

# Agribusiness Association of Australia

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## Review of the Institute for Agriculture and Trade Policy report – *United States Dumping on World Agricultural Markets* \*\*

May 8<sup>th</sup> 2003

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The Institute for Agriculture and Trade Policy (IATP) does a very thorough job of highlighting the trade distorting food and commodity export policies of the United States government, policies that disrupt global markets for wheat, maize, soybeans, cotton and rice – policies that impact directly on Australian exports.

The IATP have calculated the trade distorting effects of US policies in 2001 as –

- 44% for wheat
- 29% for soybeans
- 33% for maize
- 57% for cotton
- 22% for rice

In the case of US wheat exports in 1998, the effective subsidy (difference between the domestic cost of wheat and the export price) equalled close to US\$1 bn on exports of 28.3 million MT.

### **Commercialising Aid**

Successive US administrations have been quite open about the use of subsidised commodity exports and 'food aid' in eventually developing commercial markets for food and commodity exports. The following is taken from the report references.

*19 "In Public Law 481 (food aid), these are American foods that go there. It's good for our economy.... And a little-known fact is that basically those countries that get food aid actually ultimately develop into very good markets for the United States and they buy additional food from us when they get on their feet."*

*Secretary of State Madeleine Albright presentation to House of Representatives International Relations Committee, 11 February 1997 (cited in USIS Daily Bulletin, 13 February 1997)*

We can see evidence of this 'food aid first then commercial market second' policy emerging in post war Iraq. The US is already shipping food aid wheat into a market that was the commercial and non-subsidised preserve of the Australian wheat industry. With the suspension of the United Nations Food for Oil program, the US has moved to fill the supply vacuum, with the apparent intent that Iraq will '*...buy additional food from us when they get on their feet...*' – or when oil revenues begin to flow again. On May 8<sup>th</sup> 2003 the US government announced that NGO humanitarian organisations could gain access to Iraq to help supply food – but stipulated that access would only be granted to US based organisations.....

### **Long terms effects on importers**

The long-term structural ramifications for consumers of dumped commodities is another interesting issue discussed in the paper. One of the most striking effects of dumped commodities is the damage done to domestic value chains. Local food producers and manufacturers are unable to compete with dumped imports of commodities and processed foods and in extreme cases, the inability to compete can lead to the total collapse of productive capacity and closing down of domestic supply chains, in favour of cheaper (subsidised) imports<sup>1</sup>.

Where this occurs, a major economic imbalance results; a viable industry sector is being put out of business by low priced dumped imports. This is clearly unfair competition and forces domestic governments to either support their local industries with import tariffs or with subsidies of their own – both options represent misallocation of capital that could be used more productively elsewhere. Rebuilding an industry sector will inevitably cost more than the short term benefits accrued via the dumped imports.

Becoming dependent on dumped food is a bit like a heroine addict accepting free product from a dealer. Once the user has the 'taste' and acquired dependency, then it's very hard to kick the habit. Even where countries have sources of foreign exchange, the example used in the IATP paper is Venezuela and their energy exports, effectively replacing a domestic sector with cheaper dumped imports is unsustainable and ill advised.

### **The Role of the GATT / WTO**

The IATP are critical of the Agreement on Agriculture (AoA) – part of the GATT / WTO – as it specifically allows behaviour by agricultural / food exporters that is prohibited under WTO rules for other industry sectors. The example provided is the US Export Enhancement Program or EEP. It is claimed that the AoA does nothing concrete to modify the behaviour of the dumpers, the chief offenders being the EU and US.

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<sup>1</sup> A distinction between dumped imports and fair value imports has to be drawn here. If a domestic sector cannot compete against cheaper imports that are imported at their fair / full value, then this is legitimate competition and the economy of the importing country will benefit from the lower cost import. If the imports are being dumped and undercutting the domestic sector then any gains made from the 'cheapness' of the imports, are at best short term and at worst damaging for the economy as domestic production capacity is lost due to unfair competition.

