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A Global Journal Report --- Bittersweet: How an Addiction To Sugar Subsidies Hurts Development --- Politically Vital Farm Support, Especially in EU, Throttles Exports From Poor Nations --- Negating $50 Billion in Aid

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Monica Shandu has won awards for her sugar-cane harvests in the hills of Entumeni, but the crop puts less than a dollar a day in her pocket. She and her extended family live without electricity or indoor plumbing in a warren of several mud huts and a small half-finished cinderblock house. The 40-year-old South African tills her four acres of cane by hand and walks three miles to church, because she has no car or tractor.

This is the type of poverty the wealthy nations of the world seek to conquer with their $50 billion in annual official development assistance. At the recent World Summit on Sustainable Development in nearby Johannesburg, the European Union in particular aggressively pushed other countries to follow its lead in boosting such aid. But when it came to the summit's contentious negotiations on an issue that contributes directly to the poverty of Ms. Shandu and millions of others -- the agricultural subsidies of rich countries -- the EU chose to preserve the status quo of its own farmers.

One is Dominique Fievez, a prominent sugar-beet grower in France, where demands for protectionism run especially high. He lives in the fertile Somme region, in a gabled chateau set amid a park of oaks, lilacs and manicured lawns. Like his father before him, the 43-year-old farmer cultivates 60 acres of sugar beet under a lucrative EU production quota that brings in a government-guaranteed price nearly triple the world price.

The **EU subsidies encourage sugar cultivation** even in unlikely climes such as Sweden and Finland. The result: surplus production of about six million tons annually, which is dumped on the world market. The U.S. also protects its sugar growers with tariff and quota barriers, but it exports very little. The EU's dumped sugar, which represents about 20% of annual exports from all countries, knocks down prices and hobbles many developing economies stretching around the world's tropical midriff. So what favors Mr. Fievez hinders Ms. Shandu and saps South Africa's export revenues.

In Entumeni, Ms. Shandu was named South Africa's small-scale Cane Grower of the Year for a top-quality harvest in 2001. Yet the breadwinner for her husband, four children, two grandchildren and several other adult kin says she earned only $200 after costs on that harvest. Sugar prices depressed by subsidies cut her annual income by about a third; the country loses an estimated $100 million in potential export earnings.

To EU governments and farmers such as Mr. Fievez, however, the tension between these subsidies and the ideals of sustainable development in poorer countries is less of an issue than political pressure, social stability and financial security at home. "We must have prices guaranteed in line with our cost of living," says the farmer. Mr. Fievez worries that killing subsidies could devastate the French countryside and stir turmoil in France. "I must have something to hand down to my children," he says.

It is in such fields of the world's north and south, where Mr. Fievez and Ms. Shandu occupy the high end of sugar farming in their respective areas, that the conflicting interests of the rich and poor collide. Agricultural subsidies, including cheap loans and artificially high prices total about $300 billion annually, according to the Paris-based Organization for Economic Cooperation and Development. The United Nations estimates that the cost to poor nations is about $50 billion in lost export revenue, which, the U.N. notes, in effect negates the $50 billion in aid given annually to the developing world.

The conflict over subsidies has been simmering for years in arcane trade talks. It gained immediacy and prominence in Johannesburg, particularly with Western nations seeking to extend the war on terrorism to a war on the poverty that can nourish the elements that breed terrorism. When negotiators from the developing world wanted a summit declaration calling for the rapid elimination of farm subsidies, the EU, even more than the U.S., fought back; EU delegates twice walked out of the closed-door meetings.

The developing world was outraged. In a protest, the international aid organization Oxfam dumped heaps of European sugar near the cafes where the delegates dined. The anger didn't force any changes in Johannesburg, but it succeeded in casting agriculture subsidies as the marquee villain in the growing disparity between rich and poor. "It's no good building up roads, clinics and infrastructure in poor areas if you don't give them access to markets and an engine of growth," says Mark Malloch Brown, the head of the U.N. Development Program.

