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# Truth or consequences

## Why the EU and the USA must reform their subsidies, or pay the price

The USA and the EU are currently blocking a deal to make trade fair in the Doha Development Round. In the wake of findings by the WTO that US cotton subsidies and EU sugar subsidies are illegal, this paper presents powerful new research detailing a slew of other rich country subsidies of \$13bn that are also on the wrong side of the law. In addition to the strong moral imperative for the trade superpowers to radically reform the way they subsidise agriculture, there is also a legal requirement for change. The choice lies with the USA and the EU: either they face manifold legal actions that will force reform on a piecemeal basis, or they negotiate reform upfront in the Doha trade round.

## Summary

It is time to make trade rules work for poor as well as rich countries. Dumping by the rich world is one of the most egregious examples of unfair rules that allow the self-interest of rich countries to destroy the livelihoods of poor people around the world.

Oxfam and others have long suspected that, in the wake of the cotton and sugar cases, several other US and EU agricultural subsidies that distort trade and hurt developing countries are also bending the law. Following legal advice provided to Oxfam, this paper shows that these suspicions have been confirmed. The trade superpowers are illegally subsidising a slew of products, from butter to orange juice, from tobacco to tomatoes, and from corn to rice. The total illegal subsidies highlighted in this paper alone amount to €3.6bn (\$4.2bn) for the EU and \$9.3bn (€7.9bn) for the USA in one year alone. Furthermore, in addition to those detailed here, there are several other suspect subsidies worth billions more.

If the USA and the EU do not negotiate the elimination of these subsidies — the bulk of which go not to small-scale farmers but to agribusiness and wealthy landowners — in the Doha trade negotiations, challenges brought before the WTO court, the Dispute Settlement Body (DSB), could find them to be inconsistent with WTO rules. The choice lies with the USA and the EU: either they face manifold legal actions that will force reform on a piecemeal basis, or they negotiate reform as part of a pro-poor package upfront in the Doha trade round, transforming their subsidies into support for small-scale, poor farmers to promote rural development and employment, rather than dumping. Oxfam is not suggesting that legal actions should be brought — but this paper proves that they could be.

**Table 1: Potential cases against the European Union**

<i>Product</i>	<i>Major user</i>	<i>Potential plaintiffs</i>
Tomatoes	Greece, Italy, Spain, Portugal	Chile, China, Mexico, Morocco, South Africa, Tunisia
Canned peaches	Greece, Spain	Argentina, Chile, China, South Africa
Canned pears	Italy, Spain, France	Argentina, Chile, China, South Africa
Citrus fruit juice	Italy, Spain	Argentina, Brazil, Costa Rica, Morocco, South Africa
Wines and spirits	France, Spain, Italy	Armenia, Chile, Malaysia, Mexico, South Africa
Tobacco	Spain, Italy	Brazil, China, Guatemala, India, Indonesia, Malawi, Mozambique, Sri Lanka, Tanzania, Uganda, Zimbabwe
Butter	France, Germany	Argentina, Brazil, Egypt, Morocco, South Africa, Uruguay
Skimmed milk	France, Germany	Dominican Republic, Egypt, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Venezuela

**Table 2: Potential cases against the USA**

<i>Product</i>	<i>Potential plaintiffs</i>
Corn	Argentina, Ecuador, El Salvador, Colombia, Honduras, Guatemala, Mexico, Paraguay, Peru, South Africa, Venezuela
Rice	Costa Rica, Ghana, Guyana, Haiti, India, Mexico, Pakistan, Peru, Suriname, Thailand, Uruguay, Venezuela, Zambia
Sorghum	Kenya, Mexico, South Africa

## Recommendations

Rich countries must unilaterally remove the vast swathe of illegal subsidies which are handouts for agribusiness and destroy poor people's livelihoods. They must also implement what they have already committed to in the Uruguay Round, and what they have promised in the Doha Round.<sup>1</sup>

### **Oxfam urges that:**

- Rich countries stop using prohibited local content subsidies.
- The USA should reduce its trade-distorting support by more than 60 per cent, and the EU by more than 70 per cent.
- The USA and the EU should agree to product-specific caps to avoid the shifting of subsidy support within the Blue and Amber Box categories.
- The Peace Clause must not be renewed.
- There should be no expansion of Blue Box criteria. There should also be a ban on updating within the Blue Box.
- Green Box subsidies should only be allowed when payments provide clear benefits to small farmers, rural development or the environment, or indirect benefits to developing country farmers.
- Export support should be eliminated by 2010, and food aid should only be paid in cash, except when domestic and regional markets have broken down.
- There should be a full elimination of trade-distorting support on cotton.
- Subsidies should be notified to the WTO each year, and there should be full disclosure of the amounts paid and of the recipients.
- Developing countries should be allowed to retain their subsidies, other than export subsidies.
- These concessions must not be made in return for any increase in access to developing country markets in agricultural or non-agricultural goods, or in services.

# 1 Introduction

Now is the time for Europe and the USA to acknowledge the truth that only substantial limitation of their trade-distorting agricultural subsidies will prevent the damaging effects that these subsidies have on developing country producers. If they fail to do so, the consequence will be impasse in the WTO trade negotiations, with the prospect of repeated dispute settlement challenges before the WTO in the years ahead.

Every year, rich countries provide billions of dollars in subsidies to their farmers and producers, subsidies which Oxfam has long said pit farmers in Africa, Latin America, and Asia against the might of the US and European governments, and which result in the dumping of rich country products.<sup>2</sup>

While Oxfam and others have long known that these subsidies are deeply unfair and highly damaging to poor country farmers, we have also suspected that they are illegal. These suspicions were proved correct by the successful challenges brought to the WTO by Brazil, Thailand, and others against US cotton subsidies and EU sugar subsidies. Now the comprehensive research in this paper shows that the cotton and sugar subsidies are just the tip of the iceberg.

Following legal advice, this paper shows that a range of other US and EU agricultural subsidies are also illegal. These subsidies cover a slew of products from butter to orange juice, tobacco to tomatoes, and corn to rice. The total illegal subsidies highlighted in this paper alone amount to €3.6bn (\$4.2bn) for the EU and \$9.3bn (€7.9bn) for the USA.<sup>3</sup> Furthermore, in addition to those detailed here, there are several other suspect subsidies worth billions of dollars. If the USA and the EU do not negotiate the elimination of these subsidies in the Doha trade negotiations, challenges brought before the WTO court, the Dispute Settlement Body (DSB), could find them to be inconsistent with WTO rules.

In all of the potential cases listed below, the USA and EU are breaking the WTO's Agreement on Subsidies and Countervailing Measures by granting prohibited subsidies or by causing adverse effects to developing country WTO members. The prohibited subsidies discussed in this paper favour the use of domestically produced agricultural products, over imported ones, as inputs in the manufacture of processed agricultural products. Adverse effects occur when subsidies impede exports, suppress market prices, or cause injury to the domestic industries of other WTO members.

Developing countries whose farm sectors are being damaged by these illegal subsidies are found all over the globe, from larger countries such as Mexico and Brazil to Least Developed Countries (LDCs) such as Mozambique and Malawi. More than two billion people in developing countries depend on farming to make a living, and rich country subsidies make them poorer by driving them out of markets with subsidised agricultural production.

There are three ways in which these subsidies, which lead to overproduction, hurt farmers in poor countries. Firstly, they depress global prices, meaning that poor country farmers earn less for their products. Secondly, they undermine rural livelihoods and food security through unfair competition in local markets. Thirdly, they mean that developing countries lose market share when exporting to other markets, as they cannot compete with the prices of dumped goods. This means that developing country farmers are losing the opportunity to earn the money that allows them to send their children to school, to buy medicines, to access basic public services, and to feed their families.

