

Impact of the United States' and the European Unions' Agricultural Subsidies on African Countries



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List of Abbreviations

AAA	Agricultural Adjustment Act
ACP	African, Carrabean and Pacific States
AGOA	African Growth and Opportunity Act
CAP	Common Agricultural Policy
CCC	Commodity Credit Corporation
DAC	Development Assistance Committee
DEIP	Dairy Export Incentive Program
EAC	East African Community
EPA	Economic Partnership Agreement
EU	European Union
EVA	Ecological Focus Area
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
HDI	Human Development Index
ICAC	International Cotton Advisory Committee
KAU	Kenya African Union
KCC	Kenya Cooperative Creameries
LDC	Least Developed Country
MMO	Federal Milk Marketing Orders
NGO	Non-governmental organization
OECD	Organization for Economic Co-operation and Development
PG	Permanent Grassland
SFP	Single Farm Payment
SMP	Skimmed Milk Powder
SONAPRA	Société Nationale pour la Promotion Agricole
TTIP	Transatlantic Trade and Investment Partnership
US	United States
USD	United States Dollar
WTO	World Trade Organization

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1 Introduction

‘U.S. and European agricultural subsidies undercut *poor* countries’ efforts to increase their exports in an economic sector where their climate and cheap labor give them a natural competitive advantage.’ (Singer 2009: 113)

Peter Singer is not an economist. However, as one of the leading moral philosophers of our times, he identifies the agricultural subsidies of the developed countries as a fundamental problem in the fight against poverty in the developing countries. He points out one of the most devastating moral double standards of the developed countries: On one side, the members of the Organization for Economic Cooperation and Development (OECD) paid all in all USD 135.2 billion for development aid in 2014 (Development Assistance Committee: 2015). On the other side, they paid USD 258 billion for subsidies for the producers of agricultural products as well as USD 355 billion total support for their agriculture in the same year (OECD: 2015). These payments cause much more harm to the developing countries than the development aid of the developed countries helps them.

Joseph Stiglitz, recipient of the Nobel Memorial Prize in Economic Sciences in 2001, clarifies that ‘trade agreements now forbid most subsidies – except for agricultural goods. This depresses incomes of those farmers in the developing world who do not get subsidies.’ It is a difficult situation for the developing countries ‘[...] since 70 percent of those [...] depend directly or indirectly on agriculture, this means that incomes of the developing countries are depressed.’ (Stiglitz 2006: 73-74)

In 2003, ‘The Independent’ published a controversial article: ‘We do our best for the world's poor. Perhaps our aid budgets are not as large as they could be, but we do what we can. Wrong! Through the complex web of taxes, tariffs and quotas that govern trade, we take far more from the poor than we give them.’ The Independent explained in those days that ‘[f]or every US Dollar we give in aid, we take two through unfair trade.’ (The Independent 2003) Certainly, it can be argued that this is a declining problem, since the ‘average support to agricultural producers decreased from 37 percent of gross value farm receipts in 1986–1988 to 30 percent in 2003–2005’. However, the ‘absolute amount increased from \$242

billion to \$273 billion a year over the same period'. (Dethier/Effenberger 2012: 195)

Indeed, US President Jimmy Carter admitted in 2001 at the Conference on Financing for Development in Monterrey, Mexico: 'We cost the developing countries three times as much in trade restrictions as all the overseas development assistance they receive from all sources.' He continued: 'I've learned a lot in the last 20 years, [...] I've learned [...] how devastating to some countries our policies can be. I wish I had known then what I know now about the third world.' (Morrissey 2002: 10-11) 15 years later nothing has really changed and the EU as well as the US keep on paying billions of subsidies for their agriculture. The concerns of the farming lobby groups seem to be much more important for the developed countries than the economic success of the African developing countries. Unfortunately, this relationship between the agricultural subsidies and the poverty of African countries does not play a big role in the public discussion. This is one of the reasons for this thesis to focus on the mentioned deficits the developing countries have due to the agricultural subsidies of the developed countries. By use of empirical examples of affected African countries, the thesis tries to examine, whether poverty and stagnant economic development of developing countries is for a big part caused by the developed countries.

1.1 Motivation and Purpose

The discourse about the poverty of the developing is dominated by different theories about the responsibility of the developed countries. Some of them concentrate on the colonial past and claim that the exploitation and destruction of the local structures were so fundamental that it still hinders a successful economic development. Other theories claim that there are postcolonial hierarchic structures until today, which force the developing countries to give in to the interests of the developed countries. All of these theories have in common that it is very difficult to find empirical evidence for them. In contrast, the influence of the agricultural subsidies on the poverty of the developing countries does not play a big role in the public debate. The public agrees that the agricultural subsidies produce enormous costs for the taxpayer. The drastic international effects for the farmers in Africa are, however, rarely discussed. This is unreasonable because the agricultural

subsidies produce much more harm to the developing countries than the developing aid of the developed countries helps, as the introductory part already pointed out.

The aim of this Master's thesis is to investigate the effects of trade and agricultural policies on African developing countries. The effects of the agricultural subsidies of the EU and the US are in the focus. The Master's thesis analyzes the two subsidized products cotton and dairy and the two developing countries Benin and Kenya. By investigating the agricultural policies of the EU and the US for these two products and analyzing how they act in international negotiations concerning these products, the thesis works out, what the agricultural subsidies cause on two developing countries, Benin and Kenya.

There are four main theoretical and provocative hypothesis connected to this field, which make the topic relevant for science on one hand, but also for the public on the other. First, interests of the farming lobby groups seem to be much more important for the developed countries than interests and economic success of the African developing countries. Second, the protectionist agricultural and trade policies of the European Union and United States seem to cause much more harm to the African developing countries than their development aid helps them. It would be more helpful to stop this protectionism than to keep on paying development aid. Third, the global negotiations on the structures on global trade seem to discriminate the African developing countries systematically. Fourth, the European Union and the United States promote free trade and force the African countries in different ways to open their markets, while they are keeping their protectionist agricultural policies and their own markets highly regulated.

1.2 Current State of Research and Theory

Non-Governmental Organizations (NGOs), science and journals provide a framework for the discussion about the agricultural subsidies of developed countries and their impact on African developing countries.

NGOs and especially development agencies like Oxfam or the German development agency Misereor play a key role in the agenda setting of this problem. By publishing empirical studies and analyzes, they draw attention of the public and of science to this problem. Rudolf Buntzel and Francisco Marí,

employees of the Protestant Development Service 'Bread for the World', published with 'The Global Chicken' (Mari/Buntzel 2007) one of the very rare books, which focuses exclusively on this topic. The authors analyze the impact of the EU's poultry subsidies on Ghana.

While reading scientific books, it is very difficult to find sources with the single focus on the effects of the agricultural subsidies of the industrialized countries on African developing countries. Most of the literature deals with this topic along the way, but emphasizes other issues. Joseph Stiglitz, for example, mentioned the impact in many of his publications like 'Fair trade for all: how trade can promote development' (Stiglitz/Charlton 2005) or 'Making Globalization Work'. (Stiglitz 2007) He identifies the subsidies as a fundamental problem for the developing countries. In his book 'Africa doesn't matter' (Bolton 2012) Giles Bolton calls the agricultural subsidies a big problem for economic development as well. He criticizes that the Western countries led with their protectionism to an economic disadvantage for the African developing countries. Kym Anderson from Adelaide University found financial deficits caused by the agricultural protectionism via different models. (Anderson 2010) Sometimes books, which are dealing with the topic Africa and global trade, also mention the agricultural subsidies and their impact on African developing countries. Richard Mshomba for example calculated in 'Africa in the World Trade Organization' the impact of the agricultural subsidies and concluded that '[r]educing agricultural subsidies would benefit African countries that export agricultural products.' That is why the agricultural subsidies are 'still a major concern for African countries.' (Mshomba 2009) In 'A Billion Dollars a Day' Professor Wesley Peterson worked on agricultural subsidies and their impact on African developing countries in a more specific way: 'My background as an agricultural economist gives me reasons to be receptive to the argument that farm subsidies in high-income countries distort prices and reduce global well-being' (Peterson 2009: XV). Overall, the scientific literature in this field has paid little attention to the specific impact of the agricultural subsidies on African countries by using concrete examples of African countries and agricultural products. That is the reason why this thesis will try to fill this deficit.

The predominant consensus about the bad impact of developed countries' agricultural subsidies on African developing countries is also represented in the current discourse in journals and working papers. Kym Anderson concluded that lowering trade barriers and especially abolishing the agricultural subsidies would promote the fulfillment of four goals of the United Nations' Post-2015 development agenda: 1. poverty alleviation, 2. ending hunger, 3. reducing inequality and 4. strengthening global partnerships for sustainable development. Kym Anderson, John Cockburn and Will Martin reason in their research about the question 'Would Freeing Up World Trade Reduce Poverty and Inequality?' that 'it would reduce the number of poor people worldwide by 3 percent.' (Anderson/Cockburn/Martin 2011: 2).

In their 'brief review of the literature' about 'Agriculture and development', Jean-Jacques Dethier and Alexandra Effenberger argue that '[r]educing agricultural protection including trade-distorting tariffs, quotas, other export subsidies, and anti-development tariff escalation and tariff peaks is the most important step for development.' (Dethier/Effenberger 2012: 195)

It is also remarkable that the topic becomes more and more relevant in philosophical discussions about international justice. In his well known essay 'Why Free Trade is Required by Justice', Fernando Tesón describes that the 'United States periodically reenacts the Farm Bill, which obligates the government to buy surplus from farmers in order to keep prices artificially high.' (Tesón 2012: 133) The 'European Union has long maintained the Common Agricultural Policy, a euphemism denoting, too, a vast system of subsidies that keeps inefficient European farmers in business.' (Tesón 2012: 133) Therefore, he concludes that 'Farmers in developing countries experience catastrophic losses as a result of Northern subsidies.' (Tesón 2012: 133) He takes the discussion to another level by implementing the perspective of justice in this case. 'Unless these laws can be morally justified, they inflict an injustice on the world's poor by poverty coercively interfering with their means of subsistence and growth.' (Tesón 2012: 133) Modern and popular justice philosophers like Thomas Pogge identified the subsidies as a fundamental global injustice. 'Our governments' successful insistence on the protectionist exemptions had a huge impact on employment, incomes, economic growth and tax revenues in the developing world

where many live on the brink of starvation. [...] There is no justification of our governments' choice to cause those deaths for the sake of these gains.' (Pogge 2002: 18-19)

1.3 Question of Research

As the previous parts described, science is dominated by a consensus on negative impacts of the developed countries' agricultural policies on African developing countries. Nevertheless, it is not a public discussion in politics. The goal of this thesis is to draw up systematic case studies about the negative impact of agricultural subsidies. So far, only few studies have investigated in a very detailed and systematic way on particular African countries by focusing on specific subsidized products. Furthermore, previous research has failed to put the aspect of agricultural subsidies into perspective, although a focus on subsidies is more measurable than a general analysis of the impact of all the protectionist policies in agriculture like Kym Anderson does. The reasons are first that it is difficult to estimate for example the growing exports of an African country after a tariff reduction, because there are many influencing factors. Second, there are various agricultural control mechanisms like tariffs, quotas, unnecessary standards for products and many more. It is not possible to analyze the impact of all these mechanisms simultaneously. Hence, to focus just on agricultural subsidies and on two well-chosen developing countries with two subsidized products, is a new point of view in this field.

Simultaneously, the thesis has the purpose to explore, whether there are differences between the United States and the European Unions' negotiations on international trade rules and the differences concerning these two countries with the two products.

Previous research tended to investigate on the impact of the agricultural subsidies on African developing countries in relation to all industrialized countries or just in relation to the United States or the European Union. It is therefore interesting to compare the impact of the agricultural subsidies of both economic giants. Since in the European Union and the United States, compared to other industrialized countries most money flows into agriculture policies, the effects of their

agriculture and trade policies is the focus of the thesis. Furthermore, they are the most important negotiators in the global trade system.

The EU and the US pay their agricultural subsidies in different ways and focus on different issues in their agricultural policies. This raises the question, whether the EU's or the US' agricultural subsidies are worse for African developing countries. Consequently, the leading question of research of the thesis is:

1. 'Which impact do the EUs' and the US' agricultural subsidies have on African developing countries?'

In a more specific way, this thesis will focus on the research questions:

- a) 'Which impact do the EUs' and the US' trade policies and agricultural subsidies for cotton have on Benin?'
- b) 'Which impact do the EUs' and the US' trade policies and agricultural subsidies for dairy have on Kenya?'

Based on the result, the second question can be answered:

2. 'Which differences are there between the impact of the EUs' and the US' agricultural subsidies on African developing countries?'

1.4 Method and Operationalization

The assumption about the bad impact of the agricultural subsidies of the developed countries on African developing countries is examined by using quantitative and qualitative methods.

On the one hand, the thesis uses quantitative methods, because it works with the thesis of Stiglitz, Anderson, Tesón and others about the bad impact of the agricultural subsidies on African developing countries. The thesis tries to confirm the predominant consensus by empirical results. The method is in the first step to work out the agricultural subsidies for cotton and dairy in the EU and the US and to find out the impact of these subsidies on the production of these products in the EU and the US. Moreover, there are in the second step two ways to show the impact on Benin and Kenya. First, in the case of Benin the impact of this subsidized production on the world market prices for cotton is analyzed. Afterwards, it is investigated what the change of the world market price implies for Benin and the cotton producers there. Second, in the case of Kenya it is analyzed, how the subsidies for dairy in the EU cause overproduction and

increasing dairy export to Kenya. Subsequently, the export volume is compared to the local amounts of dairy production in Kenya to see, whether and in which way there is an influence. By analyzing the export amounts of selected subsidized products into selected African countries, examining the economic changes around this product on the world market price and finding connections between these components, the thesis acts quantitatively.

Furthermore, the thesis works with detailed case studies by selection of purposive samples of two African countries and two subsidized products with specific characteristics according to Robert Yin's method of case study research. (Yin 2013) By going into detail in the cases of Benin and cotton as well as Kenya and dairy, it is possible to understand not only the quantitative but also the qualitative impact of the agricultural subsidies on these countries. With knowledge about the situation in these countries, the importance of these products for their economies and the political background, it is possible to get own conclusions for these cases. Afterwards, conclusions can be made, which may also apply to other cases. The comparison of the EUs' and the US' impact has also a qualitative basis and leads to its own conclusions.

2 History of the Agricultural Subsidies

Before the history of agricultural subsidies is described briefly, it is necessary to answer the question, what agricultural subsidies exactly are. Peterson defines subsidies 'as any government intervention that causes agricultural prices, firm revenues, or farm households incomes to differ from what they would be in the absence of the intervention.' (Peterson 2009: 12)

These interventions have a long history in the EU and the US. In the following parts it will be summarized, how the agricultural subsidies developed and changed in the last years. By mentioning the agricultural subsidies before World War II, at GATT, Uruguay Round, WTO and Doha Development Round, this chapter illustrates changes on the global agricultural market and of corresponding agricultural subsidies. Furthermore, this part shows today's happenings in the field of agricultural subsidies like the agreements of 2014 in Bali or of 2015 in Davos.