As one of the last bastions of protectionism, agricultural subsidies will probably be the top target in the next stage of the current round of global trade talks, expected to conclude by 2004. Some EU and U.S. negotiators in Johannesburg began acknowledging the pressure for what one EU official called a "mutual disarmament" of subsidies. "The rest of the world isn't interested in the fine nuances anymore, just that the U.S. and EU subsidize a bloody sight more than anyone else can afford," says David Roberts, a senior agriculture official with the European Commission, the EU's executive body, who participated in the Johannesburg negotiations.

For European nations, agricultural protectionism has its roots in the post-World War II determination that their citizens should never again suffer rationing and hunger. The Common Agricultural Policy, or CAP, designed to encourage farmers to grow almost everything Europe needs, is one of the EU's cornerstones.

In the 1960s, when West Germany and France moved to create the Common Market, France insisted on protection for its heartland farmers as payback for allowing in German manufactured goods. By the end of that decade, European farmers were locked into a policy of guaranteed high prices for crops buttressed by massive production subsidies and high tariff barriers. And the CAP was on its way to becoming part of the European social model, with farmers organized into powerful labor unions that doled out quotas, ran pension schemes and founded a rural banking system.

Now, CAP spending accounts for fully half of the entire EU budget. Subsidies and other forms of support to farmers totaled $93 billion last year, or nearly twice as much as the $49 billion in the U.S. The expanding CAP has led to massive surpluses, such as the legendary wine lakes and butter mountains, which in turn have wreaked havoc on world commodities prices. While the EU alone contributes half of the $50 billion in development aid that flows annually from rich nations to poor, the CAP undoes much of that generosity. For instance, the roughly $120 million in aid the EU extends to South Africa every year is nearly erased by the more than $100 million in potential export revenues the country loses to sugar dumping.

Europe tries to deflect criticism by pointing at U.S. agriculture subsidies, claiming they are worse. And the U.S. does the same thing in reverse. In reality, the two farm programs are joined at the hip, and their clashes have been particularly intense in the past year. Last November, at the World Trade Organization meeting in Doha, Qatar, the Americans allied with developing countries to lean on the EU to cut subsidies. France nearly walked out of the talks but the isolated EU eventually caved in, agreeing to work toward the "substantial reduction" of some forms of subsidies. The European Commission, which runs EU farm policy, started preparing a far-reaching reform of farm subsidies to try to implement the Doha commitments.

But then in May the U.S. passed a new farm bill, which maintains or increases various aspects of the farm budget, including America's own protectionist sugar regime. Reformers in the EU complained that it pulled the rug out from under their feet. French farmers pounced on the bill as proof that the EU should continue its own subsidies unchanged. "We want to be Americans, too!" the main French farm union proclaimed.

While the U.S. countered in July by sending a high-level delegation to the WTO in Geneva to propose new cuts to farm subsidies and import tariffs world-wide, the reform momentum was already dashed. French President Jacques Chirac, the staunchest supporter of agriculture in the EU, pledged that he would block any reform of the union's farm policies until at least 2006, when the current EU farm bill expires.

In Johannesburg, this position earned the EU the ire of developing countries and aid activists, primarily for its sugar policies. Sugar cane, which grows in many of the world's poorest countries, is a classic crop of development. Once it is planted, it grows like grass, requiring little investment or sophisticated maintenance. Thirty years ago, the EU was a net importer of sugar, supporting the economies of many of its former colonies with its purchases. Now, even though the cost of producing sugar is two to three times higher in Europe than in some developing countries, the EU has become the world's second-biggest exporter after Brazil of all forms of sugar and the biggest exporter of refined white sugar.

In its defense, the EU points to a byzantine system of preferential access that member states extend to imports from some former colonies, such as Mauritius and Fiji. But EU sugar producers won't allow this sugar into their market because it might undermine the high local price. Instead, the EU imports the raw sugar at the high price, refines it and ships an equivalent amount of white sugar back to world markets. This costs EU taxpayers $800 million a year in extra subsidies and expands the world glut.

