Tom Schatz of the Council for Citizens Against Government Waste.⁹ Such price supports are a "sweet deal" for sugar farmers. If large agribusinesses produce more than they can sell, the US government simply takes the sugar in exchange for the money it loaned the farmer to grow it. In 2001, in exchange for a promise from these co-ops to not produce any more sugar, the Bush administration gave them the old sugar back to resell. Previously, the Clinton administration had agreed to purchase 132,000 tons of sugar, which cost taxpayers nearly \$55 million. At the time, the administration admitted that although the government would almost certainly spend \$140 million on sugar for the fiscal year, it would probably not strengthen sugar prices. This simply encouraged farmers to produce as much as possible each year, with the knowledge

⁸ Oxfam, 2002.

⁹ Citizens Against Government Waste, n.d.

that they would be paid based on the previous year's production. Between the years 2000 and 2005 the sugar program is estimated to have cost US taxpayers at least \$1 billion.¹⁰

The sugar program created by the 1981 Farm Bill consisted of a domestic commodity loan program that set a support price (loan rate) for sugar and established an import-quota system that restricted foreign competition and ensured a high domestic price for sugar. Instead of creating a more stable sugar economy, as was the bill's purported intent, the result was higher prices for everything that contained sugar. In addition to the Farm Bill, there was also the tariff rate quota (TRQ), which regulated the amount of sugar that could be imported into the United States. If the TRQ was more than 1.5 million tons, US sugar processors were eligible for nonrecourse loans, which did not have to be repaid. But if the TRQ is 1.5 million tons or less, the loans become recourse, and had to be paid back. This has become such a pork-barrel issue that the United States Department of Agriculture (USDA) has issued a fictional quota, and at the same time a real TRQ of 1.25 million tons that would actually be enforced. The fictional TRQ was just over 1.5 million tons, just enough to give sugar processors the right not to repay their loans. Coincidentally, it just so happens that 1.25 million tons is the US minimum import obligation under the WTO. The result is that the American taxpayer ends up not only paying a higher price for anything that contains sugar but also paying for the loans.¹¹

Cotton is another subsidy that has far exceeded its intended life. The market price for cotton in February 2005 was about 35 cents per pound, but the price controls were set at 52 cents per pound. Thus, cotton farmers were paid 17 cents over and above market price for each pound of cotton they produced. A bale of cotton weighs about 500 pounds,

¹⁰ Carnell, 1999.

¹¹ Sugar Program, n.d.

which computes to \$85 in subsidies per bale. A large cotton operation that produces 3,500 bales could easily receive \$300,000 in governmental subsidies for doing absolutely nothing. Furthermore, no consumer or taxpayer will receive any benefit whatsoever in return. Since most cotton operations are now large agri-conglomerates, such as J.G. Boswell Co., which farms over 200,000 acres and has a net worth of over \$1 billion, benefit and the rest lose. In addition, these subsidies increase the prices for food products, limit foreign markets, reduce competition, and increase the overall cost of living in the United States.¹²

Cotton support measures account for only a part of the decline in cotton prices, as a large share of domestic cotton is exported. In the past, when the world market price for cotton was \$.85 per kilo, the US minimum price was \$1.56 per kilo, which means that US taxpayers made up the difference between \$.85 and \$1.56. The taxpayers are paying a subsidy that was originally designed to protect small US cotton growers; however, the richest 10 percent of cotton farmers now receive more than 73 percent of these subsidies, and 25 percent goes to the richest one percent.¹³

When President George W. Bush signed the 2002 and the follow-up 2008 Farm Bills, governmental support programs for farmers were actually increased, and are estimated to cost \$190 billion by the year 2018. That is \$83 billion more than the cost of the pre-2000 program had it been extended. Many Republicans who understand the overall consequences of this continued support urged the president to veto the bill. The new Farm Bill actually raises payment rates to growers of cotton, among other commodities.

¹² Lora, 2005.

¹³ WTO, 2003.

It perpetuates the safety net that provides federal aid to farmers when crop prices drop lower than pre-established numbers.¹⁴

The 2002 Farm Bill

Income support for wheat, feed grains, upland cotton, rice, and oilseeds is provided through three programs: direct payments, countercyclical payments, and marketing loans.

Direct payment is provided to farmers who participated in the wheat, corn, barley, grain sorghum, oats, upland cotton, and rice programs in any one of the years 1991 through 1995. Farmers could enter into a seven-year production flexibility contract (PFC) for 1996 through 2002 during a one-time enrollment period. An eligible farm's so-called payment quantity for a given contract commodity was equal to 85 percent of its contract acreage times its program yield for that commodity. A per-unit payment rate (e.g., per bushel or bale) for each contract commodity was determined annually by dividing the total annual contract payment level for each commodity by the total of program payment quantities for all contract farms.¹⁵ The annual payment rate for a contract commodity was then multiplied by each farm's payment quantity for that commodity, and the sum of such payments across contract commodities on the farm was that farm's annual payment, subject to any payment limits. For example, the payment for an individual corn farmer is "direct payment (DP) corn = payment rate (target price higher of commodity price or loan rate) corn = ([Base acres]corn × 0.85) × (payment yield) corn × (payment rate)."¹⁶ All of this may look complicated beyond comprehension to the casual observer, but the farmers

¹⁴ Grow, 2002.

¹⁵ 2002 Farm Bill, 2002.

¹⁶ Young, 2008.

who benefit from this formula understand it completely. To receive payments on covered crops (wheat, corn, grain sorghum, barley, oats, rice, upland cotton, soybeans, and other oilseeds), a producer must have entered into an annual agreement for crop years 2002 through 2007.¹⁷

Farmers were given two options to choose from when deciding which program was best for them: “1) choose base acres equal to contract acreage for the commodity that would otherwise have been used for 2002 PFC payments plus average plantings in crop years (CY) 1998–2001, so long as base acres did not exceed available cropland; or 2) update base acres to reflect the four-year average of acres planted, plus those “prevented from planting” because of weather conditions, during CY 1998–2001.”¹⁸

For a farmer to be a part of the farm support program, he was required to select one of the two options that would then be applied to all agricultural products for both direct payments and countercyclical payments. Farmers were given almost complete flexibility in deciding which crops to plant. This was not a particularly difficult decision to make: they began growing those crops that had higher price supports. Planting was no longer based on market demand, but on which crops had the most advantageous guarantees. Participating producers were permitted to plant all cropland acreage on the farm to any crop, except for some limitations on planting fruits and vegetables, which were not desirable crops for the farmers anyway, because they had no subsidies attached. It was required that the land be kept in agricultural uses, which includes fallow unplanted

¹⁷ 2008 Farm Bill, 2008

¹⁸ Young, 2008.

acres, and farmers were required to comply with certain conservation and wetland provisions.¹⁹

For year 2002, payments were made immediately after the passage of the Farm Act. The date for distribution of funds for the years 2002 through 2007 was set at October 1, or shortly after harvest, however, advance payments in the amount of 50% of the previous year's crops could be made in December of the same year.²⁰ The payment limit on direct payments was to be \$40,000 per person, per crop year, and the three-entity rule was retained. The three-entity rule specified that farmers would be paid full payment for one parcel on request, and additional payments of 50 percent for two additional farms. In reply to complaints that some farmers would be overpaid, the rule also stated that farms that had average incomes of over \$2.5 million over a three year period could not participate unless at least 75 percent of their income was from farming.

These rules were easily subverted, as many farmers simply placed common owned farms in the names of family members. The payment rates have varied over each year but were spelled out in the 2002 Farm Act (see Table 1). Farm payments under the 2002 Farm Act were not directed toward any particular crop, the amount of land farmed or to the final market price. This gave farmers some leeway as to which crops to plant, and some confusion when applying for the funds. In some cases farmers were growing soybeans and requesting money for raising corn. Farmers were actually playing the market with government money.

¹⁹ The 2002 Farm Bill, 2002.

²⁰ Ibid

The economic impacts are similar to those for PFC payments under the 1996 Farm Act. PFC payments increased farmers' wealth, facilitated additional investment, and probably led to slightly higher crop production.²¹

Under this new program, countercyclical payments (CCPs) are available for certain crops whenever the actual market price is less than the target price. According to the formula, the payment amount is equal to the product of the payment rate, the payment acres (85 percent of base acres), and the payment yield.²² Countercyclical payments for wheat, grains, cotton, and rice are covered by market loss assistance (MLA) payments, which are authorized by supplemental legislation. Payment levels were \$2.857 billion in CY 1998, \$5.5 billion in CY 1999, \$5.465 billion in CY 2000, and \$4.6 billion in CY 2001²³ (see Table 2 and Table 3). For example, the payment for an individual corn farmer is determined as follows: "Payment rate corn = (target price) corn – (direct payment rate) corn – (higher of commodity price or loan rate) corn. CCP corn = ([Base acres]corn × 0.85) × (payment yield) corn × (payment rate) corn. To receive payments on crops covered by the program, a producer must have entered into annual agreements for CY 2002–2007."²⁴

The payout for this program was to be at the rate of 35 percent in October of the harvest year with a second payment of 35 percent to be made the following February and the final payment to be made sometime in the spring prior to planting. This program had a cap of \$65,000.00 per farmer per year, and the three entity rule remained in place along with the exclusion of farmers who had a \$2.5 million income average over a three year

²¹ USDA ERS, 2002.

²² Ibid.

²³ Ibid.

²⁴ Ibid..

period. Many farmers realized early on that the rules could be bent by simply adding family members to the equation with the result of reducing income, and splitting ownership of farms among relatives.

Table 1
Payment Rates Specified in the 2002 Farm Act

Crop	Price per unit (in US dollars)
Wheat (bu)	.52
Corn (bu)	.28
Oats (bu)	.24
Cotton (lb)	.67
Rice (cwt)	2.35
Soybeans (bu)	.44

Note. bu = bushel; cwt = hundredweight; lb = pound. Compiled from 2002 USDA Economic Research Service.

Marketing assistance loans and loan deficiency payments (LDPs) are available to minimize potential loan forfeitures and the subsequent governmental accumulation of excess stocks.

Nonrecourse commodity loans with marketing loan provisions were extended in the 2002 Farm Bill. Any production of a contract commodity by a producer who entered into a PFC was eligible for loans. The formulas for establishing loan rates for wheat, feed grains, and upland cotton were retained, subject to specified maximums, as well as

continued marketing loan provisions that allowed repayment of loans at less than full principal plus interest when prices were below loan rates.²⁵

Table 2
Yearly Fixed Total Payment Levels, 1996–2001

Year	Payment level (in billions of US dollars)
1996	5.57
1997	5.38
1998	5.80
1999	5.60
2000	5.13
2001	4.13

Note. Compiled from 2002 US Farm Bill and US Program Payments.

The Farm Service Agency (FSA) administers commodity loan programs with marketing loan provisions for wheat, rice, corn, grain sorghum, barley, oats, cotton, and soybeans through the Commodity Credit Corporation (CCC). These commodity loan programs allow growers of these crops to receive a loan from the government at a commodity-specific loan rate by pledging their crops as loan collateral. These commodity loans were designed to give the farmer several options for repayment: 1) at the original loan rate plus interest, usually one percent above what the CCC could borrow from US Treasury, 2) the farmer could simply give the crop back to the CCC at the maturity of the

²⁵ USDA ERS, 2002.

loan, or 3) could repay the loan at some alternative loan rate to be determined at a later date.

Table 3
Target Prices for Countercyclical Payments

Crop	Price per unit (in US dollars)	
	2002–2003	2004–2007
Wheat (bu)	3.86	3.92
Corn (bu)	2.60	2.63
Oats (bu)	1.40	1.44
Cotton (lb)	.72	.72
Rice (cwt)	10.50	10.50
Soybeans (bu)	5.80	5.80

Note. bu = bushel; cwt = hundredweight; lb = pound. Compiled from USDA Economic Research Service, 2002.

According to the 2002 Farm Bill, marketing loan repayment rates are based on local, posted county prices (PCP) for wheat, feed grains, and oilseeds, or on the prevailing world-market prices for rice and cotton. PCPs are calculated by the government each day the federal government is open. Prevailing world-market prices for rice and upland cotton are also calculated on a weekly basis. When a farmer repays the loan at a lower PCP or prevailing world-market price, the difference between the loan rate and the loan repayment rate, called a marketing loan gain, represents a program benefit to producers. In addition, any accrued interest on the loan is waived. When a

marketing loan gain is received on a given collateralized quantity, that quantity is not eligible for further loan benefits.²⁶ Alternatively, according to the USDA, some farmers may also choose to apply for direct loans through LDPs when market prices are lower than commodity loan rates. The advantage of this option is that it allows the farmer to receive the benefits of the marketing loan program without the obligation of having to repay a commodity loan. The LDP rate is the amount by which the loan rate exceeds the PCP price, and therefore is equivalent to the marketing loan repayment.²⁷

Loan rates are not governed by a US agency that can alter them at will, but are instead fixed by legislation. Commodity loans mature in nine months except for upland cotton and extra-long staple (ELS) cotton loans, which mature in 10 months (see Table 4).²⁸ In their original format, Step 2 payments had a cap of \$701 million total over the period of 1996 to 2002. Under farm lobby pressure, that cap was removed by the 2002 Appropriations Act.²⁹ That same act also introduced provisions for ELS cotton supports when the world market prices, over a period of four weeks, dropped below US prices or when competing ELS cotton was 134 percent of the ELS loan rate.³⁰ Farmers were also eligible for special government-backed credit programs under the 2002 Farm Bill. FSA farm-loan eligibility rules were relaxed to allow additional farmers to be eligible for federal farm credit assistance. The focus was on new farmers and ranchers who had little experience and no borrowing power. The rules for these loans were streamlined to insure a quick turnaround from application to closing.

²⁶ 2002 Farm Bill.

²⁷ USDA ERS, 2002, p. 42.

²⁸ Ibid.

²⁹ 2002 Farm Bill

³⁰ USDA ERS, 2002.

Table 4
Fixed Loan Rates

Crop	Price per unit (in US dollars)	
	2002–2003	2004–2007
Wheat (bu)	2.80	2.75
Corn (bu)	1.98	1.95
Oats (bu)	1.35	1.33
Cotton (lb)	0.52	0.52
Rice (cwt)	6.50	6.50
Soybeans (bu)	5.00	5.00

Note. bu = bushel; cwt = hundredweight; lb = pound. Compiled from USDA Economic Research Service, 2002, p. 42.

The Agricultural Risk Protection Act of 2000 (ARPA) provided an additional \$8.2 billion for insurance premium subsidies for FY 2001–2005. The 2002 Farm Bill continued the crop-insurance and disaster-assistance program. There were no changes to the basic program. ARPA raised insurance participation and encouraged the use of higher coverage levels.

Although US sugar policy remains at the top of the international irritant list, the subsidy program for sugar is quite different from those for other agricultural products. The two main elements of US sugar policy are the price-support loan program and the TRQ import system.³¹ The loan program for sugar processors supports the US price of sugar. Unlike most other commodity programs, sugar loans are made to processors and

³¹ USDA ERS, 2002.

not directly to producers. This is because sugarcane and sugar beets, which are bulky and very perishable, must be processed into sugar before they can be traded and stored. To qualify for loans, processors must agree to provide a part of the loan payment to producers, in proportion to the amount of the loan value accounted for by the sugar beets and sugarcane the producers deliver.

The stated purpose of the TRQ system is to ensure an adequate supply of sugar at reasonable prices for both consumers and producers. The way that they accomplish this is that on June 1 of every year, the USDA and the US trade representative attempt to calculate who actually used, or did not use their segment of the TRQ quota and then reallocate the quotas for the coming year. Although the US is not the largest producer of sugar it is one of the largest exporters of it and is therefore one of the biggest players in the TRQ negotiations. US sugar is highly subsidized and therefore would not be competitive on the world market without additional programs in the form of export subsidies such as the Refined Sugar and Sugar-Containing Products RE-Export.³²

Among the other key program provisions are the following. First, the 2002 Farm Act continued the rate for loans to processors of domestically grown sugarcane at 18 cents per pound and the rate for loans to processors of domestically grown sugar beets at 22.9 cents per pound for refined sugar. Processors may obtain loans for so-called in-process sugar and syrups at 80 percent of the loan rate. As an additional safety measure, the processor cannot be required to notify USDA of the intention to forfeit the sugar under loan.³³

³² USDA ERS, 2002.

³³ Ibid..

Trade programs are designed to develop and expand commercial outlets for US commodities and to provide international food assistance; therefore, all trade programs were reauthorized through 2007. In addition to the guarantees, there is also the Export Enhancement Program (EEP), which provides financial support for exporters, and was designed to enable them to sell excess products on the international market at competitive prices. Total EEP support payments were to be capped at \$350 million in 1996, \$250 million in 1997, \$500 million in 1998, \$550 million in 1999, \$579 million in 2000, and \$478 million in 2001 and 2002. These funds were extended through 2007 at a funding level of \$478 million per year.³⁴

The debate over equity became heated when Congress enacted payment limits on agricultural subsidies for the first time in the 1970 Farm Bill. Until that time, these programs had reached entitlement status, and farmers were both surprised and outraged at the idea that many of these programs might be unfair to the consumer and to US taxpayers. Although the farm population had compacted from 20 percent to roughly five percent of the population at this time, the farm lobby was stronger than ever, and the farm vote in the Midwest had organized into an effective block. Recently, in light of greater transparency of the subsidies received by individuals and against the backdrop of the WTO Doha Development Round of negotiations, concerns about equity in farm subsidies reemerged as a major policy issue.

With additional transparency, and history as a teacher, it has become easier to discover who receives and benefits from agricultural subsidies, and to define the fairness of farm policy. To this end, economists typically examine the distribution of subsidies in two ways. The first, most obvious way is to examine who actually receives the subsidies.

³⁴ Wang and Sexton, 2004.

This course of examination is called the statutory incidence, which refers to an individual's legal right to receive the subsidy. The second method of distribution analysis examines the changes caused by the subsidy. This course of examination is more academic in scope in that it measures a market's response to a subsidy, assuming that prices adjust and resources are reallocated in relation to the amount of subsidies available. This goes beyond the subsidy to the farmer, and measures the effect that the subsidy has on the consumer. This type of examination is referred to as economic incidence.³⁵

The larger farms obviously receive more subsidies. This is not surprising, since US farm policy subsidizes land and production, not individual farms per se. Meanwhile, a majority of US farms (57 percent)³⁶ do not grow subsidized crops or farm subsidized land. These farms grow crops that are not covered by subsidies, receive no farm payments at all, and rely on the open market to set a competitive price.

Most individuals in nonfarm communities have little interest in agriculture, and are seldom aware of the amount of money that is involved in agricultural price supports. However, reports of individual farmers receiving as much as \$4 million in 1968 raised public ire and piqued the interest of both individuals and lawmakers. The evidence of subsidy concentration during the 1960s prompted Congress to enact payment limits for the first time in the 1970 Farm Bill. Thirty-seven years later, the 2006 Economic Report of the President (EROP), in its chapter on the US agricultural sector, reported as one of its two major findings that "most farmers do not benefit from commodity subsidies."³⁷ In fact, Bonnen reported that the top five percent of farms, by size, received about 30

³⁵ Kirwan, 2007.

³⁶ Ibid.

³⁷ Economic Report of the President, 2006, p. 173.

percent of subsidies.³⁸ In comparison, the 2006 EROP reported, “The largest of the commercial family farms received 27 percent of payments even though they account for 5.5 percent of farms receiving payments.”³⁹ Not only is the EROP finding not new, but the distribution seems to have changed little over the intervening 37 years⁴⁰ (see Table 5). EROP’s reporting of distribution is important in that it points out that, although those who are advocates of agriculture price supports claim to have placed caps on spending, the distribution of funds has changed little in the past forty years.⁴¹

As each farm-subsidy period comes to a close and the next appears on the threshold, the same story unfolds. The equity debate often focuses on the well-being of farm households, specifically subsidized farm households, relative to the general population. One of the arguments of the agriculture lobby is that, historically, farm incomes have been far below those of the general population. However, data from the Agricultural Resource Management Survey (ARMS), a detailed survey of a representative cross-section of farmers, reveal that the income distribution among farmers now closely resembles the overall income distribution in the United States. Before receiving subsidies, the median farm-household income from both farm and nonfarm sources in 2003 was \$45,118, while the median US income in 2003 was \$43,300.⁴²

Payment caps and revenue restrictions are designed to correct existing inequities in government support payments. During the initial dialogue on the 2002 Farm Bill, Sen.

³⁸ Bonnen, 1968.

³⁹ Economic Report of the President, 2006, p. 173.

⁴⁰ Kirwan, 2007.

⁴¹ In 1970, the *New York Times* reported, “The farm-subsidy program has for years been a national disgrace; on the whole it makes the rich richer while the rural poor get relatively little. A few farm operators have received Federal handouts running as high as \$4 million in a single year” (“Curbing Farm Subsidies,” July 12, 1970, p. 138, editorial).

⁴² Substantial year-to-year variation in farm income results in extremely high and low income in any given year. The Winsorized mean (a measure of central tendency that accounts for outliers) of farm income in 2003 is \$62,146.

Charles Grassley (R-Iowa) echoed the remark of Paul Findley (former Republican Representative from Illinois) from three decades earlier: “How long will the American people put up with programs that send out billions of dollars to the biggest farm entities? All this does is damage our ability to help people we originally intended to help—the small and medium-sized producers.”⁴³ Sen. Grassley has been an open advocate of tighter payment limits, and suggested to the Bush administration in 2005, that this might be an effective way to reduce spending.

Although small farmers as well as large agribusiness have come to rely on these payments and are against reductions and caps, little is known about how these caps would actually affect the existing farm structure. Schnittker, in his 1968 report to Congress, stated, “One of the serious administrative problems sure to arise would result from proposed division of farms into smaller units if a limitation were imposed, in order to evade the limit.”⁴⁴ Anticipating the potential effects of payment limits before their 1970 adoption, Schnittker, in his 1968 report to Congress, stated, “One of the serious administrative problems sure to arise would result from proposed division of farms into smaller units if a limitation were imposed, in order to evade the limit.”⁴⁵ Thirty-six years later, the Government Accountability Office (GAO) echoed that concern: “Some farming operation may reorganize to overcome payment limits to maximize their farm program benefits.”⁴⁶ Stories flourish regarding the lengths some farmers go to in order to avoid payment limits. The 2004 GAO report titled “USDA Needs to Strengthen Regulations and Oversight to Better Ensure Recipients Do Not Circumvent Payment Limitation”

⁴³ *Congressional Record* Vol. 115, No. 70 (April 30, 1969): 10867-72, P.10868.

⁴⁴ *Ibid.*

⁴⁵ *Ibid.*

⁴⁶ Kirwan, 2007, p. 3.

documented several specific cases of farms organized to maximize subsidy receipts and avoid payment limits. Although farm lobbies make a great deal of noise when caps are suggested by congress, there is little evidence that it goes much further in the way of organized resistance.⁴⁷

The 2002 US Farm Bill made few changes, and none that would substantially reduce farm subsidies. In the 1930s and 40s agricultural productivity was low and the average income among six million farmers was less than one-half the national average.⁴⁸ Once Congress began to increase farm subsidies annually, the political effort to turn the extra payments made during the period from 1998 to 2001 into a permanent support entitlement under the new Farm Bill was vigorously marketed by the House Agriculture Committee as the great equalizer in farm income. The committee was still under Republican control, and was chaired by Larry Combest (R-Texas); Senator Combest represented a farm state and therefore was in opposition to the decoupling of payments in the Federal Agriculture Improvement Reform (FAIR) Act. Under Republican chairman Richard Lugar (R-Indiana), the Senate Agriculture Committee attempted to delay the rewriting of the Farm Bill in an effort to not raise support levels.⁴⁹

⁴⁷ US GAO, 2004.

⁴⁸ Orden, 2008.

⁴⁹ Ibid.

Table 5
Top Twenty Subsidy Recipients for 2005

Rank	Recipient ^a	Location	Commodity subsidy (in US dollars)
1	Riceland Foods Inc	Stuttgart, AR 72160	15,977,233
2	Producers Rice Mill Inc ^a	Stuttgart, AR 72160	14,336,238
3	American Peanut Marketing Assoc.	Leary, GA 39862	6,716,431
4	Farmers Rice Coop	Sacramento, CA 95851	5,171,362
5	Harvest States Cooperatives	Saint Paul, MN 55164	4,878,983
6	Peanut Loan Processing Center	Gorman, TX 76454	3,881,721
7	Balmoral Farming Partnership ^a	Newellton, LA 71357	3,440,505
8	Kelley Enterprises ^a	Burlison, TN 38015	3,300,126
9	Due West ^a	Glendora, MS 38928	3,300,070
10	River Rock Farms ^a	Camilla, GA 31730	2,887,041
11	King Ranch Inc	Kingsville, TX 78364	2,591,408
12	Gila River Farms ^a	Sacaton, AZ 85247	2,535,267
13	Dublin Farms ^a	Corcoran, CA 93212	2,526,821
14	Perthshire Farms ^a	Gunnison, MS 38746	2,526,684
15	Walker Place ^a	Danville, IL 61832	2,516,904
16	Starrh & Starrh Ctn Growers ^a	Shafter, CA 93263	2,362,419
17	Soudan Farming Co ^a	Marianna, AR 72360	2,337,815
18	Ak-chin Farms ^a	Maricopa, AZ 85239	2,292,596
19	S J R Farming ^a	Los Banos, CA 93635	2,282,692
20	Pitts Farms ^a	Indianola, MS 38751	2,276,031

Note. Compiled from USDA Economic Research Service data. ^a USDA data are not totally “transparent.” Recipients of payments made through most cooperatives have not been made public.

The agricultural lobby prevailed in April 2001 when it successfully included in a congressional budget resolution a reserve fund of an additional \$5.5 billion for that year and \$73.5 billion over the next ten years (2002–2011) to enhance farm subsidies beyond the levels built into the extension of existing law.⁵⁰ This increased by three-fourths the baseline spending of nearly \$100 billion on agriculture anticipated from continuation of the FAIR Act and allowed the 1996 law to be rewritten one year before it was scheduled to expire perpetuating multimillion dollar payments to a select few wealthy mega-farmers (see Table 6).

With total disregard for the effect of wasteful spending on the nation and the world, the House Agriculture Committee passed a new ten-year Farm Bill in July 2001. Under the committee bill, most of the \$50 billion newly available money went to commodity support. The Senate did not look favorably on these higher levels of farm support and challenged it on four fronts in the Senate committee and floor debates. The questions were: how can we justify this while the country is in the midst of budget constraints, US international commitments on agriculture in the WTO, pressure to substitute conservation issues for farm support payments, and increasing questions about the purpose and national benefit of farm subsidies.

The terrorist attacks of September 11, 2001, altered the political dynamics in the United States and could easily have derailed this legislation. In the midst of congressional farm support debates, terrorism took over as the defining issue of congressional focus.

⁵⁰ Orden, 2008.

Table 6
Recipients of Farm Subsidies between 1995 and 2006

Percentage of recipients	Percentage of payments	Number of recipients	Total payments (US dollars)	Payment per recipient (US dollars)
Top 1%	24	32,705	42,424,109,175	1,297,175
Top 2%	35	65,411	62,826,500,911	960,488
Top 3%	44	98,117	77,931,913,054	794,275
Top 4%	51	130,823	89,874,851,936	686,996
Top 5%	56	163,529	99,654,261,196	609,398
Top 6%	61	196,234	107,837,539,768	549,535
Top 7%	65	228,940	114,792,430,008	501,408
Top 8%	68	261,646	120,779,059,199	461,612
Top 9%	71	294,352	125,989,069,639	428,022
Top 10%	74	327,058	130,558,342,890	399,190
Top 11%	76	359,764	134,590,492,963	374,108
Top 12%	78	392,469	138,168,367,065	352,049
Top 13%	80	425,175	141,362,679,101	332,481
Top 14%	81	457,881	144,228,474,471	314,991
Top 15%	83	490,587	146,811,765,109	299,257
Top 16%	84	523,293	149,146,892,240	285,016
Top 17%	85	555,998	151,266,386,133	272,063
Top 18%	86	588,704	153,194,922,428	260,224
Top 19%	87	621,410	154,953,640,989	249,358
Top 20%	88	654,116	156,563,257,533	239,351
Remaining 80%	12	2,616,466	21,026,085,442	8,036

Note. Compiled from USDA Economic Research Service data.

With the understanding that priorities were quickly changing, the House pushed the floor debate on the Farm Bill, which was scheduled to begin September 12. It was delayed for just 21 days. By early October 2001, the House passed its version of an expensive new Farm Bill with strong bipartisan backing. This was an extraordinary demonstration of the power of the farm lobby. The Farm Bill was the first legislation not related to the terrorist crisis that was taken up for full House floor debate after the September 11 attacks.

The Senate took a longer look at the bill, and did not pass the Farm Bill in 2001. When it subsequently approved a five-year bill in February 2002, the Senate outdid the House as it authorized new expenditures of \$73.5 billion if its bill could be extended over a full ten-year period. When the Senate bill was eventually passed in February 2002, the projected cost of its increased spending was nearly \$38 billion during the period 2002–2006, compared with \$30 billion under the House bill.⁵¹

The US Farm Bill of 2002 provided for an increase in US government support to agriculture amounting to approximately \$180 billion over ten years. This amounted to a 70 percent, or about \$83 billion, increase in the level of farm support. The five basic commodities identified for support were corn, wheat, cotton, rice, and sugar.⁵² Arguably, the Farm Security and Rural Investment Act (FSRIA) of 2002 reversed the policy shift toward greater market liberalization that was a distinct feature of the FAIR Act of 1996, commonly referred to as the Freedom to Farm Bill. The final 2002 FSRIA negotiated between the House and Senate was signed into law by the president on May 13, 2002.

⁵¹ Orden, 2008.

⁵² Atkins, 2002.

Ordinarily the format for legislation specifies that it remain in effect for 10 ten years, however, the new law specified only six years, and would come up for review in 2007. The trend of declining governmental intervention in US agriculture that began with the 1985 Farm Bill began to unravel with the changes brought by the US commodity programs of 2002. After 1985, the trend continued with the 1990 Farm Bill, which gave producers planting flexibility on their base acres. The 1996 Farm Bill replaced the coupled deficiency-payment program with declining decoupled direct payments and eliminated acreage set-asides. Many hoped that the Uruguay Round Agreement that formed the WTO, together with the 1996 Farm Bill, might signal the beginning of the end to US support of agriculture. But this was not to be. Lower prices from 1998 to 2001 motivated farm supporters in Congress to give farmers emergency supplemental payments (MLA payments), thereby giving Congress the initiative to change direction with the 2002 Farm Bill.⁵³

The 2002 US Farm Bill has been justifiably criticized for increasing subsidies that will cost local consumers, be potentially detrimental to agricultural producers abroad and undermine US negotiations with world leaders at the WTO negotiations. For example, in July 2002, the United States brought before the WTO a proposal on agriculture that called for significant multilateral restraint on subsidies and protection, none of which was undertaken on a unilateral basis in the new Farm Bill. This divergence frustrated proponents of further agricultural trade liberalization, who would have preferred sharp unilateral reform action by the United States in 2002 as an example for similar reforms abroad.

⁵³ Babcock, 2002.

The 2007/2008 Farm Bill

Was this a measure to win political support for the president and members of Congress in important farm states? Some think so. President George W. Bush proclaimed the farm program operated within limits set by the WTO. He said, “The success of America’s farmers is necessary for the success of the American economy.”⁵⁴ For some, that statement translates to more farm subsidies, while others might interpret it to mean that the success of Big Business is necessary for the success of the American economy. Cotton farmers fall into both categories: more subsidies, and big business. Cotton has its own cartel protection system, in which strong and expensive lobbyists keep the support money flowing. The Texas Cotton Association was founded in 1911 and represents thousands of cotton growers in Texas and Oklahoma. The association warehouses, markets, and ships cotton to mills around the world. It is also a major lobbyist for the cotton industry. Among the items that the members of the organization champion are the following: 1) a waiver of carrying charges. They recommend that current USDA policies on charges for accrued interest and storage be reimbursed if the Adjusted World Price (AWP) is below the loan value. 2) That the crop insurance program be completely revised to provide 100 percent yield protection for producers, to encourage all producers to maximize cotton production; and 3) farm bargaining. They have recommended that legislation designed to regulate the prices of agricultural sales transactions, or to permit collective bargaining between producer and processor for the purpose of establishing prices or expanding marketing orders, would adversely affect the marketing and processing of cotton. “Any legislation of this kind must exclude cotton. Cotton producers

⁵⁴ President Bush’s speech on Wall Street, February 1, 2007, quoted in Cato Institute, 2007.

must enjoy the security and freedom of choice to market their cotton through the CCC loan, cooperatives, cotton gins, shippers and mill buyers. The dynamic US cotton marketing system provides producers with competitive bidding for their product, and the pricing mechanism advocated in farm bargaining legislation is not suitable to the cotton industry.”⁵⁵

Cotton emphasizes all of the contradictions maintained in world trade as defined by the WTO after the Uruguay Round of negotiations. Some nations have simply interpreted the term “free market” to mean those ways of conducting business that are most beneficial to them. When it comes to cotton, the United States is the chief culprit. Although the United States is not the world’s biggest producer, it is the world’s biggest exporter. A list of the world’s main cotton producers and exporters is compiled by the USDA (see Table 7). Defying the laws of supply and demand by means of enormous subsidies, the United States has been expanding both the amount of acreage planted and total production, despite the fact that it may be creating a severe world price depression. The result is that US subsidies over the past twenty years have forced world cotton prices to dip to Great Depression levels.⁵⁶

⁵⁵ Poteet, 2000.

⁵⁶ Watkins, 2003.

Table 7
World's Main Cotton Producers, Exporters, and Importers, 2007

Country	Millions of bales	Percentage of global share
Production		
China	32.5	28
India	23	19.8
USA	17.3	14.9
Imports		
China	16	38.9
Turkey	3.5	8.5
Bangladesh	2.4	5.9
Exports		
United States	16.7	41.2
Uzbekistan	4.7	11.6
India	3.6	8.9
Brazil	2.9	7.1
Australia	1.2	2.9

Note. Compiled from USDA Economic Research Service data.

US cotton farmers receive more subsidies per capita and per acre than any other producer group in America. Although the United States may be the largest offender, it is certainly not the only one. It has been estimated that support policies and border protection of the wealthy countries, worth hundreds of billions of dollars each year, may cause devastating harm to agriculture programs among developing countries. These are

the same policies that continue to include price guarantees for specific agricultural products, income-support measures that guarantee farmers an annual income regardless of market fluxuations, and crop-insurance subsidies that eliminate business risk. They maintain tariffs and TRQs that restrict market access and provide export subsidies that move excess farm products into world markets at below production prices. The support and border-protection policies of the developed countries at times are nothing more than special and differential treatment for the rich at the expense of the poor. Cotton, sugar, and grain are merely the tools of commerce.

The WTO is very much aware of the disparity in bargaining power between the rich and the poor nations. In its efforts to even the playing field, the WTO's stated farm policy objectives fall into two categories: those concerned with the incomes of farm households, and those designed to address other societal concerns such as the environment, the provision of rural amenities, land and water management, and food safety and food security. In each case, governments justify their current policies on the grounds that private markets alone may not lead to local achievement of these goals. In plain words, everyone wants the better side of an uneven agreement. Yet the majority of these individual policies are unsuccessful in correcting their market failures, or in improving the plight of their farmers.

With respect to household incomes, the Organization of Economic Co-operation and Development's (OECD) work has shown two things very clearly. First, there is no evidence that farm households have systematically lower incomes than other households; therefore, policies to support incomes across the whole sector may be unfounded.

Second, when support is linked to output, the distribution of that support is heavily

skewed toward larger and richer farmers.⁵⁷ Both findings lead to the logical conclusion that not only do these support policies no longer help the average American farmers, but there is the backside of price-support policies, which is the high price of their products to local consumers, and the potential harm done to cotton- and sugar-dependent countries.

Is progress being made with reference to US agricultural policy? On paper, it appears that some headway is being made. In December of 2005 the Office of the US Trade Representative (USTR) issued a fact sheet on agricultural trade issues, just prior to the WTO ministerial meeting in Hong Kong. Among the US proposals were the following:

Stage 1: Substantial reductions of trade-distorting support measures and tariffs, along with the elimination of export subsidies, to be phased-in over a five-year period.

Stage 2: An additional five-year phase-in period that delivers the elimination of remaining trade-distorting subsidies and tariffs in agriculture.⁵⁸

The proposals call for progressive tariff reductions delivering deeper cuts to higher tariffs.⁵⁹ These suggestions are a long way from a permanent solution; however, they appeared to be a starting point from which the United States could move forward toward more potent objectives.

With the introduction of the 2007/2008 Farm Bill, the US Congress was presented with the opportunity to reveal past inconsistency and correct former fiscal mistakes with the legitimate defense of a declining economy, and the increasing national debt. Both the nation's populace and Congress faced increased pressure to eliminate wasteful spending.

⁵⁷ Brooks, 2003.

⁵⁸ USTR, 2005.

⁵⁹ Ibid.

The international community and the WTO had just completed its lengthy Doha round of negotiations, and looked forward to positive change.⁶⁰ The US Congress voted a new Farm Bill into law on May 22, 2008, with little change. The legislation was greeted with disbelief and incredulity in Geneva, where the WTO has its headquarters. The reaction of the WTO echoed that of President Bush, who vetoed the legislation, saying, “the Farm Bill will impede a conclusion to negotiations on the Doha Agenda at the WTO.”⁶¹ Neither the House nor the Senate faced major resistance in finding the two-thirds-majority vote necessary to overturn the veto.

The opportunity to correct a serious flaw in the economic redistribution of tax assets was missed. The 2008 Farm Bill, overall, will spend even more money than its predecessor. Then presidential contender John McCain voted against the bill, President Barack Obama voted for it.

During a time of record profits for big agriculture and high food prices for struggling taxpayers, this Farm Bill.

- actually increases existing subsidies for commodities like soybeans and wheat;
- establishes new subsidies for crops like dry peas, lentils, and chickpeas;
- removes payment caps for the most trade-distorting subsidies, such as loan-deficiency payments; and
- misses an important opportunity to adequately reform food aid in order to meet the needs of the current crisis.⁶²

⁶⁰ Murphy and Suppan, 2008.

⁶¹ Ibid.

⁶² *The Economist*, May 22, 2008.

The call for reform was too loud to ignore outright; therefore, Congress was forced to make some incremental improvements to subsidies and food aid. This Farm Bill reduces the incomes of producers who qualify to receive subsidies, from \$2.5 million to \$750,000. It also:

- requires that individual recipients, not paper “entities,” collect subsidies
- establishes a pilot program that creates a safety net for farmers based on their revenue and not their production.
- creates a pilot program that allows for the local purchase of some food saving the time and money often wasted on transporting commodities from the United States.⁶³

The latest Farm Bill, also known as the Food, Conservation and Energy Act of 2008, set US farm policy for the next five years and authorized spending of up to \$307 billion over that period beginning October 1, 2008. The new Farm Bill also provides some extra benefits. For example, spending on commodities has been reduced from 23 percent in the 2002 program to roughly 10 percent in the 2008 bill. Crop insurance has been reduced to \$23 billion over five years, and the total projected spending for commodities, conservation, and trade has been reduced from \$95 billion over a five-year period in the 2002 bill to \$73 billion in the 2008 Farm Bill.⁶⁴

The real cost of the 2008 Farm Bill is unpredictable, because the amount actually paid out varies with average annual market prices and crop yields. The USDA in 2008 reported that if crop prices were to fall from the projected highs to their normal selling price over the next five years, farm payments could swell to all time new highs. For

⁶³ The Economist, May 22, 2008.

⁶⁴ Murphy and Suppan, 2008.

example, if corn prices return to \$3.25 a bushel from their 2008 price of \$6.00, farmers could receive \$10 billion a year in support payments.⁶⁵ The price of corn on the exchange on December 10, 2008, was \$3.14 a bushel, well on its way to the \$10 billion mark.⁶⁶ If bean prices were to fall to their norm, farmers would receive \$4 billion. Thus, if farm prices stay high, consumers will pay more for farm commodities at retail, and farmers will realize a high profit for their products. On the other hand, if farm prices fall, taxpayers must pay the difference, while farmers will realize the same amount of profit. Sugar producers are also insulated from the economic downturn, receiving the difference between the world price of sugar, which was \$12 per pound at the time of the signing, and the guaranteed price of about \$21 per pound. The *New York Times* reported that sugar was selling for \$11.20 on December 10, 2008. If sugar remains at that price, the subsidy would then make up the difference of roughly 75 percent of the payment to the farmers.⁶⁷

As an added protection to the farm community, the funding mechanism is such that if spending is less than forecast, Congress is not at liberty to allocate the savings to fund other legislation. The funds must be retained for future use in the agricultural sector. On the other hand, if market conditions push governmental expenditures above the forecast level, Congress can approve a “supplemental” appropriation without having to rewrite the Farm Bill. For example, Congress approved “emergency payments” when the economic projections that accompanied the 1996 Farm Bill failed to allow for the 30 to 40 percent price fall in program crops from 1997 through 2001.⁶⁸ This ensured that farmers would continue to be paid the same in good times or bad. One can only speculate

⁶⁵ USDA, 2008.

⁶⁶ The *New York Times*, December 10, 2008.

⁶⁷ The *Wall Street Journal*, May 22, 2008.

⁶⁸ Murphy and Suppan, 2008.

on what this program will actually cost the American taxpayer in light of the recent economic downturn.

Presidents do not have a strong record of imposing their will over the Farm Bill or the amount that Congress can spend on these programs. The process is firmly controlled by Congress, which is influenced to some degree by farm lobbyists and constituencies who are directly involved in these programs. Two groups negotiate trade-offs within the Farm Bill: the largely rural legislators who campaign for commodities support, and the urban legislators who champion the domestic and overseas humanitarian food-aid programs. Each side has its lobbyists, and they share few common interests. However, both understand that each side needs the other to secure the desired outcomes for their specific programs. This means, for example, that spending for government-supported school lunch programs, backed by the food lobby made up of supporters such as IOM, Sara Lee, USDA, Pepsi, Campbell's and ConAgra, are secured by providing increased direct payment support for US sugar processors, sponsored by the American Crystal Sugar Company lobby, or by guaranteeing that crop-insurance funds will not be reduced. These trade-offs explain why final legislation usually includes a solid majority of across-the-aisle Republican and Democrat congressional representatives. The system has support from both political parties, and from rural and urban legislators, albeit for all the wrong reasons.⁶⁹

The 2008 Farm Bill confirms that the fundamental structure of US support for agriculture has changed little in the last 30 years. At first blush, the commodities prices projected during the life of the Farm Bill (2008–2012) appear to have been designed to

⁶⁹ Murphy and Suppan, 2008.

conform to the WTO's model of domestic support disciplines in the short term. Yet, the fact that these programs are still in effect makes it impossible to predict the outcome if one includes the current economic environment, higher oil and fertilizer prices, the new administration, and mounting land and water shortages. Nothing in the 2008 legislation changes the basic structure of US support, which will rise and fall in reaction to world prices. Little progress has been made in either the long or short term. For example, direct payment rates, base and actual production levels, national payment amounts, and payments per planted acre are primarily for the same products: corn, soybeans, wheat, cotton, and rice. These five crops account for approximately 95 percent of all direct payments. For these crops, payments total \$4.94 billion per year. Thus direct payments for the 2002 through the 2007 crop years totaled \$19.76 billion.⁷⁰ Direct payments rates were held fixed from 2002 to 2007. Producers were given the option to update their direct payment base acres to the average level planted.

The Countercyclical Program

Payments under this program come into play whenever the average price, as measured by NASS (National Agricultural Statistics Service), is less than the target price. Effective target prices are the difference between target prices and direct payment rates. The maximum payment rate is achieved when the season average price falls below the loan rate for each crop. The amount of payment equals 85 percent of the product of the payment rate, a farm's program yield, and a farm's program acreage. Thus the CCP provides farmers with a free put option on the season average price on a fixed amount of

⁷⁰ Babcock, 2002.

production, with a cap on the amount that can be paid out. Farmers receive this put option regardless of what they plant.

Marketing Loan Programs

There is a maximum limit of \$75,000 on marketing loan gains or LDPs. But a producer can circumvent this limit through the use of marketing certificates. From 2002 to 2005, programs for corn, soybeans, wheat, cotton, and rice paid out about \$44 billion: \$19.8 billion in direct payments, \$10.8 billion in countercyclical payments, and \$13.4 billion from the marketing loan program. There was little change from the 2002 Farm Bill even though the bill as it is written perpetuates the old subsidies for agriculture at a time when the prices farmers receive for grain crops such as corn, soybeans, are at their pinnacle and net farm income was up 50 percent from the previous year in 2007⁷¹ According to Michael Pollan, this means that over the next five years American farmers will receive federal support of US \$286 billion, irrespective of the volatility of the global markets.⁷²

The European Union

The European Union (EU) and the United States share a common attitude toward farming and its role in society; therefore, their policies have developed in a similar fashion, with parallel results. The differing rationales behind the policy instruments used in US and EU agriculture merely reflect the dissimilarities of geography, history, traditions, and mentalities between them. These differences have led to different approaches and policy decisions, but ultimately, the outcome in relation to agriculture has

⁷¹ The *New York Times*, May 16, 2008.

⁷² *Ibid.*

been very similar. Over time there have been strong disagreements over implementation procedures and the extent to which government should be involved in agriculture regulation, but these transatlantic trade irritants should not overshadow the fact that the United States and the EU share the same historical and somewhat outdated methods, and commitment to maintaining and developing agriculture in rural communities, and that both continue to promote the indefensible need for support of agriculture, in similar fashion.⁷³ The EU and United States do in fact share a common attitude toward farming, and, as the research has shown, their policies converge into a similar group of outdated programs.

The European Common Agricultural Policy (CAP) was introduced in 1962, with the European Community offering to buy farm products when the market price fell below an agreed-on target level. Although the program helped reduce Europe's reliance on imported food and enabled distressed farmers to stay on the farm, it eventually led to overproduction, and to the creation of a huge surplus of agricultural products.⁷⁴

Over the years, the CAP has been the subject of much debate, both domestic and international. It was established by the Treaty of Rome and was designed to preserve the status quos between the French and the Germans, both of whom were unwavering in their determination to make certain that their domestic producers, both industrial and agricultural, maintained the same advantages under the new program that they had enjoyed under their previous national programs prior to the formation of the EC.⁷⁵ As

⁷³ Richardson, 2000.

⁷⁴ Common Agricultural Policy, 2005.

⁷⁵ The European Communities (which became the European Union after the Maastricht Treaty) resulted from five legislative treaties. These are the 1951 Treaty of Paris establishing the Coal and Steel Community, the 1957 Treaty of Rome establishing the Economic Community, the 1958 Treaty establishing the European Atomic Energy Community, the 1987 Single European Act, and the 1993 Treaty of

Hans von der Groeben summarizes them, the multiple and conflicting objectives of the CAP were to “increase agricultural productivity, to increase the individual earnings of persons working in agriculture, to stabilize markets, to safeguard supplies, and to ensure that supplies reach the consumer at reasonable prices.”⁷⁶ Attempts to maintain all these objectives simultaneously resulted in a complicated system of border measures and subsidies that led to virtually uncontrollable overproduction and financially irresponsible import restrictions.

The European Community also increased the taxes on imports, and from the 1970s onward subsidized agricultural exports. These policies have been damaging for both foreign and new EU-member farmers, and have made Europe’s food prices some of the highest in the world. European leaders gradually became aware of the high cost of the CAP as early as 1967; however, political pressure interfered with logical change, and therefore radical reform did not enter into the picture until the late 1980s and mid-1990s.

The proposed reform was designed to decouple the connection between subsidies and production, to diversify the rural economy from dependence on subsidized crops to market demand crops, to respond to consumer demands for less expensive food products, to shrink the overproduction that resulted in export support payments, and to be more aware of the importance of environmental protection.⁷⁷

Maastricht. The 1997 Treaty of Amsterdam and the 2000 Treaty of Nice amended the treaty of Rome. The 1957 Treaty of Rome contains most of the founding texts setting up the CAP. The EU is in the process of replacing these treaties by a single constitution. However, the rejection of the proposed text for the EU constitution in 2005 by French and Dutch referendums raises doubts regarding the completion of the process.

⁷⁶ Von der Groeben, 1985, p. 71.

⁷⁷ Ibid.

Price supports in Europe began at about the same time that US price supports appeared. Beginning in the 1930s, industrialized countries began looking for ways to stabilize agricultural market prices, and many devised some form of agricultural price-support policies to control the radical price swing of farm products and to increase, or at least stabilize, farm income. The major food-exporting countries of the time, such as the United States and France, introduced subsidies that were designed primarily to increase farm production, by stabilizing the long-term level of agricultural prices and by providing direct payments to farmers based on production. This eventually resulted in overproduction, and a surplus of farm products that were eventually sold to developing nations at below-market prices. For some of these countries this has had a devastating effect on the ability of their farmers to sell their own products. The continuation of these subsidies has become an obstacle to international efforts to help these poor nations to rise up from poverty.⁷⁸

The balance of this chapter will be devoted to the development of the CAP, its evolution from inception to the present time, how the beneficiaries have changed in both size and number, and how the EU member countries have attempted to deal with out of control costs and resistance to change.

Development of the Common Agricultural Policy

The European Economic Community's (EEC's) CAP was established immediately after World War II (WWII), when tulip bulbs and brussel sprouts were the major ingredients of the diets of many Europeans. The policy planners of the early 1950s were concerned not with the surpluses of today, but with ensuring that the people of Europe had enough food to live on, and that they would never go hungry again. The farm

⁷⁸ Agricultural Subsidies, 2001–2005.

industry in most of Europe had been destroyed by the war, and many nations were totally dependent on the West for food. The exception was France, where highly US-subsidized agriculture had made a rapid recovery after 1945, and which was seeking new markets for its expanding farm production. The ensuing system was threefold: it combined internal market support to protect the declining farm population, a program that would ensure ample food production for Europe, and a system designed to subsidize exports through the official buying and storage of surplus to even out seasonal fluctuations in production.⁷⁹

As in the United States, rural life in Europe has always been a traditional part of the fabric of the country. It is an area in each nation's cultural heritage that is as much a part of the country as are the great landmarks and cathedrals. Traditionally, farming was about land ownership, a prized possession granted during the fall of feudalism, and self-sufficient communities that produced food for themselves and for those who lived in the cities. Therefore, it should be no surprise that European agricultural policy is concerned with maintaining the longevity and economic and social health of these rural areas. It is also concerned with preventing the flight of populations from the land. This is still true of many developing areas of the world today, where agrarian populations live on a shifting boundary between subsistence and starvation. This was also true in Europe in the period after WWII, when hundreds of thousands went hungry on a continent devastated by internal strife and exhausted after the long siege of two world wars. It was in this context that the EU's CAP was conceived.⁸⁰

⁷⁹ Gardner, 1996.

⁸⁰ Richardson, 2000.

Given this background, one can conclude that the EU and the United States firmly believed that farming required a specific set of policies tailored to their unique roles in the community. It may have been right for its time; however, this perspective is not shared by the majority of states around the world today, nor by all partners in the World Trade Organization (WTO), who believe that modern farming should be treated like any other form of economic activity.⁸¹

The CAP is regarded by some as one of the EU's most successful policies, and by others as a scandalous waste of money. In fact, it was well conceived and served its purpose well. Its failure may lie in its inability to recognize its current lack of relevance. Unfortunately, it is still used as a successful bargaining tool, as evidenced in negotiations on the creation of a Common Market when France insisted on a continued system of agricultural subsidies as its price for agreeing to free trade in industrial goods.⁸²

What is the Common Agricultural Policy?

The CAP's objectives are to:

- increase productivity
- ensure fair living standards for the agricultural community
- stabilize agricultural markets
- ensure availability of food for Europe
- provide food at reasonable prices.⁸³

The three fundamental principles of CAP are (1) the creation and maintenance of a single market, (2) respect for the idea of community preference, and (3) a commitment to common financing.⁸⁴

⁸¹ Richardson, 2000.

⁸² Common Agricultural Policy (Wine) (Amendment) Regulations, 1998.

⁸³ BBC News, 2008.

⁸⁴ Medeiros, Allen, and Couvillion, 1998.

The CAP was established in the 1960s, as the agricultural arm of the EEC (the original title of the EU) to secure Europe's food supply and to stabilize prices to the benefit of both producers and consumers. In the 1950s food was scarce and expensive; choice and quality were poor. The CAP is dedicated to preventing the reoccurrence of that situation, by encouraging a constant supply of home-produced food while providing farm price supports and farm incentives.⁸⁵ The CAP was the necessary first step in building the so-called Common Market. Without this agreement, different food prices in each member state would have resulted in different labor costs, and the removal of internal trade barriers would have been impossible. The CAP was and remains the single biggest common policy in the EU.⁸⁶ In addition to standardized prices, consumers benefit through international food-price equity and by being assured of quality food that is produced according to standardized food safety and oversight regulations.

Between 1960 and 1992, farm product prices were supported through "price and market" support procedures that included the removal of surplus products from the market and the restricting of imports from outside the EU. The first CAP Reform in 1992, coupled with the inclusion of agriculture for the first time in the General Agreement on Tariffs and Trade (GATT), forced a major change in the thinking about European farm support systems.⁸⁷ The agreement evolved into a set of rules for the support of agricultural markets, and for the establishment of an import threshold that would allow imports of grain and other foods to be regulated in relation to the level of domestic production. The unwritten goal was to isolate the EU from the rest of the world in terms

⁸⁵ BBC News, 2008.

