



RESEAU DES ORGANISATIONS PAYSANNES ET DE PRODUCTEURS
AGRICOLES DE L'AFRIQUE DE L'OUEST

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Food sovereignty, agricultural prices, and world markets

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Summary

To ensure the food sovereignty of West Africa in accordance with ECOWAP's commitments, an in-depth assessment of the gap existing between the theory and the actual working of the world agricultural markets and prices is imperative. These world prices claimed to be the mandatory reference on which Western Africa should align its domestic prices to secure its development. But the world agricultural markets are poles apart from the perfect market of the free-trade theory advocated by the international Institutions and developed countries, and the supply and demand of agricultural products do not react like those of other goods. "The" world agricultural price does not exist and the agricultural prices of the EU and US are not prices of a market economy since they are much lower than the average production cost without subsidies. So that, paradoxically, the import protection of agricultural products is the least protectionist way of supporting farmers for all countries. The last section sketches out some features of a strategy allowing that the necessary rise in the ECOWAS's common external tariff (CET) would not penalize the poor consumers.

Résumé

Pour assurer la souveraineté alimentaire en Afrique de l'Ouest conformément aux engagements de l'ECOWAP, une évaluation approfondie de l'écart existant entre la théorie et le fonctionnement réel des marchés et des prix agricoles mondiaux s'impose. Ceux-ci seraient la référence obligée sur lesquels l'Afrique de l'Ouest devrait aligner ses prix agricoles internes pour garantir son développement. En réalité les marchés agricoles mondiaux sont aux antipodes du marché parfait de la théorie du libre-échange défendue par les Institutions internationales et les pays développés, et l'offre et la demande de produits agricoles ne réagissent pas comme celles des autres marchandises. "Le" prix agricole mondial n'existe pas et les prix agricoles de l'Union européenne (EU) et des Etats-Unis (EU) ne sont pas des prix d'une économie de marché puisqu'ils sont très inférieurs au coût moyen de production sans subventions. Si bien que, paradoxalement, la protection à l'importation des produits agricoles est la forme de soutien agricole la moins protectionniste pour tous les pays. La dernière partie esquisse quelques aspects d'une stratégie permettant que le nécessaire relèvement du tarif extérieur commun (TEC) de la CEDEAO ne pénalise pas les consommateurs pauvres.

I - The theory of world agricultural markets and prices

1) The concepts of price and market

- In economics, the price is the monetary expression of the exchange value - i.e. the value against which a commodity is exchanged for money.
- The market is the place where the supply and the demand for a commodity meet each other, leading to a price that allows the balancing of this supply and demand.
- For liberal economists, the ideal market is the base of all economic regulation, be it 'perfect competition' at the national level or 'free trade' at the international level. This ideal market is characterized by :
 - Atomistic structure : no individual seller or buyer has a supply or demand large enough to influence prices ;
 - Homogeneous products ;
 - Transparency: all sellers and buyers know the quantities and prices that other buyers and sellers have in mind ;
 - All transactions occur instantaneously (time is ignored);
 - Free entry and exit of firms from a sector: entry barriers are absent, in particular because of the mobility of the production factors (labour, capital) that are perfectly divisible and available in unlimited quantities;
 - Minimal interference by governments that limit themselves to irreplaceable state functions (army, police, justice), including the protection of private property, the enforcement of contracts, the supply of minimal infrastructure for exchange, as well as allowing the 'free play of market forces' by ensuring free competition in domestic markets and pursuing a free trade policy at the international level ;
 - Buyers and sellers are motivated solely by a short-term interest in maximizing the price-quality ratio (buyers) or their profits (sellers).

2) The concept of world agricultural prices remains ambiguous. It suggests:

- That prices of agricultural products would arise from the confrontation of a global supply and demand.
- That the major part of the global agri-food production would be exchanged in a global market.
- That this exchange would lead to prices that, even if not completely fair, would nevertheless be inescapable because they are the prices of the most competitive markets.
- And that the domestic agricultural prices of all countries should be brought in line with these international prices to improve the global economic *welfare*, in particular that of their consumers.

II - The reality of world agricultural markets and prices

Far from exhibiting the atomistic structure, transparency and free entry of the ideal market, the marketing and processing segments of most international agricultural markets are oligopolistic (few sellers), while their retail segments are oligopsonistic (few buyers, especially where increasingly concentrated supermarket chains are concerned). Moreover, supply and demand work differently from non-agricultural markets for various reasons, and the agricultural prices are not really market prices, especially in the European Union (EU) and the United States (US). As a consequence, paradoxically, import protection is the least protectionist way of supporting the agricultural sector.

1) The supply side of agricultural world markets is dominated by increasingly concentrated oligopolies

- 3 or 4 firms control most of the international trade of each product, both at the export and the import side. They realise a significant part of their exchanges within their subsidiaries, using internal accounting prices that have nothing to do with real market prices.
 - In the market for cereals, 2 firms - Cargill and ADM (Archer Daniels Midland) - control two-thirds of the international trade. Together with Dreyfus and Bunge, these firms also control the international trade in oilseeds.
 - Cargill, Dreyfus and Tate & Lyle dominate the international sugar market.

- Cargill and ADM (the world's largest cocoa crusher) dominate the cocoa market together with the Swiss Klaus Jacobs which controls Barry Callebaut, which had a turnover of 60 billion US\$ in 2004 and processes 15 percent of the global cocoa production into fine chocolate.
- 4 firms control 45 percent of the coffee market: Nestlé, Altria (Kraft Foods with its trade marks Maxwell and Starbucks), Procter & Gamble and Sara Lee.
- Danone (n° 1) et Nestlé (n° 2) dominate the market for dairy products and mineral water. Nestlé is the number one processor for all farm products, even before Kraft Foods.
- 5 firms have 80% of the bananas market: Chiquita, Dole, Del Monte, Noboa and Fyffes.
- Philipp Morris, main component of Altria which also owns Kraft Foods, has 50 percent of the market for cigarettes. Altria had a turnover of 98 billion US\$ in 2005 (of which 34 billion US\$ through Kraft Foods, the number two agri-food firm in the world that comes after Nestlé) and a net profit of 10.4 billion US\$.
- 4 firms account for 42 percent of the global market for seeds: Monsanto, Dupont-Pioneer, Syngenta and Limagrain. The same firms also dominate the international pesticides market.
- Monsanto alone accounts for 41 percent of the global market for maize seeds (GM or not) and 25 percent of that for soybean seeds. In 2004, Monsanto sold the seeds for 88 percent of the area cultivated with GM crops - 97 percent in maize, 91 percent in soybeans, and 63.5 percent in cotton.