Of course, developing countries might not want to expand exports of the products detailed in this paper. But the illegal subsidies stymie this potential opportunity for economic growth. These lost trading opportunities cost poor countries hundreds of millions of dollars. For example, corn producers around the world would gain as much in higher prices from the abolition of the US's illegal corn subsidies as the UN estimates is needed each year to make health interventions that would prevent the death of 3m infants a year – \$4bn.<sup>4</sup>

**Box 1: The harm subsidies cause**

Both EU and US trade-distorting subsidies cause real harm to farmers in poor countries. For example, in the Dominican Republic, around 10,000 dairy farmers are thought to have been forced out of business during the past two decades due to the dumping of European milk products, in spite of the considerable investment in the country's dairy sector by the government and by the industry itself.<sup>5</sup>

Similarly, US rice subsidies are having a direct and negative effect on farmers in Ghana. Rice is grown on around 8,000 farms in the USA, with the state of Arkansas producing almost half of the nation's crop. The biggest 332 farms in Arkansas — each over 400 hectares in size — produce more rice than all the farmers of Ghana, Guinea, Guinea-Bissau, Niger, and Senegal combined.

US rice exports have grown by 60 per cent over the past 20 years, a growth only possible because of subsidies, which totalled \$1.3bn in 2003 alone.<sup>6</sup> When US rice arrives at the port in Accra, Ghana's capital, it arrives with a fanfare. USA Rice — the industry's biggest lobby group — sees Ghana as an important market for its exports: 111,000 tonnes of US rice went there in 2003. This cheap, subsidised rice is aggressively marketed.

The result is destructive, as Asakture Abene, aged 42, a farmer who has been growing rice on a half-hectare plot in the north of the country for the past 10

years, points out: 'If the USA is subsidising its rice farmers,' she says, 'then that means I am suffering for nothing because my rice is not being bought. I have to grow rice because I am here. I have no choice but to be in this farming – it's my food and drink, my livelihood.'<sup>7</sup>

## Implications of these findings

Currently both the USA and the EU are offering minimal, or even illusory, reductions in their subsidy programmes to force developing countries to make concessions in terms of market access in the Doha trade talks.

Oxfam's analysis shows that the subsidy reduction offers put on the table in the run-up to the Hong Kong WTO Ministerial in December would not result in significant cuts in levels of support. In the case of the USA, loopholes created in the July Framework would allow it to compensate for reductions in the Amber Box with more, highly distorting payments allowed in the Blue Box. In the case of the EU, while the 2003 reform of the Common Agricultural Policy (CAP) made some steps in the right direction, its proposal would allow it to increase budgetary outlays of trade-distorting support by \$13bn a year.<sup>8</sup>

Developing countries should not accept such a negative trade-off. Nor do they have to accept the failure of rich countries to face up to the truth that even their proposed cuts in subsidies will continue to have adverse effects on developing countries in the years ahead. If the EU and the USA remain intransigent in the Doha Round, one option open to these countries is taking the USA and the EU to the WTO court – the Dispute Settlement Body (DSB) – and forcing the trade superpowers to cut these deeply damaging subsidies.

### **Box 2: The WTO Dispute Settlement Body**

The Dispute Settlement Body (DSB) is the legal forum where WTO members can challenge each other's compliance with the WTO's binding trade rules. The DSB is made up of representatives of all WTO members and it makes decisions by consensus.

If the Panel and/or Appellate Body find that the defending member is violating trade rules, recommendations are provided to remedy the situation. The defending member is legally required to follow the DSB's recommendations by changing its domestic laws and regulations or face trade retaliation. In the case of subsidy disputes, the defending member must cease granting illegal subsidies. However, it is important to note that the dispute settlement mechanism is a politically and financially costly way of achieving justice for developing countries. Since it started, the DSB has heard 335 cases, the vast majority of which have been brought by rich countries.

Litigation is not a first best option. Oxfam is not suggesting that any of the countries mentioned in this paper should bring a case to the WTO,

or that they would find it politically easy to do so, or even that favourable DSB recommendations would automatically be implemented by the USA or the EU. After all, we are still waiting for the USA to eliminate fully the subsidies declared illegal in the cotton dispute; the same is true of the EU in the case of its illegal sugar subsidies. However, these cases have put the issues high on the political agenda, and have influenced the shape and speed of domestic policy change and there is significant potential for a series of WTO disputes on agricultural subsidies.

Much better, however, would be for the EU and USA to offer genuine reform of their subsidy regimes.

The USA has recently requested the inclusion of a new Peace Clause in any agreement on agriculture reached in the Doha Round. This is an agreement among WTO members not to permit challenges at the WTO on certain issues — in other words, a licence for rich countries to harm developing countries, with impunity. Under the old Peace Clause established under the Uruguay Round, rich countries had *carte blanche* to grant lavish agricultural subsidies, safe in the knowledge that these could not be challenged for a period of nine years under the WTO Subsidies Agreement.<sup>9</sup> Knowing their legal vulnerabilities, the USA would like to resurrect this unfair shield against justified litigation. Moreover, these two trade superpowers would still like to maintain agricultural subsidies at levels that will injure developing country trade interests in the years ahead.

## 2 The case against EU subsidies

### Processed fruits and vegetables

The EU provides millions of euros in subsidies to encourage the processing of fruit and vegetables into finished food products, such as tomato paste, canned fruit, and orange juice. These trade-distorting subsidies not only cause adverse effects in many developing countries, they are also prohibited by the WTO.

The processing subsidies constitute local content subsidies that are in violation of Part II, Article 3.1(b) of the WTO Agreement on Subsidies and Countervailing Measures. The Agreement is very clear: '[S]ubsidies contingent ... upon the use of domestic over imported goods'<sup>10</sup> are prohibited.

In order to receive processing subsidies for tomatoes, peaches, pears, and citrus fruits, processors must use fruits and vegetables 'harvested in the Community'.<sup>11</sup> Processing subsidies are contingent upon the use of domestically produced fruit and vegetables over imported fruits and vegetables. Thus, they are prohibited by the WTO Subsidies Agreement and could be challenged by any WTO member.

#### Tomatoes

European tomato paste accounts for more than a third of world exports.<sup>12</sup> Tomatoes used as input for tomato paste, canned tomatoes, and tomato sauce are subsidised at a rate of 65 per cent<sup>13</sup> and the EU provides about €300m a year to encourage the processing of tomatoes into tomato products.<sup>14</sup> These subsidies enable European producers, mostly in Greece, Italy, Spain, and Portugal, to purchase EU tomatoes at very low (subsidised) prices, allowing them to be the leading exporters of tomato paste in the world. Without processing subsidies, EU tomato processors would have to significantly raise the price paid to tomato growers, increasing the cost of European tomato paste. This would make producers in other countries more competitive, and would largely eliminate European exports.

### **Box 3: Potential plaintiffs**

South Africa, Chile, China, Mexico, Morocco, and Tunisia are all major producers and exporters of tomato paste. Europe's tomato processing subsidies hurt these countries by suppressing the price of tomato paste in world markets, and by impeding their exports to markets around the world, in breach of Part III, Articles 5(c) and 6.3(a), (b), and (c) of the WTO Agreement on Subsidies and Countervailing Measures.

If removing EU subsidies were to increase world prices of tomato paste by 5 per cent — a conservative estimate — exporters of tomato paste in these countries would gain \$15m in additional revenue.<sup>15</sup> If EU exports disappeared completely — which is not unlikely — the resulting market opportunities would be worth \$315m.<sup>16</sup>

### **Canned peaches**

Before a crop failure in Greece temporarily reduced exports in 2003 and 2004, the EU was the largest exporter of canned peaches in the world, accounting for more than 40 per cent of the global market. In 2005, the EU, led by Greece and Spain, is likely to regain its number one position.

Although the amounts of processing subsidies supplied to canners are small — €20m per year, or a subsidisation rate of 20 per cent<sup>17</sup> — they are crucial to the competitiveness of EU canned peaches in world markets. Without subsidies, the production of canned peaches in the EU would fall significantly and prices in the EU and in the world market would rise. Competitive producers of canned peaches in Latin America, Africa, and Asia would see increased market opportunities. If removing these subsidies were to increase world prices by 5 per cent, exporters in these countries would gain \$10m in additional revenue.<sup>18</sup> If EU exports fell by 50 per cent, the resulting market opportunities would be worth as much as \$45m.<sup>19</sup> Neither of these scenarios is unlikely.

