Research Report

Leiden Model United Nations 2015
~ fresh ideas, new solutions ~

Forum: *Economic and Social Council*
Issue: *The effect of agricultural subsidies in MEDCs on small-scale farmers in LEDCs*

Position: *President*

Introduction

Agricultural subsidies are artificially driving down the price of commodities, which result in providing cheap food for consumers in developing countries. Although this may seem positive for those living in Less Economically Developed Countries (LEDCs), low prices are harmful to farmers not receiving the subsidy. These small-scale farmers in LEDCs are disadvantaged by the agricultural subsidies in the More Economically Developed Countries. The livelihoods and food security of more than half the world's population are affected by these subsidies. This is a major issue for developing countries, but a relatively minor issue for the wealthier countries.

Definition of Key Terms

MEDCs
The acronym MEDC stands for More Economically Developed Country. MEDCs are relatively rich countries which are more advanced in development.

LEDCs
The acronym LEDC stands for Lower Economically Developed Country, and is also known as a developing country. LEDCs are relatively poor countries, they have a lower GNP than MEDCs. Compared to MEDCs, LEDCs have inter alia a higher birth rate, higher death rate, low life expectancy, low literacy and high child mortality.

Small-scale agriculture
Small-scale agriculture is the production of crops and livestock on a small piece of land without using advanced and expensive technologies. Unlike large-scale commercial agriculture it plays a dual role of being a source of household food security as well as income from sale of surplus.

Agricultural subsidies
An agricultural subsidy is a governmental subsidy for farmers to increase their income , which enables them to sell their products for a lower price. This influences the international agricultural market. Basic agricultural products such as wheat, corn, cotton , milk, sugar and tobacco are often subsidized.
A country may choose to subsidize the agriculture sector in order to ensure food security in case of war or boycotts by other countries.
In many countries the agricultural sector will disappear without these subsidies,

because of the comparative advantages of other countries.

Comparative advantage
A comparative advantage is the ability of a country, firm or individual to produce goods and/or services at a lower opportunity cost than other countries, firms or individuals. A comparative advantage gives a company the ability to sell goods and services at a lower price than its competitors and realize stronger sales margins.

General Overview

Since the early 1930s, governments of More Economically Developed Countries (MEDCs) around the world have subsidized farmers. Governments subsidize their agricultural sector to protect them from import. In Less Economically Developed Countries (LEDCs), a large percentage of the population is depending on the country's small scale farming. The forms of subsidy vary by country and commodity and they all have different impacts on agriculture and the rest of the economy. The main forms of subsidy include:

1) direct payments to farmers and landlords
2) price supports implemented with government purchases and storage
3) regulations that set minimum prices by location, end use, or some other characteristic
4) subsidies for such items as crop insurance, disaster response, credit, marketing, and irrigation water
5) export subsidies
6) import barriers in the form of quotas, tariffs, or regulations.

Supporters of farm subsidies are saying that agricultural subsidies stabilize agricultural commodity markets, aid low-income farmers, raise too low returns to farm investments, aid rural development, compensate for the monopoly that companies have in farm input supply and farm marketing industries, help ensure national food security and offset farm subsidies provided by other countries.

Economists direct their criticism against farm subsidies on several counts. First of all, farm subsidies transfer money from consumers and taxpayers to relatively wealthy farmland owners and farm operators. Subsidies to farming are often simply subsidised to these relatively wealthy landowners. Second, these subsidies impose net losses on society and have no clear broad social benefit. Third, they are not helping to move toward more open international trade in commodities.
Furthermore, subsidies can lead to overproduction of certain crops in developed countries, causing prices to fall, sometimes below the cost of production.

Among the most controversial aspects of farm subsidy programs in recent decades have been their impacts on international trade. As globalization has increased, farm trade barriers and subsidies that block pursuit of agricultural comparative advantage have turned out troublesome to normal trade relations and trade negotiations. Due to farm subsidy programs, multilateral trade negotiations have become more complex and have threatened broad-based market opening. Agricultural

subsidies can help drive prices down to benefit consumers, but also mean that unsubsidised small-scale farmers in LEDCs have a more difficult time competing in the world market. The effects on poverty are particularly negative when subsidies are provided for crops that are also grown in LEDCs, since LEDC farmers must then compete directly with subsidised MEDC farmers. Generally, developing countries have a comparative advantage in producing agricultural commodities, but low crop prices encourage developing countries to be dependent buyers of food from wealthy countries. So the local small-scale farmers, instead of improving the agricultural and economic self-sufficiency of their home country, are forced out of the market and perhaps even off their land.

An example is the cotton subsidies of the United States. Some of the poorest countries in West-Africa have traditionally been cotton exporters. In 2001 and 2002, they faced a world price of cotton ranging from thirty-five cents to forty-five cents per pound. Meanwhile, cotton growers in the United States, the world's largest exporter, received seventy cents or more per pound from the subsidies plus the market price. Economists have estimated that U.S. exports of cotton would have been substantially lower, and the world price of cotton 10 to 15 percent higher, if there had not been cotton subsidies in the United States during this period.