➤ These agro-industrial giants wield an enormous market power that allows them to dictate their prices to farmers and eliminate all local competition through investment in advertisement.

- Nestlé, the world's number one agri-food firm that employs 3539 people in West and Central Africa, had a turnover of 73 billion US\$ in 2005 (68 billion US\$ in 2004, of which 1.9 billion US\$ in Africa). The profitability of its share capital increased by 35 percent in 2005. At the end of 2005, its capital stock of 38 billion US\$ had a market value (number of shares times share price) of 117 US\$. This equals the total GNP of the 250 millions inhabitants of the ECOWAS in 2004.
- In West Africa, Nestlé has factories in Senegal, Guinea, Ivory Coast, Ghana and Nigeria (where Nestlé had the third place in market value in 2004) and has a dominant position in coffee, cocoa and dairy products.
- Moreover, Nestlé sold 16 billion Maggi cubes in Africa in 2005. Thanks to an enormous advertising campaign it could push the Maggi cube and marginalize artisanal nutritious products like the soumbara: *"Maggi... Nestlé organizes a systematic media hype in Africa for this product ... Its marketing people... even organize big sport or cultural events and sponsor certain television programs like «La bonne cuisine»...This advertising hype involves an unequal competition with local products. The traders of these fresh products are raising the alarm: "Before, I earned 20,000 to 25,000 CFA francs...Now I am happy when I gain 7,000 CFA francs"... Madame Aminata... sells soumbara, those fermented néré grains that are the traditional seasoning in West Africa"*¹. Nevertheless *"numerous analyses made in Bénin and Switzerland show that these cubes mainly contain salt (50 to 75 percent), vegetable proteins (13 percent), fats (7 percent), potash and caramel. Although involving no direct danger for human health, they lack any nutritious value"*². Nevertheless, Nestlé gives courses in nutrition and subsidizes many information institutes in this field in Africa. It has much influence among policy officials and the President of the Republic of Ghana has opened its new West African head office on February 8th, 2006.

➤ These transnational agri-food corporations have pressured the WTO and individual governments to liberalize agricultural markets because they want the prices of agricultural products - their raw materials - to decrease. This is first of all true for the prices of animal feeds that determine the production costs of meat and dairy products. The same corporations have also enforced the dismantling of international commodity agreements (in particular those for coffee, cocoa, and natural rubber) to decrease the commodity prices. The WTO tries to dismantle 'state trading enterprises', and the IMF and the World Bank do the same with marketing boards, arguing that these institutions would cause trade distortions and dumping. However, the same institutions do nothing against the much more serious distortions that are caused by private oligopolies that control 95 percent of global trade. Yet UNCTAD has found that in Africa, *"the elimination of marketing boards has not improved the share that farmers receive from export prices ... It has rather left an institutional void, because private entrepreneurs have generally proved unable to take over many of the functions that the marketing boards had fulfilled"*³.

➤ This strategy of the transnational agri-food corporations relies on close collaboration of corporation leaders and ministries of trade and agriculture. This is clearly evident in the US, and it is also apparent in the EU. The first

¹ Parfait Tognisse Dahouindji, *La pub tue Lomé*, in *Les réalités de Lomé*, Défis Sud, n°34, 1998, pp. 25-26.

² Madieng Seck, Malado Dembélé, *Bouillon-cube : du sel bien emballé*, 29/07/2003, Sénégal http://www.syfia.com/fr/article.asp?article_num=3339

³ Rubens Ricupero, *Rapport sur le commerce et le développement*, 1998, *Aperçu général*, CNUCED, 1998.

version of the WTO Agreement on Agriculture was written by Dan Amstutz, then a director of Cargill and president of the North-American association of grain exporters, before becoming under-secretary of the US Department of Agriculture charged with market support programs, then chief agricultural negotiator during the Uruguay Round, then president of Amstutz & Company, a consultancy firm specialized in agri-business and international trade and finally president of the board of a common enterprise of ADM, Cargill, Cenex Harvest States, DuPont and Louis Dreyfuss. In all ministerial conferences of the WTO, representatives of US agri-business closely follow the declarations of their Trade representative (USTR) and those of the EU do the same with the European Trade Commissioner. It is well known that in the US, agribusiness firms give massive subsidies to election campaigns, favouring Republican candidates who are reputedly less protectionist than the Democrats.

2) The demand side of world agricultural markets is dominated by increasingly concentrated oligopsonies

➤ They impose their market power on the main brands of the agri-food industry, and substitute their own brands and quality norms.

➤ The turnover of the groceries (mainly foodstuffs) of Wal-Mart, the world's number one supermarket chain, was 122 billion US\$ in 2003, followed by Carrefour (77 billion US\$) and Ahold (72 billion US\$)⁴.

➤ The strong concentration of supermarket chains and their proximity to the consumers, with their demand of lowest prices and perfect traceability in case of sanitary problems (which makes any expectation of developing countries that the EU and the US will moderate their sanitary norms an illusion), lends them an enormous power over their suppliers - the agri-food industries - obliging them to lower their prices. In their turn, the agri-food industries shift these price reductions to farmers.

➤ Although they are few, these chains are involved in a merciless price competition, the more so because of the multiplication of price fighters that sell at the lowest possible prices. A telling example was the price war in bananas between British supermarkets in 2002-2004. The sales price of bananas fell from 1.08 £/kg in December 2001 to 0.75 £/kg in July 2004, with effects on prices paid to producers. The ensuing pressures obliged the EU to reduce its preferential tariffs for ACP bananas.

➤ Although oligopolist suppliers and oligopsonist retailers struggle over profit margins on agri-food products, there is a tendency toward a complete integration of both types of giants in order to maximise their combined profits. An example is the agreement that Kroger, the biggest food supermarket chain in the US, has made with Cargill on meat.

➤ In spite of price wars by which supermarkets try to entice consumers, retail prices of foods have generally increased rather than decreased even though the prices of agricultural products have been strongly reduced.

- The retail prices of coffee have remained stable although the prices received by coffee farmers have fallen to one-third of their level in 1960. According to UNCTAD, the global export value of coffee was 10 to 12 billion US\$ in the beginning of the 1990s and global coffee sales to consumers 30 billion US\$. In 2002 the latter exceeded 70 billion US\$, whereas exporting countries received no more than 5.5 billion US\$.
- Although coffee and cocoa prices were at their lowest level, the net profit that Nestlé made on its own capital (15.5 billion US\$) was 21 percent in 2000 and in 2001, 22 percent in 2002, and 17 percent in 2003.
- J. Morisset of the World Bank found in 1997 that *"the declines in world commodity prices were not transmitted or were transmitted imperfectly to domestic consumer prices. In contrast, upward movements in world prices were clearly passed on to domestic prices. As a result of this asymmetry, the spread between world commodity prices and domestic consumer prices has increased over time, about 100 percent on average for the seven commodities analyzed in this paper over the past 25 years"*⁶.