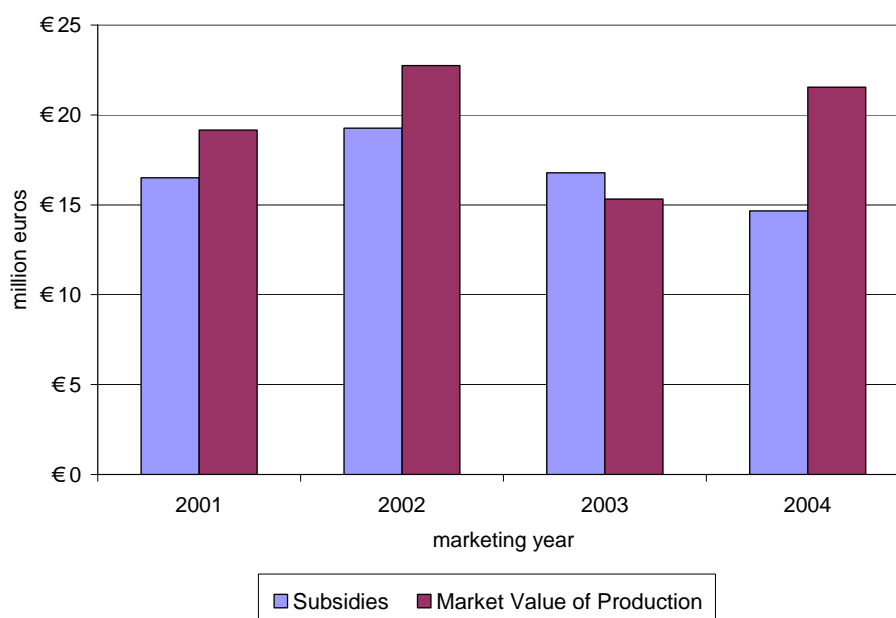
### **Box 4: Potential plaintiffs**

Argentina, Chile, China, and South Africa currently export peaches and are in a position to expand their production and exports. EU processing subsidies for peaches cause adverse effects to these countries by suppressing the price of canned peaches in the EU and in world markets, and by impeding their exports of canned peaches to the EU and third countries, in breach of Part III, Articles 5(c) and 6.3(a), (b), and (c) of the WTO Agreement on Subsidies and Countervailing Measures.

## Canned pears

The EU is one of the largest markets in the world for canned pears. Large processing subsidies of around €15m per year, mostly for Italy, Spain, and France, increase EU production of canned pears and obstruct imports from competitive producers in developing countries. EU pears supplied to European canners are subsidised at a rate of 80 per cent.<sup>20</sup> Without these subsidies, the EU canned pear industry would shrink to a fraction of its current size.

**Figure 1: Pear processing subsidies are nearly as large as the value of the pear crops**



Source: USDA

### Box 5: Potential plaintiffs

Argentina, Chile, China, and South Africa already export significant amounts of canned pears to the EU. European processing subsidies cause these countries adverse effects by impeding further exports of canned pears to the EU and by suppressing the price of canned pears in the EU, in breach of Part III, Articles 5(c) and 6.3(a) and (c) of the WTO Agreement on Subsidies and Countervailing Measures. If the removal of EU subsidies increased prices of canned pears by 10 per cent in the EU, exporters from these countries would benefit from \$3m in additional revenue.<sup>21</sup> If EU production declined by 50 per cent, the resulting market opportunities in the EU would be worth \$45m.<sup>22</sup> To put this figure into perspective, that is almost as much as the EU provides in aid per year to Guyana.<sup>23</sup>

## Citrus fruit juice

Oranges, lemons, grapefruits, and small citrus fruits harvested in Europe and processed into juice (and segments) are subsidised at a rate of more than 300 per cent.<sup>24</sup> In other words, the subsidy is worth more than three times the market price of the fruit used for processing. In all, the EU spends about €250m a year on citrus fruit processing subsidies.<sup>25</sup> Producers in Italy and Spain are the largest beneficiaries.

Subsidies are essential to encourage citrus fruit growers to supply their fruit to processors. Without subsidies, European citrus would be less competitively priced and processors' costs could increase, making the finished products much more expensive.

### Box 6: Potential plaintiffs

Argentina, Brazil, Costa Rica, Morocco, and South Africa all export citrus fruit juice to the EU and have the potential to export more. EU processing subsidies cause adverse effects to these countries by impeding their exports of citrus fruit juices to the EU and by suppressing the price of citrus fruit juices in the EU, thus violating Part III, Articles 5(c) and 6.3(a) and (c) of the WTO Agreement on Subsidies and Countervailing Measures. If the removal of EU subsidies increased the price of citrus fruit juice by 5 per cent in the EU, these countries would earn more than \$40m in additional revenue.<sup>26</sup> If EU production decreased by 75 per cent, the resulting market opportunities for orange juice alone would be worth around \$85m.<sup>27</sup> To put this figure into perspective, this is just more than the Government of Malawi spends in an entire year on healthcare (\$72m).<sup>28</sup>

## Wine and spirits

The EU provides around €600m a year in subsidies to encourage the distillation of table wine into spirits, such as brandy and vermouth. Distillation measures are intended to remove structural surpluses of table wine from the EU market, bolster domestic wine prices, and protect European wine producers against price competition from third countries.<sup>29</sup>

A little-noted consequence of the subsidy is that it encourages the overproduction of spirits in the EU, with some of this surplus being dumped on the world market. Led by France, Spain, and Italy, the EU is the largest producer and exporter of spirits in the world, accounting for more than 90 per cent of the \$1.5bn world market.<sup>30</sup>

Competitive producers of spirits in developing countries are shut out of the lucrative world market for spirits by these European distillation subsidies. A study commissioned by the EU itself found that because of EU subsidies, 'wine producers from third countries, who could also potentially deliver wine for distillation of potable alcohol, are hindered

from entering this market'.<sup>31</sup> The study explained that 'the [EU] aid reduces the [EU] distillers' cost for raw materials, which leads to lower prices of potable alcohol'.<sup>32</sup>

The elimination of EC distillation subsidies would cause world prices for spirits to rise and EU production to fall. If prices rose by 10 per cent, producers of spirits would earn \$150m in additional annual revenues.<sup>33</sup> If EU exports decreased by 25 per cent, producers in other countries would enjoy additional market opportunities worth as much as \$350m.<sup>34</sup> To put this figure into perspective, the Global Fund to fight AIDS, Tuberculosis and Malaria spends \$450m a year on fighting malaria, the world's number one killer disease.

#### **Box 7: Potential plaintiffs**

Armenia, Chile, Malaysia, Mexico, and South Africa are all competitive producers of wine and spirits and are harmed by EU distillation subsidies. Such subsidies hurt these countries by suppressing the world price of spirits and by impeding their exports of spirits to world markets, in breach of Part III, Articles 5(c) and 6.3(b) and (c) of the WTO Agreement on Subsidies and Countervailing Measures.

In addition to causing adverse effects, EU wine distillation subsidies are prohibited by Part II, Article 3.1(b) of the Agreement on Subsidies and Countervailing Measures. Distillation subsidies, which are paid to EU wine distillers, constitute prohibited local content subsidies because they are contingent on the use of grape marc, wine lees and table wine produced in the European Community.<sup>35</sup>

## Tobacco

The EU is a leading producer, importer, and exporter of raw tobacco leaves. However, it sustains this position by spending more than €900m a year on trade-distorting subsidies to its tobacco farmers.<sup>36</sup> These subsidies cause overproduction and depress the price of tobacco in the EU and in world markets. According to the European Commission, tobacco subsidies represent 76 per cent of farmers' income from growing tobacco.<sup>37</sup> By this measure, the EU subsidises the production of tobacco at a rate of over 300 per cent.

In most tobacco-growing regions of the EU, farmers cannot cover their variable or total costs of production. In Extremadura, **Spain** and Umbria, Italy – the EU member states that account for the majority of production – market receipts are very far below production costs. (See Annex, figure A1.)

It is not surprising then that the European Commission concluded that the removal of EU subsidies would result in a 'very sharp decline in production'.<sup>38</sup> Lower EU production would result in decreased exports and increased tobacco imports. While the 2003 CAP reform of tobacco

subsidies takes a small step in the right direction, the amount of the subsidies will not change significantly, and the adverse effects they cause will continue to be significant.

