

THE TRADE EFFECTS OF US AGRICULTURAL POLICY Summary

- Although the US provides proportionally less support for its farmers overall than the EU, it is, in absolute terms, the second biggest supporter of agriculture in the developed world, and for some commodities- like sugar- overall support is at EU levels.
- US support to agriculture has risen in recent years.
- US barriers to agricultural imports are much higher than for non-agricultural goods
- For some commodities –such as some dairy products, sugar, tobacco and peanuts - the degree of protection through quotas and prohibitive out-of-quota tariffs is extremely high.
- On average, the least developed countries appear to face higher tariffs for the sort of agricultural products that they export to the US than developed countries face.
- Although the US does not use direct export subsidies to anything like the extent that the EU does, it is the world's largest user of export credits and food aid, and its use of these may well distort world markets, especially for cereals.
- There is evidence of occasions when US subsidised exports have had detrimental effects on domestic production and exports from developing countries.

Support to US Farmers

1. The US is second only to the EU in the total annual value of transfers made by consumers/taxpayers to domestic farmers. The OECD calculate that the US's Producer Support Estimate (PSE), which measures such transfers, is currently \$49billion (compared to the EU's \$93billion). The US accounts for 21% of all such support to farmers in the OECD. (*Source: OECD, "Agricultural Policies in OECD Countries: Monitoring and Evaluation 2002"*). Such large transfers must have an impact on the patterns of world production and trade.
2. These transfers are equivalent to 21% of the value of agricultural output in the USA (compared to a figure of 35% in the EU). But some sectors receive considerably more support than that. The figure for sugar is just under 50% - very similar to the EU figure- and for cotton around 100%.
3. The transfers have risen in recent years. Expressed as a percentage of US agricultural output, the US's PSE has risen from 14% in the mid-1990s to 21% in 2001. (*Source: OECD, op.cit.*).

Market Access

4. A broad indicator of the degree of protection from imports given to domestic farmers is the OECD's Producer Nominal Protection Coefficient (NPCp), which measures the ratio between the average price received by producers and world prices. The OECD calculates that US farmers on average received 15% more than world prices in 2001. (*Source: OECD, op.cit.*) This puts the US in a mid-table position among OECD countries –but given the US's size, the effect of this degree of protection on world trade will be higher than for

smaller countries with a bigger ratio. A tariff equivalent of 15% is anyway what would be described as a “tariff peak”, and is considerably higher than the USA’s average MFN tariff of 4.5% for non-agricultural products. The fact that some other countries give even more protection to their agricultural sectors should not disguise the fact that the USA offers high protection to its own agricultural sector.

5. Within the agricultural sector, some products receive an extremely high degree of protection. The most significant high tariffs occur with respect to beef, dairy products, sugar and some sugar products, peanuts and peanut butter, tobacco and cotton. (Source: *WTO, Trade Policy Review of the United States*). The very high tariffs occur on products where the US also has quota restrictions. Broadly, in-quota imports (which are allocated either on a first-come-first served basis or in line with historic import levels, depending on the product concerned) face a zero or lowish tariff but any potential imports above the quota can face a prohibitive tariff. Examples (which include specific duties) are: - beef 26.4%; dairy products from 26% to 145.2% according to product; sugar up to 140%; peanuts 139.8%; tobacco 350%, and cotton up to 34.9%. The average out-of-quota tariff is 53% (Source: *WTO, op.cit*)
6. Such high out-of-quota tariffs need not adversely affect imports if the quotas themselves are not restrictive. The US government’s own International Trade Commission (USITC) periodically publishes an assessment of the effects of significant US import restraints. The latest edition finds considerable constraints on imports – and welfare losses to the US – from the quotas and associated tariffs on dairy products, sugar, peanuts and cotton. It does not believe that those on beef and tobacco are serious restraints. It also finds that effective restraints occur for imports of canned tuna. (Source: *USITC “The Economic Effects of Significant US Import Restraints”, June 2002.*)
7. The impact of these restrictions on developing countries is complex. Some countries will benefit if they have preferential quota access while others will lose. It is obvious – to take the four major problem areas identified by the USITC- that a large number of developing countries have an interest in sugar and cotton, and peanuts are also likely to be of interest to some. It is less obvious that they would find a US market for dairy products, although India is a major milk producer and exporter. As one example of a developing country viewpoint, the Brazilian government has identified the major obstacles to Brazilian exports to the US as the sugar and tobacco quotas and the high specific duties on orange juice. (Source: *WTO, Trade Policy Review of Brazil*). Brazil has also recently mounted a challenge to US cotton subsidies in the WTO.
8. The evidence indeed suggests that the current US barriers hit the very poorest countries hardest. Analysis of the impact of US tariffs (including specific duties) by the International Trade Centre (ITC) finds that US agricultural tariffs bear most heavily on imports from LDCs. They calculate that the average US tariff on agricultural imports from LDCs is 28.1%, compared to 12.7% for all developing countries and 14.5% for OECD countries. On the basis of this, a joint IMF/World Bank paper concludes, “ The results suggest that EU protection is heavily skewed against imports from middle-income developing countries, and US protection against imports from LDCs “. (Source: *IMF/WB paper “Market Access for Developing Country Exports- Selected Issues”, September 2002.*)

9. This evidence also suggests that the US GSP is not particularly generous with respect to agricultural products – a point supported by some WTO calculations. The estimated gap between the average agricultural tariff faced by middle-income countries (who will largely have GSP terms) and OECD ones (who will mainly face MFN rates) in the US is only 1.5%. A wide range of agricultural products are indeed excluded from coverage under the US GDP. Even the US' Africa Growth and Opportunity Act (AGOA) excludes many significant agricultural products. Notably, the Act did not alter the US' quota provisions
10. Two broad conclusions may therefore be drawn: -
 - There are six broad product groups where the US has exceptionally high barriers to entry in the form of quotas and large out-of-quota tariffs, and of these sugar and cotton are likely to be of particular significance to a wide range of poorer countries
 - The evidence suggests that overall US barriers on agricultural imports weigh disproportionately on products exported by LDCs.