3) Agricultural markets are not self-regulating because agricultural products differ from other commodities

➤ For non-farm goods and services, the law of supply and demand fully holds: if prices go down the demand will increase, and so long as production remains profitable, factories and offices will continue producing. However, if prices go down because the demand has shifted to competing products, factories close and their capital will flow to other productions that are more profitable. Increases in the buying power of households lead to a quasi infinite increase in the consumption of non-farm goods and services, because advertising is constantly creating demand for new goods and services.

⁴ DFID & IIED, *Concentration in food supply and retail chains*, August 2004.

⁵ www.un.org/esa/coordination/ecosoc/hl2003/RT7%20summary.pdf

⁶ Jacques Morisset, *Unfair trade? : empirical evidence in world commodity markets over the past 25 years*, Policy Research WP, World Bank, 1997. www.worldbank.org/html/dec/Publications/Workpapers/WPS1800series/wps1815/wps1815.pdf

➤ **The demand for agricultural products remains stable in the short term and even in the long term if households have sufficient buying power.** Indeed, consumers do not eat more in the short term when prices decrease, even in the developing countries where chronic undernourishment exists so long as the buying power does not improve. And when prices go up, the consumption of food is the last to be sacrificed because it is a primary necessity. Although the consumption of more expensive foods decreases, that of less expensive foods increases ('Giffen's paradox'). When the purchasing power improves, the composition rather than the volume of foods consumed changes. Indeed, the latter decreases rather than increases: more animal foods, fruits and vegetables, less cereals and starchy plants. This is also why the share of expenses for food in household revenues is a good indicator for the development level of countries: below 10 percent in the US against 70 percent in some least developed countries. Today, population growth is the only driver of an increase in the demand for food in many developing countries, at least if this reflects a total increase of its purchasing power.

➤ **Similarly, agricultural production does not obey the law of supply and demand.** Rather than decreasing their production when prices decline, farmers tend to increase their production when they can, to compensate the reduction in prices. Because the demand is rigid in the short term, this reaction accentuates any decrease in prices. Furthermore, climatic variation causes the supply to fluctuate. This is less so in developed countries where intensification (fertilizer, pesticides, irrigation, drainage, etc.) has reduced the impact of climatic variations. Still even those countries are not resistant to droughts, floods, the effects of global warming, or epidemic animal diseases (mad cow, avian flu...), at least not in the short term. The fluctuations in supply are even larger in developing countries, especially in sub-Saharan Africa, where soil fertility is being degraded and yields are declining because farmers are lacking the financial means for using sustainable soil management techniques. If prices improve, farmers try to benefit by increasing production, but again, this risks reducing their revenues because the demand is rigid ('King's law').

➤ **The combination of stable demand and fluctuating supply induces strong variation in the prices of agricultural products.** This affects agricultural earnings and food prices, and thereby the level of food consumption, at least of separate food products.

4) This is why, already since the pharaohs, all countries have pursued agricultural policies to manage the supply and thereby the earnings of farmers and the purchasing power of consumers

➤ **To begin with, countries have regulated imports by variable import levies in line with the country's needs.** In doing so, they have used more effective instruments than fixed tariffs, which provide insufficient protection when the world market price becomes very low or exchange rates vary. Rather than fixed tariffs, countries have used variable levies that ensure a fixed import price in national currency, or they have used import quotas.

➤ **Besides, countries have used public stockholding to minimize year-to-year price fluctuations.** They especially did so when international agricultural trade was still limited - i.e. before the coming of steamships and railways in the mid-19th century. Where the state lacked the means to do so, farmers themselves have built stocks, especially in sub-Saharan Africa where they typically keep cereal stocks for 2 or 3 years.

➤ **However, since the 1950s developed countries have shifted to other, more perverse means to regulate their domestic supply: subsidization of exports.** This has been allowed by the GATT, and later the WTO. Although the Agreement on Agriculture has obliged developed countries to reduce their explicit export subsidies by 36 percent, it allows domestic subsidies benefiting also to exported products. At the same time, developing countries are obliged to reduce the import protection that is the only instrument by which they can regulate their domestic prices and support the earnings of their farmers.

➤ **Because supply management was lacking and this lack was accentuated by the abandonment of existing measures (reduction in import protection, 'decoupling' of subsidies), the liberalization of agricultural trade in the Uruguay Round has entailed a decline in the world prices rather than the price improvement predicted by econometric models.**

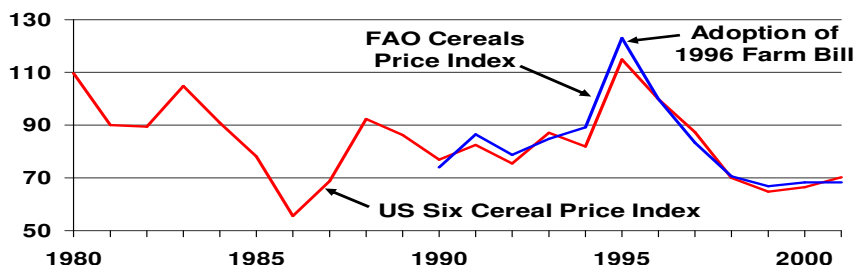
5) Other reasons why world agricultural prices are not market prices

➤ **'World prices' concern no more than a very small part of the global production.** In the 4 years between 2000 and 2003, the share of exports in global production was 12.5 percent for cereals, 7.4 percent for meat, and 7.1 percent for dairy. Because the world market only accounts for around 10 percent of the global production of staple foods, it is absurd to consider the prices for which that small share is traded as the 'real prices' to which all prices of the entire production in all countries should be adjusted.

➤ **Because all countries have very different production costs it is logic that their agricultural prices deviate from so-called 'world prices', the more so because the latter are really dumping prices.** It is logic that the prices of countries reflect their agro-climatic conditions and their level of development, especially their ability that some (the developed countries) have had to protect their domestic markets and to subsidize their farmers for a long time. Also, it is logic that they make their prices fit a domestic development strategy that makes a maximum use of their national agricultural potential. This is acceptable as long as they do not cause harm to the rest of the world by dumping policies - even if these instruments are allowed by the WTO.

➤ **The world price of agri-food products does not exist.** What is called ‘world price’ is really the price of the most ‘competitive’ country or the main country that is selling its product on the world market. The US is the ‘price maker’ for grains (cereals, rice, oilseeds, pulses and cotton). The world prices of these crops are the FOB (free on board) prices of the US to which other exporters adjust⁷.