The EC agrees that 'the current high levels of [tobacco] premiums is known to have a depressive effect on domestic prices'. By depressing EU prices, tobacco subsidies reduce the revenue that exporters and producers from other countries receive for selling tobacco in the EU market. If the removal of EU tobacco subsidies increased the price of tobacco in the EU market by 10 per cent, exporters in the developing countries listed could gain as much as \$120m in additional export revenue.<sup>39</sup>

**Box 8: Potential plaintiffs**

Brazil, China, Guatemala, India, Indonesia, Malawi, Mozambique, Sri Lanka, Tanzania, Uganda, and Zimbabwe all export significant amounts of tobacco to the EU and to world markets. EU tobacco subsidies cause adverse effects to these countries by impeding further exports of tobacco to EU and world markets and by suppressing the price of tobacco in the EU and world markets, violating Part III, Article 5(c) and 6.3(a), (b), and (c) of the WTO Agreement on Subsidies and Countervailing Measures.

## Dairy

The 2003 CAP reform has begun to dismantle the EU dairy regime. Time will tell whether this will eliminate its most nefarious effects. But as long as the EU continues to use export subsidies, trade-distorting domestic subsidies, and prohibited local content subsidies, it will injure the domestic dairy industries of numerous WTO members and will be vulnerable to challenge in WTO dispute settlement procedures. If export subsidies are not eliminated until 2017, as France has suggested, then it is almost certain that cases will be brought against the EU dairy regime.<sup>40</sup>

The EU dairy sector is one of the most highly protected industries in the world. Through a complicated system of intervention measures and import/export controls, EU regulators maintain artificially high domestic prices for dairy products. Surplus production that threatens to depress such enviable prices is dumped onto world markets with the help of large export subsidies. In all, the EU spends more than €1.5bn annually on dairy export subsidies.

## **Butter**

The EU is only able to export butter through the use of export subsidies. These subsidies pay EU butter producers the difference between the high EU domestic price and the low world price. Without export subsidies, the EU would likely not export butter at all, because it would be far too expensive to sell on world markets. Thus, having closed off its own market with sky-high tariffs and minimal market access, the EU uses export subsidies to injure its foreign competitors in export markets.<sup>41</sup>

### **Box 9: Potential plaintiffs**

Argentina, Brazil, and Uruguay would have the capacity to export butter into world markets if prices were not suppressed by the effects of large and heavily subsidised EU exports. They could assert claims of market impedance and price suppression under Article 6.3(b) and (c) of the Agreement on Subsidies and Countervailing Measures.

Heavily subsidised EU butter is dumped into many developing country markets, such as those of Egypt, Morocco, and South Africa. These countries could assert in a WTO dispute settlement that EU export subsidies and other domestic support policies for butter cause adverse effects to their interests by lowering the prices that their local industries receive. If a WTO panel and the WTO Appellate Body agreed, the EU would be directed to remove the adverse effects or to withdraw the subsidy.

## **Skimmed milk powder**

The EU is the largest exporter of skimmed milk powder in the world. As with butter, and for the same reasons, the EU would not export skimmed milk powder without export subsidies.

### **Box 10: Potential plaintiffs**

Heavily subsidised EU skimmed milk powder is exported to a large number of WTO members, including Egypt, the Dominican Republic, Indonesia, Malaysia, Mexico, Nigeria, Thailand, and Venezuela. To the extent that these exports are driving down the price of local skimmed milk powder, these members could claim that EU export subsidies for skimmed milk powder cause adverse effects to their interests by injuring their domestic industries, in breach of Part III, Article 5(a) of the Agreement on Subsidies and Countervailing Measures.

## **Prohibited dairy subsidies**

Certain provisions of the EU's dairy regime constitute prohibited local content subsidies, in violation of Part II, Article 3.1(b) of the WTO Subsidies Agreement. Intervention and private storage subsidies are only available for butter and skimmed milk powder that has been obtained from 'cow's milk produced in the Community'.<sup>42</sup> Subsidies to

encourage the processing of skimmed milk into casein – a milk protein - require the use of 'Community-produced skimmed milk'.<sup>43</sup>

Finally, subsidies to encourage consumption of concentrated butter are available for concentrated butter that has been 'made from either cream or butter manufactured in the Community'.<sup>44</sup> All of these subsidies are expressly granted on the condition that the inputs (in this case, milk or butter) are of domestic and not imported origin. Thus, they are prohibited subsidies and are readily subject to challenge under the WTO dispute settlement procedure by any WTO member.

### 3 The case against US subsidies

#### Corn

Corn is the world's most widely used animal feed and the US is its number one producer and exporter. In fact, the USA accounts for more than 40 per cent of global corn production and 60 per cent of exports.

However, the success of US corn in international markets is only possible because of the huge subsidies paid by the US Department of Agriculture (USDA), regardless of how much corn is produced. Without this money, a large proportion of US production would be chronically unprofitable. According to the USDA, the average corn farmer has lost about \$230 for each planted acre of corn over the past five years, amounting to almost \$20bn in losses for the corn sector as a whole. Fortunately for US corn farmers, government subsidies have more than made up for this shortfall, topping \$25bn over the same period. (See Annex, figure A2.)

Thanks to \$8bn in subsidies, US production of corn in 2004 was the highest on record, while plantings were the highest in 20 years. US production of corn continues to expand, despite low prices and chronic market losses. (See Annex, figure A3.)

Without subsidies, US corn production and exports would be lower, and world corn prices would be higher. This has been confirmed by economic analysis showing that, without marketing loan and counter-cyclical payments, the USA's production of corn in 2004 would have declined by 15 per cent, exports would have disappeared, and world prices would have been 7 per cent higher.<sup>45</sup>

Considering that 60 per cent of the world export market is currently supplied by the USA, this predicted outcome would have a significant impact on the global corn market. In financial terms, corn producers around the world would gain \$4bn from higher prices<sup>46</sup> – or the same amount that is needed to finance basic public health interventions that would prevent the deaths of 3m infants a year<sup>47</sup> – and would benefit from increased market opportunities worth as much as \$6.1bn a year.<sup>48</sup>

**Box 11: Potential plaintiffs**

As major corn exporters, Argentina, Paraguay, and South Africa could assert that US corn subsidies cause adverse effects to their interests by suppressing the international price of corn and impeding their exports to markets around the world, in breach of Part III, Articles 5(c) and 6.3(b) and (c) of the WTO Agreement on Subsidies and Countervailing Measures

Producers in countries that import US corn — such as Columbia, Ecuador, El Salvador, Honduras, Guatemala, Mexico, Peru, and Venezuela — also suffer from the effects of US corn subsidies. These countries could assert that US corn subsidies injure their domestic interests in violation of Part III, Article 5(a) of the WTO Agreement on Subsidies and Countervailing Measures.

A successful challenge of US corn subsidies — which Oxfam's legal sources believe is likely — would require the US to remove the adverse effects or to withdraw the corn subsidies, or to offer compensation to aggrieved WTO members demonstrating serious prejudice.

**Box 12: Cotton: A case of two strategies**

Faced with historically low cotton prices in 2001 driven — at least in part — by historically high US cotton subsidies, cotton-producing developing countries have undertaken several strategies to address the problem. In 2002, Brazil launched a formal complaint against US cotton subsidies using the WTO dispute settlement mechanism. Brazil claimed that US cotton subsidies violated a variety of WTO agreements and demanded that the US remedy the harm to Brazilian cotton producers. After a long process of argumentation and appeal, the WTO dispute panels ultimately affirmed Brazil's complaint and ordered the USA to eliminate illegal subsidies and remedy the violations. Failure to do so exposes the USA to WTO-sanctioned retaliation by Brazil.

At the time of writing, the USA has taken several small steps towards complying with the WTO ruling by proposing changes to the US export credit guarantee programme and proposing to eliminate the 'Step 2' cotton export subsidy programme. Congress has yet to enact these proposals and Brazil retains the right to retaliate.