Finally, this part tries to give an outlook, how the structure of global trade could change the agricultural subsidies in the next years.

2.1 Agricultural Subsidies before World War II

The first protectionist policies for agriculture of a modern state can be found in the 16th century, when the mercantilism was the leading economic theory. Until the 18th century, it was the spirit of the time that the absolutist monarchies promoted their exports and used many possible interventions to protect their own economy and especially their agriculture. Some economists say that this mercantilism ‘was essentially the means by which predominantly agricultural countries in the seventeenth and eighteenth centuries set to work to change themselves into modern industrial states.’ (Harris 2002: 8) Influenced by the European education, the founders of the United States of America such as Alexander Hamilton and Thomas Jefferson, also installed a mercantilist economy in the US. This policy led to very low economic growth rates and produced a great academic opposition dominated by Adam Smith’s and David Ricardo’s arguments of the comparative advantage. ‘The years 1850—75 saw the first free trade era in Europe’ (Persson/Sharp 2015: 181) and this changed the society from an agrarian to an industrial one. The importance of agriculture declined and the world market price for agricultural products decreased significantly. This was caused by a more effective infrastructure coming up with the railway, steamships and more effective methods of cultivation with cheap fertilizers. The Great Depression during the late 1920s and early 1930s strengthened the mass migration off the land and the ‘decrease in wheat prices triggered a protectionist movement in most European countries.’ (Federico 2009: 189) The US followed some years later. ‘The Agricultural Act of 1933 initiated crop and marketing controls, and in 1936, the Soil Conservation and Domestic Act linked farm programs with conservation.’ (Meléndez-Ortiz/Bellmann/Hepburn 2009: 499-500) Until 1930, all countries in Europe aside from Denmark established protectionist laws in agriculture and the developed countries tried to overtrump themselves with more and more protectionism, which produced a tariff war. The nationalistic movement in Europe after the Great Depression promoted a nationalist und protectionist agriculture. Germany pioneered ‘with a *Reichsnaestand* with wide-ranging powers to set

prices [...].’ (Federico 2009: 194) World War II affected the agriculture more than World War I. This fundamental catastrophe cleared the way to a superordinate common agricultural protectionism.

2.2 The Agricultural Subsidies from GATT to Uruguay Round

The enormous destruction of World War II was an opportunity to change the structures of the agricultural world market. ‘After the end of the war, in theory, ‘developed’ countries could have decided to phase out the support to agriculture [...] and return to the [...] nineteenth-century laissez faire. This did not happen.’ (Federico 2009: 196) Even more, in 1957 the EU established with the Treaty of Rome a Common Agricultural Policy (CAP), which codified agricultural interventions and subsidies with the goals of article 39: ‘(1) to increase agricultural productivity; (2) to ensure a fair standard of living for the agricultural community, in particular, by increasing the individual earnings of persons engaged in agriculture; (3) to stabilize markets; (4) to assure the availability of supplies; and, (5) to ensure that supplies reach consumers at reasonable prices.’ (Treaty of Rome 1957: Article 39) This was a very important step, since now the biggest and economically most powerful European countries acted together in negotiations about rules and structures of the agricultural world market. The CAP of the EU created beside the US a second agricultural world power and the EU used this power for its interests at the negotiations to the General Agreement on Tariffs and Trade (GATT).

The GATT was found in 1947 after the failure of the foundation of the International Trade Organization (ITO). The ITO was very ambitious about the reduction of tariffs and this was one of the reasons why the US decided not to adopt the resolutions. The GATT was just a contract and therefore it was very easy to push the intentions of the developed countries with this contract. ‘It became clear that developing countries were not deriving much benefits from GATT multilateral trade negotiations and that very few of these countries actually participated in the GATT process.’ (Oyejide 2005: 179) Besides, the developing countries had nothing to offer in return for requesting the developed countries to lower their tariffs. Therefore, the GATT never called the countries in the contract to abolish their protectionism. ‘The fact that quantitative restrictions were allowed

if government measures operated to restrict the production or marketing of agricultural products meant that the GATT would not operate in agriculture [...].’ (Rausser 1995: 6)

During the rounds of negotiations in the years until the Uruguay Round, nothing really changed in the agricultural structures of the developed countries. The amount of export subsidies was still increasing, although everyone knew about the export subsidies’ distorting effect on the world market and especially on developing countries. With the mechanism of export subsidies the EU and the US tried to encourage an export of their overages and to discourage the sale of these products on the domestic market. This distorted the agricultural world trade significantly, because ‘export subsidies provide domestic support by providing the incentive to export greater quantities than would occur of producers faced competitive market conditions. This reduces domestic supplies and raises internal prices.’ (Andrews/Bailey/Roberts 2004: 1) Thus, the export subsidies ‘distort the allocation of resources and consumption patterns, reducing aggregate incomes, both in the countries in which they are provided and globally.’ (Andrews/Bailey/Roberts 2004: 1) More and more countries arrived at this understanding. Finally, export subsidies played a key role in the Uruguay Round and in the big conflict between the EU and the US.

2.3 The Agricultural Subsidies from Uruguay Round to WTO

‘The unprecedentedly high level of subsidized exports by the EU and the US in the mid-1980s was a key motivating factor for the Uruguay Round’s focus on agriculture [...].’ (Andrews/Bailey/Roberts 2004: 26) The eighth round of multilateral trade negotiations was the result of a big discontent in 1986. Caused by the missing agreements in the question about the agricultural subsidies through all the years, the developed countries overproduced more and more agricultural products and got shot of these products on the world market by use of more and more export subsidies. The developed countries ‘agreed that domestic policies distorting trade in agricultural products must be included.’ (Sanderson 1990: 9) Although everyone agreed that something had to change in agriculture now, the developed countries disagreed in which way agricultural protectionism had to change. Especially the EU ‘was reluctant to make substantial cuts in export

subsidies' (Healy/Pearce/Stockbridge 2000: 11) and this blocked a successful progress of the Uruguay Round.

Actually, it was an aim of the Uruguay Round to include the interests of the developing countries. The fact that the number of participating countries raised from 45 at the Dillon Round in 1960—1961 to 118 at the Uruguay Round was a good basis. However, in the end 'discussions in the Uruguay Round were dominated by the differences between USA and the EC [European countries]'. (Healy/Pearce/Stockbridge 2000: 11) After a long period of stagnation, the US proposed the MacSharry plan 'to substitute a certain amount of domestic price support with direct payments to agricultural producers, as compensation for lower farm prices.' (Healy/Pearce/Stockbridge 2000: 11) This plan enabled the US to work together with the Cairns Group, a group of 14 predominantly emerging nations, but also Australia and New Zealand. This group preferred a strong reduction of protectionism and especially of export subsidies. The coalition of the US and the Cairns Group exerted an enormous pressure on the EU.

It was finally an one-to-one agreement between the EU and the US in 1992, which brought the Uruguay Round to an end. This agreement is well known as the 'Blair House Accord' or 'Blair House Agreement' and it was negotiated in 1992 in Washington. (Healy/Pearce/Stockbridge 2000: 11) The EU eked out a lower cut of the volume of exports, a much more flexible time to reduce the export subsidies and the main point; the implementation of direct payments for the producers as a compensation for the product bounded payments. This agreement in 1994 was the starting point away from the GATT as a contract to a multilateral organization called World Trade Organization (WTO).

Oyejide tried to calculate the gains and deficits that resulted from the Uruguay Round. He estimated that on the one hand the 'largest absolute gains from the Round accrue to the European Union, the United States and Japan - \$49.9, \$26.7 and \$22.7 billion' per year. 'The largest gains in percentage terms accrue to the East Asian countries – Korea, Malaysia, Philippines and Thailand.' On the other hand, the sub-Saharan suffer 'a net welfare loss of \$0.7 billion, 0.5% of its GDP.' (Oyejide 2005: 19)

2.4 The Agricultural Subsidies in the WTO until the Doha Development Round

The new formed WTO based on a classification of agricultural protectionism policies in three categories. '[P]olicies which do have a substantial impact on the patterns and flow of trade [...] are classified in what is called the amber box'. They are forbidden. The green box contains 'policies that are not deemed to have a major effect on production and trade' and are allowed. Finally, 'policies that fall neither of these categories, but are, perhaps, somewhere in between, are known as blue box policies'. (Healy/Pearce/Stockbridge 2000: 22) The most important agreements are the 'non-trade-distorting' green box provisions, which were mostly negotiated by the US and the EU. 'The specific instrument permitted include direct payments to farmers which, on the definition used by the US and the EU, are de-coupled from production.' (Watkins 1995: 31) In the EU and the US, these payments were installed with the criteria of the producer's land size: The more hectare of land a farmer owns, the more money he gets from the government. This explains, why in budget year 2003—2004, the queen of England received EURO 360,000 from the CAP. Italian luxury cruise caterers, Prince Albert II of Monaco and Spanish brandy distillers got also money from CAP. Furthermore, it came out that in the same year six percent of the farms received 53 percent of the whole subsidy budget. On the other side, 60 percent of the smallest farms received only 10 percent of the benefits. (Kubicek 2012)

The thesis that the decoupled payments for the producers do not disturb trade was criticized a lot. The NGO Oxfam called it a 'myth of decoupling'. Oxfam argues that 'the inclusion of yields per acre in determining payments gives farmers an obvious incentive to raise to the maximum possible levels in order to maximize future subsidies'. (Watkins 1995: 33) Watkins concludes that the term of subsidy has just been redefined to allow support for the production. In addition, some scientific studies came to a very sceptical result about the reportedly non-trade distorting effect of the decoupled payments. A study of the Humboldt University of Berlin identified four reasons why it is a wrong appraisal of the WTO's agreement:

- '(i) Not all direct payments are decoupled from production. [...]

(ii) The direct payments provide a steady stream of cash to producers. Thus, they reduce risk and stimulate production in the presence of risk aversion.

(iii) The direct payments increase the wealth of the recipients. Therefore, they can engage in riskier production activities which result in increased production.

(iv) The direct payments are based on past production. [...]. Therefore, farmers maintain production at a higher level than without these subsidies.'

(Witzke/Noleppa/Schwarz 2010: 15)

Richard Mshomba verifies the argument of Oxfam and concludes that 'the decoupled payments are an example of renaming a subsidy instrument under the pretense of being consistent with the Agreement on Agriculture.' (Mshomba 2009: 193)

The developing countries were again the losers of the WTO agreements, even though it was the intention of the Uruguay Round to integrate the concerns of the developing countries. Influenced by the strong lobby groups of the EU and US, the WTO failed to organize a developing round with a focus on agriculture. The Uruguay Round failed with the same intention and it was obvious that the developing countries still did not play any role in the last 150 years of history of trade negotiations.

2.5 The Agricultural Subsidies in the Doha Development Round and Situation until Today

In 2000, a new optimism dominated international politics. Finally, the developed countries focused on the problems of the developing countries. With the Millennium Development Goals, they formulated goals to reduce poverty. This was the setting for the Doha Development Round. 'It was launched with the hope of bringing the agricultural sector into greater harmony with the development objectives of developing countries.' (Mshomba 2009: 143) Nevertheless, when it came to discussion about the level of abolition of the agricultural subsidies, the developed countries, especially the EU and the US, refused to make concrete offers. Only a few years after the optimistic start of the Doha Development Round, the developing countries were in the same situation as in all the rounds

before. '[T]he major countries disagree on the balance between the reduction of agricultural tariffs and domestic support required of developed countries – particularly the USA and the EU [...]' (Lukauskas/Stern/Zinini 2013: 372) Neither the EU nor the US have shown willingness to change of the current agreement of the green-box. Furthermore, they wanted the developing countries to lower their tariffs without presenting a date or an amount for reduction of their own agricultural subsidies in return. The EU and the US hoped to 'impose another 'Blair-House'-style accord on other WTO members.' (Robinson/Carson 2015: 151) In contrast to the Uruguay Round, a G20 of emerging and developing countries led by Brazil and with members like South Africa, China and India was formed. '[T]he countries were united around an opposition to the protectionist agricultural stance of the EU and USA' (Robinson/Carson: 151) and had the aim of an extensive liberalization of the agricultural world market. Together with the developing countries, they prohibited another disadvantageous agreement because especially the EU persisted on the agricultural subsidies. 'The story of negotiations in the Doha Round has been one of false hopes, one step forward and two steps backward, and windows of opportunity that have closed as soon as they opened.' (Robinson/Carson: 153) The optimism of the beginning disappeared completely and in 2011, the Doha Development was dead. The end of the Doha Development Round was never officially admitted, since no country wants to be the official gravedigger.

As soon as the EU and the US recognized that the Doha Development Round would not have a successful result, they had another idea of how to open other markets for their subsidized products without reduction of their protectionism: Free Trade Agreements. In 2005, the European Commission presented the new trade strategy called 'Global Europe: A Stronger Partnership to Deliver Market Access for European Exporters' (European Commission 2006). The concept aims to negotiate free trade agreements with 120 countries. With this concept, 'the Commission is pursuing an active strategy of promoting market access and the removal of non-tariff barriers in third countries.' (Evans/Koutrakos 2011: 24) In this way, the EU did not have to consider the concerns of other countries in an international institution with more or less transparent rules any more. As the biggest market in the world, the EU can determine the rules and requirements for

the free trade agreements. Pascal Lamy, the EU Trade Commissioner in those days, admits in an interview with the Jakarta Post, 'We always use bilateral free trade agreements to move things beyond WTO standards.' (Jakarta Post 2004) The EU implements this concept with 'so-called Market Access Teams, networks of relevant stakeholders, which actively engage foreign authorities to remove non-tariff barriers before an actual multilateral dispute arises.' (Evans/Koutrakos 2011: 24) 33 free trade agreements have already been negotiated and the EU wants to reach the 120 of the concept. The US does the same, although not as militant and pushing as the EU does. Until today, the US lists 20 countries, which have signed free trade agreements with them. (Office of the US Trade Representative 2015) Only the current negotiations between the EU and the US about the Transatlantic Trade and Investment Partnership (TTIP) are on equal terms, as they involve the two biggest markets. This is perhaps one of the main reasons, why TTIP still has not been signed.

Today, the situation did not really change. The EU and the US are in negotiations on free trade agreements with many more countries and this undermines the role of the WTO more and more. The opportunity for a global agreement in the WTO with fair rules and negotiations on equal terms moves more and more in the far distant future. The developing countries have learnt to reject unfair agreements at the WTO, but the battle lines are more hardened than ever and the developed countries do not always accept a no.

3 The Agricultural subsidies in the European Union and the United States

With the information provided in chapter two, it is understandable why the EU and the US still keep the current subsidies in their agricultural policies. The following part introduces the agriculture of the EU and the US by focusing on the major reforms in the last years and different types of payments. Besides, this part mentions some new strategies of protectionism of the EU and the US.