US Six Cereals and FAO Cereals Price Indices



After 1996

- US prices plummeted
- World prices followed

- Because US grain prices are below US costs of production and because they involve a considerable extent of dumping while the US is nevertheless the ‘price maker’, it is absurd to consider these prices as the relevant international reference prices.
- Because animal products are produced with these subsidized grains as feed, the world prices of animal products are likewise far below their real production costs (i.e., in the absence of this subsidization).
- In fact, each country has its own international price: its border price, FOB (Free on board) price if it is an exporting country, CIF (cost, insurance, freight) price, if it is an importing country.
- Considering New Zealand dairy prices as the world prices for dairy products as the OECD is doing is likewise absurd because: i) New Zealand accounts for only 2.2 percent of global dairy production ; ii) it is a ‘price taker’: its prices are determined by the export prices of the EU which remains the number one dairy exporter but applies dumping prices; iii) even though New Zealand has 20 percent of the world market, it can hardly expand that share without intensification that would raise its production costs and cause pollution because it is already exporting 90 percent of its production; iv) it has been demonstrated that, under free trade, international dairy prices would be close to the internal prices in the US and the EU. Under free trade, the producer support estimate (PSE) for EU dairy farmers would be -28 € rather than the current 190 € par tonne, which means that EU dairy producers are in fact being taxed in the interest of consumers who are paying too low prices for their milk⁸!

➤ **International agri-food prices are strongly fluctuating and, in the long term, declining. Futures markets cannot remedy this.**

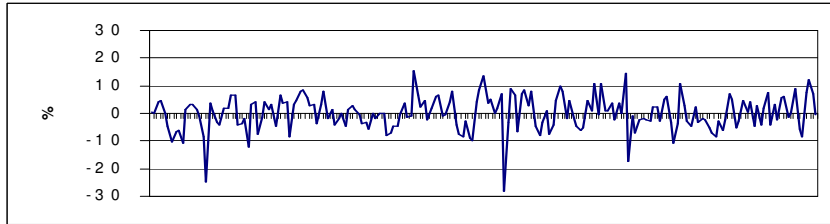
- T. Voituriez and F. Gérard have illustrated this price instability showing that the volatility of international wheat prices (CIF prices of US grain in Rotterdam) was comparable to that of the Nasdaq between 1984 to 2000 - that is, completely erratic⁹.

⁷ Daryll E. Ray, Daniel G. De La Torre Ugarte, Kelly J. Tiller, *Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide*, September 2003.

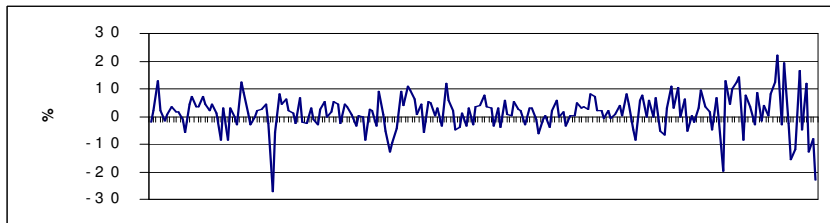
⁸ Maurice Doyon, Nicolas Paillat et Daniel-M. Gouin, *Analyse critique du concept d'équivalent subvention à la production dans le secteur laitier*, ESP lait, GREPA, 13-11-01.

⁹ T. Voituriez et F. Gérard, 2001. *La controverse sur la volatilité des marchés financiers peut-elle s'appliquer aux marchés de matières premières agricoles ?* Colloque organisé par la SFER 6-7 février 2001, Paris.

Variations des cours du blé CIF Rotterdam, 1984-2000



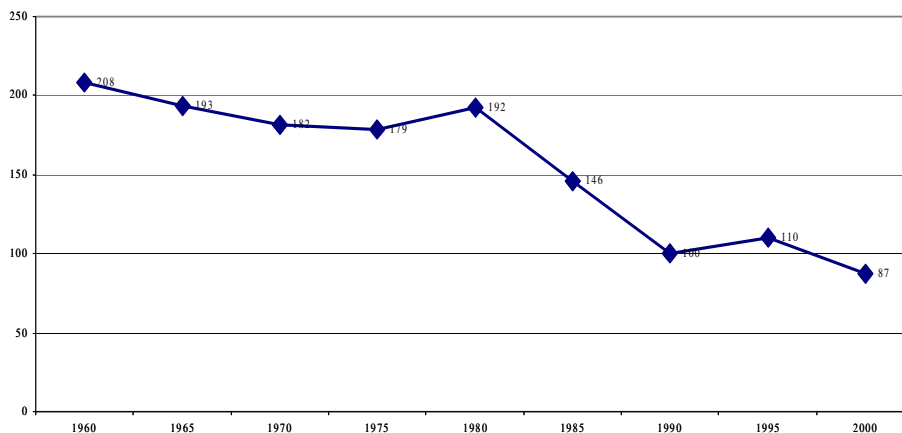
Variations mensuelles du Nasdaq, 1984-2000



Source : Tancrede Voituriez et Françoise Gérard (CIRAD, 2001)

- The long term decline in the international prices of farm products, is illustrated by the graph below which is based on World Bank data.

Evolution de l'indice des prix mondiaux nominaux des produits agricoles, alimentaires ou non, de 1960 à 2000, base 100 pour 1990



Source : d'après Banque mondiale (http://www.worldbank.org/data/wdi2001/pdfs/tab6_4.pdf)

- In January 1999 the World Bank launched a program and an 'International Task Force for risk management in staple commodities in developing countries' to enable developing country producers of staple commodities to hedge price risks through futures markets. Five years later, in 2004, only 4 countries (Honduras, Nicaragua, Tanzania, Uganda) had experimented with the formula on a small scale in coffee and cotton. In Uganda, a first transaction was undertaken in 2002 for 500 small coffee farmers organized in 3 village cooperatives, but they did not want to continue the initiative in 2003 and in 2004 when another experiment started with 16,000 cotton farmers organized in 64 cooperatives. Surely, the decline of international prices of the products concerned did not encourage farmers to pay the risk (option) premium of 5 percent. This was the more so because most farmers were lacking financial means and finding a bank that was willing to make loans for the operation proved difficult¹⁰.

