

Stop the Dumping!

How EU agricultural subsidies are damaging livelihoods in the developing world.

European Union agricultural subsidies are destroying livelihoods in developing countries. By encouraging over-production and export dumping, these subsidies are driving down world prices of key commodities, such as sugar, dairy, and cereals. Reforming a system in which Europe's large landowners and agribusinesses get rich on subsidies, while smallholder farmers in developing countries suffer the consequences, is an essential step towards making trade fair.



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**MAKE
TRADE
FAIR**

Summary

Europe's agricultural subsidies are inflicting enormous damage on producers in developing countries. The practice of dumping – exporting at prices far below the costs of production – is destroying domestic markets in poor countries. This paper shows the impact of dumping EU sugar and dairy products on the livelihoods of farmers in Mozambique, India, and Jamaica.

The mid-term review of the Common Agricultural Policy (CAP)¹ is an historic opportunity for the European Union to address the devastating impact of its agricultural policies on developing countries. However, there is no evidence so far of the political will necessary to do this, as demonstrated by the recent Franco-German deal at the Brussels Summit, which delays substantive reform until 2006.

Oxfam recognises that an end to dumping will generate adjustment costs in Europe. Policy makers in Europe have responsibilities for rural development and the environment. But as representatives of one of the world's richest and most powerful trading blocs, they also have responsibilities towards developing countries. Reforming a system that reaps big rewards for a minority in Europe, while undermining the markets and opportunities for farmers and agricultural labourers in the developing world, is an essential step towards making trade fair and making globalisation work for the poor. If European governments fail to grasp this opportunity, then the EU's exclusive focus on domestic interests will continue to prevail, at the expense of its poverty-reduction objectives.

Oxfam is calling on the EU to use the mid-term review of the CAP to agree a plan which will stop the dumping of EU agricultural produce on world markets. To this end, the EU should:

- Agree a plan for phasing out all agricultural subsidies that facilitate export dumping, or the sale on world markets of goods at prices below their costs of production. As an immediate step, the EU should agree a binding timetable to eliminate all forms of export subsidies before the 5th WTO Ministerial Conference in Mexico (September 2003).
- Reform the EU's sugar and dairy regimes, in order to avoid the damaging effects on developing country interests.
- Assess the impact of proposed CAP reforms on poverty reduction and food security in developing countries.
- Include a specific objective that CAP reform should foster poverty reduction and food security in developing countries.
- Support the introduction of a 'Development Box' in the WTO Agreement on Agriculture, giving developing-country governments the flexibility to protect their small farmers from dumping.
- Restructure domestic support towards less industrial agriculture and measures aimed at enhancing the welfare of small farmers and the environment, rather than large-scale corporate agriculture.

Introduction

Let us be proud of building together an agricultural policy that meets our vision for our European civilisation. This is what we call our European model of agriculture, as validated in Berlin.

Letter from the Ministers of Agriculture of France, Spain, Ireland, Austria, Portugal, Luxembourg, and Wallonia (Belgium) to the *Financial Times*, 23 September 2002, in defence of the Common Agricultural Policy.

There is no market for fresh milk. No processor in Jamaica has any contract with any dairy farmer. It's a game of chance. Yes, [European] milk powder is cheaper than our local milk. But what you must realise is that imports of milk powder have export subsidies on them. The Jamaican farmer has no subsidies whatsoever. Our production figures are true cost.

Aubrey Taylor, President of St. Elizabeth Dairy Co-operative, Jamaica.

Jamaica is but one example of where Europe's agricultural subsidies continue to inflict enormous damage on developing countries. Thousands of agricultural producers across the world sell their goods on local, regional, and world markets. Yet many smallholder producers in developing countries suffer low prices, lost market shares, and unfair competition. In Oxfam's experience, the Common Agricultural Policy (CAP) depresses and destabilises markets for non-subsidising exporters, including those in the developing world. The continued practice of dumping – exporting at prices far below the costs of production – is destroying domestic markets in developing countries. This paper shows the impact of dumping EU sugar and dairy products on the livelihoods of farmers in Mozambique, India, and Jamaica.

The mid-term review of the CAP is an historic opportunity for the European Union to address this devastating aspect of its agricultural policies. In recognition of the fact that high prices to EU producers, new technologies, and higher yields have led to chronic overproduction and increased exports of some agricultural products, the European Commission has proposed a further de-linking of subsidies to production in favour of a shift to investment in rural development. While welcome, this will not be enough to prevent the export of products at prices below the cost of production, or to stop the use of export subsidies. Moreover, serious reform of the sugar and dairy sectors – the sectors in which

dumping is most prominent – is currently excluded from the Mid-Term Review reform proposals.