3.1 The Agricultural Subsidies in the European Union

The second chapter clarified that in 1957 the EU established the CAP with the Treaty of Rome. In the beginning of the CAP, the EU was a net importer, but after

a short time the pricing policy of the CAP insured ‘that imports would never enter the EU at prices lower than the threshold price.’ (Peterson 2009: 163) As a response to the new guaranteed prices, the production increased and imports fell. The EU was therefore confronted with a huge overproduction some years later. This ‘led to the introduction of a new mechanism, the export restitution or export refund.’ (Peterson 2009: 163) The combination of this price policy, the tariffs and the export restitutions created a perfect isolation against the world market. At once, the costs for this policy increased enormously. In the 70s the EU reduced the guaranteed prices, but this encouraged the farmers just to produce more to balance their incomes to the standard of before. The EU established reforms like ‘producer taxes (co-responsibility levies), production controls (dairy quotas and obligatory reductions in planted acreage) and guarantee threshold that set maximum quantities eligible for support.’ (Peterson 2009: 163) In 1984, the EU introduced the milk quota. However, not all of this contributed to a solution of the problems of surplus agricultural production and the high costs. Under the pressure of the WTO agreements the EU set up a big reform package: Support prices for many commodities were lowered, with the loss in producer income made up by direct payments [...].’ (Peterson 2009: 163-164) Furthermore, production controls were expanded and time limits for the support were announced. In the beginning of 2000, when all payments should be decoupled, the EU launched the so-called single farm payment (SFP). With the SFP, the EU found a new way for so declared blue box policies to support the farmers without decoupling. ‘The SFP requires “cross-compliance”, that is, respect for EU policies on the environment, food, safety, and animal welfare as well as other provisions such as the requirement that farm land be maintained in good condition.’ (Peterson 2009: 164) More and more payments for the farmers are declared as SFP. This process is called modulation and it created the distribution in Pillar One with the decoupled payments per hectare and Pillar Two with the cross-compliance and the SFP. The SFP pretends to be just an environmental reform but ‘[a]s most farms highly depend on these payments’ (Mander/Wiggering/Helming 2007: 275) it is a subsidy which reduces the costs for the production enormously. Therefore, it also reduces the costs for the production per product. Logically, the farmers in the EU

are able to offer their products for a lower price than the not subsidized farmers on the world market.

The Health Check launched in 2007 accelerated the process of modulation and extended the expiration of the milk quota until 2015. The next big reform in 2014 was called 'Greening' and included three requirements, which farmers have to fulfill in order to gain direct payments: 'retaining areas under permanent grassland (PG) [...]; crop diversification; and ecological focus areas (EVA).' (Zopounidis et al. 2014: 390) The budget plans 2014—2020 provide 38 percent of the whole budget for agriculture. With USD 485,7 billion for these six years, it is still the biggest item of expenditure. (Dunmore 2013) In April 2015 the milk quota expired and caused by the following overproduction the prices fell. After some protests of the farmers, the European agriculture ministers agreed on a spontaneous EURO 500 package for additional support. (Ruddick 2015)

Overall, it can be said that the subsidies for the CAP persist and there are no plans to transform the CAP to a free trade sector. The explanation for the agricultural subsidies altered, but the EU never really changed the amount of agricultural subsidies. Previously, they were necessary for the workplaces or for sovereignty on food. Today, only marginal workplaces are offered from agriculture and with globalization the old concept of being sovereign in all industries has become an anachronism. Therefore, the EU sets phrases about environment, biodiversity, ecology, sustainability and the title of the new era 'greening'. Until today, the farmers get the same high amount of subsidies and it does not matter, how the subsidies are named.

3.2 The Agricultural Subsidies in the United States

Agriculture in the US does not have a strong tradition of agricultural subsidies like in the EU. Slavery and many innovations in agriculture technology kept the costs of production on a low level. The second chapter explained that the first big interventions and agricultural subsidies in the US started with the Great Depression in 1933 with the Agricultural Adjustment Act (AAA) signed by President Franklin D. Roosevelt. Subsidies were used in the AAA to limit the production of crops. 'After the Second World War, the number of farms declined and many farm workers began to leave the agricultural sector, which has often

been characterized by low wages and incomes.’ (Peterson 2009: 125) Therefore, the interventionist policies were continued. As in the EU, the agricultural subsidies encouraged the farmers to overproduce. That is why the US established the principle that ‘farmers were required to restrict their production by reducing the acreage they planted to be eligible for government price and income support’ in the 60s. (Peterson 2009: 134) In 1973, the US followed the strategy of deficiency payments against the low incomes and the overproduction. ‘A target price high enough to cover costs of production was set by the government and deficiency payment rates were determined as the difference between the target price and an estimate of average market price.’ (Peterson 2009: 135) Many other subsidies were introduced as well. About USD 500 million by 1978 were paid to farmers ‘to compensate them for yield shortfalls or for conditions that prevented them from planting fields that would normally have been planted.’ (Sanderson 1990: 37) Not all of this counteracted the overproduction. Because of this, the US introduced export subsidies in the Farm Act of 1984. The next big Farm Act in 1996 was written in the shadow of the Uruguay negotiations. It ‘eliminated production controls and deficiency payments replacing them with decoupled direct payments that were supposed to be phased out over time.’ (Peterson 2009: 136) The Farm Act of 2002 changed the direct payments to permanent payments and included environmental aspects. The next Farm Act of 2008 focused on bioenergy.

The Agricultural Act of 2014 determined the agricultural policies in the next four years. It comprised a budget of USD 956 billion, whereat a majority of the spending in the bill is provided for the Supplemental Nutrition Assistance Program. This program offers food stamps for the poor. However, almost USD 200 billion are intended for agriculture. (Kasperowicz/Wasson 2014)

The US faced the same process of decoupling as the EU, but in contrast to the EU the US did not focus as much on environmental aspects, as the EU did. Instead, more and more subsidies stimulated the production of corn-based ethanol. This fits to the aim of replacement of conventional energy based on oil. As a consequence, the US intended to be more independent from oil imports. The concept is the same as in the EU, but more in the name of renewable energy and not environmental aspects. Furthermore, the US subsidized the big producers

much more than the EU does. All in all, farmers obtained a very high amount of subsidies with all the negative consequences for African developing countries.

4 Empirical Studies: Benin and Cotton

After a description of the structures of international trade with a focus on agricultural subsidies and an explanation of how agriculture and especially the agricultural subsidies in the EU and the US developed, their impact on Benin and the production of cotton is investigated.

The example of Benin is well documented and it is representative for the bad impact of the decreased world market prices through the agricultural subsidies. Benin is also representative for the Least Developed Countries (LDCs) in Africa. The following information about the weight of cotton is given in 480 lb Bales (480 lb Bales = 480 (American) pounds of cotton) as it is a common international way of presenting amounts of cotton in the cotton industry.

4.1 The Importance of Cotton in Benin

Benin is a small African country with about 10 million inhabitants, 115,000 km² and a mortality rate of under five-year-old children of 102 per 1,000 live births. (World Bank 2015) The Human Development Index (HDI) ranks Benin on place 165 of 187 countries. (Human Development Report 2014) This means that Benin is a LDC and one of the poorest countries in the world.

Benin has a long story of French colonialism and finally became independent in 1960. A Marxist-Leninist regime followed in 1975 and put all companies under state control. In 1989 the population of Benin revolted and the country had to change the whole political system again. In spite of these bad preconditions, the country tries to fulfill the expectations of the developed countries. It is therefore 'one of Africa's most successful stories in liberal or electoral democracy.' (Ngwane 2008: 66) Thus, Benin is a country with less internal problems than other African countries have. However, the economic development of Benin could not abolish the enormous poverty in spite of a Gross Domestic Product (GDP) of approximately 5 percent in the last years. (World Bank 2015)

Until the Civil War in 1861—1865 cotton or the ‘white gold’ of those days was not a product of traditional agriculture in Benin. In the time of Civil War the US did not provide the world market with cheap cotton produced by slavery. This caused high prices for cotton and led to the so-called ‘cotton famine’. ‘To reduce their lint procurement costs enduringly, and enhance the growth and competitiveness of their new textile and clothing industries, British and European manufacturers pressed their governments to promote cotton production abroad.’ (Sneyd 2011: 15) Due to the shared view that African farm workers were lazy, Europe was very coercive and forceful in establishing the cotton production. This continued until independence. The colonialism left a poor country with rural structures, while Europe industrialized its economy. This situation led to the Marxist-Leninist dictatorship.

Benin is together with Burkina Faso, Chad and Mali one of the ‘Cotton 4’ countries. This means that it is highly dependent on production of cotton. ‘[A]pproximately half of all households rely on cotton for a portion of their income.’ (Woodward 2007: 3) Three million people gain their income from cotton production and about one third of all employed inhabitants work in cotton production on 325,000 farms with approximately one hectare each. Especially the semi-arid north of the country with very rural structure and the poorest inhabitants depends on cotton. Hence, cotton is a sector for the poor. 97 percent of all cotton is exported (Woodward 2007: 3) In 2013 Benin exported the whole crop with 600,000 480 lb Bales (IndexMundi 2015: chart 1). This enormous dependence of the economy on cotton production and export is a big problem, as it will be shown.

The cultivation of cotton is a very risky business in West Africa and especially in Benin: ‘Most cotton is rain fed, uses few inputs and requires high levels of human labor to guide ox-drawn plows, seeders, and weeder (or perform many of these activities with a hoe) and to harvest cotton.’ (Moseley/Gray 2008: 12) Women and children with small hands are often preferred for the hard work on the fields. (Moseley/Gray 2008: 13) The cotton plants of the African producers are vulnerable to a number of diseases and insect pests, particularly foliage feeders and bollworms. (Moseley/Gray 2008: 15) The low level of education and contact with pesticides is also a big danger for the cotton farmers’ health. When Benin

introduced Endosulfan organochlorine pesticides to protect cotton against bollworms, it caused thirty-seven deaths during the 1999 season. (Moseley/Gray 2008: 16) In contrast, the EU and US use fertilizer, pesticides, defoliants and have a highly mechanized production with airplanes, tractors and mechanical harvesters. Because of that the production of cotton is much cleaner in Africa than in the EU and the US. In addition, farmers in the EU and the US are covered by insurances against natural catastrophes or other accidents. Normally, the cotton farmers in Benin do not have more than one or two hectares to grow cotton. While farmers in the EU and the US have about 400 hectares. That is the reason why so many inhabitants in Benin depend on cotton and have to hold a high risk in this sector.

All in all, the production of cotton is not a traditional sector for Benin and it was established by the force by the colonialists. In spite of this, the cotton production is the most important sector of employment and this affects especially the poor inhabitants in rural areas of Benin. It is therefore a convenient product for an analysis of the impact of agricultural subsidies of the developed countries.

4.2 The Development of the Amount of Cotton Production in Benin

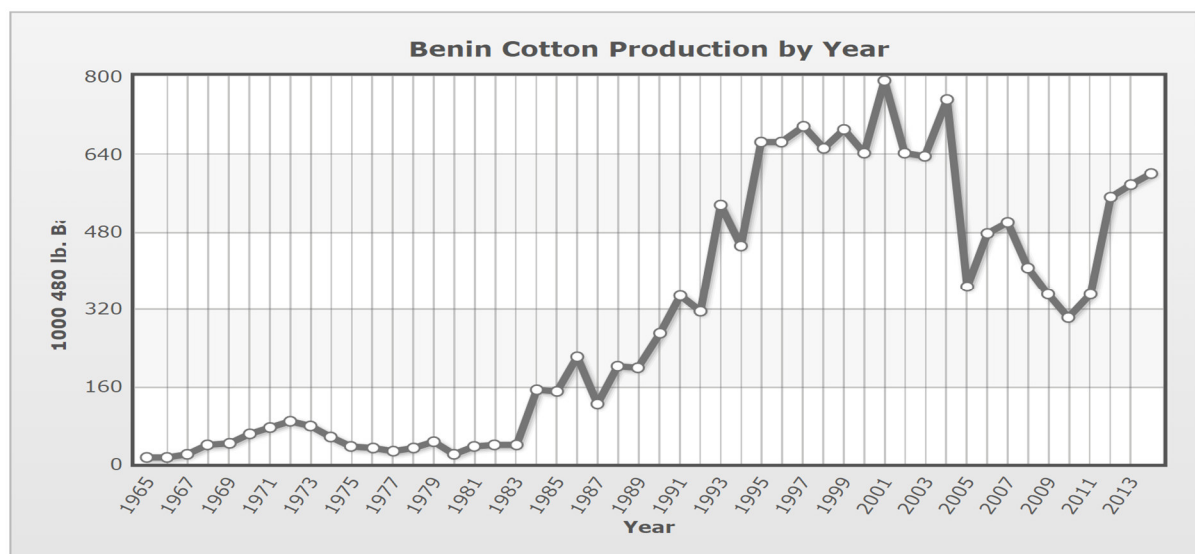
As the previous part introduced, almost the whole cotton crop is exported to the world market. That is why the cotton farmers in Benin depend highly on the world market price of cotton since the 90s. In the following some results of Benin's cotton production and export in the last years are presented.

Right after independence in 1966, Benin had a very low rate of cotton production of 14,000 480 lb Bales. (IndexMundi 2015: chart 1) The transformation of the political system hindered the production. In 1974, the Marxist-Leninist regime took the whole production under government's control. '[T]he government established a state-owned National Agricultural Promotion Company – Société Nationale pour la Promotion Agricole (SONAPRA).' (Mshomba 2009: 189) Consequently, SONAPRA controlled the whole production and was the single official buyer of cotton in Benin. This regime was very inefficient and until 1985, the amount of production never increased higher than 79,000 480 lb Bales in 1973 (IndexMundi 2015: chart 1). 'As of the early 1980s, following the rejection of Marxism by Benin's government, the sector was modernized in order to improve

efficiency.’ (Moseley/Gray 2008: 161) Farmers took advantage of credits and still benefit from guaranteed prices by being not dependent on the world market price of cotton. With this modernization, the amount of cotton production reached 220,000 480 lb Bales in 1986. The next period of privatization is called the ‘Structural Adjustment Period’, during which ‘[w]ith pressure of the World Bank and after self-assessment Benin started earnest reforms in 1992 reducing the monopoly and monopoly powers of SONAPRA by allowing some competition from the private sector.’ (Mshomba 2009: 190) This caused an enormous increase of production to 533,000 480 lb Bales in 1993 (IndexMundi 2015: chart 1). It was an important time, when the cotton farmers were not dependent on the price policy of the government anymore, but on the world market prices of cotton. In 1996, the production increased to 664,000 480 lb Bales. In 2001, it reached the highest level with 790,000 480 lb Bales until today. After 2004, the production decreased to 500,000 480 lb Bales in 2007 and to 600,000 480 lb Bales in the last year. (IndexMundi 2015: chart 1)

Usually, this rise of production can have a very positive effect for the welfare in Benin. But as described in the previous part the cultivation of cotton is, in spite of the rise of production, still a sector for the poor. This can be explained by the declining world market price.

Chart 1



IndexMundi, Benin Cotton Production by Year

<http://www.indexmundi.com/agriculture/?country=bj&commodity=cotton&graph=production> [Accessed: 21 January 2016].