¹⁰ <http://www.itf-commrisk.org/itf.asp?page=36>

- Although the futures market operations were expected to benefit cooperatives of farmers, they in fact made farmers more dependent on the traders who routinely engaged in such hedging operations and who had to be involved as intermediaries. In Ivory Coast, it was anticipated that the project would have to lean on Cargill, ECOM and Nestlé for assistance, with the risk that the initiative would mainly benefit these corporations.
- D. F. Larson of the World Bank admitted in 1998 that *"where export crops like coffee, cocoa and sugar are concerned, foreign firms based in developing countries are effectively hedging their export price risk, but such hedging does not extend to local firms that sell products to exporters or farmers... Even the largest agricultural producers in developed countries relatively access the derivatives markets directly. This is the more true of developing countries where small producers are even less able to use derivatives, whether these are traded in their own country or somewhere else"*¹¹.
- The most important objection to attempts at using futures markets for stabilizing earnings of developing country producers is that these markets are incompatible with any form of price regulation. The speculators who are the necessary counterparts in hedging operations are only interested in such operations when there are strong price fluctuations. Indeed, the evaluation of the experiences by the World Bank was that *'The environment that is most conducive to the use of hedging instruments has: liberalized markets, no direct government intervention in pricing, and well functioning private marketing institutions. Government interventions to artificially stabilize prices preempt the development of a market-based price risk management system... For example, several developing countries sell their sugar into quota markets at a fixed preferential price. This causes the farm gate price to fluctuate relatively little mitigating price risks for producers.'*¹²
- In Mexico, where an experiment was being prepared, the government's intention to establish a fund for stabilizing cocoa prices *"made all incentives for using price risk management instruments disappear"*. Moreover, it was said that *"in recent years, stricter legislation against money laundering has made these activities more difficult"*!
- In this way, the desire to eliminate all public intervention at both the national and the international level and to trust dogmatically in the virtues of a completely deregulated market has been pushed to its extremes to allow the intervention of speculators.
- In fact, *"futures markets do not eliminate price risks; the prices in these markets are equally volatile or more volatile than spot market prices"*¹³. Moreover, *"it is well possible that the existence of a futures market, rather than reducing price fluctuations, generates such fluctuations even where they did not exist before"*¹⁴.
- The director of the AGPB (the French wheat farmers association) confirms: *"Some will say that it is enough to cover risks through the futures markets! I am sorry, but this type of market allows one to hedge against risks, but not to foresee the price. Today, a producer needs to know prices one or two harvests in advance to be able to adequately adjust his production. Only an agricultural policy can provide this necessary predictability"*¹⁵.
- According to the US Department of Agriculture, only 7 percent of US farmers used futures markets in 1996 and futures contracts *"had a limited ability to raise revenues"*¹⁶.
- If even in rich countries the advantages that futures markets would have for farmers appear to be lacking, it is clear that futures markets are no substitute for an agricultural policy that provide remunerative prices and price stabilization through the regulation of markets. Such regulation requires the control of supply, to begin with through an effective import protection.

➤ Niek Koning will come back at length on the manner to regulate the prices of exported crops with the example of cocoa for West Africa.

➤ **Projections of higher world agri-food prices in the medium and long term are constantly being refuted by the facts.** Each year, international institutions (OECD, World Bank), the USDA and the American institute FAPRI publish projections of medium term 'world' agricultural prices of major traded products. The European Commission uses these estimates for its own projections. Contrary to the persistent price decline that is observed in reality, these institutions continue predicting that, in the medium term, nominal agricultural prices will recover. The impression arises that these projections serve to ensure that agricultural prices remain low enough to safeguard the profits of agri-food corporations: by making them anticipate higher prices, farmers are induced to increase their production and governments to stimulate farmers to do so. Such management of information may be understandable. Positive

¹¹ Donald F. Larson, Panos Varangis et Nanae Yabuki, *Commodity risk management and development*, Development Research Group, World Bank, 28-04-1998.

¹² <http://www.itf-commrisk.org/itf.asp?page=13>

¹³ C. Araujo Bonjean et J.-M. Boussard, *La stabilisation des prix aux producteurs agricoles...op.cit.*

¹⁴ J.M. Boussard et al., op.cité.

¹⁵ Hervé Le Stum, *Il faut des politiques agricoles pour réguler les marchés*, Grain magazine, oct. 2000, p. 12-15.

¹⁶ Joy Harwood et al., *Managing risk in farming : concepts, research and analysis*, Economic Research Service, USDA, March 1999.

anticipations of economic agents - consumers and firms - are a vital condition for ensuring economic growth. For this reason, one will never see a Minister of economy who announces a retardation of growth. Doing so would become a self-fulfilling prophecy, because consumers would increase their saving, and enterprises would postpone their investments. Similarly, if international institutions would predict decreases in agricultural prices, farm production would probably decrease - at least, governments would not encourage an increase in production. This would go against the interest of traders and firms upstream and downstream from agriculture, because farmers (and upstream firms) would spend less on inputs.

➤ **What about the claim that world agricultural prices would be the *real* prices because they would maximize economic welfare?** Free trade theory claims that lowering import duties would be beneficial for all countries because consumers would gain more through the reduction of import prices (*consumer surplus*) than producers would lose by the decrease of domestic agricultural prices and than the government would lose by the loss of tariff revenue. Mamadou Cissokho has given a common sense answer to this argument: "*The World Bank says ... 'the price for which you are growing rice is too high ...you should allow rice to be imported'. But if rice can be bought on the market for one cent and the 300,000 families lose their means of subsistence, and thereby their incomes, what will they buy? How will they live?*"¹⁷. Because farmers represent two-thirds of the population in West Africa they lose more as producers than consumers can gain (I will return to this below). Besides, although the decrease in import prices is real enough for importers, this decrease is not or only weakly transmitted to consumers.

➤ **What about the claim that world agricultural prices would be the *real* prices because they would reflect comparative advantage?** Comparative advantage is a purely static concept.

- All currently developed countries have built their competitiveness behind high tariff walls and with massive subsidization that they sustained during long decades. How can a Sahelian farmer build comparative advantage if he produces 1 tonne of millet per year while his European colleague produces 1000 tonnes of wheat and in addition receives 55,000 € of direct payments whereas the Sahelian farmer receives nothing? Locking West Africa into the export of primary farm commodities or minerals (including petroleum) means condemning them to eternal underdevelopment because development requires competitive industries and competitive services that also need minimal protection during some time.
- Defending import protection does not mean that the concept of comparative advantage would be completely irrelevant. Food sovereignty does not mean autarchy but rather the right of each country to decide itself on the degree of integration in the world market that it desires. Therefore, trade will continue, and it is normal that those countries that are most price-competitive - without the common price dumping or social, environmental or monetary dumping - will see their market shares increase. And, because rules for the international coordination of production controls have to be established, it is justified to redistribute the rights to produce for export in a way that reflects the competitive advantage of countries, provided that they are producing in a sustainable way.