⁸⁶ Ibid.

⁸⁷ Ibid.

of food dependence, production, and supply. Though never vocalized as such, it was the EU version of agricultural autarky, similar to that of Germany's protectionism, established during the First Reich and continued through National Socialist dictator Adolph Hitler's reign.⁸⁸ While the subsequently developed support structures contributed to creating a stable domestic food source, they have come under considerable criticism today as the world has become more integrated, because they distort both domestic and international systems to what some believe are unsustainable levels.

Originally, the EC-6 (the original six members of the EU) common price levels were aligned with those of the most efficient member producer, which was France. In the period from 1960 to 1972, this price policy was abandoned; however, the goal of improving the efficiency of farmers in the other parts of the Community to the level of the French farmers was retained.⁸⁹ Naturally, there were many small farmers who were less efficient, and who therefore suffered under the rule. In order to continue the program, it was determined that if the surplus labor were to be moved from the farm to the city, it would help these small farms become more prosperous. This progressive idea contradicted the original proposition of keeping the people on the farm. It was anticipated that those farms that were left would be the basis for the term "average farm" that would later be used in the CAP definition of 1992. The main objective of the CAP at that time was to support farmers through the market rather than by direct subsidization. However, government incentives proved to be extremely effective, and by 1970 the EC-6 farmers were producing more crops than they could collectively consume, and were looking to

⁸⁸ Gardner, 1996.

⁸⁹ Ibid.

the export markets to dispose of the surplus. It was at that point that England, Ireland, and Denmark joined the EEC, creating the potential for even more surplus production.⁹⁰

The price-support mechanism worked well until 1993. The 30 billion European Currency Unit (ECU) annual farm support went to directly buying surplus commodities at minimum official prices. In addition, the government paid subsidies to traders (export subsidies) to sell surpluses on the international markets. The farmers were not paid a premium, but were able to sell all of their products at minimum market prices.

Each year the Council of Agricultural Ministers established minimum prices for all grains and some other products just as the DOA did in the United States. These were the prices at which the EU was committed to buy these products. If markets fell below this pre-established number, then farmers could sell to the government instead of on the open market. If the market was more than the minimum, then the farmers could sell on the open market.⁹¹ Farmers, being intelligent individuals, had begun growing only those products that the government was placing minimum prices on. This created a shortage of non-government-supported crops, which in turn created higher prices for those products that were in demand, but not available. In addition to farmers growing only favored products, small farmers were beginning to disappear. As in the United States, agriculture had become a high-tech industry in the previous forty years. During that time, as the high profits to be earned from agribusiness increased, the consolidation of small and medium-sized farms into large megafarms also increased, while the number of small farms began to decrease.

⁹⁰ Gardner, 1996.

⁹¹ Ibid.

This is where the real advantage of CAP policies came into play. By fixing a relatively high price for each commodity, the CAP assured the remaining farming families a level of income comparable with other sectors of the economy. The downside of this policy was that consumer prices for these same products were not relevant to the real-world pricing in the real-world market. Therefore, if EU farmers are to sell abroad today, the gap between high internal prices and lower world prices must be bridged. In the past this was achieved through export rebates, also called export subsidies. These export subsidies create their own special problems, as they distort world trade and retard development. Hence, ever since the WTO Uruguay Round of negotiations and the first major CAP reform in 1992, the EU has slowly reduced the level of support prices to farmers, which in turn reduced the level of production and export rebates needed. Farm subsidies have by no means been eliminated, however; as the EU has actually increased direct payments to farmers in some areas to compensate them for the reduction of other types of market support. The elusive goal of the EU and the United States is to detach farm-support payments from production by increasing farm payments in other areas. During this transition, the farmers will continue to receive annual payments under the EU's Agenda 2000 program; however, these payments will be earmarked for areas such as product diversification, environmental protection, and rural development instead of specific product production.

CHAPTER II

ARGUMENTS AND METHODS

Chapter II discusses the methodology, line of reasoning and arguments engaged in during this dissertation research. Due to the complexity of the subject, the chapter is broken down into separate sections in an effort to promote a better understanding of the issues. Following the introduction will be sections on the methodology used to test the hypothesis, case study form of investigation, application of the methodology to the hypothesis, and a rationalization of the variables used.

This dissertation deals primarily with the qualitative method of research. Strauss and Corbin's, "Grounded Theory Methodology", defines qualitative research as any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification.⁹² This being true, qualitative methodology lends itself well to this subject in that it tells one not only that agricultural support programs may be outdated and resistant to change, but more importantly, provides the background that explains why it is opposed to change, a phenomenon that would be difficult to quantify in quantitative terms. The research closely follows Trochim's, "Research Methods Knowledge Base" in that it relies on his "grounded theory"⁹³ by following the evolutionary process of agricultural price supports in the United States and the EU not as a historical piece, but as it is happening in present time. The theory adapts itself well to the three case studies, the United States and the EU, WTO, and Developing Nations, all of which are moving targets and subject to continuous manipulation by outside forces. The relatively subjective nature of qualitative research, compared with quantitative

⁹² Strauss and Corbin, 1967.

⁹³ Trochim, 1982.

research, lends itself competently to the observation of this phenomenon and permits the research to not only records the sequence of events, but to also ask the question “why” it is happening. In the words of Berg, “Qualitative Research Methods”⁹⁴, it allows the person doing the research to participate in the process of determining why the quantitative numbers are the way they are. As a general rule, qualitative research identifies why people act the way they do, believe what they believe and think the way they think. It is descriptive and mainly concerned with the process more than the outcome. The qualitative method is particularly important in this research as it repeatedly asks why these agricultural support programs continue in light of the wealth of evidence against their effectiveness in today’s world. This research takes the position that the motive for this behavior is just as important as the result, findings that can best be quantified by the qualitative research process.

After having completed a comprehensive review of the literature on the subject, the decision was made to test the hypotheses through the use of the case study method. Case study research was determined to be the most effective in that its focus is to enable the researcher to capture various nuances, patterns, and more latent elements that other research approaches might overlook. A review of the current literature on the subject of agricultural price supports, suggested that these programs were outdated, redundant and harmful to many of the poorer nations. That conclusion, in itself, created a new dilemma. If they are in fact redundant and harmful, then why are they still in existence? In order to answer this qualitative question, “why”, three case studies were chosen; the United States and the EU, the World Trade Organization (WTO), and Less Developed Countries (LDCs).

⁹⁴ Berg, 2004.

The impetus of the case studies was to compare the two developed economies, United States to the EU, as they struggle to come to grips with one of the most expensive programs in their history, to better understand the intrinsic aspects of the WTO as a non government organization (NGO) attempting to bring its member nations to agreement on agricultural price supports, and to study the effect of agricultural price supports on LDCs that appear similar from a distance, but are actually quite different internally.

The case studies on the United States and the EU, and the WTO presented an excellent stage for the qualitative research format in that it provided insight into the complexity of an issue originally thought to have a simple answer. Not only did it ask the question, “why”, but it presented the question to the two most important trade organizations in the world as well as the 183 WTO member countries. As often happens in case study research, the two case studies that originally focused on agricultural price supports eventually progressed to an understanding of the importance of related research issues. In the case of the United States and the EU, and the WTO, both became of secondary importance in that they served only a supportive role while the actual research interests played out. The validity of the agricultural policies of the United States and the EU became secondary to political influence that controlled their direction, while the WTO also became subordinate as the research began to detail external theoretical questions and localized internal problems. As the case study advanced, the real issue of protection of national interest began to evolve. This gave support to Silverman’s theory that qualitative research produces a deeper understanding of social phenomena because of its ability to delve deeper into the subject and the dynamic nature of qualitative research

design.⁹⁵ A byproduct of this case study was the revelation that although the member nations of the WTO had a common interest in establishing an open market for their agricultural produce, they did not have the power to reach an agreement on how it should be done. The strength of organization and the impetus to continue to move forward remained with the WTO, reaffirming Keohane and Nye's theory of neo-liberal institutionalism, which supports the idea that institutions and nonstate actors are the true unit of analysis and power.⁹⁶

The case study on the effect of dumping excess agricultural products on LDCs can best be defined as a systematic gathering of information from individual members of a community. Although this community of nations resemble one another in rate of growth, agricultural production and annual income, this research created an awareness that many of these countries are quite different economically. To simply add up the numbers and chart the results quantitatively would give us some interesting averages for the group, but would tell us little about the individual. The real advantage of case study methodology is that it allows the researchers to study several cases (countries in this research) in depth and use that study to access their position in relation to one another. The use of cross-case, cross- country comparisons with qualitative research often reveals the true differences in similar countries. In this research in particular, phenomenological cross-country comparisons of LDCs revealed that multilateral agreements on agricultural tariffs and dumping of excess crops simply will not work for all nations. Qualitative research revealed that these nations differences are much more involved than simple economics. To quote North "Understanding the Process of Economic Change", he said

⁹⁵ Silverman, 2005.

⁹⁶ Keohane and Nye, 1986.

that economic change is not simply a result of more investment or more production, but includes changes in the quantity and quality of human beings; in the stock of human knowledge; and in the institutional framework that defines the deliberate incentive structure of society.⁹⁷ What that means to this research is that to universally change international rules on agricultural supports, or to cease all crop dumping is not the answer and will not solve the problem. The answer is somewhere in the phenomenon of emergence or lack thereof of the people skills and success incentive in each individual nation. Eva Paus in her book “Can Costa Rica become Ireland?” provided insight into the fallacy of grouping countries into neat categories.⁹⁸ Paus’ belief that foreign direct investment is the precursor to economic growth did not pan out when applied across the board. The findings of this qualitative case study is that data produced from one country usually does not generalize. Each country requires that its phenomenon be determined by its own data set. There can be little doubt that case study theory and qualitative analysis are best suited for this dissertation so long as it is understood that there are some limitations involved. There are areas of weakness in qualitative research that must be added to the formula. One such weakness that was revealed during this research is the inability to predict the actions of other countries based on neighboring country research. Keohane and Nye’s contention that it is impossible to predict the actions of nation-states as the nation-states do not know the motives of their peers and therefore do not always act rationally.⁹⁹

⁹⁷ North, 2005.

⁹⁸ Paus, 2005.

⁹⁹ Keohane and Nye, 1986.

International Agricultural Support Programs

The first question asked is: Are they necessary? The literature review includes a summary of the history of Agricultural Support Programs in the developed nations, and reaches the conclusion that on inception these programs were both necessary and beneficial. They came at a time when a large portion of the population in the United States and Europe were totally dependent on farming for their livelihood. The world depression followed by WWII placed the farmers in this group in a position where they were no longer able to survive by working the land. This research does not question the importance of these programs, or the motives of those responsible for them. The impetus here is to explore the viability of these programs in today's world by comparing the number of small farmers today with those who were the beneficiaries of the original plan, the economic needs of the two groups, and the legitimacy of the amount of money spent on the programs at their inception versus what is being spent today.

Long term agricultural price supports are primarily the environs of developed nations, therefore the research will generally be directed toward these countries, the exception being when these supports directly affect other nations, as in crop dumping and import or export tariffs which influence the economies of developing nations..

The arguments presented in the form of hypotheses are:

1. Agricultural price support programs were introduced in both the United States and Europe during the Great Depression and again after WWII to subsidize small farm income. Small farmers at that time were not earning enough to support their families or to maintain their farms. Existing evidence suggests that these programs became redundant as the number of small farmers

declined to roughly 10 percent of the original group, and the personal incomes of those that remained rose to the level of the national average. The original agricultural support programs are no longer relevant to today's small farmer. That evidence makes it clear that if these programs were suspended today, the vast majority of the remaining small farmers in these developed countries would not be harmed.

2. Today's agricultural price supports have little to do with local agrarian needs, and remain in place due to large corporate influence, and public apathy. Change and reform are unnecessarily protracted and lengthy as a result of the personal self indulgence of politicians and industry giants. The benefits of modern day price supports no longer flow to small farmers as originally intended, but to the large agribusiness community which would continue to prosper in their absence.
3. The continued dumping of excess agricultural products on the markets of less developed countries, at prices below what these products can be grown locally is detrimental to the farmers of these nations, inhibits their economic growth and perpetuates poverty in many LDCs.

Variables

Hypotheses one suggests that small farmers of the developed world no longer require agricultural price supports in order to stay in business. If these programs are suspended, the vast majority of small farmers in the United States and Europe will not be harmed.

The description of a “small farmer” or even “farm” is somewhat elusive and has changed with the times over the past eighty years as it has become necessary to more clearly define who exactly the beneficiaries of these farm support programs are.

A farm is now defined as a place that produces, or normally would produce, \$1,000 in farm commodities. That amounts to roughly 250 bushels of wheat (less than 2 acres production) or one cow. This accounted for 31.2% of all farms in 2007. To count these farms in the total number is somewhat deceiving in that many of those who have small farms do very little farming and make most of their income away from the farm. For some, these farms are nothing more than large country homes that produce just enough to draw subsidies, or grow enough crops to feed their horses. (see Table 8)

Table 8
Gross Cash Farm Income (\$1,000)

Farm sales class (2007 \$)	Mean household income	Farm earnings	Off- farm earnings	Median household earnings	Farm earnings	Off- farm earnings
1,000–9,999	73410	-7116	80526	47812	-3695	55000
10,000–49,999	79247	-6394	85641	48852	-1822	51750
50,000–99,999	100634	5101	95533	53789	12030	43500
100,000– 249,000	82971	23389	59581	68214	27850	32500
250,000– 499,999	123924	74026	49898	108791	72153	27500
500,000– 999,999	166015	125224	40790	155900	122050	23719
1,000,000 or more	567237	519984	47253	318600	274200	23725

Note. From Agricultural Resource Management Survey (ARMS).

From 1982 to 2007, the number of farms in the U.S. fell from 2.24 million to 2.20 million, however, the number of small farms in the \$10,000 to \$250,000 range declined by 40% in that same period while the number of large farms grew by 242%. Production has been steadily shifting from small farms to very large farms, however, many of the larger farms are still owned by family controlled corporations as opposed to off site entrepreneurs.¹⁰⁰ The overall number of farms remained constant during that period of time due to an increased number of farms with less than \$1000 in sales.¹⁰¹ (see Table 9)

Table 9
Changes in the Size Distribution of U.S. Farm Production, 1982–2007

Farm sales class (2007\$)	2007 Census		1982 Census		1982–2007 sales change (%)
	Sales 2007\$ (millions)	(%)	Sales 2007\$ (millions)	(%)	
-1000	84	0.0	86	0.0	-3.3%
1,000–9,999	2621	0.9	3282	1.7	-20.1%
10,000–49,999	9,441	3.1	14,640	7.7	-35.5%
50,000–99,999	8,961	3.0	18,256	9.7	-50.9%
100,000–249,000	24,213	8.1	44,326	23.4	-45.4%
250,000–499,999	33,410	11.2	33,431	17.7	-0.1%
500,000–999,999	42,691	14.4	23,308	12.3	83.1%
1,000,000 or more	175,800	59.2	51,822	27.4	239.2%
All farms	297,220	100.0	189,151	100.0	57.1%

Note. From Census of agriculture, as adjusted by ERS for changes in agricultural prices using the Producer Price Index for Farm Products.

¹⁰⁰ www.agcensus.usda.gov/ USDA National Agricultural Statistics Service

¹⁰¹ MacDonald, et al. 2009.

At the inception of the support programs, mega farms did not exist therefore all farms fell into the category of land that was cultivated by small family farmers. The term “small farm” was not actually defined until Congress passed the Food and Agriculture Act of 1977 at which time they identified it as a farm with sales under \$20,000.¹⁰² At that time, the description characterized 70% of the farms in the country.

Dependent Variables

The dependent variables that will be manipulated by change will be measured by the increase or decrease in the number of small farmers over the period being examined, and the value of the subsidies in relation to small farmers’ overall income during that period. These dependent variables will also measure the increase or decrease of the small farmers’ dependence on these subsidy programs.

The direction of movement in the number of small farms will measure the value of continuing these programs, but more importantly will give an indication as to whether they continue to promote the expansion of small farms in developed nations or are the direct motivation for their demise. If we use the date of implementation of these programs as a starting point on a continuum, the data created by these dependent variables will create movement in a positive or negative direction indicating the degree of present day importance of these agricultural support programs.

Hypothesis two and three are similar to one another in that they question the validity of current agricultural policy in reference to that policies’ original goals, and seek to explain that the same dependent variables are responsible for the life or death of these programs.

¹⁰² Food and Agricultural Act of 1977.

Independent Variables

This inquiry incorporates four independent variables into the analysis: (1) urbanization, (2) modernization of the farm industry, (3) corporate farming, (4) income re-distribution. Two of these variables, urbanization and income re-distribution, fall under the category of, natural evolution of well being, that occurs as a country progresses from recession/depression to a robust economy. These are easily tracked as they have both historical and contemporary significance.

1. Urbanization: At the inception of farm subsidies, the small farm population made up well over 50% of the US and EU labor market. Today, small family farming in many areas is a thing of the past. Traditionally, sons followed their fathers on the family farm. Today, most small farmers are past middle age, and their sons have left for more attractive careers and better paying jobs in the city. As this urban transformation takes place, the number of small farms shrinks and the need for farm subsidies becomes redundant. The digression of the number of small farms is easily tracked through various government and private agencies such as the GAO, The Economic Reports to the President and The Farm Bureau.
2. Modernization of the farm industry: Today's farming hardly resembles that of the 1920s, 1930s and 1940s. Where small farms of the past required vast amounts of manual labor, today's farms are more akin to modern factories that are mechanized and efficient. While earlier farms were historically dependent on family, relatives and hired labor for their success, modern farming techniques produce vastly more product with relatively little manual labor. With less labor expense, and more production, the requirement for subsidies has declined. Farm

- output and farm labor statistics are readily available and have been collected from various agencies such as the USDA Economic Research Service and the Farm Bills of 2002 and 2008.
3. Corporate farming: As farming becomes more profitable, large corporate farms become more desirable to entrepreneurs and corporate investors. While these megafarms proliferate, small farmers decline in number reducing the need for farm subsidies. The continuous increase of this corporate presence is easily tracked through various government agencies such as the United States Department of Agriculture (USDA) and the Congressional Record.
 4. Income re-distribution: Farm subsidies often focus on the well-being of farm households, specifically subsidized farm households relative to the general population. As farm incomes rise to the level of the general population, the need for subsidies will decline. Data for this variable is readily available from various government agencies such as the Government Accounting Office (GAO), and the Organization of Economic Co-Operation (OECD).

Extraneous Variable

As this research progresses, it will become apparent early on that these programs are outdated, no longer serve their original purpose and that the original beneficiaries, for the most part, no longer exist. This finding contaminates the results in that it questions its own credibility by raising the question: how can this be so if the governments of these developed countries continue to support the programs? The reservation suggests the possible existence of a confounding variable that is influencing the research in a way that is contradictory to a logical result. For the

purpose of this dissertation, this extraneous variable is labeled as political interference. It will appear throughout the document as a negative influence on the dependent variables, preventing them from taking their rational course. The protocol has been designed to control this variable to insure that it has no influence on the internal validity of the outcome of this study. Although it does appear, at times, to interfere with the process, the subject is presented in a manner that its effect on the dependent variables can be judged accurately.

Qualitative Methodology

Although three hypotheses were established prior to beginning the research, this dissertation will be primarily qualitative in nature; therefore, the hypotheses may change in character, but not in focus, as the research progresses.

The literature review has elaborated on the varied positions in an attempt to influence the conclusions. This research will disclose whether these conclusions are defensible or not, a goal that can be best achieved through qualitative research, as the research continually asks the question “why” the data is the way it is. The application of Trochim’s grounded theory¹⁰³ will allow for the development of an evolutionary picture of the development of agricultural price supports from inception to the present day. Although quantitative research would explain what has happened, this dissertation wants to know why things are the way they are today, and qualitative methods are best suited to answering this question. The research is concerned with the process as much as with the outcome. The primary sources will include internet research of scholarly works, prior research comparing case studies, government statistics and documents from WTO

¹⁰³ Trochim and Land, 1982.

proceedings, while secondary sources will consist of news media, as well as personal commentary and editorial articles from contemporary authors.

The data will be compared with existing conclusions and statistics produced by previous research to determine whether they are compatible. The conclusions will then be based on a mix of the two. This may require some data to be transferred to a quantitative format in order to develop a matrix for cross-referencing the two to determine whether there are any obvious variations; however, this is my only planned venture into quantitative analysis.

To Miller and Salkind's question "Does it have relevance to society and the academic world?"¹⁰⁴ The answer is yes. This research addresses three issues prominent in the minds of much of the world's population today: 1) how to discontinue unnecessary government spending on outdated redundant programs, 2) what are the causes of continuing world poverty and how can it be alleviated, and 3) are institutionalist organizations having a negative effect on the world economy?

Protocol Design

The design and objective of this project is to continue research in an area that is extremely beneficial to those who have an interest in government overspending on pet projects that continue into perpetuity. The research subject is one that has value to the academic and intellectual community in that it questions a system resistant to policy change where change is both logical and inevitable. The questions that are posed are narrow in scope, yet, broad enough to be significant to those who have similar interests that go beyond agricultural supports. The research will proceed in the following sequence:

¹⁰⁴ Miller and Salkind, 2002.

1) It will discuss the history of US support programs, why they were implemented, how they have evolved over time, where the money is spent today, and why these programs continue to exist. It will examine and compare data for and against these U.S. support programs in an effort to reach a conclusion as to their continued viability as well as their affect on today's small farmers.

2) It will discuss the history of EU support programs, why they were implemented, how they have evolved over time, where the money is spent today, and why these programs continue to exist. It will examine and compare data for and against these EU support programs in an effort to reach a conclusion as to their continued viability as well as their affect on today's small farmers.

3) It will identify similarities and differences between these two programs, comparing the number of farmers who were covered under the original program with the number of those who are covered today; compare where and how the money is spent; and determine why the programs are still in effect if they no longer benefit those for whom they were designed.

4) It will discuss the position of the WTO and its recent Doha Round of negotiations on efforts to eliminate agricultural price supports through multilateral agreements; and identify obstacles to developing, implementing, and enforcing these agreements.

5) It will identify the less developed countries (LDCs) that receive aid in the form of low-priced or free agricultural products; research the percentage of the population in these countries who depend on agriculture for their livelihood; determine whether their income has increased or decreased during the period of

crop dumping; and identify what percentage of their locally grown crops is available to be sold on the open market.

CHAPTER III

THE UNITED STATES AND THE EUROPEAN UNION

This chapter is a cross case comparison of the United States and the European Union's (EU's) agricultural support programs. It will discuss the history of each and the evolution from the programs inception to the present day. Beginning with the question; where does the money go, the chapter will progress through how these price supports affect consumers in the United States and the EU, discuss the small farm fallacy, and attempt to explain why these programs still exist. It will also ask the questions; who are the winners and the losers, and is it possible to eventually reduce or eliminate the programs entirely?

Where Does the Money Go?

In the United States these programs, for the most part, no longer benefit the small farmer. First, the small farmer as, Americans know him or her, a person who farms a small farm as their only source of income, and whose income is at the national average, has nearly become extinct. Therefore, only the large conglomerates profit from price supports. For example, the current sugar program operates as a feeder to a cartel made up of "sugar kings" (the largest landowners) that decides who has the right to produce sugar and how much. It is one acre, one vote; thus the farmer with 50 acres becomes subservient to the 5,000-acre conglomerate.¹⁰⁵ American cotton subsidies are hardly any better, as they are also highly targeted to benefit the largest farming operations. The target of the original subsidy program was the farmer who was facing poverty. Today, the largest 10 percent of American cotton agro-business received three-quarters of the total subsidies. The recipients of cotton subsidies are similar to those who receive subsidies for

¹⁰⁵ Chajravartgu, 1989.

sugar and grain. Nearly fifty percent of cotton subsidies (around \$1 billion annually) goes to a few thousand megafarmers who cultivate over 1,000 acres of cotton. These farmers are well above the poverty threshold. The reverse applies to those farmers in LDCs where US surplus crops are dumped. The millions of farmers in those countries average five acres of cotton and live on less than \$1 per day¹⁰⁶ When these figures were brought to the attention of *The Washington Post*, the newspaper wanted to know who these preferred farmers were. It demanded to know who was paying for the lobbyists and who was receiving the billions back in subsidy payments. When the paper requested the information from the USDA, the request was denied on the grounds that it was privileged information and would violate the recipients' right to privacy. *The Washington Post* then brought suit against the USDA and won under the Freedom of Information Act.¹⁰⁷ Table 8 lists the top ten companies that received cotton subsidy payments between 1995 and 2004. Given that these huge farm conglomerates consume enormous amounts of taxpayer money and inflate retail prices to American consumers, it should be obvious that changes must be made in the name of progress. The question becomes, what is the driving force that prevents the demise of these wasteful programs, and champions their continued use? The cotton cartels have maintained that farm subsidies for cotton have historically focused on guaranteeing the farmer a *fair* price for their cotton. Most economists would argue that a fair price is the market price driven by supply and demand; however, the United States has been underwriting subsidies for cotton since the Great Depression with little regard to market dynamics. These subsidies have varied in

¹⁰⁶ Oxfam, 2002.

¹⁰⁷ Sugar Program, n.d.

form and amount over the years, but have focused almost exclusively on guaranteeing the farmer a price substantially above the market for their cotton.

Table 10
Top Ten Companies Receiving Cotton Subsidy Payments, 1995–2004

Company	Location	Subsidy (US dollars)
Allenberg Cotton Co	Cordova, TN	186,054,814
Dunavant Enterprises Inc	Fresno, CA & Memphis, TN	166,959,725
Cargill Cotton, Div of Cargill	Cordova, TN	154,915,538
Parkdale America, LLC	Gastonia, NC & Charlotte, NC	135,421,863
Calcot Ltd.	Bakersfield, CA	113,591,332
Avondale Mills Inc	Sylacauga, AL	92,228,281
National Textiles LLC	Winston-Salem, NC	90,259,530
Ecom USA Inc	Dallas, TX	73,394,029
Union Underwear Company LLC	Bowling Green, KY	72,933,449
Paul Reinhart Inc	Richardson, TX	70,985,393

Note. The top 10 recipients received 48 percent of the total. Compiled from USDA Economic Research Service data.

The objective of the grower, therefore, was to generate as much production as possible since the price is guaranteed. The “Freedom to Farm” legislation removed all acreage restrictions and allowed the farmer to make all planting and marketing decisions, and also provides a safety net for prices. This is the equivalent of telling Ford Motor Company to run its plant at full production and not to worry about unsold product or pricing. The American government would then loan them the money to build cars. If Ford produced more cars than it could sell, this same government would purchase the surplus.

If foreign manufacturers sold their cars for less, there would be some provision to make up the difference between the price of a Ford and the price of a Honda.

In addition, there is federally funded crop insurance. This costs the government \$250 million annually, and guarantees the farmer up to 65 percent of the previous year's production. In comparison, if Ford has a fire, the insurance would pay to rebuild the factory. Any losses sustained as a result of lack of availability of salable product would fall back on Ford. At the time of this writing during the 2009 global economic crisis, the government has become the auto manufacturers' insurer, providing both cash flow, and supervised bankruptcy protection for both General Motors and Chrysler when they were failing. For farmers, the government goes one step farther. If the farmer's house burns, and his fields flood, his insurance pays for the house, and the crop insurance pays for the loss of crops. The federally funded crop insurance pays for 65 percent of the loss, and the farmer pays the rest. The farm co-ops believe this is unfair and are pushing Congress to increase the coverage to 100 percent.¹⁰⁸

Congressional Position

A January 26, 1999, Congressional Declaration of Policy proclaimed:

It has long been found to be in the public interest to have, or endeavor to have, a reasonable balance between the supply of and demand for cotton grown in this country. To serve this public interest the Congress has provided for the comprehensive exercise of regulatory authority in regulating the handling of such cotton or regulatory authority in regulating the handling of such cotton supplemented by price support programs with the objective of adjusting supply to demand in the interest of benefiting producers and all others concerned with the production and handling of cotton as well as the general economy of the country. In order for the objective of such programs to be effectuated to the fullest degree, it is necessary that the existing regulation of marketing be supplemented providing as part of the overall governmental program for effectuating this objective means of increasing the demand for cotton with the view of eventually reducing or eliminating the need for limiting marketing and supporting price of

¹⁰⁸ USDA Federal Crop Insurance Corporation, 2009.

cotton. It is therefore declared to be the policy of the Congress and the purpose of this chapter that it is essential in the public interest through the exercise of the powers provided herein, to authorize and enable the establishment of an orderly procedure for the development, financing through adequate assessments on all cotton marketed in the United States and on imports of cotton, and carrying out an effective and continuous coordinate program of research and promotion designed to strengthen cotton's competitive position and to maintain and expand domestic and foreign markets and uses for United States cotton.¹⁰⁹

In essence, Congress has said that it is in the country's best interest to regulate cotton in a way that will create a balance between supply and demand by supporting a thousand big cotton farmers. This may have been sound advice 60 years ago when cotton farmers were small farms on the verge of failure during the Great Depression, but it sounds very much out of place in today's open-market society. It should be obvious by now that those same protective measures have little meaning or effect on the complexion of today's farm community, and no longer serve the purpose for which they were designed.

The EU is no better. In 1993 Andrew Moravcsik came up with the theory of national preference formation, drawn from liberal theories of state-society relations. Moravcsik called this theoretical framework "liberal intergovernmentalism." He concluded that all the major decisions made by the EU have taken place in a two-stage process. First, national preferences were established by long-standing restrictions and opportunities arose through interdependence with neighboring countries. Second, the outcomes of negotiations between these countries were determined largely by the relative bargaining power of these countries and the resistance of each nation to change its domestic agendas during the negotiations.¹¹⁰ The preeminent question is, during these

¹⁰⁹ Congressional Declaration of Policy, 1998.

¹¹⁰ Moravcsik, 1991.

negotiations why did local agricultural policy hamstring negotiations in ways that other industries have not? Why should the European farmer be treated any differently from those in other industries? An important premise on which many arguments follow is that farming is different from other sectors of the economy. It has always been different from other activities, particularly manufacturing, and requires additional protective measures that other industries do not.¹¹¹

Productivity in agriculture in the six countries that originally formed the EU increased by close to six percent a year in the first two decades (after the Rome Treaty establishing the European Economic Community in March 1957), far outstripping the manufacturing industry. With this kind of growth, why does the agricultural sector need to be protected? In the first 30 years, the farm labor force in the original EC-6 declined by more than 60 percent. At the same time, the number of tractors increased by over 70 percent.¹¹² This equates to fewer farmers to support, more efficient farm practices, and increased production. If this is true, then it follows that there should also be less agricultural support. This is where Andrew Morvacsik's second rule comes into play. France, for example, is by far the biggest recipient of CAP funds. It received 22 percent of the total in 2004, and steadfastly refuses to take less. Spain, Germany, and Italy each received between 12 percent and 15 percent. In each case, their share of subsidies was roughly equivalent to their share of EU agricultural output. Ireland and Greece, on the other hand, received a share of subsidies that was much larger than their share of EU agricultural output—twice as large, in Ireland's case. The subsidies they received

¹¹¹ Richardson, 2000.

¹¹² Gardner, 1996.

amounted to about 1.5 percent of gross national income, compared to an EU average of 0.5 percent. The new member states began receiving CAP subsidies in 2004, but at only 25 percent of the rate that is paid to the older member states. However, new member states are slowly rising and are scheduled to reach equity in 2013. At that time, Poland, with 2.5 million farmers, is likely then to be a significant recipient of these funds.¹¹³ In the meantime, those countries with the strongest bargaining power continue to prevail.

The EU is little different from the United States when it comes to per-farm distribution. It has been calculated that 80 percent of the funds go to just 20 percent of EU farmers, while at the other end of the scale, 40 percent of farmers share just eight percent of the funds.¹¹⁴ Recent OECD statistics indicate that every European full-time farmer (one who earns more than 50% of his income from farming) received, on average, a subsidy of 11,500 euros, which accounted for 62 percent of his total gross farm receipts. These subsidies were largely producer-oriented and, as a result, contributed to higher prices and overproduction. According to the Nominal Assistance Coefficient (NAC), which indicates the extent to which gross farm receipts are higher than they would have been in the absence of subsidies, the gross farm receipts of European producers were 62 percent higher than they would have been without subsidies. In fact, the EU continues to allocate one out of every two euros from its common budget to agricultural protection.¹¹⁵

Writing in a new book on the CAP, former UK Agriculture Minister Nick Brown insisted that “despite three reform rounds, the CAP remains economically and politically unsustainable,” which should have been obvious to all years ago. He claimed that

¹¹³ BBC News, 2008.

¹¹⁴ Ibid.

¹¹⁵ DeBoer, 2002.

consumers, including small farmers, are still paying more than they should for their food, while large farmers continue to take the lion's share of support payments. He added that export subsidies also continue to harm developing countries, while farm support based on historic precedence simply reinforces an inefficient distribution of scarce resources.¹¹⁶

The Small Farm Fallacy (The Myth)

Many feel that when the government gets involved, the cost of living goes up, driving up prices. Yet many Americans still believe that it is the free market that causes higher prices and that it is the US government, through antitrust regulation and industry support mechanisms that saves them from greedy monopolies and unfair foreign-trade practices.¹¹⁷ The American government is very much involved in specific areas of agriculture, and its partners are the big agricultural interests that exploit farm myths to generate public support for ongoing price-support programs. Farmers tend to become more politically influential as their numbers diminish and those who remain become larger. Political pressure often leads politicians to collude in publicizing farm fallacies. Once politicians are lured by the support of vested agricultural interests, they too have a stake in ensuring that the public is convinced of the importance of their actions. "We have got to protect the poor farmers!" is the most audible refrain when politicians are questioned about their particular pork-barrel project. Meanwhile, 80 percent of the subsidy money continues to go to farmers with gross sales of over \$250,000 a year.¹¹⁸ This is not meant to be a criticism of farmers who are doing well. Americans have always supported those who excel by their own efforts, and they will encourage them to continue

¹¹⁶ Clarke and Harris, 2004,np.

¹¹⁷ Lora, 2005.

¹¹⁸ Chastain, 2002.

to do so. The point is that once a person reaches that level of success, the public should no longer be obligated to give them food stamps or their equivalent.

The policies have also become extremely complex, which may explain why the cotton, sugar, and grain sectors have remained highly protected. It should not be difficult to separate what is necessary from those areas that no longer require assistance; yet, congressmen and agricultural agencies have come to see themselves as defenders of farmers' interests, and their role becomes one of claiming the maximum possible budget for their activities. Once they have assumed that mantle, there is no turning back. Lonely is the congressman or congresswoman who will admit that his or her position might have been wrong or that he or she may be misinformed.

There are many aspects of agricultural policy formation and that includes the political pressure that is applied to sustain them. What began as an economic issue has evolved to nostalgia for the past and resistance to change. Each contributes to the process, making it difficult to determine which motive is dominant at any given time.

Nevertheless, the failure of agricultural policymakers to efficiently address the obvious imbalance and obsolete objectives implies that the root cause of current support policies must be seen as politics, as incompetence, or as a measure of both. As economic growth continues worldwide, these back-room forces continue to operate and it becomes ever easier for governmental organizations to continue the programs rather than risk the wrath of those receiving the support, although the increasing strong influence and strict oversight procedures of the WTO may soon impinge on this comfort zone.

Against this blind loyalty, some of the traditional myths about agriculture are gradually being eroded, partly because the interests of developed and developing

countries are being brought into sharper relief, notably in the more protected sectors such as sugar and cotton and partly due to the WTO action in exposing the fallacies of the current policies. In the past, the American public was complacent and trusted in governmental agencies to do the right thing, and in the long run these tendencies cost them huge amounts of money. It is becoming more apparent that trust in the American government to protect the taxpayer's money may have been misplaced. For example, large sugar, cotton, and grain producers are more likely to protest against the removal of support than consumers and consumer protection agencies are to protest against the high prices. Those responsible for making equitable decisions that benefit the majority of American taxpayers have been slow to act.

The WTO, over a period of time, has brought the fallacy of these policies to light and has brought pressure on the United States to make the necessary changes. If policymakers respond defensively to these pressures, then they will place themselves in the position of having to defend existing policies, which will eventually become an impossible task. One way of addressing these challenges in the past was to claim that the policies being pursued were in fact consistent with stated policy goals.¹¹⁹ In other words, "I had nothing to do with it; the program was already in place when I took office" (sometimes referred to as political speak). The final fallacy is the agricultural organizations' manifestation of the idea that it is all being done to preserve the moral richness and cultural contribution of family farming when, in fact small family farming in many areas of the country is a thing of the past. Traditionally, sons followed their fathers

¹¹⁹ Brooks, 2003.

on the family farm. Today most small farmers are past middle age, and their sons have left for more attractive careers and better-paying jobs elsewhere.

How Price Supports Affect Consumers as Well as Small Farmers

Millions of small establishments and employees from restaurants to corner convenience stores are already burdened by high taxes and regulations. Federal farm policies make the products they sell costlier to produce and therefore more expensive to the consumer. A 2002 study estimated that the Farm Bill enacted that year would ultimately cost consumers \$271 billion in government-inflated prices over the next decade. Forcing taxpayers to pay for programs that in turn raise the prices of the products they buy actually undermines the small-town rural economies those programs were designed to protect.¹²⁰ In 2002, total transfers to this sector, as calculated annually by the OECD, cost consumers and taxpayers \$318 billion, or 1.2 percent of GDP. Three-quarters of those transfers were provided as support to farmers, accounting for one-third of their gross receipts.¹²¹ A recent study conducted by the GAO demonstrated that the sugar program costs consumers at least \$1.9 billion annually in higher costs for their personal purchases of sugar and sugar-containing products. According to the GAO, the sugar program also costs taxpayers another \$90 million annually through higher prices for sugar and sugar-containing products purchased for the federal government's food programs for the poor.¹²²

Much of the work of the peripheral industries and workers who drive the American economy depends on reasonably priced raw materials, including agricultural products. For every person employed in growing and producing sugar in the United

¹²⁰ Riedl, 2006.

¹²¹ Brooks, 2003.

¹²² US GAO, 2000.

States, there are 10 people employed in sweetener-using industries. But, because of subsidies and tariffs, the cost of sugar in the United States is nearly twice as high as sugar on the world market. This added expense literally takes US manufacturers out of the world market and has driven some, who make products high in sugar content, such as candy manufacturers, to either shut down completely or move to a more competitive country, taking with them American jobs. An example is the Lifesaver Company, an American standard in the candy business, which has now moved its manufacturing facilities to Canada, where sugar sells closer to the world-market price.¹²³

While the United States continues to subsidize domestic agriculture at the expense of its trading partners, American taxpayers are stuck with annual bills each year in food aid that is sent to struggling nations. Some believe that rather than forcing American taxpayers to subsidize domestic producers, pay higher prices for imported goods that face tariffs, and then send billions in foreign aid to those countries that are harmed by these policies, the United States might be better off if Congress just phased out this entire scheme. The United States has a competitive advantage in many products, and exports more food to other countries than any other nation, but it risks harming these competitive advantages when they continue to support trade policies that invite other countries to retaliate by raising barriers of their own against American farm products. This is especially tough on American farmers with specialty crops, who could obtain a good price abroad without the government's help¹²⁴

The cost of the CAP can be measured in two ways: the money paid out of the EU budget and the cost to the consumer in higher food prices. The EU spent 49 billion euros

¹²³ Riedl, 2006.

¹²⁴ Ibid.

on agriculture in 2005 (46 percent of the budget), while the OECD estimates the extra cost of food in 2003 at 55 billion euros. The program actually cost the EU 88 billion euros in 2005 to support an outdated program.¹²⁵ Between 1992 and 1999 the total EU agriculture budget increased from 32 billion euros to 40 billion euros, or an increase of nearly 25 percent. However, during that same period export rebates, in the EU, went from 9.5 billion euros to 5.5 billion euros, a decrease of nearly 40 percent. The combination of the two had a direct impact on world market prices. Fortunately, between 1992 and 1999, the combined subsidies decreased from 26 billion euros in 1992 to 12 billion in 1999—over 50 percent. EU direct payments to farmers in 1999 accounted for 70 percent of the agricultural budget. However, that represents a decrease in payments that directly affect trade, from 82 percent in 1992 to 30 percent in 1999. The defining factor was the decision to decouple prices from production levels.¹²⁶ In comparison, during the same period, the United States spent about 0.7 percent of gross domestic product (GDP) on agricultural payments, while the EU budget for agriculture was down to about 0.5 percent of GDP. Although these numbers appear to be comparable, there are some major differences. Europe actually has more farmers, but the farms are considerably smaller. While the average government payment per US farmer in 2000 was \$14,500, the average EU farm received \$4,500.¹²⁷

All is not lost, however; the CAP budget has continued to decrease as a proportion of EU GDP since 1985, as European collaboration has steadily expanded into other areas. EU members reached an agreement in 2002 that limited agricultural expenditure for the period 2006–2013 to the 2002 figures, even though 10 new members

¹²⁵ BBC News, 2008.

¹²⁶ Richardson, 2000.

¹²⁷ Ibid.

were scheduled to become a part of the EU in 2004. Based on the assumption that the new members would participate in the pool, the money paid to farmers in older member states began to decline by five percent in 2007. In addition, if new members Romania and Bulgaria are paid in relation to their need, that could trigger additional cuts to the old members of 8-9 percent.¹²⁸ As expected, agricultural expenditures held their own in 2004, but increased in 2005 slightly when the 10 new members were admitted. Under the European Commission's 2005 proposals, expenditures were designed to max out in 2008/2009.

Why are These Farm Support Programs Still in Existence?

For years, responsible members of Congress have claimed that they have been trying to eliminate those programs that have enriched the minority big producers of sugar, cotton, grain, and other products at the expense of the majority of US citizens. Even when Congress enacts laws that promise to correct the farm subsidy inequities, the bills are designed to perpetuate the programs by replacing the old with new agendas, sometimes disguised as environmental protection, and new language designed to present the old programs in a new light. However, the tide is turning, as even hard-line advocates of price supports admit that there is the potential for foolishly spending funds that could be used to better advantage elsewhere. It is becoming harder to defend these programs during difficult times and periods of economic shortfall. Those seeking to limit the negative effects of unnecessary production stimulation and trade-distorting subsidies will still have a difficult time initiating change, however, because their opponents are well entrenched. Programs such as government-backed crop insurance, and the whole range of subsidies in the 2002/2008 Farm Bills, were sold to the American people as a way to ease

¹²⁸ BBC News, 2008.

the long-term pressure on taxpayers by eliminating the need for yearly emergency-relief actions from Congress. But less than a year after President George W. Bush signed the 2002 Farm Bill into law, the farm lobby went into action and Congress approved a new farm-rescue package with a price tag of \$3.1 billion.¹²⁹

When the EU was confronted by the WTO to reduce these complex domestic support policies, the developed countries faced internal political pressure to give up little, if anything. Both the magnitude of their domestic farm-support policies and the professional stature of the politicians involved are at issue. The United States is no exception. It is extremely difficult for a member of Congress to deny these programs if he or she has supported them for years in the past. Still, some are willing to stand up and make economically accurate public statements. An advocate of trade reform, US Trade Representative Rob Portman said the United States offered a meaningful and credible proposal when it announced that it would eliminate its export subsidies and reduce its farm subsidies by an average of 60 percent. “Our proposal does provide for real cuts in our programs,” he said. “We are certainly making a serious commitment here.”¹³⁰ After Portman’s announcement at the WTO meeting in Zurich on October 10, 2005, the Senate Agriculture Committee Chairman, Georgia Republican Saxby Chambliss, in a panic, sent him a letter reminding him that he may have overstepped his authority, and that the US Congress would have the final say on any reductions in US farm programs. This is a classic example of the difficulty one might encounter while attempting to reform such an old and entrenched program. In a follow up, Senate Democrats, speaking at a mark-up session for the Agriculture Committee’s budget-reconciliation proposal, accused the Bush

¹²⁹ Riedl, 2006.

¹³⁰ Laws, 2005.

administration of seeking to “unilaterally disarm” US farmers in the WTO talks by offering to make such drastic reductions in US farm programs without consulting Congress.¹³¹ It is an impossible situation. First, President Bush increased farm aid in the Farm Bill of 2002. His Senate Agriculture Committee Chairman, Rob Portman, then announced to the members of the WTO that it would be possible to reduce farm subsidies by 60 percent, only to be reprimanded by Congress the following day. Although change is inevitable, it will not be accomplished easily.

As in the United States, the EU pays massive subsidies, at times equal to half the value of the product in third world countries and non-EU markets, where unprotected producers find themselves at a competitive disadvantage. The EU trading partners, including the United States, have complained about the EU’s heavy export-subsidization support program in agricultural products. Since EU internal prices are above world market prices, export subsidies are needed to move commodities into world markets. The EU commodities that are subsidized are varied and cover most agricultural products but primarily dairy products, grains, and sugar. EU member nations are barred from importing outside agricultural products that are available within the Union.¹³² Robert Putnam believes that several areas influence EU policy, and describes the players in a two-level game in the following way. At the national level of the game, “domestic groups pursue their interests by pressuring the government to adopt favorable policies, while politicians are seeking power by constructing coalitions among those groups.” At the international level, Putnam argues, “national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of

¹³¹ Laws, 2005.

¹³² Patterson, 1993.

foreign developments.”¹³³ In the case of the EU, there may be an additional level of play, the Community level, in which member states attempt to achieve individual domestic goals while at the same time attempting to preserve the EC. Therefore, the structure of the EU requires that Putnam’s two-level game be altered to include a third level of negotiations that would include domestic, as well as Community, and international policy options. One can only speculate whether the EU is expressing the interest of all the EU member states or whether any agreement reached by the EU would be validated by the members after the fact. Unfortunately, negotiations do not proceed sequentially from one level to the next, but occur as if all three levels were synchronized. This means that strategies, outcomes, and agreements at each level affect one another. As Putnam notes, “the political complexities for the players in this game are staggering. Any player at the international table or the Community table who is dissatisfied with the outcome may upset the game by failing to ratify the agreement, and conversely, any leader who fails to satisfy his fellow players at the domestic table risks being evicted from his seat.”¹³⁴ Interestingly, Putnam tells us that the most likely situation for agreement at all three levels depends on how heterogeneous the conflict is. The more heterogeneous the conflict, the more likely it is that the government will be able to strike a deal internationally.¹³⁵ Most advanced industrial states have heterogeneous economies to a degree, and, consequently, a variety of interest groups that shape them. In all cases, certain interest groups are more powerful than others and as a result are able to influence the passage or defeat of certain issues. Both Wayne Moyer and John Keeler have found that as a result of these interest groups, farmers in the member states (particularly in

¹³³ Putnam, 1988, p. 434.

¹³⁴ Ibid.

¹³⁵ Putnam, 1988.

France and Germany) have political power disproportionate to their numbers.¹³⁶ Putnam also states that the possibility of an internal agreement depends on the cost of having no agreement. The lower the cost of having no agreement, the smaller the possibility of concessions, and eventual agreement.¹³⁷ A third element is the politician's strength, and his or her perception of how his decision will affect him in the future if he does not reach an agreement. These costs are difficult, if not impossible, to quantify, because they involve a politician's personal perception of their political standing.¹³⁸

Manipulating the member vote becomes a game of strategies. Keeler notes that if the possibility of success is great, with little chance of a veto, then only incremental adjustments to the CAP will be considered unless the vote is a great win for all involved.¹³⁹ The strategy is to win but to not win too big. The larger the win, the more likely it is that an agreement can be reached but also the more difficult it may be to ratify the agreement at the domestic level. Thomas Schelling's definition of "strategy" is useful here. He argues that

strategy takes conflict for granted, but also assumes a common interest among adversaries; it assumes a rational value maximizing mode of behavior; and it focuses on the fact that each participant's best choice of action depends on what he expects the others to do, and that strategic behavior is concerned with influencing another's choice by working on his expectation of how one's own behavior is related to his.¹⁴⁰

All of this will be influenced by the two demands on a negotiator, one from across the table and one from the negotiator's own organization. A major reason for the continued payment of these benefits was that both Chancellor Helmut Kohl, of Germany,

¹³⁶ Moyer, 1993; Keeler, 1996.

¹³⁷ Putnam, 1988.

¹³⁸ Patterson, 1993.

¹³⁹ Keeler, 1996.

¹⁴⁰ Schelling, 1960, p. 15.

and President François Mitterrand, of France, were facing important elections in 1988. As in the past, political analysts expected agricultural lobby groups, which were fairly homogeneous in their support for the status quo, to once again play an important role in determining the outcome of these elections. This placed Mitterrand and Kohl under extreme pressure to reach an agreement at the EU level that would not be detrimental to their domestic agricultural constituency, even though France and Germany were net contributors to the EU budget.¹⁴¹ Kohl's Christian Democratic Union (CDU) party was forced to deal with the additional problem of elections in Baden-Wurttemberg and Schleswig-Holstein. These two areas comprised an important agricultural vote that was key to the party.¹⁴² The CDU well understood that the vote from these two areas could strongly influence the election; therefore, the decision was made to maintain the status quo rather than to reduce farm support that would force the farmers to pursue more efficient farm practices.¹⁴³ The dependency of the CDU on the farm vote placed Kohl in a precarious position with respect to agricultural reform. He could ensure his reelection prospects by continuing price supports, or he could reduce the support payments, in turn lowering food costs to the rest of the nation, while running the risk of losing the election. Kohl had been through this before, and fully understood the power of the agriculture lobby. Two months prior to the European Parliament election in 1984, a decision to reduce milk supports cost the CSU an estimated 708,000 votes. Again, in 1987, the CDU lost another estimated 245,000 votes in a general election after implementing price freezes; 110,000 of those votes were lost in rural areas. As Hendriks notes, "It must

¹⁴¹ Patterson, 1993.

¹⁴² "Hopes for EU Budget Resolutions May Be Thwarted by Elections," *Financial Times*, 7 December 1987.

¹⁴³ *Ibid.*

therefore be concluded that drastic reform measures will, in fact have a detrimental impact on the farm electorate. Also, it is probably true to say that the CDU believed that the party would lose farm votes if it were to ignore the interests of the agricultural sector.”¹⁴⁴

The French were faced with a similar situation in that they were spending a large share of their budget on agriculture, but were afraid to change for fear that the backlash would defeat the ruling party in the coming election. Even though France is a more efficient producer of farm products than Germany, the artificially high prices established under the CAP was causing France to lose market share to other EU countries, including Germany. Mitterand, who was facing strong challenges from opposition leader Raymond Barr, and Jacques Chirac, knew that the agricultural bloc could be crucial to the outcome of the election.¹⁴⁵ There was no question that France and its efficient farmers could absorb a price cut with little adverse effect on the agricultural community, but unlike Germany, France had to deal with the cultural rural tradition that a conservative government was one that represented the interest of the farm community.¹⁴⁶

The situation in the United Kingdom was somewhat different than that in France and Germany. The nature of the farm lobby and its relationship with the British government was different in that the farm lobby had taken a more nationalistic position and argued for a CAP that was more in line with world market pricing. Prime Minister Margaret Thatcher was answering to a more heterogeneous and agreeable lobby set. The United Kingdom had already made internal structural changes as a result of both the

¹⁴⁴ Hendriks, 1991, p. 93.

¹⁴⁵ “Plodding Barr Upstages Chirac in Presidency,” *Financial Times*, 3 December 1987.

¹⁴⁶ Moyer and Josling, 2002, p. 92.

Enclosure Laws and the repeal of the Corn Laws. English farmers were both efficient and accustomed to change in the size and form of agricultural support.¹⁴⁷ Both the farm community and the government of the United Kingdom were and are still of the opinion that farm supports payments to the EC budget are simply a means of bringing the less advanced member nations up to a common plane where each can compete on the same level. Essentially, they are supporting their competitors' agricultural programs until those nations can support themselves. It is by no means a lose/lose situation, however. The CAP is important to British farmers in that it assures British farmers of a market for their produce at a competitive price. In essence, although the farm lobby in the United Kingdom represents the farmers, it is progovernment, in contrast to farm lobbies in many of the other EU nations.¹⁴⁸ Therefore, Prime Minister Thatcher was able to take the position that imposing new limits on EU farm spending would be her condition for agreeing to any increase in the total budget, and if the payment and distribution procedures were to change in any way, she insisted that Britain end up no worse off than under the existing system.¹⁴⁹ The message was clear. The United Kingdom would support agriculture reform, but would, under no circumstances, agree to anything that would worsen its position, or cost it more than it was already paying.¹⁵⁰

With these narrow alternatives, the EU Agriculture Council members found themselves facing a collision of philosophical and political interests. While the United Kingdom and Denmark proposed a CAP reform based on fiscal responsibility, France and Germany were being squeezed into a decision based on political and sociocultural

¹⁴⁷ Moyer and Josling, 2002, p. 92.

¹⁴⁸ Moyer and Josling, 2002, p. 46.

¹⁴⁹ "A Suitable Rock to Founder On," *The Economist*, 28 November 1987, pp. 49–50.