There is so far no evidence of the political will needed to end export dumping. The EU's anti-reformists, led by the French government, are refusing to consider substantive reform until 2006. The latest Franco-German deal enshrined at the October European Summit in Brussels is a further attempt by the French government to delay the reform process; however, they failed to stall negotiations on the progressive decoupling proposal.

Who loses from Europe's agricultural subsidies?

The beneficiaries of agricultural subsidies are clearly recognised by European policy-makers. But the millions who bear the brunt of the impact of these subsidies are dispersed, hidden, and ignored. Oxfam is working with small farmers around the world and is concerned that their efforts to develop sustainable livelihoods are being undermined by EU agricultural policies. From Mozambique to India to Jamaica, poor farmers are being denied the opportunity to work their way out of poverty.

The case of sugar dumping...

The EU sugar regime provides one of the most powerful and unambiguous examples of dumping.² Mozambique is one of the countries affected – and one of the world's poorest nations. Approximately 80 per cent of its people live in rural areas, where agriculture is almost the only source of employment. Sugar is a high-potential export crop, facilitating livelihood diversification and stabilising household incomes. Production costs are less than € 286 per tonne, making the country one of the world's most efficient producers. The sugar sector is Mozambique's single largest source of employment, employing 23,000 workers in 2001.³ If more sugar mills were to be successfully rehabilitated, the number of jobs available could rise to 40,000.

However, the country faces many obstacles in its attempts to rehabilitate production. The dumping of European surpluses reduces Mozambique's export revenues. Despite the EU being one of the highest-cost sugar producers, its subsidies mean that it is the second largest sugar exporter in the world. The EU therefore has a strong influence on world prices. A World Bank study estimates that

the EU sugar regime has caused world market prices to fall by 17 per cent. Moreover, Mozambique cannot compete in third markets against cheap, subsidised European sugar. In 2001 for example, Europe exported 770,000 tonnes of white sugar to Algeria and 150,000 tonnes to Nigeria – countries that would be natural export markets for competitive African exporters such as Mozambique. The costs in terms of income and development opportunities are huge.

Oxfam's report 'The Great EU Sugar Scam: How Europe's Sugar Regime is Devastating Livelihoods in the Developing World' calls for an immediate end to EU sugar export dumping. (See the report for the full set of recommendations.⁴)

... and of dairy dumping

A major barrier facing India's dairy co-operatives in their quest to expand into new international markets is the flood of heavily subsidised EU dairy products on the global market. Last year India became the world's largest dairy producer, producing 84 million tonnes of milk. The sector includes a network of co-operatives serving more than 10 million farmers in over 80,000 villages. It has become an immensely valuable industry in a country that is home to one-third of the world's poor.

The EU, the World Bank, UN World Food Programme (WFP), and UN Food and Agriculture Organisation (FAO) have all played a critical role in Operation Flood, the world's largest dairy development programme, which has benefited millions of small dairy farmers all over India. More than €2.2bn of financial support has been ploughed into the sector over the last three decades.

The industry is now seeking to expand into new net dairy-importing markets in countries in South-East Asia, the Gulf, and the southern Mediterranean. However, its efforts are being hampered by unfair competition from subsidised European dairy exports. This year, the FAO cites the EU as offering export subsidies at 60 per cent of the international price for whole milk powder, and 136 per cent of the international price for butter.⁵

Dairy dumping also has a serious impact on Jamaica's domestic market.⁶ Subsidised European milk powder is replacing locally produced milk as the input for the Jamaican dairy industry. Many local dairy farmers have had to abandon production because most local processors use the cheaper imported milk powder instead. Until the early 1990s, Jamaican farmers were largely protected from these subsidised imports and the sector was doing well. But when the government was forced to liberalise imports as part of World

Bank-led adjustment policies, dairy farmers began to suffer. While hundreds of thousands of dollars of aid have been spent on supporting the development of Jamaica's dairy farming, EU export subsidies are undermining these efforts.

In a fair trading system, developing countries would have access to measures that give them greater flexibility to protect their smallholder farmers from surges of cheap or unfairly subsidised imports.⁷ However, unless the EU stops using more than €1.7bn in annual export subsidies on dairy products, the future of dairy farming in countries such as Jamaica looks bleak indeed.

Who gains most from Europe's agricultural subsidies ?

In 2001, France was again recorded as the main recipient of CAP funding, claiming 22.2 per cent of the total budget of €41.53bn. The next biggest recipients were Spain (14.8 per cent), Germany (14.1 per cent), and Italy (12.8 per cent).⁸ Some member states and the agribusiness lobby frequently stress the vulnerability of small farmers as an argument for maintaining agricultural policies as they are. Without these safety nets, they argue, the market would destroy those who sustain our rural areas, which would contradict the wishes of European citizens. But in practice, the main beneficiaries of farm support measures are the largest farmers and agribusinesses.

