

AGRICULTURE AND THE ENVIRONMENT THE CASE OF EXPORT SUBSIDIES

Submission by Argentina, Australia, Brazil, Canada, Chile, Colombia, Indonesia, Malaysia,
New Zealand, Paraguay, the Philippines, Thailand, United States, Uruguay

I. INTRODUCTION

1. WT/CTE/W/67 summarizes generally the trade and environment links in agriculture. Some agricultural policies have been identified as a particular concern within the WTO because of the distortionary effects that they cause. This paper focuses on agricultural export subsidies as a first step in deepening the CTE's analysis of the environmental benefits of removing trade restrictions and distortions.

2. Within the WTO framework, export subsidies are prohibited for all products except agricultural goods. Furthermore there tends to be a relationship between export subsidies and overall agricultural market distorting policies. The use of export subsidies is often a reflection of domestic policies which promote both above market levels of production and above market prices. This creates surpluses which are then subsidized for export.

3. Given the linkages between the environment and agriculture, and the current exemption that agricultural export subsidies have from the general WTO prohibition on such subsidies, we believe that a useful contribution to debate under item 6 would be to analyse the environmental effects of export subsidies to the agricultural sector. The key issue is the impact which export subsidies have on third countries and their ability to use trade to promote environmentally sustainable development.

II. TRADE LIBERALIZATION AND THE ENVIRONMENT

4. At the 1992 United Nations Conference on Environment and Development it was recognized that liberalization of agricultural trade and protection of the environment could complement and strengthen each other as part of efforts to make trade and environment policies mutually supportive. Trade liberalization, including substantial and progressive reduction in the support and protection of agriculture, was seen as contributing to a more supportive international climate for achieving environment and development goals through:

- a more efficient allocation and use of resources which would reduce demands placed on the environment (through the same output with less use of natural resources or more output with the same use of natural resources);
- more predictable access opportunities, higher returns for rural producers and the consequent reduction in poverty, particularly in developing countries with potential for improving their agricultural production capacity and ability to invest in sustainable development;

- a move away from the practice of dumping onto international markets the domestic consequences of policy induced production surpluses which impoverish rural populations, particularly in developing countries, and that therefore works against food security and both rural and urban development throughout the world;
- greater opportunities for developing countries to earn the foreign exchange they need to finance development programmes to address issues like poverty alleviation and environmental degradation; and
- an international economic environment more supportive of the implementation of domestic policies to promote sustainable resource use and to encourage long-term investment in ecologically sustainable agricultural production.

5. As a result, the key instrument from the Conference, Agenda 21 (the UN Programme of Action on the environment and sustainable development) identified the urgent need to achieve the substantial and progressive reduction of export subsidies and other types of distortive support. Agenda 21 also highlighted the need to encourage a more open and non-discriminatory trading system and avoid unjustifiable trade barriers and in doing so facilitate the further integration of agricultural and environmental policies so as to make them mutually supportive.

III. AGRICULTURAL EXPORT SUBSIDIES

6. The WTO Agreement on Agriculture required Members to reduce both outlays and volumes of export subsidies and the reduction commitments are specified in Members' Schedules. The reductions were generally on the basis of export subsidies provided in 1986-90, although in some circumstances the cuts were calculated from the period 1991-92. For developed Members a minimum reduction from 1995 until 2000 of 36 per cent in value and 21 per cent in volume was required. Developing Members were required to reduce export subsidies by two thirds of the level for developed Members and over a ten-year period running from 1995 until 2004. Least-developed Members were not required to make export subsidy reduction commitments.

7. The pattern of export subsidy usage varies greatly between agricultural products and between WTO Members. At the end of the Uruguay Round it was calculated that total outlays on exports subsidies for which reduction commitments were made amounted to \$US 22.5 billion (GATT Secretariat, November 1994). More than 80 per cent of the \$US 22.5 billion was accounted for by dairy, wheat and coarse grains, beef, sugar and fruit and vegetable products: \$US 5 billion for 61.5 million tonnes of wheat; \$US 3 billion for 1.8 million tonnes of beef; \$US 2.6 billion for 21.2 million tonnes of coarse grains; \$US 5.7 billion for 5.3 million tonnes of dairy products; \$US 1.7 billion for 6.3 million tonnes of sugar; and \$US 804 million for 9.4 million tonnes of fruits and vegetables.

8. The European Communities was the largest user of export subsidies, accounting for some 74 per cent of base period outlays. The next largest users of export subsidies were the United States (approximately 4 per cent), Poland (4 per cent), Canada (3 per cent) and Switzerland (2 per cent).

9. Experience since the annual reduction commitments came into force in 1995 has shown wide variation in the extent to which WTO Members have notified export subsidies up to their annual limits (or beyond). Overall use of export subsidies has been less than half of the maximum level allowed under WTO rules, mainly due to relatively high world grain prices during this period and changes in agricultural policies in some Members. The highest utilisation rates were for dairy products (over 80 per cent for cheese and other dairy products), beef (72 per cent), eggs (65 per cent) and poultry meat (56 per cent).

10. About one third of the 25 Members which have export subsidy reduction commitments listed in their Schedules have reported no or minimal amounts of exports subsidies in the first two years of the implementation period.

11. WTO Members reported total export subsidies of \$US 7.7 billion (1995) and \$US 8.4 billion (1996) during the first two years of implementation of the WTO Agreement on Agriculture with the European Communities accounting for more than 80 per cent of the exports subsidies. The remainder of the export subsidies were mainly provided by South Africa (7 per cent although South Africa subsequently eliminated its export subsidy scheme), Switzerland (5 per cent), Norway (1 per cent) and the United States (1 per cent). Hungary was also a major user of export subsidies during this period, although the full amount is not reflected in its notification to the WTO (Hungary received a waiver in 1998 to general export subsidy rules).

