

# Food “Dumping”: Does it Help Hungry People?

## *What is dumping?*

The term “dumping” is used to describe the process whereby a business in one country exports a product to another country at a price **below the cost of production** (when the price a product is sold for is lower than what it actually costs to make the product). In our current global system, the United States and the European Union are most commonly criticized for dumping agricultural goods (wheat, soybeans, corn, rice, cotton, etc ...) into developing countries. It is necessary for people in the U.S. to understand dumping because it is one contributing factor to the perpetuation of poverty in developing countries.

## *Background on dumping:*

For example, it costs Mary, a family farmer in Iowa, three dollars to produce a bushel of corn. Those three dollars include the costs for all of her inputs: labor, seeds, fertilizers, water, and the other items that go into producing corn as well as a small profit of ten cents for Mary. Under our current food and agricultural system, Mary will most likely sell the corn to an agribusiness firm such as Cargill or Archer Daniels Midland. That firm will then either sell her corn to a food retailer in the United States, export her corn to another country, or make another product from her corn.

But, there are many other U.S. farmers selling their corn. Only a few agribusiness firms, however, buy corn from farmers. With a large supply of corn from thousands of farmers and a demand for corn that is controlled by the few agribusiness firms, these firms have a great deal of power and can drive down the price that they pay for corn. So the agribusiness firm will only pay two dollars for Mary’s bushel of corn even though it costs her three dollars to produce. Mary continually loses money on her crop and is forced to take out loans, go in to debt, or receive government subsidies if she wants to continue to farm. At the same time, the agribusiness firm has cheap corn that it can export to developing countries at below the cost of production. This corn is then sold in markets throughout the developing world at prices that do not reflect how much it cost to produce.

## *Why does dumping happen?*

Although there is much debate about the root cause of agricultural dumping, some of the factors contributing to dumping include:

- A lack of effective **supply management**. Traditional economic thinking would usually dictate that as prices drop, producers will slow down their production until prices rise again. However, as agricultural prices drop, farmers tend to continue producing as much as they can to try to maintain adequate revenues. Agriculture differs from other industries in this way. This means that oversupply occurs frequently in agricultural production, which means that prices are often low. In turn, this means that the cheap agricultural goods are exported at below the actual cost of production. A form of supply management could assist in solving this problem.

## “Dumping Rates”

*In 2003, the United States consistently “dumped” goods into markets in the Global South:*

- **Wheat** was exported by the U.S. at an average price of **28%** below the cost of production
- **Soybeans** were exported from the U.S. at an average price of **10%** below the cost of production
- **Corn** was exported from the U.S. at an average price of **10%** below the cost of production
- **Cotton** was exported from the U.S. at an average price of **47%** below the cost of production
- **Rice** was exported from the U.S. at an average price of **26%** below the cost of production

Source: Sophia Murphy, “WTO Agreement on Agriculture: A Decade of Dumping,” Institute for Agriculture and Trade Policy ([www.iatp.org](http://www.iatp.org))

## *Food Aid: Development or Dumping?*

Generally, international food aid is thought of as a humanitarian effort. But is food aid always beneficial to its recipients? Is food aid another way that rich countries “dump” surplus agricultural goods on to countries in the Global South?

Ultimately, food aid is a short term solution to much deeper problems. As some food aid experts argue, to eliminate hunger in a world of plenty, the international community must commit itself to combating poverty itself, not simply making food available to poor people.

### *How are food aid and “dumping” related?*

Food aid can sometimes be used by developed countries to dump their surpluses of agricultural goods into the Global South. If food aid is not distributed at the correct times and in the appropriate ways, it has the potential to:

- **Damage local production** and agricultural development in recipient countries; and
- **Depress already low prices** for farmers around the world;

Which are similar consequences to other forms of dumping.

### *What would an improved food aid system look like?*

International food aid programs could increase their effectiveness by:

- Shifting away from focusing purely on food and begin emphasizing other aspects of development. As international affairs expert John Prendergast argues: “There must be a continuing shift in the aid ratio of food to non-food items, favouring the latter, prioritizing strategies to rehabilitate internal commercial networks, primary health care networks, veterinary networks, and seed and grain banks.”
- Being distributed in grant (cash) form instead of commodity (in-kind) form; and
- In-kind food aid should be limited to situations of acute local food shortages where local purchasing is not possible.