In another attempt to deflect criticism from poor countries, the European Commission last year proposed ending tariff and import restrictions for sugar and all other nonmilitary products from the world's least-developed countries. The proposal was called "Everything but Arms." But EU sugar farmers won an exception for sugar, delaying free-market access for the world's poor until 2009 and adding a clause that will make it possible to block imports if the EU sugar price starts to fall. Development groups dubbed the initiative "Everything but Arms -- and Sugar."

The EU's seven million farmers make up less than 2% of the union's population, but, especially in France, they are rich, highly organized and concentrated in a few electorally sensitive regions such as the Somme. There, Mr. Fievez is the president of the regional branch of the General Confederation of Sugar Beet Growers, a powerful lobby. Just before the European Commission was due to make a new set of proposals for CAP reform in June, he joined 10,000 farmers outside the European Parliament in Strasbourg, France.

"I'm not a militant, but I'll fight if I have to," Mr. Fievez says, back at his chateau in the tiny hamlet of Fontaine-sous-Montdidier, about 100 miles north of Paris.

When the reform proposals were released a month after the farmers' protest, the sugar regime wasn't touched. And neither was Mr. Fievez's lifestyle.

Since he took over the family's 420-acre farm in 1984, the price he receives for his sugar hasn't changed much, while the world price has risen and fallen dramatically. The OECD estimates that a French farmer with an average sugar-beet plot of 33 acres received subsidies of about $23,000. Mr. Fievez's plot -- and take -- is double that. He says he would like to turn the whole farm over to sugar beet, since it is on average about 50% more profitable than his other crops of wheat and corn. But anything over his quota he would have to sell at the depressed world price. He grows corn and wheat instead.

In South Africa, by contrast, Roy Sharma is ruing the day he decided to bet heavily on sugar-cane farming. Until a few years ago, he grew a bit of cane on his 25-acre plot on the Indian Ocean coast, but mainly he tended vegetables. Then sugar mills began selling some of their acreage in a program to promote midsize growers, a great attraction to nonwhite farmers who had largely been denied landownership by the old apartheid government. Mr. Sharma, 47, jumped at the chance and snapped up 180 acres.

"I immediately saw it was a mistake," he says. The world price was on its way down, and then the South African currency, the rand, plummeted, sending the cost of his fertilizer, herbicides and gasoline -- all imported -- soaring. His cane harvest brings in about $70,000; in France, subsidies alone on a plot his size would amount to more than $100,000. After all his costs are paid, Mr. Sharma says he barely has enough left to meet the payments on the loan for the land he bought.

"This program was supposed to uplift farmers, but we've been pushed into a corner that we can't get out of," Mr. Sharma says.

Unlike the European sugar-beet farmers, South Africa's cane growers are at the mercy of the world price. Of the country's 2.6 million tons of sugar production, more than half is exported. Agricultural economists calculate that if the EU cut its production and stopped dumping on the world market, the price would improve by about 20% and South Africa would reap about $40 million more from its exports. It would also make expansion of cane farming economically viable and generate a further $60 million.

At the sugar mill in Entumeni on a recent day, the air was thick with the sweet smell of molasses. But the atmosphere was sour. "If the price was better, you'd see more cars, electricity and running water around here," said Enos Nene, the development officer of the local growers association, as he drove through the fields and past the farmers' huts. The area's 3,700 small-scale growers, typically with fewer than 10 acres of cane, are being pushed to plant more land, even though it makes no economic sense given the price they receive. But it is a matter of survival, for the mill is barely profitable and could use about 50,000 tons of cane more to remain in long-term operation.

Mr. Nene met Ms. Shandu on her way from church. She said she will do her best by adding another acre next season. "Sugar cane is all we have here," she said. When Mr. Nene told her the price European farmers like Mr. Fievez reap, she rolled her eyes. "I can't even imagine that," she said.

Back at his little office near the mill, Mr. Nene and two colleagues studied a glossy magazine distributed at the Johannesburg summit by the EU heralding its spending on development aid. It was titled, "Fighting Poverty."

The men laughed and suggested another title: "Creating Poverty."

(See related letters: "Letters to the Editor: Sugar Policies Create Artificially High Prices" -- WSJ Sept. 27, 2002)

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