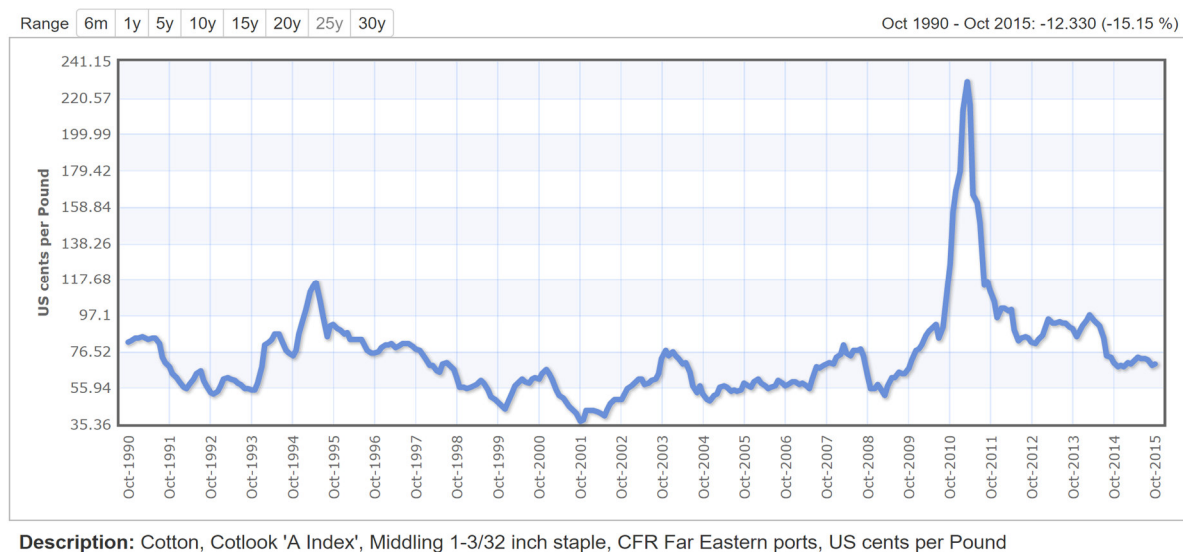
4.3 Relation between the World Market Price of Cotton and the Welfare in Benin

Several studies investigated the relation between subsidies, the world market price for cotton and the welfare in Benin. They all came to the same result that subsidies create a constant inflated amount of supply and keep the world market price on a level that is lower than it would be without subsidies. In contrast to the EU and the US, cotton farmers in Benin do not have other permanent earnings beside the profits of the sales on the world market.

A direct correlation of the welfare of the farmers in Benin and the world market price is well documented. During the beginning of the Structural Adjustment Period and the enormous increase of cotton production in Benin in 1992, the world market price of cotton was also continuously increasing as well. From 1992 to 1994, the price increased from nearly USD 0.60 per pound to more than USD 1.15 per pound. (IndexMundi 2015: chart 2) This caused an increase of the cotton farmer's welfare. The development stopped after 1994 with a decrease of the world market price for cotton. In 2002 the prices reached a low mark of under USD 0.38 per pound. (IndexMundi 2015: chart 2) This had a disastrous impact on the welfare of the cotton farmers in Benin. 'Because of the prominent role that cotton plays in many West and Central African countries, a small decline in cotton prices can make an enormous difference in the ability of these countries' farmers to pay for health care, education, and food.' (Woodward 2007: 3)

In their paper 'Impact of Global Cotton markets on rural poverty in Benin' Minot and Lisa Daniels investigated the period of world market's price decrease of cotton and especially the decrease by almost 40 percent between January 2001 and May 2002. Their 'results indicate that there is a strong link between cotton prices and rural welfare in Benin.' They conclude in their calculation that '[a] 40 percent reduction in farm-level prices of cotton is likely to result in a reduction in rural per capita income of 7 percent in the short-run and 5-6 percent in the long-run.' (Minot/Daniels: 16) In the short-run poverty raised by 8 percentage points. These 8 percent were equivalent to 334,000 individuals below the poverty line. They estimated that in the long term, 'as households adjust to the new prices, the poverty rate settles down somewhat, remaining 6—7 percentage points higher than originally.' Minot and Daniel calculated their results on a basis of a survey with 899 households, spread across all six departments of Benin.

Chart 2



IndexMundi, World Cotton Price

<http://www.indexmundi.com/commodities/?commodity=cotton&months=300>

[Accessed: 21 January 2016].

4.4 Relation between the Subsidies and the World Market Price

The previous part pointed out that cotton's declining world market prices promote poverty in Benin. Now it is important to show, how agricultural subsidies lead to lower world market prices of cotton. Several studies investigated the effect of a removal of agricultural subsidies on the cotton's world market price.

In their working paper 'Understanding the Impact of Cotton Subsidies on developing countries', Ian Gillson and others investigated how a worldwide removal of subsidies can change the world market price and what this cause on Benin's' cotton farmers with different simulations of calculations. The result is that earnings from cotton production increase by 15 to 36 percent in Benin caused by 18 percent higher world market price for cotton. (Gillson et al. 2004: 31)

The Working Paper 'The Impact of Domestic and Trade Policies on the World Market' of Daneswar Poonyth and others investigated the impact of a worldwide removal of subsidies on West Africa including Benin. One of its key findings was that earnings in West Africa increased by 17 percent, because the world cotton price increased up to 4.8 percent. (Poonyth et al. 2004: 29) They concluded that '[w]hat happens, and this is realistic, is that many cotton producers gain, and this

happens in proportion to their ability to expand production at given world prices.’ (Poonyth et al. 2004: 22)

Jay Fabiosa and others investigated the impact of liberalization and especially the impact of a worldwide removal of cotton subsidies. They estimated that the world market price of cotton can rise 11.4 percent. (Fabiosa et al. 2003: 28) This means for Benin’s cotton farmers an expansion of production by 6 percent and an increase of cotton export earnings by 17 percent. (Fabiosa et al. 2003: 13)

Another big investigation about the impact of a removal of all subsidies was performed by the International Cotton Advisory Committee (ICAC). The ICAC is an association of governments of cotton producing and trading countries formed in 1939. In the report ‘Production and Trade Policies affecting the Cotton Industry’ the ICAC calculated that ‘the impact of a removal of direct subsidies worldwide would have an estimated net positive effect of 17 cents on average cotton prices in 2000/01 and 31 cents in 2001/02.’ Furthermore, the ICAC concludes that it ‘is reasonable to expect that a removal of subsidies would result in less variation in year-to-year season average prices [...]’ (ICAC 2002: 8) Overall, the ICAC estimated that in 2001—2002 Benin had export losses due to US cotton subsidies of USD 33 million. The decrease of the world price of cotton in the years 2000—2002 is responsible for a reduction of the cotton farmer’s welfare in Benin. Because of that it can be reasoned that there would be a much lower level of welfare reduction if there were no agricultural subsidies. In addition, the variation of prices is another problem for the cotton farmers as they do not have insurances and depend on the world market price. Consequently, they do not even have a guarantee that they will have enough crop to buy the seed and to cultivate it.

All investigations agreed that subsidies cause a lower world cotton price of 4.8 to 18 percent. A 4.8 percent lower price has already an enormous effect for Benin’s cotton farmers. Therefore, there is a strong correlation between the agricultural subsidies and the world market price of cotton. Consequently, this has a negative impact on the cotton farmers’ earnings and their welfare.

4.5 Impact of the US and the EU's Agricultural Subsidies on the World Market Price

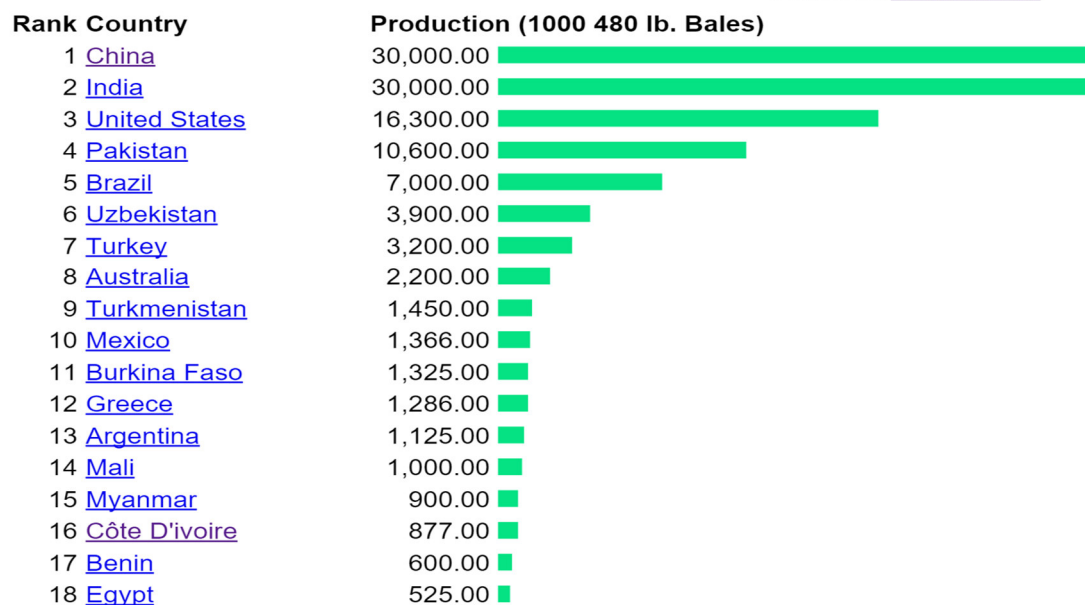
The previous two parts proved the connection between a decreasing world market price of cotton and a lower welfare of the cotton farmers in Benin. Furthermore, the last part showed that the decrease of the world market price of cotton was caused by subsidies of the developed countries. In this section it is discussed why the cotton subsidies of the EU and the US are particularly devastating for the world market price of cotton.

In 2014 China and India were with approximately 3,000,000,000 480 lb Bales the biggest cotton producers worldwide. With 1,630,000,000 480 lb Bales, the cotton producers in the US are on the third place and the EU with 161,100,000 480 lb Bales (128,600,000 480 lb Bales in Greece and 32,500,000 480 lb Bales in Spain) on the ninth place. (IndexMundi 2015: chart 3) Certainly, it could be argued that the US on the fourth and the EU on the ninth place are not as much responsible for decreasing world cotton prices as China and India. But the more important measure for the impact of agricultural subsidies on the world market price is the volume of export. With 3,500,000,000 480 lb Bales, the domestic consumption in China is higher than the production. Hence, China has to import cotton. India has a domestic consumption of 2,420,000,000 480 lb Bales. The better part of the country's consumption is covered by its own production. (IndexMundi 2015: Cotton Consumption by Country) The US are with 1,070,000,000 480 lb Bales by far the biggest exporter of cotton worldwide. Accordingly, the cotton production of the US has the most extensive impact on the world market price. India follows the US with only 390,000,000 480 lb Bales as the second largest cotton exporter worldwide. The EU ranks with 135,000,000 480 lb Bales on the sixth place. (IndexMundi 2015: chart 4) It is important to mention that neither India nor the third largest exporter, Brazil, nor the fourth largest exporter, Australia, nor the fifth largest exporter, Uzbekistan, have a system of agricultural subsidies comparable to the ones of the US and the EU. That is the reason why it is important to investigate in which way the cotton production in the US and the EU is subsidized in order to understand why the subsidized production of cotton in the US and the EU is especially harmful.

Chart 3

Cotton Production by Country in 1000 480 lb. Bales

Switch to: [Growth Rate](#)



IndexMundi, Cotton Production by Country

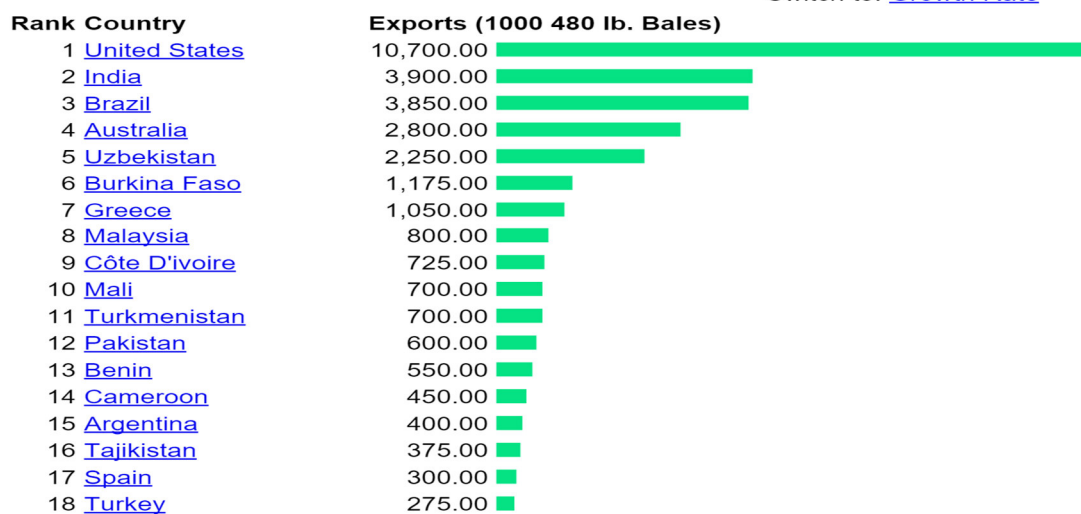
<http://www.indexmundi.com/agriculture/?commodity=cotton&graph=production>

[Accessed: 21 January 2016].

Chart 4

Cotton Exports by Country in 1000 480 lb. Bales

Switch to: [Growth Rate](#)



IndexMundi, Cotton Exports by Country

<http://www.indexmundi.com/agriculture/?commodity=cotton&graph=exports>

[Accessed: 21 January 2016].