- Currently, the government gives payments to farmers who produce certain commodities such as corn, wheat, and cotton. These payments, called **domestic supports**, are the topic of much debate among politicians, farmers, and the international community. Some believe that these domestic supports encourage farmers to produce more of their crop, which creates an oversupply of that crop, which U.S. farmers and agribusinesses then dump into the developing world. Others believe that these domestic supports, in general, are not the cause of dumping. They see export subsidies and agribusiness consolidation as the leading factors contributing to dumping.
- A trend over the past few decades has been for the number of agribusiness firms to decrease, leading to fewer and fewer agribusiness firms controlling more and more agricultural processes. For example, three firms – Archer Daniels Midland, Bunge, and Cargill – control 71 percent of all soybean crushing. This level of **corporate consolidation** has contributed to international agribusiness firms being able to export agricultural goods at below the actual cost of production. A few agribusiness firms buy goods from thousands of farmers giving them the power to drive down the prices they pay to producers.
- Governments offer payments and credits to agricultural producers to encourage them to export their goods. These payments, called **export subsidies** or **export credits**, are given to farmers and are aimed at getting rid of the surplus of agricultural goods produced in a country and keeping exporters competitive in the global market. Export subsidies and credits, however, are one of the main causes of dumping because they make it cheap and profitable for agricultural goods to be exported to developing countries.
- Over the past decades there has been pressure on developing countries to remove any tariffs, quotas, or other protections for their economies. The process of removing protective measures, called **economic liberalization**, has made it difficult for developing countries to protect their

farmers from goods produced below the cost of production in other countries.

### ***What are the problems with dumping?***

Do below-cost imports in developing countries provide cheaper food to consumers in that country? Not necessarily. Dumping of agricultural goods creates serious problems in the Global South and does not necessarily mean cheaper prices for consumers. Some of the negative impacts of dumping include:

**Flooding local markets** in the Global South with below-cost agricultural goods makes it nearly impossible for small farmers to compete, even at their local market. This has far-reaching effects because such a large percentage of people in the Global South rely on agriculture for their primary income. Seventy percent of rural household income in Asia and sixty percent in Latin America and Africa comes from farming and farm labor.



**Displacing small farmers.** As small farmers are not able to compete, they are often forced to leave their land and find work by migrating to either a local city or another country. Many do not find a job that pays them enough to survive. Some farmers who are displaced from their farms in Latin America end up migrating to the United States to work as farmworkers, forced to work long hours, receive very little pay, and often have to work with dangerous pesticides.



**Limiting agricultural development.** As artificially cheap agricultural goods flood markets in the Global South and local farmers are not able to compete, improvement of the agricultural sector in the developing world becomes very difficult for an

enormous number of people living in poverty. Dumping stunts the growth of the agricultural sector in the developing world, which in turn makes it more difficult for farmers to break free of poverty.

### ***Action to stop dumping:***

There are many groups internationally who are working to counter the negative effects of dumping. Two major anti-dumping efforts are organized by:

- **The G20**, led by Brazil, India, South Africa, and China, is a group of developing countries at the World Trade Organization (WTO) who have organized themselves partially around putting an end to dumping. The countries represented by the G20 contain more than 60 percent of the world's farmers. One of their key demands is for the United States and the European Union to stop export subsidies and to ensure that their domestic support programs do not promote dumping. Some of the other countries involved in the G20 include: Egypt, Pakistan, Argentina, Chile, Mexico, and Venezuela.
- Farmers around the world are also working to put an end to dumping. One of the leaders in this struggle is **Via Campesina**, which is an international movement that coordinates peasant organizations of small and middle-scale producers, agricultural workers, rural women, and indigenous communities from Asia, Africa, America, and Europe. For more information on Via Campesina, visit their website at [www.viacampesina.org](http://www.viacampesina.org).

Even with international organized efforts to stop dumping, U.S. and EU policies have not changed. Dumping will be an important issue at the Hong Kong ministerial of the WTO in December, 2005.

## ***Reflection Questions***

1. Does “dumping” help hungry people in the developing world? Why or why not?
2. Does dumping contribute to the perpetuation of poverty in developing countries? Why or why not?
3. What are some of the causes of dumping?
4. If you were a small farmer in the developing world, what would you think of dumping? How would it make you feel?
5. What can people in the United States do to stop dumping?

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