➤ **What about the claim that world agricultural prices would be the *real* prices because they are expressed in international currency, in particular in US dollars?** This argument is often forwarded by the World Bank and the IMF that think that developing countries first of all need foreign exchange because their own currency is not convertible and they need to export to pay off their debts. However, as has become evident in West Africa, this argument holds no water. Developing countries have growing agricultural trade deficits, so they lose more foreign exchange by importing food than they are gaining by exporting farm products. It should be noted that protecting the internal food market does not mean stopping exporting non-food products. However, prices of tropical export crops are low due to the lack of supply management and because of the liberalization of agricultural markets.

6) The agricultural markets of the EU and the US do not conform to a 'market economy', and their agricultural prices are not 'market prices'.

➤ The internal agricultural prices of the EU and the US do not conform to the prices in a 'market economy' because they are far below their own average production costs. This is so, even though these prices are higher than the world market prices due to strong import protection, especially in the EU.

➤ The EU and the US use anti-dumping measures against countries that are not considered to have a '*market economy*' and whose prices are not considered to be '*market prices*' because they are below their '*normal value*' - the value that they would have if they would be sold '*through the ordinary course of trade*' (article 2 of the WTO Anti-Dumping Agreement). The EU and the US are treating as such the former communist countries. Although China has joined the WTO at the end of 2001, it had to accept that several of its production sectors could be considered as not conforming to a market economy for a 15 years period.

➤ The EU Council's Regulation n° 384/96 of December 22th, 1995¹⁸ states that sufficient evidence should be submitted "*that the producer is operating under market economy conditions, that is if: decisions of firms regarding*

¹⁷ Mamadou Cissokho, Discours au Congrès de la Coordination Rurale, Caen, le 28 novembre 2002.

¹⁸ JOCE L 056 du 06-03-1996

prices, costs and inputs, including for instance raw materials, cost of technology and labour, output, sales and investment, are made in response to market signals reflecting supply and demand, and without significant State interference in this regard' - that means, without subsidies.

➤ However, since the 1992 reform of the Common Agricultural Policy, and even more since the reforms of 1999 and 2003-2006, most agricultural products of the EU are sold at prices below their 'normal value'. They are considerably below the average production costs that would exist 'without significant State interference', considering the massive subsidies, not only directly on exports ('refunds') but also indirectly through domestic payments that benefit the exported products.

- This is true for the exported cereals that received domestic subsidies of 1.673 billion € on average between 1995-96 and 2001-02 (years that were notified to the WTO), or 3.5 times as much as the 477 million € of export refunds¹⁹. Because the latter had almost disappeared, domestic subsidies represented 94 percent of the total subsidization to exported cereals in 2002. Comparing the average total subsidies of 2.150 billion € to the exported cereals to their export value of 2.956 billion €, the average level of dumping appears to be 42.1 percent [$2.150 / (2.150 + 2.956)$].
- Similarly, the 329 million € of average total subsidies that in the same period were given for the 1.011 million tonnes of exported chicken correspond to 325 € per tonne, of which 243 € in the form of domestic subsidies and 82 € in the form of export refunds. Comparing this 329 million € with the 1.043 billion € of average value of the 1.011 million tonnes that were exported gives a level of dumping of 24 percent.
- Although the export refunds on dairy products have remained considerable, domestic subsidies for dairy products that are exported nevertheless represent 38.2 percent of total subsidies (or 61.7 percent of the refunds). It leads to an average dumping level of 33.3 percent²⁰.
- Beef is the agricultural product in the EU with the highest dumping level - 63.7 percent on average between 1996 and 2002. This is because total subsidies for exported beef were over 75.1 percent of the export value. Domestic subsidies on exported beef exceeded refunds by 9.2 percent²¹.
- The prices of most other farm products in the EU are also more or less strongly subsidized and are therefore also not market economy prices, even when dumping is absent if they are not exported.
- The importance of domestic subsidies to exported farm products shows that dumping will not end with the elimination of export refunds on 31 December 2013 that was announced in the Hong-Kong Declaration in case the Doha Round would be successfully concluded.

➤ Something similar is true for most agricultural products exported by the US, where agricultural prices are likewise far below average production costs, especially in the case of 'grains' (cereals, rice, oilseeds, pulses, cotton).

- According to the IATP, in 2003, US grains were exported for prices that were 28 percent below production costs in the case of wheat, 10 percent in that of maize and soybeans, 26 percent in that of rice, and 47 percent in that of cotton.
- Because livestock production in the US is more intensive than in the EU, the strong subsidization of feed grains leads to sales prices of meat and dairy products that are far below the production costs that would have existed in the absence of subsidies. This also means dumping when these products are exported.

7) Fifteen good reasons why import protection is, paradoxically, the least protectionist form of support

- 1) For an economist, any government support that reinforces the competitiveness of national products compared to foreign products is a kind of protection. So import protection is only one form of protection among other ones, while dumping is the worst form of protection possible.
- 2) Only rich countries can use subsidies for protecting themselves against imports without using instruments that target imports specifically. This is done by compensating the reduction of internal prices to the international price level so that agri-food firms have no incentive to import. In this way, the reduction of cereal prices in the EU after 1992 has allowed the EU to limit its imports of soybeans and other feedstuffs (cassava, corn gluten, oil cakes...) and of animal products. This also explains why the EU could be so generous to offer, on 28 October 2005, to reduce its import duties on agricultural products by 39 percent.

http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=FR&numdoc=31996R0384&model=guichett

¹⁹ J. Berthelot, *Feed subsidies to EU and US exported poultry and pig meats*, Solidarité, 10 January 2006.

²⁰ J. Berthelot, *The comprehensive dumping of the European Union's dairy produce from 1996 to 2002*, Solidarité, 31 January 2006.

²¹ J. Berthelot, *The comprehensive dumping of the EU bovine meat from 1996 to 2002*, Solidarité, 19 April 2006.