4.6 The Cotton Subsidies in the US and the EU

‘U.S. government subsidies to cotton producers come in a variety of forms, and have a wide range of purposes, including minimizing environmental impacts, providing disaster assistance, controlling pests, offering credit assistance, and subsidizing irrigation that provides water to Western states.’ (Woodward 2007: 5)

The system of subsidies is very difficult to look through but some of the most important points are the following. Marketing Loan Payments enable farmers to use ‘their crops as collateral for a loan from the U.S. Department of Agriculture’s Commodity Credit Corporation (CCC). When the world price for cotton falls below the given loan rate, the borrower can repay the loan at the lower price and retain the difference.’ (Woodward 2007: 5) The mentioned decoupled direct payments are paid per hectare. This implies ‘a support of 6.67 cents per pound [for the cotton farmers] and these payments are not counted as a subsidy to production by the ICAC.’ (Robinson 2014) The Countercyclical Payments and Emergency Assistance are designed to protect the farmers against a price decline and are triggered, when the market price falls below the target price. The Crop Insurance ‘is provided through private insurers at a subsidized rate to protect farmers against losses caused by natural disasters.’ (Woodward 2007: 5) Export subsidies are also paid for cotton and as it was explained, this has a highly distorting impact on the world market. Finally, a big part of the cotton subsidies are paid through the Step 2 payments, which were abolished later. ‘This program funnels tax money to U.S.-based cotton millers and exporters so they can buy domestically grown cotton instead of cheaper foreign cotton. These subsidies then allow this cotton to be exported (or “dumped”) at prices that can be lower than the cost of production.’ (Woodward 2007: 5)

Compared to the US’ cotton farmers, the cotton farmers in Benin have a significant comparative advantage, since the production costs are estimated at around USD 0.30 per pound. In contrast, the production costs in the US are around USD 0.68 per pound. (Woodward 2007: 5) In 2013/14, the cotton producers in the US received about USD 593 million and USD 580 million in the year before. The decoupled payments are not included in this estimate. (Robinson 2014)

The EU does not have a traditional cotton-producing sector. The volume of production is much lower than in the US. In 1981, when Greece became a member of the EU, the EU introduced a support program for cotton cultivation. Until today, Greece accounts for circa 80 percent of cotton cultivation. The remaining 20 percent can be assigned by Spain and Bulgaria, where the latter plays a minor role. The subsidies for cotton farmers in the EU are paid 'through a combination of decoupled payments (65% of the total aid of the previous support regime) and crop-specific aid (35%).' (European Commission 2015) With all in all USD 274 million in 2013/14 and USD 262 million in 2012/13, the EU pays less agricultural subsidies to cotton farmers than the US. (Robinson 2014)

However, the cotton farmers in the EU are subsidized much more per person and pound compared to the US. The EU pays nearly half of the amount of the US' cotton subsidies for just a fraction of the US cotton production. Cotton farmers in Greece get USD 0.44 support per pound. In Spain they even get USD 0.84 per pound. Consequently, the inefficiency and the distorting impact corresponding to every produced unit of cotton is on a much higher level in the EU compared to the cotton production in the US. Thus, the agricultural subsidies of the EU are by no means less harmful for the cotton farmers in Benin.

4.7 Political Background of the Cotton Issue

Many countries beside Africa were affected by the lowered world cotton prices caused by the cotton subsidies of the EU and the US as well. It was therefore a big issue at the Doha Development Round. In 2001/2, when the world cotton price reached its lowest point, Brazil was the first country that stood up against the EU and the US. 'On 27 September 2002 Brazil requested consultations on the legality of US cotton support.' (Sneyd 2011: 60) This initiative encouraged the Cotton 4 (Benin, Burkina Faso, Chad and Mali) countries to defend themselves. Benin and Chad decided to become third parties of the dispute. With this experience in 2004, the Cotton 4 'submitted their request to treat cotton as a special product necessitating specific treatment [...]' (Sneyd 2011: 61) in a proposal entitled 'Poverty Reduction: Sectoral Initiative in Favor of Cotton.' They demanded to establish 'a mechanism for phasing out support for cotton production with a view to its total elimination.' (Committee on Agriculture 2003: 2) Furthermore, they

claimed ‘until cotton production support measures have been completely eliminated, cotton producers in LDCs should be offered financial compensation to offset the income they are losing, as an integral part of the rights and obligations resulting from the Doha Round.’ (Committee on Agriculture 2003: 2) 13 other African countries supported this proposal officially. As a consequence, cotton became a key component of the Doha Development Round. The EU and the US refused to pay any compensation and ‘characterized such measures as external to the existing prerogatives of the WTO.’ (Sneyd 2011: 63) In the hallways, the delegations of the EU and the US implored the Cotton 4 countries to diversify away from cotton. Benin played a key role in this process and the ambassador of Benin, Samuel Amehou tried in Geneva to mobilize other members of the African Group on the cotton issue. In ‘2004 the European Commission announced a new EU-Africa partnership on cotton.’ (Sneyd 2011: 63) The EU promised a decoupling of the production and technical assistance of the African countries. As explained in the previous parts, the decoupling was not a favor for the African countries by the EU, but a result of the pressure of the US and other countries with the aim to find a way to keep the agricultural subsidies. Anyway, the proposal of the Cotton 4 countries was not anymore a part of the negotiations. The only concession was ‘cotton duty-free and quota-free market access in the North’ (Sneyd 2011: 66) and an end of the export subsidies until 2006. In the case of the Brazilian request, the US finally disestablished the step 2 subsidies in 2005. In spite of the failure of the initiative, the cotton issue became a big topic for research and later many investigations confirmed the claim of the cotton 4 countries. In 2008 at a meeting of LDC trade ministers the Maseru Declaration was passed, which ‘called the end of cotton subsidies and the realization of commercially meaningful duty and quota free access for 97 percent of LDC exports by the end of 2008.’ (Sneyd 2011: 69-70) In case of the failed Doha Development Round this initiative did not have any effect. Despite of the evidence of the negative impact of the subsidies on the world cotton price there was no progress in the following years. In 2013 ‘[t]he “Cotton-4” and other sub-Saharan producers said [...] that they regret the lack of movement in the negotiations to cut cotton subsidies and open markets [...]’ (World Trade Organization 2013) The Bali Package of 2013 did not include any changes in the

cotton issue. Currently, the WTO members are still discussing about a complete abolishment of their export subsidies, duty free and quota free access for cotton exports from LDCs to developed countries.

After 15 years of negotiations about the cotton issue, no step forward was achieved. The database about the decrease of the world cotton price caused by subsidies and the resulting increase of poverty of the Benin farmers is still increasing.

4.8 Interim Conclusion

The example of cotton production in Benin showed that there is a direct correlation between the agricultural subsidies of the EU and the US and the lower welfare of the cotton producers in Benin. Due to the subsidies, 334 thousand individuals live below the poverty line and had an income loss of about 7 percent. Several studies confirmed that the world cotton price is 4.8—18 percent lower than it would be without the agricultural subsidies of the developed countries.

Benin is just one example, but the low world market prices has a bad impact on many African countries and especially on West African countries including the Cotton 4 countries. Other African cotton producing countries, which also depend on a high level on the world cotton price, are Uganda, Tanzania, Zambia, Kenya and Egypt. They are all trying to defend themselves, but the EU and the US use their economic and political power to keep their subsidies. They carried on longbreathed negotiations without making concessions in the question of cotton subsidies. Finally, they started to avoid multilateral negotiations and to seek to conclude free trade agreements instead. The African countries lost the WTO as a forum to fight with fair rules against the cotton subsidies. The promising public discussion and research about the cotton issue in 2003/4 was gave away to a permanent stagnation. Today there is no public discussion about the cotton issue that attracts broad attention. The EU and the US keep their high level of cotton exports. Neither the EU nor the US plan to abolish or reduce their subsidies. The absolute rate of support rather increased in the last years. Therefore, the future does not promise an improvement but a worsening for the cotton farmers in Benin.

5 Empirical Studies: Kenya and Dairy

The situation of dairy in Kenya is particularly interesting in comparison to the production of cotton in Benin, since the mechanisms of the negative impact of agricultural subsidies are in many aspects different. Whereas, Benin was a LDC, Kenya represents better-developed African countries. It is therefore interesting to analyze whether agricultural subsidies have a bad impact on these countries as well. Hence, it makes sense to examine this example next to the example of cotton in Benin.

The following analysis refers to the milk from cows. Additionally, Kenya produces milk from camels, goats and sheeps. But as the EU and the US do not produce these kind of milks in appreciable quantities, there are no subsidies. Thus, they are not important for the analysis. Furthermore, Kenya's volumes of production of camel milk, goat milk and sheep milk are much lower than the volume of production of cow milk.

It is also mentionable that the case of dairy in Kenya has not been investigated in the same detail as the case of cotton in Benin.

5.1 The History of Dairy Production in Kenya

Kenya is a West African country with a population of approximately 45 million inhabitants, circa 581.000 square kilometers and a mortality rate of under five year old children of 70.7 per 1,000 live births. (World Bank 2015) The Human Development Index (HDI) ranks Kenya on place 147 under 187 countries. (Human Development Report 2014) This means that Kenya is a middle low-income country with good economic conditions compared to other African countries. The real growth rates of the last years were 5.8 percent in 2005, 5.0 percent in 2010, and 5.3 percent in 2014. (World Bank 2015)

Just as Benin, Kenya underwent a long time of colonialism. 'Kenya came under British rule, administered by the British East Africa Company, in 1895. In 1920, Kenya was recognized as a British colony with Nairobi as the capital city.' (Makotsi/Nyariki 1997: 23) British aristocrats encouraged their people to settle in Kenya's highlands. Therefore, most of the country's wealth from cash crops was in the hands of these settlers. Since 1925, the Mau Mau uprising was increasing and led to the formation of the Kenya African Union (KAU) in 1944. The British

government arrested the leaders of this movement, but 'this intensified the struggle for constitutional changes instead of deactivating it, and on 12th December 1963, Kenya became independent [...].' (Makotsi/Nyariki 1997: 23) Like in Benin, a one-party system was installed and the leaders of the KAU were again arrested. Finally, in the beginning of the 90s a multi-party election took place. As in Benin, the colonialists brought 'a small number of pure-bred cattle into country from Europe' (Tesar/Kuada 2013: 92) in 1902. The first creamery was established in Naivasha in 1922. The government installed quickly the Kenya Cooperative Creameries (KCC). '[A] series of agricultural policy reforms, which started in the 1950s [...] allowed indigenous Kenyans to engage in commercial dairy farming alongside their normal cash crop farming [...].' (Tesar/Kuada 2013: 92) Since 1958, Kenya Dairy Board (KDB) is operating to represent the interests of the dairy producers in Kenya. It played a key role to promote the formation of rural dairy societies. The KDB is operating until today and is one of the most important data suppliers for Kenya's dairy sector.

After independence, especially the smallholder dairy production grew quickly and some years later, the KCC had troubles to take all crops. In 1992 the KCC's monopoly was broken up and a private sector was formed. The whole milk production nearly collapsed as the new private creameries paid dairy farmers for their deliveries too late or not at all.

5.2 The Importance of Dairy in Kenya

The dairy production is very important for Kenya's economy as '[d]airy products (excluding live animals) contribute 30 percent of livestock GDP and more than 22 percent of livestock gross marketed products.' (Muriuki 2011: 1) Furthermore, dairy guarantees a huge number of jobs: 'It is estimated that more than 2 million people are employed in the sub-sector in one way or another' and half of them are smallholder dairy farmers. (Mwangone 2009: 1) 'At the farm level, for every 1,000 liters of milk produced, dairy activities generate an estimate of 23 full-time jobs for the self-employed, 50 permanent full-time jobs for employees, and three full-time casual labor jobs, making a total of 77 direct farm jobs per 1,000 liters of daily milk production.' (Muriuki 2011: 21)

Smallholder dairy farmers ‘have 3 to 5 acres (1.2 to 2.0 ha) of land – although some have slightly more than 20 acres (8 ha) and others less than 0.5 acres (0.2 ha) [...]’ (Muriuki 2011: 1) Most of these smallholders have a very low level of annual income. In addition, most of their production is used in domestic consumption. That means approximately one quarter of their total milk production is sold in Kenya. The income generated by selling is very important for the smallholder dairy farmers, as it often guarantees school attendance of children, health care and medication for example.

The milk market in Kenya is divided in a formal market including ‘dairy processors, cooling centers, cooperative societies and farmer groups, while informal institutions comprise consumer households and private traders such as milk bars, retail shops, hotels and restaurants.’ (Mwangone 2009: 8) Informal milk sales account for more than three-quarters of all marketed milk and correspond to 70 percent of the jobs in the dairy sector. The leading areas of milk production are located in regions with relatively high rainfall in the south-west of Kenya. The production increases during the rain periods. Before 2003 and that means before the dairy imports, Kenya was a milk exporting country.

Kenya does not have world wide’s best site-related factors for dairy production. ‘A comparative research of milk production costs between Kenya and New Zealand revealed that the Kenyan production costs are 27% higher than New Zealand’s, but are comparable to the Australian production costs.’ (Mwangone 2009: 10) That means that Kenya’s milk is not the most competitive on the world market. However, it is logically competitive and could be enough for at least a part of the farmers’ income.

The dairy sector in Kenya is, like the cotton sector in Benin related mainly to farmers with middle and low-income. The smallholder production dominates in both countries. On one hand, dairy farmers in Kenya experience a higher risk compared to the producers in the EU and the US, as they depend on the small volume of their production. On the other hand, the smallholder production creates a huge amount of jobs in Kenya.

In contrast to the almost completely exported cotton production in Benin, the dairy production in Kenya is predominantly sold on the domestic market. The case is therefore much different compared to the one of cotton in Benin.

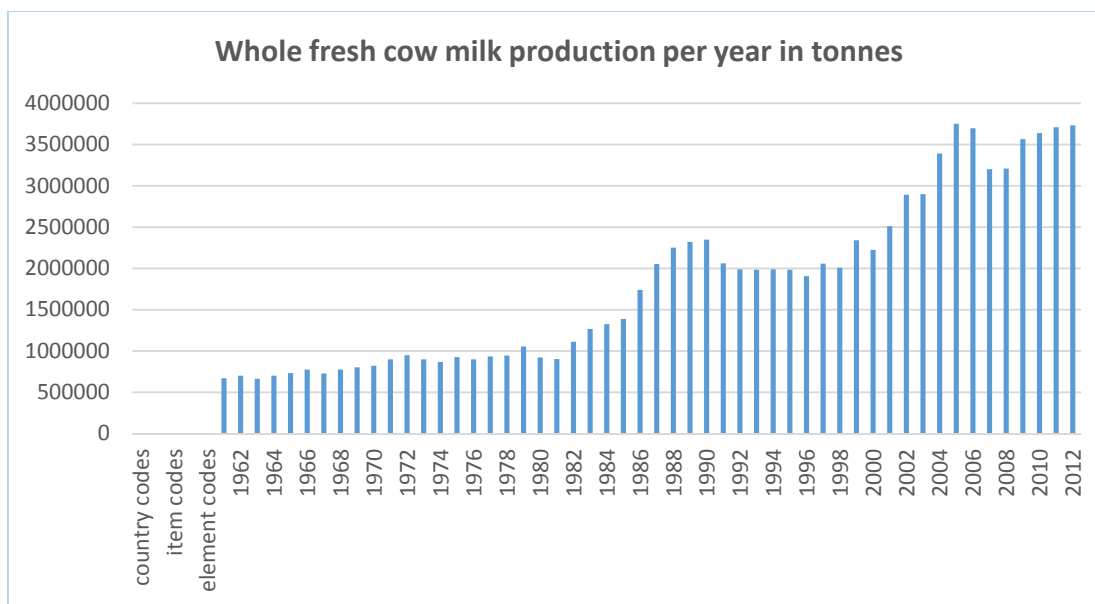
5.3 The Development of Dairy Production in Kenya

Africa accounts for only 5 percent of the whole world milk production. Nevertheless, Kenya is in the top five of the milk producing countries in Africa along with Egypt, South Africa and Sudan. Therefore, it is comparatively a very important sector in Kenya and for Africa. (Hemme/Otte 2010: 20)

From 1962 to 1982 the production of milk was with not more than 111,300 tons on a low level. Until 1990 the production increased to 2,347,019 tons. (FAO 2015: Chart 5) Between 1969 and 1992 a monopolistic market was developed with the KCC in the government to gain greater control over the industry. With liberalization of the milk market, the production suddenly began to decrease to 1,908,000 tons and stayed on a low level of not more than 2,342,000 tons until 2002. Until 2004 the production increased to 2.898.446 tons. In 2006 the level of production reached a maximum of 3,752,200 tons. Later the production of milk decreased again a bit to 3,208,946 tons in 2008 and increased to 3,732,960 tons in 2012. (FAO 2015: Chart 5)

On one hand, the period of decrease in dairy production in 1992 can be explained with the liberalization of the market in Kenya. Many new private creameries failed to pay in time for the dairy from the farmers. On the other hand, the dairy market was also opened in that time for imports such as dry milk powder. 'Dry milk powders are "substitutable products" in relation to raw milk since they can be used in the processing of many products that are normally processed from raw milk.' (Rakotoarisoa/Sharma/Hallam 2011: 142) The Food and Agriculture Organization of the United Nations (FAO) concluded that 'the imported dry milk powders in Kenya should be seen as substitutes for the raw milk that could have been bought from the local farmers [...].' (Rakotoarisoa/Sharma/Hallam 2011: 142) Therefore, the imported milk powder affects the farm-gate producer prices of raw liquid milk.