In 1995, the Agreement on Agriculture came into force. This agreement was made by the World Trade Organization (WTO) to establish a fair and market-oriented agricultural trading system. It includes giving domestic support, the reduction of tariffs and the reduction of export subsidies. It also takes into account non-trade concerns, including food security and the need to protect the environment. Furthermore the agreement contains special provisions on developing countries.
After the agreement took effect, world trade patterns have changed. Subsidies that wealthy countries give their farmers and agribusinesses remained high. A few multinational agribusinesses have increased their domination of global trade and food distribution. Speculation in commodity futures markets is creating volatile price movements that do not reflect true changes in demand and supply.
This has had a negative effect on LEDCs. There are a lot of small-scale farmers in LEDCs and they do not benefit from price increases and lose out when prices decline with import surges. It is also bad for poor consumers, who face much higher prices for their food. In many developing countries this has created two linked problems: food insecurity because of high and volatile food prices, and livelihood insecurity of the small-scale farmers.
LEDCs are trying to tackle this problem, for instance by introducing measures to make food affordable or by encouraging domestic food production, particularly through supporting small farmers. However, some of such measures are against WTO rules. This is because of the fact that the rules allow higher levels of subsidies and protection for rich countries compared with developing ones. Therefore, developing countries trying to ensure food security may need more flexibility than global trade rules allow, and it is important to gear for the specific needs of developing countries.

Farm subsidies became a major issue for many LEDC participants in trade negotiations. They pointed out that the price-depressing effects of the farm subsidies of MEDCs disadvantaged their small-scale farmers.

Major Parties Involved

World Trade Organisation (WTO)
The World Trade Organization (WTO) is an intergovernmental organization which regulates international trade. The WTO deals with regulation of trade between participating countries by providing a framework for negotiating trade agreements. The aims of the WTO are to promote international trade, to settle trade disputes and to remove all trade barriers. The Agreement on Agriculture and other agreements established by the WTO have big influence on agricultural trade. The WTO is the key forum for nations to pursue reforms of global agricultural policies.

United States of America and the European Union
The agricultural sector in the United States and the European Union is highly subsidized, and they play a big role in agricultural trade.

South Korea, Taiwan and Japan
Governments of these countries shifted from penalizing farmers to subsidizing them and protecting them from imports. These countries now have among the highest subsidy and protection rates in the world.

Less Economically Developed Countries
These countries are experiencing disadvantages from the agricultural subsidies in the More Economically Developed Countries. A link to a list of LEDCs can be found in the appendix.

Timeline of Events

1930s	MEDCs start to subsidize their farmers
January 1 1995	Agreement on Agriculture

Previous Attempts to solve the issue

The Agreement on Agriculture was actually an attempt to stabilize the agricultural trade market. However, this agreement did not turn out as well as it was intended. As already mentioned above, some multinational agribusinesses have even increased their domination of global trade and food distribution. Subsidies for farmers and agribusinesses in MEDCs remained high and speculation in commodity futures

markets is creating volatile price movements that do not reflect true changes in demand and supply.

Possible Solutions

Support small-scale farmers
Giving small-scale farmers financial aid would stabilize the trade market and would partly remove comparative advantages.

Reduce agricultural subsidies
A reduction of the agricultural subsidies in MEDCs will reduce the comparative advantages of MEDCs. The impacts would be a modest improvement of incomes of small-scale farmers in LEDCs. It would begin a process of relying more on trade rather than aid for economic growth. Moreover, the improvement of farm prices can make a measurable difference to the living standards of the very poor.

Also, taxpayers in rich countries would gain in two ways: by paying lower subsidies to their farmers and by paying lower subsidies to people in poorer countries.

Appendix

http://icqi.org/developing-countries-list/

Bibliography

http://www.econlib.org/library/Enc/AgriculturalSubsidyPrograms.html
http://freakonomics.com/2008/07/24/the-illogic-of-farm-subsidies-and-other-agricultural-truths/
https://globalawareness1212.wordpress.com/what-is-ledc/
http://www.ictsd.org/downloads/2012/08/changing-perspectives-small-scale-farmers-markets-and-globalisation-murphy-iied.pdf
http://www.investopedia.com/terms/c/comparativeadvantage.asp
http://www.jstor.org/stable/4403965?&seq=1#page_scan_tab_contents
http://www.ncpa.org/pub/ib126
http://www.ngopulse.org/article/small-scale-agriculture
http://www.theguardian.com/global-development/poverty-matters/2013/nov/27/farming-subsidies-distort-advantages-food-insecurityhttp://www.ucsusa.org/sites/default/files/legacy/assets/documents/global_warming/UCS_DriversofDeforestation_Chap9_Small-scaleFarming.pdf
https://www.wto.org/english/thewto_e/whatis_e/tif_e/dev1_e.htm
https://www.wto.org/english/tratop_e/agric_e/ag_intro01_intro_e.htm