At the same time, four cotton-producing countries of West Africa chose to highlight the cotton issue as a part of the Doha Round negotiations. In 2003, Benin, Mali, Chad, and Burkina Faso (known collectively as the C4) submitted a special 'sectoral' initiative to address cotton subsidies by the USA and other subsidising countries. The C4 proposal called for expedited action to completely eliminate cotton subsidies, and requested financial compensation until the cotton subsidies were eliminated. The USA responded to this by arguing that cotton should be addressed through a comprehensive agreement to reduce subsidies and eliminate tariffs on manufactured goods, including textiles. The USA made counter-proposals to tie any action on cotton subsidies to subsidies for man-made fibre, tariffs on textiles and apparel, and other barriers such as state monopolies, tax policies, and export requirements.

The negotiations did not progress, and collapsed at the WTO Ministerial meeting in Cancún in 2003.

In July 2004, the USA and the C4 agreed to the creation of a cotton subcommittee under the broader agricultural negotiations committee. The agreement mandated the subcommittee to address the issue of cotton 'ambitiously, expeditiously, and specifically'. While a variety of proposals have been exchanged in the cotton subcommittee and in the broader agricultural negotiations, there has been, at the time of writing, no agreement to specifically address cotton subsidies. US agricultural negotiating proposals notably do not address cotton. C4 countries have stated that they expect progress on the cotton issue at the Hong Kong WTO Ministerial conference in December 2005, but this now looks unlikely. In addition, the USA has made a derisory attempt to pay off the C4 – offering a 'Cotton Improvement Programme' funded with just \$7m, only \$5m of which would be new money.

In 2005, cotton prices are once again very low and US cotton subsidies are once again at historically high levels. Whether the litigation strategy will prove more successful or whether the negotiation strategy will produce results remains an open question. Given the success of Brazil in the WTO cotton dispute, it is possible that the C4 could shift strategies and undertake a WTO dispute if negotiations appear to deadlock.

## Rice

Depending on the year, the USA is the third or fourth largest exporter of rice in the world, accounting for about 12 per cent of the global market. Billions of dollars in annual subsidies enable high-cost US rice farmers to exert considerable influence on the world rice market. In the past five years, US rice has been subsidised at an average annual rate of 99 per cent, equal in absolute terms to \$1.2bn a year. (See Annex, figure A4.)

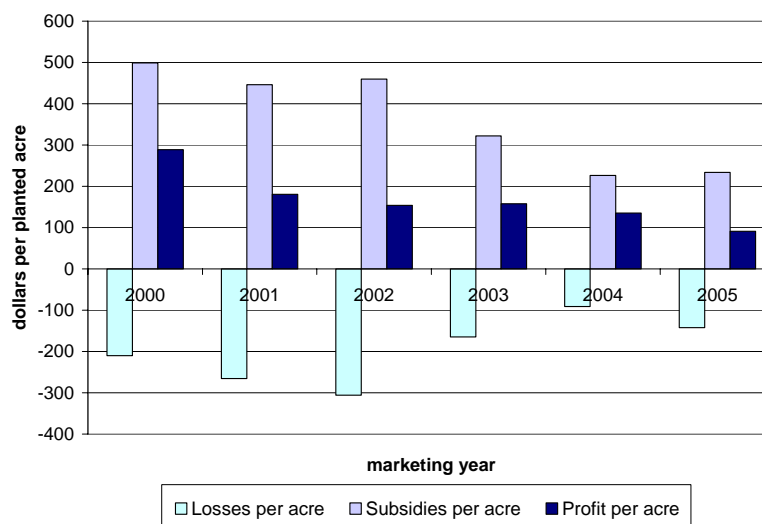
Large subsidies are needed to cover the total costs of production of US rice. According to the USDA, the average cost of producing rice has exceeded market revenue every year for the past 24 years.

Since 2000 alone, US rice farmers have racked up nearly \$4bn in market losses.

Even if significant reductions in US rice subsidies were made – such as a 60 per cent cut in loan deficiency payments as suggested in the October 2005 US negotiating proposal – this would still in fact permit subsidies large enough to cover the revenue shortfall between market price and production cost.

Massive US rice subsidies are linked to excess US production and exports, allowing US production of rice to expand, despite low international prices.<sup>49</sup> (See Annex, figure A5.)

**Figure 2: Subsidies make US rice production profitable**



Source: USDA

Academic studies confirm that US rice production would significantly fall in the absence of subsidies and that exports would likely disappear.<sup>50</sup> A decline in US rice production and exports would lead to higher international rice prices (by about 5 per cent, according to one study<sup>51</sup>) and would provide producers in other countries with more market opportunities. Financially, this would increase the income of rice producers worldwide by about \$1.2bn<sup>52</sup> and make available market opportunities worth as much as \$1.2bn, **or half what it would cost to halve the incidence of malaria in Africa.**<sup>53</sup>

**Box 13: Potential plaintiffs**

As major rice exporters, Guyana, India, Pakistan, Suriname, Thailand, and Uruguay all have strong legal claims against the USA, on the grounds that US rice subsidies suppress world prices and impede their exports to markets around the world, in breach of Part III, Articles 5(c) and 6.3(b) and (c) of the WTO Agreement on Subsidies and Countervailing Measures.

Countries that import considerable quantities of US rice — such as Costa Rica, Ghana, Haiti, Mexico, Peru, Venezuela, and Zambia — suffer injury to their domestic industries. These WTO members could assert their rights by initiating countervailing duty challenges under their local trade remedy laws, or by pursuing the USA under the WTO dispute settlement procedure, citing Part III, Article 5(a) of the Agreement on Subsidies and Countervailing Measures.

## Sorghum

The USA is the largest exporter of sorghum in the world, accounting for about 80 per cent of global trade. Its dominant trade position is achieved though large government subsidies. On average, sorghum producers have received over \$400m in subsidies in each of the past five years. This translates into an average annual subsidisation rate of 50 per cent. (See Annex, figure A6.)

Without subsidies, the production of sorghum in the USA would fall. US sorghum farmers are chronically unable to cover their production costs with the market revenue they receive. In fact, the USDA reports that the average sorghum farmer has not made a market-based profit since 1979, without the help of government subsidies. In the past five years, US sorghum farmers would have lost over \$500 on each acre planted.

Subsidy-induced overproduction causes sorghum prices to fall worldwide and harms producers in countries where government support is non-existent or very limited. Producers are harmed most in Mexico, where the majority of US exports are shipped. Indeed, the international trade of sorghum is dominated by US exports to Mexico. However, US sorghum exports also hurt farmers in countries such as Kenya and South Africa. If a removal of US sorghum subsidies led to a 5 per cent increase in world prices, sorghum farmers around the world would earn an extra \$200m in market revenue.<sup>54</sup> If US exports declined by 50 per cent, sorghum farmers and exporters in other countries would benefit from market opportunities worth as much as \$280m.<sup>55</sup>

### **Box 14: Potential plaintiffs**

Part III of the Agreement on Subsidies and Countervailing Measures disciplines the use of subsidies that cause adverse effects to other WTO Members. Kenya, Mexico, and South Africa could assert that US sorghum subsidies cause adverse effects to their interests by injuring their domestic industries within the meaning of Article 5(a) of the SCM Agreement. If a WTO Panel and the WTO Appellate Body agreed, the USA would be directed to take the appropriate steps to remove the adverse effects or to withdraw the subsidy.

## 4 Conclusion

This paper has only touched on the scale of the illegality of rich country subsidising beyond the recent cotton and sugar challenges. The examples featured here are just some of the immediate ones that could be brought – and won – against rich country subsidisers. The amount of US subsidies for corn, rice, sorghum, cotton, wheat, soybeans, and other field crops depends on market prices. When prices for each crop are at their lowest, subsidies are at their highest. The opposite is also true. Current US subsidies for wheat and soybeans are fairly low because of relatively high market prices. This has not always been the case. In 2001, soybean subsidies topped \$4bn (a subsidisation rate of 33 per cent). In 2000, wheat subsidies were about \$3.5bn (a subsidisation rate of 60 per cent). In the coming years, lower prices for wheat and soybeans may provoke more than just higher subsidies – they may also trigger legal action against the USA.

Elimination of these present effects of illegal US and EU subsidies would provide billions of dollars of additional revenue for developing country exporters and domestic producers. The consequences detailed in this paper, i.e. potential legal action, will remain a likelihood as long as the serious prejudice to developing country producers from these subsidies continues.