*The structure of the AoA successfully deflects criticism onto the European Union for its heavy reliance on export subsidies, while managing to mask the extent of domestic support through dividing those expenditures into multiple categories. The U.S. proposal for the reform of the AoA, submitted in July 2002, continues to ignore the extent to which dumping is rife as a result of U.S. agricultural policies. The proposal would eliminate the domestic support already identified as "trade-distorting." It would leave in place the right to spend \$10 billion in general support to agriculture, as well as up to 5% of the value of any given commodity for that commodity, and would leave unlimited expenditures on food aid, decoupled payments and emergency payments. Experience has shown the theoretical distinction created between "trade-distorting" and "non trade-distorting" to be of extremely limited value in practice, as the OECD and others have admitted.*

### **Recommendations**

To overcome the problems caused by dumping (both by the US and others), the IATP recommends -

- Elimination (not a phased reduction) of visible export subsidies as soon as possible.
- Concurrent development of legal and transparent countervailing mechanisms that can be imposed by importing countries to negate the residual effects of export subsidies. Use of transparency measures – referred to below – would be used to calculate the difference between the 'real' value<sup>2</sup> of a commodity and its dumped price.<sup>3</sup>
- Introduction of measures that would protect small importers from retaliation by big exporters if they countervail dumped / subsidised imports. This is a very real concern and allows both the US and the EU to exact punishment on small countries who don't play by 'their' rules – which is hardly fair trade.
- Establish a truly transparent price determining mechanism within the OECD that will allow all parties to calculate a 'fair value' for commodities to determine if / where subsidies are in operation. This recommendation is in line with GATT Article 6.

*(The supply of current and accurate production and logistic cost data may be appropriate as a precondition for involvement in WTO agriculture discussions, providing the sort of transparency measure that IATP are recommending).*

Where the IATP falls into an unfortunate credibility gap is their call for the re establishment of floor prices and introduction of supply management mechanisms. This is a major error and completely ignores the fact that such measures do not work. They serve only to disrupt signals that are critical for effective functioning of markets.

A floor price interferes with supply and demand signals, it stifles innovation and productivity growth and interferes with other price setting market signals. (Ask Australian wool producers about floor price schemes and how well they don't work). Supply management mechanisms are just as inappropriate. Talk of floor prices and managed supply mechanisms should be consigned to the study of economic history, under the heading 'Seemed like a good idea at the time...'

If we discount the economic / ideological lapse represented by the floor price / supply management call, the IATP paper contains a sound and worthwhile examination of US trade policies and presents some positive suggestions that should be adopted as part of the ongoing multilateral trade reform process.

### **Post Script**

It is entirely feasible that Australia would stand to gain much more from the elimination of the sort of policies discussed in the IATP report than we do from a unilateral trade agreement such as the Australia – USA FTA.

While there may be benefits in such an agreement, the market corrupting practices described by the IATP will continue to disrupt *all* our other export markets. Realistically, any increased access to US markets will be limited by domestic US politics to small increases in quotas, nominal reductions in tariff rates, etc and it is hard to see how expanded access to one market could possibly compensate for losses caused by the global effect of dumping in all our other export markets.

And this of course makes no mention of the economic and humanitarian problems that dumping causes in less developed countries all around the globe – problems that relate directly to political instability, radicalism, terrorism and other destructive behaviour.

Find the full report at

[http://www.wtwatch.org/wtwatch/library/admin/uploadedfiles/showfile.cfm?FileName=United\\_States\\_Dumping\\_on\\_World\\_Agricultural\\_Ma.pdf](http://www.wtwatch.org/wtwatch/library/admin/uploadedfiles/showfile.cfm?FileName=United_States_Dumping_on_World_Agricultural_Ma.pdf)

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<sup>2</sup> The IATP define a 'fair price' as the cost of production (determined in the US by the USDA) plus relevant transport, handling, storage costs and includes a profit margin. The resultant 'price' represents an economic 'break even' value, under which sale would be uneconomic and unsustainable without subsidies.

<sup>3</sup> It is important that such a mechanism doesn't allow countries to exclude imports that are fair competition – i.e. commodities / food from a more efficient producer that is landed at a real price, free of subsidies, etc.

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\*\* The opinions expressed in this article are those of the author, David Ginns and do not necessarily represent those of the members of the Agribusiness Association of Australia. The opinions expressed are for the purpose of advancing debate and discussion of the issues raised.