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Export Subsidies: an Endangered Species

Beyond the WTO Hong Kong Ministerial

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The Uruguay Round Agreement on Agriculture (URAA) which has governed international trade in agricultural products since 1995, bans export subsidies because they distort world farm trade.

However, 25 Members of the World Trade Organization (WTO), mostly rich countries, are still able to use such subsidies for the farm products they specified in 1995, whereas export subsidies on industrial products are banned without exception—a shocking example of asymmetrical treatment in favor of rich countries. The European Union (EU) is the largest user of such subsidies (nearly 90% of the total amount of export subsidies notified to the WTO), a long way ahead of Switzerland (4.3%), Norway or the United States (1.5%).

On August 1, 2004, WTO Members agreed to eliminate all export subsidies, and to discipline measures having equivalent effects, such as export credits, state trading enterprises, and food aid. The December 2005 Hong Kong Ministerial has confirmed these commitments and set December 2013 as the expiration date for implementation. However, these commitments are conditional on an agreement on all the topics (agriculture, industry and services) currently negotiated in the Doha Round, a still distant goal.

1. European Export "Refunds": a Substantial Decline

Since the beginning of the 1970s, export refunds (export subsidies in EU jargon) have been used to fill the gap between EU support prices and world prices. Without refunds, excess supply generated by the high support prices guaranteed by the Common Agricultural Policy (CAP) could not be exported to world markets. The European Commission grants such refunds in a discretionary way, aiming to stimulate European exports towards some countries or areas.

Since 1995, the EU has already reduced its refunds from 7.7 billion euros in 1995 to 5.6 billion in 2000 and then to 3.7 billion in 2003—for a total cost to European taxpayers of 45.8

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billion euros for the entire period 1995-2003.[2] The conclusion will show that this decline will be positive only if one condition is fulfilled (not yet the case).

As shown by Figure 1, France, the largest European food exporter, is the main recipient of these refunds, with more than 21% of the EU total. Of course since 1995, refund amounts have decreased, sharply for cereals and bovine meat, moderately for milk and nil for sugar (this will change with the December 2005 sugar reform). Figure 2 shows the distribution by product of the export refunds paid by French Intervention Offices (IOs) in 1995 and 2003.[3]

Figure 2 shows a partial view of the situation. French operators get more than the refunds paid in France because a Member State IO pays refunds to any exporter clearing through customs on that Member. For example, in 2002, the French dairy firm Prolac received 604,500 euros for its exports from the Netherlands[4] and 532,000 euros for those from Belgium.[5]

The ports of Antwerp and Rotterdam explain the very high amounts of refunds paid by Belgium and the Netherlands—27% of the EU total. As shown by Table 1, French firms, essentially for sugar and dairy products, received in 2003 nearly a quarter of Belgian refunds—an amount equivalent to 15% of all the export refunds paid by France.[6] This effect is even bigger in some sectors. For instance in 2003, the Belgian IO paid more than 100 million euros to French sugar firms, while the French IO paid, for the same sector, 222.3 million euros (unknown refunds paid by the Netherlands should also be added to these figures).

The overlapping of intra-EU payments and the heterogeneity of national IOs' competences create management and control costs on the top of the economic distortions induced by the CAP.

2. Export Refunds Paid to French Firms Are Highly Concentrated

Export refunds paid by the Belgian IO to French firms are very concentrated. From 2002 to 2004, two operators - Tereos (from Union SDA and Beghin-Say) and Saint Louis Sucre - received more than 200 million euros, i.e., more than half the total amount paid by Belgium to

[2] Cf. Hoekman B. & Messerlin P., 2005. *Removing the Exception of Agricultural Export Subsidies*, in. Anderson K. et Martin W., ed., *Agricultural Trade Reform and the Doha Development Agenda,* World Bank, Washington DC.

[3] French export refunds are paid by seven IOs : Fonds d'intervention et de régularisation du marché du sucre (FIRS), Office national interprofessionnel des céréales (ONIC), Office national interprofessionnel des fruits, des légumes et de l'horticulture (ONIFLHOR), Office national interprofessionnel des oléagineux, protéagineux et cultures textiles (ONIOL), Office national interprofessionnel des viandes, de l'élevage et de l'aviculture (OFIVAL), Office national interprofessionnel des vins (ONIVINS), Office national interprofessionnel du lait et des produits laitiers (ONILAIT).

[4] The Dutch NGO Evert Vermeer Foundation has obtained from the the Dutch government the disclosure of CAP recipients in the Netherlands.

[5] European IOs use distinct reference periods. Belgian and French IO expenses run from January 1st to December 31 while Dutch IOs run from October 15 of a year to October 14 of the following year (in accordance with EAAGF accounting procedures).