- 3) Import protection is the only kind of support that is feasible for poor countries, which lack the means to give significant subsidies to their farmers, the more so because the latter constitute the majority of their working populations (two-thirds in the case of Sub-Saharan Africa and ECOWAS).
- 4) Like Vandana Shiva (1997) has said, "*Free trade is not anti-protectionism; it is the protectionism of the powerful*".
- 5) All subsidies, even environmental *green box* subsidies, reduce production costs and have a dumping effect when the products that benefit from these subsidies are exported²².
- 6) Whereas coupled supports (e.g. intervention prices in the EU) are largely used for keeping internal prices *above* world prices, blue and green box subsidies allow countries to lower their internal prices *below* their own cost of production. They consequently lead to dumping if the products that benefit from them are exported. In addition, they lead to import substitution, so that they also have an effect of import protection (point 2). Developing countries give priority to coupled supports that have a more direct effect on the prices and on the production that they need to increase²³ (while developed countries often try to reduce it). Conversely, subsidies that are partly decoupled (*blue box*) or fully decoupled (*green box*) are in fact coupled subsidies²⁴.
- 7) Reductions in import protection cause losses of tariff revenue, which curbs the room for government intervention, including intervention to support education and health. It should be noted that, in the 1990s, import duties accounted for 30.5 percent of total government revenues in Sub-Saharan Africa, against only 0.8 percent in the OECD countries²⁵.
- 8) Because no limits have been imposed on decoupled *green box* subsidies, these subsidies are even more protectionist than direct export subsidies, which are more transparent and since anti-dumping measures or compensatory duties can be levelled against them when they exceed the agreed limits.
- 9) Paradoxically, import protection is the only means for re-establishing really market-oriented farm policies, where farm earnings are essentially based on prices - but internal prices, not the volatile dumping prices of the world market.
- 10) The EU is boasting that thanks to its new 'single farm payment', the common agricultural policy allows farmers to better respond to market signals, i.e. prices. But those prices are not market prices! They are far below the average cost of production and farmers could produce them without the single farm payment.
- 11) Advocates of free trade feel that all consumers in the world have a right to buy their food at the world market prices, and that because import protection prevents them from doing so, they suffer a lack of gain - a negative consumer surplus - equal to the gap between the internal price and the world price. The OECD sees this as a "transfer of income from consumers to producers", which they consider as a subsidy that consumers pay to producers.
- 12) This is also one of the few arguments that advocates of the European Partnership Agreements (EPAs) are forwarding: free imports of EU food products in Sub-Saharan African countries would benefit their consumers. They forget that two-thirds of those consumers are farmers who will suffer from the unfair competition of these imports. Because they will no longer be able to produce they will also be unable to buy those imported products, however cheap they may be (Mamadou Cissokho).
- 13) The idea that consumers are deprived from the 'right' to feed themselves at world market prices is even more unfounded because world market prices are dumping prices, that are below the production costs of all countries. They are even below the production costs of the most competitive countries, like Brazil, if social and environmental dumping is taken into account. It is therefore absurd to consider the world market prices as the 'real' prices to which the domestic prices of all countries should conform.
- 14) The OECD's idea that import protection leads to a 'market price support' of farmers is equally false. It suggests that farmers are selling directly to consumers, which concerns less than 10 percent of the agricultural production in developed countries. The rest is sold to agri-food industries and supermarkets.
- 15) A reform of the Agreement on Agriculture that would be based on the principle of food sovereignty - i.e. on effective import protection without disguised dumping by blue or green box payments - would mean a considerable simplification. If each country would be free to determine its own level of import protection, complex rules about domestic supports would no longer be needed. Even export subsidies would not be a big problem if each country could protect itself against their effects through import protection. However, given the IFM and World Bank loan conditionalities that restrict the room of developing countries to raise their tariff protection, the elimination of explicit and implicit export subsidies remains an urgent priority.

²² Grey, Clark, Shih and Associates, Limited, *Green box mythology: the decoupling fraud*, Study prepared for dairy farmers of Canada, Ottawa, June 2006; J. Berthelot, *The green box a black box which hides the gold box*, Solidarité, 9 December 2005, http://www.wto.org/french/forums_f/ngo_f/posp55_f.htm.

²³ FAO, *Some issues relating to food security in the context of the WTO negotiations on agriculture*, FAO Geneva Round table on food security in the context of the WTO negotiations on agriculture, 20 July 2001.

²⁴ J. Berthelot, *Review of the EU agricultural distorting supports to rebuild fair and sustainable agricultural trade rules after the Doha Round hibernation*, 21 August 2006, Solidarité, 21 August 2006, http://www.wto.org/french/forums_f/ngo_f/posp63_solidarite_f.pdf

²⁵ Economic Commission for Africa, *Fiscal implications of trade liberalization on African countries*, ATPC, September 2004.

III - Strategy for restoring import protection in the ECOWAS without hurting poor non-farm consumers

1) The problem

➤ Even though two-thirds of the population of the ECOWAS are farmers who would benefit from a rise in agricultural prices, strong and sudden impacts on food prices should be avoided because they would prompt food riots in the cities. These could force governments to backtrack and increase food imports at cheaper prices. This could drag the prices of regional foods with it, discouraging farmer investment to increase production and reduce unit production costs. The risk that sudden rises in agricultural prices would impact on food prices is the more real because, unlike in developed countries, regional foods do not pass a complex processing sector before they reach the consumers.

➤ What is needed, therefore, is a gradual increase in import prices and so in variable import duties. This should be adjusted to the availability of regional foods, not just over several years, but also from one season to the other. Such a flexible approach is already being applied by Guinea and Senegal for onions and potatoes. It is also extensively used by the EU, e.g. for fruits and vegetables where specific tariffs per tonne all year long are added to variable *ad valorem* tariffs which increase during the harvest season.

➤ So, what is needed is a strategy with simultaneous interventions on supply and demand.

2) Interventions on supply

These should be targeted to the production as well as the processing and marketing of agricultural products.

➤ **Interventions on production other than those raising agricultural prices.** These interventions do not necessarily involve large demands on public finance. They include securing land rights to farmers and livestock producers; diffusion of new techniques for production and storage while encouraging information sharing between farmers; diffusion of local and regional market information; organization of farmers for collective purchase of inputs to reduce input prices, or for the joint use of equipment.

➤ **Interventions to support the processing of regional foods.** This should allow regional foods to replace imported products. Such interventions could include:

- Training of women to make substitutes to bread, cakes and biscuits that contain local products (millet, maize, plantain, cassava, sweet potatoes), up to 50 percent in bread and 80 percent in cakes and biscuits. In addition to the experience of ITA in Dakar since 1972 with 'Pamiblé' (wheat flour with 15 percent of millet flour), which has become the 'rich bread' during the last 10 years, Solidarité has also made some experiences from 1988 to 1999 in Ivory Coast and Bénin with 50 percent of local products in the "bros". At last these attempts proved impracticable because the price of wheat flour was so low that these "bros" could not be sold at a profit, even though they were appreciated by consumers.
- The great mills should be stimulated to make flour from local cereals, even with subsidies if needed. For many years, the Great Mills of Banfora have produced maize flour and sold it at a price significantly lower than that of wheat flour and above all at the same price during the whole year. One major problem with baking bread from local cereals is, not just that the artisanal process is labour intensive, but that the prices of these cereals vary strongly from one year or one season to the other.
- Similarly, in the late 1980s, CIRAD proposed to make pasta from maize. However, the Senegalese manufacturer whom they contacted felt that he could not do this with local maize as long as imported maize was much cheaper.
- Without downplaying the large potential market for processing regionally produced milk into fresh dairy products once the ridiculous tariff on imported milk powder (a mere 5 percent) would be raised, the strong progress that has recently been made in the taste of soy substitutes for fresh milk products like yoghurt would create significant room for producing and processing soybeans for this purpose. Besides, soybeans could be grown for feed.