IV. THE ENVIRONMENTAL COSTS OF EXPORT SUBSIDIES

12. Section III of this paper indicates the considerable extent to which agricultural export subsidies continue to be used. The figures provided on taxpayers funds used for expenditure on such subsidies underline the massive funding that, in the absence of such policies, might otherwise be available to pursue sustainable policy goals. But these figures only tell a small part of the story. The cost of export subsidies is not simply to be measured in the fiscal cost to the taxpayers in countries that provide such subsidies - considerable though this is - but also in the broader and global economic and environmental effects that these export subsidies have.

13. The environmental costs of export subsidies include the direct adverse effects on land-use in the countries providing the subsidies; and indirect effects through their impacts on the countries receiving subsidized product and other exporting countries. In the case of both the direct and indirect effects, the wider global environment pays a cost.

14. With regard to the first aspect, it has been pointed out in past CTE discussions that export subsidies have been a basic element in the structure of those patterns of support which have encouraged overuse of resources and led to excessive production in those countries with high levels of support. In particular, export subsidies have often been a key component of the provision of the market price support which has stimulated uneconomic levels of production and have often been essential in the "disposal" of the resulting surpluses. The environmental problems associated with these patterns of support have included the encouragement of monoculture and intensive farming, expansion of agriculture into environmentally fragile or ecologically valuable land, and poor farming practices involving non-sustainable levels of effluent and excessive use of pesticides and other inputs to maximize production output. These "costs" have been well documented.¹

15. Less attention has perhaps been paid in past discussions to the second aspect referred to above, the broader global implications for sustainable development. Export subsidies have compounded the inefficient use of resources in the countries that have used them by distorting world markets and adversely affecting the opportunities for more efficient agricultural producers to gain the benefits of trade that could assist them to promote the sustainable development of their economies.

16. Export subsidies imposed in the main by a very small number of major industrialized countries undermine the efforts of others to develop their agriculture sectors in environmentally sustainable ways. These effects are particularly felt by developing countries for which agricultural production plays a very important role in their economies. Whether producing for their domestic markets or for export, developing countries are harmed environmentally and economically by the

¹Relevant studies have been surveyed in the Secretariat Notes WT/CTE/W/1, pp. 15-18, and WT/CTE/W/67, pp. 9-14

continued use of export subsidies. Remunerative prices and stable market opportunities are an essential ingredient for the growth of ecologically sustainable agricultural sectors in these countries. But the use of export subsidies and associated market price support programmes to achieve domestic income objectives and price stability in some affluent countries have contributed to greater price instability on world markets and undermined the production, employment and trade opportunities available to the agriculture sectors in other countries.

17. Depressed rural returns in some countries, increased instability in world agricultural prices, disincentives to higher value added processing and unfair competition from subsidized goods are all well documented effects of export subsidies. The continued use of export subsidies is inconsistent with the need for more efficient allocation of the world's resources, as called for by the 1992 United Nations Conference on Environment and Development (as set out in Section II).

18. Furthermore, the negative effects of export subsidies on world markets create a disincentive for investment in the agricultural sectors of a number of developing countries. Such investment is a prerequisite for a move towards more sustainable agricultural production methods. Uncertain world markets can thus stifle the transfer of environmentally sound technologies resulting in further misallocation of resources.

19. For the many developing countries reliant on their agricultural sectors and often with no capacity to offset the effects of internationally dumped prices on their rural population, the negative effects of export subsidies can slow development across the whole economy. Export subsidies reduce the resources available to introduce and maintain programmes to protect and enhance the environment. Farmers and rural communities faced with land degradation subsequently have less money to pay for remedial works or to finance changes to more sustainable agricultural practices.

20. The distortions affecting the agricultural trading system - of which export subsidies rank at the very top - directly work against efforts to address rural poverty, and to deal with the close inter-relationship between poverty, the over-exploitation of natural resources and environmental degradation to the detriment of the global environment as a whole.

V. SUMMARY

21. No environmental benefits can be associated with the provision of export subsidies. The accumulation of enormous surplus stocks butter, beef, grains or other products which are subsequently dumped onto international markets does not serve any environmental objective. The elimination of these subsidies as part of a process of reducing high levels of agricultural support would be a significant force in promoting a restructuring of support away from those policies which have been most distorting from both a trade and environmental perspective.

22. The benefits to sustainable development from the elimination of export subsidies would be broader than the direct environmental impacts in the countries that use export subsidies. Export subsidies destabilize markets, depress international prices and displace exports by non-subsidising efficient suppliers, including those in developing countries, which are heavily reliant on their agricultural sectors for generating foreign exchange. The economic and environmental effects of these policies are serious, and not just for the countries that provide them. Export subsidies encourage not only the export of goods, but also the export of numerous negative effects. Economic instability and poverty contribute to the degradation of the world's environment.

23. Furthermore, the use of export subsidies in times of international financial crises can greatly exacerbate the pressures on commodity prices. The more international commodity prices fall, the more export subsidies are used. In developing countries, this can only reinforce some of the most acute social and environmental problems: rural poverty and migration to over-crowded cities, less

food production, less food security and less resources to devote to development and environmental protection.

24. The elimination of export subsidies would consequently make a significant contribution in the area of both agricultural trade and the environment and must be a key priority for the World Trade Organization in forthcoming negotiations.