[6] Export refunds represent the major part of farm subsidies paid in Belgium and in the Netherlands (44 % in both countries against only 8 % in France). In late 2005, an exhaustive and nominative list of refund recipients in Belgium was published by the Belgian IO (BIRB).

French firms (cf. Table 1). The four major beneficiaries received more than 86% of export refunds paid by Belgium to French firms, the eight major ones more than 98%.

Requests have been lodged by Groupe d'Economie Mondiale at Sciences Po (GEM) to French IOs in order to obtain similar information to that provided by the Belgian IO. All IOs contacted, except one, refused to provide such data, citing the need to protect statistical secrets (only a few firms benefit from the export refunds).

This motive is astonishing for three reasons. Firstly, all the major exporters—hence potential beneficiaries—are well known: Doux, LDC-Le Gaulois, Arrivé (Maître Coq) for poultry; Socopa, Bigard-Charal, Terrena-Soviba for bovine meat; Socopa, Cooperl-Hunaudaye, Bernard for pork, etc. Secondly, using the shield of statistical secret when public subsidies are involved means sacrificing any assessment of the relevant public policies - hence to accept the possible capture of public decisions by private interests. Thirdly, export refunds can create market entry barriers, strengthening the high level of concentration that already exists in those sectors. Detailed and nominative information on refund beneficiaries is the key for assessing possible anti-competitive consequences.

ONILAIT, the second largest French IO (based on the amount of refunds paid) has furnished GEM with the distribution of export refunds (exhaustive but anonymous) for the last year available (2004). This IO paid more than 156 million euros on refunds,[7] half of it to only four firms. This result is to be compared with the fact that four French firms account for 63% of total dairy sector turnover. Table 2 puts side by side data from ONILAIT and turnover data for the largest French dairy firms from the *Revue Française Laitière*. The parallel between the high concentration of the dairy sector and the distribution of export refunds is striking.

3. Export Refunds: Subsidies for Whom?

Do refunds constitute subsidies granted to their direct recipients? This is a key question because a positive answer would show that agri-food firms, not European farmers, are the main beneficiaries of the CAP. To answer this question, we need to keep in mind that refunds fill up the gap between the high farm prices in Europe and the lower world prices, a gap generated by the CAP which induces European farmers to produce too much and at too high a cost, compared with what would prevail in an open economy.

When farm products are exported unprocessed (wheat, raw sugar, etc.), refunds are necessary to induce exporters to buy European agricultural commodities and sell them in world markets. Without such refunds, CAP-generated excess supply of unprocessed farm products would have to be stocked in Europe, or possibly destroyed (as happened in the past). These refunds are thus compensation to the exporters, and (hidden) subsidies to farmers induced to produce too much and too expensively.

Similarly, as the CAP increases the price of farm commodities necessary for producing processed food (biscuits, powder milk, etc.), refunds compensate the extra costs imposed on agri-food firms which, without such refunds, would reduce the scale of their European operations. For instance, Nestlé, the largest world agri-food firm, produces in Europe and

[7] In 2004, the amount of export refunds paid by ONILAIT fell by 25 % in comparison with the previons year because of the decrease in French exports, handicapped by the dollar's weakness, and because of the increase in French exports from the Netherlands (and therefore in payments by the Dutch IO).

exports products containing milk, sugar and cereals benefiting from refunds paid by one, two or three IOs according to the Member State involved.[8] Refunds received by Nestlé in France (less than 9 million euros in 2005, compared to 15 million in 2004 and 22 million in 2000) are compensations for the excessive prices of European farm commodities (milk, sugar and cereals) which are used in the production processes. The real beneficiaries are, once again, farmers.

That refunds are mere compensations paid to large multinationals or small producers of agri-food, and to exporters of unprocessed farm products (because all of them use farm products more costly that those available in the world markets) is a conclusion that requires one caveat. When refunds are paid to exporting and food processing firms which have structural links with farmers—because they are cooperatives or own farm land—they can then constitute (in totality or, more likely, in part only) subsidies to the firms concerned.