¹⁵⁰ Patterson, 1993.

considerations. In order to control overproduction, the United Kingdom proposed a maximum production level for certain agricultural products. If growers exceeded that level, a 15 percent price reduction would be imposed on the overproduced crops, and those who overproduced would be required to pay a tax to offset the cost of storing the excess, and to defer the cost of export subsidies. The United Kingdom attempted to halt the annual increase in spending by suggesting that the 1987 EU grain production levels of 155 million metric tons be adopted as the maximum guaranteed quantity (MGQ) that could be produced in any given year. The Germans and the French countered with a proposal that would raise the ceiling on grain production to 165 million metric tons per year and impart insignificant penalties for exceeding the MGQ. In essence, they were asking the rest of the EU member states to support them in their bid to retain their political party leadership by allowing them to appease their constituency with a 6 percent increase in production over the already unacceptable 1987 levels.¹⁵¹ The British, the Dutch, and the Danes held the upper hand in the negotiations because at that time Denmark held the presidency of the EU Council of Ministers. The three countries were adamant that they would not approve any additional funding for agricultural support until some agreement was reached on the establishment of a spending cap. This ultimatum created an impasse whereby neither side was able to reach an agreement by the end of 1987.¹⁵² The Commission then increased the pressure on the Agriculture Council to reach an agreement on reform by taking the member states to the European Court of Justice for not producing a 1988 budget. It also threatened to cut off intervention payments if the

¹⁵¹ I Patterson, 1993.

¹⁵² Moyer and Josling, 2002.

Agriculture Council did not agree on budget stabilizers by February 1988.¹⁵³ The members knew that West Germany was scheduled to take over the presidency of the Council of Ministers in January 1988; therefore, all of these ultimatums fell on deaf ears and were taken lightly. When the final agreement was struck in February 1988, France and Germany were successful in achieving the maximum 3 percent price cut for grains that they wanted, and overproduction taxes that took effect only when grain production exceeded 160 million tons. As compensation to the other EU member nations, Germany agreed to pay an extra five billion ECU to the fund over a five-year period, representing a 30 percent increase in their net annual agricultural budget contributions.¹⁵⁴ The result of the increase of grain production to 160 million tons before additional tariffs were added pushed the savings window out to 1990, if ever.¹⁵⁵

Moyer and Josling recap the proceedings as follows:

West Germany got credit for forging the agreement and could claim success for minimizing the cuts in farmers' incomes. France could argue that the welfare of French farmers had been protected by the infusion of new funds into the CAP and that the potential damage of stabilizers had been limited. The UK and the Netherlands won limitations on agricultural spending plus price cuts for over production. The Mediterranean nations received large increases in regional structural, and social funds. The Commission attained new revenues to keep the European Community solvent, and all the participants benefited in that the movement towards the single European market could proceed smoothly.¹⁵⁶

To summarize, the stabilizers agreement was achieved through a series of compromises. First, from a political and sociocultural perspective, France and Germany were handicapped by what they perceived to be strong vocal farm lobbies. The United

¹⁵³ Moyer and Josling, 2002.

¹⁵⁴ "EEC Summit: The Lady Turned," *The Economist*, 20 February 1988.

¹⁵⁵ *Agra Europe*, no 1274, 19 February 1988, p.1.

¹⁵⁶ Moyer and Josling, 2002, p. 79.

Kingdom, on the other hand, was driven by economic responsibility and more nationalistic interest groups. This set the stage for negotiations and compromise. As Agra Europe concluded, “The British government sold out its half hearted objective of CAP improvement in return for more important gains to British industry, banking, insurance, and other service industries.”¹⁵⁷ Thus the United Kingdom agreed to the reform primarily because of its implications for resolving other internal issues. They were willing to give up short-term losses in the agricultural industry for the long-term health of a group of unrelated industries.¹⁵⁸

The Commission played a vital role in the negotiations when it raised the cost of having no agreement by taking the member states to the European Court of Justice for failing to produce a 1988 budget. This placed additional pressure on Germany, as the new president of the 1988 Council, to negotiate a compromise that would satisfy both internal farm lobby pressure and external Community interest. Germany was able to resolve the situation by satisfying the local farmers by continuing the status quo, and placating the other member states through an increase in their budget conformation. Through a circuitous route, they simply took the money from the German taxpayers and gave it to the farmers.¹⁵⁹ The question in Europe became one of whether reform would be externally or internally driven. The February 1991 Directorate General (DG) VI released a detailed blueprint for CAP reform in the form of a “Reflections” paper. This represented a departure from other reform proposals in that it looked back at what had been unsuccessful in the past, and suggested a different approach for future reform.

¹⁵⁷ Agra Europe, no. 1274, 19 February 1988, p. 1.

¹⁵⁸ Patterson, 1993.

¹⁵⁹ Ibid.

Rather than attempting to patch the existing program, the so-called MacSharry plan (named for Ray MacSharry, the EU's Agricultural Minister at the time) assumed that one of the main aims of rural policy in the 1990s should be to retain rural populations. This is quite different from previous plans that dealt with supporting small farmers and retraining excess farm labor, in that the MacSharry plan was to keep them as farmers. It proposed price reductions in certain key areas balanced by direct compensatory aid payments to farmers. In other words, it proposed that farmers be compensated for being farmers, and not for the amount of crops that they produced.¹⁶⁰ This would encourage small farmers to maintain the small farm lifestyle, while at the same time reducing the amount of labor necessary to produce an overabundance of agricultural products. While the MacSharry plan did not suggest that all support prices be eliminated, it did emphasize that some payments would no longer be attached to production and placed more emphasis on paying farmers to be more efficient, and on improving farm awareness of conservation and the environment.

The budget as presented would actually increase expenditures in agriculture by 2.24 billion ECU, but would save money in compensatory payments and export subsidies after the first few years.¹⁶¹ As Agra Europe reported, the MacSharry proposal would mean that the guaranteed budget for the CAP in 1997 would increase to 37.5 billion ECU. This is considerably more than the 1991 level of 32.5 billion ECU but much less than the estimated cost of 42.7 billion ECU expected in 1997 if there were no reforms.¹⁶² The result of the MacSharry proposal would be lower grain prices due to less price

¹⁶⁰ Agra Europe, no. 1430, 8 March 1991.

¹⁶¹ Agra Europe, no. 1447, 5 July 1991.

¹⁶² Ibid..

support money, less surplus product that would require export subsidies, and less product to be dumped on the LDC market. All of these goals could be reached internally without the need for negotiating through the WTO and the Doha Round of negotiations. As David Gardner reported, export subsidies were the “high octane fuel of the GATT row,” because of their ruinous effects on industrialized and developing country competitors.¹⁶³ *The Economist* reported, “The Community has insisted all along that the talks on reform are separate from the Uruguay Round, in which the Americans and Europeans have been deadlocked over farm subsidies for five years. Mr. MacSharry said the Community was showing it was able to meet its commitments to the GATT round in full without multilateral agreements with the US. It will be up to the others to match us.”¹⁶⁴ While MacSharry was attempting to sell his new plan to the member states, the economic situation was declining in Germany. In 1992 the political complexion had changed drastically as a result of reunification. As reported in *The Economist*, Germany was faced with a “unity induced financial crisis,” and it was estimated that “Germany’s total public sector debt could soar to more than DM 1.8 trillion by 1995. That figure would be more than 50% of GNP compared with a ratio of 40% in Western Germany before unity.”¹⁶⁵ Germany had few options. It went from being one of the most financially sound members of the EU to facing potential financial collapse over the period of a few months. The government discontinued all new public spending, regardless of priority. The spending moratorium included internal programs such as health care and care for the aged as well as external programs that included EU assessments and agricultural support subsidies.

¹⁶³ David Gardner, “Reforms with a Grain of Sense,” *Financial Times*, 22 May 1993, p. 18.

¹⁶⁴ “EC Farm Policy: Getting Better,” *The Economist*, 2 May 1992, p. 55.

¹⁶⁵ “Kohl’s Debterdammerung,” *The Economist*, 4 April 1992, p. 58.

The German government began an intense financial accounting and, not surprisingly, revised its attitude toward the ever-increasing agricultural expenditures in the EU.¹⁶⁶ German unions were afraid that an influx of low-paid workers from the East would create a loss of jobs at worst, or a reduction in pay at best. In an effort to counter the effects of thousands of low-paid workers entering the marketplace, the unions went on strike to increase the Eastern wages up to the Western levels. Nearly one hundred thousand workers from every avenue of union labor went on strike in support of a pay increase of 9.5 percent. The government now preoccupied itself with appeasing labor and industry lobbies while attempting to maintain the electoral base that was slowly slipping away. As growing budget deficits continued to climb, the importance of the EU and support of its agricultural underwriting became increasingly less important.¹⁶⁷ The German government was overwhelmed by the decline of its cooperative relationship between labor and industry. It was experiencing its first serious cash flow emergency since the end of WWII, its tax base was being undermined by the labor strikes, and the EU was asking for an increase in funding.¹⁶⁸ The farm sector itself changed with reunification. As the *Financial Times* reported, "German agriculture is no longer dominated by small farmers. A whole new category of huge factory farms on the eastern model must now be taken into consideration."¹⁶⁹ The huge factory farms had not been subsidized while under the protection of the Soviet Union (USSR). Now, the costs of subsidies and export guarantees for the former East Germany would have to be financed by the CAP;

¹⁶⁶ Patterson, 1993.

¹⁶⁷ "The New German Question," *The Economist*, 2 May 1992.

¹⁶⁸ Patterson, 1993.

¹⁶⁹ Q. Peel, "Minister Stands His Ground Against German Farm Lobby," *Financial Times*, 22 May 1992. p. 6.

however, West Germany had traditionally been the primary underwriter of the CAP, therefore the former West Germany was facing the possibility of having to contribute to an even greater CAP budget. The prospect of supporting agriculture in its East with the knowledge that the East would not be able to contribute proportionately to the overall German share was one more reason not to vote for an increase in the EU agriculture assessment. Prime Minister Kohl, breaking with his previous position on CAP reform, declared that “the EU agricultural reform was not possible without substantial price cuts, especially for grains.”¹⁷⁰ This was a signal to German farmers and other EU member states that Germany could no longer afford to underwrite the cost of the CAP as it had in 1988. As a result of these internal social, political, and institutional changes in Germany in 1990, and the subsequent mobilization of the unions and other interest groups including industry and manufacturing, agricultural interest groups no longer held the political power they had held in 1988. Reunification had forced German leaders to consider the interests of a more heterogeneous coalition of interest groups in 1992 than in 1988.¹⁷¹ Reunification was instrumental in forcing Germany to change its political position on agriculture support and CAP reform, but what influenced France to agree to the MacSharry reform? The French government finally realized that without Germany’s support, continually increasing budget expenditures would lead to continual budgetary crises. France had become a very efficient producer of agricultural products, especially grains, and as such could easily operate profitably even with the prospect of a decrease in support prices. France’s main concern was that it would lose both internal and external

¹⁷⁰ “French German Farmers Denounce EC Reforms,” *Financial Times*, 23/24 May 1992, p. 8.

¹⁷¹ Patterson, 1993.

market share if a system of quotas were introduced to control production. The *Financial Times* characterized French concerns as follows: “France, the EC’s agro-superpower, accounting for nearly half the community’s grain exports, was in the end, frightened that prices would not come down far enough and that quotas would be used to limit production blunting its competitive edge.”¹⁷²

With Germany and France in forced agreement, the United Kingdom had little problem with compromise, as it had always advocated EU agricultural reform to bring the CAP in line with world prices. As a 1991 House of Lords study states:

Recognition of the need for fundamental change in the manner in which the Community supports its agricultural sector is hardly new. Six years ago on the last major debate on CAP reform; we reported to the House that reform was imperative. We reiterate that view. The CAP denies the free operation of the market, distorts the relationship between supply and demand and leads to a welfare loss to the whole Community. It fails to pay sufficient regard to environmental concerns or the needs of consumers, and threatens the ability of the Community to trade freely on the world market . . . This is clearly indefensible.¹⁷³

The British made no secret that they favored support reductions. The House of Lords report states that “The price mechanism has, in the past been the means by which the Community has encouraged an expansion in agriculture production. One means of restoring market balances in the Community is therefore to reduce support prices.”¹⁷⁴

Prime Minister Thatcher’s previous strategy had been to minimize British financial support for the CAP even as Germany and France insisted on maintaining it. With

¹⁷² David Gardner, “Reforms with a Grain of Sense,” *Financial Times*, 22 May 1993, p. 12.

¹⁷³ UK House of Lords, 1991, p. 26.

¹⁷⁴ *Ibid.*.

compromise in the air, the United Kingdom was now agreeable to considering a more serious agricultural reform proposal.¹⁷⁵

To sum up, the EU was under greater international pressure from GATT to reform its agricultural policy in 1992 than in 1988. At the same time, agricultural expenditures were eating up the EU budget, and two of the three main contributors to the budget, Germany and the United Kingdom, continued to vocalize their reluctance to increase their budget contributions, while France reluctantly expressed its willingness to listen to a reduction in payments. All these factors converged to produce a ratified MacSharry reform package.¹⁷⁶ The final reform proposal, with its myriad of revisions, was eventually adopted in May 1992. The member nations agreed on an overall package that included a 29 percent decrease in grain prices over a three-year period. In addition, Britain and Germany were able to fulfill the promise to their farmers that they would be insured against the loss of any income as a result of the agreement. In exchange, large farmers would remove 15 percent of their arable land from production. Similar programs—such as the Land Bank in the United States—have never worked well, mainly because technology has always made up for the land taken out of production. Only marginally productive land is ever enrolled in these programs. Efficient producers will always find a creative way to continue to produce the maximum so long as they are receiving compensatory payments. Finally, with only a 29 percent cut in internal prices, export restitutions would continue to be required. Yet most experts agreed that the shift from high consumer prices to deficiency payments represented a major philosophical

¹⁷⁵ Patterson, 1993.

¹⁷⁶ Ibid.

change and a moral victory for the Commission. Even DV VI officials later admitted that the old programs could not be sustained, and that it was only a matter of time before taxpayers refused to pay farmers to do nothing, although it was not politically possible to admit that at the time. The consensus was that this latest round of CAP reforms would eventually move the Community in the direction of greater dependence on world markets. No one would have believed at that time just how difficult future cuts would be.

Despite intense protest by France, the MacSharry reform proposal represented the lesser of two evils. If no agreement was reached on the reform package, quotas quite likely would have been imposed to balance the budget. This was wholly unacceptable to domestic agricultural groups in France. The cost of having no agreement would have resulted in increased consumer prices throughout the member states. Although the French argued that further adjustments would be needed to meet the new GATT commitment, they were unable to veto the agriculture agreement because it was not voted on separately, but as part of the entire Uruguay Round agreement, which was their way of saying, “we voted for it but we did not want to.” In fact, the French did not want it, and postponed making a decision until they were able to negotiate a plan that would compensate their farmers for losses that might occur after the 1992 CAP reform was implemented.¹⁷⁷

Why was the EU able to adopt a radical new initiative in 1992, when it failed to achieve more than an incremental change in 1988 and has been unable to reach agreement on reform in the 2000s? First, the power and diversity of interest groups affect the outcome of the negotiations. The more heterogeneous the interests of the parties in

¹⁷⁷ Patterson, 1993.

negotiations are, the easier it is for them to come to an agreement. In the earlier negotiations, Kohl and Mitterand were virtually held hostage to the politically influenced interests of their farm lobbies. They knew they could never win and that their parties faced defeat if they tried to implement reforms that would change the status quo of these relatively small but politically powerful lobbies. By 1992 the unification of Germany had expanded the number of union and agriculture lobby groups, diluting the strength of each and reducing the power of their demands on the German budget. This gave Kohl the leeway he needed to expand his platform to include substantive agricultural reform without the fear of losing large blocks of votes. Even so, Germany would never have been able to carry it off alone. Germany's ability to change its political strategy allowed it to form an alliance with England to push forward with a plan for strong agricultural reform. Second, the higher the cost of having no agreement, the more likely it is that a substantive reform will be passed. In 1988 the cost of having no agreement was mitigated by an increase in the German budget contribution. The expansion of the EU brought about by the Maastricht Agreement and the unrelenting annual pressure placed on the EU budget by the CAP accentuated the necessity for agricultural reform.

Some, but not all of this posturing, positioning, and maneuvering has been the direct result of political influence with little interest in what these programs will or will not do for the individual nations or for the Community. On the other hand, there is still a dedicated part of the populace that is genuinely concerned about the farm community, and that continually lobbies for the continuation of these funds for fear that if they are discontinued, the mythical small farmer will disappear from the land. There is convincing evidence that most of the farmers who remain could be profitable in the long term if price

supports were removed. For example, New Zealand farmers no longer receive agricultural price supports. They get five cents a liter for their milk; EU farmers get 30. This is why the New Zealand dairy industry can ship butter 13,000 miles around the world to Europe and still undercut British farmers by 125 percent in their own market—or could, if the EU did not impose a tax on the imports to stop them from benefiting UK consumers in this way.¹⁷⁸ This subsidizing activity is at the root of the running diplomatic battle between Brussels and Washington and between the two and the WTO.

Isolationism and Autarky

Prior to restructuring, the EC-6 was only about 85 percent self-sufficient in terms of food, and exports were small. Problems began when subsidized production of certain products expanded beyond domestic consumption, and subsidized exports had to be increased.¹⁷⁹ Between 1975 and 1986, the EC moved from being an overall net importer of agricultural produce to being a net exporter of grain and wine.¹⁸⁰ European overproduction caused agricultural surpluses to increase faster than demand. This contributed to a drop in world prices and necessitated a rapid expansion in the agricultural support programs. As Agra Europe reports, world grain stocks rose by 70 percent in the early 1980s, and, as a result, world prices fell by over 44 percent between 1981 and 1986.¹⁸¹ The policy, which was originally designed to ensure food security, became an increasingly expensive mechanism that created, collected, and dumped

¹⁷⁸ Gardner, 2007.

¹⁷⁹ Gardner, 1996.

¹⁸⁰ Buckwell, 1991, p. 228.

¹⁸¹ Agra Europe, 1991, p. 9.

surpluses on international markets.¹⁸² As it ceased to operate as originally designed, each European nation in turn began to feel the pressure for change.

In order to reduce excess stocks, the EU had to increase export subsidies in order to lower the price on the world market. In so doing, traditional, non-EC exporters of agricultural commodities lost world market share to the EC. Alan Buckwell notes, “If these changes had not come about because of the highly productive and competitive nature of European agriculture, citizens in Europe and abroad would have little to complain about. However, because the changes have been accompanied by a large and rapidly rising injection of public support, and because European Community agricultural prices are significantly higher than those in competing countries, there has been a chorus of complaints against the European Community and the CAP.”¹⁸³ One of the major beneficiaries of these subsidies, France, feared that it would be ruined by low-cost imports from some of France’s relatively more efficient competitors, a fear not well founded, since France has some of the most efficient farmers in the world. France’s reaction was to expand well beyond the level of output that could ever be absorbed by the domestic market or those overseas territories that were its primary market. France, with its high prices, could compete on the world market only with the aid of governmental support. Even though French farm prices were lower than in other European countries, they were substantially higher than the prices paid to the American, Canadian, and South American farmers who were their major competitors.¹⁸⁴

¹⁸² Agra Europe, 1991, p. 9.

¹⁸³ Buckwell, 1991, p. 228.

¹⁸⁴ Gardner, 1996.

In Germany, the second largest economy at the time of the formation of the EEC, the problem was somewhat different. Germany had lost its most productive farming areas to Moscow's East European satellites. Germany decided to concentrate on rebuilding its industrial sector, and chose to form an alliance with France to supply its agricultural needs—a classic agreement of two countries to supply that item in which they each had a comparative advantage. The EEC then began as an alliance in which one nation was to supply coal and steel, and the other was to supply agricultural products. For Germany, the decision was a fortunate one that spared it the rigors of agricultural deregulation. Italy, Belgium, Luxemburg, and the Netherlands made up the balance of the six original nations to the agreement. They were all in agreement: better a guaranteed market with one's neighbors than the uncertainty of the world market.¹⁸⁵

Who Are the Winners?

There can be little argument that the original price-support policies were beneficial necessities to those attempting to survive the Great Depression. Unfortunately, the programs had no sunset clause and have continued on into perpetuity. These basic programs have changed little over the decades; the major difference has been who benefits from them. Politicians have come and gone on their ability to continue to deliver and increase these paybacks to their constituency over the past 80 years. The overwhelming evidence indicates that current agricultural policies fail to meet their stated objectives, yet changes have been slow to come. A major reason must be that there is a gap between the officially published objectives of governmental policy and the priorities of policymakers, who often feel obligated to respond to their political constituents. It

¹⁸⁵ Gardner, 1996.

should be apparent that subsidies cause economic chaos, take money away from valuable private resources, and are ultimately destructive; however, breaking the power of the cotton, sugar, and grain lobbies is not likely to happen overnight.

Over time, some progress has been made. For example, in 1997 and 1999 Rep. Dan Miller (R-Florida) and Sen. Charles Schumer (D-New York) unsuccessfully introduced bills in the House and Senate, respectively, to phase out the federal price-support program for sugar. Although these efforts did not get far, they represented a beginning and focused attention on a subject that most congresspersons would rather ignore. It is no longer a matter of whether but of when these destructive programs are disassembled. Knowing the destruction these programs cause worldwide, one can hardly overstate how high the stakes are and how important it is that involved governments make the correct decisions.¹⁸⁶

The basic premise of subsidizing farm prices might have continued yet another five decades had it not been for the resultant worldwide economic chaos that they have created. With the onset of globalization, the United Nations, and the WTO, the world has become increasingly aware of its neighbors and of the obligations that each country has to treat the others fairly. Price supports and export/import protection by wealthy countries are having devastating effects on late-developing and poor countries around the world. Members of the global family are becoming more aware of their latent obligation toward the well-being of their neighbors. The communications revolution has given the public the tools necessary to become more aware of where the money goes, and how much it costs them personally. Large cotton, sugar, and grain co-ops, as well as other agriculture

¹⁸⁶ Carnell, 1999., Library of Congress. H.R.1850, 1999., Library of Congress. H.R. 1387, 1997.

groups, are losing ground but are far from giving up. The tobacco growers associations taught them a good lesson, and that lesson was to “hang on as long as you can.” It may be decades before these support measures are eliminated, or it may be that they are never fully abandoned; however, they are on the brink of being substantially reduced, and the world is watching to see how the United States will react.

Before any real change can occur, developed countries must look at the overall global perspective. Progress and positive change can both be achieved by working through a neutral transparent agency detached from internal political pressure. The WTO is working diligently to become the vehicle that the nations of the world can depend on to make fair and unbiased decisions. No group of countries can make it happen on their own: such change requires a global effort. The positive side is that agriculture has finally been brought under the auspices of WTO rules and progress is being made.

Economists have long cautioned world leaders about the negative effects of protectionist policies. Closed markets and false price levels have a long history of failure. Many high-ranking governmental officials understand the fallacy of continuing current policies. But their validity is not the question. The difficulty lies in dismantling such strongly entrenched and traditional agricultural policies that originally were designed to protect the real wealth of this country, the small farmer. The fact that these small farmers today receive only a small portion of the benefits has fallen on deaf ears in the past. When these programs were first implemented, agriculture was the mainstay of the US and European economies. Nearly 50 percent of the labor market depended on agriculture. According to the World Bank, today only a fraction of the GDP comes from agriculture,

and the proportion of those employed by the industry has been reduced to only 2 percent (see Table 11).

The large cotton, sugar, and grain cartels have the assets, the power, and the marketing to intimidate anyone courageous enough to speak up for the American taxpayer, and against current farm policy. However, the beneficiaries of agriculture's outdated support systems are slowly being identified for what they are, and subsidies are gradually being reduced. President-elect Barack Obama was cited in the *New York Times* on November 26, 2008, as saying that he expected his new director of the Office of Management and Budget, Peter Orszag, to fully investigate a recent governmental report indicating that farmers whose incomes exceeded \$2.5 million had most likely been mistakenly paid about \$49 million in governmental subsidies from 2003 to 2006. He did not offer any other specific targets. "After the financial recovery is under way," President Barack H. Obama said, "the chase after wasteful spending will begin in earnest." "Just because a program, a special interest tax break or corporate subsidy is hidden in this year's budget does not mean that it will survive the next." He continued, "The old ways of Washington simply cannot meet the challenges of today and tomorrow."¹⁸⁷ In March 2009, President Obama signed the \$410 billion spending bill handed down from the previous administration, with no cuts or revisions. In July 2009, the Office of Management and Budget released a plan to save \$102 million in 15 agencies for the balance of 2009. None of those are in agricultural price supports, nor was there a comment on agriculture in the August 2009 mid-term review.¹⁸⁸

¹⁸⁷ Quoted in the *New York Times*, November 26, 2008.

¹⁸⁸ Newell, Elizabeth, 2009.

An encouraging sign and a good reason to believe that agricultural policies can be broken is the organizing of the G22 group in Cancun. This group of developing countries holds a diverse set of views about the benefits of liberalizing their own farm policies, while at the same time negotiating as a single entity with the developed countries. Their strength lies not only in their numbers but also in the fact that they have organized in pursuit of a common goal, to help one another sell their crops on the open market at a profit. Their goal as a group is to amass enough power to be able to influence the developed nations to at least listen to their requirements as individual countries.

The success stories in Australia and New Zealand have proved beyond a doubt that the reduction and eventual elimination of price-support policies will not only benefit the world's consumers by providing lower-priced goods but also will not do great harm to those farmers who now receive subsidies. The great challenge remains in reinventing the political systems that continue to advocate these supports for their own private enrichment. The bright light of the WTO may be the answer as it continues to shine on the offenders and highlight those who are being offended.

European critics argue that today, the CAP costs too much and benefits too few. Only five percent of EU citizens, 10 million people, work in agriculture, and the sector generates just 1.6 percent of EU GDP.¹⁸⁹ Supporters of the CAP argue that it guarantees the survival of rural communities, where more than half of EU citizens live, and that it preserves the traditional appearance of the countryside.

¹⁸⁹ BBC News, 2008.

Table 11
Agriculture Contribution to GDP, and Percentage of Employment

Country	Agriculture as a percentage of GDP (%)	Agriculture as a percentage of employment (%)
Japan	1	5
United States	2	2
Western Europe	2	5
Namibia	11	31
Romania	12	42
Kenya	16	18
Indonesia	17	55
Uganda	32	91

Note. From World Bank, World Development Indicators, 2005.

Only five percent of EU citizens, 10 million people, work in agriculture, and the sector generates just 1.6 percent of EU GDP.¹⁹⁰ Supporters of the CAP argue that it guarantees the survival of rural communities, where more than half of EU citizens live, and that it preserves the traditional appearance of the countryside. This forces one to ask the following: if 50 percent live in rural areas, and the farm population in these areas has declined from 90 percent to only 10 percent today, and the appearance of the countryside has not noticeably changed over the past 40 years, then how will discontinuing the program be harmful? With an overall EU GDP of only 1.6 percent the importance of farming to the overall economy is marginal, although some of the newer members still

¹⁹⁰ BBC News, 2008.

rely on agriculture to a much greater degree. The upside is that a large percent of the job market is filled by displaced farm labor. For example, in Poland, 18 percent of the population works in agriculture, compared with less than two percent in the United Kingdom and Belgium.¹⁹¹ The number of people working on farms in the older EU countries today is half what it was in 1980, and the attrition rate for farmers leaving the industry is almost two percent annually. This pattern is also developing in the newer member states that were previously agrarian in nature. As they become more industrialized, the farm population decreases. For example, between 2002 and 2003, the farm population in the Czech Republic, Hungary, Poland, Slovenia, and Slovakia decreased by more than eight percent.¹⁹² The numbers reveal that those that receive the benefits of the support programs are declining, and yet, the programs are still in place and operating at the same levels. Those countries that receive the bulk of the funds are reluctant to give them up, even in the face of statistics that show they are no longer necessary. Not only is the EU supporting unnecessary programs, it is sending it to the wrong countries. Subsidy money is still not properly allocated to those countries with larger agrarian populations because the older members are reluctant to give up their share.¹⁹³

Although the decline in farm labor was not part of the formula, the farm-population dilemma may be self-correcting over time. Not only is the farm population declining, but the average age of farmers is rising. In 2000, more than half of the farmers in the 15 countries that made up the EU were 55 or older. As the Eastern European

¹⁹¹ BBC News, 2008.

¹⁹² Ibid.

¹⁹³ Ibid.

countries became members, their older populations drove that number even higher. Farming is not an easy way to make a living. Farm workers work long hours at hard labor in all kinds of weather for sub par wages. Younger men often leave the farm for better jobs in the city that pay more, breaking the family tradition of passing the farm from generation to generation.¹⁹⁴ Supporters of the CAP claim that many farms would actually be unprofitable if EU subsidies were withdrawn. The question is, if only five percent of the population is still farming, then how many is many? How many farms would actually fail, and how much would it cost to reeducate those failing farmers and/or relocate them to some other area? The answer is, much less than the subsidies that are being paid today.

Is it Possible to Eliminate Agricultural Supports?

All parties have their own take on the advantages and/or disadvantages of a free-market system. Brazil and other South American cotton-producing countries charge that cotton subsidies result in US farmers producing so much cotton that farmers from poorer nations cannot compete. They claim that if crop supports were eliminated and the United States and others were forced to sell on the world market, it would have little negative effect on American growers but would benefit all other cotton-producing countries. Other groups, such as the Institute for Agriculture and Trade Policy, advocate a cut in subsidies, so that less land will be devoted to overproduced crops such as cotton that require environmentally harmful fertilizers and more will be planted in “biomass crops for regional energy production.”¹⁹⁵

¹⁹⁴ BBC News, 2008.

¹⁹⁵ Fetterman, 2005.

Naturally, those in the US cotton, sugar, and grain industries worry that what they view as negative WTO decisions eventually will cost US farmers their subsidies and prevent them from making as much profit from their products. David Blandford, a Penn State University professor of agricultural economics, says “not to worry, even if subsidies are cut, it’s not clear that cotton production would decline in the USA, because U.S. producers are so efficient.”¹⁹⁶ A number of studies have analyzed the effect of eliminating domestic subsidies on the global cotton market and have shown that if American domestic subsidies were eliminated, there would be a positive impact on total cotton prices (12 to 22 cents per pound). Extending this hypothesis to the elimination of direct subsidies worldwide shows an even more positive effect.¹⁹⁷

Large cotton, sugar, and grain producers are the most adamant advocates of price supports because they stand to lose the most, but what about the rest of the American farmers—how would they fare if crop support programs were to go away? First, federal farm programs actually work against the interests of many farmers. Only one-third of farmers actually receive subsidies, and most are in the sugar, cotton, and grain arena. The two-thirds who do not receive subsidies pay a heavy price through lost export opportunities from retaliatory high trade barriers abroad. The World Bank estimates that if global agricultural barriers to farm trade were removed, that worldwide farm exports would be 74 percent higher in 2015 than they would be otherwise.¹⁹⁸ At first blush, this appears to be a world saver; however American farmers, not LDCs, would be the biggest winners. The World Bank believes that reducing export tariffs world wide would mean an

¹⁹⁶ WTO. 2003. The cotton initiative.

¹⁹⁷ Ibid.

¹⁹⁸ Griswold, Slivinski, and Preble, 2006.

additional \$88 billion in annual US farm exports by 2015 and an additional \$28 billion in farm imports, for a net \$60 billion surplus.¹⁹⁹ A \$60 billion surplus might help offset part of the \$618 billion trade deficit the United States experienced in 2003 or the \$668 billion deficit it experienced in 2008.²⁰⁰ Manufacturers would have access to less-expensive foreign agricultural products, reducing their cost of raw materials and lowering the cost of their end products. This would benefit millions of Americans through lower costs for products at retail, and in higher disposable incomes.

The Office of Management and Budget estimates that taxpayers paid out an additional \$26 billion in direct agricultural subsidies in fiscal year 2005, the biggest single-year subsidy bill since 1986.²⁰¹ That is \$26 billion that could go back into the economy if subsidies were substantially reduced. These are the savings in the United States; the benefits to the world economy are exponentially larger. A 2001 study by Drusilla Brown at Tufts University and Alan Deardorff and Robert Stern at the University of Michigan estimated that even a one-third cut in tariffs on the agriculture industry would boost annual global production by \$613 billion; a cut of one-half would result in an increase of \$929 billion.

How would the elimination of these support measures affect American farmers? Would it put them out of business, as some farm-support groups suggest, or would they continue and prosper? As suggested earlier, only a few products are actually protected by these programs. All other farm products, such as fruits, vegetables, nuts, and specialty crops, have no guaranteed price-support systems, or protected markets. They operate

¹⁹⁹ Griswold, Slivinski, and Preble, 2006.

²⁰⁰ Ibid.

²⁰¹ Ibid.

successfully on the open market, just as other industries do. Will the lifting of these supports deal the American farmer a death blow? It may not be necessary to grow corn, rice, cotton, or sugar on many of these farms. Substitution of other market-demand crops may actually be more profitable. For instance, the bio-energy field is opening up entirely new opportunities for the American farmer.²⁰²

New Zealand and Australia are very good examples of what can happen when a negative event is replaced with a positive plan. Before the formation of the EU, nearly 70 percent of all agricultural products produced by these countries were exported to England. The former colony supplied that country with meat, dairy products, grain, and other farm products. The EU agreement stipulated that all these products were to be purchased from member states, effectively eliminating all imports from New Zealand and Australia. This requirement had the two-pronged effect of forcing Australia and New Zealand's agribusinesses to diversify, and of raising England's food prices from one of the lowest in Europe to one of the highest. Faced with agricultural meltdown, these two countries enacted unilateral reforms that included the elimination of import and export barriers, as well as their entire price-support programs. As expected, the farm industry underwent a reformation that included its downsizing. Forced to innovate or perish, the agricultural sector opened itself to innovation, and productivity and output surged.²⁰³

Prior to reform, these two countries had farm policies that featured many of the same flaws as those of the United States and the EU. The answer to the question "what would happen to the American farmer if farm supports were eliminated?" is "probably

²⁰² Brown, Deardorff, and Stern, 2006.

²⁰³ Griswold, Slivinski, and Preble, 2006.

nothing.” In New Zealand, only about one percent of all farms (about 800) faced forced sales after the reform was completed.²⁰⁴ For those who were forced to sell, the government purchased the farm, and contributed to the relocation and retraining of those who were displaced. For the same money the US Congress paid to farmers during the so-called phase-out period between 1995 and 2003, the federal government could have purchased outright more than a quarter of the farms in the United States.²⁰⁵ With this in mind, one percent would be a small price to pay in the United States.

Before New Zealand reformed its farm programs, the situation was actually worse than in the United States, and the level of subsidization was nearly twice that of American farmers. The success story is that since New Zealand eliminated its subsidies, and took government out of the marketing equation, its farm output has increased 40 percent, while farm productivity growth has averaged six percent annually.²⁰⁶ According to the OECD, New Zealand now spends less than five percent of farm receipts on agriculture support. Twenty years after deregulation, the president of Federated Farmers of New Zealand, Don Nicolson, proclaimed that the end of agricultural-support programs forced farmers to become highly efficient, and more aware of market demands and consumer preferences. Farm productivity increased by six percent annually and actually created 450,000 jobs in farm-related industries in a country of four million people. According to President Nicolson of Federated Farmers of New Zealand, “Fear of change often runs rampant, but once you are farming in accord with your comparative advantage,

²⁰⁴ Griswold, Slivinski, and Preble, 2006.

²⁰⁵ Ibid.

²⁰⁶ Riedl, 2006.

it becomes possible to adapt your production system to fit consumer needs and adjust production costs accordingly.”²⁰⁷

Australia and New Zealand have prospered under the same revisions that other nations will be forced to make. In addition, in Australia (a country of over 20 million), dairy production is as important as grain and is the third most important agricultural product. Out of necessity, this industry was also deregulated, and farmers were offered similar short-term assistance either to help them adjust to the new program, or to find other means of support. This readjustment assistance was funded by taxpayers, who actually came out ahead as a result of reduced retail pricing.

The Australian agricultural industry made the necessary adjustments in order to save Australian farms by using modern marketing strategy to keep those farms profitable. After the formation of the EU, it was evident that the change to a free-market position was inevitable and that they had little choice in the matter. While the number of farms decreased, herd sizes increased, and farmers educated themselves in more efficient methods in order to be competitive. Because they no longer rely on governmental support, they have become better businesspeople, relying solely on the world market for their success.²⁰⁸ The success story of Australian and New Zealand farmers, who have adjusted to deregulation and are doing better today than they did before deregulation, is a model for other nations that find themselves in the same situation today. Evidence from Australia and New Zealand shows that farmers in rich countries can succeed without supports, and can sometimes do better. American farmers growing commodities such as

²⁰⁷ Bleimund, 2006.

²⁰⁸ Ibid.

fruits and vegetables without support programs do not qualify for the lucrative subsidies that farmers of rice, cotton, sugar, grain, and other products receive. However, like the farmers of Australia and New Zealand, they nonetheless succeed. Some contend that this is evidence that governmental interference actually hinders development and improvisation. The defense of wealthy countries' current agricultural policies on the grounds that reform would hurt local farmers and lead some exporters to lose their preference margins is becoming less acceptable as it becomes more apparent that agricultural supports and subsidized imports are not the way to generate long-term development. If all the member countries of the WTO would work within its framework for smoothing the transition to more productive accords, it would be obvious to those who are listening that the plusses far outnumber the minuses.²⁰⁹

Can the Problem be Corrected Worldwide?

Most countries recognize and understand that the total elimination of domestic support for cotton, sugar, and grain production will not take place overnight. The WTO has suggested that until support for the production of these crops has been completely phased out, financial compensation should be given to LDCs to offset their loss of revenue as a result of dumping policies created by overproduction. The only practicable short-term measure is financial compensation for those being harmed, to be paid by those doing the harm. Such financial compensation might be calculated in proportion to the subsidies granted by countries that support their farmers' production, making the United States and the EU the major contributors to this compensation fund. The contributions could decrease as the subsidies are reduced and abolished, the idea being that the higher

²⁰⁹ Brooks, 2003.

the compensation, the bigger the incentive and the greater the motivation to phase out subsidies as quickly as possible.²¹⁰ But how would countries be convinced to agree to the idea, who would police the plan, and how could it be enforced?

The member countries of the WTO emphasize that the objective of the Doha Development Agenda is to establish a fair-market-oriented trading system that would include reforms to eliminate unfair restrictive practices and incorporate oversight measures that would ensure that the new agreements are honored by all. During the Doha Round, a commitment was made to take into particular account the needs and interests of developing countries, particularly the poorest among them. The specific issues raised by smaller, less powerful countries are currently the subject of procedures under the WTO's dispute-settlement system. Although this system has become one of the world's most effective legal courts, it can resolve, at best, only part of the problem. In order to take into account the urgent need to restore a global market that functions according to the WTO's principles and to thus combat poverty in LDC agrarian countries, the member countries have called for the following: 1) The establishment of a mechanism for phasing out support for cotton production with a view to its total elimination. This would include setting a specific date for the complete phase-out of cotton production support measures. 2) Until cotton production support measures have been completely eliminated, cotton producers in LDCs should be offered financial compensation to offset the income they are losing, as an integral part of the rights and obligations resulting from the Doha Round. (In addition to the price supports and aid already being paid. It's getting more expensive.) The signatory countries emphasize that the objective of the Doha

²¹⁰ WTO, 2003. The Fifth Ministerial Conference.

Development Agenda is to establish a fair and market-oriented trading system. The agenda provides for fundamental reform encompassing strengthened rules and specific commitments in order to correct and prevent restrictions and distortions in world agricultural markets.²¹¹ The WTO will be unable to accept any outcome of the negotiations that allows the WTO disciplines to be circumvented by reclassifying subsidies, which has been a favorite ploy of US cotton, sugar, and grain co-ops.²¹² OECD ministers have long recognized the need for reform and in 1987 agreed on a set of principles for reform based on the idea of “market orientation,” principles that have been reaffirmed over the past 16 years of tiring negotiations. Because of the large number of members involved, the proceedings have been exceeding slow; however, a commitment to agricultural reform continues to be the primary objective. The relative lack of progress only highlights the difficulty the world faces when presented with the prospect of agricultural reform.²¹³

The CAP and Its Attempts at Reform

The crops initially supported by the CAP reflected the climates of the six founding members (France, Germany, Italy, and the Benelux countries of Belgium, the Netherlands, and Luxembourg). Cereals, beef/veal, and dairy products still receive the lion’s share of CAP funding, but the addition of new members in the 1980s brought new crops such as cotton and sugar into the system. Each country in the EU has its own special agricultural interest that it defends on the grounds that it is essential to some part of the nation’s economy. For example, payments to olive farmers in 2003, at 2.3 billion

²¹¹ WTO, 2003. Negotiations on agriculture.

²¹² Ibid.

²¹³ Brooks, 2003.

euros, were larger than those to fruit and vegetable farmers at 1.5 billion euros, sugar producers at 1.3 billion euros, or wine producers, at 1.2 billion euros.²¹⁴ Wine is a singular case, with special funding designed primarily to placate France, although other wine-producing nations such as Spain and Italy also benefit, but to a lesser degree. For example, the EU subsidizes the overproduction of grapes, and then provides funds to convert surpluses into brandy or fuel, a process known as crisis distillation, and pays to replace poor-quality with high-quality vines that will produce even more surplus wine. The EU budget sets aside almost 220 million euros every year to fund wine distillation and conversion.²¹⁵ The Environmental News Service reported on June 8, 2006, that the EU distilled more than six hundred million liters of French and Italian wine into industrial alcohol because producers were making more wine than they could sell on the EU market. That is 1.05 million gallons, or 5.25 million bottles of wine, that the government subsidized and then paid to have distilled.

The Agenda 2000 reform agreed to on March 1999 took the next step in EU agricultural reform. Faced with the prospect of increasing expenditures with the expansion of the EU to include more Eastern European countries, it was incumbent that additional budgetary limits be implemented.²¹⁶ The agreement was designed to run between 2000 and 2006, with a mid-term review (MTR) in 2003. In June 2003, during the MTR, an agreement was finally reached by the EU Council of Agricultural Ministers. In

²¹⁴ BBC News, 2008.

²¹⁵ Ibid.

²¹⁶ The European Union was founded as the European Economic Community in 1958 by six states: Germany, France, Italy, Belgium, Netherlands, and Luxembourg, and has since expanded to 27. The first expansion occurred in 1973 with the addition of the United Kingdom, Denmark, and Ireland. Greece became a member in 1981, along with Spain and Portugal in 1986. Finland, Sweden, and Austria joined in 1995. The largest expansion came in 2004 when ten countries joined. These are Poland, Hungary, Slovakia, the Czech Republic, Malta, Lithuania, Latvia, Estonia, Slovenia, and Cyprus.

what was to become the Luxembourg Agreement, the EU decided to reinvent the CAP by formally eliminating the connection between direct payments and the amount of crops farmers produce, whereas in the past it had simply reduced those funds.²¹⁷

The new policy, which came into effect in January 2005, operates as follows:

- Farmers involved in beef and sheep production and in cereal growing will receive an annual payment based on the average direct payment they received in the three-year period 2000–2002. In the case of Irish farmers, this annual payment will be fully ‘decoupled’ from production. In other words, farmers will not have to keep animals or grow crops in order to be eligible for the payment.
- The quota system for beef, sheep and tillage will be abolished. The milk quota system will be maintained. The EU support structure milk will be reduced and farmers will be paid direct ‘compensation’ for the reduction in supports.²¹⁸

The MTR set out the CAP framework until 2013, but with the 2008 worldwide crises it is unlikely to be the last CAP reform. The continuation of these supports, and the amount of the continued payments, will depend on the EU’s financial health from 2009 through 2013.

Those EU ministers, led by the United Kingdom, who already understand that they cannot afford to continue paying their farmers as they have in the past under the CAP and export support systems, are calling for change. Although the admission was regarded as a negotiation victory by the WTO, the concession by the EU was not entirely voluntary. Throughout the Doha Development Round, the EU’s agricultural policies have

²¹⁷ BBC News, 2008.

²¹⁸ Agriculture and Food Development Authority, 2003.

been under constant fire by the international community, who considers the EU export policy to be economically destructive to developing nations. The EU claims that its policy is designed to protect its local farmers and the nontrade aspects of agriculture. However, this claim is not defensible when the structure of its import and export programs is examined by WTO and the rest of the world community.²¹⁹

The reform of the EU's system of direct subsidies remains the primary obstacle to openness in EU agricultural trade. What these countries say, and what they actually do, is quite often dissimilar. For example, prior to the Cancun ministerial meeting, Trade Commissioner Pascal Lamy, in a May 2004 letter addressed to all WTO trade ministers, announced the explicit EU willingness to fully eliminate export subsidies. The EU and the United States then presented a draft framework for the liberalization of agricultural trade that neither mentioned the gradual elimination of export subsidies nor addressed the specific complaints of developing nations. The proposal was not what the WTO had asked for, nor was it what it had expected. What the EU and the United States proposed was so far removed from what was on the table that it could not be countered. Having reached a stalemate, the Doha negotiations were declared closed until further notice. Political difficulties surrounding CAP reform and export subsidies, compounded by the inability to move forward exhibited by politically compromised actors such as foreign governments and the US Congress; imply that progress toward an actual agreement may continue to be slow, even in light of the current economic chaos.²²⁰

²¹⁹ EU Summary, 2004.

²²⁰ Ibid.

Many developing nations have little faith in the EU's ability to reform even if its member states could reach agreement. Change does not come easily, as each nation seeks to protect its own personal interests, with little regard for the overall international picture. Had the WTO not intervened in the negotiations, the EU sugar regime might have continued unchanged indefinitely. Louis Belanger, a spokesman for Oxfam in Brussels, adequately summed up the situation: "the huge level of compensation offered to EU farmers is an insult."²²¹ The proposed reduction of EU support prices by 36 percent will reduce consumer prices and force producers to improve their production techniques in order to continue to compete on the international market.²²² All developed nations must face the same difficult decision concerning agricultural support issues. The EU has made some progress with its CAP reform, which discontinued the pay-to-produce program, while the US Congress passed the Freedom to Farm Act in 1996, which also eliminated agricultural production subsidies in favor of fixed payments to farmers. Although the Freedom to Farm Act fell into disarray, it too was a first step in admitting that these programs are no longer necessary for the support of small farmers and that these small farmers will survive without governmental intervention.²²³

The EU, under tremendous pressure from the WTO and the united group of LDCs has made several attempts at CAP reform that would eliminate many of their agricultural price supports. In 1987, prior to MacSharry, the EU was engaged in two negotiations to reform agricultural policy. At the international level, the GATT Uruguay Round of agricultural negotiations was underway, and at the EU level, the CAP reform negotiations

²²¹ Bilefsky, 2005.

²²² EU-25 Sugar and Sweetener Policy Reform, 2006.

²²³ WTO. 1999. The original mandate.

were in full force. Although the negotiations were independent of one another, they were both designed to deal with agricultural overproduction and the unsustainable budgets of the 1980s that resulted from the poor EU and US planning of the 1960s and 1970s. The Uruguay Round of negotiations between 1986 and 1994 was productive but not considered successful, nor was the Singapore Round in 1996, the Cancun Round in 2003, or the Doha Round, ongoing from 2001 to the present. An important factor in the failure of these negotiations has been the EU's posturing, both individually and collectively.²²⁴

The EU could have been the driving force in the success of these negotiations had it not continued to attempt to extract concessions from developing countries, which were not in a position to deal at arm's length, and by its desire to extort reciprocal concessions on agriculture from the United States. The EU's inability to change its historic negotiating position has played a large role in preventing the world from reaching multilateral agreements in the area of agriculture, and has delayed the WTO agreement by several decades.²²⁵ The EU's ongoing agricultural reform plan is concentrated around the grain sector because of its central role in European agricultural production, incomes, and exports.²²⁶ As one can see, there have been numerous unsuccessful attempts to reform the program during the 1990s and 2000s.²²⁷ Part of the problem is the EU's reluctance to address the problem for what it is. Instead of directly confronting the subsidy/antissubsidy debate, the EU has instead directed its attention to renaming and camouflaging subsidies that continue to drain the Union's bank account.²²⁸ In addition to

²²⁴ EU Summary, 2004.

²²⁵ Ibid.

²²⁶ AG Subsidies, 2001–2005.

²²⁷ Serra, 2005.

²²⁸ Wiggerthale, 2005.

crop subsidies and import tariffs, there is a third number in the formula, and that applies to export subsidies. Without some form of subsidy, the higher internal prices would make it impossible to sell surplus grain on the world market. The farm crop subsidies represent only about one third of the total producer support estimate (PSE) in OECD countries. A much larger subsidy expenditure is the market price support (MPS) system. The MPS is an estimate based on the difference between the internal price and a market price for a given commodity. Since there are many market prices in the world market, the OECD arbitrarily selects what they believe to be the most competitive one and then compares it to the lowest price among the EU exporting countries.²²⁹ But market price support, in itself, does not lead to the export of products at prices below the cost of production. Small farmers are not usually exporters; therefore, export measures have little effect on them. Agricultural export markets are usually the realm of a small number of large traders. These traders control both sides of the market as buyer and seller. As large-volume buyers, they can influence local producer prices, forcing them down to their lowest level, and as large-volume sellers on the world market, they possess the power to push prices upward. Internal price supports insulate nations from large price swings to a degree; however, the price for this insulation is high. EU subsidies are applied not to all products of farmers, but to what it considers to be the most important products of the big cooperatives and the food industry. For example, there is no support for milk from farmers, but there is support for butter, skim milk powder, and cheese from the dairy industry; there is no support for cereals at the farm production stage, but there is support for big volumes of cereals for the cereal wholesalers. Although the support programs

²²⁹ Wiggerthale, 2005.

were designed to protect the small farmer, the food industry and the big cooperatives are benefiting from the support system, and family farms are benefiting less.²³⁰ Likewise, export subsidies go not to farmers, but to the food industry. Export subsidies were installed not to support farmers—for by 1988 farmers were producing more than they could use—but in order to dismantle the massive surpluses. In 1988 these subsidies amounted to almost \$12 billion euros, declining to around 7 million euros in 2003. Export subsidies are counterproductive in that they have no purpose other than to artificially force down export prices of EU products to a level that is often below world market levels.²³¹ It is a catch-22 situation. Farm subsidies are paid to farm cooperatives to raise the farm income above the world market, and export subsidies are paid to force the price back down to market value. It is a never-ending circle in that export subsidies must be continued so long as subsidized internal prices for agricultural raw materials are higher than world market prices. None of this has much to do with Europe's small farmers, but is highly beneficial to the large farm coops. For example, in Great Britain the royal family, as a large landholder, benefits from farm subsidies. The figures show that the Queen received more than 769,000 pounds in EU farm subsidies in 2003–2004, while Prince Charles benefited from around 300,000 pounds in agricultural payments to his personal estate in Cornwall.²³² The English population is taxed to support a program designed to help the small farmer survive, and the Royal Family is included as a beneficiary of this program.

²³⁰ Wiggerthale, 2005.

²³¹ Ibid..

²³² FOIA, 2005.

As pointed out earlier, a series of suggested reforms have proven to be more symbolic than functional. Although many have been placed on the world dais, few have contained substance, and many simply went by the wayside. For example:

- 1992: Direct payments and set-aside introduced and later discontinued
- 1995: Rural development aid phased in and then changed
- 2002: Subsidy ceiling frozen until 2013 with options
- 2003: Subsidies decoupled from production levels and made dependent on animal welfare and environmental protection
- 2005: Sugar reform introduced and then tabled.²³³

Conclusion

The cross case comparison of the U.S. and the EU reflects a similar history born of necessity. The large numbers of small farmers for whom the programs were intended no longer exist and the benefits are now divided between large agribusiness concerns on both sides of the Atlantic who, in most cases, would continue to prosper without these price supports. The cost to consumers continues during times of economic slow down and recession even as small farms decline and large farms increase in number. Over the decades since the beginning of agricultural support programs in the 1930s and 40s, political morass and large farm lobbies have kept these programs in place, changed in name only, and unvarying in content. Nine years of negotiations within the WTO Doha round of trade talks have produced little compromise, but has focused the light of revelation on these unsustainable protectionism policies.

²³³ Common Agriculture Policy, n.d.

CHAPTER IV

THE WORLD TRADE ORGANIZATION

Introduction

Enter the World Trade Organization (WTO). The WTO has attempted to accomplish something from the outside that individual nations have failed to do internally. Although the WTO has not been able to accomplish all of its goals, its achievements have been a resounding success in every area with the exception of agriculture. The WTO's Doha Round of agricultural trade negotiations has repeatedly broken down as a result of the political and economic inability of developed countries to reduce agricultural tariffs and price supports from within. With the WTO at a standstill, the world's nations have substituted additional bilateral agreements in place of WTO-sponsored multilateral agreements. The WTO holds the developed nations responsible for this shift, and claims that these agreements might eventually undermine its authority and stature.