Chart 5



Food and Agriculture Organization of the United Nations (2015): Production (tonnes), Milk, whole fresh cow. Rome: FAOstat.

<http://faostat.fao.org/site/569/DesktopDefault.aspx?PageID=569#ancor>

[Accessed: 21 January 2016].

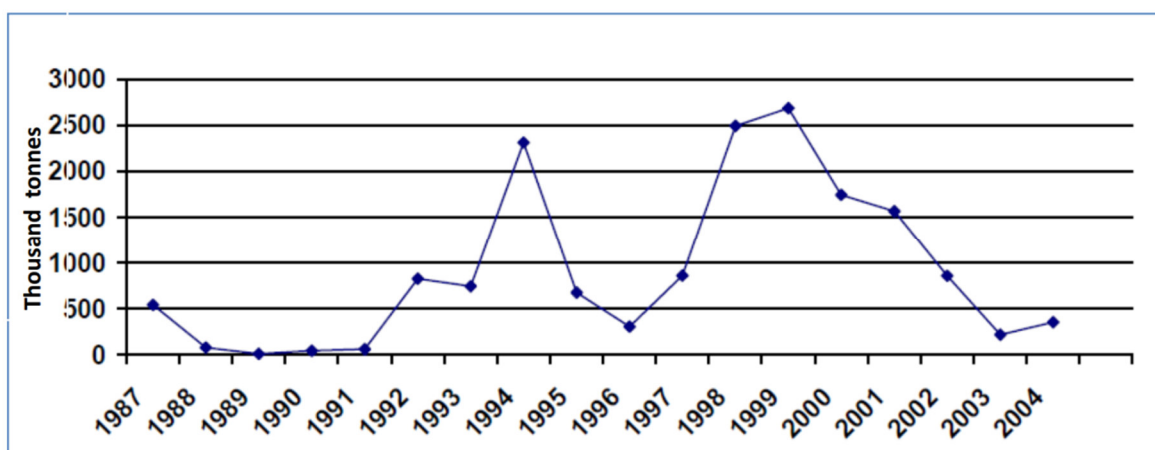
5.4 The Impact of the Milk Powder Import on the Dairy Production in Kenya

The first substantial increase of milk powder imports occurred in 1992—1994 and the second in 1998—2000. In 1994, nearly 2,500 tons of dry milk powder were imported. (Wambua/Miencha 2007: Chart 6) This is a fresh milk equivalent of 408,000 to 21,000,000 liters. Calculated in liquid milk it can be assumed that there was more milk imported than produced locally in 1994. ‘The influx of the imported milk powder, as well as other dairy products, depressed the demand by milk processors of fresh local milk. Small milk producers in particular bore the brunt of the impact.’ (Sharma 2005: 18) The dairy producers were depressed and the prices decreased. Unfortunately, many smallholder producers already collapsed with the first period of high volume of imports. Due to this the KCC began to have management problems. The producers did not have enough reliable suppliers. The production decreased in 1998 to 1,908,000 liters and was on the level of the 1980s. (FAO 2015: Chart 5) The producers found it easier to use imports, which were more reliable. In the same year, the imports boomed from

1997 to 2000 to nearly 3,000 tons of dry milk powder, which was more than in the first substantial increase. (Wambua/Miencha 2007: Chart 6) 'Imported by private dairy and food processing companies, including Nestlé Foods Ltd, Spin Knit Ltd, and Wonder Foods Ltd, the public sector companies had to lower the prices offered to local producers.' (Sharma 2005: 40) That explains the low level of dairy production until 2002. Only an enormous increase in tariffs by the government could change the situation. From 25 percent in 1999 the tariff increased to 35 percent in 2001 and finally to 60 percent in 2002. 'In mid-2002, Kenya banned the importation of butter, milk powder and selected cheeses.' (FAO 2006: 80) After that, the local dairy production increased to 2,898,446 tons in 2004 and continued to increase until today. The short period of lower productivity in 2008/09 can be explained by the financial crisis. After the financial crisis, the production started to increase again.

Chart 6

Imports of Dry Milk into Kenya



Wambua, Tom; Miencha, Fred (2007): An Analysis of the Impact of Import Surges on Rural Poverty in Kenya: The Case of the Dairy Sub-sector. Nairobi: Action Aid, p. 6.

5.5 The EU and the US' Export of Milk Powder

In order to analyze the impact of agricultural subsidies on Kenya's milk production, it is necessary to consider the exports of the US and the EU. It could be argued that it has a bad impact on Kenya when the EU and the US can cover their completely own supply by using agricultural subsidies. The dairy producers in Kenya do not have the same chance to enter the two biggest dairy markets worldwide, as there is an overproduction created by the agricultural subsidies.

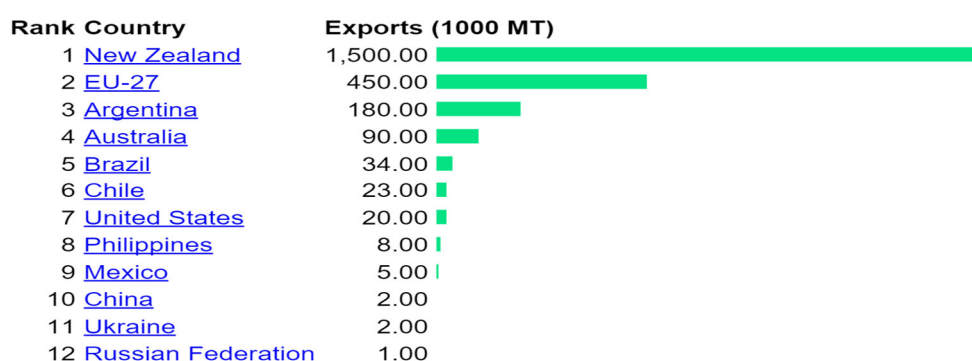
However, the bad impact is caused by exports of the EU and the US. On one hand, they are decreasing the world market prices of dairy products, as it was the case with cotton. On the other hand, the EU and the US destroy Kenya's local dairy production and many very valuable jobs by exporting milk powder to Kenya, which is very cheap due to the subsidies very cheap.

Chart 7 shows that New Zealand is the world's biggest whole milk powder exporter with 150,000 tones. The EU is on the second export place with 45,000 tons of whole milk powder. Argentina, Australia, Brazil and Chile follow on the next places and the US takes place 7 with 2,000 tons of whole milk powder. (IndexMundi 2015: chart 7) It could be argued that New Zealand has the worst impact on Kenya, as they export most whole milk powder worldwide. However, there are two reasons why this cozens. First, 'New Zealand has the lowest level of agricultural support for developed countries, which was around 2 percent of the value of output in 1999 compared with an OECD average of 40 percent.' (Ingco/Nash 2004: 219) 1999 felt into the second period of substantial increase of the milk powder imports in Kenya and in those days New Zealand had already removed its agricultural subsidies. In contrast, the EU had a very high level of agricultural subsidies in 1999, as it will be shown later. Furthermore, New Zealand has locational advantages as it has a good climate for dairy production. The EU needs to build barns to protect the cows against cold winters, which is very expensive. Second and most important, chart 8 shows that the EU is on the first place of exports, when it comes to dry nonfat milk powder with 66,000 tons in 2015. The US follows as the second biggest dry nonfat milk powder exporter with 51,600 tons. New Zealand follows on place three with just 39,500 tons of dry nonfat milk powder exports. In the case of Kenya and dairy, the milk powder imports are the distorting factor and not the raw milk exported by New Zealand.

It is also interesting to have a look on the annual growth rate of whole milk powder exports, as the EU had a growth rate of 12.5 percent and the US 11.1 percent in 2015. This suggests that the bad impact of the agricultural subsidies on Kenya increases.

Chart 7

Dairy, Dry Whole Milk Powder Exports by Country in 1000 MT

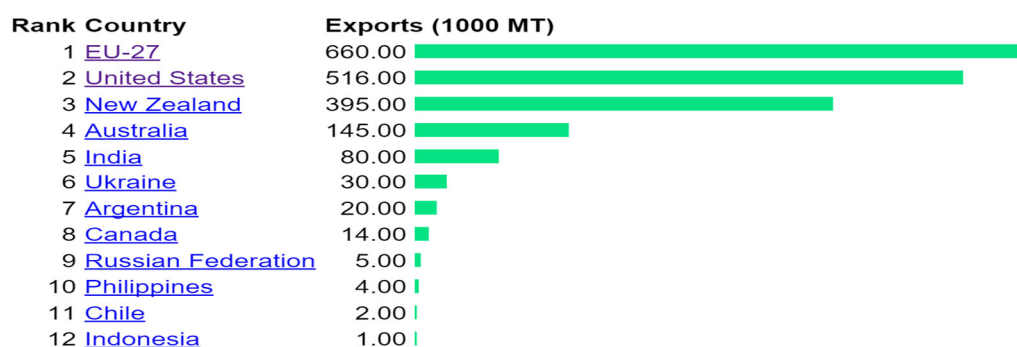


Year of Estimate: 2015

IndexMundi, Dry Whole Milk Powder Exports by Country
<http://www.indexmundi.com/agriculture/?commodity=powdered-whole-milk&graph=exports> [Accessed: 21 January 2016].

Chart 8

Dairy, Milk, Nonfat Dry Exports by Country in 1000 MT



Year of Estimate: 2015

IndexMundi, Milk Nonfat Dry Exports by Country
<http://www.indexmundi.com/agriculture/?commodity=nonfat-dry-milk&graph=exports> [Accessed: 21 January 2016].

5.6 Agricultural Subsidies and EU and US' Milk Powder Exports

Together with sugar cultivation, dairy production is one of the most regulated and subsidized agricultural sectors in the EU. The common market for dairy was established in 1964 and included target prices, intervention prices for butter and threshold prices for imported dairy products. 'The target price is a theoretical price, which the EU Commission aims to achieve through market intervention, consumption subsidization, and restricted imports. Intervention prices are used to determine when the appropriate member state agencies should enter the market to purchase dairy products (butter and SMP [Skimmed Milk Powder]) to support the prices of milk.' Finally, the threshold prices are minimum import prices used to establish variable levies. (Okun et al. 2004: 4.8-4.9) In 1968 the EU established a production aid and export subsidies just for SMP, as it is easy to export the lightweight and long lasting powder. This led to a high volume of overproduction in the EU. Because of this, the EU began to subsidize the storage of butter and SMP. The EU restricted imports more and more. 'By 1984, milk supply exceeded internal demand by 20 percent, and gross expenditure on export refunds, storage, consumption aids, and processing aids consumed 30 percent of total CAP budget (equivalent to 17 percent of the total budget of the European Community).' (Okun et al. 2004: 4.9-4.10) The EU reacted to this situation by establishing a milk quota system, which originally was set to expire in 1993, but was extended several times. 'The quotas are enforced by a levy of 15 percent of the target price imposed on milk production in excess of the member's reference quantity.' (Okun et al. 2004: 4.10) But this did not stop the overproduction because the sanctions were too low. With the Agenda 2000 the EU established a 15 percent cut in the intervention price of SMP until 2004. (Josling/Swinbank 2008: 27) In these years the exports of SMP to Kenya began to decrease. This illustrates that the EU did not stop the exports to do something good to developing countries' dairy producers. Instead, it reduced its own costs and stopped the increasing overproduction. In 2015, the quotas expired. This implies that the European dairy producers will have to find other ways to gain their earnings. It is probable that they will try to export even more, as they can no longer sell certain quantities for guaranteed prices and they need to produce more to keep their current income level. With decoupled payments, subsidized food for cows, subsidies for building

new barns, tariffs on dairy imports and many more regulations, they have good opportunities to further extend their production in future. It is most likely that the dairy producers in Kenya will suffer again.

After the abolition of the export subsidies, the EU installed compensation payments. In a period in 2009, the EU reestablished the export subsidies again. Hence, it can be supposed that the EU does not plan to abolish the subsidies.

The US' dairy production has similar structures, even if the volume of production is much lower. The federal milk marketing orders (MMOs) include import quotas as well, export subsidies, price supports and classified pricing. Already in 1935 the US started to support the farm price of dairy products. '[B]y the late 1970s, these policies contributed to creating large milk surpluses and growing government purchases, inventories, and budgetary burdens [...]' (Cox/Chavas 2001: 89) like in the EU. The main difference between the EU and the US is that the US did not establish a quota system for the production volume but switched from price support to higher loans and producer support. Simultaneously in 1985, the US established the Dairy Export Incentive Program (DEIP), which 'helps exporters of U.S. dairy products meet prevailing world prices for targeted dairy products and destinations.' (United States Department of Agriculture 2015) This program supports particularly production and export of SMP. The DEIP 'pays a subsidy to dairy product exporters by paying them cash bonuses that allow them to purchase at higher U.S. prices and sell at lower international prices.' (Hadjigeorgalis 2005: 3) Originally, the price support program was designed to end in 1999, but it was extended twice and finally expired in 2014. This was not sufficient to stop the overproduction. Like the EU, the US focus on exports to solve this problem, while they keep on paying direct payments to dairy producers. Neither in the EU nor in the US is there a significant discussion about a complete abolition of their subsidies. The export strategies of the EU and the US destroy opportunities for African, especially Kenyan dairy producers to expand their production. They have to protect their markets and local producers by high tariffs against the will of the Western countries. The Western countries are talking about free markets and keep on subsidizing their dairy production. They are criticizing and prohibiting the tariffs of African countries simultaneously.

5.7 Political Background of the Dairy Issue

Chapter 2 described the failure of the negotiations at the Doha Development Round and changes in the strategies of the EU and the US in order to keep their agricultural subsidies while simultaneously opening the markets of other countries for their subsidized products through free trade agreements. Because of this they started to negotiate trade agreements and this happened to Kenya, too. It is particularly interesting for the case of dairy to review the current situation.

Kenya entered the WTO in 1995 and is known as ‘an advocate of the “Africa group” coalition, rising concerns from an African perspective [...]’ (Mosoti/Gobena 2007: 330) In 2000 Kenya was one of the founders of the East African Community (EAC) with its own common market. Burundi, Rwanda, Tanzania and Uganda are other members of the EAC.