If rich countries do not start making real reforms to their subsidy regimes, the WTO court could be very busy in the next few years – unless the USA gets its way on the Peace Clause. The Peace Clause is contradictory to the fundamental ethos of the WTO, an organisation whose very purpose is to regulate trade and discipline traders. The Peace Clause stops this from happening, and any attempt to resurrect it would be extremely negative.

While the current trend of the trade negotiations is bad for developing countries, such negotiations themselves do provide an opportunity to eradicate the loopholes in rules that have been negotiated in the past. This means that they provide a space for real reform of agricultural sectors, one that ensures that small farmers and rural development in the North can be protected, while at the same time avoiding damage to farm sectors in developing countries. Agricultural negotiations need to be driven by positive actions, not by the vested interests of Northern agribusiness, which is willing to risk manifold legal actions rather than give up its unacceptable and harmful privileges.

## Recommendations

Rich countries must unilaterally remove the vast swathe of illegal subsidies which are handouts for agribusiness and destroy poor people's livelihoods. They must also implement what they have already committed to in the Uruguay Round, and what they have promised in the Doha Round.

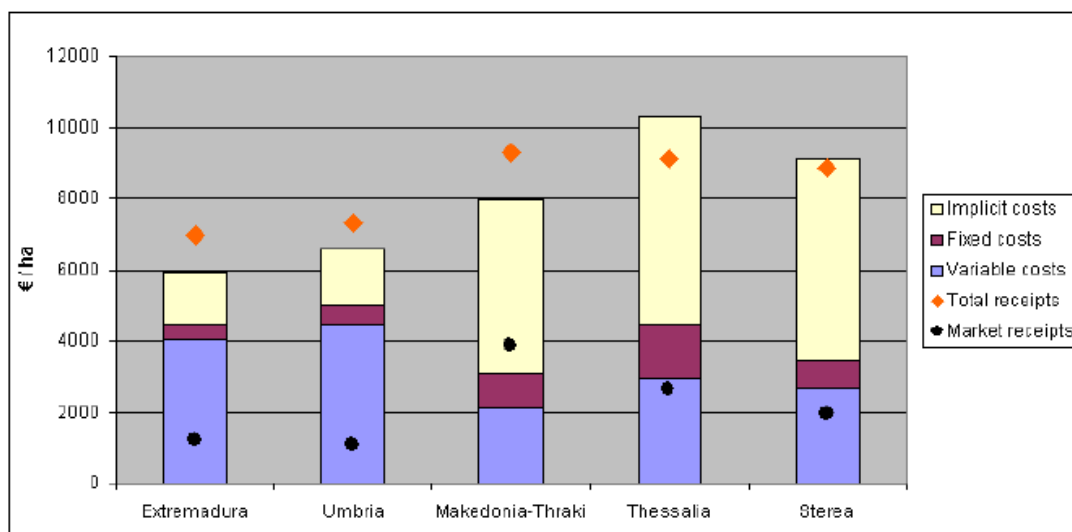
### **Oxfam urges that:**

- Rich countries stop using prohibited local content subsidies.
- The USA should reduce its trade-distorting support by more than 60 per cent, and the EU by more than 70 per cent.
- The USA and the EU should agree to product-specific caps to avoid the shifting of subsidy support within the Blue and Amber Box categories.
- The Peace Clause must not be renewed.
- There should be no expansion of Blue Box criteria. There should also be a ban on updating within the Blue Box.
- Green Box subsidies should only be allowed when payments provide clear benefits to small farmers, or rural development or the environment, or indirect benefits to developing country farmers.
- Export support should be eliminated by 2010, and food aid should only be paid in cash, except when domestic and regional markets have broken down.
- There should be a full elimination of trade-distorting support on cotton.
- Subsidies should be notified to the WTO each year, and there should be full disclosure of the amounts paid and of the recipients.
- Developing countries should be allowed to retain their subsidies, other than export subsidies.
- These concessions must not be made in return for any increase in access to developing country markets in agricultural or non-agricultural goods, or in services.

## Annex

**Figure A1: Production costs and returns of tobacco in the EU**

*Graph 1 – Average costs of production and margins per ha of tobacco specialised farms in some European regions (average 1999-2000)*



Source: DG AGRI, FADN

Total receipts = market receipts + premium

Implicit costs = family labour and land ownership costs

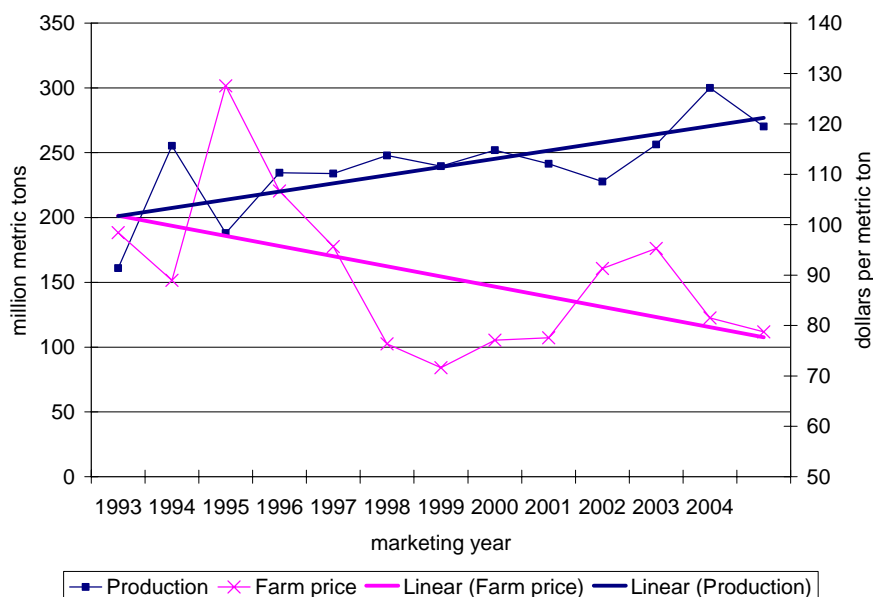
Source: 'Tobacco Regime: Extended Impact Assessment', Commission Staff Working Document, SEC(2003), p.15.

**Figure A2: US corn subsidies**

Marketing year	2000	2001	2002	2003	2004
	\$ million				
Direct payments	2,388	1,917	2,139	2,139	2,139
Counter-cyclical payments	2,595	1,860	0	0	2,305
Loan payments	2,594	1,186	16	77	2,782
Crop insurance	194	492	511	621	796
Total subsidies	7,771	5,454	2,666	2,837	8,022
Market value of production	18,499	18,888	20,882	24,477	24,440
Subsidisation rate	42%	29%	13%	12%	33%

Source: USDA.

**Figure A3: US corn production is immune to market signals**



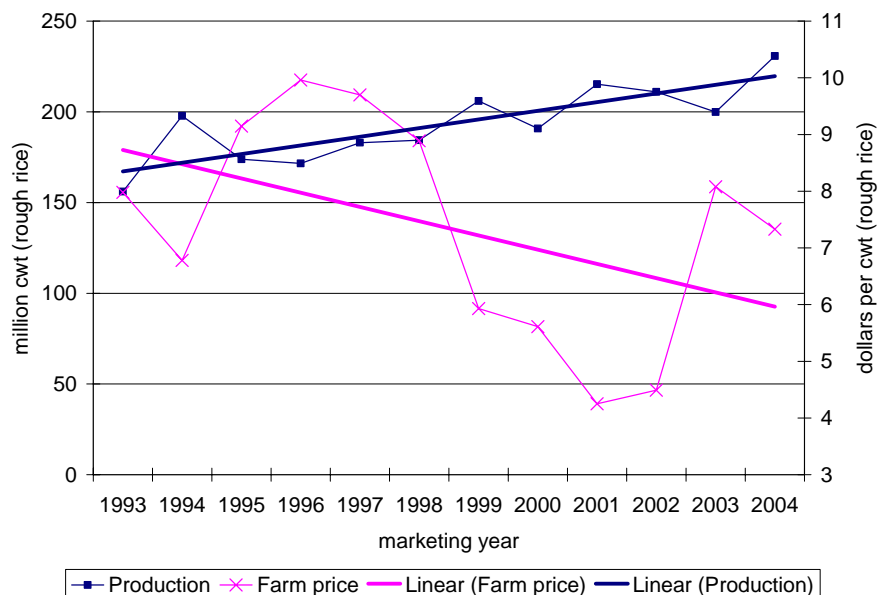
Source: USDA.