The WTO vision is to create a free market among the nations of the world, where every nation can trade with one another at arm's length, equally, without regard to size or economic power. The vehicle for this transition is multilateral agreements that apply to every member equally. In words that still hold true more than 30 years after they were first written in the 1975 Rambouillet Declaration, the G7 stated:

We seek to restore growth in the volume of world trade. Growth and price stability will be fostered by maintenance of an open trading system. In a period where pressures are developing for a return to protectionism, it is essential . . . to avoid resorting to measures by which they could try to solve their problems at the

expense of others, with damaging consequences in the economic, social, and political fields.²³⁴

This case study will outline the progress of the WTO as it attempts to bring the countries of the world together under a common set of agricultural agreements. It will revisit the extraneous variable of political interference that once again prevents progress from taking its logical course as the WTO experiences the difficulty of harnessing outside political influence while it faces the challenge of encouraging its member nations to focus on a common goal that all agree is in the world's best interest. It begins with the history of the WTO and progresses through the first Uruguay round of negotiations in 1986 to the present day Doha stalemate. It will discuss the oscillating position of the US and the EU, the difficulty of reaching equitable agreements between nations accustomed to negotiating preferentially, and the limited negotiating skills of developing nations. While the WTO continues to level the playing field by establishing rules on what products should have tariffs and determining their life span, it faces the seemingly impossible task of codifying these rules into a format that is acceptable to all members. This section will address the WTO's admission that one set of rules that will apply to all is not feasible, and chronicle the painstaking process of analyzing the needs of each nation. The conclusion deals with the WTO's direction to its membership on how it must deal with those developing nations that have not yet become a viable part of the world trade system.

On two occasions in the past 100 years, the United States has found itself in a position of dominance among nations in financial chaos. Isolationism and nationalism

²³⁴ Ott, 2002, p. 206.

prevailed after World War I and again during the Great Depression. Difficult economic times have always been the breeding grounds for tariffs and protectionism. America took a defensive stance, and passed the Tariff Acts of the 1920s and the Smoot-Hawley tariffs of the 1930s, which had the reverse effect of improving the economy while actually curtailing internal growth and precluding any possibility of war-debt repayment.²³⁵

The end of World War II provided the second occurrence of economic dominance, or another opportunity to reduce tariffs and increase world trade; however, as a result of the war, America was the only economy left intact and therefore the only nation still producing export products. US leaders came to the realization that if the nations of the world were to survive economically, it would be up to the United States to provide the forum for that survival, and it did just that, in the form of the Bretton Woods meetings. At these meetings, 44 nations formally established the International Monetary Fund, the World Bank, and eventually in 1947, the General Agreement on Tariffs and Trade (GATT).²³⁶

GATT was originally intended to be a temporary organization designed to handle trade issues while the United Nations International Trade Organization (ITO) developed its own organization. When the ITO failed, GATT inherited responsibility for world trade agreements and regulations, and remained at the reins for the next fifty years. GATT was never more than an informal organization of nations that operated on gentlemen's agreements. It did, however, father the "Most Favored Nation" (MFN) concept,²³⁷ which operated on the premise that every member was entitled to the same trade agreements that

²³⁵ O'Brien, 2001.

²³⁶ Bretton Woods Conference, 1944.

²³⁷ WTO, "Understanding the WTO: Basics: Principles of the trading system," n.d.

were applied to any other member. The organization's weak spots were that, with the exception of Japan, its members were strictly from Western countries, and since it was a loose organization based on handshake agreements, it had little enforcement power. When a nation was accused of violating an agreement, it could easily subvert the panel hearing or veto the findings if they were not favorable. GATT was also limited in its scope. It did not address trade in services, intellectual property rights, or trade-related foreign investments.²³⁸ Considering its limitations, GATT enjoyed a successful reign as organizer and mediator of trade agreements, and in securing the liberalization of much of the world trade over the next 47 years. Its first round of negotiations resulted in 45,000 tariff concessions affecting \$10 billion or about one-fifth of world trade.²³⁹

Even so, it was obvious to most that serious changes must be made if it was to remain effective in the future. By the late 1970s and early 1980s it became apparent that GATT had fallen behind. It had not advanced at the same rate as world trade, and the decisions it had made in the 1940s were no longer relevant in the 1980s.

Over a period of years, those involved in GATT had formulated a wish list of what the organization needed in order to be more effective in the changing economic world. During the Uruguay Round of trade dialogue and after eight years of collaboration, members negotiated the "Marrakech Protocol to the General Agreement on Tariffs and Trade 1994" which codified the entity known as the World Trade Organization (WTO).²⁴⁰

²³⁸ Yarbrough and Yarbrough, 1994.

²³⁹ "The roots of the WTO," n.d.

²⁴⁰ WTO, "Marrakesh Protocol to the General Agreement on Tariffs and Trade 1994," 1994.

The establishment of the WTO became the break point in international trade regulation. This was the first time that nations had attempted to democratically regulate virtually all aspects of trade between nations in a way that included both regulatory and judicial authority. Although the agreement fills 500 pages, the first four paragraphs fully define the direction the WTO was to take:

Recognizing that their relations in the field of trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.

Recognizing further that there is need for positive efforts designed to ensure that developing countries and especially the least developed among them, secure a share in growth in international trade commensurate with the needs of their economic development.

Being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations.

Resolved therefore, to develop an integrated, more viable and durable multilateral trading system encompassing the General Agreement on Tariffs and Trade, the results of past trade liberalization efforts and all of the results of the Uruguay Round of multilateral trade negotiation, determined to preserve the basic principles and to further the objectives underlying this multilateral trading system.²⁴¹

It is rare for a governmental or international agency to successfully reorganize itself. The WTO is a classic example of how an organization can morph into a bigger and

²⁴¹ WTO, "Marrakesh Protocol to the General Agreement on Tariffs and Trade 1994," 1994.

more effective entity while maintaining the same management organization. Among the principal differences between GATT and the WTO are the following:

1. The GATT was a set of rules for multilateral agreements, built on a weak institutional foundation, while the WTO is a permanent institution with its own secretariat.
2. The GATT was applied on a provisional basis, while the WTO's commitments are permanent.
3. The GATT rules applied to trade primarily in merchandise goods, whereas the WTO is all-inclusive in that it covers trade in products, services and trade related aspects of intellectual property.

While GATT had always focused on multilateral agreements between all members, by the 1980s it had pursued many bilateral agreements when it appeared that multilateral agreements might be impossible. This defied the original goal of a common market between all members. However, the percentage of multilateral agreements of the WTO is much higher than those of GATT and therefore encourages commitments for the entire membership.²⁴²

As of April 2008, the WTO had 152 members plus 30 observing governments waiting to be accepted, and governed roughly 97 percent of global trade.²⁴³

Strengths and Weaknesses

The WTO membership is made up of most of the countries of the world, and operates on the basis of a somewhat more democratic system than the United Nations in

²⁴² Barry, 1997.

²⁴³ WTO, "The trade dimension of globalization: Multilateral (WTO) or regional (RTAs)," 2007.

that it is a one-country/one-vote organization without being hamstrung by “permanent member” veto powers. This allows developing countries to have a somewhat more equal voice, and a greater opportunity for true multilateral agreements that benefit all parties. It is made up of a General Council, a Trade Policy Review Body, and a Dispute Settlement Body. There is also a Council for Trade in Goods, a Council for Trade in Services, and a Council for Trade Related Aspects of Intellectual Property Rights (TRIPS).

However, where the WTO may show signs of undemocratic behavior is in possible under representation of the interests of poorer countries (roughly 75% of the members). Even though each member has an equal vote, the United States and the EU have a much greater influence on the outcome of agreements than any other country simply as a result of the negotiating process. The WTO uses the Most Favored Nation rule in combination with principal supplier negotiations to organize talks. Simply stated, this means that the leading principal supplier of a product negotiates with the principal purchaser. Whatever agreement they come to is extended to include all other members:

Any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the countries of the other contracting parties.²⁴⁴

In reality what these rules mean is that the same large trading countries do all of the negotiations and apply the agreement to the other members even though those members were not involved in the actual bargaining. The argument for this system is that since the United States and the EU account for roughly two-fifths of world trade, they will be affected most by the outcome; therefore, they should do the negotiating. Almost

²⁴⁴ Hoekman, 2002.

all WTO negotiations include the EU on one side and the United States on the other.²⁴⁵

Rarely are LDCs principal suppliers, or purchasers involved in the negotiating process.

One of the most dramatic improvements of the WTO over GATT is the Dispute Resolution Body. If a member feels that there has been a violation, it can request that a Dispute Settlement Panel be organized. These panel members are selected from a pool of so-called qualified experts. They are allowed to reach their conclusions based on evidence presented by interested parties, without lobbyist or interested government interference. The WTO also has the authority to authorize sanctions against the guilty party.²⁴⁶

If there is a weakness in the system it is that the WTO does not have an adequate oversight mechanism. It lacks mechanisms for public accountability or participation. The decisions are made behind closed doors; therefore, it is not required to discuss the process by which it reaches its decisions or to release documents until after its decisions have been made. It has been argued by WTO critics that dispute-resolution procedures should be no different from any other court of inquiry and that they should be open to the public.²⁴⁷ They argue that nongovernmental organizations (NGOs) should also be involved in the process and that they should be allowed to contribute opinion and suggestions to the deliberations just as they are allowed to observe UN meetings.²⁴⁸

Although the WTO has been reluctant to include NGOs in their negotiating sessions, they have made an effort to introduce oversight measures into these proceedings by introducing the “Friends of the Chair,” which allows LDCs into the WTO decision-

²⁴⁵ McGillivray, 2000.

²⁴⁶ WTO, “Dispute settlement summary,” 2006.

²⁴⁷ Shaffer nd.

²⁴⁸ WTO, “Dispute settlement summary,” 2006.

making “Green Room” where decisions and compromises are worked out. The idea was to neutralize the concept that the meetings were secret closed decision-making forums that catered to large industrialized countries to the detriment of smaller nations, and to demonstrate that the decision making is by open cooperative consensus.²⁴⁹

Another prominent weakness of the Dispute Resolution Body that was carried over from the GATT is its inability to effectively enforce its conflict-resolution decisions. On finding a violation, its only recourse is to allow the injured party to initiate counter sanctions, which are actually a reversion to the very sequence of events they are attempting to eradicate.²⁵⁰ The WTO has urged member nations to create individual trade legislation to match international standards, where possible, similar to those codified by the UN. This would allow the WTO Dispute Resolution Body to make rulings that would be in concert with both a country’s national law and WTO rules. For example, if one nation set a higher standard on health or food safety than the international norms, a country with a lower standard could challenge the law as an impediment to trade providing that it fell within its law and WTO rules. The argument against this is that no international organization should be able to challenge a nation’s laws on the grounds that they are too stringent. If all nations are required to change their laws to meet the WTO rules, then some nations will have to lower their standards.²⁵¹

The WTO system is still far better than anything that has preceded it. There are always those who believe that external enforcement powers represent an unhealthy shift of power from locally elected officials to unelected bureaucrats. However, most WTO hierarchy agree that these fears are unfounded. Membership in the WTO should not be,

²⁴⁹ Brandstetter, 2003.

²⁵⁰ WTO, “Dispute settlement summary,” 2006.

²⁵¹ Ibid.

and is not a surrender of a significant extent of a member state's national sovereignty. The WTO and its settlement procedures are nothing more than a contract organization that arbitrates disputes among its members on the basis of rules that all have previously agreed to follow, and every member has the power to veto any agreement of which it disapproves.

Any organization made up of members from differing cultures and governing preferences will disagree from time to time. During the Seattle Round of negotiations in 1999, there were mass protests by the "anti-globalization coalition" with claims that international trade and investment are "lose-lose" propositions. They protested that low-wage workers in developing countries would gain employment at the expense of developed nation workers. They also posited that increased trade with the West would lead to exploitation and continued poverty of the Less Developed Countries (LDCs) and that little or no effort would be made to improve those economies. One of the major claims of the protesters was that the WTO was undemocratic in that the government was appointed rather than elected, therefore eliminating the ability of the people to change management.²⁵² However the two previous CATO "Report Cards" found that when markets are opened it is beneficial for the economies of all parties. It also found that so long as there is freedom of choice, the rules governing world trade do not infringe on national sovereignty. There is no evidence of a labor "race to the bottom" in developing countries, and increased trade in developing countries has been tremendously influential in increasing wages and improving working conditions. To the contrary, globalization has

²⁵² Shiva, 1999.

made it possible for more people to lift themselves out of poverty more quickly than ever before in the history of the world.²⁵³

In answer to the critics' claim that the WTO and the industrialized nations have no interest in improving economic conditions in developing countries, the WTO set "Millennium Development Goals" for each of the LDCs to be reached by 2005. Even though only a few of the countries involved actually reached their goals, the date really means nothing; the idea is valid in that the trade negotiations are directed toward each country individually in order to reach agreements on individual countries trade barriers.²⁵⁴

The WTO is in a position to bring the needs of both sides to the table. It is also in a position to educate both sides on the fallacy of protectionism through agricultural subsidies and the probabilities of short-term unemployment as a result of lifting those tariffs and subsidies. During the Doha Round of the WTO in November, 2001, the organization addressed the issue of antidumping rules, and their effect on the poor nations, and promised to include negotiations on reducing barriers to free trade in farm products and services. The object of the WTO negotiations was to improve the rules while at the same time bringing to light the illogical aspect of product protection and subsidies. Initially, the agricultural portion of the agreement did little to address the problem of export dumping, which is undermining food security and food sovereignty worldwide to the benefit of multinational agribusiness companies.

The WTO is very much aware that millions of farmers across the world sell their goods in local, regional, and world markets. Yet, as a result of dumping practices,

²⁵³ Lukas, 2000.

²⁵⁴ United Nations, 2006.

farmers in developing countries that are members of the WTO continue to compete with artificial low prices, lost market shares, and unfair competition. The overriding argument of the WTO is that multilateral trade agreements would force all nations to trade on the open market, which would correct many of the poverty problems of the LDCs.

The United States was the founding father of the WTO, and has spearheaded the elimination of tariffs, and the development of a democratic free market. However, the irony of it all is that the United States and its closest rival for world exports, the EU, are the two biggest offenders when it comes to price supports of agriculture products and the eventual dumping of these surplus products on the world market. For example, the EU sugar regime is one of the most powerful examples of product support and dumping.

Mozambique is one of the poorest nations in the world. Roughly 80 percent of its people are farmers, and sugar is their major crop. Over the years they have become one of the world's most efficient producers of sugar. The EU is also a major sugar producer, and the second largest sugar exporter in the world, with exports in 2001 of over one million tons to Algeria and Nigeria alone (the Mozambique market). However, it is also one of the highest-cost producers. It remains a major exporter only because it subsidizes its growers and exporters. The World Bank estimated that these subsidies have caused the world sugar market to fall by 17 percent, forcing Mozambique and other growers out of the market.²⁵⁵

The EU maintains a Common Agricultural Policy (CAP) with a budget of over \$46 billion, almost half the EU budget.²⁵⁶ The original idea of preventing food shortages by developing a stable market and providing incentives to increase production has created

²⁵⁵ Oxfam, 2006a.

²⁵⁶ "Oxfam calls for EU subsidy reform," 2005; Oxfam, 2005.

an oversupply situation. Subsidies that promote overproduction also promote dumping practices as a by-product. Farmers that have been subsidized by as much as 75 percent of the world market price can easily sell their products below the cost of other countries' production.²⁵⁷ The United States is no better. When GATT was formed, the United States demanded that farm trade be excluded from tariff reductions. Ironically, today American farmers still claim that unfair subsidies in Europe undermine their competitiveness in the world market.

The WTO has an unparalleled success record in every section of international trade with the exception of agriculture. It was forced to take a hands-off position on agricultural agreements in its early years as a world negotiating institution. During that period, the WTO addressed international trade in every area of commerce, with the exception of agriculture. This changed in January of 2000, with the beginning of the Doha Round of negotiations, which was to deal exclusively with agriculture and agriculture-related items. The inclusion of agriculture in WTO negotiations came with the realization that all nations recognized that agricultural reform was no longer an option. Although each nation understood that these price supports could not continue indefinitely, they had also come to realize that they had no power to make these changes internally. History, political immobility and personal greed were the international roadblocks to success. If change were to come, it must find its impetus in a higher power. The WTO provided the forum for change in an arena beyond the internal obstructions of local government. The organization launched the current round of negotiations, the Doha Development Agenda (DDA) or, "Doha Round," at the Fourth Ministerial Conference in Doha Qatar in November 2001. The Doha Round may have been an overambitious effort

²⁵⁷ Oxfam, 2005.

to make globalization more inclusive and to help the world's poor, by eliminating or drastically reducing developed countries' trade barriers and farm subsidies, but it was also a beginning. The talks have been highly charged and an agreement has not yet been reached, despite the intense negotiations at the Fifth Ministerial Conference in Hong Kong in December 2005, and the Seventh Ministerial Conference in Geneva from July 2006 through July 2008. At the end of the Geneva conference, the WTO's Director-General, in frustration, formally suspended the negotiations and reorganized his resources for a new start.

Formal negotiations for more liberalization of trade in farm and industrial goods collapsed when the Group of Six, which included the United States, the EU, Japan, and India, failed to reach an agreement on reductions in farm subsidies and tariffs, which the WTO holds to be critical in their quest to include underdeveloped countries in international trade. While the United States and the EU were either unwilling or unable to make significant concessions on farm subsidies, the developing countries organized themselves into the G-20, and were just as inflexible in their demands as were the G-6. As noted in chapters 1 and 2, there is really no choice but to eliminate these agricultural barriers. It is no longer a matter of whether it will happen, but of when. The question becomes why has it taken so long, and why can these countries not come to closure when they are in agreement that changes must be made and there is a formal and neutral organization ready and willing to put the agreements together?

The partial answer is that all are to blame, including the WTO, which has taken the position of "Nothing is agreed until everything is agreed, and it must be approved by

all members.”²⁵⁸ Although the WTO has been extremely successful in all other areas of trade, the organization has been powerless to force both rich and poor nations to deal in the area of agriculture, which is often held to be sacred and untouchable. The decision that the WTO wants these nations to make may be inevitable, but it must happen in their own time.

Throughout the negotiations, developing countries have been frustrated with what the WTO refers to as the hypocrisy of the US and European governments, which push for equal market access while attempting to negotiate one-sided agreements that protect their own agricultural sectors through continued tariffs and crop supports. The truth is that both the developed and the developing countries use the same agricultural tariffs, and neither side is willing to make the first move. One of the obstacles is the WTO’s overzealous desire to promote mutually beneficial international trade. Although the cause is a noble one and beyond the reach of logical argument, it is grandiose in nature, and the cause might be better served by more attainable short-term goals. The G-20 claims that those rich nations who argue for trade liberalization in kind with developing countries completely fail to understand the poverty and character of millions of poor farmers in developing countries who live in remote areas with very little or no infrastructure, lack access to education, own little or no land, lack access to credit and market information, and generally are at the mercy of those countries that possess these attributes at the negotiating table. It also argues that without protective measures, these poor people not only will be unable to take advantage of new market opportunities, but their food security and livelihoods will be put at risk. In essence, a level playing field, out of necessity,

²⁵⁸WTO, “How the negotiations are organized,” 2001.

cannot be perfectly level, and must actually be slightly tilted in favor of the developing nations.

The second obstacle is the internal structure of the WTO itself. The sheer volume of information it produces is sometimes overwhelming. After the information has been processed, and agreements drawn up, they must then be approved by the entire WTO membership. The very essence of negotiating and bargaining renders total agreement on any issue a time-consuming task and, more often, an impossible one. WTO agreements sometimes take 10 years or more to complete. As the WTO negotiations become more complex, so does the infrastructure of the WTO itself, which creates even more obstacles.

Until 1995, GATT was highly successful in most areas of international trade, but its efforts were largely ineffective in negotiations concerning key aspects of agricultural trade. GATT found the subject of agriculture to be so large and complicated that it could not come to grips with it without first breaking it into its separate parts. For example, production subsidies, import tariffs, and export support were independent of one another and had to be treated as individual problems and not as a single entity. The 1986–1994 Uruguay Round negotiations recognized the situation early on and devised separate areas of negotiation for each area. All aspects of agriculture trade are now firmly within the WTO multilateral trading negotiations. The original WTO Agriculture Agreements, made by the member states, were significant first steps toward agricultural reform, but reform has been extremely slow, and even the goals themselves have taken years to establish.²⁵⁹

The reform goals were designed to strike a balance between agricultural trade liberalization and the WTO's desire to pursue agricultural policy that would benefit both developed and developing nations. The original idea was, and still is, to bring all

²⁵⁹ WTO, "Agriculture: 'Modalities' would boost entire round," 2005.

agricultural products under the same type of multilateral rules that apply to all other forms of trade.

Nations have agreed to multilateral agreements in all other areas of trade including the manufacturing of steel and other goods which include clothing, intellectual property, and international services. Now, for the first time, member governments are committed to reducing agricultural export subsidies and trade-distorting crop-support payments. In addition, they have agreed that those who receive farm support should be treated no differently than any other industry, and have agreed to agree on reform that will eventually eliminate these supports. These commitments are unique to the agricultural sector, which in the past has held itself to be immune to reform.

History of the Negotiations

The overriding question is: if all nations agree that most nations' farmers no longer need these supports, and agree that revisions must be made, and that it will benefit all involved, then why have the negotiations been prolonged over a period of 10 years, with little progress? The answer lies in the record of the negotiations as outlined below.

Phase one of the Uruguay Round of negotiations attempted to set up a framework of rules that would reduce agricultural protectionism and trade-distorting support payments. To simply set up a framework of rules sounds simple enough. Article 20 of the Agriculture Agreement directed members to start negotiations on reform rules at the end of 1999. Ten years later, those negotiations are still underway.²⁶⁰

In light of the lack of progress, the November 2001 Doha Ministerial Declaration, a new commitment to make the goals more explicit was mandated, and deadlines were established for each of the subsequent meetings. These negotiations became difficult and

²⁶⁰ WTO, "Environment: Issues: Rules and environmental policies: Other relevant WTO texts," n.d.

far-reaching because of the wide range of views and interests among member governments, as each country attempted to protect its own turf while the WTO attempted to keep everyone focused on the further liberalization of agricultural trade. It was the hope of the WTO then, and is now, that liberalization would benefit those countries that could compete on quality and price rather than on the size of their subsidies. That is particularly the case for many developing countries whose economies depend on primary agricultural products that they export to a variety of markets, including both developed and other developing countries.

The objective was continued reductions of agricultural restrictions and a more level playing field. The WTO was and is looking for substantial reductions in tariffs, domestic support, and export subsidies in these negotiations. In essence, it would like to bring agricultural trade under the same rules and disciplines as trade in other goods. One of the hurdles that must be overcome is the conceptual differences, marked by the importance that individual members attach to the major issues in the negotiations. Some countries have described Article 20 as a “tripod” whose three legs are export subsidies, domestic support, and market access, sometimes referred to as “the three pillars” of agricultural trade reform. Others referred to Article 20 as a “pentangle” whose five sides also included nontrade concerns and special and differential treatment for developing countries as separate issues in their own right.²⁶¹ The negotiations that were designed to be completed within a reasonable period of time are now in their ninth year, but under the reformulated mandate of the Doha Declaration that ministers issued in Doha, Qatar, in November 2001.²⁶²

²⁶¹ WTO, “Fourth Special Session of the Committee on Agriculture,” 2000.

²⁶² DiMatto, Dosanjh, Frantz, Bowal, and Stoltenberg, 2003.

This running commentary, taken from WTO proceedings, will follow the monumental and, up to now, seemingly impossible task of getting over 90 percent of the nations in the world to agree on what is fair and right. As some predicted, negotiators began missing the deadlines at once, and also missed the March 31, 2003, deadline for producing targets, deadlines, formulas, and other rules that member countries had committed to. A revised draft of a “modalities” (rules) paper was put on the negotiating table on March 2003, and although it was not agreed on, it was incorporated into the discussions to be used in subsequent months. A number of framework proposals dealing with the rules parameters were submitted and discussed before and during the Fifth Ministerial Conference in Cancún, Mexico, in September 2003, but it was not until August 1, 2004, that even the parameters could be agreed on.²⁶³

The next stage was to agree on full modalities, which would in turn be used to define the agreements between the member nations. The Doha Declaration had planned that countries would submit individual drafts, based on the agreed-upon rules. To assist the negotiations, the WTO Secretariat produced 22 background papers through 2004, at the request of members. Most of these can be found in the G/AG/NG/S series of official documents.²⁶⁴ As the date for the Cancún Ministerial Conference drew near without a consensus on rules, this target was not met either. With little progress made, the deadline for completing the negotiations, January 1, 2005, was postponed on August 1, 2004, and no new date was set.²⁶⁵ The point of the above commentary is to emphasize that the nearly impossible task of all countries reaching agreement on even the issue of modalities

²⁶³ WTO, “Cancun Ministerial Conference,” 2003.

²⁶⁴ Alpha, Vincent, and Vincent, 2007.

²⁶⁵ WTO, “Cancun Ministerial Conference,” 2003.

was a frustrating and time-consuming experience. To reach an actual agreement would prove to be nearly impossible.

The Negotiating Process

Article 20 of the Agriculture Agreement specifies that WTO members must negotiate to continue the reform of agricultural trade:

Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

- a) the experience to that date from implementing the reduction commitments;
- b) the effects of the reduction commitments on world trade in agriculture;
- c) non-trade concerns, special and differential treatment to developing-country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and
- d) what further commitments are necessary to achieve the above mentioned long-term objectives.²⁶⁶

The direction of the reform was clearly set out in the article “substantial progressive reductions in support and protection resulting in fundamental reform.”²⁶⁷ The first meeting began in early 2000 and concluded with a meeting on March 27, 2001. This meeting consisted of 126 member states out of the 142 members. Those present submitted 45 proposals, and had six negotiating meetings of the Agriculture Committee. In spite of the enthusiastic participation, this first meeting made little progress, and

²⁶⁶ WTO, “The original mandate: Article 20 of the Agriculture Agreement: Continuation of the reform process,” 1999.

²⁶⁷ Ibid.

consisted of individual countries submitting proposals representing their personal starting positions for the rest of the negotiations.²⁶⁸

The proposals received in this phase covered all major areas of the agriculture negotiations. Proposals from the United States and the EU dealt with the big picture in that they covered the entire range of international agricultural subjects, while the majority of the other countries presented proposals that dealt with subjects specific to their interests.²⁶⁹ The challenge then became one of reducing the myriad proposals to a manageable number of issues that could be debated in an arena of common interest.

In the second phase, the members agreed on a work schedule. It set a timetable for the six informal meetings in May, July, September, and December 2001, and February 2002. In this phase, the discussions attempted to bring the subjects under a common umbrella by inserting more technical details into the proposals. This was necessary in order to find a way to allow members to develop specific proposals that were applicable multilaterally. Despite the fear that increased complexity and objections to personal projects would discourage developing countries, they continued to participate actively in the process. In November 2001, the fourth WTO Ministerial Conference was held in Doha, Qatar. The Doha declaration issued on November 14, 2001, was designed to continue negotiations already underway in agriculture with added impetus on establishing rules and guidelines that could be followed throughout the negotiations.

The Doha mandate From the Doha Ministerial Declaration, November 2001, states the following:

²⁶⁸ WTO, "Agricultural negotiations," 2004.

²⁶⁹ WTO, "Summary report on the meeting of the special session, March 23–24, 2000," 2000.

13. We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.

14. Modalities for the further commitments, including provisions for special and differential treatment, shall be established no later than 31 March 2003. Participants shall submit their comprehensive draft Schedules based on these modalities no later than the date of the Fifth Session of the Ministerial Conference. The negotiations, including with respect to rules and disciplines and related legal texts, shall be concluded as part and at the date of conclusion of the negotiating agenda as a whole.²⁷⁰

The declaration built on the work already undertaken in the agriculture negotiations. It confirmed former objectives, elaborated on procedures that would reach those goals, and set more timetables for reaching these objectives. Agriculture was now part of the overall multilateral agreement system that encompassed all other areas of international trade.

The message to the member nations was that they should commit themselves to negotiations that would benefit the entire membership, while refraining from imposing

²⁷⁰ WTO, "Preparations for 'modalities,'" 2003, n.p.

individual demands that would prevent the other members from reaching agreement. They were to concentrate their efforts on the reduction of exports subsidies, domestic farm support programs, and any and all other programs that distort trade.

For the first time, the declaration addressed the special problems facing developing countries, and the difficulties that some of the nations might have with multilateral agreements. The declaration included several new non-trade issues concerning the international community, such as environmental concerns and future rural development that would result from reduced or discontinued farm-support programs. Originally designed as a twelve-month program that would deal primarily with planning and rules agreements, the Doha Ministerial Declaration was nevertheless focused on international market access, elimination of export subsidies, and substantial reductions over production through domestic support systems.²⁷¹

The “modalities” were designed for members to produce their first offers or “comprehensive draft commitments.” The Doha Ministerial Declaration took place in November of 2001, and already had some history of what to expect when the membership was called on to make important decisions. With this in mind, it was determined that members would be asked to produce their first comprehensive draft commitments at the Fifth Ministerial Conference in Cancún, Mexico, September 2003. That would give them almost two years to work out their original plans for reformation.

Cancún 2003

The Cancún Ministerial Conference in Geneva on September 11–14, 2003, was to be the event that brought agriculture and the other Doha Agenda issues together. There

²⁷¹ WTO, “Preparations for ‘modalities,’” 2003.

were approximately 30 ministers present prepared to meet in formal and informal negotiations hosted by various governmental groups.²⁷² Cancún set an important precedent in international compromise when members began to show some keenness to finally move away from their original self-serving positions toward a more central position that might eventually lead to forming a multilateral agreement. Although many of these compromises were small, they represented a willingness to put self-indulgence aside for the benefit of the other members. Although it was a first step, in most cases it was not enough to satisfy most members to the point of actually reaching an agreement.

Many felt that the membership was hesitant to make the first move until one of the superpowers took a definitive lead. This occurred at Cancun when the EU and the United States reached an agreement on policy as part of the EU CAP reform. This was well received by the membership, and it encouraged the two powers to continue the leadership role.

In an effort to jump-start the process, the United States and the EU decided to limit their deliberations to one or two important issues. If they could garner a consensus from the membership on a few select subjects, it could prove to the members that progress was in fact being made, and small bites might be easier than attempting to digest everything a once. The agreement was completed and presented to the membership on August 13. Although it was narrow in scope, as planned, and deliberately left blanks to be filled in later for the amount of tariffs and embargos to be reduced, the members were still unable to come to grips with it. While the question of how the agreement would be applied to developing countries was left open for those nations to make their own

²⁷² WTO, "Cancun deadlock," 2003.

proposals, an agreement still could not be reached.²⁷³ Although the issue was not passed, the initial attempt by the United States and the EU received a positive response by the membership, who presented six alternative proposals over the next week. The common cause agreement was the beginning of the G-20, a coalition of 20 developing countries. Other drafts from Central America, Japan, Switzerland, the Republic of Korea, Norway, and Kenya were also presented. Although most believed that the agreement proposals were a success as a result of the diversity of the nations involved, there was still evidence that some nations continued to present propositions that addressed only their own personal agenda, which once again contributed to the failure of the proposals.²⁷⁴

In addition to the failure of the member nations to reach an agreement on new issues presented in Cancun, there were also carry-over issues that failed to be resolved. Although it was now 2003, some members were still not in agreement on issues brought forward at the Singapore conference in 1996. These included aspects of investment, competition policy, transparency in governmental procurement, and areas of trade policy.²⁷⁵ At the conclusion of the Cancun Round of negotiations the WTO declared that there was strong evidence that the member nations had a renewed desire to continue to build on their recent success. As 2004 approached, the WTO declared that they would continue work on the framework of the overall agreement and would reserve the modalities for a later date.²⁷⁶

In spite of the WTO claims that progress was being made, members once more failed to meet the March 2003 deadline for agreeing on modalities; nor were they able to

²⁷³ WTO, "Cancun deadlock," 2003.

²⁷⁴ WTO, "Agricultural negotiations: The issues, and where we are now," 2004.

²⁷⁵ WTO, "The Fifth Ministerial Conference," 2003.

²⁷⁶ WTO, "Cancun deadlock," 2003.

present their draft commitments by September 2003. At this stage in the negotiations, the Doha Round had been in effect for four years, and the membership still had not agreed on the rules of the road. It was originally thought that before the process could arrive at a work schedule, the program for preparing the modalities had to be agreed on. After a series of consultations that produced the necessary consensus, a partial agreement was finally reached on August 1, 2004, where it was agreed that the framework should come first. The entire negotiating process had been derailed because of the idea that the modalities should be worked out first. Meetings that had been scheduled were cancelled or postponed, and informal meetings of all WTO members were held to report on where the roadblocks were, and how they could be corrected. All negotiations were pushed back, and meetings rescheduled.

The new guidelines for the rules began by adding special treatment for developing countries to the three pillars: export subsidies, market access, and domestic support. As a result of the formation of the G-20 a change in direction from strictly multilateral agreements to multilateral with “exceptions” was designed to bring developing countries into the voting process. It was suggested that the first set of the future 2004 meetings would cover the export side: subsidies, competition, taxes, and restrictions. These were to be informal meetings calculated to direct the focus of the members toward the items to be discussed in the formal special sessions that came later. If successful, the same process would be used during the market access and domestic support conferences. The informal meetings, prior to the formal special sessions, were deliberately designed to allow members to vent their positions on nonscheduled items before they entered the formal sessions.

Chairperson Stuart Harbinson said, “the discussion on all three pillars of the 2003 meetings added to the depth of knowledge and understanding of the various positions.” But he noted that delegations tended to repeat existing maximal positions in key areas, in some cases with a continuing lack of specificity, for example: “the lack of figures in some proposals.” This, he said, is “not particularly helpful from the point of view of drafting the ‘overview paper’ towards the end of the year.” But, he added, “the negotiators still have a bit more time, including stock-taking meetings scheduled for November (of 2003).”²⁷⁷ “The time has now come to change gears,” he said. “We have prepared assiduously over the last two and a half years. The clock is now running fast and the critical period is upon us. We do not have much time in hand if we are to meet the deadlines of 18 December for the ‘Overview Paper’ and 31 March for establishing modalities. In the process we must also change our mindset. We need a more creative approach in which participants start looking actively for compromises and for ways to bridge gaps.”²⁷⁸ “Common ground exists,” he said, “but in critical areas much more flexibility is needed. I therefore, urge you all to reflect deeply and urgently on what your delegation can contribute in order to bring this exercise to a conclusion acceptable to all by the end of next March.”²⁷⁹

This was neither the first nor the last time that Harbinson would deliver this message. Once again, by the November stock-taking meeting some of the members still had not produced contingency plans for reducing export subsidies, domestic support, and

²⁷⁷ WTO, “Agricultural negotiations: Modalities: Domestic support,” 2002, n.p.

²⁷⁸ Ibid.

²⁷⁹ Ibid.

tariffs. Given that all of the agreements had to be approved by all the members, any member who failed to present a proposal for approval could hold up the entire process

The failure to produce the documents on time, was more than likely not due to a lack of effort on the part of the members. During the preceding three years, members continued to negotiate nonstop despite the missed deadlines. As the negotiations continued, it became apparent that some of the missed deadlines were the result of misdirection by some member governments which continued to play the same political game that had dominated previous negotiations, while others were simply inept at presenting proposals at the level required. After missing the March 31 deadline, Harbinson told delegations that the failure to meet the deadline was “certainly a setback. We must all be disappointed that all our efforts have not come to fruition.”²⁸⁰

Unfortunately, many negotiators lacked their governments’ approval to make decisions without first submitting the agreement to their legislators. Without the ability to negotiate, the move toward consensus on the main questions was continually delayed. At a negotiating session at the end of June 2003, Harbinson reminded delegations that they should negotiate with each other, not with their governments or the chair.²⁸¹ He went on: “However, the same could not be said with respect to core issues regarding the modalities for the further commitments, notwithstanding repeated appeals by the chairman for all delegations to work on and come forward with solutions that might contribute to the development of a basis for compromise. In these circumstances, achieving the objective of establishing modalities as soon as possible has continued to remain elusive. Clearly,

²⁸⁰ WTO, “Agricultural negotiations: Modalities: Domestic support,” 2002, n.p.

²⁸¹ Ibid.

any modalities established must faithfully reflect the Doha mandate. As matters stand, collective guidance and decisions are required on a number of key issues in order to clear the way for reaching this goal.”²⁸²

US Trade Representative Bob Zoellick wrote to WTO ministers on January 11, 2004. His message to them was that negotiations could not continue in a haphazard manner, with each member using the venue as an opportunity to vent old grievances at the expense of international progress in the area of agricultural trade. If the members were to move forward they must work together for a common goal. He suggested focusing on key areas with the goal of developing a framework by midyear and a WTO ministerial to be held by the end of the year.²⁸³

EU Commissioners Pascal Lamy and Frans Fischler followed up on May 9 with a letter outlining concessions the EU was willing to make. These included dropping the potentially destructive Singapore issues if other members would give ground on other issues. They also suggested that the EU negotiate a date for the end of export subsidies. It was hoped that a firm date in the future would give members some sense of urgency to reach agreement before then.²⁸⁴

By this time in the negotiations, market access had become the subject of objection. The EU and the United States reintroduced the “blended formula” as a way of deferring the objections in the negotiations. This had been suggested previously in August 2003, and suggested that tariffs be divided into three groups: duty-free, reduction of tariffs by simply averaging all reductions by a certain percent, and the “Swiss

²⁸² WTO, “Agricultural negotiations: Modalities: Domestic support,” 2002, n.p.

²⁸³ WTO, “The July 2004 package and August decision,” 2004.

²⁸⁴ Ibid.

Formula,” which reduced higher tariffs by greater amounts while getting a maximum future tariff rate.²⁸⁵ This introduction of the blended formula was designed to divert the increasingly deadlocked discussions deadlocked to a more palatable agenda.²⁸⁶ Market access was recognized as an issue that directly affected all members, unlike export subsidies and domestic support, where only some members could make reduction commitments. The New Zealand WTO Ambassador Tim Groser observed that part of the delay was that people were willing to explore others’ ideas while having little intention of accepting them. This included the “tiered approach,” which was little more than a diversion anyway.²⁸⁷ Ten months after the beginning of the Cancún negotiations, the deadlock was broken. On August 1, 2004, 147 WTO members approved a package of agreements that included a framework outline to be used to complete the modalities on agriculture. The breakthrough occurred after member-state delegates negotiated 24 hours a day for 14 days. The last day of negotiations was a nonstop session that began at 5 p.m. on July 30, 2004, and ended 24 hours later.²⁸⁸

The Framework for Establishing Modalities in Agriculture, in Annex A of the agreement, gave some idea of what to expect from the next phase of the negotiations. It achieved exactly what the WTO wanted in that it agreed on key aspects of the modalities without delving into the operational details. While it agreed on goals and timelines, it did not spell out the exact formulas or procedures for getting there, nor did it give the exact numbers to be used to determine how much reform would be achieved. In spite of the blank spaces, and the use of all-encompassing phrases such as “substantial reductions”

²⁸⁵ WTO, “The July 2004 package and August decision,” 2004.

²⁸⁶ *Ibid.*

²⁸⁷ *Ibid.*

²⁸⁸ *Ibid.*

and “substantial improvements,” the WTO considered the agreement a resounding success in that it was the first real conclusion reached by the membership.

The introduction pointed out that the past failure of members to reach agreement was not the result of noninterest, as was demonstrated by the willingness of member states to spend 24 hour days at the negotiating table. It also suggested that a common agreement that would apply to all members might not be the best avenue to pursue.

Throughout the framework it was stressed that developing countries may require special treatment in all areas of the three pillars. The framework also mentions that the filling-in of the blanks may be more difficult than the original agreement and that the outcome will be known only at the end of the negotiations.²⁸⁹ The agreement was, in essence, an agreement to improve rules that would streamline trade and reduce import and export barriers. It was an agreement by all the members that agricultural supports were no more necessary than any other product-support programs. The framework also addressed some political questions, such as how negotiators could sidestep the regional political pressure that prevented the necessary changes in agricultural policy. This would, hopefully, prepare the member states for the decisions that would be made during the next session, in October 2004.

Export Subsidies

As the negotiations developed through the period of 2002–2003, the discussion on export subsidies and competition became more focused on the details of the various subjects. The negotiators broke the discussions into five headings: export subsidies; export credit, guarantees, and insurance; food aid; exporting state trading enterprises; and

²⁸⁹ WTO, “The July 2004 package and August decision,” 2004.

export restrictions and taxes. Each of these headings were divided into even more detailed subheadings.²⁹⁰ The subjects and their subheadings were partially at the request of developing countries, which had not been able to reach agreement previously because of their claim that they would be further handicapped if one agreement was to be applied to all. This group included mostly countries that were net food importers, nations where the economic impact was secondary to survival. In addition, many countries, including the developing countries, wanted to improve the rules and oversight for preventing governments from circumventing their commitments on export subsidies, including the use of food aid and subsidized export credits. India proposed a separate set of rules for developing countries to allow subsidies on some products to increase while subsidies on other products are reduced. Although this proposal may have some merit, it also presents opportunity for those countries with special privileges to beat the system.²⁹¹

Developing countries complained that the rules as they were written were equal in terms, but unequal in benefits. The major area of contention was that according to the agreement, developed countries would be allowed to continue export subsidies at a reduced level, while developing countries, which had never had export subsidies, could not because only those countries that originally subsidized exports would be allowed to continue. This was the first time that an organized group addressed agricultural dumping that was the direct result of export subsidies.²⁹² During the negotiations a variety of proposals were presented, each recommending a new solution to a self-perpetuating problem. Those proposals presented by developed countries entailed provisions for

²⁹⁰ WTO, "August 2004 framework: Export subsidies and competition," 2004.

²⁹¹ WTO, "Phase 1: Export subsidies, competition and restrictions," 2004.

²⁹² Ibid.

continuing subsidies at a reduced rate, while those from developing nations recommended that they be allowed to retain high tariffs in order to protect their starving farmers. (ASEAN) and India suggested the elimination of all developed countries' export subsidies while allowing developing countries to subsidize on a per-need basis until their economic conditions improved. The "one for all, and all for one" concept of the WTO faced a monumental task, as is evidenced by the myriad positions of the various countries.

In Phase 1, the discussion on export subsidies and competition spanned several subheadings. As the talks progressed into greater detail, these subheadings were separated into subtopics designed to enable the members to make decisions on small issues rather than large ones. On export subsidies, one proposal in Phase 2 involved a 50 percent reduction as an immediate compromise, followed by eliminating subsidies completely in three years for developed countries or six years for developing countries. Another proposal was similar but more controversial in that it actually expanded some export subsidies, for a period of time, that developing countries are currently allowed under Article 9.4 of the Agriculture Agreement. In both cases, reductions would continue throughout the course of negotiations and would be completely eliminated within three years for developed countries or the end of negotiations that were scheduled for 2006 for both developed and developing nations. These proposals received mixed support, and opposition, depending on who they benefited most, or least.²⁹³

The sheer number of member states involved facilitated an abundance of alternative proposals. While some suggested more moderate reductions on specific

²⁹³ WTO, "August 2004 framework: Export subsidies and competition," 2004.

products in return for steeper reductions on other products, others suggested raising international prices without eliminating export subsidies. It was proposed that countries simply use matching measures on imports with those on exports. Not surprisingly, one of the major issues to be overcome was agreement on the degree of importance to assign to each of the support programs to be discussed.

The one issue that most were in agreement on was that smaller developing countries would not be able to negotiate at arm's length with more developed nations. There was a consensus that export subsidies should be eliminated in those countries, but over a longer period of time to help them adjust to higher food import bills.²⁹⁴ The US-EU draft proposed that if some countries insisted on export subsidies, then credits should mirror those of export subsidies. The G-20 proposal, which sought elimination of both subsidies and subsidized credit, added that the interests of net food-importing and least-developed countries could not possibly exist under the same rules as the rest of the countries. Whatever differences may have existed between negotiators, all were in agreement that aid for humanitarian purposes is essential. The major issue on this subject had little to do with export subsidies, and more to do with proper oversight and how best to ensure that the aid goes to those really in need, would not interfere with the local farm populations' ability to sell their own products, and would not simply be a vehicle for the disposal of surplus agricultural products.²⁹⁵

Many developing countries used the forum as their first opportunity to be heard, and to call for binding commitments to supply food products when they are needed at a

²⁹⁴ WTO, "August 2004 framework: Export subsidies and competition," 2004.

²⁹⁵ WTO, "Update Phase 2: Food aid," 2004.

price that is affordable, and to not interfere with local farm production when these products are not in demand. They also requested more technical and financial assistance to help these countries develop domestic production instead of relying on food aid.²⁹⁶

Food Aid

Most recipient countries say aid has not been a problem when it is given in response to an appeal from a relevant international organization such as the World Food Programme or the United Nations Food and Agriculture Organization, or if the country declares an emergency. Historically, problems occur when the aid is given bilaterally or through other institutions. The contention is that such aid is often nothing more than an attempt to redistribute surplus agricultural products in the guise of humanitarian aid. The counter argument is that governments and organizations such as the United States and the EU can respond to an emergency faster than international organizations. All are in agreement that however aid is distributed or by whom, there must be more oversight, and all member nations must reach an agreement on how humanitarian aid will be handled in the future.²⁹⁷ The objective of the discussion was to “avoid displacing commercial transactions, i.e. to provide food aid when commercial transactions are not possible; and not to obstruct bona fide food aid.”²⁹⁸ Some of the questions that were presented were 1) Exactly what is the role of international organizations in the area of humanitarian intervention? 2) Who should determine whether there is a need for food aid, and, in turn, who should deliver the aid? 3) Should the aid be in the form of a grant, a credit against

²⁹⁶ WTO, “Update Phase 2: Food aid,” 2004.

²⁹⁷ WTO, “August 2004 framework: Export subsidies and competition,” 2004.

²⁹⁸ WTO, “After the framework: Technical work on export subsidies and competition,” 2004, n.p.

future trade, or should it be in money to be spent, locally if possible, by the receiving country?²⁹⁹

To continue in another vein, the agreed-on framework states clearly that all forms of export subsidies will be eliminated by a “credible” date.³⁰⁰ The sunset clause was designed to involve every type of agricultural subsidy currently in effect, including export credit, food aid, and state-sanctioned and private NGOs. It was important to the negotiators that they include all entities that would be involved in agricultural subsidies, including those NGOs whose actions are equivalent to subsidies. The eventual negotiated date will mark the end of export subsidies as listed in members’ reduction commitments; “all export credits, export credit guarantees or insurance programmes with repayment periods beyond 180 days; those with shorter repayment periods but failing to conform with disciplines that are to be negotiated; trade-distorting practices of state trading enterprises that are considered to be subsidized; and food aid that does not conform with various disciplines, which will also be negotiated.”³⁰¹

It was determined that the reductions would be in annual installments, although the details were left to future negotiations. The most important aspect of the agreement was that the members agreed to agree at some time in the future. This was the first real conformity to come from 10 years at the bargaining table. One of the deciding factors was the concurrence that transparency would be an overriding factor in future negotiations, and that developing countries would be allowed more lenient terms.³⁰²

²⁹⁹ WTO, “After the framework: Technical work on export subsidies and competition,” 2004, n.p.

³⁰⁰ Ibid.

³⁰¹ Ibid.

³⁰² WTO, “August 2004 framework: Export subsidies and competition,” 2004.

The formation of the G-20 was both a voting bloc, and a turning point in the negotiations. With its formation, the less-developed and developing countries gained a new and powerful voice in the outcome of the negotiations. The G-20 was able to convince the membership that they could not survive under the same agricultural rules that would be applied to developed nations. One of the elements inserted into the proposed agreement was that they be allowed to continue to subsidize transportation and marketing (Article 9.4 of the Agriculture Agreement) “for a reasonable period, to be negotiated,” beyond the date for ending the main subsidies.³⁰³ Furthermore, the eventual termination of subsidized credit and insurance would be implemented in a way that would not be detrimental to the least-developed and net food-importing countries.³⁰⁴

While designing the framework, all were in agreement that the ultimate goal was to not only do away with all subsidies but to also guarantee that these subsidies would not reappear under different names or disguised as something other than subsidies. This led to a list of items to be researched at a later date that included “the basic approach to disciplines; definitions of entities to be covered; specifying which practices distort trade; how to eliminate these; transparency; future use of monopoly power; and special treatment for developing countries . . . practices such as price, and monopoly power.”³⁰⁵

In the preparations for modalities the discussions followed similar themes, while attempts were made to attach relative importance to each factor. The membership was asked, “are export restrictions as serious as import restrictions, and should bindings and reductions on the two sides be symmetrical?”³⁰⁶ For those countries that depended on

³⁰³ WTO, “After the framework: Technical work on export subsidies and competition,” 2004.

³⁰⁴ WTO, “August 2004 framework: Export subsidies and competition,” 2004.

³⁰⁵ WTO, “After the framework: Technical work on export subsidies and competition,” 2004, n.p.

³⁰⁶ WTO, “Export restrictions and taxes,” 2004, n.p.

imports for food, the answer to both questions was “yes,” while others with surplus crops to dispose of argued that export supports were less serious. Each country had its own specific cure for the problem; however, as in the past, most cures favor the country making the suggestion.

Tariffs

Currently, among WTO members, agricultural products are protected only by tariffs.³⁰⁷ It was agreed that all nontariff barriers would be eliminated or converted to tariffs at the Uruguay Round of negotiations between 1986 and 1994. In order to reach an agreement, the equivalent tariffs mandated to offset the nontariff barriers were too high to allow an opportunity for imports. To compensate for this malfunction, a system of “tariff-rate quotas” was created in order to help minimum access levels continue. In simple language, this amounts to lower tariffs within the quotas, and higher rates for quantities over and above the established maximums.³⁰⁸

Since the Uruguay Round, the discussions have focused on two issues: “the high levels of tariffs outside the quotas, with some countries pressing for larger cuts on the higher tariffs, and the quotas themselves, their size, the way they have been administered, and the tariffs charged on imports within the quotas.”³⁰⁹ When the Cancun round of negotiations began in 2002–2003, the discussions had expanded to six headings: “tariffs; tariff quotas; tariff quota administration; special safeguards; importing state trading enterprises, and other issues.” Within each heading was a list of subheadings that included “general comments; scope/definitions/product coverage; stages/timetables;

³⁰⁷ Except for Chinese Taipei, the Republic of Korea, and the Philippines for rice; and except when other WTO rules apply, for example, sanitary and phytosanitary measures, technical barriers to trade, balance-of-payments conditions, and general safeguards.

³⁰⁸ WTO, “Phase 1: Market access: Tariffs and tariff quotas,” 2004. np.

³⁰⁹ Ibid.

transparency and notification.”³¹⁰ The influence of the G-20 was evident in the negotiations, as special and differential treatment for developing countries and nontrade concerns were discussed under each heading. At the Cancun conference, LDCs, new members, and transition economies continued to lobby for “special and differential treatment” because of the state of the LDCs’ economies and because some new members had not yet concluded their market-access commitments under their WTO membership agreements.³¹¹

The discussion of tariffs was all-inclusive in that it covered quantities of products both within and outside the agreed-on quotas. Prior to the WTO involvement, tariffs had been negotiated bilaterally, product-by-product, by the developed countries. The results were not always equitable in that the poorer countries had little bargaining power. Prior to the arrival of the G-20, some countries, such as Canada and the United States, suggested “zero-for-zero” agreements that included the complete elimination of tariffs, and export subsidies on both sides. Although it sounds fair and equitable on paper, it does not work well for those countries that import much of their products and have little to export.³¹²

One of the major points of the agreement was that each country would reduce tariffs by a universally agreed-on number that would increase over a specified period until the tariff was completely eliminated. Some countries had already reduced tariffs prior to the agreement, and argued that they should be given credit for having already made these reductions, while newer members of the WTO who had previously reduced

³¹⁰ WTO, “Phase 1: Market access: Tariffs and tariff quotas,” 2004. np.

³¹¹ WTO, “Agriculture negotiations: Modalities: Market access,” 2002.

³¹² WTO, “Phase 1: Market access: Tariffs and tariff quotas,” 2004.

their tariffs as a concession for membership felt that they should not have to reduce them further.³¹³

As each section of the negotiations was broken down into its smaller parts, it became more obvious why some members had not been able to reach agreement in previous sessions. Trade is a complicated business, and over the years the degree of sophistication increased as large trading partners developed ways to counter nonsupport agreements by substituting new and more complicated programs to offset their losses. Developing countries complained that they could not increase their incomes by processing the agricultural raw materials that they produce because their export market countries impose higher tariffs on processed imports than on the raw materials, in order to protect their own processing industries. They are left in a catch-22 situation where they must either sell their products at market prices, which are often lower than what it costs to grow the products with unsophisticated farm production systems, or process them and attempt to sell the finished products at an above-market price.³¹⁴ Importing countries counter that import tariffs are necessary to protect domestic production and to protect the local farm industry in order to maintain food security. The developing countries argue that if export support payments were reduced, export subsidies could also be reduced to a reasonable and negotiable level.³¹⁵

The agreement produced two strong tariff-reduction proposals. The first was taken directly from the 1986–94 Uruguay Round of negotiations, which used a shotgun approach to average the reduction over all products, with some exceptions where countries could show that the reduction was too severe. The second proposal, known as a

³¹³ WTO, “Phase 1: Market access: Tariffs and tariff quotas,” 2004.

³¹⁴ Ibid.

³¹⁵ Ibid.