In a detailed breakdown of aid payments across the EU in 2000, the EC calculated that 78 per cent of EU farmers receive less than €5000 per year in direct aid. Furthermore, fewer than 2000 of Europe's 4.5 million farmers between them rake in almost €1bn in direct aid from the CAP. Farm subsidies also vary in scale across Europe. In Portugal, approximately 95 per cent of farmers receive less than the €5000 each year, compared with 43 per cent in the UK. Moreover, 380 of the UK's landowners and large-scale agricultural businesses glean aid in excess of the €300,000 per farmer ceiling on annual payments proposed in the mid-term review.⁹

By concentrating subsidies in the hands of its richest agricultural landowners, EU agricultural policies are hastening the demise of smallholder agriculture in Europe. In most countries where rural land accounts for the majority of their territory, such as Spain, Italy, and Greece, the active rural population has been reduced to one-fifth of its number in the 1950s. Large-scale corporate agriculture and the powerful lobbies of the largest European farmers have

successfully influenced the direction and content of the CAP from its inception. They continue to defend it against reform, as they reap substantial profits from aid systems such as export subsidies.

The real challenge that EU member states are failing to address is that of supporting farm incomes at far lower levels of production. In this respect, much more should be done to link income support to less industrial and more environmentally sensitive systems of production. At the same time, the regressive character of CAP support, with the largest farms and agro-processing companies receiving the lion's share of transfers, should be changed.

The incentive to generate surpluses

The CAP was developed in the early 1960s largely around a price support mechanism and protected borders. By providing incentives to producers, it aimed to avoid food shortages by developing a stable internal food market on the basis of a high level of self-sufficiency. Twenty years later, oversupply in European markets became unavoidable, and excess production found an outlet on international markets. Since the CAP reforms of 1992, the EU has continued to pursue a strategy of agricultural competitiveness in international markets by a combination of export subsidies, internal price support, and direct aid to producers to compensate for revenue losses.

Today, the EU accounts for 18 per cent of world sugar exports, 28 per cent of world dairy exports,¹⁰ and around 8 per cent (and rising fast) of world wheat exports. Despite production costs, with rare exceptions, 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 subsidies. Subsidies support production and generate surpluses of many products, such as sugar, dairy, and wheat. This surplus is then exported outside the EU at prices below the cost of production. Oxfam's research shows that export prices of wheat, powdered milk, and sugar are fixed at 34 per cent, 50 per cent, and 75 per cent respectively of their production costs.¹¹

Subsidised European agricultural exports not only undermine the livelihoods of smallholder farmers in developing countries, but are also a huge cost to taxpayers, consumers, and the environment. In 2002, the CAP will cost a massive €46.5bn – almost half the EU budget.¹² Farm subsidies will account for 37 per cent of the total value of European agricultural production.¹³ In a recent survey by the European opinion research service, Eurobarometer, Europeans expressed strong support (more than 70 per cent) for those aspects

of the CAP relating to food quality, protection of the environment, and improvement in the quality of life in rural areas (known as the multi-functionality of agriculture). However, when asked whether they believed that the current CAP fulfilled these functions efficiently, only three out of every ten people surveyed replied positively.

EU domestic support should be restructured towards less industrial agriculture and measures to enhance the welfare of small farmers rather than large-scale corporate agriculture, without undermining food security and rural livelihoods in developing countries.

Which subsidies encourage dumping ?

Any subsidy that promotes over-production and increases exports onto the world market at prices below the costs of production encourages dumping. Under the WTO Agreement on Agriculture, developed countries made a commitment to reduce their agricultural subsidies. In practice, they have done the opposite. EU agricultural subsidies were approximately \$5bn higher at the end of the 1990s than a decade earlier.¹⁴ The US is no better, having just adopted a Farm Bill which is estimated will increase agricultural subsidies over the next decade by 80 per cent to a total of at least \$US82bn.¹⁵

Market-price support and farm payments linked to output are the major form of producer support in rich countries, accounting for almost three-quarters of payments in 2000.¹⁶ These programmes tend to operate in a similar way. Governments buy agricultural commodities at prices above world market levels, transferring income to their farmers. They then transfer the same commodities onto world markets, usually with the help of hefty subsidies, thus pushing down world prices.

Arguments in favour of the immediate elimination of export subsidies are compelling. Despite this, the EU still accounts for 90 per cent of the world's export subsidies.¹⁷ It is true that between 1990 and 1999 export subsidies fell from 31 per cent to 14 per cent of CAP expenditure. However, these figures tell only part of the story. Over the same period, CAP spending rose from €24.9bn to €39.5bn.¹⁸ As a result, export subsidies fell by less than one-third, and not by the 55 per cent implied.