**Figure A4: US rice subsidies**

Marketing year	2000	2001	2002	2003	2004
	\$ million				
Direct payments	436	352	434	434	434
Counter-cyclical payments	473	401	324	14	167
Loan payments	598	710	707	503	132
Crop insurance	9	13	13	12	14
Total subsidies	1,517	1,477	1,478	962	747
Market value of production	1,050	925	980	1,629	1,685
Subsidisation rate	144%	160%	151%	59%	44%

Source: USDA.

**Figure A5: US rice production is immune to market signals**



Source: USDA.

**Figure A6: US sorghum subsidies**

<i>Marketing year</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	\$ million				
Direct payments	264	213	203	203	203
Counter-cyclical payments	264	207	0	0	161
Loan payments	83	5	3	13	124
Crop insurance	19	46	50	53	55
<b>Total subsidies</b>	<b>629</b>	<b>472</b>	<b>256</b>	<b>269</b>	<b>544</b>
Market value of production	1,050	925	855	965	839
Subsidisation rate	60%	51%	30%	28%	65%

Source: USDA

## Notes

<sup>1</sup> The WTO process is supposed to be eliminating the subsidies that lead to distortion of trade. The 1994 Agreement on Agriculture (AoA) states that its long-term objective is to 'provide for substantial progressive reductions in agricultural support'. Current rules under the AoA are supposed to discipline subsidies by type, volume and value, and by impact. Yet so far, because of its loopholes, the AoA has acted as a smokescreen behind which rich countries have continued to subsidise their agriculture, thereby retaining large shares of world markets and dumping subsidised commodities on poor countries. Having pledged to cut farm support, and even with the swathe of opt-outs and loopholes available to them, rich countries are still violating this AoA commitment: they have maintained their farm support at 1986-88 levels – the supposed base line for cuts – or \$250bn a year. (Source OECD 2004 'OECD Agricultural Policies 2004 At a Glance'). For a full explanation of the AoA, see L. Stuart & G. Fanjul (2005) 'A Round for Free: How Rich Countries are Getting a Free Ride on Agricultural Subsidies at the WTO', Oxfam Briefing Paper No.76, Oxford: Oxfam, available at: [http://www.oxfam.org.uk/what\\_we\\_do/issues/trade/bp76\\_modalities\\_and\\_dumping.htm](http://www.oxfam.org.uk/what_we_do/issues/trade/bp76_modalities_and_dumping.htm).

<sup>2</sup> Oxfam defines dumping as the exporting of goods at prices below the cost of their production. This is clearer than the WTO's definition, which refers to the difference between the export prices and the 'normal value' of the product in the internal market.

<sup>3</sup> 2004 figures.

<sup>4</sup> United Nations Development Programme Human Development Report, 2005.

<sup>5</sup> P. Fowler (2002) 'Milking the CAP: How Europe's dairy regime is devastating livelihoods in the developing world,' Oxfam Briefing Paper No.34, Oxford: Oxfam, available at: [http://www.oxfam.org.uk/what\\_we\\_do/issues/trade/bp34\\_cap.htm](http://www.oxfam.org.uk/what_we_do/issues/trade/bp34_cap.htm).

<sup>6</sup> FAOSTAT and Table 34 of United States Agricultural Census of 2002. [www.nass.usda.gov/census/census02/volume1/us/st99\\_1\\_034\\_034.pdf](http://www.nass.usda.gov/census/census02/volume1/us/st99_1_034_034.pdf)

<sup>7</sup> Oxfam interview, November 2004.

<sup>8</sup> Analysis of recent proposals in WTO agricultural negotiations, media brief, November 2005, Oxfam International.

<sup>9</sup> The Peace Clause, contained in Article 13 of the WTO Agreement on Agriculture, was not a rule or an obligation regarding the use of domestic or export subsidies. WTO Members were allowed to provide actionable subsidies (i.e. a subsidy that is not prohibited under Part II of the WTO Agreement on Subsidies and Countervailing Measures) before, during, and after the Peace Clause, which began in 1995 and ended in 2004. The principle impact of the Peace Clause (among other things) was to protect subsidising WTO Members from adverse effects claims under Part III of the WTO Agreement on Subsidies and Countervailing Measures as long as their 1992 level of domestic support

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remained below their present level of domestic support. Brazil was able to challenge US cotton subsidies before the Peace Clause expired because the level of US cotton subsidisation was far higher in 2002 than it was in 1992. Now that the Peace Clause has expired, actionable subsidies, whatever their amount or their type (i.e. Amber, Blue, or Green Box), are liable for challenge if they cause adverse effects as set out in Articles 5 and 6 of the WTO Agreement on Subsidies and Countervailing Measures.

<sup>10</sup> Article 3.1(b) of the SCM Agreement.

<sup>11</sup> Article 2 of Council Regulation (EC) No 2201/96 and Article 1 of Council Regulation (EC) No 2202/96.

<sup>12</sup> The 2003 CAP reform does not affect these illegal processing subsidies for fruit and vegetables.

<sup>13</sup> The subsidisation rate is equal to the ratio of the value of subsidies to the market value of the product. Estimated using the tomato subsidy rate of €34.5 per tonne and contract prices reported in USDA agricultural attaché reports.

<sup>14</sup> 2005 General Budget of the European Union, Volume 4 (Section 3), Title 05, Chapter 02, Article 08, Item 07.

<sup>15</sup> Estimate equal to 5 per cent of the value of total exports of tomato paste (HS classification 200290) from Morocco, China, Chile, Mexico, South Africa, and Tunisia in 2004. Source: UN Comtrade Database.

<sup>16</sup> Estimate equal to value of EU-25 exports of tomato paste (HS 200290) in 2003. Source: UN Comtrade Database. (2003 latest data available).

<sup>17</sup> Estimated using the peach subsidy rate of €47.7 per ton and contract prices reported in USDA agricultural attaché reports.

<sup>18</sup> Estimate equal to 5 per cent of the total value of canned peach (HS classification 200870) exports from Argentina, China, Chile, and South Africa in 2004. Source: UN Comtrade Database.

<sup>19</sup> Estimate equal to half of the value of EU-25 exports of canned peaches (HS 200870) in 2002. Source: UN Comtrade Database. (2002 chosen as there was a crop failure in Greece in 2003.)

<sup>20</sup> Estimated using the pear subsidy rate of €161.7 per tonne and contract prices reported in USDA agricultural attaché reports.

<sup>21</sup> Estimate equal to 10 per cent of the total value of EU imports of canned pears (HS 200840) from South Africa, Chile, China, and Argentina.

<sup>22</sup> Estimate based on a comparison of EU canned pear production and canned pear prices.

<sup>23</sup> Total EU allocation of EDF support to Guyana is €48m a year.

<sup>24</sup> Estimated using the citrus fruits subsidy rate of €98 per tonne for oranges and €91 per tonne for other citrus fruits, and contract prices reported in USDA agricultural attaché reports.

<sup>25</sup> 2005 General Budget of the European Union, Volume 4 (Section 3), Chapter 05, Chapter 02, Article 08, Item 09.

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<sup>26</sup> Estimate equal to 5 per cent of the total value of EU imports of citrus fruit juice (HS classification) 200911, 200912, 200919, 200921, 200929, 200931, 200939) from Brazil, South Africa, Costa Rica, Morocco, and Argentina. Source: UN Comtrade Database.

<sup>27</sup> Estimate based on a comparison of EU orange juice production and prices.

<sup>28</sup> 2002 figure. Source: World Health Organisation

<sup>29</sup> 'Ex-post evaluation of the Common Market Organisation for wine', prepared for the European Commission – DG Agriculture AGRI/EVALUATION/2002/06, November 2004, p.76.