“cocktail” approach, suggested a flat-rate percentage reduction for all products from all countries, with higher reductions on higher tariff products, again, with certain exceptions for developing countries.³¹⁶

It is obvious that by 2004, a much larger part of the discussions focused on special treatment for poor and developing countries, countries that had recently joined the WTO, and countries in transition to market economies. For the first time, developing countries could argue that their tariff cuts would work only if developed countries were to reduce their domestic supports and export subsidies at a higher rate than the LDCs. What about smaller island or landlocked countries? Should they be subjected to the same new restrictions? All of these questions were asked for the first time at Cancun, and answered for the first time by the rest of the world.³¹⁷

After the arguments were heard, the goal of the conference remained the same as it was in Uruguay: to reduce tariffs to zero, over a period of time, for the same products imported into all major importing countries. It was moderately successful in Uruguay, and more so in Cancun. The next logical step is to eventually eliminate the tariff quotas and domestic supports established in Cancun. It is certainly possible now that the LDC issue has been explored and accepted as an issue that must be dealt with separately. Although few agree on how the issue will be resolved, all accept the problem as one that must be corrected prior to any long-term agreement.

Tariff /Quotas

The use of quotas, one option explored at the conference, was suggested as an interim phase of agricultural-support elimination. Although a quota system could

³¹⁶ WTO, “Phase 1: Market access: Tariffs and tariff quotas,” 2004.

³¹⁷ WTO, “Phase 2: Introduction, and tariffs,” 2004.

certainly ease the pain over the short term, it was a complicated and controversial system of controls. The most difficult part of the quota system was in the organization of its administration. The proposed quota system was made up of many custom methods for giving exporters limited access to the international market at reduced pricing. The new sections included “first-come, first-served allocations, import licensing according to historical shares and other criteria, administering through state trading enterprise, bilateral agreements, and auctioning.”³¹⁸ It was agreed that the terms for each item and country could include specific time periods for using the quotas, applying for licenses, or delivering products. Some countries complained that quotas handicapped their ability to trade as they had in the past. Unfortunately, quotas were not designed to make it easier for countries to continue trade as they had in the past. They were designed to ease those countries out of their import tariffs.

There were many methods proposed during the conference, each of which addressed some aspect of the import/export problems, and often in dissimilar ways. For some countries quotas would be more beneficial, while for others, simple across-the-board reductions would be best, and for some LDCs, a combination of the two would work better. While most member states understand that there is probably no single best method, some continue to look for the easy quick fix, while yet others continue to work for the system that best suits their own interests.

The US-EU draft referred to tariff quotas in two contexts: the amount of tariffs to be charged on in-quota products, and how to deal with the higher tariff rates when the quotas have been reached. The G-20 provided answers to these questions by suggesting a more simplified and transparent quota program to benefit developing countries and that

³¹⁸ WTO, “Phase 1: Market access: Tariffs and tariff quotas,” 2004.

“developed countries’ quotas be expanded by a percentage of domestic consumption and in-quota tariffs be eliminated, with additional expansion through negotiation.”³¹⁹ This proposal was met with resistance from Japan, Norway, and the European–East Asian group, who opposed any effort to expand tariff quotas.³²⁰

As expected, quotas became the most difficult of the three pillars to negotiate. As agriculture negotiations chairperson Tim Groser pointed out, “all countries have market access barriers, whereas only some have export subsidies or Amber or Blue Box domestic supports. Therefore the range of interests involved in the market access side of the negotiations is more complex. Most governments are under pressure to protect their farmers, but many also want to export and therefore want to see others’ markets open up. Among developing countries, some are less confident about importing and exporting and take a defensive position, while others are more confident and want to see more South-South trade as well as increased exports from poorer to richer countries.”³²¹

In spite of the difficulties incurred in reaching an agreement, the actual framework was a monumental leap forward for the WTO. The agreement bound member states to agree to the reduction and eventual elimination of agricultural subsidies and open market access for agricultural products. Although the framework left the details for future arbitration, key factors were identified as keystone issues and potential stumbling blocks. These included the formulas to be used in determining the actual amount of reductions to be imposed: how special exceptions would be treated and what oversight procedures would be imbedded in the system to insure fairness and equality; the special needs of developing and less-developed countries that must be integrated into any of the

³¹⁹ WTO, “Phase 1: Market access: Tariffs and tariff quotas,” 2004, n.p.

³²⁰ Ibid.

³²¹ WTO, “August 2004 framework: Export subsidies and competition,” 2004, n.p.

support; how to enforce the agreements when conflicts arise between members; and how to encourage and promote alternative crops for agrarian members whose primary crops consist of illegal narcotics.³²² The one factor missing from the framework was a formula for negotiations. The framework merely agreed to negotiate again in 2005, but did not offer any guidelines or a formula for those negotiations. The framework did specify that any formula for negotiation should address each member's tariff structure individually and offered guidelines on how to begin:

- 1) "single approach": everyone except least-developed countries has to contribute by improving market access for all products
- 2) tiered and progressive: the formula will be based on tiers so that tariffs in higher tiers have steeper cuts
- 3) reductions from "bound" rates, i.e. the ceilings that members have committed in the WTO, rather than the actual or "applied" rates, which in developing countries in particular, are often lower, sometimes considerably. (When an applied rate is much lower than the bound rate, the formula might not mean a cut in the tariff actually charged on the import, only a lower ceiling limiting the government's ability to raise the tariff.)
- 4) developing countries are to be given "operationally effective" special treatment
- 5) sensitive products: all countries are to be allowed some flexibility in the way these products are treated, although even sensitive products have to see substantial improvements in market access.³²³

Although it was agreed that reductions would be achieved through the use of levels or tiers, it was left to future negotiations to establish those levels. The agreement was nothing more than a framework that left questions about formulas, maximum and minimum tariffs, and special treatment for LDCs to be answered in the future. The

³²² WTO, "August 2004 framework: Export subsidies and competition," 2004, n.p.

³²³ Ibid.

agreement summed up the future tier system in one sentence: “the role of a tariff cap in a tiered formula with distinct treatment for sensitive products will be further evaluated.”³²⁴

A footnote to the agreement states that the final draft should reflect “the sensitivity of the product” and emphasizes that the formula for creating quotas should be open to all members.³²⁵ These two notes refer to special treatment for rural development, and food security for developing nations. The framework continually points to the necessity to involve these developing nations in the negotiations because of their special needs, and emphasizes that the membership must remain aware that these member states have local-sensitive products that will require smaller tariff quotas and protracted time frames. In particular, these exceptions should be applied to products that are directed toward food and livelihood security.³²⁶

Domestic Support: Amber, Blue and Green Boxes

The members of the WTO were in agreement that agricultural price supports of every form were detrimental to international trade. The dilemma was that all countries were not equally guilty, not all products from each nation distorted the market in the same way, nor were the solutions such that they could be applied to each member country in the same way.

The goal of the WTO became one of identifying the offending products of each country in a manner that would bring them to the surface for all to see, and then recommending the terms for reducing these supports country by country. The solution was the introduction of amber, blue, and green boxes. These boxes were nothing more

³²⁴ WTO, “August 2004 framework: Market access,” 2004, n.p

³²⁵ Ibid.

³²⁶ WTO, “Text of the ‘July package’: The General Council’s post Cancun decision,” 2004.

than categories established to identify the offending price supports according to their degree of harm. The amber box was for subsidies that would be reduced and eventually prohibited, including items that were considered to be trade-distorting and detrimental to international trade. Green-box items would consist of agriculture-related subsidies that are not considered to be trade-distorting, and blue-box items would consist of support payments that are not subject to amber- or green-box restrictions.

In WTO terminology, the boxes are like traffic lights. Green-box items are permitted; amber-box items are to be slowed down, or reduced; and red-box items are to be stopped, or are forbidden. Naturally that scheme was too simple, so the red was replaced with a blue box for subsidies that have little effect on international trade and that are primarily programs that limit production. Each of these boxes contains options and exceptions designed for developing and less-developed countries. The list of subheadings, formulas, definitions, and interventions exceeded 200 in the September 23–25, 2003, session.³²⁷ The three-box system was supposed to be a simple design according to which each country identified each of its agricultural support programs and marked them for one of the three boxes, whereupon a committee would determine the amount they would be reduced by and the length of time before they would be eliminated. Once this procedure was agreed on, countries realized that they would be opening up all of their programs to public scrutiny, and each nation began to look for ways to bypass the amber-box designation. For example, developing countries, new members, and transition economies argued that they should have special dispensation, and should not be treated the same as developed countries. New members argued that the very reason they sought

³²⁷ WTO, “Phase 1: Domestic support: Amber, blue and green boxes,” 2004.

membership was to improve their economic condition, and that their membership agreements did not include reductions in farm subsidies. Others claimed special and differential treatment based on their level of development and per-capita income. Many developed countries agreed that smaller agrarian economies should have special treatment, including trade preferences and longer times to adjust. In reality, all of these negotiations for special treatment, and each country's efforts to improve its own position, slowed the process to a crawl.³²⁸

Although the membership agreed to the three-box treatment of agricultural support, once it was placed online, some expressed remorse and concern about revealing the inner workings of their support programs. For example, several developed nations, including the United States, realized that this agreement would restrict Congress's ability to develop farm policies because any subsidies would have to come under WTO limits. Some conservative nations went so far as to claim that the original Doha mandate was never designed to completely eliminate trade-distorting subsidies. Although they had previously signed the agreement, once they understood how it would affect them financially they unsuccessfully argued that eventual elimination would be too drastic to allow them to continue with the reform process. As each nation attempted to protect its turf, they began to present arguments proposing different rates of reduction commitments, one for export products and another for domestic consumption, in an effort to avoid the amber-box restrictions.³²⁹

³²⁸ WTO, "Agriculture negotiations: Modalities: Domestic support," 2002.

³²⁹ WTO, "Agriculture negotiations: The issues, and where we are now," 2004.

The Amber Box

The amber box was designed to accommodate all domestic support programs considered to distort production and trade applies to 34 members who have committed to reduce their trade distorting domestic supports. The WTO membership agreed that anything and everything in the amber box must be reduced and eventually eliminated. One of the questions that was delayed to a later date was, Should the reductions be in the aggregate, or should each specific product be treated separately and be disaggregated by product class?³³⁰ It was agreed that that decision would be postponed to phase two, at a later date. Depending on how these reductions would affect each nation, some countries proposed drastic cuts on higher levels of support and smaller cuts on smaller offences, while other countries agreed with the proposal that amber-box subsidies eventually be eliminated completely, per the original plan.³³¹

Proposals went across the board, from no change to lower levels of reduction for developing countries, and/or transition economies to higher levels of cuts or abolition for developed countries. One hundred and twenty one countries, roughly 85% of both developed and developing countries led by the US, agreed with the original plan that proposed that amber-box subsidies be eliminated or brought down to de minimis levels in three to five years for developed countries, and over a longer period, such as nine years, for developing countries.³³² This would bring all member nations down to de minimis levels, de minimis being calculated as five percent of agricultural production in developed countries, and 10 percent in developing countries. While this was acceptable to

³³⁰ Vasudeva, n.d.

³³¹ WTO, "Update Phase 2: Domestic supports: Amber, blue and green boxes," n.d.

³³² WTO, "Phase 1: Domestic support: Amber, blue and green boxes," 2004.

the majority of the members, some developing nations still held out, arguing that minimum levels should be completely eliminated for developed countries. The framework says minimums will be reduced by an amount to be negotiated, with special treatment for developing countries, which will be exempt if they allocate almost all de minimis support for subsistence and resource-poor farmers.³³³

As of 2008, developed countries are allowed a five percent minimal amount of amber-box support. This is defined as five percent of the value of total agricultural production. Specific product support is also limited at five percent of production of that product. Developing countries also followed the original proposal, and are allowed up to 10 percent of total agricultural production.³³⁴

Since each of the nations was asked to present a paper outlining its concept of how the boxes should be used, there were several hundred proposals concerning the amber boxes. Some suggested a large down payment, in which half the reduction would be made at the outset, while others proposed that de minimis numbers be applied only to developing countries and possibly transition economies, while others completely missed the concept of eventual elimination and suggested that inflation factors be included in the reduction scheme.

During the discussion process, several of the members suggested that some domestic support programs might have the same effect as export subsidies because the supports vary according to market prices, rising when prices fall, and dropping as prices

³³³WTO, "Phase 1: Domestic support: Amber, blue and green boxes," 2004.

³³⁴ Ibid.

go up again. As prices are manipulated locally, the portion that is exported can influence the international market.

Prior to the Cancún meeting in 2003, the combined US-EU proposal suggested broadly reducing trade-distorting supports by a range of percentages to be negotiated at a later date. As the negotiations progress, it becomes more obvious that the WTO encouraged the membership to agree on the big issues while saving the details for a later date. A case in point is the US-EU proposal that countries with larger distorting supports would make a greater effort at reductions. This proposal would be an easy sell to the rest of the membership since it only affects the large trade nations.

Japan proposed that the reductions be on total aggregate measurement of support (AMS), allowing shifts between products. De minimis payments would then be applied to an overall reduction for amber, minimum payments. This suggestion was not received well, as it would make it easier for the developed countries to manipulate the system.

As one would imagine, the G-20 proposal was quite different from those of the developed nations. The G-20 proposed reductions on each product rather than for the whole agricultural sector, emphasizing large initial reductions, referred to as down payments, on more heavily subsidized products of the developed nations, and even larger reductions for products that represented a large share of world exports, the term “large share” to be defined at a later date.³³⁵ Norway made a strong statement in support of the G-20’s suggestion that there be larger reductions on products for export. Norway next proposed negotiating reductions for the amber and blue boxes combined, which would effectively eliminate the blue box. The G-20 also suggested that amber-box items be

³³⁵ WTO, “Phase 1: Domestic support: Amber, blue and green boxes,” 2004.

capped by some percentage of total production to be determined later. The European–East Asian group argued that their supports have little impact on world markets and that therefore they should not be involved at all. Any reductions that they would make should be negotiated together with market access issues and export subsidies, while the African Union and the least developed countries, which have few exports, called for substantial reductions in both amber- and blue-box supports for developed nations, strongly supported their eventual phasing-out and elimination.³³⁶

The negotiations eventually determined that amber-box supports would be cut using a tiered formula, so that countries with higher supports would have steeper cuts. It was decided that limits would be placed on supports for specific products in order to avoid shifting support between different products that might occur if aggregate formulas were used. The result of the tiered formula is that it applies to the total of support on all products but not in the aggregate.³³⁷

Green Box

If everything that is trade-distorting must be in the Amber box, then it stands to reason that all subsidies in the green box must not distort trade, or at least must cause minimal distortion in order to qualify. Additional requirements are that these subsidies be government-funded, and that they may not be supported by higher consumer prices. To qualify, these programs must not be directed toward any specific product, and may include direct payments to farmers that are decoupled from crop production and that have no bearing on international price levels. Other items that qualify include environmental

³³⁶ WTO, “Phase 1: Domestic support: Amber, blue and green boxes,” 2004.

³³⁷ WTO, “August 2004 framework: Export subsidies and competition,” 2004.

issues and regional development and conservation plans. Among other items that qualify are programs that reimburse costs arising from the protection of animal welfare, and a special section was added to protect developing countries that face serious poverty and food security issues. Developing countries from that category requested additional leeway for their special needs, including a development subcategory box that could be changed in times of need. This proposal suggested a resolution that would update the green box for decoupled income supports, by changing threshold levels for income insurance, and safety net programs for relief from natural disasters. The most popular proposal was one that would maintain the green box simply as a set of measures that do not distort trade or are minimally distorting. Anything that fits the criteria of the green box is allowed, without limits.³³⁸

Naturally, all nations that are heavily into the amber box aspire to transfer some or all of those items into the green box. A great deal of the discussion about the green box revolved around each country's attempt to get as much into that box as possible and to avoid the restrictions of the amber box. One of the first proposals suggested that the green box be expanded to cover additional types of subsidies. This was quickly overruled by the membership, who agreed that the green-box concept was very satisfactory if used as it was designed.³³⁹

Still, there were dissenters who criticized the green-box concept, arguing that the WTO had not yet formulated a definition of "non distorting," and therefore would not be able to accurately differentiate between offending and nonoffending products. They

³³⁸ WTO, "Phase 1: Domestic support: Amber, blue and green boxes," 2004.

³³⁹ Ibid.

claimed that despite the WTO's position on nondistorting qualifying items, some items that that were listed as acceptable actually distorted trade and lowered world prices. They went on to recommend "a quantitative means of measuring whether a policy is non-distorting; removing direct payments, decoupled income support, and subsidized income insurance and safety nets; revising criteria for structural adjustment programmes that include factor 'retirement'; notification and evaluation criteria for disaster relief, investment aids, environmental programmes, and regional assistance; transparency for food security measures and food aid; and limits on Green Box spending."³⁴⁰ The membership agreed that the criteria for defining supports as "green box" would be reviewed and clarified to ensure that green-box items would not distort trade, or would do so minimally, adding that a solid definition would preserve the basic concepts of the green box, and make it stronger, safer, and non-trade-distorting.³⁴¹

As the proposal continues to become more complicated, it begins to take on the flavor of the US Senate, as each country tacks on its own wish list as the price for agreement. While some countries attempt to preserve their own private corner of the market, a flurry of activity from others ensues as they hurry to present their own self-serving propositions. Many proposals addressed the desire for greater flexibility for developing countries, such as measures that would allow these countries to place products into the box without restrictions. In the end, it was all rhetoric without substance and was rejected. Their argument was based on the premise that the large amounts that would be spent under the green box would have an effect on wealth and income that

³⁴⁰ WTO, "Phase 1: Domestic support: Amber, blue and green boxes," 2004.

³⁴¹ WTO, "Update Phase 2: Domestic supports: Amber, blue and green boxes," n.d.

could significantly distort production and trade.³⁴² In the final vote, the majority of the members agreed to define green-box subsidies as those that cause no or minimal distortion. Therefore, any shift in support to the green box should be welcomed as progress.

Blue Box

The blue box is a hybrid designed to appease some countries that balked at signing the original agreement because of the strict rules applied to the amber box. The WTO has described the blue box as the amber box with conditions. Agricultural subsidies that would normally fall into the amber box can become blue-box items if they require farmers to limit production. The advantage over amber-box classification is that there are no limits on blue-box spending.³⁴³

Blue-box supports are to be capped at no more than five percent of the value of a country's agricultural production over a period that has yet to be negotiated. The blue box is designed to be more flexible and therefore more appealing to those countries whose blue-box items make up a large portion of their distorting subsidies. The blue box is therefore an exemption from the amber-box rule that all subsidies linked to production must be reduced immediately or kept within defined de minimis levels. It includes payments linked to acreage, but in situations where production is limited by quotas or land set-asides. It is not commonly used because of the uncertainty about the exact definition of trade-distorting. Countries are reluctant to place items in the blue box only to have them later placed back into the amber box. At present, the WTO reports that only

³⁴² WTO, "Update Phase 2: Domestic supports: Amber, blue and green boxes," n.d.

³⁴³ WTO, "Domestic support in agriculture: The boxes," n.d.

a few members have used the blue box; they include the EU, Iceland, Norway, Japan, the Slovak Republic, Slovenia, and the United States, which no longer uses it.³⁴⁴

The blue box was actually designed for the few who use it. The framework endorses the contention that some countries need to be able to switch from the more trade-distorting amber-box subsidies to the less-distorting blue box in order to be able to participate in the overall plan for subsidy reform. The text therefore says “members recognize the role of the Blue Box in promoting agricultural reforms.”³⁴⁵

Even the definition of the blue box is flexible and anticipates additions and deletions of those items that qualify. Some of those additions will certainly include changes in direct payments that do not require any production as well as payments that are based on fixed production. But the WTO has given its assurance that new criteria will always be based on the idea that the blue box is less trade-distorting than the amber box.

There was some concern among the membership that a number of the proposals were so ambitious that many of the countries would not be able to implement them and therefore disrupt the reform process. It was obvious that if every member insisted on promoting its own agenda then none of the deadlines set in Doha would be met. A plea was made to all members to focus on the original mandate, which was to achieve “substantial reductions” in agricultural supports.³⁴⁶ It was pointed out that the greatest offenders would have to make the greatest concessions, and that any attempt to place noncomplying items in the wrong box would simply be a time-consuming exercise with an unhappy result.³⁴⁷

³⁴⁴ WTO, “Phase 1: Domestic support: Amber, blue and green boxes,” 2004.

³⁴⁵ WTO, “August 2004 framework: Domestic support,” 2004.

³⁴⁶ WTO, “Phase 1: Domestic support: Amber, blue and green boxes,” 2004.

³⁴⁷ WTO, “August 2004 framework: Domestic support,” 2004.

The Doha development round was the first step toward equality for developing countries. The outcome of the negotiations in reference to developing countries could be huge. Developing countries had a great deal at stake, and the delaying tactics served only to hinder their proposed progress. The results of the Doha Round could reduce crop dumping on the international market, which could improve the lives of 900 million people who live in poverty. To delay the decisions by introducing frivolous demands could actually increase the poverty of millions of people.³⁴⁸ This is not to say that the developing countries were the only cause of the delays. The developed countries were very much involved in their attempts to move products from amber- to blue-box status. However, simply changing definitions and redefining terms does not change the fact that the rich countries are the main offenders when it comes to subsidized agricultural production.

In the past, the EU has been the number one user of the blue box as well as the number one offender in trade-distorting programs, amassing more than 20 billion euros annually in subsidies. During the Doha negotiations, the EU was the major supporter of the blue box, as it attempted to transfer amber-box items into the more liberal blue box. Fortunately their efforts were not successful, and today, only Norway uses the blue box for its subsidies.³⁴⁹

In the beginning, the United States was no less guilty than the EU. The United States saw an opportunity to include all countercyclical payments (subsidies paid to farmers when market prices fall below a certain level) in the blue box. The WTO

³⁴⁸ "A little blue lie: Harmful subsidies need to be reduced, not redefined," 2005.

³⁴⁹ WTO, "Phase 1: Domestic support: Amber, blue and green boxes," 2004.

objected and determined that these payments were clearly trade-distorting and should fall into the amber-box category. When Congress enacted the 2002 Farm Bill, it was described as a safety net for farmers. Representative Charles Stenholm, the Democratic leader of the House Agriculture Committee, said, “First and foremost, it provides for a strong safety net for our agricultural producers.”³⁵⁰ The fallacy of this statement is that the countercyclical safety-net payments plan set price targets so high that the payments were annual. For example, the countercyclical target for payments for wheat were set at \$3.86 per bushel. The average wheat prices for wheat over the previous fifteen years was \$3.22 per bushel. Over a period of forty years, wheat prices had reached \$3.86 on only two occasions (see Figure 1).

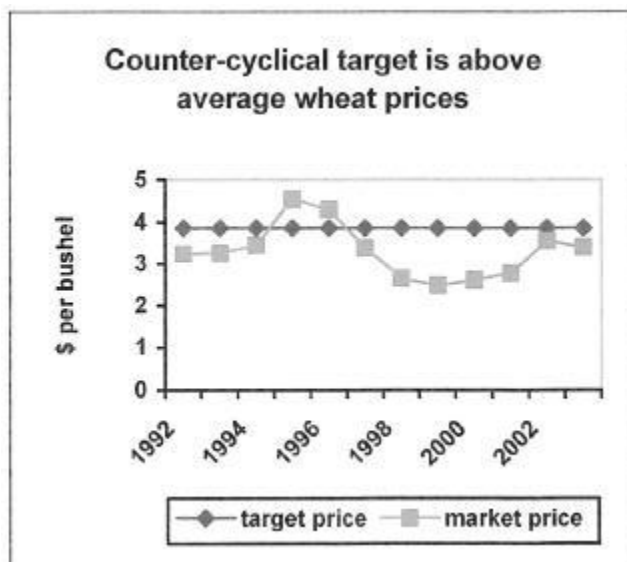


Figure 1. History of average wheat prices.

Reproduced from “A Little Blue Lie: Harmful Subsidies Need to be Reduced, not Redefined,” Oxfam Briefing Note, 2005, retrieved August 24, 2009, from http://www.farmingsolutions.org/pdfdb/bn_bluebox.pdf

³⁵⁰ Statement by Rep. Charles Stenholm, on the Floor of the House of Representatives. *Congressional Record*, May 2, 2002.

The safety net for cotton was set at \$0.72 per pound. Cotton prices had never been over \$0.59 per pound in the previous 15- year period (see Figure 2).

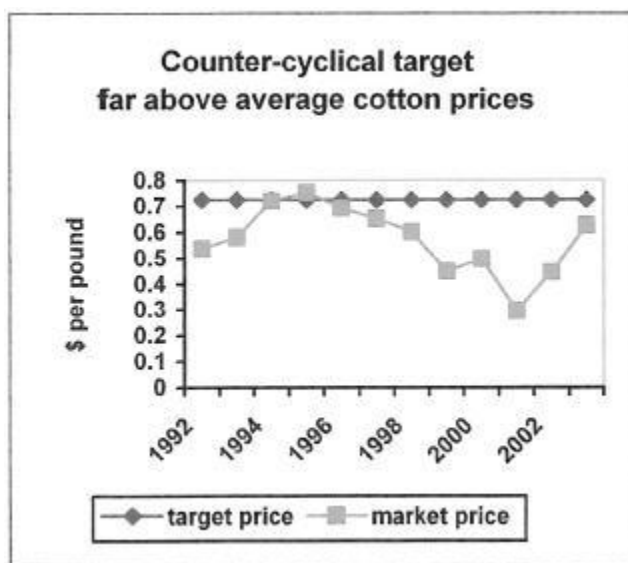


Figure 2. History of average cotton prices.

Reproduced from “A Little Blue Lie: Harmful Subsidies Need to be Reduced, not Redefined,” Oxfam Briefing Note, 2005, retrieved August 24, 2009, from http://www.farmingsolutions.org/pdfdb/bn_bluebox.pdf

The WTO rejected the request with the admonition that these prices were set by politicians without regard to international trade.³⁵¹ The WTO claimed that these countercyclical payments provided an ongoing subsidy and therefore did not qualify as a blue-box item. Furthermore, the WTO added to the framework the statement that blue-box subsidies would be limited to five percent of a country’s total agricultural production.

The end result was that developing countries would be granted smaller cuts over longer periods, and would continue to be allowed exemptions under Article 6.2 of the Agriculture Agreement. They could also give investment and input subsidies that are

³⁵¹ OECD, “Agricultural policies in OECD countries: Monitoring and evaluation: Highlights,” 2005.

integral parts of development programs, and provide domestic support to help farmers shift away from producing low-profit and illicit crops.³⁵²

Eventually, the framework provided guidelines for a tiered formula for amber-box, de-minimis, and blue-box products. As originally suggested, the program is designed so that higher levels of support will experience steeper cuts. In addition, it was declared that in the first year, each country's ceiling of permitted overall support would be cut by 20 percent. Details also included how to measure the blue-box component for the overall cut.³⁵³ Near the end of the negotiations, the more liberal members called for the blue box to be phased out over a period to be negotiated later, while others proposed five years for developed countries and nine years for developing countries, similar to the amber-box phase-out. The extensive debate about the blue box was neutralized when it was declared to be a temporary measure that would soon outlive its usefulness. The arguments of the defenders of the blue-box's importance as a less intense complement to the amber box fell on deaf ears as the WTO moved on to the next level.³⁵⁴

The majority of the members, which included both developing and developed countries, agreed that the blue box had no lasting value, and that most everything that was placed there would best be served in the amber box. These countries agreed with the WTO that the blue box was nothing more than an interim measure designed to facilitate countries movement of their products through the amber-box subsidies.³⁵⁵

Nevertheless, the blue box remained a permanent provision of the agreement, even though only one country, Norway, continues to use it. The EU says it is ready to

³⁵² WTO, "August 2004 framework: Domestic support," 2004.

³⁵³ WTO, "Agriculture negotiations: The issues, and where we are now," 2004.

³⁵⁴ Ibid.

³⁵⁵ WTO, "Update Phase 2: Domestic supports: Amber, blue and green boxes," n.d.

negotiate additional reductions in amber-box support so long as the concepts of the blue and green boxes are maintained.³⁵⁶

Non-Trade Concerns

The Agriculture Agreement also provided for members to pursue important nontrade concerns such as food security, the environment, rural development, and the easing of poverty in developing nations. Article 20 specified that the negotiations must make nontrade concerns a part of the negotiations.³⁵⁷

Thirty-eight countries produced papers for the September 2000 meeting that included sections on nontrade concerns. Many of these countries presented research studies for debate, while all agreed that everyone has some nontrade concerns. The major concern of the membership was that these nontrade measures might derail the more important negotiations on agricultural reform. Agriculture is not only about producing food. The question debated in the WTO is whether some of the trade-distorting subsidies, outside the green box, might be needed in order to help agriculture perform its other roles.³⁵⁸

It was the opinion of some member states that all the objectives could be achieved more effectively through green-box subsidies, which are designed to implement nonagricultural objectives without distorting trade. Examples given included food security, direct payments to producers decoupled from production, safety-net programs, environmental programs, and local-area assistance programs that do not stimulate agricultural production or affect prices. These countries maintained that what they had in

³⁵⁶ WTO, "Phase 1: Domestic support: Amber, blue and green boxes," 2004.

³⁵⁷ WTO, "'Non-trade' concerns: Agriculture can serve many purposes," 2004.

³⁵⁸ Ibid.

place was sufficient to cover the peripherals, and that those who were opposed must show that the existing provisions, which were already included in the Uruguay Round, were inadequate for dealing with these concerns. The opposition countries, which once again missed the entire reason for the negotiations, held that nontrade concerns are closely linked to production, and suggested that some subsidies based on production are needed for these nontrade concerns.³⁵⁹

Some countries, including the Republic of Korea, Japan, and Norway, believe that nontrade concerns should have the same level of importance as agricultural support, while the EU proposal suggests that nontrade concerns should be discussed as a separate entity. They argue, for example, that environmental issues should be addressed through separate environmental protection programs.³⁶⁰

The consensus of the exporting developing countries is that if these nontrade concerns are approached outside the green box, it will be to the advantage of the rich developed countries. These developing countries believe that the WTO is obligated to treat nontrade concerns the same as any other economic industrial activity. Their argument is that every industry has nontrade concerns that must be dealt with during negotiations, and that agriculture is no different.³⁶¹

As the debate continued in length, it became obvious that those on both sides of the debate agreed that food security for many of the countries was of maximum importance, especially for developing countries. If this issue could not be addressed to everyone's satisfaction, the overall agreement would not pass. The major issue became

³⁵⁹ WTO, "'Non-trade' concerns: Agriculture can serve many purposes," 2004.

³⁶⁰ Ibid.

³⁶¹ Ibid.

how to deal with the problem to everyone's satisfaction. In other words, how does one ensure food security without some sort of protection for agricultural production? There was no immediate consensus on how it should be handled; however, they did agree that the answer would include degrees of trade, stockholding, and some domestic production.³⁶²

The developing countries made a strong argument for self-intervention in agricultural trade and against relying on outside help in times of need. They based their argument on historical fact in that they saw little prospect of developed countries ceasing to distort markets with subsidies and protection. In the past, developed countries had done whatever was in their best interest, with little concern for the plight of the poor developing countries. There is concern in the economic sector, that if agricultural trade rules are changed in a way that will prevent developing countries from protecting that industry during its infancy, then these poor countries will run the risk of permanent stagnation. There are virtually no cases where a developing country has industrialized without going through a stage of protecting its infant industry. Before these developing nations compete on the world market, they must first protect their infant industries. As they mature, only then do they liberalize their protectionism policies. India's textile industry is a good example of opening up free trade before its time.³⁶³ Developing countries must protect and nurture areas where they have a distinct advantage in before they can move to the next step in their development. Total reliance on developed countries will eventually evolve into economic suicide.

³⁶² WTO, "'Non-trade' concerns: Agriculture can serve many purposes," 2004.

³⁶³ Shafaeddin, 2006.

The question became one of short-term versus long-term food aid programs. The short-term solution for supplying food to developing countries has been for developed countries to supply food aid under humanitarian relief fund programs. Long-term programs have been lacking and have only recently been placed on the WTO agenda. The continuation of food aid from other countries is not the solution. A more viable approach is to build better infrastructure in these countries by raising income levels through selective internal agricultural support programs. Where countercyclical programs distort the world market for developed countries, they may become an integral part of a developing nation's plan for self-reliance. The increasing risk of crop shortages when weather and other conditions are unfavorable may require the introduction of internationally funded insurance programs in those regions. These are the very programs that the membership is trying to reject for developed countries.³⁶⁴

Those opposed agree that raising incomes is the long-term solution to food security. But for the short term, the Marrakech Ministerial Decision on Net Food-Importing Developing Countries and Least Developed Countries, combined with food aid and other emergency measures, already applies. At this point in the negotiations, it became apparent that some members were still thinking in terms of guaranteed income for the less-developed nations as opposed to corrective agricultural contract negotiations.

Some countries proposed creating an international stockpile that could be used in times of need. A block of developing countries suggested that they create a revolving fund that would allow net food-importing developing countries and LDCs to borrow against in times of need. Developing countries concerned about food security and

³⁶⁴ WTO, "Update Phase 2: Food security," 2004.

starvation agreed to the proposal in the short term, but wanted a more specific program that will help them develop their own safety net in the future. This suggestion prompted the question of whether this was actually a WTO problem since existing World Bank and IMF programs are already in place.³⁶⁵

Once again, WTO members have agreed that agricultural price supports are a problem that must be corrected, and once again the solution has become so complicated that the details overshadow the solution.

The Cotton Initiative

The two major U.S. trade issues remain cotton and sugar. These issues are so volatile that the WTO chose to handle them separately for fear that they would sidetrack the rest of the negotiations. Various members even disagreed as to whether these subjects should be negotiated under agriculture or in some other part of the negotiations. The separation came about when Benin, Burkina Faso, Chad, and Mali posed the question to the General Council. They emphasized the damage that the four believe has been caused to them by cotton subsidies of richer countries, and called for the subsidies to be eliminated, and for compensation to be paid to the four for economic losses caused by the subsidies.³⁶⁶

The complaint was presented to WTO Director-General Supachai Panitchpakdi on April 30, 2003. It requested the formation of a Sectoral Initiative in Favor of Cotton, which was presented to the Trade Negotiations Committee on June 10, 2003, by Burkina Faso President Blaise Compaoré. The message from the members was that they

³⁶⁵ WTO, "Agriculture negotiations: The issues, and where we are now," 2004.

³⁶⁶ WTO, "Agriculture negotiations: The issues, and where we are now," 2004; WTO, "The cotton initiative," 2003.

considered the cotton initiative to be more important to them than any other item on the agenda, and emphasized two main issues: trade issues covered by the framework, and development issues.³⁶⁷

The framework that is in place directs the negotiations to ensure that the cotton issue is given “appropriate” priority, and is independent of other sectoral initiatives. It is written this way to ensure that cotton negotiations do not derail the rest of the Doha Round of negotiations. The wording specifies that both the framework, and the cotton initiative itself, are the basis for ensuring that the cotton issue is handled ambitiously, quickly, and specifically within the agriculture negotiations but not as a part of it.³⁶⁸

The result of the WTO Secretariat’s March 23–24, 2003, workshop on cotton, held in Cotonou, Benin, was very specific in its directions to the Secretariat and the Director General, to work with the development community and other NGOs such as the World Bank, IMF, FAO, and the International Trade Centre, and to report regularly on its progress to the General Council.³⁶⁹

Cotton Sub-Committee

The Cotton Sub-Committee was set up under the framework the following year at the November 19, 2004, meeting of the agricultural negotiations. Its purpose was to continue to direct the members’ focus on cotton as a specific but separate issue during the agriculture talks.³⁷⁰ The Cotton Sub-Committee was designed to be an open-door committee available to any and all WTO members, NGOs, and observers. Periodic reports were to be presented to the agriculture negotiations body, which in turn reports to

³⁶⁷ WTO, “The cotton initiative,” 2003.

³⁶⁸ Ibid.

³⁶⁹ Ibid.

³⁷⁰ Hoddinott, Cohen, and Barrett, 2008.

the Trade Negotiations Committee, the General Council, and the Ministerial Conference. The Cotton Sub-Committee was to be a high-profile organization that could not be lost in the overall scheme of international agricultural negotiations.

The July Package of August 1, 2004, stipulated that cotton would be addressed ambitiously, expeditiously, and specifically within the agriculture negotiations.³⁷¹ The Sub-Committee is directed to diligently work on “all trade-distorting policies affecting the sector,”³⁷² in all three key areas of the agriculture talks, the “three pillars of market access, domestic support, and export competition,”³⁷³ as specified in the 2001 Doha Declaration, which launched the current negotiations, and the “framework” text, which is part of the July 2004 Package decision.³⁷⁴ The cotton issue, although separate from other trade issues, would be equal in importance on two fronts: 1) it was one of the major offenders, and 2) it had a direct connection with the life-and-death struggle of developing agrarian countries to continue to produce cotton at a profit.³⁷⁵

One of the leaders of international agriculture reform, and also one of the major offenders in the cotton market, had been the United States. During the negotiations on cotton price supports, it was revealed that the United States was a part of one of the contradictions maintained in world trade after the Uruguay Round. As noted previously, some nations simply interpreted the term “free market” in ways that were most beneficial to them, and if they were large enough and powerful enough they were able to browbeat their opponents at the bargaining table into agreements that were not entirely equitable.

³⁷¹ WTO, “The cotton initiative,” 2003.

³⁷² *Ibid.*

³⁷³ *Ibid.*

³⁷⁴ WTO, “Sub-committee set up on cotton,” 2004.

³⁷⁵ *Ibid.*

When it came to cotton, the United States was one of the major offenders. Although the United States is not the world's biggest producers of cotton, it is the world's biggest exporter. The United States was able to circumvent the laws of supply and demand by using millions of dollars of cotton subsidies. While the WTO negotiations were ongoing, the United States was busy expanding both the amount of acreage planted and total cotton production with full knowledge that it was creating a world price depression that affected mostly less-developed and poor nations. It was noted that as a result of US subsidies over the past twenty years, world cotton prices had at times been as low as Great Depression levels.³⁷⁶

According to WTO estimates, the cost of producing a pound of cotton in Burkina Faso is \$.21, compared with \$.73 in the United States. Technological improvements including the use of high-yielding varieties, chemicals, fertilizers, irrigation, and mechanical harvesting have increased cotton output, driving prices down by nearly 65 percent between 1960 and 2001.³⁷⁷

In the past when production was low and prices were high, there were few support payments. In recent years when prices fell because of high production, the US government covered the difference, according to Shawn Wade of the Plains Cotton Growers Association.³⁷⁸ According to a report by the Environmental Working Group, which advocates the end of farm subsidies, US cotton farmers received \$2.7 billion in subsidies in 2003, down from \$3.9 billion in 2002, which was \$1 billion more than the value of that year's US cotton production at world market prices.³⁷⁹ Those subsidies are

³⁷⁶ Hoekman, 2002; Watkins, 2003.

³⁷⁷ Watkins, 2003.

³⁷⁸ Texas Cooperative Extension and Texas Agricultural Experiment Station, 2004.

³⁷⁹ Oxfam, 2002.

under fire from some who say they cause a market glut. In April 2005, the WTO ruled in favor of Brazil in a lawsuit that charged that US farmers were dumping cheap cotton on world markets. The United States appealed and lost. The case was the first before the WTO to look at the effect of governmental subsidies on agricultural products.³⁸⁰

In 2003, Brazil decided that something must be done. The government of Brazil launched a complaint with the WTO, claiming that US cotton support constituted an unfair trade practice. Brazil shares the concerns of many African nations, and brought suit as an injured party against the United States. The WTO's Dispute Settlement Body agreed on March 18, 2003, to establish a panel to rule on Brazil's claim against US cotton subsidies.³⁸¹

Brazil claimed that there were several provisions that were prohibited under the WTO agreement: 1) the prohibition of import substitution subsidies, which paid domestic users to encourage the use of domestic products over imported products; 2) Step 2 payments, which are paid to exporters and domestic mill users to compensate them for their purchase of US cotton, which tends to be priced higher than the world market price; 3.) export credit guarantees: The USDA has been underwriting credit extended by private US banks to approved foreign banks for purchases of US agricultural products by foreign buyers. These credits were good for up to 10 years; and 4.) in addition, the Supplier Credit Guarantee Program (SCGP) insured short-term open account financing designed to make it easier for exporters to sell US agricultural products overseas.³⁸²

³⁸⁰ WTO, Annual Report, 2003.

³⁸¹ Ibid.

³⁸² WTO, "United States: Subsidies on upland cotton," 2005.

The United States replied that it was limited in terms of how much it could respond, because many of the required sanctions would require congressional legislation. On July 5, 2002, prior to the hearing, the US Secretary of Agriculture announced that the administration was sending three proposed statutory changes to Congress to comply with the WTO case: 1) elimination of the Step 2 program, 2.) removal of the 1 percent cap on fees that can be charged under the GSM-102 program, and 3) termination of the GSM-103 program. The United States had channeled nearly \$3 billion to the US cotton industry since 1996.³⁸³ Afraid of being undermined by the hearings, the National Cotton Council immediately began negotiating new forms of price supports to offset the loss of those being eliminated, with little regard for the WTO rulings or the Doha negotiations to reduce tariffs.³⁸⁴

When Brazil filed its suit in 2003, the complaint was answered by the United States Subsidies on Upland Cotton (WT/DS267). They denied all charges categorically, and then defended their position on the grounds that current supports were far less than in 1992. In other words, they were wrong, but not nearly as wrong as they had been. They claimed that GSM-102 and GSM-103 had been in existence since 1980 and had been discussed during the Uruguay Round and the current Doha Round without complaint. The court viewed the fourteen-page document, answered each of the thirty-three paragraphs, and found the United States guilty on all counts. The United States appealed.³⁸⁵ In early March 2005, the WTO released its report on the US appeal. The rulings proclaimed that the payments from the Step 2 program, marketing loan program,

³⁸³ WTO, "United States: Subsidies on upland cotton," 2005.

³⁸⁴ Schnepf, 2005.

³⁸⁵ Ibid.

crop insurance, production flexibility contracts, market loss assistance, and other listed programs grant support specific to cotton and that they caused significant price suppression in the world cotton market.³⁸⁶

In its final report, the WTO panel recommended that the United States withdraw those support programs identified as “prohibited” subsidies by July 1, 2005, and bring into compliance those programs identified as “actionable” subsidies with no deadline given. With the July 1, 2005, deadline looming and the world watching, US Secretary of Agriculture Mike Johanns announced that the administration was sending proposed statutory changes to Congress to comply with the WTO case.³⁸⁷

The end result of the cotton dispute is still uncertain. How Congress and the administration will respond to this ruling, either in modifying the current Farm Bill or in creating the next Farm Bill, if there is one, is unknown. But the WTO cotton ruling, combined with the federal budget pressures we are now seeing in Congress, has the potential to set off substantial changes in US agricultural policy.³⁸⁸

Although this was the first modern-era decision to go against the United States, it was neither the first complaint to be filed nor the first ruling against US agricultural policy. Prior to the WTO complaint, a similar case was presented to GATT, the predecessor to the WTO. In January 1989, the sugar-import restrictions and the quota regime for imports, maintained by the United States since 1982, were held by a three-member GATT panel to be illegal with respect to the terms of US obligations to GATT. The ruling came as a result of a dispute between Australia and the United States. Prior to

³⁸⁶ Hart, 2005.

³⁸⁷ Schnepf, 2005.

³⁸⁸ Hart, 2005.

the formation of the WTO, GATT had no enforcement procedures; consequently, the decision had little effect on the programs being disputed.³⁸⁹

Up to 1995, GATT was effective in initiating agreements between its members, but had no effective way of enforcing those agreements. International agricultural subsidies and export and domestic subsidy agreements were made, but without some method for enforcement, these gentleman's agreements were usually ignored. The 1986–1994 Uruguay Round of negotiations began to change all of that. Agricultural trade was given the same importance as other trade items and was brought under the WTO's umbrella of multilateral trading systems. The WTO Agriculture Agreement, which was able to organize its member countries into a structured group, began to agree on commitments to reduce domestic and export agricultural subsidies. This was the first step on what was to become more than a 20 year journey.³⁹⁰ It was the beginning of the establishment of rules and commitments that would eventually evolve multilateral rules that would affect and benefit all members.

For the first time, member governments admitted the fallacy of subsidizing farms that were no longer in existence, and made commitments to reduce agricultural export subsidies and trade-distorting domestic support. They agreed to reduce and eventually eliminate subsidies that exceed negotiated limits for specific products and established systems of enforcement that were not available through GATT.

³⁸⁹ Chajravartgu, 1989.

³⁹⁰ WTO, "Agriculture negotiations: Introduction," 2004.

The Doha Round of Negotiations

The Uruguay Round between 1986 and 1994 was the first successful attempt to set up a framework of agricultural support rules that could be applied to all the member nations. The Agricultural Agreement was the initial organizational document that brought the international family together for a common cause. One of the requirements of the agreement was that all members support Article 20, which committed them to begin negotiations on agricultural reform by the year 2000. It is doubtful that anyone present at that time would have believed that those negotiations would still be going on in 2009. Article 20 became the foundation from which all other negotiations have emerged and continued in that role until the November 2001 Doha Ministerial Declaration set a new mandate that would deal with the details of the Agricultural Agreement of 1986–1994.³⁹¹

The goals are clear; however, the negotiations have been difficult because of the wide range of interests and personal objectives of the member governments. The objectives of agricultural trade liberalization remain the same and include equal competition between countries regardless of size or economic power. For the first time, developing countries have an equal voice in negotiations with powerful nations that had in the past ignored their inability to deal at arm's length. The greatest success of the Doha Round of negotiations so far has been the member nations' agreement on the rules, the "modalities," for achieving their predetermined objectives.

The objective: "Further substantial reductions in tariffs, domestic support and export subsidies are prominent issues in the negotiations. In addition, some countries say

³⁹¹ WTO, "Agriculture negotiations: Introduction," 2004.

an important objective of the new negotiations should be to bring agricultural trade under the same rules and disciplines as trade in other goods.”³⁹²

All other trade, including intellectual property, falls under the umbrella of the WTO. Agriculture is the lone survivor and also the most difficult to control. There are several reasons for this. One is that no one starves because of a one-sided contract on intellectual property, but they will if they sign a bad agricultural agreement. The length of the negotiations is due mainly to the conceptual differences that each member attaches to the issues that affect them personally. Whether Article 20 is interpreted as the “tripod” theory or the “pentangle” theory, each country must feel comfortable with all aspects of the agreement before they can assign their people to the long-term commitment that the agreement requires.³⁹³

The negotiations are now in their eighth year, and have missed every deadline mandated by the WTO at the Doha Qatar Declaration issued on November 2001. They also missed the March 31, 2003, deadline for producing formulas and rules for further negotiations. Missed deadlines have not usually meant failure, but only a delay of the process. For example, in March 2003, a draft for suggested rules was entered into the negotiations. There was no agreement on the contents; however, the outline was used to work out technical details at a later date. During the Fifth Ministerial Conference in Cancun, Mexico, in September 2003, a number of proposals were presented but were not agreed on until August 1, 2004. It has become commonplace to exceed the deadlines; however, the date of completion is not as important as the eventual agreement on a

³⁹² WTO, “Agriculture negotiations: Introduction,” 2004.

³⁹³ Ibid.

genuine framework. Some of the 2003 Cancun proposals were delayed until the Hong Kong Ministerial Conference held in December 2005; even then, many members refused to formally commit to some items. Although the Doha Declaration had envisioned a much faster consensus of the member countries, it grudgingly extended the dates, and encouraged those members who were delaying the process to make stronger commitments to realistically negotiate in good faith. As expected, the deadline for completing the negotiations on January 1, 2005, was officially postponed on August 1, 2004, and no new date was set.³⁹⁴ Much of the delay was caused by the inability of the membership to agree on the rules of the game. No agreement could be reached until the modalities were determined. Although at first glance it appears that some of these countries were just being difficult, one must give them some leeway when we realize that billions of dollars were at stake for the developed countries, while personal survival was an issue with many of the LDCs. While many member countries had trouble with one or both of these issues, other nations became frustrated at the delays, and had difficulty understanding why these negotiations should be any more difficult than previous agreements that were made on trade in other goods.³⁹⁵ The WTO remained confident that if the members could at least reach an agreement on the modalities, the negotiations would proceed at a much faster rate, and deadlines would be met. To the contrary, in the summer of 2006, the proceedings collapsed completely. Although many nations were at fault for pursuing their own personal interests to the detriment of the rest of the organization, the United States bore the most guilt in that it refused to reduce its subsidies

³⁹⁴ WTO, "Agriculture negotiations: The issues, and where we are now," 2004.

³⁹⁵ WTO, "'Non-trade' concerns: Agriculture can serve many purposes," 2004.

in the amount proposed by the committee, and it also proposed a ceiling for domestic support that was actually above levels used in previous years and was unacceptable to the membership.

The United States was asked to reduce support by another \$5 billion to \$17 billion below levels used in past years, which it refused to do unless other developed countries agreed to do the same. They were also asked to:

1. Reduce the blue-box subsidies by \$5 billion.
2. Reduce the non-product-specific de minimis by \$5 billion.
3. Reduce the product-specific de minimis by \$5 billion.³⁹⁶

Relatively speaking, these requests would not be difficult for the United States to agree to. The amount requested is small compared with the total amount spent. At this stage in the negotiations, each of the developed countries is wary of giving up more than the others, and therein lies the problem. In order for the negotiations to succeed, each nation must be willing to give up some degree of protection and support regardless of what its neighbors do.³⁹⁷ The balance of 2006 and 2007 were not productive for the Doha negotiations, and were occupied with suits and countersuits brought by nations concerned that others were not abiding by the agreements that had already been made.

In January 2008, Canada brought suit against the United States concerning subsidies being paid to the corn industry that were inconsistent with the Agreement on Agriculture. The suit was later joined by Australia, Brazil, and others who expressed the same concern.³⁹⁸ Although the United States has been the target of many complaints, that

³⁹⁶ Elliott, 2007.

³⁹⁷ Ibid.

³⁹⁸ WTO, "Spotlight on US domestic support in agriculture committee," 2007.

is an indicator not that it is in breach of more agreements but that the transparency of the US trade regime is more open than those of many other countries and therefore more susceptible to policy scrutiny.

On September 11, 2008, as the annual Doha Round of negotiations, in its seventh year, was coming to a close, it became apparent that an agreement on the parameters presented to the membership in July would once again not be reached. A disappointed Director General Pascal Lamy was openly critical of those countries that had decided to continue as before to the detriment of those poor countries that would have benefited most from the agreement. He alluded to the short-sightedness of developed nations in their decision. “Those who gain from trade are seldom as loud in the political arena as those who lose. In fact, those who gain, are seldom aware that global trade rules may have had something to do with their gain.”³⁹⁹ The July package that Director Lamy referred to included reductions in subsidies, tariffs, banking, and insurance, as well as the incorporation of the principle of “less than full reciprocity,”⁴⁰⁰ designed to level the playing field for less-developed nations.

Many of the members were in agreement on a number of the issues but could not agree on the safeguard issues, better known as the insurance clauses that would protect them against market fluctuations. Director Lamy’s frustration was evident in his closing speech when he said, “So what now? . . . To let a 7 year international effort to essentially do good collapse would be a calamity. Who is ready to shoulder that responsibility? Are we really willing to tell the taxpayer who has funded us for this long that we’ve wasted

³⁹⁹ WTO, “Members asking to build on ‘enormous progress’ for final agreement—Lamy,” September 11, 2008.

⁴⁰⁰ Ibid.

his/her money!”⁴⁰¹ Four days later, he called the members back to the negotiating table while admonishing those that would walk away from the table when arguments were not going their way. He quoted Michael Korda, the British novelist: “Never walk away from failure. On the contrary, study it carefully, and imaginatively, for its hidden assets.”⁴⁰² This was in reference to those less-developed nations who had formed a small coalition on cotton protection and who refused to concede in their demands.

In the last quarter of 2008, the WTO warned the United States to not fall into the same protectionism trap that befell them during the Great Depression, warning that “protectionism and economic isolationism do not work.”⁴⁰³ Director General Lamy reminded the United States of the Smoot-Hawley Tariff Act, which raised US tariffs on imported goods and led to a disaster in trade between nations.⁴⁰⁴ He stressed that these policies did not work in the past and will not work now during this downturn in the world’s economy. Nations must continue to trade with one another, and must not succumb to the temptation to turn inward. As an example, the world depression of 1929 was exaggerated by the actions of the nations as they discontinued trade in foreign products, and concentrated on the purchasing of local goods. In contrast, the crises in Asia in the late 1990s were countered by continuing international trade.⁴⁰⁵ The answer to the current economic situation is to reach trade agreements with rules and guidelines that benefit all, which can only be achieved through mutual elimination of subsidies and

⁴⁰¹ WTO, “Members asking to build on ‘enormous progress’ for final agreement—Lamy,” September 11, 2008.

⁴⁰² WTO, “Lamy ready to call ministers back to Geneva,” September 16, 2008.

⁴⁰³ WTO, “Lamy warns against protectionism,” September 24, 2008.

⁴⁰⁴ Ibid.

⁴⁰⁵ WTO, “WTO is global insurance policy for a global economy—Lamy,” October 1, 2008.

harmful tariffs.⁴⁰⁶ Lamy refers to it as “a global insurance policy against the disorder caused by unilateral actions.”⁴⁰⁷

Lamy’s advice is well founded in today’s economic climate. We have the advantage of history on our side this time. The trademarks of the Great Depression were the inability to recognize what was happening, inaction when the nation should have been moving forward, and action in the wrong direction, in the form of the Smoot-Hawley Tariff Act, when the nation realized that the economy was crashing. The Asian crises taught us that increased trade is a positive factor in recession recovery, and that the removal of trade barriers will increase the momentum.

