Research Report

Leiden Model United Nations 2015
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Forum: *Second committee of the general assembly*
Issue: *The effect of agricultural subsidies on the ability of farmers in LEDCs to compete on the global market*

Position: *Chair*

Introduction

Agricultural subsidies are very common in many western countries. Especially in the EU and the USA scaling back these subsidies has proven to be very difficult, as a lot of protest is met from both the agricultural industry and many politicians. Over the past decades agricultural subsidies have however become very controversial, in part because of their complex effect on national and global markets, but also because of their mainly political origins. Many agricultural subsidies were established after great amounts of lobbying from groups representing the interest of the multi-billion dollar agricultural sector.

Definition of Key Terms

More Economically Developed Country (MEDC)
An MEDC is a country with a relatively high level of wealth.

Less Economically Developed Country (LEDC)
An LEDC is a country with a relatively low level of wealth.

Subsidy
A subsidy is defined as any form of financial aid or support extended to either an economic sector or institution by a government or other organisation to keep the price of a product or service low or to help a business or organization to continue to function.

Direct subsidy
A direct subsidy is a subsidy that involves direct financial aid typically in the form of a direct payment

Indirect subsidy
An indirect subsidy is a subsidy that does not have the form of direct financial aid or cash payment. Direct subsidies most often have the form of tax reductions.

Agribusiness
The business of agricultural production; including crop production, distribution,

processing, breeding, seed supply and marketing and sales of any and all agricultural products.

Developing country
A developing country is defined as any country having a standard of living or level of industrial production below the level possible with financial or technical aid; also a country that is not yet highly industrialised. It may also be described as a country whose main income comes from agriculture that is seeking to become more advanced economically and socially.

The Food and Agricultural Organization (FAO)
The FAO of the United Nations is one of the leading parties involved in combating food scarcity. The FAO serves both developed and developing countries as a forum for all nations to negotiate agreements and policy. The FAO consists of 194 member states, and also acts as an independent source of knowledge and information

General Overview

Developed nations such as the USA, Japan and many EU member states annually spend billions of dollars on direct and indirect farm subsidies. These subsidies are meant to keep the price of agricultural products low and to ensure countries do not become too dependent on agricultural import from other nations. Many supporters of agricultural subsidies state that the subsidies are also needed to ensure agribusinesses in developed countries are able to function properly whilst following the large amount of environmental regulations in these countries. Some proponents also say that because of the higher costs of production factors in MEDCs in comparison to the costs in LEDCs agricultural subsidies are needed to ensure a fair position on the global market for agribusiness in these nations.

Unfortunately there are also a number of downsides to agricultural subsidies. One of these downsides is the fact that because of agricultural subsidies, farmers in MEDCs have an unfair advantage over farmers in LEDCs on the global market. This is due to the fact that LEDCs do not have the financial means to provide the same agricultural subsidies that farmer in MEDCs are given. (could you complete this argumentation? This is why they cannot compete on the global market, and would thus explain the issue)

The unfair advantage that agricultural subsidies create lead to a number of negative effects for developing nations and LEDCs. One of the main negative effects is that of international dumping; a process in which subsidized farmers are able to "dump" low-cost agricultural goods on foreign markets that the local un-subsidized farmer cannot compete with. In many cases this leads to a loss of wealth, profits, jobs and speed of economical development for developing nations. Especially the fact that developing nations have a much larger agricultural sector that is much more important to their economies contributes to the negative effect that subsidies have on economic

development in developing nations.

The economically least developed nations are even more vulnerable because in these nations an even higher portion of their GDP, approximately 36.7% depends on agriculture. Subsidised agriculture in the developed world has been argued to be one of the greatest obstacles to economic development in the developing world. In 2013 the International Food Policy Research Institute (IFPRI) estimated that the impact of food subsidies costs developing countries $24 billion in lost incomes and a displacement of more than $40 billion from net agricultural exports. In for example the case of Africa a 1% increase in total agricultural exports could lead to a lift of its GDP by $70 billion, nearly five times as much as the region is provided in foreign aid. (could you cite your source in a note?)

As a whole agricultural subsidies lead to tremendous losses for developing nations and make it very hard for these nations and also LEDCs to develop economically. There are a number of MEDCs that are already fighting for the liberalisation of global agricultural trade and the abolishment of agricultural subsidies. However the EU and the USA are still not prepared to do away with agricultural subsidies yet.