<sup>30</sup> EU-25 external exports of spirits (HS classification 200820). Exports by Hong Kong and Singapore are not included in world market totals because they are re-exports (mostly from France). Source: UN Comtrade Database.

<sup>31</sup> 'Ex-post evaluation of the Common Market Organisation for wine', November 2004, p.75.

<sup>32</sup> Ibid., p.75. Distillation subsidies are not affected by the 2003 CAP reform.

<sup>33</sup> Includes all exporters, including those in the EU. Estimate equal to 10 per cent of the value of world trade of spirits. Source: UN Comtrade Database.

<sup>34</sup> Estimate equal to 25 per cent of the value of EU spirits exports in 2004. Source: UN Comtrade Database.

<sup>35</sup> All distillation measures, including subsidies for by-product distillation, distillation of dual-purpose grapes, crisis distillation, and distillation for potable alcohol, are contingent upon the use of raw materials produced in the EU. For instance, Council Regulation (EC) No 1623/2000 provides that subsidies for the distillation of potable alcohol are contingent upon the use of 'table wines and wines suitable for yielding table wines'. The same regulation (in Annex I) defines 'table wine' and 'wine suitable for yielding table wine' as products that have been produced in the European Community.

<sup>36</sup> 2005 General Budget of the European Union, Volume 4 (Section 3), Chapter 05, Chapter 02, Article 10, Item 01.

<sup>37</sup> 'Tobacco Regime: Extended Impact Assessment', Commission Staff Working Document, SEC(2003), p.7.

<sup>38</sup> 'Tobacco Regime: Extended Impact Assessment', Commission Staff Working Document, SEC(2003), pp.15 & 26.

<sup>39</sup> Estimate equal to 10 per cent of the value of EU-25 raw tobacco imports from Malawi, Mozambique, Tanzania, Indonesia, Brazil, Sri Lanka, China, India, Guatemala, Uganda, and Zimbabwe in 2003. Source: UN Comtrade Database.

<sup>40</sup> As suggested by former French agriculture minister Hervé Gaymard, who said that he would seek a timetable for cuts looking towards a 'horizon of 2015 or 2017', reported in the *Financial Times*, 'French put brave face on farm deal', 2 August 2004. The declaration was made after powerful agricultural lobbies in France expressed their frustration at the 'unbalanced' nature of the July Framework agreement.

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<sup>41</sup> 'The Doha Round of the World Trade Organization: Appraising Further Liberalization of Agricultural Markets', Working Paper 02-WP 317, Food and Agricultural Policy Research Institute, Iowa State University and University of Missouri-Columbia. November 2002.

<sup>42</sup> Articles 6.6 and 7.6 of Council Regulation (EC) No 1255/1999.

<sup>43</sup> Article 12.1 of Council Regulation (EC) No 1255/1999.

<sup>44</sup> Article 1 of Commission Regulation (EEC) No 429/90.

<sup>45</sup> Estimates provided to Oxfam by Professor Daniel Sumner, Director of the Agricultural Issues Center at the University of California. For an explanation of the simulation model used by Professor Sumner to arrive at these estimates, see Daniel Sumner (2005) 'Boxed In: Conflicts Between US Farm Policies and WTO Obligations', CATO Institute Trade Policy Analysis no.32, Appendix 1.

<sup>46</sup> Includes corn producers in the USA. Equal to the product of world corn production in 2004, the US average farm price in 2004, and 7 per cent.

<sup>47</sup> UNDP Human Development Report 2005.

<sup>48</sup> Estimate equal to the value of US corn exports in 2004. Source: UN Comtrade Database.

<sup>49</sup> The WTO Panel in the cotton case used the existence of similar market price immunity to demonstrate the effects of US subsidies in causing overproduction, excessive exports, and suppressed world prices.

<sup>50</sup> Economists at Iowa State University and the University of Missouri-Columbia simulated a complete liberalisation of agricultural trade using the Food and Agricultural Policy Research Institute (FAPRI) modelling system. All trade-distorting measures, including export subsidies, domestic support, and import barriers, were removed. In this simulation, the USA's production of rice decreased by more than 40 per cent. Exports disappeared and the USA ultimately became a significant net importer of rice. The authors attributed this drastic change to a removal of domestic support. 'The Doha Round of the World Trade Organization: Appraising Further Liberalization of Agricultural Markets,' Working Paper 02-WP 317, Food and Agricultural Policy Research Institute, Iowa State University and University of Missouri-Columbia, November 2002. See also: H. Lee and D.A. Sumner (2005) 'Economic Effects of Trade Policy Adjustments in the World Market for Japonica Rice', paper presented at KREI Outlook Conference, Seoul, Korea.

<sup>51</sup> This estimate assumes that only 25 per cent of rice production finds its way onto world markets. The other 75 per cent is largely rice that is consumed in the same villages, and often on the same farms, where it is produced. This rice is insulated from world markets. See Daniel Sumner, 'Boxed In: Conflicts between U.S. Farm Policies and WTO Obligations,' op. cit.

<sup>52</sup> Estimate equal to the product of 25 per cent of world rice production in 2004 (rough basis), the US average farm price (rough basis), and 5 per cent (see note 56).

<sup>53</sup> Estimate equal to the value of US rice exports in 2004. Source: UN Comtrade Database. Malaria figure from UNDP Human Development Report 2005.

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<sup>54</sup> Estimate equal to the product of world sorghum production in 2004, the US farm price in 2004, and 5 per cent.

<sup>55</sup> Estimate equal to half the value of US sorghum exports in 2004. Source: UN Comtrade Database.

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**Oxfam International Advocacy Offices:**

Washington: 1112 16th St., NW, Ste. 600, Washington, DC 20036, USA

Tel: +1.202.496.1170. E-mail: [advocacy@oxfaminternational.org](mailto:advocacy@oxfaminternational.org)

Brussels: 22 rue de Commerce, 1000 Brussels, Belgium

Tel: +322.502.0391. E-mail: [luis.morago@oxfaminternational.org](mailto:luis.morago@oxfaminternational.org)

Geneva: 15 rue des Savoises, 1205 Geneva, Switzerland

Tel: +41.22.321.2371. E-mail: [celine.charveriat@oxfaminternational.org](mailto:celine.charveriat@oxfaminternational.org)

New York: 355 Lexington Avenue, 3rd Floor, New York, NY 10017, USA

Tel: +1.212.687.2091. E-mail: [nicola.reindorp@oxfaminternational.org](mailto:nicola.reindorp@oxfaminternational.org)

Tokyo: Oxfam Japan, Maruko-Bldg. 2F, 1-20-6, Higashi-Ueno, Taito-ku, Tokyo 110-0015, Japan

Tel/Fax: +81.3.3834.1556. E-mail: [advocacy@oxfaminternational.org](mailto:advocacy@oxfaminternational.org)

<p><b>Oxfam America</b> 26 West St. Boston, MA 02111-1206 USA Tel: +1.617.482.1211 E-mail: <a href="mailto:info@oxfamamerica.org">info@oxfamamerica.org</a> <a href="http://www.oxfamamerica.org">www.oxfamamerica.org</a></p>	<p><b>Oxfam Hong Kong</b> 17/fl., China United Centre 28 Marble Road, North Point Hong Kong Tel: +852.2520.2525 E-mail: <a href="mailto:info@oxfam.org.hk">info@oxfam.org.hk</a> <a href="http://www.oxfam.org.hk">www.oxfam.org.hk</a></p>
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<p><b>Oxfam Great Britain</b> Oxfam House, John Smith Drive Cowley, Oxford, OX4 2JY, UK Tel: +44.(0)1865.473727 E-mail: <a href="mailto:enquiries@oxfam.org.uk">enquiries@oxfam.org.uk</a> <a href="http://www.oxfam.org.uk">www.oxfam.org.uk</a></p>	<p><b>Oxfam Québec</b> 2330 rue Notre Dame Ouest, bureau 200 Montréal, Quebec, H3J 2Y2, Canada Tel: +1.514.937.1614 E-mail: <a href="mailto:info@oxfam.qc.ca">info@oxfam.qc.ca</a> <a href="http://www.oxfam.qc.ca">www.oxfam.qc.ca</a></p>