Both the essential factors of the proposed agreement and the restrictions it contains are responsible for the roadblocks that prevent members from agreeing on this proposal. According to Lamy, “Three principal constraints today represent a challenge to our work: the first is the bottom-up approach, under which members must themselves always take the lead in tabling negotiating proposals and compromise solutions; the second is the concept of a ‘single undertaking,’ which implies that in a round of negotiations with 20 different topics, nothing is agreed until all is agreed; and the third is decision-taking by consensus, which is reasonably close to unanimity.”⁴⁰⁸

Conclusion

The WTO is, in essence, attempting to establish a standard to which all agricultural trade must adhere. These standards would greatly diminish the prospect of international agricultural trade falling into the same situation that the US and

⁴⁰⁶ WTO, “Lamy warns against protectionism,” September 24, 2008.

⁴⁰⁷ WTO, “WTO is global insurance policy for a global economy—Lamy,” October 1, 2008.

⁴⁰⁸ WTO, “Lamy warns against protectionism,” September 24, 2008; WTO, “WTO is global insurance policy for a global economy—Lamy,” October 1, 2008.

international banking industries now find themselves in. If one buys the concept that the lack of financial regulation is the cause of the current banking downturn, and that a set of international regulations could have prevented it, then the WTO is on the right track. On the other hand, the banking industry has always resisted governmental involvement, while pointing to the lack of success in the past when governments nationalized banks, and became heavily involved in their management.

The WTO has been victorious in its goal to reduce tariffs, and somewhat less successful in its dispute-resolution process and in its efforts to set parameters that would protect against market surges, but far more triumphant than its predecessor, GATT. The WTO system provides the international economy with an insurance policy against the disorder caused by unilateral actions. The real success story is the WTO's ability to gain a consensus from the international community that developed countries do not require agricultural guarantees in order to support their farm communities. Those nations involved have shared that belief by agreeing to reduce and eventually eliminate up to 95 percent of all agricultural support programs. If the offending nations are to honor their commitment to the WTO, then they must eventually eliminate the price supports that have continued beyond their useful life.

It is evident that great progress has been made, although it has been a struggle. The Doha Round has been in progress for eight years. This time frame would appear, at first blush, to be a failure. In reality, 153 nations have sat down together, agreed to work out a mutually beneficial plan, and set the parameters by which to work. These members reached tentative agreement on 17 of the 20 groups of topics on the agenda. The issues left are the market-surge safeguard clause, and the US and EU cotton subsidies.

Considering the number of nations involved, and the preponderance of issues on the table, the achievements can only be heralded as a resounding success.

Large nations have conceded that agreements that are equal for both parties are not always equitable for LDCs and developing nations. Countries have acknowledged that the same rules and time frames will not work for all, and have softened their previous absolute positions to more moderate ones that all can agree on. In a lecture at the University of California, Berkeley, on October 29, 2008, Director General Lamy said, “we know that trade opening creates greater efficiencies, encourages innovation and general wealth. But this does not mean that trade opening is good for every person, every country, every time.”⁴⁰⁹

When the present agreement is passed, the result will be a 50 percent reduction in customs duties, two-thirds in developed countries, and one-third in developing countries. That would amount to roughly \$20 billion in export taxes for the EU, and another \$5 billion in food costs over a period of five to ten years.⁴¹⁰

The most important aspect of these negotiations is that all agree that trade sanctions, and price supports, are in most instances not necessary, hinder trade, drive up the price of local products, cost nations billions of dollars that could be used in other areas, prevent growth in LDCs, and promote poverty in poor countries. During the agreement process, both the United States and the EU were forced to acknowledge all of the above. When the remaining issues have been agreed on, these two entities will be charged with the task of implementing the reform in their respective countries.

⁴⁰⁹ WTO, “Restoring citizens’ confidence in trade requires sound domestic policies,” November 12, 2008.

⁴¹⁰ WTO, “WTO is global insurance policy for a global economy—Lamy,” October 1, 2008.

There is a parallel between the necessity for the powerful countries of the world to relinquish their controlling power within the WTO, for a more modern assessment of what the rest of the world actually needs, and the necessity of the developed nations' governments to acknowledge that the old, established system of agricultural subsidies no longer has a place in the modern world.

Director General Lamy, in a recent plea for unity and agreement, summed the current crisis thus: "The financial crisis that we experience is a wakeup call indicating that the world economy cannot grow above the limits of its real production, and that feeding it by debt and liquidity may only provoke severe corrections."⁴¹¹

Although the WTO has made tremendous advances in its negotiations, it must take some of the blame for nonconformation. It sometimes wears blinders that hinder its fairness in decision making. Under the WTO, a nation cannot discriminate against products based on how they are produced, be it by child labor or with environmentally destructive technologies. The United States has banned tuna imports from countries that allow certain kinds of nets designed to catch tuna, but which also trap and kill other sea animals such as whales, dolphins, and game fish. Yet in the blind eye of the WTO, tuna is tuna. The fact that other animals and fish are killed in the process has nothing to do with the trade agreement.⁴¹² This policy needs to be addressed in a more equitable manner, and the involvement of the UN in environmental affairs would make it a natural partner.

The WTO's all-or-nothing policy has prevented partial agreement in some areas where there is little disagreement. The WTO position is that an agreement will be reached

⁴¹¹ WTO, "Restoring citizens' confidence in trade requires sound domestic policies," October 29, 2008.

⁴¹² Barry, 1997.

when everything on the table has been agreed on. This policy has encouraged trade blocs such as the EU, NAFTA, and other international groups and cartels. During the WTO negotiations, these organizations have, out of necessity, entered into bilateral agreements that are formed in ways that sometimes conflict with WTO negotiations. The WTO has encouraged these organizations to work closely together in an effort to combine their focus in the same direction. Unfortunately, the power that they possess is easily transformed into personal agendas that are not in the spirit of the Doha negotiations.

The root causes of the current financial crisis are complex and multifaceted. It is becoming clear that the system suffers from a lack of regulation, transparency, and accountability. The WTO Doha negotiations promise the most internationally regulated environment ever created, and therein lies the problem.⁴¹³

⁴¹³ WTO, "Restoring citizens' confidence in trade requires sound domestic policies," October 29, 2008.

CHAPTER V

DEVELOPING NATIONS

How does all of this affect developing nations? The previous chapters reviewed the US and EU agricultural support programs, examined the reasons for their implementation, tracked their evolution over time from their inception following the Great Depression to the current state of the economy, ascertained the identity of those who receive the support payments, and identified the political influence that is responsible for their contemporary existence. Chapter three chronicled the difficulties incurred by the WTO as it attempted to organize the nations of the world into one of universal trade agreements that applied one set of rules for all, to a recent point in time when it came to realize that multilateral agreements might not be in the best interest of all nations, and in particular for less developed and developing nations. The FAO lists 47 developing countries, 24 of them in Africa, which depend entirely on agricultural exports for their economic development, while the UN has designated 49 LDCs of which 33 are in Sub Sahara Africa.⁴¹⁴ The third hypothesis of this dissertation states: The dumping of agricultural products on the markets of less developed countries, at prices lower than these products can be locally grown, is detrimental to the farmers of these nations. Although the answer seems obvious at first blush, there are some unanswered questions that must be examined further before one can reach a definitive answer. First: although the farmers in these countries may be harmed in the short term, what are the long term ramifications of inexpensive food products being provided to these extremely poor

⁴¹⁴ These include Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, Tanzania, and Zambia (OECD and FAO, 2005).

countries? Would the countries survive without this aid and if the answer is no, then the conclusion might be different, second: would it be better for these countries if the aid was in cash instead of agricultural products? That cash could then be used to purchase products locally as well as on the international market. Keep in mind that the international market would still be very low in price, because the producing nations would still have the surplus products to dispose of. The focus of this section is on how agricultural price supports affect less developed nations. The WTO came to the conclusion that one set of trade rules may not be best for all countries, and that a separate set of rules for each nation might be better. The following chapter will examine the economics of these LDCs, review the benefits versus the down side of price supports, both internal and external, and evaluate the options. It will also delve into the possibility that for some LDCs, price supports may have little effect either way. For those countries where economic growth is at a standstill, crop dumping may be a blessing and a necessity for survival, where transitional countries may benefit from a reduction of low priced agricultural products. The crops that are the primary focal point of this chapter are grain, cotton and sugar. Grain because of its importance to many of the developing nations as a crop that could mean life or death to those who can raise only enough annually to live on, sugar because it has traditionally been highly protected and held by the WTO to be essential to the economic success of many poor and developing countries, and cotton, because it is the most highly supported crop internationally, and is a staple of many developing nations.

Subsidies

World trade talks with in the WTO have reached a stalemate recently, in part due to developing country demands that developed countries reduce their large farm support programs to allow poor farmers in the global South to compete on a even playing field . Claiming that developed nations farm subsidies amount to nearly \$1 billion a day, and that “the average European cow receives more in subsidies than the nearly three billion people who live on less than two dollars a day, LDC governments, farmer groups, NGOs and international aid groups have demanded steep cuts in developed countries agricultural farm subsidies.”⁴¹⁵ According to Mattie Sharpless, the Acting Administrator, Foreign Agriculture Service of the U.S. Department of Agriculture, in 2003, the U.S., as a result of its agricultural subsidies, was able to export below the cost of production, 53 percent of its wheat crop, 47percent of its cotton, 42 percent of its rice, 35percent of its soy beans and 21percent of its corn.⁴¹⁶

The major point of contention is that developed countries are unfairly excluding LDC product imports while subsidizing their own producers at some \$300 billion per year. LDCs are demanding an opening of markets and a rapid phase out of agricultural subsidies, which they cite as the primary cause of export dumping in the developing world which in turn interferes with the sale of locally grown products.⁴¹⁷

There can be no argument that agricultural subsidies, and export subsidies in particular, have adverse effects on the international market, especially on LDCs when the surplus production is dumped on their market. When exporters are compensated to get rid

⁴¹⁵ Wise, Paradox. 2004. p1

⁴¹⁶ Sharma, 2002.

⁴¹⁷ Wise, Paradox. 2004

of the excess because production costs are higher than the current world prices, the result on the very poor nation's ability to sell their products can be catastrophic.⁴¹⁸

But is the problem of these countries exclusive to agricultural subsidies or are they simply one part of the problem? There are a number of ways the anti- subsidy campaign may be missing their mark and some may be in the statistics. The anti-subsidy advocates, and their studies have largely failed to recognize that today, the bulk of agricultural support is not subsidy based and that much of the support now goes to areas other than production, which is the culprit in crop dumping.

It is not uncommon for anti-subsidy advocates to lump all subsidies into the same basket, claiming subsidy numbers of up to 300 billion or more annually which simply confuses the issue. Although the dollar amount of farm support may not have changed much in the last decade, much of that support today contributes little to the export tariff or crop dumping problem in LDCs. It has been estimated that of the 300 billion in U.S. farm support, only about 10 to 12 billion remains in the form of export subsidies.

Although the WTO has made the elimination of export subsidies a major part of the July 2004 Doha framework, its member states have not yet reached a successful agreement.⁴¹⁹

An example of advocate overstatement came from Allister Moldov, the Vice-President of the African Region at the World Bank when he said that OECD agricultural subsidies of 300 billion annually are equal to Africa's total GDP.⁴²⁰ The statement is true, but out of context in that it misleads the reader to believe that all 300 billion in subsidies affects the African nations. Mathieu Kerekou, President of the Republic of Benin, in his address to the diplomatic corps of the WTO stated that in 2002 U.S. farmers had a record

⁴¹⁸ Werth, 2006

⁴¹⁹ Newfarmer, 2006.

⁴²⁰ WTO Implementation of the Program, 2002.

harvest of cotton in the amount of 4.38 billion kilograms, and that the U.S. supported its cotton farmers with 3.4 billion dollars. He pointed out that West Africa is the third largest exporter of cotton, and that Mali is the largest grower in that region posting total production of 200 million kilograms during that same year. However Mali lost money because the prices fell 66% since 1995 and fell 10% in 2002.⁴²¹ This would imply that the reason for Mali's losses were due to the U.S. support payments. Although his statement may be partially true, he did not supply enough information to support it. Yes the U.S. did supply its cotton farmers with 3.4 billion dollars, however, only a portion of that money went toward production, while the balance was directed toward other areas of rural advancement, such as environmental protection, and alternative crop research. This is not to imply that alternative subsidies cannot influence crop pricing or import tariffs, because they do. An example of non-crop price support that places import limitations on LDCs would be sanitary and phytosanitary standards (SPS). As import tariffs are forced to decline, many OECD countries have introduced SPS restrictions that prevent LDCs from exporting their crops. Unfortunately this is also a double edged sword in that in today's world sanitary standards are a necessity in protecting human, animal and plant life, while at the same time an effective way of preventing LDCs from taking advantage of the world market. It is not uncommon for some developed countries such as those in the EU to establish their own sanitary and phytosanitary standards that are much stricter than the generally accepted WTO STS, which effectively protect their markets from SSA

⁴²¹ WTO Implementation of the Program, 2002.

imports.⁴²² It has been estimated that the EU's SPS strict standards are costing exporting countries between 140 and 700 million euros annually⁴²³

While some insist that OECD support levels have remained the same for the past 20 years in spite of the members claim that they are following the 1994 Marrakesh agreement to progressively reduce those supports, the WTO counters that present supports are quite different than those of 20 years ago. To reinforce their statement, they point to the WTO Agreement on Agriculture which breaks down subsidies into three different categories of Amber, Green and Blue box subsidies. While the OECD numbers focus on the total amount that taxpayers spend on agriculture supports in the aggregate, the WTO reduces the numbers to only those that actually have an effect on the international market.⁴²⁴

There are several measuring devices in place that can be used to determine the current amount of trade distorting agricultural support. The Aggregate Measurement of Support (AMS) of the Uruguay Round Agreement on Agriculture calculates market price support estimates for each commodity.⁴²⁵ The AMS produces a good estimate of support to farmers, but does not produce good numbers about the effect of this support on LDCs.

An alternative is the Total Support Estimate (TSE) which includes all transfers from taxpayers to agricultural producers such as subsidies, research, education, extension services, irrigation and anything else that might fall under the heading of General Services Support Estimate (GSSE) further confusing the actual effect on LDCs.⁴²⁶

Neither the AMS the GSSE nor the TSE are particularly accurate in estimating actual

⁴²² Werth. 2006

⁴²³ CTA.2003.

⁴²⁴ Werth. 2006

⁴²⁵ WTO. n.d Update Phase 2: Domestic supports.

⁴²⁶ WTO. n.d. Domestic support in agriculture .

effect on LDCs. The important difference is that price gaps in the AMS calculation are estimated by reference to domestic administered prices and not to actual producer prices.

With developing countries demanding heavy reductions in developed country subsidies, the debates on how to measure the actual effect that they have on LDCs is becoming ever more important. In fact, today's subsidies may represent only about one-third of the total Producer Subsidy Equivalents (PSE) for OECD countries. The bulk of the PSE, 70% in 1999-2002, came in the form of "Market Price Support" (MPS), which is another estimate of the cost to consumers due to government agricultural support policies that result in higher consumer prices.⁴²⁷

Those opposed as well as those in favor of continued low cost products flowing to LDCs can simply pick and choose from the above list of statistics until they find one that supports their position. One of the problems is the popular understanding that the PSE measures subsidies that have a direct effect on LDCs. It does, however it measures more than that. It measures all support measures including those that have no bearing on foreign prices or crop dumping issues. There is no question that some LDCs are being harmed by some of the support programs, however there is also evidence that many numbers may be included that have no effect on these countries in order to support the anti subsidy cause. For example, Watkins and von Braun write, "Each year, rich countries spend in excess of \$300 billion in support of agriculture...Most of the subsidies end up supporting production and generating large surpluses, which are then dumped on world markets at prices that bear no relation to production costs."⁴²⁸ That may have been true ten years ago, but certainly no so today.

⁴²⁷ OECD, 2005.

⁴²⁸ Watkins and von Braun, 2004. np

Combining USDA figures and OECD data, it is estimated that dumping margins for U.S. corn in recent years have ranged from 18% to 33%. This basically means that grain that is sold on the market, primarily to poor LDCs that need food products, is priced 18% to 33% below the international market price. The result is that the farmers in those countries that purchase the grain will not be able to sell their excess crop production at a profit, or even at a break even price. For example: Mexican corn farmers find it difficult to compete with US prices that are below production costs and to do so they must lower their own prices below their costs of production. They are in effect subsidizing their consumers rather than being subsidized by their government.⁴²⁹ For Mexican farmers this becomes an economic issue that could eventually drive the farmers off the land and into the city. For LDCs that have chronic food shortages, such as sub Sahara Africa, the cheap food is a blessing although it may be harmful to the local farmers. However, in many cases these countries farmers produce only enough to live on, and have little or no surplus to place on the market.

The World Bank, which has as one of its responsibilities the distribution of foreign aid, did a study of the potential benefits of agricultural trade reform. The report was presented as fact to the membership at the Cancún WTO meetings in September, 2003. It projected that trade reform and anti –dumping regulations would result in significant reductions in LCD rural poverty. It based its projections on a model that reduced developed country agricultural tariffs to 10%, eliminated export subsidies, and decoupled domestic subsidies from production, (which had for the most part already been done by 2003.) The report projected over \$500 billion in additional world income by

⁴²⁹ Wise, Paradox, 2004.

2015, with \$350 billion going to developing countries.⁴³⁰ However, further investigation into the report reveals that there are a number of areas where the numbers have been arranged in a manner that would support the banks position:

- “1) The projected gains overall, when considered through 2015, are quite small. Developing country income gains are only 1.5% over the entire period,
- 2) 80% of the projected gains are from own-country reforms, that is, from developing countries’ own liberalization measures. These are assumed gains from the lowering of their own prices.
- 3) The presumed welfare benefit is not from the reduction in export dumping but from lower consumer prices, mostly in developed nations, quite the opposite of the claims made by other studies”.⁴³¹

As one would expect, all are not in agreement with these numbers. In an article by Donald Mitchell and Mombert Hoppe, they claim that if developed nations reduce their grain subsidies, only a few importer countries would actually experience losses. 1) they estimate that upward price movement would be only half the average fluctuation that these countries experience annually as a result of normal cyclical price changes. 2) Those countries that are food exporters export more than one product, therefore only part of their production will be affected by liberalization. 3) since prices will raise slowly, this will allow net importers to get ahead of the game, and possibly even become net exporters.⁴³²

Nevertheless, some SSA countries would require outside help in order to survive. There can be little argument that these subsidies and tariffs play a part in compromising

⁴³⁰ Wise. Measurement Issues, 2004.

⁴³¹ Ibid.

⁴³² Mitchell and Hoppe, 2006.

the comparative advantage of some poor countries to the advantage of developed ones. When the projected effects of subsidy removal are examined, one must keep in mind that the purported goal of subsidy elimination is to reduce over production, diminish surpluses which will in turn lower consumer prices in developed nations and raise them in LDCs. This raises the question: how do higher prices and less available food products to be used as foreign aid benefit LDCs?

More than likely, what would happen is that the changes produced by such policies would be a shift in production from Europe and Japan primarily to the US and others who have already eliminated production related incentives. The high levels of farm support in Japan and Europe would be reduced and the competitive position of the US and other recently reformed developed countries would give them a distinct advantage.

Although it is doubtful that this is what LDCs actually want, it is what their supporters and representatives are asking for. Their position raises the question: just how much will the price go up and exactly what will the effect on LDCs be? Ritchie, Murphy . states “we should be looking for policy reforms that produce price increases of 20%-33%.”⁴³³ If the international price of grain goes up 20% to 33%, how will this help nations that are in poverty, are net importers of food, and have little to sell on the open market?

In a separate study by the Free Trade Area of the Americas, it found that subsidy elimination would not generate a 20% to 33% increase, but only a 1.8% price rise for grains. The USDA’s Economic Research Service Study shows only a 3.7% rise in agricultural prices. In another World Bank study, it claims that eliminating specific types of subsidies yields increases in grain prices of only 3.3% to 4.3%. The Agricultural

⁴³³ Wise. Measurement Issues, 2004.

Policy Analysis Center at the University of Tennessee found that the elimination of all U.S. agricultural subsidies would cause grain prices to actually fall three percent by 2011.⁴³⁴ Which estimate is correct? Each set of statistics would allow one to pick and choose whichever one that supports its cause best; however, none of these numbers come close to the Murphy prediction of 20% to 33% or to the World Bank's estimate of a \$350 billion landfall for the LDCs.

These and other studies suggest that developed country subsidies and export barriers may not be the only cause of rural poverty. LDCs may be focusing their demands in trade negotiations too narrowly on subsidy reduction, when it should be looking at the larger picture. For many Sub Sahara Africa (SSA) countries, subsidies are a double edged sword. While subsidies harm their farmers and exporters minimally, they are a lifeline for those that are dependant on staple food products.

The U.S. corn market is a good example why simply removing export subsidies may not help LDCs in their efforts to sell more of their own farm products or correct the poverty level in those countries. The U.S. has no significant border protections against foreign corn. Since it is the world's largest corn producer and exporter, it has no fear of external competition. How would an end to corn subsidies and greater access to the U.S. market be of benefit to the developing world's small farmers? The LDC's rural poor resemble Mexico's corn farmers in that they grow food crops for subsistence and on occasion, a small quantity for local markets. The counter argument is that Mexico has lost two million corn farmers over the past ten years, because it allowed subsidized low cost corn from the U.S. into the country.⁴³⁵ On the other hand, non food crop subsidies will

⁴³⁴ Wise, Paradox, 2004.

⁴³⁵ Shah, 2005.

definitely have an adverse effect on LDCs. An example is the U.S. cotton subsidy program. U.S. cotton subsidies in 2003 amounted to 3.1 billion. (Coincidentally, that comes to about 1.5 times the amount of U.S. foreign aid to all African countries) These subsidies definitely have an effect on SSA income, as they can lower international cotton prices by as much as 20 percent. It has been estimated that these subsidies cost West African farmers as much as \$150 million annually.⁴³⁶ Unlike cotton growers, most poor grain farmers in the LDCs have little or no excess food crops to export. Rather, they are growing food for their families and selling some portion of their surplus, if there is any, locally. Greater market access internationally does these farm families little good and does nothing to alleviate local poverty.⁴³⁷

The reduction or elimination of Developed Nations agricultural subsidies alone may not have the effects its supporters suggest. Instead of the single minded focus on subsidy reductions, policy reformers should to focus on these four principal goals:

- 1) reducing export dumping to those nations that do not need additional food.
- 2) reducing global commodity overproduction in key crops that end up on the market at below market prices.
- 3) reducing the market power of agribusiness conglomerates and the implementation of programs specifically designed for each individual antidumping nation through a common institution such as the WTO.
- 4) open the markets of the U.S. and the EU by eliminating all import tariffs. It is estimated that if these two producers would open their markets and eliminate

⁴³⁶ Newfarmer, 2006.

⁴³⁷ Davis, 2007.

dumping, African exports would rise by 22 percent, and GDP by 5.7 percent.⁴³⁸

The farmers in these poor countries resemble those in the U.S. during the depression. While the developed nations no longer need agricultural price supports for their small farmers, LDC farmers are in a development stage where protection may be the key to their survival. Unfortunately, most SSA governments have little or no money for agricultural price supports.

Another important detriment to the internal growth of LDCs is import tariffs. Although they do not receive the attention that export subsidies do, some of them are extremely harmful to LDCs development. For example, the EU average tariff on agricultural products coming into its countries is 22 percent, while the average for the U.S. is 14 percent. This is nearly four times more than tariffs imposed on other industrial and manufactured goods. The elimination of these tariffs would open up the market to those nations that desperately need to expand, and would do little harm to the small farmers in the EU or the U.S.⁴³⁹

Not all dumping is detrimental, nor are all agricultural products dumped on SSA countries sold at below market prices, some are free. For over fifty years developed countries have been sending aid to these nations, some in the form of raw food products. Although there is no question that this aid has saved the lives of hundreds of thousands of people, there is some question as to whether it has actually contributed to economic growth and poverty reduction. The reoccurring question is: have these countries come to depend on this aid to the detriment of internal progress? Are the leaders of these countries sophisticated enough in national management to understand that internal growth must

⁴³⁸ Johnson, Temu and Hazel, 2003.

⁴³⁹ Werth, 2006.

occur while this aid is available? If not, then the aid simply falls under the heading of humanitarian relief that will eventually end without any long term benefit to the country.⁴⁴⁰ While some developed countries have attempted to attach caveats to their aid, it has not worked well. SSA countries require external support and guidance for infrastructure development, however, history has been unkind to those who have attempted to force change through coheresion.⁴⁴¹ During this period of Globalization, there is a collective view that even if all agricultural support programs and export restrictions were lifted, SSA still might not be able to participate in the rewards of international trade. Africa is a continent that is backward in governance skills, poverty stricken and disease ridden. It is not prepared to strengthen agricultural production or to improve its trade potential without the help and guidance of others. In 2005 the Commission for Africa determined that foreign aid would have to be increased by 25 billion annually and double that amount in five years.⁴⁴²

Does the dumping of agricultural products in these countries harm the small farmers. Probably not as much as advocates of reform would like for us to believe. While the SSA potential for agricultural production is great in a continent with huge natural resources, the potential for near term progress is poor. Their infrastructure is poor which curtails investment, while civil unrest, disease and tenuous land ownership has created an atmosphere of fear and low productivity.⁴⁴³

If the WTO reforms are passed as written today, in a blanket format, they will prove ineffective to many LDC nations, but vastly beneficial to developed country

⁴⁴⁰ Bird, Booth and Pratt, 2003.

⁴⁴¹ Werth, 2006.

⁴⁴² Commission for Africa, 2005.

⁴⁴³ Chigunta, Johnson and Mkandwire, 2004.

agribusiness firms. Between 2001 and 2003 SSA countries imported nearly 2.5 billion in food products. The current WTO Doha round of negotiations would eliminate all subsidies which in turn would raise prices in nations that are barely getting by now.⁴⁴⁴ The removal of subsidies will result in higher international market prices which will be good for non food subsistence countries that produce more than they consume. However, higher prices will actually reduce consumption in poor countries while undermining their food security. Many SSA countries will require protective measures similar to those of the U.S. in the 1930s, and post WWII.⁴⁴⁵

As noted earlier in the text, large agribusiness has strong government ties, lobbying accounts in the hundreds of millions of dollars and a significant amount of political support. The challenge will always be one of breaking the regional popularity of these programs that go well beyond pork barrel politics and into the realm of big business while at the same time protecting those that cannot survive with higher prices.

The contest is one of two fronts, and emphasizes Peter Bauer's law of unintended consequences.⁴⁴⁶ On the one hand, the breakup of agribusiness political power in order to remove trade subsidies will promote an increase in SSA crop production and augment the small farmers income. This could increase local trade between countries that have a surplus, and those that are deficit in food products. On the other hand, the resultant higher prices could be detrimental to the poorest nations who have little money to buy food at any price. If the cheap overproduced products of the developed nations go away, the food security of these nations may go with it.

⁴⁴⁴ Werth, 2006.

⁴⁴⁵ Ibid.

⁴⁴⁶ Bauer and Bauer, 1991.

Surpluses

The key issue here is the extent to which developed country farm subsidies actually contribute to rural poverty in the LDCs, by selling overproduced surplus grain to poor developing countries at a reduced price below their production costs. Even if the PSE, the MPS or the AMS misestimates agricultural subsidies, the level of subsidies that still affect pricing are high and do have an impact on developing country farmers. The real task is to identify the relationships between developed nation agricultural policies and the degree to which these policies actually harm or help LDCs in their effort to both sell their surplus crops and improve their internal economic condition.

Most nations are in agreement that 1) low prices prevent some sales of local crops, and 2) developed nations elimination of subsidies would not raise producer prices to the extent advocates of such measures have estimated.⁴⁴⁷ The problem to be addressed is how to continue to provide assistance to those countries that need it while doing as little harm to the local farmers as possible, and to reach agreement on how much international prices would actually increase. In other words, if the developed nations send one hundred tons of free grain to a starving country, what is the effect on local farmers who are trying to sell their product locally, and what would happen to the poor if they did not send it?⁴⁴⁸ A good example was the Latin American recession in the 1980s. Agricultural exports to Latin America were given to the governments to sell to the local people at bargain prices. Obviously, local producers were not able to supply the needs of the people, or there would have been no need to give it to the countries in the first place, however, those farmers that did harvest more than they consumed found that in order to

⁴⁴⁷ Wise. Paradox, 2004.

⁴⁴⁸ Klauder, 2005.

sell their product, they had to sell it at below the cost of production. The result was a flat market that reduced production the following year.⁴⁴⁹

One of the options is to send cash instead of product. In the rare case where the U.S. makes grants or loans in place of grain, it is not unusual for the U.S. to require that those grants and loans be used to purchase U.S. grain and products. Although it is a reasonable request, it prevents the recipients from using a part of the grant or loan to build infrastructure that might prevent the necessity for future loans. The argument in favor of this requirement is that the grantor can account for all the funds by requiring that it be spent on the open market. In the absence of accountability, those funds often end up in the wrong hands.⁴⁵⁰

There have been occasions when unsupervised funds have simply disappeared, and even free grain has been confiscated by governments and sold on the international market for personal gain. Foreign aid to unsophisticated governments in the form of cash has some serious down sides. It is often invested in projects doomed to failure from the beginning. Unlike investments made by prudent businessmen who weigh the benefits against costs, governments with little business experience often make the wrong decisions on how to spend the money, because the money is free, and they basically have no cost involved.⁴⁵¹

To date, Canada may have come up with the most effective idea. Canada has instituted a co-operative program where half its food aid assistance is in the form of grain, while the other half is used to purchase foodstuff locally. This has the effect of

⁴⁴⁹ Shah, 2005.

⁴⁵⁰ Ibid.

⁴⁵¹ DiLorenzo, 2005. *A Foreign Aid Disaster in the Making*.

encouraging local production, while providing food for the poor.⁴⁵² Lack of oversight of local purchases is a concern of this concept.

Not all foreign aid is what it appears to be. Large corporations and politicians in the past have been known to establish and enforce import policies that prohibit foreign countries from shipping products to the U.S. It is a form of protectionism that often destroys industry in poor developing countries. Once destroyed, these same corporations send overproduced product, as aid, to the very countries that were harmed. It is a win-win situation where outside products are prohibited, while at the same time creating new markets for export supported products.⁴⁵³ Neither is food aid free. More often than not, food aid is a loan that must be paid back. For example, when Indonesia needed grain during the 1999 food crisis, the U.S. loaned them the food to be paid back over a 25 year period. This gave the U.S. control over the Indonesian grain market for the next 25 years.⁴⁵⁴

The Agricultural Marketing Act (AMA) of 1929 was formed to provide U.S. farmers with a livable income, and to increase production of crops, while the Common Agricultural Policy (CAP) was developed in Western Europe in the early 1960s largely for the same reason. Both were designed for the same purpose, to avoid food shortages, to provide an incentive for farmers to grow more product, and to reduce poverty in the farm community. Eighty years later these outdated programs are still in effect. In Robert Higgs book, *Crisis and Leviathan*, he makes the appropriate comment that emergencies always create new government agencies with increased powers, sometimes at the expense of other freedoms. When the emergency has ended, the new government agency continues,

⁴⁵² Shah, 2005.

⁴⁵³ DiLorenzo, 2005. *A Foreign Aid Disaster in the Making*.

⁴⁵⁴ Shah, 2005.

sometimes into perpetuity.⁴⁵⁵ Production incentives and modern farming methods, have created an oversupply in both the U.S. and European markets. Although production incentives have been reduced and in some cases eliminated, there is still excess production that finds an outlet on the international market in the form of low priced grain and other agricultural products for LDCs that are experiencing food shortages. Although the EU CAP reforms of 1992, and agricultural reform in the U.S. has reduced production, both have continued to over produce and to flood the international markets by a combination of export subsidies, internal price support, and direct aid to producers to compensate for revenue losses.

It should be obvious by now, that any subsidy that promotes over-production, directly or indirectly, and increases exports onto the world market at prices below the costs of production will result in dumping. The WTO Agreement on Agriculture encouraged developed countries to make a commitment to reduce their agricultural subsidies and subsequent product dumping. The result of this first attempt at reducing agricultural support payments was to reduce production through decoupling. The term decoupling is the new byword for compensatory payment made to farmers when production incentives have been removed. It is a type of socialist welfare payment that is paid to farmers who have lost their previously guaranteed incomes as a result of agricultural reform. It is usually paid in the name of land conservation or environmental protection programs. In spite of these revisions, the EU agricultural subsidies were \$5 billion higher at the end of the 1990s than a decade earlier and continue to grow. The U.S. is no better, having adopted two consecutive Farm Bills which are estimated to

⁴⁵⁵ Higgs, 1987.

increase agricultural subsidies over the next decade by 80% to a total of at least \$ 82 billion.⁴⁵⁶

Although both the U.S. and EU agricultural support spending has increased, and the overall level of support to agriculture has changed little, the structure of these subsidies has changed significantly. Both the EU and the U.S. have significantly decoupled subsidies that directly encourage production, and have replaced them with direct payments to farmers that are not linked to production. In theory, the further decoupling of subsidies linked to production, and a shift to investment in rural development proposed in the EU's mid-term review are intended to discourage over-production still further. Although this practice is a step forward, it has its detractors. For instance, the OECD has noted that even decoupled payments may encourage farmers to continue to overproduce because they know that they will still receive support payments when international prices are low. Farmers, being an intelligent lot, continue to invent ways to overproduce and thus create surplus crops.⁴⁵⁷

A good example of how this works is the ability of EU farmers to develop new ways to receive support in order to produce more product. In 1992 the EU shifted to a system of direct payments that no longer depended on export subsidies. The result was that EU grain prices fell nearly 50% but production actually rose, along with exports, to pre reform levels. If the current trend continues the EU's share of world wheat markets will increase from its 2000 level of 7.85 % to 19.7 % in 2012. They are now producing

⁴⁵⁶ Godfrey, 2002.

⁴⁵⁷ Ibid.

more product while increasing their already large market share which once again results in surplus crops and reduces the LDCs ability to compete.⁴⁵⁸

As stated earlier, grain is not the only international issue. The EU also produces 18 % of world sugar exports, 28% of world dairy exports, and around 12% of world wheat exports. Despite production costs being considerably higher in Europe than in many other countries, the EU has maintained its large market share through the CAP's complex range of export subsidies and product dumping.⁴⁵⁹ Although this is not usually associated with the plight of the LDCs, the overproduction that results in dumping are a huge cost to taxpayers, consumers, and the environment. In 2002, the CAP cost a massive €46.5 billion, almost half the EU budget, and farm subsidies accounted for 37% of the total value of European agricultural production.⁴⁶⁰

Corporate Farming-Political Influence

The vast majority of farming today is done by large developed country corporate agri-business who spend millions on advertising campaigns each year, often rightfully claiming that people are starving because there is not enough food to feed the current population, and that we are getting further behind the growing population every year. Some of the developed member states and the agribusiness lobby often fall back on the argument that the vulnerability of small farmers is at stake if current agricultural policies are abandoned. Without these safety nets, they argue, the market would destroy those who sustain their rural traditions. That statement may be true in LDCs, but not in the U.S. or the EU. In actuality, the only beneficiaries of farm support programs in developed countries continue to be the largest farmers and agribusinesses, not the small farmers who

⁴⁵⁸ Godfrey, 2002.

⁴⁵⁹ Ibid.

⁴⁶⁰ Ibid.

have mostly disappeared. Peter Rossett of Food First asserts that contrary to these reports, food production has more than kept pace with population growth. He also states that during the last 35 years, per capita food production has actually grown 16 % faster than the world's population. Mr. Rosset asserts that "We now have more food per person available on this planet than ever before in human history."⁴⁶¹

Studies conducted by the UN Food and Agriculture Organization (FAO) clearly indicate that it is abundance, not scarcity, that best describes the world's food supply. Every year, enough wheat, rice, and other grains are produced to provide every human with 3,500 calories per day.⁴⁶² The problem lack of access to the product, not lack of production. Increasing agricultural output has not corrected the worlds hunger problems because it fails to address the LDC key issues of: 1) access to land and 2) purchasing power of those that need the food. As summarized in a Food First report, "If you don't have land on which to grow food or the money to buy it, you go hungry no matter how dramatically technology pushes up food production."⁴⁶³ The new form of agricultural liberalization as promoted by big agricultural business has not and will not help the small LDC farmer. To the contrary, it is structured to promote the interests of the powerful, not the poor.

There is an ongoing theory that colonialism set the stage for large agri business to purchase large amounts of land from their former colonies. When these nations became free states, the large plantation owners remained, and the land never passed to the people of the new state. These new mega farms export most of their product, because the local market is too poor to purchase the product in any quantity. These industrially grown

⁴⁶¹ Rosset, 1999. np.

⁴⁶² Corporate Lies, 2002.

⁴⁶³ Ibid.

crops are not necessarily the crops that are needed by those that live in the host country anyway. More often, they are money crops that sell well on the international market. This is one of the reasons why the poor continue to go hungry while the world producers claim to be producing enough to support the world adequately.⁴⁶⁴

The system remains in tact because the local population has never accumulated enough wealth to regain control of the land. The system is self-perpetuating as the people become poorer and the new colonials regain more control of the countryside.

For this trend to be broken, the dispossessed must find a way to reclaim at least a part of their land. The WTO and the UN believe that it is unlikely that they will be able to accomplish this on their own.⁴⁶⁵

If the land is available but the wrong crops are planted, usually cash crops, (cotton, sugar or tobacco) are grown, the same outcome will occur. If the people need food, why would they grow other crops? The answer is that those that are hungry are not growing the wrong crops; they grow what they can eat. Industry grows the crops that pay the most, which are not necessarily the crops that the people need. A great problem in poor countries is land ownership. An example is land ownership in SSA countries. Large foreign corporations have systematically purchased large tracts of land from the government, leaving poor farmers with little more than enough land to grow a small amount of food on which to survive. These corporations grow what is most profitable for export, and that is not always food crops. In the past decade, industrialized agriculture has not produced foods for the people, but rather record crops of cotton and sugarcane and any other crop that is subsidized. These are cash crops, where grain grown for the

⁴⁶⁴ Shah, 2005

⁴⁶⁵ Ibid.

poor is not. The poor have no cash with which to purchase commodities, therefore are not considered to be potential buyers. Until agricultural reform in these developing countries establishes rules that protect their people, the large corporations will continue to produce and export cash crops, and the poor will remain hungry.

How do subsidies actually work to the benefit of these giant EU and U.S. agribusinesses, and who, in fact, gains the most? In 2001, France was once again the main recipient of CAP funding, claiming 22.2 % of the total budget of €41.53 billion. The next biggest recipients were Spain (14.8 %), Germany (14.1 %), and Italy (12.8 %). Not surprisingly, these numbers have changed little today.⁴⁶⁶ In a detailed breakdown of aid payments across the EU in 2000, it was calculated that 78 % of EU farmers receive less than €5000 per year in direct aid, and that number continues to erode annually. Furthermore, fewer than 2000 of Europe's 4.5 million farmers between them take in almost €1 billion in direct aid from the CAP, and this number continues to grow each year. Farm subsidies also vary in scale across Europe. In Portugal, approximately 95 % of farmers receive less than the €5000 each year, compared with 43 % in the UK. Only 380 of the UK's landowners and large-scale agricultural businesses, which includes the Royal family, share aid in the amount of the €300,000 per farmer.⁴⁶⁷

The CAP was designed to preserve the small farm communities, however, by continuing these subsidy programs that concentrate on the increased wealth of the richest agricultural landowners, these policies are actually hastening the demise of small land holder, all the while declaring that these subsidies are necessary for their preservation. In countries where rural land accounts for the majority of their territory, such as Spain, Italy,

⁴⁶⁶ Godfrey, 2002.

⁴⁶⁷ Ibid.

and Greece, the active farm population has been reduced to one-fifth of its number in the 1950s. As in the U.S., large-scale agri-business and their powerful lobbies have successfully influenced the direction and content of the CAP over the years they have also expanded into the poorest nations where land is least expensive, and labor is cheap. They continue to defend it against reform, as they reap huge profits from various welfare farm support programs that eventually trickle down to the demise of the poor countries of the world.⁴⁶⁸

Dumping

The EU and the US subsidize their farmers in different ways, while criticizing each other's systems, but the end result is the same, over production and a surplus of foodstuffs. Some of these are sold below cost of production, or 'dumped' in developing countries.

There is compelling evidence that LDC farmers are leaving the land because they can no longer provide for their family through farming. Farming in SSA is one of the only areas in the world where the industry is becoming less viable every year, and there is little industry to take those who move to the city.⁴⁶⁹ The population is facing increased poverty, and indicators predict that it will get worse every year. Farmers face a future of less land with which to produce fewer products for both themselves and the surrounding urban areas. While some argue that this will eventually hurt the farm industry in these countries, others compare it to what happened in the developed nations as excess farm labor left the farms for the city, bringing a new labor force to be used in manufacturing and industry. Farming in SSA is one of the only areas in the world where the industry is

⁴⁶⁸ Godfrey, 2002.

⁴⁶⁹ Werth, 2006.

becoming less viable every year, and there is little industry to take those who move to the city. The population is facing increased poverty, and indicators predict that it will get worse every year. Farmers face a future of less land with which to produce fewer products for both themselves and the surrounding urban areas.⁴⁷⁰ According to the World Bank's 2004 Global Economic Prospects, the LDC's trade has stagnated over the past twenty years, and its share of world agriculture is on the decline, and has actually decreased to 0.5 percent.⁴⁷¹

With the ongoing trend of below cost of production prices that producers receive from traders and processors, a question not often asked is: how do US farmers survive? Most of the survivors are large agri-consortiums that receive subsidies, while smaller farmers often survive because they have acreage enrolled in USDA program crops and receive various forms of support for those crops. According to a study by the Environmental Working Group, (EWG) "Taxpayers provided billion in subsidies, unfortunately, 10 percent of the recipients, or about 144,000 participants, collected 61 percent of the money."⁴⁷² Not surprisingly, the concentration of subsidized landowners is even higher in the states of US House and Senate Committee of Agriculture and Agriculture Appropriations chairs.⁴⁷³ SSA is facing a similar situation where large agribusiness now owns large tracts of the arable land, but without having gone through the process of purchasing it from the local population. In the U.S., farmers were originally given the land, and sold it off over a period of generations, as the owners moved to the city for a life less rigorous. In SSA, the local population were tribal with

⁴⁷⁰ Werth, 2006.

⁴⁷¹ Bogart, and Trzeciak-Duval, 2004

⁴⁷² Suppan, 2003.

⁴⁷³ Ibid.

little interest in owning large tracts of land enabling the large conglomerates to purchase it directly from the local governments.

This has created a vicious circle. Large agribusiness in SSA export their produce because the local population cannot afford to purchase it, while U.S. farmers overproduce and then dump the excess on SSA countries at below cost. What does one do when production of a product exceeds demand? Unlike manufacturing, in the agricultural industry it is dumped. If the entity is a manufacturing company, most produce according to demand. When demand wanes to a level where it is no longer profitable, they switch to a product that is more in demand. If the industry happens to be agriculture, the rules are quite different. Dumping reflects a distorted market where production is supported independently of demand. When there is no longer a market for the surplus agricultural crops, they are discounted, subsidized by the government, and sold on the market below cost leading to depressed international agricultural prices. This dumping destroys the market, especially for small farmers in rural areas of developing countries, where 70% of the world's poor live. One of the main causes for continued dumping of food on international markets are support payments to producers in countries that allow production without controlling supply.⁴⁷⁴

Although the world may eventually need this growing capacity, that time has not yet come. Herbert Oberhaensli from The Nestle Corporation stated that “the production of food would have to double by 2025 to provide enough calories to the world's population given demographic trends.”⁴⁷⁵ He reports that we the world's farmers are currently producing enough food to support the world population if that food could be

⁴⁷⁴ Watkins, 2006.

⁴⁷⁵ Ibid.

transferred to the right places. Oberhaensli's prediction is sobering. If his estimate is accurate, the world will catch production around 2020, and the need for increased production means that productivity per acre will have to grow, together with land use and water efficiency as well as an improved world wide distribution program.

The most important question of today is: does the dumping on the international market beneficial or harmful. Does it drive rural farmers away from the farms that will be needed in the future, does it save their lives or does it do a little of both? There is evidence that poverty depresses rural areas and causes more migration to cities leaving fewer farmers to till the land. In 1950, only 18 % of the population of developing countries resided in cities; by the year 2000 the figure jumped to 40 percent and estimates are that it will be at 9 percent 2020.⁴⁷⁶ The number of poor people dependent on outside food sources is expected to grow from 90 million to around 400 million between 1999 and 2015. It is estimated that 27 percent of the SSA population does not have enough to eat daily, an number almost twice as high as those in developing nations. SSA is plagued with HIV and AIDS, malaria, and tuberculosis, and yet, nearly three million of its people die from hunger annually, that is more than all of the infectious diseases combined. Commission for Africa 2005, claim that industrial and urban growth will have little effect on these numbers. Only agriculture reform will have a positive effect a starving population. Projections are that Africa will increase its food consumption by 100 percent between 2000 and 2020 or about 4 percent annually. As the population increases, SSA would under normal circumstances, become one of the fastest growing markets over that 20 year span. As it stands today, it will become the fastest growing recipient of humanitarian aid at the rate \$50 billion in 2004 and also increasing at 4 percent annually.

⁴⁷⁶ Charveriat, 2006.

⁴⁷⁷ The rest of the world will have to make a choice between helping these countries to reorganize their agricultural infrastructure now, or to support them through humanitarian aid for the next millennium. A startling revelation by the ODA is that international aid to SSA countries has been steadily falling below the 1980s level. Between the years of 1990 and 2001 it fell nearly 60 percent from \$1.3 billion to \$524 million.⁴⁷⁸

Currently, the dumped products supports the hungry more than it harms the farmers. The Institute of Agriculture and Trade Policy (IATP) calculates the percentage of the export price that is dumped below the cost of production by analyzing U.S. Department of Agriculture (USDA) and Organization for Economic Cooperation and Development (OECD) cost of production data from 1990 to 2001 for five-major U.S. export crops. The IATP reported that during the period studied “levels of dumping hovered around 40% for wheat, between 25% and 30% for corn, and levels have risen steadily over the past four years for soybeans. These percentages mean that wheat, for example, is selling for 40% less than it costs to produce. For cotton, the level of dumping for 2001 rose to a remarkable 57% and for rice it had stabilized at around 20%.”⁴⁷⁹

The conclusion on the effects of reduction of price supports is mixed. At the outset of a world with reduced agriculture dumping, in many cases, developing country export revenues might not be as great as projected since exporters may not be able to meet the proliferation of sanitary, phyto-sanitary and technical standards than can act as non-tariff barriers to trade. Stoll, at a minimum, some structured limits or guidelines on

⁴⁷⁷ Werth, 2006.

⁴⁷⁸ FAO, 2005.

⁴⁷⁹ Suppan, 2003.

dumping would offer more protection against the cultural and social instability that occurs when farmers are forced to migrate to the city in search of work.⁴⁸⁰

The WTO has inserted itself into the dumping situation and has become an advocate for those LDC countries that claim they have been unfairly treated in the area of agricultural trade agreements, and in particular product dumping. The WTO has a strong legal system that deals regularly with the rights of both developed countries and LDCs by prosecuting anti-competitive behavior, such as the recent US civil case against Cargill and ADM for \$4 billion in damages resulting from price fixing in high fructose corn syrup.⁴⁸¹ The opposition believes that the WTO is missing the point altogether. Reduced agriculture support by the developed nations will not solve LDC problems, nor will the implementation of internal agricultural supports, until these countries create an atmosphere where an open economy can flourish. The civil unrest that is prevalent in these countries, the lack of laws that ensures land ownership, and in many cases, the presence of corrupt bureaucracy have become agents of continued poverty that have prevailed from generation to generation. The reduction of agricultural supports by developed nations will have little effect on LDC farmers who grow only enough grain to live on, nor will internal price supports help farmers who have only enough land to support a family. Greater access to markets will be of little use for countries that are unable to take advantage of this opportunity due to domestic situations that create road blocks to progress. Market access and the reduction of developed nations agricultural supports is not the total answer for these nations. They are not a substitute for removing internal obstacles that interfere with public investment nor will they overcome the lack of

⁴⁸⁰ Suppan, 2003.

⁴⁸¹ Ibid.

public infrastructure. More important than market access is the Aid for Trade program which invests in roads, ports, education and social reform.⁴⁸² In a 2009 report before the U.N. Conference on Trade and Development (UNCTAD), it stated that developed countries must eventually help the worlds poorest countries out of their financial crisis, as their economic growth is at a standstill while their population continues to increase. Food aid and open markets are not enough to turn these nations around. Developed countries must invest in the agricultural infrastructure of these nations or make plans to support them indefinitely.⁴⁸³

Developing Nations

Farmers as well as others who live within the EU's boundaries enjoy a comfortable lifestyle, some claim, at the expense of poor countries in Eastern Europe, Africa and Latin America and certainly at the expense of local consumers and taxpayers.⁴⁸⁴ The CAP, in particular, and the U.S. Farm Bills have used quotas and tariffs of several hundred percent to effectively block the importation of many foreign foodstuffs and often nations reciprocate by not allowing imports of U.S. and EU products. The result of these reciprocal actions are often a huge surplus of agri-products accumulation in the US and Europe that must be either used, sold, stored or destroyed. The latest example was China and their reaction to import tariffs on American tires and other products imported into the United States from China. Producers sell to exporters who then sell to poor countries with the help of U.S. export subsidies. For many years now, there have been calls for change, especially with the Cairns group of big agricultural exporters such as Brazil, Argentina, Canada and the United States pressing for increased

⁴⁸² Newfarmer, Richard. 2006., Durberry, Gemmel and Greenaway. n.d.

⁴⁸³ WTO World Trade News. 2009

⁴⁸⁴ Norberg, 2003.

free trade reforms. One of the major issues is that the past actions of the U.S. has deflated its credibility. Its' free trade rhetoric is seldom taken seriously. Likewise, the EU's protectionism in the past was the most destructive for developing countries, but U.S. protectionism caught up quickly, which in turn gave the EU an excuse not to change their position. With the US Congress' passage of the latest, Farm Bill in 2006, American agricultural policies look a lot like the ineffective and outdated CAP.

According to the UN Conference on Trade and Development, (UNCTD) EU protectionism deprives developing countries of nearly \$700 billion in export income a year when it sells cheap grain to countries that have no food shortages. That is almost 14 times more than poor countries receive in foreign aid. The UN calls EU protectionism a continuing tragedy, causing unnecessary hunger and disease.⁴⁸⁵ Advocates, including the UN, continually berate the EU and the U.S. for selling at prices below the market, but downplay the part that the receiving countries play in the transactions. The very same countries that are complaining are the ones who are purchasing these inexpensive agricultural products at bargain prices.⁴⁸⁶

While it may be true that these price supports prevent LDCs from exporting a portion of their crops and losing income in the process, the real losers are the developed nation's consumers. Some estimate that protectionism costs their citizens almost \$1 billion every day. The actual cost to consumers, and the potential global gains from agricultural trade liberalization may not be as significant as anti-support advocates would lead us to believe. Most of the costs of agricultural policies are borne by the countries which implement them but are included in the advocates for reform's overall savings

⁴⁸⁵ Norberg, 2003.

⁴⁸⁶ Ibid.

numbers. However, the real gains accrue to the populations in the countries which undertake the reforms.⁴⁸⁷ A good example is Sub-Saharan Africa and the least developed countries who are potential losers because very few of them are net exporters of products which compete with those protected by the developed nations. Anti dumping enforcement will result in higher prices which implies potential trade loss, assuming that these countries have anything to trade. The real losers from trade reform are among the poorest countries who will lose inexpensive food products. One thing is for certain, one plan will not be beneficial to all. If and when reforms are implemented, measures to safeguard each LDCs interests in the reform process will be necessary.⁴⁸⁸

There is not total agreement on which types of price support eliminations would be most beneficial. Some believe reducing tariff barriers to improve market access has the greatest positive impact on developing countries in the aggregate. They believe that those countries will benefit far more from lower tariff barriers by rich countries than from lowering other forms of farm support. On the other hand, net importing countries with limited domestic production potential benefit if rich countries subsidize their exports because retail prices for them are lower. However, export subsidies on certain products can be very disruptive in particular markets that have export potential (produce more than they consume or sell locally). On the one hand farmers in LDCs might benefit from higher prices, while consumers in the same countries' will suffer from higher prices.

The impact on poverty will depend on the extent to which world price changes are transmitted into the domestic food markets of developing countries and on the number of the population that depends on agriculture exports for survival. Although agriculture in

⁴⁸⁷ EU Agricultural Policy Reform. 2002

⁴⁸⁸ Ibid.

LDC countries accounts for only one half of a percent of world wide agricultural production, it still accounts for nearly 20 percent of their GDP. It also employs about 50 percent of the population.⁴⁸⁹ This would lead one to the conclusion that blanket agricultural policy reform might mitigate but not eliminate the instability of world market prices. All are in agreement, however, that one program will not work for every country. Each nation must have a plan that fits into its place on the economic ladder.⁴⁹⁰ In 2001, during the period when the WTO was implementing the amber box, green box blue box concept, the developing countries introduced a Development box that would allow LDC countries to introduce their own agricultural support programs in contrast to a blanket approach of that would eliminate all international support programs. Although the development box was never official, some of the language did find its way into the Doha Round mandate on agriculture that provided for special treatment provisions for those nations whose first interest was in food security.⁴⁹¹ This could have an important impact on LDCs. Although the Doha Round had agreed that LDCs could keep in place import tariffs and agricultural supports in order to protect their unstable markets, the Development box would allow them to impose new restrictions while the rest of the WTO member nations would be required to eliminate their support programs.