Major Parties Involved

Cairns Group
The Cairns Group of fair trading nations is an interest group consisting of 20 agricultural exporting companies seeking to liberalize global trade in agricultural produce, especially aiming to abolish export and other agricultural subsidies. The group consist of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, Uruguay, and Vietnam.

EU: Common Agricultural Policy
The Common Agricultural Policy (CAP) is the agricultural policy of the EU. In 2010 the CAP budget is roughly 42% of the entire EU budget. Direct aides and other market related expenditures make up nearly half of the CAP budget.

World Trade Organization (WTO)
As the leading entity on international trade and trade agreements the WTO plays a pivotal role in ensuring global free trade and fighting unfair market competition.

International Food Policy Research Institute (IFPRI)
The IFPRI is an international research centre for research regarding the effects of national agricultural and food policies on the broader development pathway of nations.

United States of America
As one of the largest world economies the USA currently pays around $20 billion per year in direct subsidies. The largest part of these subsidies (35%) is given to feed grains

such as corn.

Developing nations
Developing nations are hugely impaired in their economical growth by the effects of Agricultural subsidies. Most of these nations are not financially capable to provide the same agricultural subsidies to their farmers as MEDCs do.

Western Agribusiness
The Western Agribusiness profits enormously from agricultural subsidies given to them and have very strong lobby groups to ensure these subsidies are not taken away. Large agricultural companies spend millions of dollars annually to put pressure on politicians not to abolish subsidies provided by the government.

Farmers in LEDCs
Many farmers in LEDCs see loss of profit and sometimes are even pushed out of the agricultural sector because of unfair global competition and "dumping".

Timeline of Events

1962	The common agricultural policy (CAP) is introduced
1984	New Zealand's labour governments ends all farm subsidies
August 1986	The Australian government spearheaded the formation of the Cairns Group. With originally 14 members, the Cairns group was originally a response to the growing number of trade subsidies that the European Union and the USA started to provide
November 2001	The Doha round of the multilateral trade negotiations facilitated by the WTO commence
May 2007	Sweden becomes the first EU country to take the position that all EU farm subsidies should be abolished, with an exception for those related to environmental protection
July 2008	The Doha rounds come to a definitive stand still over disagreements on key issues such as agricultural tariffs and subsidies

Previous Attempts to solve the issue

One of the most ambitious attempts to solve the issue has been the Doha development round, a round of international trade negotiations launched by the WTO. The Doha rounds included negotiations in Doha (2001), Cancun (2003), Geneva (2004), Paris and Hong Kong (2005), Geneva (2004, 2008) and Potsdam (2007). Unfortunately the negotiations have been highly contentious and have not provided sufficient solutions to the problem. The negotiations eventually broke down during negotiations in July of 2008, over disagreement concerning agricultural tariffs, barriers and subsidies. Unfortunately there has been very little further progress.

Other than the Doha rounds there have been many attempts to reform specific countries agricultural subsidy policies, unfortunately many of these attempts have failed due to political pressure.

Possible Solutions

The past decade has seen many possible solutions fail to solve the issue. Any possible solution should seek to find common ground for nations to abolish or lighten agricultural subsidies in place. It is important for agricultural subsidies to be taken away gradually so as to ensure companies depending on them have sufficient time to change their business to be able to deal with such a change.

As discussed in the rest of this research report there are also many nations in favour of agricultural subsidies because of their possible positive effects on the economy and the price of agricultural products. These nations may be in favour of solutions that would minimise the negative effects of agricultural subsidies instead of the abolishment of agricultural subsidies as a whole.

Another part of a possible solution for nations against agricultural subsidies is that of public awareness. By creating more public awareness of the negative effect agricultural subsidies have on the economies of developing nations, the general public in MEDCs may be able to persuade politicians and their own government to take actions to scale back agricultural subsidies and/or work more actively to minimise the negative effects these subsidies have.

Useful documents

http://www.fao.org/docrep/005/y4671e/y4671e08.htm#fnB52

http://www.ifpri.org/strategic-research-area/improving-markets-and-trade

http://www.reformthecap.eu/blog/sfp-phase-out-options

https://www.wto.org/english/thewto_e/whatis_e/tif_e/doha1_e.htm

http://cairnsgroup.org/Pages/default.aspx