In 2002 the Cotonou Agreement of African, Caribbean and Pacific States (ACP) as well as the EU was applied to Kenya. In addition, with this agreement, Kenya obtained duty free access to the European market except for ‘sensitive’ products. Most of these ‘sensitive’ products are subsidized agricultural products. It is especially important for Kenya to get free access to agricultural products like flowers, fruits and milk. Furthermore, the Cotonou Agreement required the African countries either to keep their tariffs on a low level or to abolish them. It is planned to replace the Cotonou Agreement by the Economic Partnership Agreement (EPA). The negotiations are still ongoing and involve many countries. As one of the leading negotiators, Kenya experienced great pressure. Many NGOs like Germanwatch, Oxfam, Terre des hommes and others refuse the EPA due to its attempt to liberalize and open the market for subsidized products of the EU. Kenya’s civil society fought against a signing and this is one of the main reasons ‘why negotiations over the EPA had been going on for more than 10 years [...]’ (Moulds 2015) As a result, Kenya lost its duty free access to the European market in 2014. ‘Two-thirds of Kenyan exports are facing fresh tariffs, ranging from four percent to 24 percent. It is serious cause for concern, as thousands jobs are under threat.’ (Bilal 2014) It is estimated that 250,000 jobs were destroyed by the new duties, as the EU is the biggest export market for Kenya. All this happened because Kenya ‘has just been reclassified as a middle low income country following new statistics showing that its economy is 25 percent bigger than

previously assessed.' (Bilal 2014) With this classification, it was much easier for the EU to put pressure on Kenya. In the previous parts it was shown that the development of the tariffs was necessary in case of a functioning dairy sector, which provides jobs to the Kenyan population. EPA forced Kenya to abolish all tariffs and this means also the tariffs on SMP. This will lead to the same situation as in the beginning of the 21 century and the completely dairy sector could collapse. Cameroon was prompted by these duties to sign and Kenya followed some weeks later. (Bilal 2014)

The US provide free market access for Kenya through the African Growth and Opportunity Act (AGOA) since 2000. AGOA extended the export of Kenya to the US market. In return, Kenya had to open its markets in some sectors and the US extended their exports to Kenya. (Odongo 2013: 3) In contrast to the EPA, the AGOA does not force Kenya to abolish tariffs on important agricultural products, which are subsidized in the EU and the US. Hence, it can be said that the US accept Kenya's tariffs for subsidized agricultural products and is not as a big threat as the EU is.

5.8 Interim Conclusion

The case of dairy in Kenya was particularly interesting in comparison to the case of cotton in Benin. The agricultural subsidies for milk have a decreasing effect on the world market prices of dairy products as well. Nevertheless, the worse impact is caused by the exports of SMP. Moreover, Kenya is a middle low-income country in Africa, but this did not protect the country against the bad impact of the agricultural subsidies. This classification was more a disadvantage than an improvement.

Like the cotton production in Benin, the dairy production in Kenya was established by colonialists. Today, it provides nearly two million jobs and most of the production is used in domestic consumption. The fact that most of the produced dairy is consumed locally is also the reason for the particular bad impact of the imports of subsidized SMP from the EU and the US. The analysis demonstrated causality between the growing overproduction of dairy in the EU and the US, increasing imports of SMP to Kenya in 1992—1994 and in 1998—2000 and a lower production of dairy products in Kenya in the same years. This

led to a high amount of job losses. The EU was to a large extent responsible for the lower dairy production in Kenya, as most of the imports came from the EU. Only a cut in the intervention price of 15 percent for SMP in the EU and a very high tariff of 60 percent on imported dairy products in Kenya could stop these imports. When the imports of SMP stopped, the dairy production started to increase again. This increase is still ongoing.

Neither the EU nor the US plan to abolish their subsidies for the dairy production. Even more, both announced to extend their exports. In addition, the EU is very aggressive in promoting an abolition of the high tariffs in Kenya. With the EPA, the EU forced Kenya to open its market for SMP. Only the well developed civil society could prevent the ratification. Finally, the EU used duties as an instrument of punishment and Kenya could not resist to ratify the EPA anymore. The EU has the biggest market in the world and the most important export partner for Kenya. Thus, Kenya had high losses through these duties. The agricultural subsidies of the US have a comparatively low impact on the dairy sector in Kenya, although they are also disturbing the world market prices.

6 Comparisons between the Impact of the EU and the US' Agricultural Subsidies

The previous chapters proved that the agricultural subsidies of the EU and the US have a disadvantageous impact on African countries. Now it is illustrative to compare the impact of agricultural subsidies on African countries between the EU and the US. It is incontrovertible that both induce great economic losses for African economies through their agricultural subsidies. However, there are differences that will be investigated in the following sections.

6.1 Comparison of the International Negotiations

In the introduction it was already mentioned that in total USD 258 billions of subsidies have been paid for producers of agricultural products and USD 355 billions of total support for their agriculture (OECD: 2015) in 2014. The absolute amount of agricultural subsidies that are paid is increasing. The reason for this is that the EU and the US installed a legal system for agricultural subsidies

internationally. It can be said that the EU acts more aggressive to protect subsidies than the US. Before World War II, the countries of the EU acted as single players and had different interests. But since the common market and the common agriculture, the EU constitutes the biggest market worldwide. Countries like Denmark, Netherlands, or Great Britain that are traditionally skeptical about agricultural subsidies, had to install such payments, and were internationally represented by the EU that is fighting to preserve the agricultural subsidies. If the US had not defeat a signature of the ITO, the whole situation on the world market could be different. It can be assumed that agricultural protectionism would be on a much lower level worldwide. However, after World War II, the EU became the most powerful negotiator with the common agricultural market. The EU began to use this power at the Uruguay Round. The US lost their role as the most powerful negotiator. This might have been a reason for the US to create a coalition against the EU.

The Uruguay Round was dominated by the refuse of the EU to abolish its product supports and export subsidies, although it has been clear to everyone that these subsidies had a dramatically distorting effect on the world market. In those days, the US and a coalition of many other countries prohibited that the EU could enforce its will. Nevertheless, neither the US nor the EU have shown willingness to change the current agreement of the green-box, which allows agricultural subsidies, later at the so-called Doha Development Round. Additionally, the EU and the US argued for these subsidies with reference to sustainability and greening in the EU and to sustainable bioenergy in the US. Both, the EU and the US are to a large extent responsible for the failure of the Doha Development Round and created an international system of free trade agreements. This put the African countries in a bad position for negotiations, as they do not have the same economic power as the US and the EU. Often, they had to accept the terms based on arguments of the EU and the US to get access to the two biggest world markets. Typically, the EU is more aggressively insisting on these free trade agreements, as the case of EPA and Kenya showed.

All in all, the EU is the more aggressive negotiator, but both the US and the EU were responsible for the legal status of the decoupled subsidies. However, the US

demonstrated more willingness to compromise and did not want to keep the most distorting subsidies like the export subsidies and the product supports.

6.2 Comparison of the Impact at the Two Case Studies

The two case studies that have been analyzed in the two previous sections are very interesting for a comparison of the impact of the EU's and the US' agricultural studies, because there are different mechanisms and impacts.

In the case of cotton in Benin, the US is the more important player with worse impact. They have the highest volume of export worldwide and cotton production is a traditional sector in the US. The EU follows on the sixth place, when it comes to cotton exports.

The way of subsidizing is almost the same in the EU and the US. Both provide most of their subsidies through decoupled payments. The negative impact of the agricultural subsidies of the US is particularly due to the fact that Benin's cotton production is more competitive than the one in the US. These subsidies destroy opportunities of Benin, the C4 and all other cotton-producing countries in Africa to take advantage of their cheaper and more competitive cotton production. The latter could be an important factor stimulating the development of Benin. However, the US overflow the world market with their subsidized cotton and distort the prices. The EU does not produce a high amount of cotton, but subsidizes it much more than the US. Therefore, The EU has a distorting influence on the world market prices of cotton as well. Both, the US and the EU, are to a large extent responsible for the poverty of African cotton producers.

In the case of dairy in Kenya, the EU is much more harmful for Kenya. Caused by their agricultural subsidies, both produce too much milk. Both are trying to solve this problem by conversion of fresh milk to SMP. To get rid of this SMP, they pursued an export oriented strategy with export programs like DEIP in the US or export subsidies in the EU. It can be expected that their exports will grow, as the growing rates are nearly the same with 12.5 percent in the EU and 11.1 percent in the US in 2015. It can be supposed that the EU will focus more on the export of SMP, because it was used to have quotas in the last 30 years. With expiration of the quota system, the EU will try to find other ways to get shot of the dairy overproduction. This could be a reason why the EU exerts such a pressure on

Kenya to open its market. There is a big difference between the EU and the US in this case. The EU uses the status of Kenya as a middle low-income country to force it to open its market for EU exports. It started to punish Kenya with high duties and Kenya finally bowed and signed EPA. It can be estimated that Kenya will lose many jobs and billions of income in the next years. The EU forced Kenya to reduce its tariffs, although the WTO allows Kenya to have tariffs on agricultural products. In contrast, the US accept these arrangements with the AGOA. This demonstrates again that the EU is a much more aggressive negotiator. Often, the EU overrides international agreements in order to push its own interests.

7 Conclusion

Finally, the most important results of the thesis are summarized to make conclusions.

Benin represents a LDC and approximately half of all households rely on cotton. Almost all of its cotton production is exported. Due to this Benin is especially dependent on the world market price of cotton. The high production and volumes of export of US' amount produces lower cotton prices on the world market. Studies showed that the welfare in Benin decreased with the decrease of the world cotton price from 1994—2002. A reduction of 40 percent in the cotton price caused a poverty rise of 8 percent, which is equivalent to 334,000 individuals below the poverty line in Benin. Several studies analyzed the impact of agricultural subsidies on the world market price and came to the result that they lower the price by 4.8 to 18 percent. In 2001—2002 Benin suffered export losses due to US cotton subsidies of USD 33 million, although the cotton farmers in Benin had a significant advantage compared to the cotton farmers in the US. In the EU, the cotton farmers receive much more subsidies per pound of produced cotton. The EU pays nearly half of the amount of one of the US cotton subsidies, while its volume of production is a fractional amount of the US production. Therefore, the EU is responsible for the distortion of the world market price of cotton as well.

Kenya represents a middle low-income country in Africa. It is also strongly affected by agricultural subsidies. With 2 million employees dairy production is a

very important sector for the Kenyan economy. Most of its production is sold on the domestic market. Hence, the import of dairy and particularly of the lightweight and long lasting SMP is an important factor. In 1992—1994 and in 1998—2000 Kenya had a much lower volume of dairy production. This was caused by high SMP imports, as local producers had to decrease their prices in order to be competitive to SMP. To protect itself against these exports, Kenya tariffed imports with 60 percent. Since the quotas for dairy in the EU expired in 2015, it can be assumed that the problem of high overproduction will return. This might be a main reason for the EU to put pressure on Kenya to sign the EPA. Kenya had to ratify the EPA in order to regain its free access to the EU's market, which is the most important export market for Kenya. The US focus with DEIP on SMP export but as well in contrast to the EU, it does not force Kenya to abolish its tariffs.

These two case studies provided answers to the research question about the impact of the EU's and the US' trade policies and their agricultural subsidies for cotton and dairy on Benin and Kenya. In brief, the agricultural subsidies and trade policies cause enormous economic losses for Benin and Kenya. Both countries experience a decrease in GDP and development and a higher percentage of inhabitants live below the poverty line.

The second research question about the differences between the impact of the US and the EU was answered by comparison between the EU and the US. The result was that the EU acts more aggressive in international negotiations about agricultural subsidies than the US. With its power as the biggest market worldwide, it had an enormous influence and refused to sign a contract about abolition of export subsidies. Together with the US the EU used its power, to install decoupled payments via the green-box a system of legalized agricultural subsidies. The EU and the US are both to a large extent responsible for the failure of the Doha Development Round. Again, the EU acts more aggressively, when it comes to negotiations on free trade agreements. In case of dairy in Kenya the EU forced Kenya to sign EPA with the punishment of tariffs. The increasing agricultural subsidies cause still a high rate of overproduction. Therefore, the EU and the US are both focusing on an export strategy. This will cause more

economic losses for African countries in the future as the two cases of Benin and cotton and Kenya and dairy suggest.

The thesis demonstrated that African countries are affected by the US and EUs' agricultural subsidies in a very harmful way. On one hand, it could be argued that the cases of cotton in Benin and dairy in Kenya with dairy do not prove that every African country has to suffer and the cases have to be treated as individual cases. On the other hand, the C4 showed that more African countries were affected. Moreover, many economists like Josoph Stiglitz and Kym Anderson identified a general problem that concerns most African countries.

Finally, it is important to reason political advices. First, the developed countries should not try to overcome international negotiations at the WTO by contracting free trade agreements anymore. Only a democratically organized WTO guarantees fair negotiations for African countries. Thus, the US and the EU should initiate the Doha Development Round a second time with the honest will to stop their agricultural protectionism. The developed countries also have to provide the African countries with professional consulting to give them the juridical knowledge to fight for their rights. Second, the decoupled payments have to be classified as amber-box subsidies, since there are good economic arguments to assume that they have a very distorting impact on the prices. Developed countries, which reinstall export subsidies, should be punished. Furthermore, the 'green' subsidies in the Second Pillar and for sustainable energy have to be checked regarding their necessity and distorting impact for international trade. The examples of New Zealand and Australia show that developed countries are able to establish a non-protectionist and efficient agriculture. Until the developed countries stopped their protectionism in agriculture, African countries should be allowed to keep their tariffs. Third, the developed countries have to keep their markets as open for African products as possible to give the developing countries chances for economic development. This means that all non-qualitative standards have to be checked concerning their necessity and their protectionist effect. The EU and the US should never be allowed to use tariffs as a punishment against African developing countries.

By undertaking these reforms, the African countries do not need to be supplicants who are completely dependent on the kindness of the developed countries any

more. Thus, the developed countries do not need to be benefactors who are swimming in their own self-adulation. An abolition of the protectionist agricultural policy can be a much more effective, sustainable and respectful way to support the African developing countries than all our today's development aid.

