U.S. Agricultural Dumping: A Pattern of Unfair Trade

Swimming Against the Tide: Mexico's quest for food sovereignty in the face of U.S. agricultural dumping, Appendix 2, by Timothy A. Wise, Institute for Agriculture and Trade Policy Report, May 2023.
https://www.iatp.org/sites/default/files/2023-05/swimming-against-tide.2.pdf

IATP has documented the extent of dumping of several key commodity crops for more than twenty years. The General Agreement on Tariffs and Trade (GATT), the precursor to the World Trade Organization and the agreement on which most current trade law is based, provides two definitions of dumping.[1] Article VI of GATT 1994 states that a product will be considered as being dumped if it is "introduced into the commerce of another country at less than its normal value...." The first method of determining dumping is the more commonly understood:

"...if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country."

In other words: exporting at prices below the domestic price for the same product. For example, exporting surplus dairy purchased from farmers at a profitable price to a foreign country with the surplus sold at a discount. That practice is considered unfair trade because it is a proven way for exporters to gain market share in a foreign market by underselling local producers.

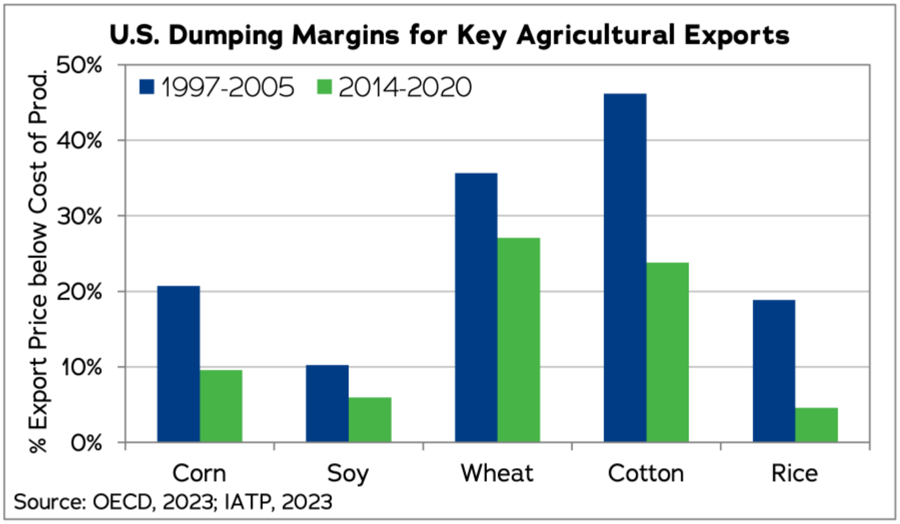
Article VI provides a second definition of dumping for cases in which the domestic price is too distorted to provide a useful reference. Prices distorted by large subsidies qualify under this definition:

"...the margin of dumping shall be determined by comparison with...the cost of production in the country of origin plus a reasonable amount for administrative, selling and general costs and for profits."

With U.S. agricultural prices distorted by government policies (not to mention high levels of market concentration), it is reasonable to apply the second definition of dumping to U.S. exports to Mexico. The U.S., in an anti-dumping case against Canadian dairy exports, used this definition, and it was upheld by the WTO's appellate body. The same decision recognized the use of average costs of production for comparison purposes.[2]

IATP founder Mark Ritchie, working with agricultural economist Gigi DiGiacomo, developed a methodology for calculating dumping using this definition of exporting at below cost. They relied on data from the U.S. Department of Agriculture (USDA) and the Organization for Economic Cooperation and Development (OECD) average production costs, prices at the farm and at the point of export, input subsidies and estimated transportation costs for wheat, rice, corn, soy and cotton.[3] IATP has regularly updated these figures to identify periods of U.S. export dumping.[4]

Two such periods, 1997-2005 and 2014-2020, had a particular impact on Mexico because of the surge of U.S. agricultural exports that flowed into Mexico after NAFTA went into effect in 1994 and after the 1996 Farm Bill gutted the last remaining supply-management policies.



Note that in this type of dumping, farmers in the exporting country are paid prices for their crops that do not cover the costs of production. Government subsidies make up some of the losses for some farmers, but U.S. agricultural subsidies are not the primary cause of agricultural dumping. Instead, industrialized agriculture exhibits a natural tendency toward overproduction, which results in low prices that have proven economically disastrous, such as during the Great Depression.

For a period of time after the New Deal, U.S. leaders established so-called supply-management policies to keep production in rough balance with demand. Those policies took some land out of production and ensured profitable prices for farmers. Starting in the 1970s, such policies began to be eroded, in part to encourage production for export. By 1996, the farm bill dubbed the Freedom to Farm Act eliminated supply management. The immediate surge in overproduction and low prices generated the policy response we still see today: government subsidies making up for some farmers' losses in a market that favors maximum production.[5]

Agricultural policies (including subsidies) that encourage overproduction of commodity crops such as corn drive prices below the costs of production. The main beneficiaries are not U.S. farmers, who see prices depressed by such policies, but agribusiness firms, which benefit from maximum sales of their inputs, on the production side, while others cash in on farm goods sold below the costs of production.[6] This has fed the rise of industrial livestock firms that get an "implicit subsidy" for their feed costs. Where before they paid a government-supported price for their corn and soybeans, now they get substantial discounts with the government picking up the cost of keeping farmers solvent.[7]

Such so-called safety-net policies do not mask the economic impact of chronically low U.S. crop prices. USDA recently presented the following graph to show that subsidies lifted farm incomes into the black in many years. But the remarkable thing about the graph is that the lower line measures net farm income without subsidies for all government-supported crops, and it is negative in all but seven of 40 years since 1980. The only respite came between 2007 and 2013, which we can attribute to the ethanol boom boosting demand for corn, the financial crisis adding to food-price spikes and a drought in 2011 that cut U.S. production. Even with government payments, represented by the top line, net farm income is still negative in 25 of the 40 years. This illustrates the chronic nature of U.S. overproduction of key commodity crops in the absence of policies to better manage supply.

