

Subsidies in Agriculture – are they good/bad?

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By

Bonani Nyhodo (NAMC)

Introduction

What is a farm subsidy?

- **A farm subsidy** - form of financial support given by government to farmers
 - Cash (direct payment)
 - Input cost finance (indirect payment)
 - Tax concessions
 - Any government support that affects relative prices
- **Types of subsidies**
 - Export subsidies
 - Domestic subsidies

Domestic support – attention

- Categorized into boxes
 - The Amber box
 - The Blue box
 - The green box

Amber box (slow down)

- All domestic measures – trade distorting
- 34 member states committed to reduce - (total aggregate support)
- Countries with no Amber :
 - To keep within 5% value of production (“de minimums” level)
 - 10% - developing countries
- Amber box subsidizer amongst others include:
 - Argentina
 - Brazil
 - South Africa

Blue box (a compromise box)

- Closely related to the Amber box
- Exempted from disciplinary measures, even though recognized as trade distorting
- Compromise box in that:
 - To allow the EU to continue with its compensatory payments
 - To allow the USA to continue its annual farm income support

Green box (permitted)

- Non-trade distorting – cause minima distortion
- Publicly funded
- No price support
- **Green box support – two forms**
- **Government service programmes :**
 - Food security
 - Research, both general and environmentally based
 - Pest and disease control programmes

Green box continues.....

- Agricultural extension and training
- Infrastructure development
- **Direct payment to producers**
 - Decoupled income support measures
 - Income insurance and safety nets programme
 - Natural disaster relief
 - Payment under environmental and regional assistance programmes

Why countries subsidize agriculture?

- Industrial development
- Creation of knowledge – research
- Attain distributional effects
- Protection of the environment
- Alleviation of poverty – consumer friendly
- Increase farm incomes

Economic view – a look at subsidies

- Welfare effects
 - Low prices (good for consumers)
 - Reduce production cost accrued to the producers
 - Resources allocation
 - Cost to government (tax payers)
 - Negatively affect producers in other countries – depress prices

Agriculture trade – World, EU and USA cases

- Agricultural trade, globally – highly distorted
 - Reason - history of GATT treatment of agriculture
- Developed countries – subsidies
 - USA - more than 70 years (Great Depression of 1930)
 - Agriculture accounted for >10% of USA's GDP
 - EU subsidies – more than 40 years
 - Amalgamation of the CAP
- Developing countries – higher tariffs

Administration – of subsidies (EU and USA)

- EU subsidy programme
 - Two funds forming part of the general budget of the Union
 1. European Agricultural Guarantee Fund – direct payment to farmers (**the export fund**)
 2. European Agricultural Fund and Rural Development – finances rural development programme of member states (**climate change**)
 - European Commission – manages these funds
 - However, the EC does not make payments
 - Principle of shared management applies – 85 national and regional agencies

- Agencies make payments and claim from the EU
- USA subsidy programme
 - Farm bill specify government support: cotton, wheat, rice, corn:
 - Research and food safety
 1. Commodity programmes – USDA Farm Service Agency (direct payment to farmers) – wheat, oats, upland cotton, soybean, other oilseeds, barley
 2. Trade – USDA's Foreign Agricultural Service – export and food aid programmes. Export Credit Guarantee Programme
 3. Research and Development

AFRICAN CASE - NIGERIAN (CASSAVA)

- Import bill of about US\$2.8 billion for food - beginning of the millennium
- Presidential Initiative on Cassava was created
- Reasons for the choice of cassava?
 - High productivity
 - Low food cost – many people
 - Production and processing mainly women
 - Between 1970-1983 production dropped from 5 million tons to 0.5 millions tons
 - Increasing urbanization – more need for Garri

Objectives!

- Increase cultivated area to 5 million hectares
- Produce 38 million tons of processed cassava for local and export markets
- Organize exports of processed cassava
- Earn about US\$5 billions annually

Stakeholders - implementation

- Federal Ministry of Agriculture and water resources
- Federal Ministry of Commerce and Industry
- These Ministries their agencies
- Local banks
- Producer organizations
- Processor organizations
- Research institutions
- Cassava trader
- Equipment fabricator

Agric Inputs

- Federal and state government - subsidized inputs
- Research and state agencies:
 - Research - high yielding seed varieties
 - Proper agronomic practices
 - Research on marketing and processing of cassava

Impact

- Production rose by 44% - 1999 and 2006
- Private sector investment - increased
- Farm gate price increased by 25%
- In 2006, 76% of the set target was already achieved of area planted
- Yield increased per hectare (10 tons to 12 tons)
- Skills gain - Nigerian Engineers gained – design and development of equipment
- Increase in the number of Cassava based products - Innovation

Impact continues.....

- Increased food security:
 - Cassava production increased by 6%
 - Population grew by 3%
- Incomes for women and children increased:
 - Wealthier women means healthier and better educated children

Determinants of success in this case

- Strong political will:
 - Presidential Initiative
- Involvement of all in the value chain

Lessons for South Africa

Why meet the WTO obligations and/or why not?

- Trade agreement – flexible (contingency measures)
- What makes the flexible?
 1. Benefit approach
 2. Incomplete contract approach

Economists argue:

1. if markets are not perfectly competitive or do not exist
government intervention is needed – second best argument
2. Terms of trade argument
3. Political economy argument

Lessons continues

- Who actually benefit from subsidies?
- What is the impact of subsidies on RSA?

Stiglitz Joseph “American like to think that if poor countries open up their markets, greater prosperity will follow” and further argued that “subsidies hurt developing countries farmers as they lead to higher outputs and lower global prices”

Thank you chair!