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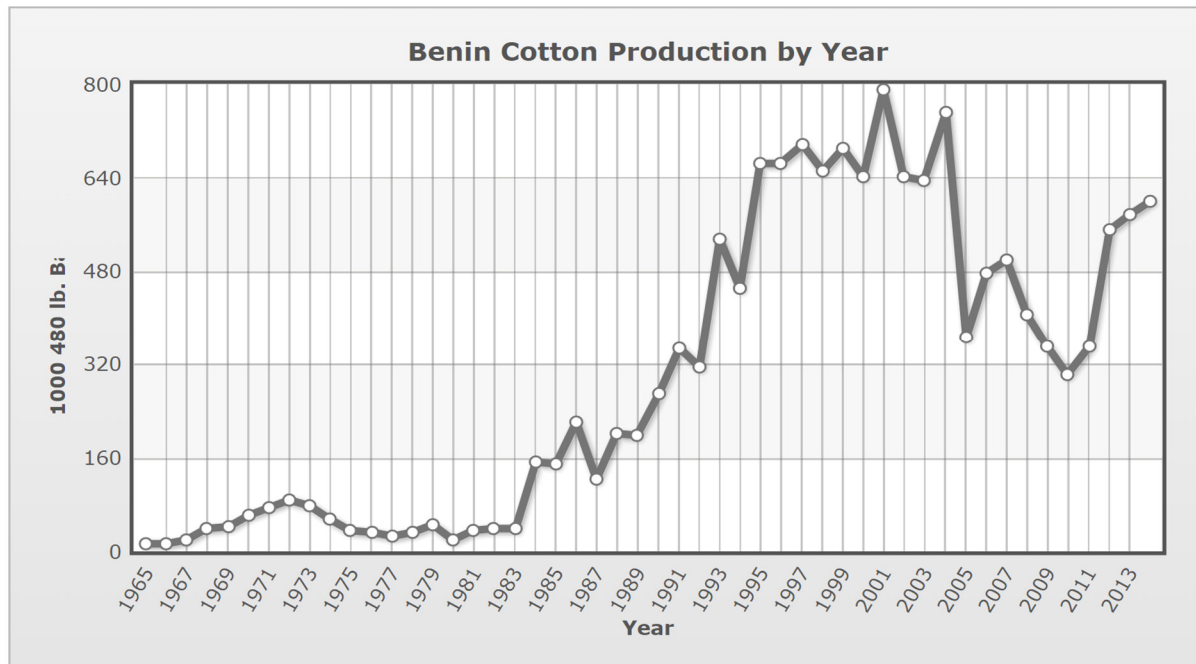
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9 Table of Figures

Chart 1



IndexMundi, Benin Cotton Production by Year

<http://www.indexmundi.com/agriculture/?country=bj&commodity=cotton&graph=production> [Accessed: 21 January 2016].

Chart 2



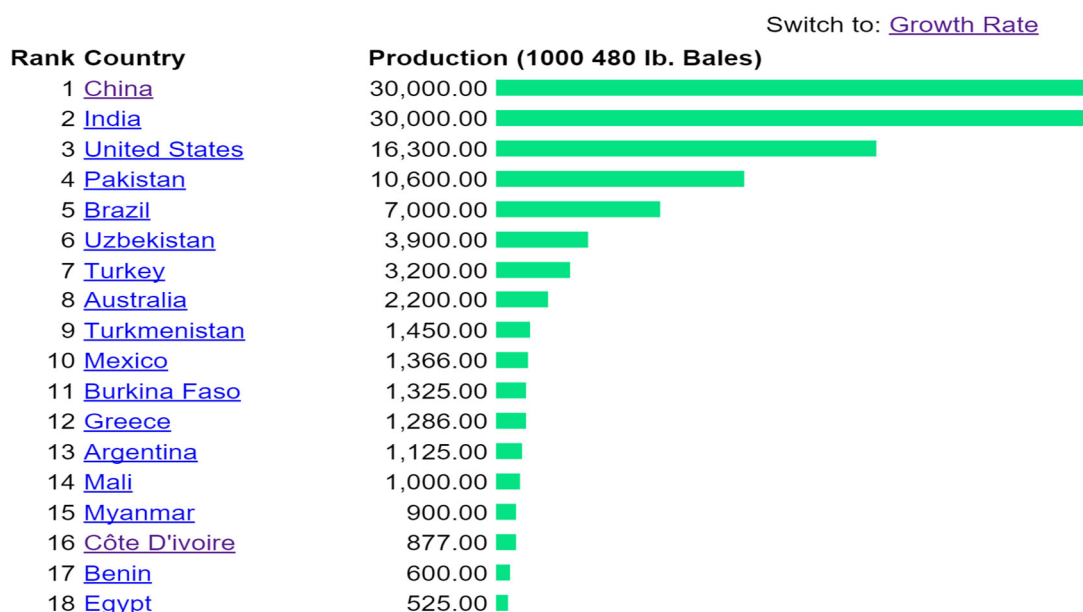
Description: Cotton, Cotlook 'A Index', Middling 1-3/32 inch staple, CFR Far Eastern ports, US cents per Pound

IndexMundi, World Cotton Price

<http://www.indexmundi.com/commodities/?commodity=cotton&months=300> [Accessed: 21 January 2016].

Chart 3

Cotton Production by Country in 1000 480 lb. Bales



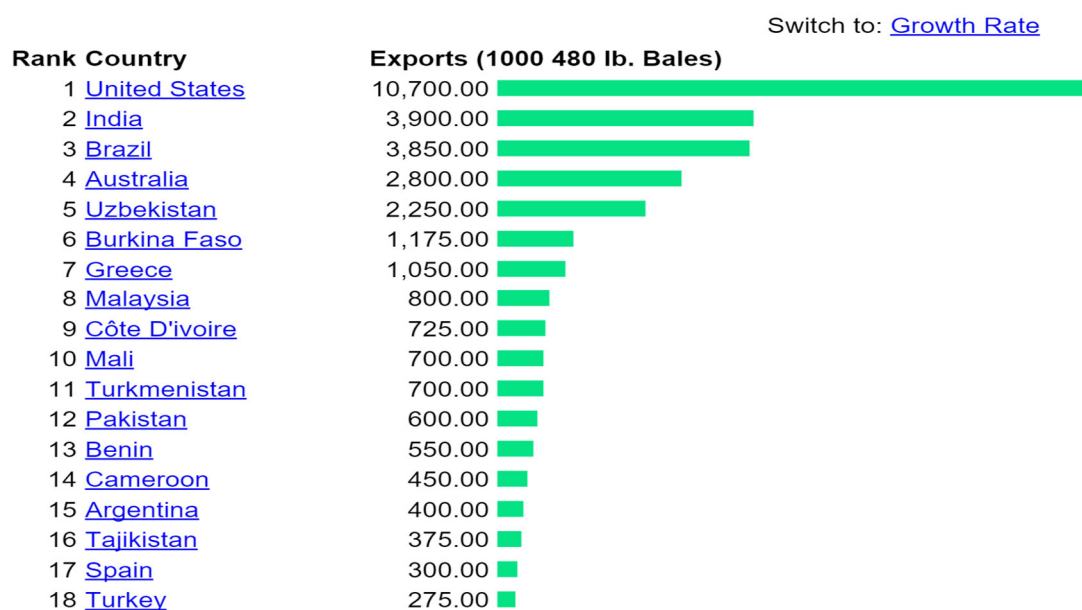
IndexMundi, Cotton Production by Country

<http://www.indexmundi.com/agriculture/?commodity=cotton&graph=production>

[Accessed: 21 January 2016].

Chart 4

Cotton Exports by Country in 1000 480 lb. Bales

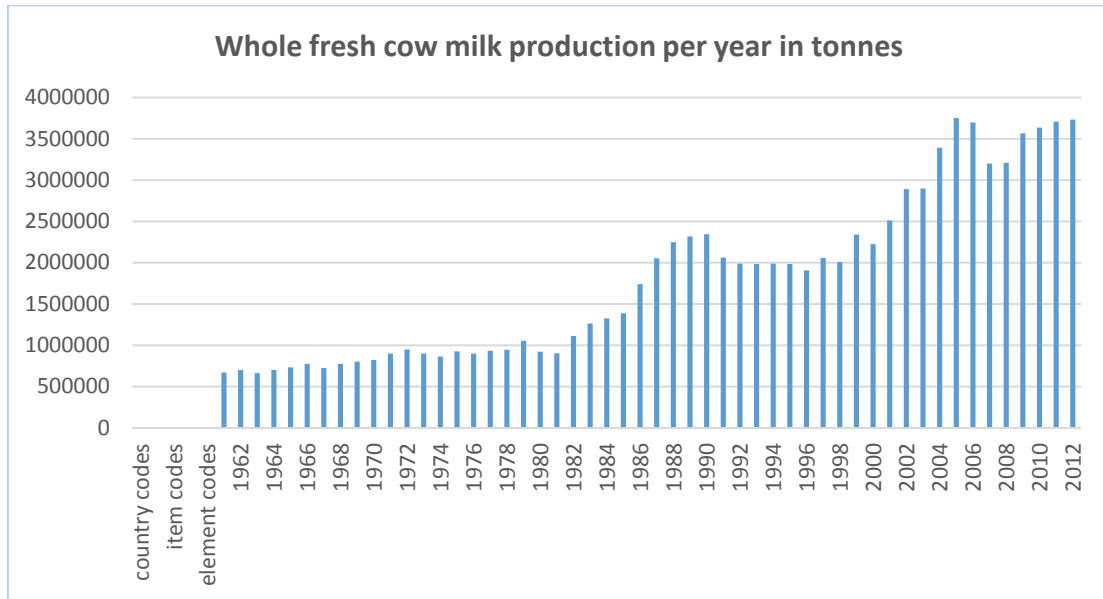


IndexMundi, Cotton Exports by Country

<http://www.indexmundi.com/agriculture/?commodity=cotton&graph=exports>

[Accessed: 21 January 2016].

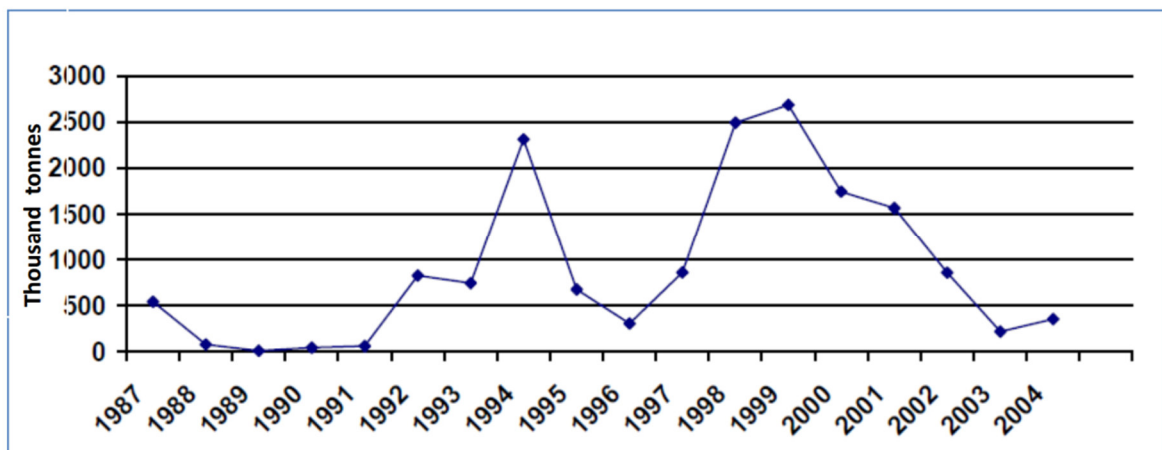
Chart 5



Food and Agriculture Organization of the United Nations (2015): Production (tonnes), Milk, whole fresh cow. Rome: FAOstat.
<http://faostat.fao.org/site/569/DesktopDefault.aspx?PageID=569#ancor>
 [Accessed: 21 January 2016].

Chart 6

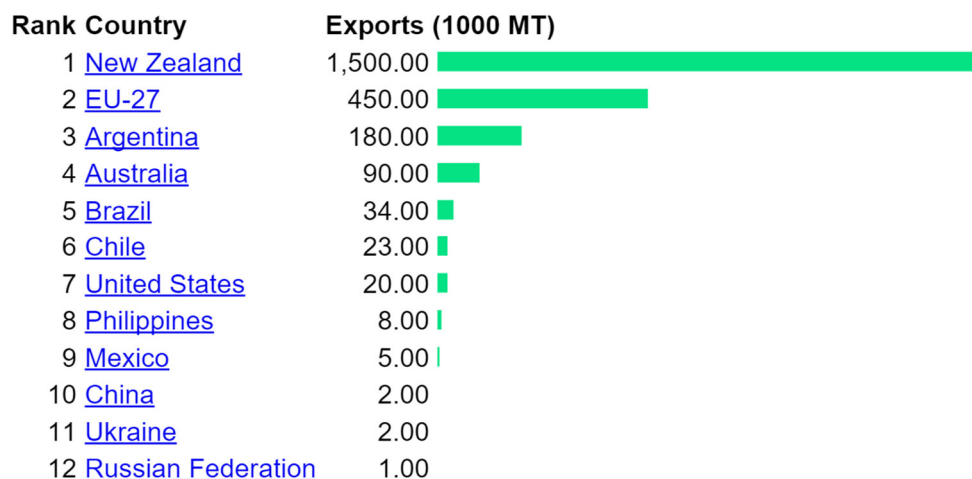
Imports of Dry Milk into Kenya



Wambua, Tom; Miencha, Fred (2007): An Analysis of the Impact of Import Surges on Rural Poverty in Kenya: The Case of the Dairy Sub-sector. Nairobi: Action Aid, p. 6.

Chart 7

Dairy, Dry Whole Milk Powder Exports by Country in 1000 MT

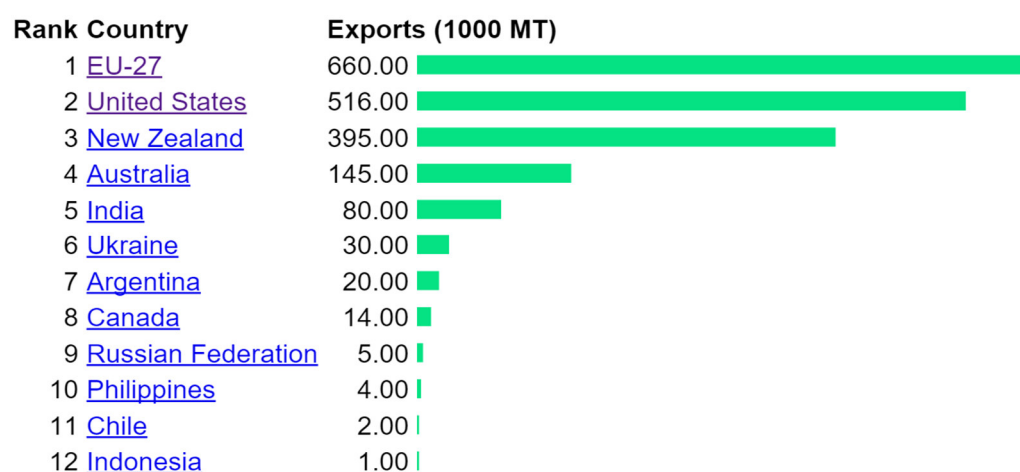


Year of Estimate: 2015

IndexMundi, Dry Whole Milk Powder Exports by Country
<http://www.indexmundi.com/agriculture/?commodity=powdered-whole-milk&graph=exports> [Accessed: 21 January 2016].

Chart 8

Dairy, Milk, Nonfat Dry Exports by Country in 1000 MT



Year of Estimate: 2015

IndexMundi, Milk Nonfat Dry Exports by Country
<http://www.indexmundi.com/agriculture/?commodity=nonfat-dry-milk&graph=exports> [Accessed: 21 January 2016].