Recent developments in agricultural demand may cause some of these problems to be self correcting. Both corn and wheat are experiencing their highest prices since 1990. The rise in prices is being felt in the international market as the costs of corn, cooking oil, and other items commonly purchased from the U.S. and used in food aid programs have increased sharply. Although the US is still the largest donor of food

⁴⁸⁹ NGO Background Paper. 1999.

⁴⁹⁰ EU Agricultural Policy Reform. 2002

⁴⁹¹ Murphy and Suppan, 2003

worldwide, the volume of aid provided through Food for Peace dropped by more than half between 2000 and 2007, to 2.4 million metric tons, in response to a 35 % increase in the cost of agricultural commodities between 2005 and 2007.⁴⁹² Reasons for the price climb include growing demand for grain in China, Russia, Latin America, and South America, which has reduced global stockpiles, as well as a surge of interest in the use of corn and other food crops to produce bio-fuels, particularly ethanol which has recently lost some of its luster. In addition, rising transportation costs have made it more expensive to ship U.S. agricultural products to other countries pushing the price of food aid upward, driving prices even higher. If the gross amount of food aid is to continue at former levels, then the dollar amount of aid must increase at the same rate as the increase in price. In today's economy that is not likely.⁴⁹³

A recent study reported by Kirwin claims that most developing countries are net-food and cereal-grain importers, therefore only a small number of countries actually lose money as a result of dumping. Consequently, these countries benefit from lower food-commodity prices (dumping) created by developed country agricultural subsidies.⁴⁹⁴ There is also research to the effect that incomes in developing countries actually increase as US agricultural subsidies increase. The idea being that once the barrier of not enough food to eat has been breached, only then can the population concentrate on the issues of trade and economic progress. The analysis reveals that net food importers are driving this result and net-food exporters are unaffected by U.S. and CAP agricultural subsidies.

Taken together these results suggest that, in the short run, unconditional trade liberalization might harm consumers in less developed countries more than it will benefit

⁴⁹² Hanson, Jessica, 2007.

⁴⁹³ Ibid.

⁴⁹⁴ Kirwan. 2006. The wealth of U.S. farmers and developing nations..

export producers.⁴⁹⁵ Naturally, the contrasting evidence has widened the two schools of thought and demands that even more data be collected. Jeffrey Sachs, Joseph Stiglitz, and others still maintain that eliminating rich country agricultural support will result in a substantial gain for the poorest population in developing economies, while others, most notably Arvind Panagariya (2005), have argued that the poor population is generally a net-importer of the US subsidized commodities, and thus they benefit from the subsidy induced lower prices.⁴⁹⁶ Sachs and Stiglitz hold that eliminating U.S. subsidies immediately would benefit developing countries, but net importers of the subsidized commodities stand to lose once subsidies are removed and commodity prices increase. This will affect 103 developing countries that are net importers of three categories of agricultural goods: cereals, food, and all agricultural goods.⁴⁹⁷

The jury is still out on the effect of trade liberalization. For example, Beghin has used a simulation model to estimate that developing countries would gain \$60 billion per year from the removal of rich country agricultural subsidies. Other simulation models listed earlier, predict about the same amount of harm.⁴⁹⁸

The World Trade Organization

In 1995, the WTO succeeded GATT which originated in 1947. One of the stated goals in the preamble of the agreement establishing the WTO was “achieving full employment and sustainable development.” Over a period of time the membership re-focused on the ideological pursuit of liberalizing trade as a vehicle to achieve those

⁴⁹⁵ Kirwan. The wealth of U.S. farmers and developing nations, 2006.

⁴⁹⁶ Ibid.

⁴⁹⁷ Ibid.

⁴⁹⁸ Beghin et al, 2002.

goals.⁴⁹⁹ The WTO brings together 153 member states and 30 observers seeking membership, and representing over 95% of world trade. Each with different levels of development issues broader than just trade. Never the less, by the late 1990's trade liberalization became its driving force. Many of these developing countries were experiencing extreme poverty, and often attributed their situation to trade liberalization reforms even though most were economically challenged long before the WTO came on to the scene.

Eventually, a popular movement arose that began challenging the alleged benefits of trade liberalization. After public demonstrations by the poor countries that the WTO were attempting to introduce to market liberation, at the 3rd WTO Ministerial Conference in Seattle in December 1999, it was clear that any new trade round would have to include a more country specific plan. While further trade liberalization in agriculture, manufactured goods and services were maintained as the objectives of the new round of negotiations, developing countries emphasized the need to reform the existing rules that they claimed placed them at a disadvantage. A key demand was the reform of the Agreement on Agriculture which would include new rules that would restrict developed countries from dumping their agricultural goods onto developing countries markets.⁵⁰⁰ “The Doha round has opened the world's eyes to the fact that international trade could help millions of poor farmers and workers, but rich country farm policies are working directly against that,” said Celine Charveriat of Oxfam's Make Trade Fair campaign. According to Charveriat, the EU and U.S. farm policies are now wholly discredited and it is widely recognized that they must be reformed or face legal challenges. An example

⁴⁹⁹ Smaller and Murphy, 2006.

⁵⁰⁰ Ibid.

given was Brazil's successful cases against the US on cotton and sugar.⁵⁰¹ Ms Charveriat was either uninformed of the dangers of eliminating low priced grain to LDCs, or chose to defend Oxfam's policy in spite of it.

Oxfam claims that the Doha round missed the point and was used primarily to improve the rules that allow rich countries to capture nearly 70% of world trade flows while poor and developing countries representing 81% of the world's people, many of them living in extreme poverty got 30%. The entire continent of Africa received only 2.6%. The Oxfam theory is that the EU and U.S. failed to see that times had changed since the Uruguay Round in November 1982, and that developing countries are now key players. All of this may be true, however, prior to the WTO, the LDCs were not players at all in the world market, and their situation has not improved. One of the reasons that they have only 30% of the market today may be because they have little to sell or because economically, they have not yet reached the level of manufacturing that would enable them to compete at this level.⁵⁰²

Developed countries, and in particular the U.S. have been accused of playing the divide and rule game in their contract negotiations. As a result, developing countries organized into a strategic block in Cancun and refused to negotiate until the table was level. The strategy of working as a coalition is now firmly entrenched and although they speak as one, they still fail to understand that their interests are not necessarily common interests, and any arguments that they make must be country specific in nature if they are to be effective.

⁵⁰¹ Charveriat, 2006.np

⁵⁰² Granger, 2006.

WTO Director-General, Pascal Lamy, in an effort to bring both sides together, has continued to push for deadlines that would force the parties to make decisions and concessions in order to keep the negotiations active. In July, 2006, after little sign of change in members' positions, Lamy suspended the talks, called for a time-out and a period of reflection. By November, 2006, Pascal Lamy had quietly resumed the negotiations which remain deadlocked as of September 2009. During the 2006 Doha round of negotiations, the WTO experienced an increased unpopularity among members on both sides in its drive towards further trade liberalization. Throughout the developing world, including India, South Africa, Brazil and Indonesia, millions of small scale farmers, trade unions and civil society groups took to the streets in opposition to the WTO and the Doha Agenda. On the other side of the table, the French and Dutch "no" vote against the EU Constitution, was a vote, in part, against a greater push for trade liberalization that might reduce their trade position. While in the U.S. trade liberalization, as promoted by the Bush administration, became increasingly unpopular with the large agribusiness vote. It is possible that some of the new Democrats that were elected to Congress were elected because of their opposition to the direction of Bush's trade agenda. During the open sessions it became apparent that those that stand to gain from the Doha Agenda as it is written are exporters from industrialized countries and a small group of exporters from developing countries.⁵⁰³

Few today refute the need for stronger multilateral trade rules and the need to reform the existing system. But after years of negotiations, it is becoming more evident that the current proposal will not achieve this goal. The dominant issue on the negotiating table continues to be market access for both industrialized and developing nations with

⁵⁰³ Granger, 2006.

the implementation of a development ladder that will allow LDCs to merge into the international market over a period of years as they continue to grow stronger economically. It may be time to rethink the current Doha approach to trade reforms. The United Nations Conference on Trade Developments', (UNCTAD) Trade and Development Report 2006, for example, stated: "The fast pace of trade liberalization caused trade deficits to become larger." The report argues for "widening the scope of national policy instruments beyond those that were deemed acceptable under the development paradigm of the past 25 years," and states, that "international policies should be designed in a way that allows greater scope and flexibility for the application of domestic instruments to address the most serious obstacles to growth and development."⁵⁰⁴

Nearly fifteen years of negotiations has exposed a host of other objectives, broader than market access, which LDCs are pursuing at the WTO. The G33 (a group of more than 40 developing and less developed countries) are placing a stronger emphasis on the need to address food and livelihood security and rural development for their small-scale producers. This is the first time that they have acknowledged that there are two distinct problems, neither of which can be solved with blanket rules that would abolish all international agricultural price supports. These LDC countries need strong, effective and simple rules to prevent dumping in some countries, but not all. The current WTO rules against dumping are blanket in scope, not always applicable to the individual needs or national problems that exist in each country. These specific requirements make the rules difficult to implement, and often impossible to litigate. Even when the case is strong, in the past small countries have often been reluctant to challenge a trading power as

⁵⁰⁴ Smaller and Murphy. 2006. np

powerful as the U.S. It is time to focus on developing trade rules that allow for just and equitable trade applicable to each nation. Each country needs its own balance between protecting certain sectors of its economy and opening of others.⁵⁰⁵ The June 7, 2006 proposal to the WTO by the African Group of 41 on managing trade in agricultural commodities was the first proposal of its kind to address poverty and improved living standards in rural areas in the context of the Doha Agenda. The proposal emphasizes the need to ensure stable prices and a competitive market place for commodity producers and an improved method for the distribution of international relief fund products that provide for poverty stricken nations.⁵⁰⁶

The proposal by the African Group identifies four areas for inclusion in the Doha negotiations:

- 1) The elimination of tariff escalation where it discourages development. Tariff escalation describes a tariff structure in which tariffs increase as products are transformed from their raw state into a processed good (referred to as value added). For example, tariffs on raw cotton are typically lower than tariffs on clothing. Tariff escalation allows developed countries to import raw materials at low cost from developing countries for their own industries but protects developed country industry from value-added imports, which discourages industrial development in developing countries.

⁵⁰⁵ Smaller and Murphy. 2006. np

⁵⁰⁶ Ibid.

- 2) The adoption of international systems to manage the supply of commodities so as to stabilize prices. For commodities like grain, coffee or cocoa, world prices are severely distorted by the structural oversupply of the commodities on international markets. Oversupply has depressed prices with devastating effects for small-scale coffee and cocoa producers.
- 3) To allow the use of export taxes and export restrictions to stabilize commodity prices. Major suppliers of commodities to world markets, or a number of suppliers acting in concert, can thereby avoid sharp declines in the world price when supplies increase. This also allows countries to slow exports if they want to retain commodities for their own food security. And it offers countries another option for increasing government revenue.
- 4) To negotiate more concrete disciplines to eliminate non-tariff barriers that affect commodity trade. Non-tariff barriers can include health and safety standards and packaging requirements that are essential to any country's trade regulation. However, other non-tariff barriers can be used as a way to keep out imports, unfairly discriminating against producers and exporters from poorer countries. A better system at the multilateral level is needed to ensure that any standards put in place are the result of a participatory process, ideally one that provides funding to commodity producers to raise the quality of their goods."⁵⁰⁷

The proposal from the Africa Group is a watershed in trade negotiations with developed nations. By calling for systems of supply management, the proposal suggests alternatives to tackle the root causes of dumping. Unfortunately, supply management has been the major culprit in the past. The upside is the implication that any agreement that

⁵⁰⁷ Smaller and Murphy. 2006

might be reached would have to be managed by an international entity such as the UN or the WTO. The admission that solving the problems of this magnitude are beyond the capacity of any one individual or multilateral organization is a definite step in the right direction. The African proposal calls for the participation of the UN Conference on Trade and Development (UNCTAD) and the International Commodity Organization (ICO) with the WTO as the governing body to coordinate and oversee the ongoing governance of the agreement as they continue to reach acceptable solutions.⁵⁰⁸

Reform

The link between the degree of support given to farming in OECD countries and the difficulties faced by developing country farmers has come into sharp focus. There is no doubt that OECD farm programs have a significant impact on the structure of world markets. The consequences of future policies have recently become clearer in the context of the Doha Round of negotiations in the WTO.⁵⁰⁹

The 1995 WTO Agreement on Agriculture finally brought agricultural commodities under the multilateral trading system. This was the first step towards reforming agricultural trade when the WTO committed developed countries to 15 to 36 percent reductions in three types of price supports over a five year period while developing countries pledged smaller cuts over a longer time period. It would be the beginning of both progress and stalemates over the next 10 years.⁵¹⁰

The Doha Development Round of the WTO, launched in 2001, explicitly mandated improvement in welfare and the reduction of poverty in all countries. Both worthwhile goals with broad parameters. After years of negotiations, it is still unclear

⁵⁰⁸ Smaller and Murphy, 2006.

⁵⁰⁹ Josling et al, 2007.

⁵¹⁰ Davis, 2007.

when and if the Doha Round will ever yield meaningful results on either point. Although developed countries have agreed to eliminate export subsidies by 2013, the EU and U.S., under pressure from powerful agricultural lobbies, are reluctant to make significant concessions on domestic support and literally shut down further negotiations in December of 2008.⁵¹¹ Throughout the negotiations, developed countries have continued to spend nearly \$300 billion in support of their farmers, or approximately 1.3 percent of gross domestic product. In comparison, official development assistance to developing countries was only \$80 billion in 2004.⁵¹²

The current Farm Nutrition, and Bio-energy Act of 2006 still reflects the subsidies for grain crops, sugar and cotton that were introduced as a response to the Great Depression, although most have been decoupled from production. Almost seventy-five years later these commodity supports are still in place, even though the characteristics of U.S. agriculture have changed dramatically over the course of nearly four generations. The shape of those policies no longer reflects the needs of agriculture as a whole or the role of agriculture in the economy. Today, only about 1% of the labor force works on farms, compared to as much as 40% in some areas when the commodity programs were first implemented. With this in mind, one would expect a degree of reform in the introduction of each succeeding bill. The current farm bill is divided into “titles” that have not been seen before, indicating its broad scope. Three titles are of particular relevance to developing countries. Commodity support programs are specified in Title I and include provisions for the major “program crops” such as corn, wheat, soybeans, cotton, and rice, as well as for sugar and dairy products. Title III deals with trade issues,

⁵¹¹ Davis, 2007.

⁵¹² OECD, 2007.

including food aid. Title IX concerns the provision of energy from farm products.⁵¹³ Two additional factors are in play in the current Farm Bill that once again bring to the forefront the importance of foreign policy in U.S. farm and food legislation. The first is the debate over food aid. As the US continues to be the major supplier of food aid, a vital source of grain for many poverty stricken countries, any change in policy in this area is potentially dangerous. The second is the growing demand for corn for ethanol that added a short lived new dimension to the link between US markets and the conditions faced by the developing world.⁵¹⁴

US food aid policies are still criticized for their effects on developing country markets. In the past, there has been considerable debate about the benefits of food aid delivered in cash rather than in kind. The current U.S. farm bill specifically states that aid must be in product and not in cash. Some argue that cash food aid can provide a more timely delivery of more acceptable commodities, and can also promote economic development when such purchases are made in developing country markets eliminating the issue of freezing out the products of local growers, while others argue that history has proven that cash often simply disappears.⁵¹⁵ This is a significant issue, as the U.S. provides 50 % or more of all international food aid. In fiscal year 2006, U.S. food aid totaled over three million metric tons, equivalent to \$2.2 billion. The big difference between U.S. aid and all other countries aid is that U.S. food aid is required to be supplied in-kind. In other words, it must be provided in U.S. commodities as opposed to cash. The latest U.S. Farm Bill established a minimum donation level of 2.5 million

⁵¹³ Josling et al., 2007.

⁵¹⁴ Ibid.

⁵¹⁵ Cross, 2006.

metric tons of product. All other nations provide assistance in the form of cash.⁵¹⁶ The major reason that the U.S. has not transitioned to cash food aid is due to the political pressure from farm belt constituents to continue to use U.S. commodities in these programs, (in other words, it gets rid of the surplus crops created by farm subsidies). International food aid programs for the poor sound good to the public and have always benefited from strong bipartisan political backing from agricultural groups and U.S., maritime interests. It is also a federal requirement that 75% of food aid is to be shipped on U.S. vessels. The shipping of grain requires many vessels, cash does not. There is another factor involved that receives little attention, and that is the Private Voluntary Organizations (PVOs) who receive and distribute U.S. food aid to needy countries. Many of these PVOs receive much of their income from the distribution of food aid, in the countries in which they are working.⁵¹⁷ While both developing and developed countries have a strong interest in getting food to those that need it, the issues involved are politically sensitive and engage powerful special interest groups who will not willingly give up their golden goose. These parties are often more interested in their own personal agenda than the overall welfare of the people that they serve.

The 2007 Farm Bill has a number of provisions in the energy title pertaining to the projected demand for ethanol. It was anticipated that this new undertaking would keep the price of corn and a number of other grains at high levels for years to come. Although the estimated demand for ethanol has waned, it still offers improved opportunities for developing countries who produce corn, soybeans, and other crops that

⁵¹⁶ Cross, 2006.

⁵¹⁷ Davis, 2007.

can be used for energy production while, unfortunately, limiting the supply of free grain to those that depend on it.

Those advocates for reform who were hoping for major changes in the 2007 Farm Bill were disappointed. The new bill passed through the House with little change from the 2002 version. The Senate version authorized nearly \$10 billion in new subsidies, price guarantees and disaster aid over the next 10 years. In addition, there is a \$5.1 billion disaster trust fund, and a revenue insurance program that will cost another \$4.7 billion. Senator Judd Gregg (R-N.H.) said “The farm program is agriculture’s answer to 1930s socialism.”⁵¹⁸ The only real change in the 2007 farm bill is that farmers have the potential to receive even more subsidies than before although they may have new names attached to them. The upside is that nearly all subsidies directly attached to production have been eliminated. In any event, the Senate bill, which amounted to \$286 billion, failed to pass on November 16, 2007, and was be pushed into 2008 for further debate, where it eventually passed on May 20, 2008.

Sugar

The US sugar policy is conducted through quotas and tariffs and along with cotton, is still the most protected of all U.S. crops. By insulating U.S. sugar producers from the world market, these subsidies are designed to stimulate domestic production, even though they create an estimated \$900 million a year in net losses to the U.S. economy.⁵¹⁹ Surprisingly, the U.S. is not a large exporter of sugar, however, its market access restrictions are estimated to depress world prices by more than three percent. In addition to the price depression, these barriers to the U.S. market are detrimental to those

⁵¹⁸ Morgan. Senate’s Farm Bill, 2007. np.

⁵¹⁹ Beghin, Roland and Vander Mensbrugge, 2002.

developing countries where sugar is a commodity in which they have a comparative advantage.⁵²⁰ In spite of U.S. apathy on the subject, there is a bright spot on the international sugar market. The EU, faced with the extremely difficult task of reducing agricultural support payments while at the same time taking on the powerful large agri-corporate powerhouses, surprisingly chose the most protected product to initiate their first progressive change in international trade. In 2005, the EU agreed to cut guaranteed sugar prices by 36% in the largest overall reform in 40 years.⁵²¹ The decision came after a majority of EU governments accepted a compromise presented by the EU agriculture commissioner, Mariann Fischer Boel, who suggested increased compensation to sugar-producing farmers and companies to offset the resultant loss of income. Part of the compensation to be provided includes a 5.6 billion fund to be dispensed over a four year period just to compensate sugar refinery closings. Although the WTO and the rest of the international community had brought great pressure on the EU to change, its abrupt acquiescence, and the degree of change took them by surprise. For nearly forty years, sugar has been the EU's most regulated and protected sector that that kept prices at more than three times the level of the international market.⁵²²

What makes this even more surprising is that the EU's sugar program has been scheduled for reform every five years for the last 40 years without actually making any changes. Some of the most powerful agricultural companies in Europe which were instrumental in delaying reform proposals were caught off guard. The principal causes for reforming the sugar program at this time were not entirely voluntary on the part of the EU, and were threefold in nature: 1) the CAP reforms of 2003/04 that left sugar as the

⁵²⁰ Beghin, Roland and Vander Mensbrugge, 2002.

⁵²¹ Bilefsky, 2005.

⁵²² Ibid.

only major commodity unreformed, provided a mechanism to compensate farmers for income losses due to reform measures; 2) the "Everything But Arms" (EBA) agreement, in which the EU-25 agreed to phase out tariffs by 2009 on imported raw sugar from 48 of the least developed countries; and probably the most important factor of all 3) a WTO Panel ruling that found the EU sugar regime in violation of WTO export commitments. The EU also lost the appeal of its case.⁵²³

The basic features of the EU Agriculture Commission are:

- Sugar price is reduced by 36% from €631.9 to €404.4 per metric ton (mt) over a 4-year phase-in period beginning in 2006-07.
 - Minimum sugar beet price is reduced by 39.5 % to €26.3/mt over the phase-in period.
 - Sugar production quotas are not reduced except through a voluntary 4-year restructuring program where quota can be sold and retired. Payments for quota are € 730/mt for 2006/07 and 2007/08; € 625/mt for 2008/09 and € 520/mt for 2009/10.
 - Restructuring is financed by quota levies on producers and processors who do not sell quota. Total value of the restructuring fund is projected at €5.704 billion.
 - Compensation is available to farmers at an average of 64.2% of the price cut. The aid is included in the Single Farm Payment and is linked to payments for compliance with environmental and land management standards.
 - Establishment of a prohibitive super levy to be applied to over-quota.
- Elements of European Union sugar reform proposal made on November 24, 2005
- A 36 % support price cut over four years beginning in 2006-07 to ensure sustainable market balance, -20% in year one, -25% in year two, -30% in year three and -36 % in year four.
 - Compensation to farmers at an average of 64.2% of the price cut. Inclusion of this aid in the Single Farm Payment and linking of payments to respect environmental and land management standards.

⁵²³ European Union 25-Sugar, 2006.

- In those countries giving up at least 50% of their quota, the possibility of an additional coupled payment of 30% of the income loss for a maximum of five years, plus possible limited national aid.
- Validity of the new regime, including extension of the sugar quota system, until 2014-15. No review clause.
- Merging of A and B quota into a single production quota. There are no quota cuts. Any quota reduction results from sales of quota into a voluntary restructuring buy-up scheme.
- Abolition of the intervention system after a four-year phase-out period and the replacement of the intervention price by a reference price. During the transition, the intervention price will be 80% of the reference price of the following year. Only 600,000 metric tons can be sold into intervention each year.
- Introduction of a private storage system as a safety net in case the market price falls below the reference price.
- Voluntary restructuring scheme lasting four years for EU sugar factories, and isoglucose and insulin syrup producers, consisting of a payment to encourage factory closure and the renunciation of quota as well to cope with the social and environmental impact of the restructuring process. This payment will be €730/mt in years one and two, falling to €625 in year three, and €520 in the final year. There is the possibility to use some of this fund to compensate beet producers affected by the closure of factories.
- An additional diversification fund for Member States where quota retirement is larger than expected.
- Both these payments will be financed by a levy on holders of quota, lasting three years. The first year levy is equal to €126.4/mt; second year levy, €173.8/mt; and third year levy, €113.0/mt. The isoglucose levy is fixed at 50 percent of these rates.
- Sugar beets qualify for set-aside payments when grown as a non-food crop and also are eligible for the energy crop aid of €45/hectare.
- To maintain a certain production in the current C-sugar producing countries, an additional amount of 1.1 million mt will be made available against a one-off payment corresponding to the amount of restructuring aid per metric ton in the first year. • Sugar for the chemical and pharmaceutical industries and for the production of bio- ethanol will be excluded from production quotas.
- Increase of Isoglucose quota of 300,000 mt for the existing producer companies phased in over three years with an increase of 100,000 mt each year.

- Possibility to purchase extra isoglucose quota in Italy (60,000 mt), Sweden (35,000 mt) and Lithuania (8,000 mt) at the restructuring aid price.⁵²⁴

How does all of this affect the LDCs? EU Sugar beet producers, anticipate that a third of the 300,000 beet growers in Europe will abandon the industry, and that 80 of 320 sugar factories will be shut down, which is exactly the plan. The long term effect will be to open up new opportunities for countries that are more competitive in their production and distribution.⁵²⁵ The immediate effect of this agreement will be to allow the duty free entry of raw sugar imports into the EU sometime in 2009. Many of the LDCs are high producers of sugar, but have been barred from exporting it to the EU, one of the worlds largest consumers. As one would expect, there are detractors to the program, as it will completely revolutionize the sugar industry and eliminate a large portion of the subsidized EU sugar producers and processors. Some claim that it will decimate their industry. The EU has promised to deal with that issue and has already put safety nets into place. Ireland, Italy and other hard hit EU nations have been offered even more aid for their farmers, and will be compensated for as much as 100% of their losses for a period of time to be determined at a later date.⁵²⁶

⁵²⁴ European Union 25-Sugar, 2006.

⁵²⁵ Bilefsky, 2005.

⁵²⁶ Ibid.

CHAPTER VI

CONCLUSION

As stated in the Introduction and Chapter II, the purpose of this dissertation was three-fold:

- 1) Agricultural price support programs were introduced in both the United States and Europe during the Great Depression and again after WWII to subsidize small farm income. Small farmers at that time were not earning enough to support their families or to maintain their farms. Existing evidence suggests that these programs became redundant as the number of small farmers declined to roughly 10 percent of the original group, and the personal incomes of those that remained rose to the level of the national average. The original agricultural support programs are no longer relevant to today's small farmer. That evidence makes it clear that if these programs were suspended today, the vast majority of the remaining small farmers in these developed countries would not be harmed.
- 2) Today's agricultural price supports have little to do with local agrarian needs, and remain in place due to large corporate influence, and public apathy. Change and reform are unnecessarily protracted and lengthy as a result of the personal self indulgence of politicians and industry giants. The benefits of modern day price supports no longer flow to small farmers as originally intended, but to the large agribusiness community which would continue to prosper in their absence.
- 3) To determine if the continued dumping of excess agricultural products on the markets of less developed countries at prices below what these products can be

grown locally is detrimental to the farmers of these nations, inhibits their economic growth and perpetuates poverty in many LDC countries.

The first chapter provided the justification for the project and a description of it. In that chapter the research discussed the concerns about the continuation of funding for a program that is no longer relevant. A review of the available literature suggests that there was a genuine need for agricultural price supports in both the United States and Europe following the great depression and World War II (WWII). These programs were initiated in order to rescue the large farm communities of the developed nations during a period when small farming could not support a family and farms were failing, creating even higher unemployment than the national average and threatened these nations' future food supplies. The existing literature on the subject also demonstrates that at some point in time, these programs became redundant as the economy began its healing process and the small farmers began to decrease in number as more farm families moved to urban areas for higher wages and better working conditions. This dissertation found that although the need for small farm agricultural subsidies steadily decreased over the years, the funding continued and in many cases increased during that same period of time.

Chapters I and II outlined the contents of the dissertation and presented the main arguments. The final determination, given the information derived from the literature review, was that, first; one of the major causes of the break in small farm dependence on agricultural subsidies was urbanization. As this urban transformation took place, the number of small farms shrank and the need for farm subsidies became redundant. When the small farms in the United States and the EU were reduced from 50 percent to less than five percent of the total population, the need for agricultural support payments was

reduced in kind. The total amount of government support payments continued unchecked when in fact they should have been reduced or eliminated. Second, the modernization of the farm industry with its reduced demand for manual labor and improved farm production has resulted in improved profits and less dependence on farm subsidies. Farm subsidies should have been reduced or eliminated as the need for them declined. Third, corporate farming has taken over the industry. As farming became more profitable, large corporate farms became more desirable to entrepreneurs and corporate investors who then purchased up the small farms in the country, which in turn eliminated the original concept of small farm subsidies. Fourth, income redistribution has enabled the small farmer to earn an income comparable with the national average. The need for less labor and improved growing techniques have placed more profit in the hands of the small farmer, eliminating the need for supplemental government support programs. Fifth, political interference has prevented these agricultural policies from taking their logical course. Large agribusiness lobbyists and politicians with personal agendas have altered the normal avenue of rescission that these outdated agricultural support programs should have taken. The validity of these arguments has been confirmed by the research and case studies that follow in chapters three four and five.

This study has found that agricultural price supports in the developed countries of the United States and the EU are in fact outdated and redundant. They are self perpetuating and continue at the leisure of large agribusiness to the detriment of the consumer and, in some cases, of the LDCs as well. In sum, the case studies in chapter three, four and five qualified my arguments, affirmed hypotheses one and two in total and

partly confirmed hypothesis three with some caveats which I will address later in the chapter.

As outlined in the main argument, Chapter III began by providing some historical background of the agricultural support programs in the United States and the EU, and then examined the similarities of the two in a cross case study scenario. The research reaffirmed the argument that the giant share of the money from these programs no longer goes to small farmers but to large agribusiness interests. With the largest 10 percent of farms receiving three quarters of the funds, there is little doubt that today's small farmers no longer meet the original criteria of need. The implication of the research is that the EU is no better. The largest amount of the funds in the EU go to those countries that no longer need the support while a small number of Eastern European countries that could use the funds get little. Both of these facts verify my argument that somewhere in the past 40 years the small farmer reached a peak where they no longer needed price supports. At that point of equilibrium, the funds began to transfer to another entity.

Ironically, this cross case study identified the real loser in this scenario to be the developed countries consumer and local industry that are forced to pay higher prices. Although this was not a part of the central theme of the hypotheses, it emphasizes the harm that these programs impart as a result of political partiality and public apathy. The findings here imply that both the United States Congress and the EU have made only half hearted attempts to eliminate these supports. The findings also reveal the contradiction in each government's law makers who are sworn to protect the best interests of their citizens, but in reality, show fealty only to their constituency as they pass laws that are beneficial to a few and harmful to many. The implications of this research are that

throughout the term of these subsidies, political parties have used them as a lever to get votes and to preserve party power.

In answer to the question: could the remaining small farmers survive if all agricultural supports were suspended, this research finds that the answer is yes. The findings here reveal that this is not unexplored territory. NAFTA countries, primarily Canada and Mexico, as well as Australia and New Zealand have either reduced or eliminated agricultural price supports with positive results. This research brings to light the fact that the remaining number of small farmers in developed countries is so small and insignificant to each country's GNP that they could easily be subsidized, retrained, or relocated for a fraction of the amount being paid in subsidies. On the bright side, the findings of this chapter show that subsidies are actually being reduced in developed countries, albeit at a rate that might be unacceptable to the consumer if they were actually aware of the cost to them personally. The United States has decoupled most crops from production and has suggested that other nations do the same, while the EU CAP and Agenda 2000 reform, have also made some gains although those gains remain insignificant. The findings here imply that the expansion of globalization and the communication revolution have provided new oversight on government spending which in turn has brought more pressure on politicians to make responsible fiscal decisions.

After investigating the difficulty that the United States and the EU have incurred in their attempts to come to grips with both the question of the validity of continuing these programs, and the complications that prevent beneficial change, the WTO, and its efforts to bring the nations of the world together, was introduced into the formula. Chapter IV recognizes all of the pitfalls in Chapter III and chronicles the WTO's efforts

bring the nations of the world together in a effort to maximize open market trading through the elimination of national and regional agricultural support programs.

The examination process begin with the past success rate of the WTO as it brought the countries of the world together in other areas of trade. In the areas of industry, manufacturing, and intellectual property the WTO has been able to bring its member nations together to sign multilateral agreements when these same countries were not able to do so on their own. This case study outlined the progress of the WTO in its attempts to bring the countries of the world to an agreement on a set of agricultural rules, using the same set of negotiating principles that had worked in other areas. It was observed that the WTO applied the all for one and one for all rule to the negotiations, which implied that one set of rules should apply to all countries, and the all or nothing rule, which was designed to prevent nations from accepting only part of any agreement that might be reached. This chapter found that both rules hamstrung the WTO negotiations and actually inhibited both sides from reaching an agreement. The WTO faced a dilemma similar to that of the United States and the EU in that the majority of member nations agreed that agricultural support programs were outdated and too expensive to continue, yet were unable to agree on how to dismember them. The research also discovered that while the developed nations were concerned about the expense of these programs, the poorer countries were more concerned about how the excess production was affecting the market prices in their countries.

The findings revealed that the common ground between the have and have not countries was; outside political influence and personal greed. The politicians rely on the agricultural block for re-election and, consequently, refrain from making decisions that

are best for the larger population of their countries, and personal greed thwarts the negotiating process as each country attempts to gain the better part of the agreement while neither side wants to be the one to concede. One of the revelations of this case study was that the WTO and those rich nations who argue for trade liberalization in kind with developing countries completely fail to understand the poverty and character of millions of poor farmers in developing countries who live in remote areas with very little or no infrastructure, lack access to education, own little or no land, lack entrée to credit and market information, and generally are at the mercy of those countries that possess these attributes at the negotiating table. Dealing with agricultural reform is quite different from negotiating a contract for the production of steel, if for no other reason than that the parties dealing in agriculture are so vastly unequal. The objective of this case study was to determine the position of the WTO and LDCs on the reduction of agricultural price supports. What it revealed was that the WTO did not fully understand the consequences of eliminating price support programs that provide inexpensive farm products to LDCs, nor had it adequately researched the prospect of attempting to formulate a plan that would apply to all. The LDCs, on the other hand, had little to say on the subject in previous negotiations, and when they organized into a negotiating block they found that their organized presence actually created a stalemate when it came time to produce a plan that would be beneficial to all.

In answer to the questions: would the curtailing of dumping excess products be beneficial or harmful to LDC farmers, Chapter V presented a case study on the plight of LDC farmers with regard to price supports and crop dumping. As stated in the introductory chapter and reiterated in Chapter II, the third hypothesis of this dissertation

is that the dumping of agricultural products on the markets of LDCs, at prices lower than these products can be locally grown, is detrimental to these nations' farmers. The research revealed that this hypothesis is true for many but not all LDC countries and that there is no solution that will work for all. There are three groups of LDC countries. The first group is composed of those that do not grow enough product to support their population's food requirements. For these states, inexpensive agricultural products dumped on their market at below the cost of production are a god-send. Without them, many would starve, and poverty would prevail. The second group is composed of those that grow enough product to survive with some excess that is sold locally. For this group, low cost food products will have only a marginal effect on local farmers, as they have little to sell. It will have a positive effect on the rest of the country because it frees up capital for investment in other areas. The third group is composed of those that produce more than they consume or sell locally. For these countries, farm products dumped at below the cost to produce have a detrimental effect on their economy; therefore these nations openly campaign for curtailment of dumping programs.

In this chapter the research also examined the effect of multilateral agreements on price support and tariff reductions, and reached the conclusion that LDCs in all three categories are in a similar position as the United States and the EU states were at the onset of their price support programs. The local farmers do not make enough to live, and cannot support their farms without government support programs. Not only can they not discontinue the programs that they have, they actually need more of them.

This chapter also attempted to answer concerns about the continued dumping of the excess agricultural products on the markets of these LDCs, and came to the

conclusion that there is no single clear cut answer. Yes, these low cost products are detrimental to some of these countries, and no, it is not detrimental to others. The hypothesis is therefore inconclusive as it is written, and will require a more concise investigative approach to the problem in order to arrive at a viable solution in the future.

Conclusions Derived from the Variables

The variables in this study were accurate in providing information on the direction in which the small farmers were heading in terms of numbers, and on their dependence on the agricultural support programs. Before the value of continuing these programs could be determined, research had to first establish that there was still a need for them.

The first independent variable urbanization tells us that there are several factors involved in population movement that have a direct affect on the necessity to continue farm subsidies. As family members left the farm for better paying jobs and employment that required less manual labor, small farm expenses went down and the gross profit of farming went up, which, in turn, reduced the need for government subsidies. The research also revealed that as more and more farm families moved to the city, the owners of small farms declined ten fold between 1930 and 2008, creating a reduced demand for farm assistance by nearly 90 percent.

The second independent variable modernization of farm machinery also helped to drive the movement of less need for assistance for small farmers. As demand for products grew, under support program urgency, it came to light that the farm industry responded by producing more efficient farm machinery and better farm management techniques, thus enabling the small farmer to once more increase his/her profits and enhance their chances to become independent of farm subsidies. Ironically, the agricultural support

programs drove small farmers to increase production which in turn produced more efficient farm practices that eventually eliminated the need for the very programs that started it all.

The third independent variable corporate farming proved to be the most significant factor for this study. The research established early on that the reduction of the number of small farms, in itself, was enough to establish a reduction in need to a degree that would warrant the elimination of these subsidy programs. The role of corporate farming in today's developed countries dominates the industry and has reduced the role of the small farmer to an observer. The conclusion from this variable is that the profits from farming have become so attractive to large corporations and entrepreneurs that they have systematically bought out 90 percent of the small farms across the country. The research has shown that these corporate farmers will do well without the farm subsidies that were never designed for them. Given that small farms have declined in number, and the remainder has become profitable, the original goal of the agriculture support programs has been achieved.

The fourth independent variable, income re-distribution, attempted to address the concerns about how, and if, the agricultural support programs increased small farm income to an acceptable level, and, if so, to determine if there is still a need for that support. The conclusion reached from Chapter III is that small farmers' incomes reached the level of the general population several generations ago, and have since exceeded that number. This dissertation found this variable to be a major factor in the argument against the continuation of agricultural supports in that the original goal of these programs was to bring the small farmer back into the mainstream of the general population and to provide

them with the vehicle to make at least an average income by working on their small farm if that is what they chose to do.

In summary, throughout the previous chapters the research has provided both theoretical arguments and a degree of empirical evidence to support the arguments that agricultural support programs are redundant, extremely expensive to the consumer and in many cases harmful to LDCs. All of these contentions are verified by the research, with some caveats which were addressed earlier.

Limitations of the Study

There are several limitations to this study. As with all dissertations this also suffers from a number of weaknesses. First, the time frame in which these programs became inappropriate is not perfectly clear. The support programs continued as if reaching the original goal had made little progress; therefore, a definite date on when small farms became profitable, and farm support programs became redundant, is not easily determined. Furthermore, without a definite date of equilibrium, such a large time frame makes it difficult to measure when small farmers stopped relying on these programs for survival, and when they realized that these support programs provided an avenue for over production and high profits. Although the research firmly concludes that these programs in developed nations are certainly no longer necessary, it is not clear exactly when large agribusiness replaced the small farmer as the major source of production or when the preponderance of the available funds found their way to the large corporate entities. Other indicators of concern, particularly in the EU countries, is the fact that some of the original countries continue to draw the giants share of the funds while other countries that may still need these support payments receive little. Although, at first

blush, it appears that these EU support programs are redundant and that the funding should be curtailed, the fact that some Eastern European nations are not receiving proper funding for their fledging programs creates a modicum of doubt in that conclusion, therefore creating a problematic result.

Another limitation of this study is the extraneous variable, political influence. Since the factors of need, income redistribution, and urbanization all lead to the logical conclusion that these support programs should have been repealed years ago, why have those in government not redistributed these funds to other more important projects? The validity of this study was constantly sidetracked by the intervention of political issues that prevented it from reaching logical conclusions.

BIBLIOGRAPHY

- The 2002 Farm Bill: Provisions and economic implications. 2002. The economics of food, farming, natural resources, and rural America. USDA Economic Research Service. <http://www.ers.usda.gov/Publications/AP/AP022/AP022.pdf#Title1> (accessed April 8, 2009).
- The 2008 Farm Bill: Farm Service Agency Fact Sheet on Direct Countercyclical Payments. <http://www.usda.gov/wps/portal/usda/farmbill2008?navid=FARMBILL2008> (accessed April 21, 2010)
- Abbott, Charles. 2003. Biggest growers pocket 71 percent of farm subsidies. *Common Dreams News Center*, (September 9). <http://www.commondreams.org/headlines03/0909-02.htm> (accessed April 8, 2009).
- A little blue lie: Harmful subsidies need to be reduced, not redefined. 2005. Oxfam Briefing Note. http://www.farmingsolutions.org/pdfdb/bn_bluebox.pdf (accessed August 24, 2009).
- Alpha, Arlene, Gret and Vincent Fautrel. 2007. Negotiating economic partnership agreements. In Brief No. 13. (April). http://www.sia-acp.org/acp/download/annex_b__programme.pdf (accessed July 31, 2009).
- Agra Europe. 1991. Effects of CAP reform and GATT agreement on world agricultural markets. Special report no. 61. London: Agra Europe Ltd.
- Agra Europe. 1988. Agricultural Policy Reform in the European Community. no. 1274, 19 February. p.1.
- Agricultural Subsidies. 2001–2005. *The Columbia Encyclopedia, Sixth Edition*. <http://www.bartleby.com/65/ag/agrisub.html> (accessed April 8, 2009).
- Agriculture and Food Development Authority. 2003. Common Agricultural Policy (CAP) <http://www.teagasc.ie/agrifood/cap.asp>
- Allen, Will. 2004. Uniting farmers & consumers globally to bring down king cotton and abolish destructive U.S. agricultural subsidies. Speech given at Mumbai, India, January 2004. *World Social Forum*. http://www.nadir.org/nadir/initiativ/agp/free/wsf/mumbai2004/king_cotton.htm (accessed April 8, 2009).
- Anderson, Sarah, and John Cavanagh. 1997. Key problems. *World Trade Organization 2*, no. 14 (January). http://www.fpif.org/briefs/vol2/v2n14wto_body.html (accessed April 8, 2009).

- Atkins, Vincent J. 2002. The US Farm Bill of 2002: Implications for CARICOM's agricultural export trade. Unpublished paper.
<http://www.crnw.org/documents/studies/staff%20papers/US%20Farm%20Bill%20-%20Implications%20for%20CARICOM%20by%20Vincent%20Atkins.pdf> (accessed April 8, 2008).
- Babcock, Bruce A. 2002. Money for nothing: Acreage and price impacts of U.S. commodity policy for corn, soybeans, wheat, cotton, and rice. AEI Agricultural Policy Series: The 2007 Farm Bill and Beyond. American Enterprise Institute.
<http://www.aei.org/farmbill>.
- Baffes, John. 2004. Cotton: Market setting, trade policies, and issues. World Bank Policy Research Working Paper No. 3218, February 2004. http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/06/03/000009486_20040603091724/Rendered/PDF/wps3218cotton.pdf (accessed April 8, 2009).
- Barlow, Maude. 2001. The free trade area of the Americas and the threat to social programs, environmental sustainability and social justice in Canada and the Americas. *The Council of Canadians*, (February 2001).
<http://www.westmarinalliance.org/global/barlow.htm> (accessed November 2007).
- Barry, Tom. 1997. What's this organization (WTO): An annotated glossary of terms and concepts about the World Trade Organization. <http://www.fpif.org/wto/countries.html> (accessed October 2009).
- Bartlett, Bruce. 2006. The truth about trade in history. *Center for Trade Policy Studies*.
<http://www.freetrade.org/new/buch1.html> (accessed April 8, 2009).
- Basics of the WTO. Articles I and III. http://www.iisd.org/TRADE/handbook/3_4_1.htm (accessed July 31, 2009).
- Bauer, Peter and P.T. Bauer. 1991. *The Development Frontier: Essays in Applied Economics*. Cambridge, MA: Harvard Univ. Press.
- Bayard, Thomas O., and Kimberly Ann Elliott. 1994. *Reciprocity and retaliation in U.S. trade policy*. Washington, DC: Institute for International Economics.
- BBC News. 2008. EU common agriculture policy: Q&A. <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/europe/4407792.stm> (accessed April 8, 2009).
- Beghin, J., D. Roland-Holst, and D. Vander Mensbrugge. 2002. Global agricultural trade and the Doha Round: What are the implications for north and south? Iowa State University, Center for Agricultural and Rural Development, Working Paper 02-WP 308. <http://www.card.iastate.edu/publications/DBS/PDFFiles/02wp308.pdf> (accessed April 8, 2009).

- Benterbuch, Ulrich. 2006. Global Resource Security G-8 Impulses for Cooperative Solutions. East West Institute Konrad Adenauer Foundation Foreign Office. (October 6), <http://www.ewi.info/global-resource-security-conference> (accessed July 31, 2009).
- Berg, Bruce L. 2004. *Qualitative Research Methods for the Social Sciences*. Boston: Pearson Education.
- Bergston, C. 1996. Globalizing free trade . . . *Foreign Affairs* 75, 105.
- Bert, B. 2006. On subsidies. *Gather*, (January 2), <http://www.gather.com/viewArticlePF.jsp?articleId=281474976721060> (accessed April 8, 2009).
- Bhagwati, Jagdish. 2004. *In defense of globalization*. New York: Oxford University Press.
- Bilefsky, Dan. 2005. EU ministers agree to cut sugar supports. Deal revises 40-year-old program. *International Herald Tribune*, (November 25), <http://www.iht.com/articles/2005/11/24/business/sugar.php> (accessed November 6, 2007).
- Binger, Al. 2004. The Poverty Reduction Challenge in LDCs. CDP Background Paper No.3. Economic and Social Affairs. http://www.un.org/esa/policy/devplan/cdpbackgroundpapers/bp2004%20_3.pdf (accessed 28 October, 2009)
- Bird, Kate, David Booth and Nicola Pratt. 2003. Food Security Crisis in Southern Africa: The Political background to policy failure, Forum for Food Security in Southern Africa theme paper. International Development Department, Birmingham University. <http://www.odi.org.uk/resources/download/1607.pdf> (accessed 15 October 2009)
- Blaney, Betsey. 2007. West Texas lawmaker defends district's farm subsidy ranking. *Environmental Working Group, Houston Chronicle*, June 13, 2007. <http://www.ewg.org/node/21672/print> (accessed April 8, 2009).
- Bleimund, E. 2006. Lands of milk and money: American and European dairy protection under the World Trade Organization. *Progressive Policy Institute* Report (January 30, 2006). http://www.ppionline.org/ppi_ci.cfm?knlgAreaID=108&subsecID=900010&contentID=253700 (accessed April 8, 2009).
- Bogart, Stephane, and Alexandra Trzeciak-Duval. 2004. Aid for Trade—Trade for Development. http://www.agro-montpellier.fr/sustra/publications/policy_briefs/policy-brief-eg.pdf (accessed 23 October, 2009)
- Bonnen, J. T. 1968. The distribution of benefits from selected U.S. farm programs. In *Rural poverty in the United States. A report by the President's National Advisory Commission on Rural Poverty*. May 1964, pp. 461–505. Washington, DC: GPO.

- Brandstetter, Patricia. 2003. The participation of NGOs in the WTO dispute settlement system. Seminar in international economic law. http://intl.w.uibk.ac.at/fileadmin/user_upload/int_beziehungen/Internetpubl/Brandstetter.pdf (accessed July 31, 2009).
- Bretton Woods Conference. 1944. U.S. Department of State. Diplomacy in Action. <http://www.state.gov/r/pa/ho/time/wwii/98681.htm> (accessed July 31, 2009).
- Brooks, J. 2003. Why is agricultural policy still so difficult to reform? *Seminar on political economy aspects of policy coherence*. (October 1). Directorate for Agriculture, Food and Fisheries, OECD. <http://www.oecd.org/dataoecd/26/16/31685281.pdf> (accessed April 8, 2009).
- Brown, Drusilla K., Alan Deardorff, and Robert M. Stern. 2006. *CGE modeling and analysis of multilateral and regional negotiating options*. Conference paper presented at Issues and Options for the Multilateral, Regional, and Bilateral Trade Policies of the United States and Japan. The University of Michigan Gerald R. Ford School of Public Policy and Japan Economy Program, Department of Economics. <http://www.fordschool.umich.edu/rsie/Conferences/CGP/Oct2000Papers/bds.pdf> (accessed April 8, 2009).
- Buckwell, Allen. 1991. The CAP and world trade. In *The common policy and the world economy: Essays in honor of John Aston*, ed. C. Riston and D. Harvey, 223–40. Wallingford, England: CAB International. <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=173173> (accessed April 8, 2009).
- Bureau, J. C., and Alan Matthews. 2005. *EU agricultural policy reform: What developing countries need to know*. IIS Discussion Paper No. 91. <http://www.tcd.ie/iis/policycoherence/index.php/iis/layout/set/print/content/view/full/277> (accessed April 8, 2009).
- Burley, Anne-Marie, and Walter Mattli. 1993. Europe before the court: A political theory of legal integration. *International Organization* 47 (Winter): 41–76. http://www.people.fas.harvard.edu/~goodrich/IRnotes/Week11/Burley_Mattli_etc_summary.pdf (accessed April 8, 2009).
- Busch, Mark L., and Eric Reinhardt. 2002. Testing international trade law: Empirical studies of GATT/WTO dispute settlement. <http://www.carleton.ca/ctpl/pdf/conferences/REINHARDT-BUSCH!95.pdf> (accessed April 8, 2009).
- Busted: World trade watchdog declares EU & US farm subsidies illegal. 2004. *Global Policy Forum*, (September 9). <http://www.globalpolicy.org/soecon/bwi-wto/wto/2004/0909useusubsidies.htm> (accessed March 3, 2005).

- Cain, Zachary, and Stephen Lovejoy. 2004. History and outlook for Farm Bill conservation programs. Purdue University. 4th Quarter. <http://www.choicesmagazine.org/2004-4/policy/2004-4-09.htm> (accessed April 8, 2009).
- Caldwell, Jake. 2007. Agriculture's triple win. *Center for American Progress. Domestic & Economy*, (July 19). http://www.americanprogress.org/issues/2007/06/triple_win.html (accessed April 8, 2009).
- Campbell, Chris, and Ken Cook. 2005. U.S. Taxpayers Spent \$264 Million in 2004 on cotton export subsidies ruled illegal by WTO. *Environmental Working Group*, (June). <http://www.ewg.org/node/8790> (accessed April 8, 2009).
- CAP Reform. 2006. EU agriculture ministers adopt groundbreaking sugar reform. *Europa Rapid Press*. Brussels, (February). Adobe Reader [IP-06-194_EN[2].pdf] (accessed April 8, 2009).
- Carnell, B. 1999. Want some cream and sugar with that coffee? Pay through the nose, thanks to the government. <http://brian.carnell.com/articles/1999/want-some-cream-and-sugar-with-that-coffee-pay-through-the-nose-thanks-to-the-government/> (accessed April 13, 2010)
- Castel, Jean-Gabriel. 1989. The Uruguay Round and the improvements to the GATT dispute settlement rules and procedures. *International and Comparative Law Quarterly* 38 (October): 834–49. <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=1513144> (accessed April 8, 2009).
- Cato Institute. 2007. Individual liberty, free markets, and peace. *Cato Dispatch*, (February 1). http://www.cato.org/view_ddispatch.php?viewdate=20070201 (accessed May 5, 2009).
- Chajravartgu, R. 1989. U.S. sugar import quota regime held GATT illegal. <http://www.sunsonline.org/trade/areas/commodit/06130089.htm> (accessed April 8, 2009).
- Chandrasekhar, Subrahmanyam. n.d. Subsistence Farming. The New World Encyclopedia. http://www.newworldencyclopedia.org/entry/Subsistence_farming (accessed 8 February 2010.)
- Chang, Pao-Li. 2002. *The evolution and utilization of the GATT/WTO dispute settlement mechanism*. SMU Economics & Statistics Working Paper No. 13-2002. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=335680 (accessed April 8, 2009).
- Chastain, Jane. 2002. Uncle Sam's sugar shell game. *World Net Daily* 2 (February 5, 2002). http://worldnetdaily.com/news/article.asp?Article_ID=26327

- Charveriat, Celine. 2006. Rich Countries not off the hook after breakdown of WTO talks. http://www.oxfam.org/en/news/pressreleases2006/pr060726_wto (accessed 23 October 2009).
- Chigunta, Herbert, Johnson and Mkandwire. 2004. Building on Success in African Agriculture: The changing policy environment facing African Agriculture, IFPRI Policy Brief, 2004. http://www.commissionforafrica.org/english/about/meetings/third/24-02-05_tm_transcript_of_briefing_to_african_journalists.pdf (accessed 15 October 2009).
- Citizens Against Government Waste. n.d. Tom Schatz, President. http://www.cagw.org/site/PageServer?pagename=about_schatz
- Clarke, Philip, and Robert Harris. 2004. CAP still economically and politically unsustainable. *Farmers Weekly*, (July 30), 19. <http://www.ebscohost.com.lynx.lib.usm.edu/ehost/delivery?vid=4&hid=108&sid=5f6df5b4>
- Cobb, Clifford. 1996. Farm subsidies hurt most farmers. *The School of Cooperative Individualism*, March–April 1996. http://www.cooperativeindividualism.org/cobb-cliff_on-farm-subsidies.html (accessed April 8, 2009).
- Commission for Africa. 2005. The Third Meeting of the Commission for Africa, 24 February 2005 London. http://www.commissionforafrica.org/english/about/meetings/third/24-02-05_tm_transcript_of_briefing_to_african_journalists.pdf (accessed 15 October 2009)
- Common Agricultural Policy. 2005. The Common Agricultural Policy is regarded by some as one of the EU's most successful policies, and by others as a scandalous waste of money. *BBC News*, (February 12), <http://news.bbc.co.uk/2/hi/europe/4407792.stm> (accessed April 8, 2009).
- Common Agricultural Policy (Wine) (Amendment) Regulations 1998. 1998. Statutory Instrument 1998 No. 453. *Office of Public Sector Information*. <http://www.opsi.gov.uk/si/si1998/19980453.htm> (accessed May 29, 2009).
- Congressional Declaration of Policy. 1998. United States Code, Title 7—Agriculture, Chapter 53—Cotton research and promotion. <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=stelprdc5083364> (accessed May 5, 2009).
- Common Agricultural Policy. n.d. An analysis of the Common Agricultural Policy. <http://www.johnbirchall-economict.com/AnanalysisoftheCommonAgriculturalPolicy.doc> (accessed June 8, 2009).