➤ **Interventions in the marketing of regional foods.** Once a sufficient protection of internal markets against unfair competition by imported products is ensured, the marketing of regional foods could be stimulated in various ways:

- The establishment of a market information system that monitors local, national and subregional markets (volumes supplied, qualities demanded, prices) and diffuses the information to large

numbers of farmers using adequate means such as broadcasts in local languages, telephone, the internet, etc.

- Determined political action is needed, not just in one state but in each state, to put an end to the illegal taxation of transporters by police and army officials²⁶. These illegal taxes probably exceed the level of import duties in many cases, and their suppression would improve the competitiveness of regional products even more than increases in import duties, however needed this latter may be.
- Support for collective action of producers in markets. Farmers should be trained to monitor the transactions of private traders and to manage joint selling of products; unions should be formed so that farmer groups could sell to collective canteens; cereals banks should be supported, etc.
- Support for interprofessional organization: even if at present, traders have mostly an interest in selling imported foods rather than regional foods, they should be involved as allies in the interprofessional organization of marketing chains for regional foods. This should occur, not just in separate countries, but at the level of ECOWAS too.

3) Interventions on demand

➤ **Interventions that do not require significant government expenses.** This is true of actions to improve the image of regional products. Political leaders could give the example by consuming local foods during official ceremonies. Public radio and television could make free propaganda for the consumption of regional foods. Collective canteens should privilege regional foods. Schools should emphasize the need for consuming such foods. Excessive advertisements of the merits of imported products should be checked, even if those products are partly produced in the ECOWAS (Maggi cubes). Sanctions should be applied against false propaganda (e.g. stating that yoghurt of brand X is made from local milk whereas it is really made from imported milk powder).

➤ **Interventions that do involve significant government expenses:**

- Encouragement of non-farm employment that gives incomes to poor people by which they can buy regional foods at prices that are remunerative for regional producers. Especially employment in enterprises upstream and downstream agriculture (production of improved farm tools and equipment, equipment for food storage, processing of local foods), and employment in textile and apparel industries.
- Introduction of licensed shops that sell regional foods at old prices (the prices before the increase in import duties and thereby in regional food prices) to the poorest consumers. Such systems have existed for a long time in the US ('food stamps', school meals programs), but also in India, Bangladesh, Indonesia, the Philippines, Sri Lanka, Egypt, and more recently in Brazil. Although there has been much criticism of these programs (difficulty of targeting the real poor, corruption, wasting, losses of stocked products etc.), their persistence nevertheless suggests their general usefulness. Experiences with these programs should be surveyed to see how they could be introduced in a form that is suitable in ECOWAS. Subsidization of food should be a transitional measure, say for 10 years, the time that regional farmers, if they receive remunerative prices, will need to invest so as to raise their productivity and reduce their unit production cost, allowing food prices to be moderated and to come within reach of all consumers. An important problem will be to find the finances needed for the subsidization of food. One appropriate means would be interest-free loans for 30 or 40 years, with reimbursement postponed for 10 years, from the International Development Association that is linked to the World Bank.
- Financing of rural infrastructural works (roads, small dams, irrigation works, building of schools, information centres and market halls, etc.) by food-for-work programs that provide regional foods. Besides, as long as emergency food programs may be needed, care should be taken in advance that they will use regional foods, for example flour from local cereals with recipes for how to use them.
- It should be ensured that the aim of food sovereignty is shared by society as a whole, in particular consumers, and not just by policy makers.

²⁶ Jacky Amprou, *Crise ivoirienne et flux régionaux de transport*, Agence française de développement, Septembre 2005.

Conclusion

The long-term demographic explosion in West Africa, which makes a strong dependence on food imports intolerable, makes food sovereignty a sine qua non condition for development. The existing rules of the game at the multilateral and the bilateral levels are seriously biased towards the interest of rich countries, which are denying poor countries the very instrument by which they themselves have reached their dominant positions. The rich countries would be more credible if they would themselves begin to apply the rules of the Agreement on Agriculture that they have concocted and enforced upon the rest of the world, and if they would respect the reinterpretation of those rules by the recent case law of the WTO Dispute Settlement Body. Compared with the disproportionate risks that current developments involve for developing countries, the small sums offered by the WTO through its 'trade for aid' package and by the EU for making ACP countries accept the European Partnership Agreements, have little weight.

If the EU wants to avoid an inversion of history, where 2 billion Africans (1.749 in Sub-Sahara Africa)²⁷ would be enticed in 2050 to revenge themselves on 475 millions inhabitants of the EU-27 by subjecting them to a policy of political and economic marginalization, the EU should use its political influence for reestablishing fair rules in international trade. Those rules should respect the more general rules of the Charter of the United Nations, of fundamental human rights, and of multilateral conventions on the environment. It is necessary to reestablish the sovereignty of nations against economic imperialism, and food sovereignty against food imperialism. Trade should not be war. Both in the Doha Round and in bilateral negotiations, countries are constantly talking about their 'offensive' and 'defensive' interests. Each Member should define its defensive interests as well as it can, to avoid being hurt by the offensive actions of other Members. However, all countries should have the right to apply an effective import protection for all their commodities and services, and other countries' access to their markets should never be seen as a right. Dumping, the most offensive and aggressive action, should be prohibited, and be defined in a general way as exporting at prices below one's own average cost of production, taking account of all kinds of upstream and downstream subsidies as well as cross subsidization.

Any nation which, through protecting tariffs and restrictions on navigation, has risen its manufacturing and naval power to such a development degree that not a single other nation is able to sustain a free competition with it cannot do anything more judicious than to cast off these ladders which have made its greatness, to preach to other nations the benefits of free trade, and to declare in a penitent's tone that it has lost its way up to now on the wrong track and that it has now, for the first time, succeeded in discovering the truth.

Friedrich List, economist, 1840

For centuries, England has relied on protection, has observed it until its most extreme limits, and has gained good results from it. After two centuries, it has judged appropriate to adopt free trade, since it thinks that protection has nothing more to offer for itself. Well, Sirs, the understanding that I have of our country leads me to think than in less than two hundred years from now, when America would have got from protection everything it has to offer, it will adopt free trade.²⁸

Ulysses Grant, President of the United States, 1868 to 1876

²⁷ Population Reference Bureau, *2006 World Population Data Sheet*, <http://www.prb.org/pdf06/06WorldDataSheet.pdf>

²⁸ These two quotations are by Bernard Cassen, *Verbatim*, Le Monde Diplomatique, December 2005.