According to the EU, the overall level of support to agriculture matters less than the structure of subsidies. The EU contends that it has scaled down subsidies that directly encourage production in

favour of direct payments to farmers and payments not linked to production (or 'decoupling' of payments). In theory, the further decoupling of subsidies linked to production, increased conditionality with regard to environmental, animal welfare, and food safety standards, and a further shift to investment in rural development proposed in the EC's mid-term review are intended to discourage over-production still further. While this proposal is welcome, in practice it may not have this effect.

The OECD has noted that even 'de-coupled' payments influence decisions about production, because they send a strong signal to farmers that they can expect to receive extra support when world prices are low. This affects the international competitiveness of EU and US agricultural production, and the price at which these countries are able to export onto world markets. The real challenge is for the EU to support farm incomes at far lower levels of production by developing market regulatory systems that stabilise prices and provide a predictable environment for producers.

The cereals sector provides a good illustration of the negative effects of direct payments. In 1992 the EU shifted to a system of direct payments that no longer depended on export subsidies. Since then EU cereal prices have fallen by around half but production has risen; exports are rising to pre-reform levels. The OECD predicts that the decline in EU wheat prices, together with a sustained increase in the world price, will improve EU competitiveness on the world market, and that EU wheat exports will increase significantly in the next ten years. If current policies remain unchanged, the EU's share of world wheat markets will increase from its current level of 7.85 per cent to 19.7 per cent in 2012,¹⁹ leading to efficient producers in areas such as southern Africa seeing their market share further squeezed.

This is not to argue against the use of carefully targeted policies in the EU that promote legitimate rural development and environmental objectives. But the idea that existing industrialised-country agricultural policies are good for rural development and the environment is a myth. On the contrary, current subsidy patterns, with their emphasis on expanding production, have encouraged the industrialisation of agriculture, with a premium on the heavy use of chemical inputs. The most immediate consequences include extensive environmental damage and threats to public health. Moreover, the EU's own figures show that rural development played a minor role (only 10.5 per cent) in farm spending in most countries, Austria and Finland together taking 83 per cent of that amount.²⁰

Conclusion

EU leaders must take urgent action to end dumping, which is so damaging to smallholder farmers in developing countries. Oxfam recognises that an end to dumping will generate adjustment costs in Europe. Policy makers in Europe have responsibilities for rural development and the environment. But as representatives of one of the world's richest and most powerful trading blocs, they also have responsibilities towards developing countries. Reforming a system that reaps big rewards for a minority in Europe, while undermining the markets and opportunities for farmers and agricultural labourers in the developing world, is an essential step towards making trade fair and making globalisation work for the poor.

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Notes

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- ¹ Communication from the Commission to the Council and the European Parliament. Mid-term Review of the Common Agricultural Policy, 10 July 2002
- ² See 'The Great Sugar Scam: How Europe's Sugar Regime is Devastating Livelihoods in the Developing World', Oxfam, August 2002.
- ³ Mosse, Marcelo (2002), 'Interviews with Sugar Cane Workers in Mozambique'. Report for Oxfam GB.
- ⁴ <http://www.oxfam.org/eng/policy.htm>
- ⁵ UN FAO, March 2002
- ⁶ For detailed analysis, see Black, F. (2001) 'Update: Dumping in Jamaica: A Report on the Dairy Industry', Novib.
- ⁷ For further information see Oxfam's forthcoming paper on the WTO Agreement on Agriculture, covering analysis of the 'Development Box', November 2002.
- ⁸ European Commission indicative figures on the distribution of direct farm aid. EC website, 1 October 2002.
- ⁹ European Commission indicative figures on the distribution of direct farm aid. EC website, 1 October 2002.
- ¹⁰ WTO website.
- ¹¹ 'Rigged Rules and Double Standards: Trade, Globalisation, and the Fight Against Poverty' Oxfam, April 2002
- ¹² European Commission website.
- ¹³ OECD Agricultural Outlook, 2001.
- ¹⁴ OECD Database, 2001.
- ¹⁵ See 'Cultivating Poverty: The Impact of US Cotton Subsidies on Africa', Oxfam, September 2002, for analysis of the impact of these subsidies on West African cotton producers.
- ¹⁶ OECD 'Agricultural Policies in OECD Countries: Monitoring and Evaluation 2001'. The US also subsidises agricultural exports, although through different instruments such as export credit schemes.
- ¹⁷ US Department of Agriculture website.
- ¹⁸ European Commission website.
- ¹⁹ Food and Agricultural Policy Research Institute (FAPRI). World Agricultural Outlook, January 2002.
- ²⁰ European Commission indicative figures on the distribution of direct farm aid. EC website, 1 October 2002.

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