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How Europe Sows Misery in Africa

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The average person in sub-Saharan Africa earns less than $1 a day. The average cow in Europe -- thanks to government subsidies -- earns about $2 a day. And therein lies a tale of the power of European farm interests, and the weakness of African economies.

A burgeoning volume of economics literature argues that the largest factors stunting African economic development include not only disease, drought, warfare and mismanagement, but also the European Union's "Common Agricultural Policy," or CAP. Why? Because the EU's policy has spawned subsidies and tariffs that have richly rewarded European farms and swollen European food output, while depressing world food prices and undercutting African exports.

Yet the economic evidence of harm in Africa has elicited nary a peep, squawk or moo from the EU. Over the past two weeks, European agriculture ministers have been haggling over changes in the CAP, which now consumes some 40 billion euros, roughly half of the EU budget. The EU farm commissioner has proposed trimming subsidies, but France rejected the deal with Germany's support, and the proposal was shelved.

This deadlock in Europe spells misery in Africa. Take Malawi, for example. Its economy is in shambles: CAP tariffs and quotas keep its chief exports, corn and sorghum, out of European markets; CAP export subsidies help European producers crowd out Malawi sales in third-country markets; and CAP price supports drive down the prices that Malawi crops can fetch abroad by driving up European production.

President Bush has blamed Europe's policies barring imports of genetically modified food for prolonging famine in Africa by discouraging Africa's use of such food varieties. But the suffering in Africa goes on and on because of a more conventional chain of distortions caused by the CAP. Economic development stalls without investment; investment usually won't expand unless demand rises first; and demand won't expand in sub-Saharan Africa, where more than 60 percent of the labor force works in agriculture, unless agricultural income grows. By preventing much of Africa from developing its agricultural resources, the CAP hurts the continent's ability to attract the financial, technological and human capital to drive economic and social progress.

Africa is particularly vulnerable to EU farm subsidies because proximity and decades of colonial and post-colonial relations make Europe and Africa efficient trading partners, in the same way the United States naturally dominates trade with Latin America. While the U.S. government can also be faulted for subsidizing farm products, EU farm subsidies dwarf our own in most areas. The result is that while once-poor Asians and Latin Americans grow more prosperous, more than 659 million people in sub-Saharan Africa (excluding South Africa) are stuck with annual incomes averaging $320, life expectancies of less than 50 years, and little prospect of ever doing much better.

Driving this dynamic is a tawdry system of large agribusinesses thriving on government largess at the expense of the world's most vulnerable people. This injustice is sustained because politicians receive their share of the profits. It is a perfect money machine. The CAP sets price guarantees far higher than world prices or production costs. So agribusinesses produce as much as they can and dump whatever is left over on markets in developing countries. To be certain that low-cost countries don't undercut them abroad, European producers also receive hefty export subsidies to add to their fat domestic profits. To close the circle, politicians seeking reelection know whom to call for financial support.

The dairy market is one of the starkest examples of EU excess. Thanks to CAP subsidies for cows, milk production dominates Europe's agricultural sector and European milk products flood many developing markets. A French or German agribusiness produces a ton of butter and, under CAP price guarantees, receives more than 3,250 euros (currently about $3,800) while the wholesale price of a ton of butter in America today is less than $1,400. The 3,250 euros belong to those agribusinesses regardless of market prices or conditions, so it's no surprise that European dairy production far outstrips European demand.

CAP subsidies also guarantee that butter from dairy-producing African nations such as Botswana or Gabon can't compete with Europe's high-priced spreads. Europe's "butter mountains" weigh heavily on international markets. As a result of the CAP , which places a 153 percent tariff on foreign-produced butter, Botswanan and Gabonese dairy producers never get more than a small slice of the EU market.