- Congressional Record*. 1969. Vol. 115, No. 70 (April 30): 10867-72, P.10868.
- Corporate Lies. 2002. Busting the Myths of Industrial Agriculture.
<http://www.keepmainefree.org/corporatelies.html> (accessed 23 October 2009)
- Cox, Craig. 2007. U.S. agriculture conservation policy and programs: History, trends, and implications. Woods Institute for the Environment. Stanford University.
http://woods.stanford.edu/docs/farmbill/US_Agriculture_Conservation_Policy_and_Programs.pdf (accessed April 8, 2009).
- Cross, Karen Halverson. 2006. King Cotton, developing countries and the ‘Peace Clause’: The WTO’s *US Cotton Subsidies* Decision. *Journal of International Economic Law* 9, no. 1. <http://jiel.oxfordjournals.org/cgi/content/abstract/9/1/149> (accessed April 8, 2009).
- CTA. 2003. Study of the Consequences of the Application of Sanitary and Phytosanitary Measures on ACP Countries.
<http://www.unescap.org/tid/publication/bull4201.pdf> (accessed 16 October 2009).
- Czinkita, Michael R. 1995. Executive insights: The World Trade Organization— Perspectives and prospects. *Journal of International Marketing* 3, no.1 (1995): 85.
- Davis, Crystal. 2007. April 2007 Monthly Update: Agricultural trade reform and poverty in the developing world. World Resource Institute. *Earth Trends*.
<http://earthtrends.wri.org/updates/node/194> (accessed April 8, 2009).
- Dead Ducks II: Lamy ready to call Ministers back to Geneva. September 18, 2008. *International Political Economy Zone* <http://ipezone.blogspot.com/2008/09/dead-ducks-ii-lamy-out-to-revive-doha.html> (accessed July 31, 2009).
- De Boer, John. 2002. The sustainability of Japanese and EU agricultural policies. University of Tokyo and Glocom. http://www.glocom.org/special_topics/eu_report/20020725_eureport_s17/index.html (accessed April 8, 2009).
- DiLorenzo, Thomas J. 2005. “Farmed Robbery” *Mises’ Daily Article*, (February 15).
<http://blog.mises.org/archives/003167.asp> (accessed April 8, 2009).
- DiLorenzo, Thomas. 2005. A Foreign Aid Disaster in the Making.
<http://mises.org/story/1715>. (accessed 21 October 2009).
- DiMatto, Larry, Kiren Dosanjh, Paul L. Frantz, Peter Bowal, and Clyde Stoltenberg. 2003. The Doha Declaration and beyond: Giving a voice to non-trade concerns within the WTO trade regime [Abstract]. *Vanderbilt Journal of Transnational Law* 36. <http://www.questia.com/googleScholar.qst;jsessionid=JISR6Ll2dz65h6pHFkxCP96wZ1hvnT3HQpJnLyZ2Tbn1J52vT1BG!1107106588!-359977539?docId=5002006196> (accessed 31 July 2009).

- Doucet, Bradley. 2009. Why on Earth---Should Agriculture be Subsidized at All. The Atlas Society. http://www.objectivistcenter.org/cth--2149-WOE-Ag_Subsidies.aspx. (accessed 26 February 2010).
- Durberry, Ramesh, Norman Gemmel and David Greenaway. n.d. New Evidence on the Impact of Foreign Aid on Economic Growth. Center for Research in Economic Development and International Trade, University of Nottingham. <http://www.nottingham.ac.uk/economics/credit/research/papers/cp.98.8.pdf> (accessed 29 October 2009).
- Economic Report of the President. 2006. The U.S. Agricultural Sector, pp. 173–193. Available from http://www.gpoaccess.gov/eop/2006/2006_erp.pdf (accessed 8 April 2009).
- The Economist*. 2008. May 22.
- The Economist*. 1992. Kohl's debterdammerung. (Helmut Kohl: German debt) April 4.
- The Economist*. 1988. "EEC Summit: The Lady Turned," 20 February.
- The Economist*. 1987. "A Suitable Rock to Founder On," 28 November. pp. 49–50.
- The Economist* . 1992. "The New German Question," 2 May.
- The Economist*. 1992. "EC Farm Policy: Getting Better," 2 May. p. 55.
- Elliott, Kimberly A. 2006. Delivering on DOHA: Farm trade and the poor. Center for Global Development. Institute for International Economics. July.
- Elliott, Kimberly A. 2007. Saving the Doha Round requires furthers cuts in U.S. agricultural support. http://www.cgdev.org/files/12224_file_Doha_CGD_Note.pdf (accessed July 31, 2009).
- EU Agricultural Policy Reform. 2002. Impact of EU agricultural protection on developing countries. http://www.tcd.ie/iis/policycoherence/index.php/iis/eu_agricultural_policy_reform/impact_of_eu_agricultural_protection_on_developing_countries (accessed April 8, 2009).
- European Union-25 Sugar Policy. 2006. 2006 sugar and sweeteners policy reform. Sugar and sweeteners outlook/SSS-245/January 31, 2006. Economic Research Service, USDA. <http://www.ers.usda.gov/briefing/EuropeanUnion/PDF/EU25SugarPolicySSS245.pdf> (accessed April 8, 2009).

- European Union Summary. 2004. Reform of agricultural protection. Center for International Development at Harvard University. Global Trade Negotiations Home Page. <http://www.cid.harvard.edu/cidtrade/gov/eugov.html> (accessed April 8, 2009).
- European Union. 2005. Directors in Agricultural Policy.2005 <http://www.maf.govt.nz/mafnet/rural-nz/stastics-and-forecasts/sonzaf/2005/12europeanunion.htm> (accessed June 8, 2009)
- FAO 2005. OECD-FAO Agricultural Outlook: 2005-2014. <http://www.oecd.org/dataoecd/32/51/35018726.pdf> (accessed 26 October 2009)
- Faber, Scott. 2004. Farm subsidies overhaul could benefit Chesapeake Bay. Alliance for the Chesapeake Bay, *Bay Journal*, November. <http://www.bayjournal.com/article.cfm?article=2411> (accessed April 8, 2009).
- Federal Crop Insurance Corporation. USDA Risk Management Agency. United States Department of Agriculture. <http://www.rma.usda.gov/fcic/> (accessed April 8, 2009).
- Fetterman, M. 2005. That's a lot of cotton. Texas farmers see bountiful harvest. *USA Today.com*. http://www.usatoday.com/money/2005-02-01-cotton-cover-usat_x.htm (accessed May 5, 2009).
- Financial Times*. 1987. "Plodding Barr Upstages Chirac in Presidency," 3 December.
- Financial Times*. 1987. "Hopes for EU Budget Resolutions May Be Thwarted by Elections," 7 December.
- Financial Times*. 1992 Peel, Q. "Minister Stands His Ground Against German Farm Lobby," 22 May. p. 6.
- Financial Times*. 1993. David Gardner, "Reforms with a Grain of Sense," 22 May. p.18.
- Financial Times*, 1992. "French German Farmers Denounce EC Reforms," 23/24 May. p.8
- FOIA Law Discloses British Farm Subsidies.2005.Freedominfo.org. <http://www.freedominfo.org/features/20050407.htm> (accessed June 8, 2009).
- Food and Agricultural Act of 1977. <http://www.nationalaglawcenter.org/assets/farmbills/1977-1.pdf> (accessed 22 March 2010).
- Gardner, Bruce. 2007. Plowing farm subsidies under: There's no need for farm subsidies, and it wouldn't really hurt anyone if we eliminated them. *National Review* online, May 17, 2007. http://www.aei.org/publications/pubID.26385/pub_detail.asp (accessed April 8, 2009).

- Gardner, Brian. 1996. European Agriculture Policies, Production and Trade. http://books.google.com/books?id=lqkD2daHTjwC&pg=PA151&lpg=PA151&dq=Brian+Gardner,+European+Agriculture+Policies&source=bl&ots=9y-ZQ7xDTK&sig=mSKRj9EE4OzpDXFbbcQFSP7wQ58&hl=en&ei=CSYISoeeM6LhtgetzKncBg&sa=X&oi=book_result&ct=result&resnum=1#PPP1,M1 (accessed 6/2/09).
- Garrett, Geoffrey. 1992. International cooperation and institutional choice: The European Community's internal market. *International Organization* 46, no. 2: 553–60. http://econpapers.repec.org/article/tprintorg/v_3A46_3Ay_3A1992_3Ai_3A2_3Ap_3A533-60.htm (accessed April 8, 2009).
- Garrett, Geoffrey, and James McCall Smith. 1999. *The politics of WTO settlement*. Annual Meeting of the American Political Science Association, Atlanta, GA. Typescript. George Washington University, Washington DC, September 1–5, 1999. <http://repositories.cdlib.org/international/ops/wtogarrettsmith/> (accessed April 8, 2009).
- GATT Secretariat. 1994. *The Results of the Uruguay Round Trade negotiations: The legal texts*, reprinted in 33 International Legal Materials 1140. J. Michael Goodson Law Library, Duke University School of Law. <http://www.law.duke.edu/lib/researchguides/pdf/gatt.pdf> (accessed April 8, 2009).
- Godfrey, Claire. 2002. *Stop the dumping! How EU agricultural subsidies are damaging livelihoods in the developing world*. Oxfam Briefing Paper 31. October. <http://www.globalpolicy.org/soecon/trade/subsidies/2002/10stopdumping.pdf> (accessed April 8, 2009).
- Goldman, Julie. 1999. Bad lawyering or ulterior motive? Why the United States lost the film case before the WTO dispute settlement panel. *Law and Policy of International Business* 30 (Winter): 417–37.
- Gonzalez, Carmen G. 2002. Dumping and the WTO Agreement on Agriculture: Food security implications public symposium. Celine Charveriat, moderator. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=987945 (accessed April 8, 2009).
- Goodman, Dr. Robert. 2004. A five point defense of farm subsidies. *Alabama Farmers Federation*, 2003–2004. http://www.alfafarmers.org/issues/farm_programs.phtml (accessed April 8, 2009).
- Granger, Matt. 2006. Rich Countries not off the Hook after Breakdown of WTO Talks. Oxfam International. (July 26). http://www.maketradefair.com/en/index.php?file=wto_pr38.htm (accessed 23 October 2009).

- Grier, Jean Heilman. 2005. Dispute settlement in the WTO. Office of the Chief Counsel for International Commerce. US Department of Commerce.
<http://www.osec.doc.gov/ogc/occic/wtods.htm> (accessed April 8, 2009).
- Griswold, D., Stephen Slivinski, and Christopher Preble. February 2006. Six reasons to kill farm subsidies and trade barriers: A no-nonsense strategy. *Reasononline* 15.
<http://www.reason.com/news/show/36207.html> (accessed April 8, 2009).
- Grow, G. 2002. Agriculture Report—May 28, 2002. Farm Bill. News.
<http://www.acpsec.org/en/cotton/8-Cotton%20initiative%20WTO.htm> (accessed May 5, 2009).
- Hanrahan, Charles E. 2003. The African cotton initiative and WTO negotiations.
<http://www.nationalaglawcenter.org/assets/crs/RS21712.pdf> (accessed April 8, 2009).
- Hanson, Jessica. 2007. Increase in grain prices affects U.S. food donations. *Worldwatch Institute*, October 19, 2007. <http://www.worldwatch.org/node/5408> (accessed April 8, 2009).
- Hanson, Victor Davis. 2005. Reconsidering farm policy. Why the government should stop subsidizing agri-business. *Victor Hanson's Private Papers*, November 7, 2005. <http://www.victorhanson.com/articles/hanson110705PF.html> (accessed April 8, 2009).
- Harmon, Thomas C. 2004. Role of Agriculture in the Development of LDCs. The Workshop for the National Focal Points on the Implementation of the Brussels Programme of Action for the Least Developed Countries.
<http://www.unohrrls.org/UserFiles/File/LDC%20Documents/Workshop/agriculture2004.ppt#1> (accessed 9 February 2010).
- Hart, Chad E. 2005. The WTO picture after the cotton ruling. *Iowa Ag Review* 11 (2).
http://www.card.iastate.edu/iowa_ag_review/spring_05/article5.aspx (accessed 24 August 2009).
- Heinisch, Elinor Lane. 2005. West Africa versus the U.S. on cotton subsidies: Why, how and what next? <http://witsetd.wits.ac.za:8080/dspace/bitstream/123456789/195/1/main.pdf> (accessed August 23, 2009).
- Hendriks, Gisela. 1991. *Germany and European integration: The Crown agricultural policy: An area of conflict*. New York: St. Martins Press; Berg.
- Higgs, Robert. 1987. *Crisis and Leviathan. Critical Eposodes in the Growth of American Government*. New York, NY. Oxford University Press. USA
- Hoekman, Bernard. 2002. The WTO: Functions and basic principles. What is the World Trade Organization? <http://www.terry.uga.edu/~eornelas/Econ4040/WTO-basics.pdf> (accessed July 31, 2009).

- Hoddinott, John, Marc J. Cohen, and Christopher B. Barrett. 2008, July. Renegotiating the Food Aid Convention: Background, context, and issues. Social Science Research Network. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1142505 (accessed August 25, 2009).
- Hudec, Robert E. 1999. The new WTO dispute settlement procedure: An overview of the first three years. *Minnesota Journal of Global Trade* 8 (Winter): 1–53.
- International Forum on Globalization, and the Center for Food Safety. n.d. Seven deadly myths and facts about hunger. http://www.ifg.org/pdf/hunger&pov-hunger_myths.pdf (accessed April 8, 2009).
- Jalonick, Mary Clare. 2007. Proposal to overhaul farm subsidies. *USA Today*, (July 18). http://www.usatoday.com/news/topstories/2007-07-18-1601864914_x.htm (accessed April 8, 2009).
- Johnson, Temu and Hazell. 2003. Global Environment for African Agriculture, paper presented at InWent, IFPRI, NEPPAD, CTA *Conference Success in African Agriculture*, Pretoria, 1-3 December 2003.
- Josling, Tim, Daniel A. Sumner, Robert L. Thompson, Mary Chambliss, and Kara Laney. 2007. *The 2007 US Farm Bill: Implications for developing countries*. International Food & Agricultural Trade Policy Council. Stanford, CA: Stanford University's Woods Institute for the Environment. IPC Issue Brief 25, (September). <http://www.agritrade.org/Publications/documents/farmbillpaper.pdf> (accessed April 8, 2009).
- Keeler, John. 1996. Agricultural power in the European Community: Explaining the fate of CAP and GATT negotiations. *Comparative Politics* 28:127–49.
- Keohane and Nye. 1986. *Neorealism and Neoliberalism. The Contemporary Debate*. Columbia University Press.
- Ketsdever, Nathan. 2007. The U.S. should abolish agricultural subsidies. March 31, 2007. http://www.idebate.org/debatatabase/topic_details.php?topicID=613 (accessed 24 February, 2010).
- Kirwan, Barrett E. 2006. The wealth of U.S. farmers and developing nations: The effect of U.S. agricultural subsidies on income in developing countries. University of Maryland. September 2006. <http://www.columbia.edu/~ev2124/devenvsem/kirwan.pdf> (accessed April 8, 2009).
- . 2007. The distribution of U.S. agricultural subsidies. Social Science Research Network, University of Maryland, Agricultural & Resource Economics. June 5, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1117342 (accessed April 8, 2009).

- Klauder, Jim. 2005. Paper Money Can't Save Billions from Poverty. News Blaze. <http://newsblaze.com/story/20050609174317nnnn.nb/topstory.html#> (accessed October 23, 2009).
- Kohler, H., J. D. Wolfensohn, and D. J. Johnstong. 2003. Declaration by the heads of the IMF, OECD and World Bank. http://www.oecd.org/document/9/0,2340,3n_2469_201185_11813577_1_1_1_1,00.html (accessed April 8, 2009).
- Kondracke, Morton M. 2007. Big ag faces fight on farm subsidies from Bush, reformers. Roll Call, April 12, 2007. *Bread for the World*. <http://www.bread.org/press-room/news/page.jsp?itemID=32796831&print=t> (accessed April 8, 2009).
- Kupher, Patty. 2006. Building sustainable futures for farmers globally: A call for action. *Global Farmers*, (October 25). <http://www.nffc.net/Farmers%20Worldwide/bsf%20declaration%204-3-07-1.pdf> (accessed April 8, 2009).
- Laws, Forrest. 2005. "Ball is in EU's court," U.S. negotiators tell WTO. *Southwest Farm Press* <http://westernfarmpress.com/news/11-3-05-EU-has-ball/> (accessed April 8, 2009).
- Library of Congress. 1999. H.R. 1850. To amend the Agricultural Market Transition Act to convert the price support program for sugarcane and sugar beets into a system of solely recourse loans and to provide for the gradual elimination of the program. <http://thomas.loc.gov/cgi-bin/bdquery/z?d106:HR01850:@@L&summ2=m&> (accessed 27 October 2009).
- Library of Congress. 1997. H.R. 1387. To amend the Agricultural Market Transition Act to convert the price support program for sugarcane and sugar beets into a system of solely recourse loans and to provide for the gradual elimination of the program. <http://www.congress.gov/cgi-bin/bdquery/D?d105:3:./temp/~bdwu5E::> (accessed 27 October 2009)
- Lora, M. 2005. Government subsidies exist everywhere and as a result everyone is hurt. *Freedo*, February 15, 2005. <http://www.vanguardist.org/index.php?/archives/18-Government-subsidies-exist-everywhere-and-as-a-result-everyone-is-hurt.html> (accessed May 5, 2009).
- Lukas, Aaron. 2000. *WTO Report Card III: Globalization and developing countries*. Trade Briefing Paper No. 10, (June 20). <http://www.freetrade.org/pubs/briefs/tbp-010es.html> (accessed April 8, 2009).
- MacDonald, James M., Robert A. Hoppe, Penni Korb, Erick J. O'Donoghue. 2009. Small Farms decline or Persistence. University of Kent, Canterbury, UK. 26-27 June, 2009) <http://ageconsearch.umn.edu/bitstream/52870/2/135.pdf> (accessed 22 March 2010).

- Madeley, John. 2006. The enduring racket: Why the rich won't budge on "farm" subsidies. *Global Policy Forum*, (July 28). <http://www.globalpolicy.org/soecon/trade/subsidies/2006/0728panos.htm> (accessed April 8, 2009).
- Matthews, Alan, and J. C. Bureau. 2005. *EU agricultural policy reform: What developing countries need to know*. IIS Discussion Paper No. 91. <http://www.tcd.ie/iis/policycoherence/index.php/iis/layout/set/print/content/view/full/277> (accessed April 8, 2009).
- McGillivray, Fiona. 2000. *Democratizing the World Trade Organization*. Hoover Institution, Hoover Essay in Public Policy. Palo Alto, CA: Stanford University, Hoover Institution Press.
- Medeiros, Neusa M., Albert J. Allen, and Warren C. Couvillion. 1998. *Trade policy and competition: Forces shaping American agriculture proceedings. Effects of agricultural policy changes in the European Union on selected agricultural products in the Southeastern United States*. Southern Cooperative Series Bulletin. November, SCSB# 390. <http://www.ag.auburn.edu/aaes/communications/390site/chptone.htm> (accessed April 8, 2009).
- Meter, Ken. 2005. A brief history of the "Finding Food in Farm Country" studies. *Crossroads Resource Center*. (September 23). <http://www.crcworks.org/fffc.pdf> (accessed April 8, 2009).
- Michalopoulos, Constantine. 1999. The participation of the developing countries in the WTO. *World Economy* 22 (1):117–43. <http://www.worldbank.org/html/dec/Publications/Workpapers/WPS1900series/wps1906/wps1906.pdf> (accessed April 8, 2009).
- Miller, Delbert Charles, and Neil J. Salkind. 2002. *Handbook of research design and social measurement*. Thousand Oaks, CA: Sage.
- Mitchell, Donald, and Mombert Hoppe. 2006. From Marrakesh to Doha: Effects of Removing Food Subsidies on the Poor. <http://www.ppl.nl/bibliographies/wto/files/6548.pdf> (accessed 20 October 2009)
- Monteagudo, Josefina, and Masakazu Watanuki. n.d. Impact of agricultural reform in the western hemisphere and the European Union on Latin America: Bright prospects or distant illusions? <https://www.gtap.agecon.purdue.edu/resources/download/1396.pdf> (accessed July 22, 2009).
- Moravcsik, Andrew. 1991. *Negotiating the Single European Act: National interests and conventional statecraft in the European Community*. Cambridge, MA: Harvard University Center for European Studies.

- Morgan, Dan. 2007. Senate's Farm Bill includes \$10 billion in new aid. *Washingtonpost.com*, November 13: A02. <http://www.washingtonpost.com/wp-dyn/content/article/2007/11/12/AR2007111201532.html?wpisrc=> (accessed April 8, 2009).
- Morgan, Dan, and Gilbert M. Gaul. 2007. USDA outlines a plan to cut farm subsidies. Proposal would close many loopholes. *Washington Post*, February 1; A01. <http://www.staff.ncl.ac.uk/david.harvey/AEF372/New%20References/USDAOuline.WashingtonPost.pdf> (accessed April 8, 2009).
- Moyer, H. Wayne. 1993. The European Community and the GATT Uruguay Round: Preserving the Common Agriculture Policy at all costs. In *World agriculture and the GATT*, ed. W. P. Avery, 95–119. Boulder, CO: Lynne Rienner.
- Moyer, H. Wayne, and Tim Josling. 2002. *Agricultural Policy Reform: Politics and Process in the EC and the USA*. Burlington, VT: Ashgate.
- Murphy, Sophia, Jayson Cainglet, Caroline Emond, Herbert Oberhaensli, and Jean-Piere Ouedraogo. 2006. *Dumping and the WTO Agreement on Agriculture: Food security implications public symposium*. http://74.125.47.132/search?q=cache:luyLmH6_vGEJ:www.wto.org/english/tratop_e/dda_e/summary_report_dumping.doc+Dumping+and+the+WTO+Agreement+on+Agriculture+food+security+implications+Public+Symposium+%22Celine+Charveriat%22&cd=1&hl=en&ct=clnk&gl=us (accessed April 8, 2009).
- Murphy, Sophia and Steve Suppan. 2003. *Introduction to the Development Box: Finding Space for Development Concerns in the WTO's Agriculture Negotiations*. Geneva, Switzerland: IISD Publications Center.
- Murphy, Sophia, and Steve Suppan. 2008. The 2008 Farm Bill and the Doha Agenda. The Institute for Agriculture and Trade Policy, (June 25). <http://www.iatp.org/iatp/commentaries.cfm?refID=103103> (accessed April 8, 2009).
- The New York Times*. 2005. November 25. EU Ministers agree to cut sugar supports. <http://www.nytimes.com/2005/11/24/business/worldbusiness/24iht-sugar.html?pagewanted=all> (accessed June 9, 2009).
- The New York Times*. 2008. May 16.
- The New York Times*. 2008. December 10.
- The New York Times*. 1970. July 12.
- The New York Times*. 2008. November 26.

- Newell, Elizabeth. 2009. OMB releases cost-saving proposals across government. Government Executive.com. <http://www.govexec.com/dailyfed/0709/072809e1.htm> (accessed 27 October 2009).
- Newfarmer, Richard. 2006. Through the Windows. Beacons for a pro poor. <http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1126812419270/1.Beacons.pdf> (accessed 20 October 2009)
- NGO Background Paper. 1999. Globalization, Trade Liberalization and Investment Patterns. http://csdngo.igc.org/agriculture/agr_WWF.htm (accessed 29 October 2009)
- Norberg, Johan. 2003. American and European protectionism is killing poor countries and their people. *CATO Institute*. http://www.cato.org/pub_display.php?pub_id=3226 (accessed April 8, 2009).
- North, Douglass C. 2005. *Understanding the Process of Economic Change*. Princeton, NJ: Princeton University Press.
- O'Brien, Anthony. 2001. "Smoot-Hawley Tariff." EH.Net Encyclopedia, edited by Robert Whaples. (August 15). <http://eh.net/encyclopedia/article/obrien.hawley-smoot.tariff> (accessed July 31, 2009).
- O'Brian, Patrick. 1996. Did Europe's mercantilist empires pay? *History Today*, 46 (March), 32.
- OECD. 2005. Agricultural policies in OECD countries: Monitoring and evaluation. Highlights. <http://www.oecd.org/dataoecd/33/27/35016763.pdf> (accessed August 24, 2009).
- OECD 2007 Agricultural Policies in OECD Countries: Monitoring and Evaluation 2007. http://www.oecd.org/document/0/0,3343,en_2649_33727_39508672_1_1_1_1,00.html (accessed 23 October 2009).
- Open Letter to the President and the US Congress. 2005. Sour subsidies—U.S. sugar policy is unfair to American consumers and to poor countries; harms the environment. [http://www.soursubsidies.org/FHE-DC-_91414-v1-sugar_Open_Letter_\(Final\).PDF](http://www.soursubsidies.org/FHE-DC-_91414-v1-sugar_Open_Letter_(Final).PDF) (accessed April 8, 2009).
- Orden, David. 2002. U.S. agricultural policy: The 2002 Farm Bill and WTO Doha Round Proposal. <http://www.ifpri.org/divs/TMD/DP/tmdp109.htm> (accessed April 8, 2009).
- Orden, David. 2008. Feasibility of farm program buyouts: Is it a possibility for US sugar? http://farmpolicy.typepad.com/farmpolicy/files/orden_buyouts.pdf (accessed April 8, 2009).

- Ott, Affiat F. 2002. *The Public Sector in the Global Economy: From the Driver's Seat to the Back Seat*. Cheltenham, UK: Edward Elgar.
- Oxfam. 2002. US cotton subsidies driving world's farmers into poverty: Brazil files case with World Trade Organization. *Oxfam International*.
<http://www.africaaction.org/docs02/ag0209a.htm> (accessed April 8, 2009).
- .2005. CAP is failing small farmers in Europe and in poorest countries. December 12. http://www.oxfam.org/en/news/pressreleases2005/pr051212_cap (accessed 31 July 2009).
- .2006a. Oxfam's work in Mozambique in depth. <http://www.oxfam.org.uk/resources/countries/mozambique.html> (accessed July 31, 2009).
- .2006b. Rich countries not off the hook after breakdown of WTO talks. *Oxfam International*, July 26, 2006. http://www.oxfam.org/en/news/pressreleases2006/pr060726_wto (accessed April 8, 2009).
- .Calls for EU subsidy reform. 2005. http://news.bbc.co.uk/1/hi/uk_politics/4374655.stm (accessed July 31, 2009).
- Paeman, Hugo, and Alexander Bensch. 1995. *From the GATT to the WTO: The European Community in the Uruguay Round*. Leuven: Leuven University Press.
- Panagariya, A. 2005. *Agricultural liberalization and the least developed countries: Six fallacies*. Forthcoming World Economy: Global Trade Policy 2005.
<http://www.foreignaffairs.com/articles/61217/arvind-panagariya/liberalizing-agriculture> (accessed April 8, 2009).
- Patterson, Lee Ann. 1993. *A three-level game approach to understanding agricultural policy in the European Community: A study of the 1988 Stabilizers Agreement and the 1992 MacSharry Reform Package*. http://aei.pitt.edu/7140/01/002374_1.PDF (accessed April 8, 2009).
- Paus, Eva. 2005. *Foreign Investment, Development, and Globalization. Can Costa Rica Become Ireland?* New York, NY: Palgrave Macmillan.
- Penelope, M. C.2009. Getting it Wrong. <http://penelopemc.wordpress.com/category/food/> (accessed 8 February 2010).
- Plains Cotton Growers, Inc. 2003. Making a difference. <http://www.plainscotton.org/esw/aboutpcg/advocate.html> (accessed August 24, 2009).
- Porter, Jane M., and Douglas E. Bowers. 1989. *A short history of U.S. agricultural trade negotiations*. Agricultural and Rural Economy Division, Economic Research Service, US Department of Agriculture. Staff Report No. 89-23.
<http://www.ers.usda.gov/Publications/ages8923/ages8923fm.pdf> (accessed April 8, 2009).

- Poteet, H. A. 2000. *Ideas on 2001 Farm Bill listening session in Austin*. November 16. Texas Cotton Association, Dallas, Texas.
- Putnam, Robert D. 1988. Diplomacy and domestic politics: The logic of two-level games. *International Organization* 42, no. 3: 427–60.
- Putnam, Robert D. 2007. Reforms that made history. *National Farmers Federation*. <http://www.nff.org.au/history.html> (accessed April 8, 2009).
- Richardson, John B. 2000. EU agricultural policies and implications for agrobiotechnology. *AfBioForum* 3, no. 2&3 (2000): 77–83. <http://www.agbioforum.missouri.edu/v3n23/v3n23a02-richardson.htm> (accessed April 8, 2009).
- Riedl, Brian M. 2002. Top 10 reasons to veto the Farm Bill. *The Heritage Foundation*, April 17, 2002, Backgrounder No. 1538. <http://www.heritage.org/Research/Agriculture/bg1538.cfm> (accessed April 8, 2009).
- Riedl, Brian M. 2006. Five reasons for the Senate to reject boosting farm subsidies. *The Heritage Foundation*, December 5, 2006, Web Memo No 1274. <http://www.heritage.org/Research/Budget/wm1274.cfm> (accessed April 8, 2009).
- Riedl, Brian M. 2007. How farm subsidies harm taxpayers, consumers, and farmers too. *The Heritage Foundation*, June 19, 2007, Executive Summary Backgrounder No. 2043. <http://www.heritage.org/Research/Agriculture/bg2043.cfm> (accessed April 8, 2009).
- Riedl, Brian M. 2008. Seven Reasons to Veto the farm Bill. The Heritage Foundation. <http://www.heritage.org/Research/Agriculture/bg2134.cfm> (accessed 24 February 2010).
- Roberts, Mathew C., and Chris Bruynis. 2002. PFC acreage and yield updates in response to the 2002 Farm Bill: Using the OSU Farm Program Payment Calculator to evaluate alternatives for four hypothetical Wyandot County farms. The Ohio State University Extension. <http://aede.osu.edu/resources/docs/pdf/230C2A30-062F-4C9F-849AC55BE88011DC.pdf> (accessed April 8, 2009).
- Robinson, Romney. International trade. *Encyclopedia Britannica's Guide to the Nobel Prizes*. <http://www.britannica.com/nobelprize/article-61757> (accessed April 8, 2009).
- The roots of the WTO. n.d. <http://www.econ.iastate.edu/classes/econ355/choi/wtoroots.htm> (accessed April 8, 2009).
- Rosset, Peter. 1999. Empty stomachs in a world of plenty. <http://www.share-international.org/archives/homelessness/hl-prempty-stomachs.htm> (accessed 24 October 2009).

- Rossmiller, George E. 1994. Discussion. In *Agricultural Trade Conflicts and GATT*, ed. Giovanni Anania, Colin A. Carter, and Alex F. McCalla, 262–65. Boulder, CO: Westview Press.
- Sanderson, Fred. 1994. *Agriculture and multilateralism*. Paper presented at the conference Bretton Woods Revisited, sponsored by the Institute for Agriculture and Trade Policy, 15–17 October, Bretton Woods, NH.
- Sandholtz, Wayne. 1993. Choosing union: Monetary politics and Maastricht. *International Organizations* 47:1–39. http://econpapers.repec.org/article/tprintorg/v_3A47_3Ay_3A1993_3Ai_3A1_3Ap_3A1-39.htm (accessed April 8, 2009).
- Sanner, Harvey Joe. 2006. Farm subsidies: Investigation or hatchet job? *Agriculture Online*, (July 12). <http://www.agriculture.com/ag/story.jhtml?storyid=/templatedata/ag/story/data/1152710706775.xml> (accessed April 8, 2009).
- Sbragia, Alberta. 1992. Thinking about the European future: The uses of comparison. In *Euro-Politics: Institutions and Policymaking in the New European Community*, ed. Alberta Sbragia, pp. 257–91. Washington, DC: Brookings Institution.
- Schelling, Thomas C. 1960. *The strategy of conflict*. London: Galaxy Books; Oxford University Press.
- Schnepf, R. 2005. U.S. agricultural policy response to WTO cotton decision. CRS Report for Congress / The Library of Congress RS22187.
- Serra, Teresa. 2005. Replacement of agricultural price supports by area payments in the European Union and the effects on pesticide use. <http://www.allbusiness.com/north-america/united-states/603977-1.html> (accessed April 8, 2009).
- Shafaeddin, Mehdi. 2006. Does Trade Openness Favor or Hinder Industrialization and Development. <http://www.g24.org/msha0306.pdf> (accessed 2 February 2010).
- Shaffer, Gregory. nd. Who Decides? A Comparative Institutional Approach to International Trade Law. http://www.google.com/search?hl=en&as_q=If+there+is+a+weakness+in+the+system+it+is+that+the+WTO+does+not+have+an+adequate+oversight+mechanism+It+lacks+mechanisms+for+public+accountability+or+participation+The+decisions+are+made&as_epq=authorize+sanctions&as_oq=&as_eq=&num=10&lr=&as_filetype=&ft=i&as_sitesearch=&as_qdr=all&as_rights=&as_occt=any&cr=&as_nlo=&as_nhi=&safe=images (accessed February 2, 2010).
- Sharma, Devindar. 2002. Food Supremacy: America's Other Way. Foreign Policy in Focus. http://www.fpif.org/articles/food_supremacy_americas_other_war_ (accessed 21 October 2009).

- Shah, Anup. 2005. Food Aid as Dumping. Global Issues. Social, Political, Economic and Environmental Issues That Affect Us All. <http://www.globalissues.org/article/10/food-aid-as-dumping> (accessed 21 October 2009).
- Shiva, Vandana. 1999. The historic significance of Seattle. <http://nadir.org/nadir/initiativ/agp/free/seattle/significance.htm> (accessed July 31, 2009).
- Silverman, David. 1985-2005. *Doing Qualitative Research: A Practical Handbook*. Sage Publications Ltd.
- Smaller, Caren, and Anne-Laure Constantin. 2007. Moving forward in 2007: How to let go of the past and embrace the present. <http://www.tradeobservatory.org/genevaupdate.cfm?messageID=121338> (accessed April 8, 2009).
- Smaller, Caren, and Sophia Murphy. 2006. On the right path to development: African countries pave the way. *Trade Observatory*, (June 16). <http://www.tradeobservatory.org/genevaupdate.cfm?messageID=120055> (accessed April 8, 2009).
- South Center. 1999. Issues regarding the review of the WTO dispute settlement mechanism. Trade-Related Agenda, Development, and Equity Working Paper No. 1. *South Centre*. http://www.southcentre.org/index2.php?option=com_content&do_pdf=1&id=372 (accessed April 8, 2009).
- Statement by Rep. Charles Stenholm, on the Floor of the House of Representatives. *Congressional Record*, May 2, 2002.
- Strauss and Corbin. 1967. The Discovery of Grounded Theory. Goals and Perspective. <http://www.analytictech.com/mb870/introtoGT.htm> (accessed 2 February 2010).
- Sugar Program. n.d. Citizens Against Government Waste. http://www.cagw.org/site/PageServer?pagename=policy_Sugar_Subsidies&orubter_friendly=1 (accessed May 5, 2009).
- Suppan, Steve. 2003. Phasing out agricultural export dumping: A step towards development. A talk for Governance and Development in a Dynamic Global Environment, a conference at Harvard University's Center for International Development, April 5. <http://www.tradeobservatory.org/library.cfm?refID=25881> (accessed April 8, 2009).
- Texas Cooperative Extension and Texas Agricultural Experiment Station. 2004. 2004 joint annual report of accomplishments and results. <http://www.reeis.usda.gov/web/areera/Reports/2004/Combined.1862.TX.pdf> (accessed August 25, 2009).

- Trade Resource Center. 2006. World Trade Organization (WTO) Dispute Settlement System. Trade Resource Center. Business Roundtable. http://trade.businessroundtable.org/trade_2006/wto/settlement.html (accessed April 8, 2009).
- Traud, Luanne. 2007. Foreign aid with accountability. <http://www.roanoke.com/editorials/traud/wb/wb/xp-112578> (accessed 8 February 2010).
- Trochim, W., and D. Land. 1982. Designing designs for research. Research Methods Knowledge Base. *The Researcher* 1, no. 1: 1–6
- UK House of Lords. Select Committee on the European Communities. (1991, 23 July). Development and future of the common agriculture policy: Report. Vol. 1. London: Her Majesty's Stationery Office.
- United Nations. 2006. Millennium Project. <http://www.unmillenniumproject.org/goals/index.htm> (accessed July 31, 2009).
- . 2007. Ministerial Conference of the Least Developed Countries. Making Globalization Work for the LDCs, Istanbul. 9-11 July 2007. <http://www.un.int/turkey/3.pdf> (accessed 8 February 2010).
- US Congress. House. 2002. *Critical infrastructure protection: Significant challenges need to be addressed*. Statement of Robert F. Dacey, Director, Information Security Issues, The United States General Accounting Office, 1996. Testimony before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relation, Committee on Government Reform, House of Representatives. July 24. <http://www.gao.gov/new.items/d02961t.pdf> (accessed April 8, 2009).
- US Dept of Agriculture (USDA). 2002. *Income, wealth, and economic well-being of farm households*. Agricultural Economic Report No. 812. July. <http://www.ers.usda.gov/Publications/AER812/> (accessed April 8, 2009).
- US Department of Agriculture, Economic Research Service (USDA ERS). 2002. Farm Bill, 2002. The 2002 Farm Bill: Provisions and Economic Implications. United States Department of Agriculture. Economic Research Service. The Economics of Food, Farming, Natural Resources, and Rural America. May 22. <http://www.ers.usda.gov/Publications/AP/AP022/> (accessed April 8, 2009).
- . 2008. 2008 Farm Bill side-by-side: 2008 Farm Bill overview. <http://www.ers.usda.gov/FarmBill/2008/Overview.htm> (accessed April 8, 2009).
- US Department of Agriculture, Federal Crop Insurance Corporation. 2009. http://edocket.access.gpo.gov/cfr_2009/janqtr/pdf/7cfr457.7.pdf (accessed May 5, 2009).

- USDA. 2008. Budget Summary and Annual Performance Plan. US Department of Agriculture. <http://www.obpa.usda.gov/budsum/fy08budsum.pdf>. (accessed 13 April, 2010).
- US Government Accounting Office (GAO). 2000. *Supporting sugar prices has increased users' costs while benefiting producers*. June 9, 2000. <http://www.gao.gov/products/RCED-00-126>
- . 2004. *Farm program payments: USDA needs to strengthen regulations and oversight to better ensure recipients do not circumvent payment limitations*. April 30, 2004. <http://www.gao.gov/products/GAO-04-407> (accessed May 5, 2009).
- US Senate Committee on Banking, Housing and Urban Affairs. Committee on Finance. 2000. GAO/T-NSIAD/OGC-00-202. June 20. <http://banking.senate.gov/hr00.htm> (accessed April 8, 2009).
- US Trade Representative (USTR). 2005. Building capacity in the developing world: A sustained commitment to aid for trade. *Facts on Global Reform*. Doha Development Agenda Policy Brief, December. http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file553_8587.pdf?ht= (accessed August 22, 2009).
- Vasudeva, P. K. n.d. Implications of WTO on agriculture. <http://www.cosamb.org/downloads/AGREEMENTONAGRICULTURE.doc> (accessed August 22, 2009).
- Virata, Gillian. 2004. Effects of US sugar policy on developing countries. <http://internationalecon.com/virata/Effects%20of%20US%20sugar%20policy%20on%20developing%20countries.pdf> (accessed April 8, 2009).
- Von der Groeben, Hans. 1985. *The European Community: The formative years: The struggle to establish the Common Market and the political union (1958–66)*. Brussels: Commission of the European Communities. Office for Official Publications of the European Communities, 1987, c1985.
- Walton, Richard E., and Robert B. McKersie. 1965. *A Behavioral Theory of Labor Negotiations: An Analysis of a Social Interaction System*. Ithaca, NY: Cornell University Press.
- Wang, Humei, and Richard J. Sexton. 2004. The cost effectiveness of the U.S. import enhancement program bonus allocation mechanism. <https://www.entrepreneur.com/tradejournals/article/115844503.html> (accessed April 8, 2009).
- The Wall Street Journal*. 2008. May 22, 2998.
- Watkins, K. 2003. The case of West African cotton. *Global Trade Negotiations* 2.

- Watkins, Kevin, and Joachim von Braun. 2004. Time to Stop Dumping on the World's Poor. *Hunger Notes*. <http://www.worldhunger.org/articles/03/global/watkins.htm> (accessed 21 October 2009).
- Watkins, Kevin. 2006. Agricultural trade, globalization, and the rural poor. Paper for international Food Policy Research Institute. http://www.tanzaniagateway.org/docs/agricultural_trade_globalisation.pdf (accessed 23 October, 2009).
- Werth, Alexander. 2006. OECD Policies, Poverty and Agricultural Development in Sub Saharan Africa. <http://www.oecd.org/dataoecd/3/54/36784159.pdf> (accessed October 10, 2009).
- Weston, Susan S. 2000. U.S. experience in dispute settlement system: The first years. World Trade Organization. United States General Accounting Office. Testimony Before the Subcommittee on International Trade, Committee on Finance, U.S. Senate. <http://www.gao.gov/archive/2000/n700202t.pdf> (accessed April 8, 2009).
- While We Were Sleeping. 2007. *The Mex Files*, February 6, 2007. <http://mexfiles.net/2007/02/06/while-we-were-sleeping-farm-subsidies/> (accessed April 8, 2009).
- Wiggerthale, Marita. 2005. *What's wrong with EU agricultural subsidies?* <http://www.fairer-agrarhandel.de/mediapool/16/163463/data/What%20is%20wrong%20with%20EU%20subsidies%20II.doc> (accessed April 8, 2009).
- Wise, Timothy. 2004. Barking up the wrong tree: Agricultural subsidies, dumping and policy reform. *Comment-Bridges*. <http://ase.tufts.edu/gdae/Pubs/wp/04-02AgSubsidies.pdf> (accessed April 8, 2009).
- Wise, Timothy A. 2004. The paradox of agricultural subsidies: Measurement issues, agricultural dumping and policy reform. Tufts University, Global Development and Environment Institute Working Paper No. 04-02. May 2004. http://www.policyinnovations.org/ideas/policy_library/data/01136/_res/id=sa_File1/ (accessed April 8, 2009).
- Wise, Timothy A. 2004. The Paradox of Agricultural subsidies: Measurement Issues, Agricultural Dumping, and Policy Reform. <http://ase.tufts.edu/gdae/Pubs/wp/04-02AgSubsidies.pdf> (accessed 21 October 2009).
- Woellert, Lorraine. 1996. WTO still trying to find its way. *The Washington Times*, June 2, p.18.
- World Bank. 2005. World development indicators. <http://devdata.worldbank.org/wdi2005/cover.htm> (accessed May 5, 2009).

- WTO World Trade News. 2009. UN: Bigger State Role Needed to Help Poor Countries. <http://www.reuters.com/article/latestCrisis/idUSLE526564>
- WTO. 1994. Marrakesh Protocol to the General Agreement on Tariffs and Trade 1994. http://www.wto.org/english/docs_e/legal_e/13-mprot.pdf (accessed July 31, 2009).
- . 1999. The original mandate: Article 20 of the Agriculture Agreement: Continuation of the reform process. http://www.wto.org/english/tratop_e/agric_e/art20_e.htm (accessed July 31, 2009).
- . 2000. Fourth Special Session of the Committee on Agriculture. November 29. http://www.wto.org/english/tratop_E/agric_e/ngw85_e.doc (accessed July 31, 2009).
- . 2000. Summary report on the meeting of the special session. March 23–24, 2000. http://www.wto.org/english/tratop_e/agric_e/ngr1_e.doc (accessed July 31, 2009).
- . 2001. How the negotiations are organized. http://www.wto.org/english/tratop_e/dda_e/work_organ_e.htm (accessed July 31, 2009).
- . 2002. Agriculture negotiations: Modalities: Domestic support. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd33_moddom_e.htm (accessed August 4, 2009).
- . 2002. Agriculture negotiations: Modalities: Market access. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd32_modmktacc_e.htm (accessed July 31, 2009).
- . 2002. “Implementation of the program of Action for the LDCs and Combating Poverty” http://www.wto.org/english/news_e/news02_e/speech_minist_conf_5august02_e.htm. (accessed 10/10/09).
- . 2003. Annual report 2003. http://www.wto.org/english/res_e/booksp_e/anrep_e/anrep03_e.pdf (accessed August 22, 2009).
- . 2003. Cancun deadlock. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd22_cancun_e.htm (accessed July 23, 2009).
- . 2003. Cancun Ministerial Conference. http://www.sdnpsd.org/sdi/issues/economy/ldc_dhaka/cancun/index.htm (accessed July 31, 2009).
- . 2003. The cotton initiative. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd20_cotton_e.htm (accessed August 4, 2009).

- . 2003. The Fifth Ministerial Conference. http://www.wto.org/english/thewto_e/minist_e/min03_e/min03_e.htm (accessed 23 July, 2009)
- . 2003. Negotiations on agriculture: Poverty reduction: Sectoral initiative in favor of cotton. May. <http://www.acpsec.org/en/cotton/8-Cotton%20initiative%20WTO.htm> (accessed May 5, 2009).
- . 2003. Preparations for “modalities.” The mandate: The Doha Declaration. The Doha mandate from the Doha Ministerial Declaration, November 2001. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd07_modalities_e.htm (accessed July 23, 2009).
- . 2004. After the framework: Technical work on export subsidies and competition. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd28_subsidies_postfrwk_e.htm (accessed July 31, 2009).
- . 2004. Agriculture negotiations: Introduction. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd05_intro_e.htm (accessed August 4, 2009).
- . 2004. Agriculture negotiations: The issues, and where we are now. http://www.wto.org/english/tratop_e/agric_e/agnegs_bkgrnd_e.doc (accessed July 22, 2009).
- . 2004. August 2004 framework: Domestic support. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd27_boxesframework_e.htm (accessed July 31, 2009).
- . 2004. August 2004 framework: Export subsidies and competition. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd24_subsidiesframework_e.htm (accessed July 31, 2009).
- . 2004. August 2004 framework: Market access. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd25_marketframework_e.htm (accessed July 31, 2009).
- . 2004. Export subsidies and competition. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd08_export_e.htm (accessed July 31, 2009).
- . 2004. Export restrictions and taxes. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd09_taxes_e.htm (accessed July 31, 2009).
- . 2004. Framework: Domestic support. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd27_boxesframework_e.htm (accessed August 4, 2009).
- . 2004. The July 2004 package and August decision. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd23_julypack_e.htm (accessed July 24, 2009).

- . 2004. Phase 1: Domestic support: Amber, blue and green boxes. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd08_domestic_e.htm (accessed August 4, 2009).
- . 2004. ‘Non-trade’ concerns: Agriculture can serve many purposes. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd17_agri_e.htm (accessed August 4, 2009).
- . 2004. Phase 1: Export subsidies, competition and restrictions. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd06_export_e.htm (accessed July 31, 2009).
- . 2004. Phase 1: Market access: Tariffs and tariff quotas. http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd07_access_e.htm (accessed July 31, 2009).
- . 2004. Phase 2: Introduction, and tariffs. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd14_ph2access_e.htm (accessed July 31, 2009).
- . 2004. Sub-committee set up on cotton. http://www.wto.org/english/news_e/news04_e/sub_committee_19nov04_e.htm (accessed August 4, 2009).
- . 2004. Text of the “July package”: The General Council’s post Cancun decision. http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm (accessed July 31, 2009).
- . 2004. Update Phase 2: Food aid. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd25_ph2foodaid_e.htm (accessed July 31, 2009).
- . 2004. Update Phase 2: Food security. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd18_ph2foodsecurity_e.htm (accessed August 25, 2009).
- . 2005. Agriculture: “Modalities” would boost entire round. Hong Kong Ministerial. Briefing Notes. http://www.wto.org/english/theWTO_e/minist_e/min05_e/brief_e/brief03_e.htm (accessed June 22, 2009).
- . 2005. U.S. proposal at WTO aims to fix agricultural trade distortions. http://seoul.usembassy.gov/econ20051212_6.html (accessed April 8, 2009).
- . 2005. United States: Subsidies on upland cotton. http://www.wto.org/english/tratop_E/dispu_e/cases_e/ds267_e.htm (accessed 24 August 2009).
- . 2006. Dispute settlement summary. *Global Trade Negotiations* home page. <http://www.cid.harvard.edu/cidtrade/gov/singaporegov.html> (accessed April 8, 2009).
- . 2007. Public forum: The trade dimension of globalization. www.wto.org/english/res_e/booksp_e/public_forum07_e.pdf (accessed July 31, 2009).

- . 2007. Spotlight on US domestic support in agriculture committee. http://www.wto.org/english/news_e/news07_e/ag_com_21nov07_e.htm (accessed October 15, 2009).
- . 2007. The trade dimension of globalization: Multilateral (WTO) or regional (RTAs). Agency for International Trade Information and Cooperation. http://www.wto.org/english/forums_e/public_forum2007_e/session22_e.doc (accessed July 20, 2009).
- . 2008. Lamy ready to call ministers back to Geneva. September 16. http://www.wto.org/english/news_e/sppl_e/sppl100_e.htm (accessed October 15, 2009).
- . 2008. Lamy warns against protectionism. September 24. <http://dare-and-care.blogactiv.eu/2008/10/08/wto-director-general-pascal-lamy-warns-against-protectionism-in-times-of-financial-crisis/> (accessed July 31, 2009).
- . 2008. Lamy warns trade finance situation “deteriorating.” November 12. http://www.wto.org/english/news_e/news08_e/gc_dg_stat_12nov08_e.htm (accessed July 31, 2009).
- . 2008. Members asking to build on “enormous progress” for final agreement—Lamy. September 11, 2008. http://www.intracen.org/btp/wtn/newsletters/2007/3_2/doha9.htm (accessed July 31, 2009).
- . 2008. Restoring citizens’ confidence in trade requires sound domestic policies. October 29. http://www.wto.org/english/news_e/sppl_e/sppl105_e.htm (accessed October 15, 2009).
- . 2008. WTO is global insurance policy for a global economy—Lamy. October 1. http://www.wto.org/english/news_e/sppl_e/sppl102_e.htm (accessed July 31, 2009).
- . 2009. Dispute settlement: Dispute DS365: United States: Domestic support and export credit guarantee for agricultural products. http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds365_e.htm (accessed July 31, 2009).
- . n.d. Domestic support in agriculture: The boxes. http://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm (accessed August 24, 2009).
- . n.d. Environment: Issues. Rules and environmental policies: Other relevant WTO texts. http://www.wto.org/english/tratop_e/envir_e/issu3_e.htm (accessed July 31, 2009).
- . n.d. The implications of the Uruguay Round Agreement on Agriculture for Developing Countries. Chapter 2: The main elements of the Agreement on Agriculture. Technical Cooperation Department. <http://www.fao.org/DOCREP/004/W7814E/W7814E05.htm> (accessed April 8, 2009).

- . n.d. Legal texts: The WTO agreements: A summary of the Final Act of the Uruguay Round. http://www.wto.org/english/docs_e/legal_e/ursum_e.htm (accessed April 8, 2009).
- . n.d. Understanding the WTO: Basics: Principles of the trading system: Trade without discrimination. Most-favored-nation (MFN): Treating other people equally. http://www.wto.org/english/theWTO_e/whatis_e/tif_e/fact2_e.htm (accessed July 31, 2009).
- . n.d. Understanding the WTO: Basics: The Uruguay Round. http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm (accessed April 8, 2009).
- . n.d. Update Phase 2: Domestic supports: Amber, blue and green boxes. http://www.wto.org/english/tratop_E/agric_e/negs_bkgrnd15_ph2domest_e.htm. (accessed August 22, 2009).
- Yarbrough, Beth, and Robert Yarbrough. 1994. Regionalism and layered governance: The choice of trade institutions. *Journal of International Affairs* 48 (June 1). <http://www.questia.com/googleScholar.qst;jsessionid=JpGTNnSTJmJwhJrrLhj3LBdfrQ1qHNvB1vy0hG4Q8WTyqTlw9lmn!7063501!-376831991?docId=5000280434> (accessed April 8, 2009).
- Young, Edwin. 2008. *The 2002 Farm Bill: Provisions and economic implications*. Administrative Publication No. AP-022. January. <http://www.ers.usda.gov/Publications/AP/AP022/> (accessed April 8, 2009).
- Zimmerman, Sacha. 2007. Outrageous! You sow, they reap. <http://www.rd.com/content/printContent.do?contentId=33433> (accessed 25 August 2009).