Conclusion: A Major Political Interest for Europe

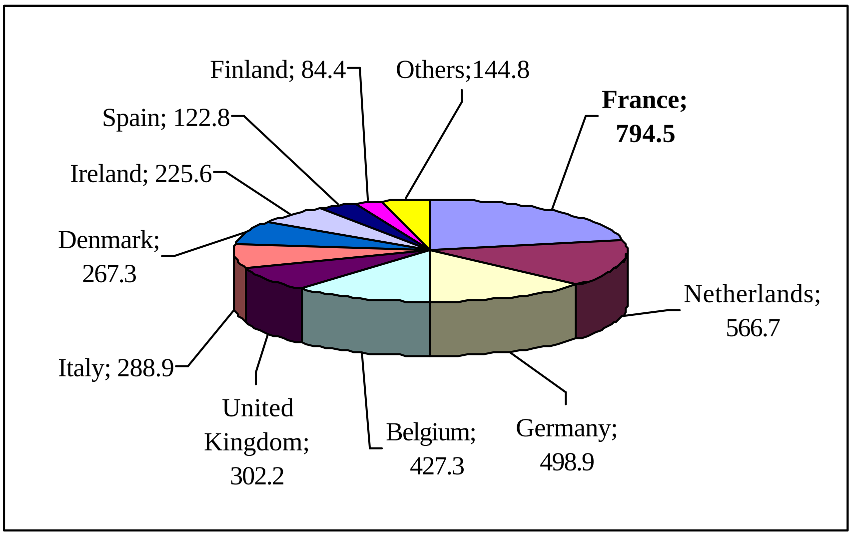
The very modest outcomes of the WTO Ministerial in Hong Kong make the year 2006 crucial. A WTO agreement is essential, in particular for Europe.

The reduction of the EU export subsidies (and of the equivalent measures used by the other WTO Members) as well as their elimination by 2013 will bring an increase in economic welfare only if the EU (and the other WTO Members) open their agricultural markets by reducing substantially their tariffs and internal support. Without such market opening, net food-importing countries will be hurt to the extent that they will need to import food products that are less heavily subsidized, and hence more expensive.

This deterioration will be particularly marked among countries located south of the Mediterranean Sea and in the Arabian Peninsula which are, almost all of them, large net food importing countries. Therefore, a deep CAP reform represents not only an economic interest, but also a crucial political concern. And this matter will not wait in the wings until 2013.

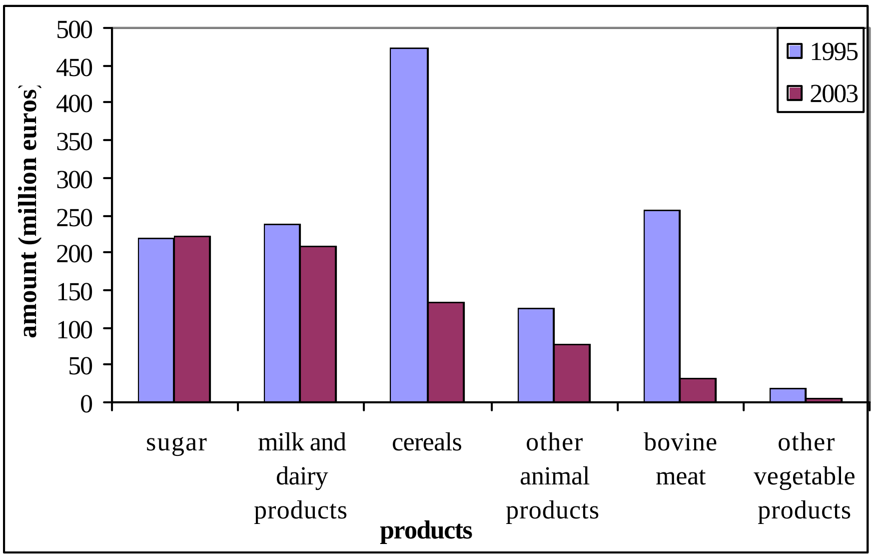
[8] To know how much Nestlé's subsidiaries received in countries where CAP beneficiaries have been disclosed by national governments, please refer to the following website: www.farmsubsidy.org.

Figure 1.
Distribution of Export Refunds between EU Member States (million euros), 2003



Source : *French Ministry of Agriculture and Fisheries.*

Figure 2.
Evolution of Export Refunds Paid in France by product, (million euros), 2003



Source : *French Ministry of Agriculture and Fisheries.*

Table 1.
French Beneficiaries of Export Refunds
and "Other Measures" Paid by BIRB, 2002-2004