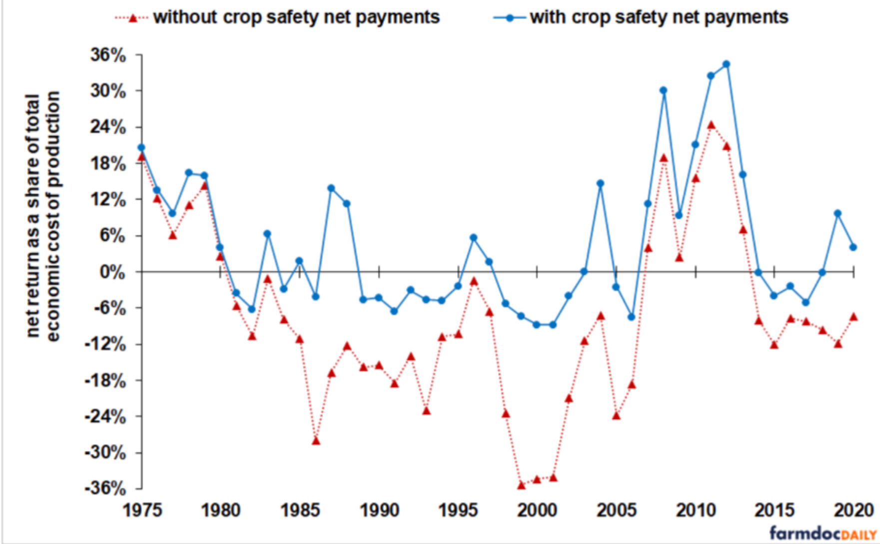
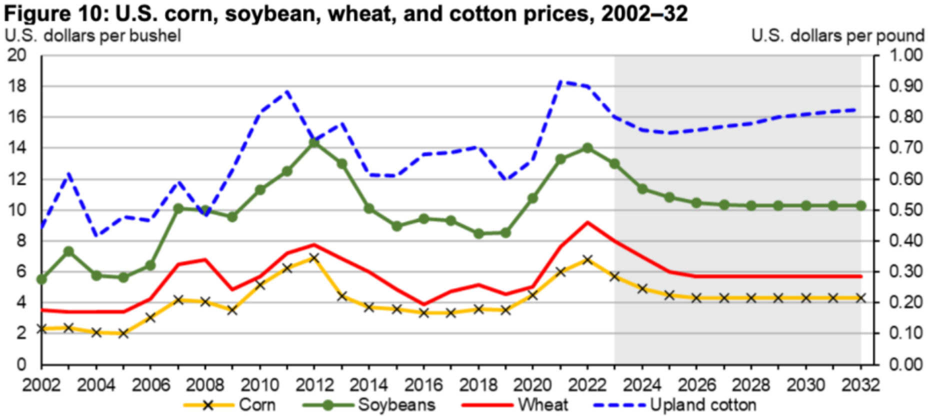


Figure 1. Aggregate Net Return as a Share of Aggregate Total Economic Cost of Producing Barley, Corn, Oats, Cotton, Peanuts, Rice, Sorghum, Soybeans, and Wheat, US, 1975-2020 Crop Years

Despite the current jump in crop prices in 2021 and 2022 with the pandemic disruptions and the Russia-Ukraine war, dumping is likely to resume in the future. As the following graph shows, USDA's long-term projections for key crops suggest a return to low crop prices.

Figure 10: U.S. corn, soybean, wheat, and cotton prices, 2002–32



Note: The shaded region represents the projected period.
Source: USDA, Interagency Agricultural Projections Committee, as of November 7, 2022. Short-term projections are updated monthly in the *World Agricultural Supply and Demand Estimates*.

Endnotes

[1] GATT 1994, Article VI: http://www.wto.org/english/docs_e/legal_e/19-adp.pdf

[2] "Canada – Measures Affecting the Importation of Milk and the Exportation of Dairy Products: Second Recourse to Article 21.5 of the DSU by New Zealand and The United States," Report of the Appellate Body (AB-2002-6), WORLD TRADE ORGANIZATION (WT/DS103/AB/RW2 and WT/DS113/AB/RW2 (20 December 2002), para. 80. Source: GATT 1994, Article VI: http://www.wto.org/english/docs_e/legal_e/19-adp.pdf.

[3] DiGiacomo G (1998) U.S. Agricultural Exports Dumping Monitor 1998. Minneapolis: Institute for Agriculture and Trade Policy.

[4] "WTO Agreement on Agriculture: A Decade of Dumping," Sophia Murphy, Ben Lilliston and Mary Beth Lake, Institute for Agriculture and Trade Policy, December 2005.

[5] For a detailed analysis of U.S. farm policies, see Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide, Daryl Ray and Daniel de la Torre Ugarte, et al. Agricultural Policy Analysis Center, University of Tennessee, 2003.

[6] "Identifying the Real Winners from U.S. Agricultural Policies," Timothy A. Wise, *GDAE Working Paper No. 05-07*, December, 2005.

[7] "Feeding at the Trough: Industrial Livestock Firms Saved $35 billion From Low Feed Prices," by Elanor Starmer and Timothy A. Wise, *GDAE Policy Brief 07-03*, December 2007.