Even though population density, weather, and the cost of capital and labor all make the EU a naturally inefficient dairy producer -- EU dairy production costs are, on average, twice as high as international prices -- Europe accounts for 40 percent of world exports of whole milk powder and more than one-third of world cheese exports. European voters may believe that these policies defend quaint dairy farms dotting the French or Dutch countryside, but the truth is that most of the subsidies go directly to the bottom line of multinational agribusinesses such as Aria Foods and Nestlé.

Subsidies for EU sugar producers are even larger and more damaging to rival producers. Sugar should be the ideal product of the tropics, where sugar cane grows. Sugar cane farmers can produce more than twice as much per acre as rivals in cooler climates who grow sugar beet. Moreover, land prices, wages and other production costs in tropical countries are a small fraction of what they are in any European country.

Yet the EU, with the world's highest sugar-production costs, is the world's biggest sugar exporter. European farmers receive guaranteed prices for sugar beet, even if they sell their product abroad at lower prices. At home, European processors sell their sugar at high prices; to keep the business within the family, CAP tariffs of 140 percent keep foreign sugar out of the EU market. While EU politicians insist all these sugar subsidies help the little guy, single large firms account for the entire domestic sugar market -- both sales and production -- in at least eight European countries. Meanwhile, price guarantees and export subsidies enable EU producers, some from as far north as Finland, to claim a significant share of the sugar market even in tropical Africa.

And Joseph Daul, the chairman of the EU parliament's agriculture and rural development committee, which must approve any sugar subsidy reform, is himself a major French sugar beet farmer.

Most African nations have few assets to support economic development apart from cheap, fertile land and low-priced labor. Given the hurdles erected by Europe, their only response can be to grow products that the EU doesn't subsidize, such as coffee, which cannot be produced in the temperate or chilly zones of Europe.

When African farmers have crops that might gain a foothold in EU markets, other defenses kick in. For instance, EU guidelines for crops containing alfatoxins, a mold byproduct associated with some liver cancers, are unnecessarily restrictive. A World Bank study found that these rules disproportionately harm African farmers. Even the absence of an EU standard can be an obstacle. One Mauritanian enterprise found a German firm interested in marketing cheese made with camel's milk. But the EU halted the deal because there were no regulations covering camel cheese. The African producer has been in limbo for years waiting for Brussels to write the regulations.

A recent study from the Institute of Economic Affairs in Britain estimates that EU agriculture policies have reduced African exports of milk products by more than 90 percent, livestock by nearly 70 percent, meat by almost 60 percent, non-grain crops by 50 percent and grains by more than 40 percent. If we assume from this that the CAP reduces Africa's total potential agricultural exports by half, it suggests that without the CAP, the current $10.9 billion in annual food-related exports from sub-Saharan Africa (excluding South Africa) could grow to nearly $22 billion. Moreover, the International Food Policy Research Institute, a Washington-based group that focuses on food needs in developing countries, has found that in sub-Saharan nations, every $1 in agricultural income produces an additional $1.42 increase in GDP. So, the end of the CAP could raise sub-Saharan GDP by nearly $26.4 billion per year -- enough to increase the annual income of every person in these countries by nearly 13 percent. If these benefits flowed to rural Africans, it could save hundreds of thousands of lives and improve the lots of millions more.

The United States is not an innocent bystander. U.S. cotton, sugar, dairy and corn subsidies exacerbate Africa's problems and impede our ability to press for fundamental multinational reforms. (James D. Wolfensohn, the president of the World Bank, has estimated that wealthy nations spend more than $300 billion on agriculture subsidies, as much as sub-Saharan Africa's entire economic output.)

Most Americans, like most Europeans, seem unaware of the devastating impact of these policies. And once people do know, it's easy for them to despair of ever changing the policies. So when the World Trade Organization meets in Cancun, Mexico, this fall, it won't be enough to say that we stand with the world's neediest countries. We should express our outrage, use our influence to bring about deeper cuts in subsidies and make fundamental reform a centerpiece of our foreign policy for the developing world.

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