Export Support

11. The direct support given to US farmers and the presence of significant trade barriers for certain products naturally means that the US agricultural production is higher than it would otherwise be. This itself means that world prices are likely to be lower than they would otherwise be. In addition, US direct export subsidies, export credits and food aid are likely to have a further depressing effect on world prices.
12. The US is not a great user of direct export subsidies. While the EU accounts for around 90% of global direct export subsidies, the US accounts for only 1.5%. Nevertheless it is the third largest user of these subsidies (behind the EU and Switzerland) US expenditure on this type of subsidy was nearly \$150m in 1998. US direct export subsidies are almost entirely concentrated on dairy products, through the Dairy Export Incentive Programme. (*Source: The International Agricultural Trade Research Consortium, "Export Competition: Issues and Options in the Agricultural Negotiations", May 2001*). Throughout the OECD, dairy products tend to receive a larger proportional subsidy than other products, and it estimated that withdrawal of direct export subsidies would lead to a bigger rise in prices for dairy products than for others.
13. The US offers more support to exports through export credits than any other country The OECD calculate that nearly 90% of the subsidy value of export credit programmes is from the US programme (compared to 7% from the EU). They also calculate that US export credits as a percentage of export value average 6.6%, but rarely exceed 1% in other countries. Research is not conclusive as to whether or not the use of export credits distorts agriculture markets, but if they do, the distortion arises mainly from US actions. Export credits are offered on a wide range of products, with bulk cereals accounting for about a third of the total. (*Source: OECD, "An analysis of Officially Supported Export Credits In Agriculture", December 2000*).
14. The US is also the world's largest donor of food aid. The US Agency for International Development (USAID) has a current budgetary provision for \$1.3

billion under the food aid programmes. It is estimated that around 40-60% of food aid given over the 1990's came from the US. Nearly 90% of food aid is given in the form of cereals or cereal products. (Source: *The International Agricultural Trade Consortium, op. cit.*) There is no doubt that food aid is often given for genuine humanitarian reasons. However, there is indirect evidence that suggests that some US aid is influenced by the need to dispose of agricultural surpluses. Firstly, a number of observers have noted the tendency of US food aid to rise when US domestic surpluses are high and fall when they are lower: The large amount of food aid given to Russia and the CIS in 1998 is attributed primarily to this. Secondly, USAID normally distributes food aid to 87 countries in a year, which seems a rather high number. President Bush has himself publicly queried whether so widespread a distribution is necessary.

15. An IMF simulation of the potential effects of the recent rises in US farm assistance suggested they would have particularly significant effects on US exports of cotton and grains.

16. A recent study cites examples where US grain exports, either subsidised or given as food aid, have severely destabilised production of cereals, or cereal substitutes, in developing countries. Indonesia has accused the US of dumping flour on its market, with detrimental effects on Indonesian rice production. A recent surge in US grain exports to Nigeria has hit local production of cereal substitutes, such as cassava and rice. In Bangladesh, an increase in US food aid in cereals has been matched by an almost equivalent fall in local production. It is alleged by Kenyan government that US dumping of wheat in Egypt lies behind a surge in Kenyan imports of very cheap Egyptian flour, which has had adverse consequences for Kenyan wheat farmers. (Source: *Actionaid, "Farmgate: The Developmental Impact of Agricultural Subsidies", 2002*). These examples show that US support for domestic cereal production can have detrimental effects not only on cereal producers in developing countries but also on producers of substitutes for cereals, such as rice.

17. The effect of US support to its domestic cotton industry appears to have particularly adverse effects for some of the world's poorest countries. It is estimated that an acre of cotton attracts a subsidy of \$230 (compared to \$40-50 for an acre of cereals). The US typically exports half of its cotton production – a far higher percentage than any other producer- and is easily the world's largest exporter. Both the IMF/World Bank and Oxfam estimate that the end of US cotton subsidies would lead to a rise in world prices of at least 25%. On this basis, it is estimated that the US subsidies cost the poor cotton-producing countries about \$250-300million in lost export revenue and GDP. (Sources: *IMF/World Bank, op.cit.*; *Oxfam." Cultivating Poverty: The Impact of US Cotton Subsidies on Africa, 2002*).

18. To put the figures in perspective, it is estimated that: -

The \$3.9billion a year that the US spends on cotton subsidies is greater than the entire GDP of a poor cotton producer such as Burkina Faso, and the amount it spends per acre is greater than annual GDP per head there.

The US's cotton subsidies are more than 3 times the amount of the USAID budget for Africa.

The loss of revenue to countries such as Burkina Faso, Benin and Chad as a result of the subsidies is greater than the debt relief that they receive under the HIPC initiative, and equivalent to a quarter of their total aid.