French beneficiaries	amount received 2002 (euros)	amount received 2003 (euros)	Amount received 2004 (euros)	amount received 2002-2004 (euros)	share of the total amount (%)
Tereos SA (Béghin-Say)	74 745 986	43 937 638	6 644 783	**125 328 407**	*33.00%*
Saint Louis Sucre SNC	34 018 986	20 002 943	34 614 610	**88 636 539**	*23.34%*
Bauche SA	32 995 181	27 037 640	7 585 270	**67 618 091**	*17.81%*
Rumi SARL	12 057 246	14 144 074	18 240 369	**44 441 689**	*11.70%*
Sucre Union SA	1 196 342	7 478 326	13 387 421	**22 062 089**	*5.81%*
Sucden	-	6 165 030	8 191 981	**14 357 011**	*3.78%*
Lactalis Industrie SNC	2 295 377	2 692 463	4 183 646	**9 171 485**	*2.42%*
Société d'Etudes et de Commerce	1 161 977	530 622	-	**1 692 599**	*0.45%*
Delacre Biscuits NV	745 228	331 329	458 496	**1 535 052**	*0.40%*
Charton SA	1 174 175	45 021	-	**1 219 196**	*0.32%*
France International Trade	493 371	231 922	330 400	**1 055 692**	*0.28%*
Prolac SA	532 000	-	212 140	**744 140**	*0.20%*
Canelia	344 430	114 357	250 105	**708 892**	*0.19%*
Compagnie Internationale SA	162 562	-	-	**162 562**	*0.04%*
Malteurop	137 008	-	-	**137 008**	*0.04%*
Cie Continentale SA	134 000	-	-	**134 000**	*0.04%*
Sonelac SA	110 858	11 250	-	**122 108**	*0.03%*
Grandes Malteries Modernes	97 625	15 537	3 770	**116 932**	*0.03%*
2apro SARL	-	67 544	24 901	**92 445**	*0.02%*
Soufflet Négoce	86 772	-	-	**86 772**	*0.02%*
Servais SA	-	30 475	55 650	**86 125**	*0.02%*
CIV International SA	-	56 776	-	**56 776**	*0.01%*
Elvir SAS	16 904	9 108	28 793	**54 805**	*0.01%*
Dreyfus Louis Negoce NV	-	36 480	-	**36 480**	*0.01%*
Francexport	-	-	24 000	**24 000**	*0.01%*
Chocodif SA	15 678	-	-	**15 678**	*0.00%*
Granit Négoce SA	14 567	-	-	**14 567**	*0.00%*
Lecureur SA	-	14 562	-	**14 562**	*0.00%*
Angliss International SA	-	1 200	-	**1 200**	*0.00%*
Total	**162 536 273**	**122 954 296**	**94 236 333**	**379 726 902**	***100.00%***
Share of the amount received by French recipients in the total paid by BIRB	*28.2%*	*22.9%*	*17.3%*	*22.9%*	

Source : Bureau d'intervention et de restitution belge (BIRB), octobre 20, 2005 for the civil year 2004 ; november 24, 2005 for the civil years 2002 and 2003. Main disbursements of BIRB concern export refunds. But this Belgian agency also manages "other measures" such as agricultural commodities repurchase, stocking or selling towards transformation, chemical and animal-food industries.

Table 2.
Rankings of the 25 Major French Beneficiaries of Export Refunds Paid by ONILAIT and of the 25 Largest French Dairy Firms, 2004

rank	export refunds paid (thousand euros)	share of the total paid (%)
1	**25 005**	*16.00%*
2	**20 545**	*13.15%*
3	**17 006**	*10.88%*
4	**14 185**	*9.08%*
5	**9 632**	*6.16%*
6	**7 942**	*5.08%*
7	**5 840**	*3.74%*
8	**5 615**	*3.59%*
9	**5 583**	*3.57%*
10	**4 663**	*2.98%*
11	**4 096**	*2.62%*
12	**4 058**	*2.60%*
13	**3 600**	*2.30%*
14	**3 558**	*2.28%*
15	**3 509**	*2.25%*
16	**3 218**	*2.06%*
17	**2 766**	*1.77%*
18	**2 491**	*1.59%*
19	**2 289**	*1.46%*
20	**1 462**	*0.94%*
21	**1 236**	*0.79%*
22	**895**	*0.57%*
23	**871**	*0.56%*
24	**871**	*0.56%*
25	**465**	*0.30%*
26-104	**4 877**	*3.12%*
Total	**156 278**	*100.00%*

Source : ONILAIT, 2005.

rank	dairy firms and cooperatives	turnover (million euros)	of which out of France (million euros)*
1	Danone**	6 914	5 122
2	Groupe Lactalis	5 675	2 280
3	Bongrain	4 128	2 204
4	Sodiaal	2 666	507
5	Fromageries Bel	2 025	1 359
6	Entremont	1 094	414
7	Groupe 3A	862	240
8	Nestlé France	800	nc
9	Senoble	705	229
10	Eurial Poitouraine [C]	509	94
11	Unicopa	506	155
12	Novandie	500	nc
13	Coopagri Bretagne L[C]	444	nc
14	Glac [C]	428	16
15	Groupe Ermitage [C]	324	38
16	Laiterie Val d'Anc. [C]	277	41
17	Groupe Even	262	30
18	Triballat Noyal	260	11
19	Prospérité fermière [C]	250	138
20	Laiterie Triballat SA	236	25
21	M L du Cotentin [C]	211	34
22	Célia SA	210	197
23	Fléchard SA	187	54
24	Isigny Sainte-Mère [C]	155	55
25	SILL	125	60

** Subsidiaries and exports achieve the turnover realized outside France.*
*** Data in relation to Danone are only those of the "fresh dairy product" group.*
[C] *Cooperatives.*

Sources : La Revue laitière française n°653 (July-August 2005), Danone Annual Report.