

Case Study of the Impact of CAP on a Developing Country: Importation of Milk Solids into Jamaica from the EU

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Fresh milk production was once a mainstay for many Jamaican dairy farmers. Dumping of €10 million of subsidised powdered milk annually, 67% of it from the EU in 2000, has all but destroyed this. Local dairy farmers now supply just 12% of the domestic milk market. To reverse this trend, the authors suggest the Jamaican government should impose import tariffs and demand a more responsible approach from EU and US agricultural policymakers.

Introduction

In 2000 Jamaica celebrated 40 years of independence. Jamaica also celebrated 50 years since its indigenous development of the world famous tropical breed of cow – the Jamaica Hope. However all is not well with the local Jamaican dairy industry. Small Jamaican farmers have been going out of business at a rapid

rate because they are unable to compete with unfairly subsidised milk imports – the major source of which is the EU. Jamaica is one example of the detrimental effects that EU subsidies are having on developing country agriculture. Rather than being a thriving agricultural industry that generates much needed domestic growth and employment, the Jamaican dairy sector is now in severe contraction. This is hurting those who can least afford it - the poorest farmers in the poorest rural areas.

Jamaica: the background

Jamaica is a small Caribbean state renowned for its music and food. Despite its richness in culture, Jamaica has been struggling for the last two decades with intermittent recessions and a heavy legacy of debt repayments. Although in many respects a good performer in life expectancy and literacy, poverty remains a large problem. Over a quarter of Jamaicans live on less than \$2 a day.²

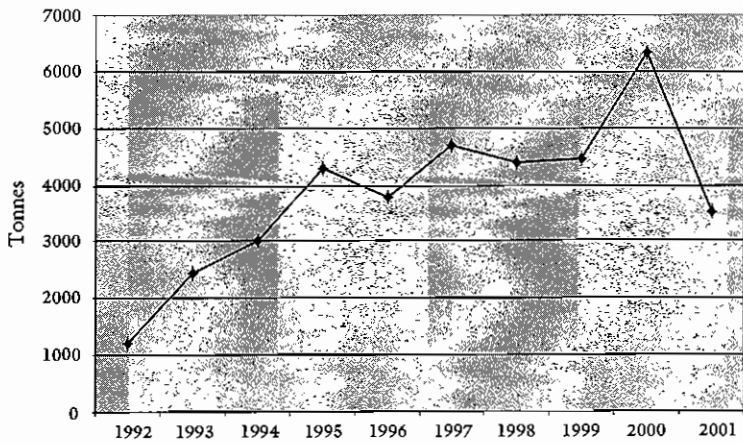
Agriculture remains an important part of Jamaican life and its economy. Over 20% of Jamaicans are employed in agriculture and over 40% live in rural areas - agriculture supporting an estimated 150,000 rural families.³ Poverty likewise remains a doggedly rural phenomenon, with 72.5% of the poor living in rural areas.⁴ For these poor people, farming remains the most important livelihood on which their fortunes and those of their children are based. According to one World Bank document, small farmers “constitute the largest proportion of the rural poor and there is a crucial need for poverty reduction programs”⁵.

Although always dependent upon imports of basic foodstuffs, the liberalisation of Jamaica’s markets following a World Bank structural adjustment programme has led to a large increase in food imports. During the 1990s Jamaica saw a large increase in its food imports but a decline in food export growth. This created an overall outcome in terms of net food trade that, according to the FAO (Food and Agriculture Organisation), was “highly negative”. This has included import surges in poultry meat, beef, sugar, fresh fruits and vegetables, rice and dairy products.⁶ For small farmers in Jamaica, already suffering from poor infrastructure and lack of access to markets in the cities, this increase in competition has caused much hardship. When this competition is against rich countries that are massively subsidising their exports, many poor farmers have found the challenge insurmountable.

Overview

In 1992, Jamaican import tariffs on milk powder were reduced and the parallel subsidy for local dairy farming was abolished as a result of conditions attached to a structural adjustment loan, negotiated with the World Bank. This has resulted in a huge surge of milk powder imports into Jamaica – primarily from the EU. Imports from the EU have almost quadrupled during the past 10 years. In 1992, the amount of milk solids imported from the EU alone was 1,200 tonnes. This rose to an average of 4,600 tonnes over the last 3 years, peaking at 6,300 tonnes in 2000.

Figure 1: Milk Solid Imports (Jamaica from EU)



The EU is the major source of imports of milk powder to Jamaica – accounting for 67% in 2000. The reason why European exports are able to flood the Jamaican market is because the EU dairy sector is one of the most heavily supported agricultural regimes in the world. In 1999 the CAP (Common Agricultural Policy) spent €2.5 billion on the dairy regime. This regime is oriented to make Europe the cheapest and largest exporter of dairy products. Nearly all EU dairy subsidies are paid not to European dairy farmers, but to European processors and exporters. In 1999 this included nearly €1.5 billion spent on export subsidies. The result is that the EU is now the world's largest exporter of dairy products. It is estimated that the EU annually spends €4 million on subsidising milk powder to Jamaica alone.⁷ The EU exports

dairy products at a price unrelated to how much it costs European dairy farmers to produce milk. One NGO study estimated that the EU's skimmed milk powder export prices are around half the costs of production.⁸ This level of subsidies means that Jamaican dairy farmers are simply unable to compete.

The total market for liquid milk consumption in Jamaica is estimated at 150 million litres. Jamaican milk producers now account for only approximately 18 million litres – or 12% of the Jamaican domestic milk market. In the last 2 years alone production of local milk by farmers has fallen 35% from 27.5 million litres in 1999 to 17.8 million litres in 2002.⁹

Case study 1: Impact on small farmers

Winston Taylor, 49 years old, of Grey Ground district, near Mandeville in Manchester, Jamaica has been forced to stop milk production and has sold his 25 milking cows to the butcher as no one else wanted them. He learned dairy farming from his grandparents and inherited land from them. The market for local fresh milk in Jamaica is falling and the first farmers to suffer have been the small farmers on the Nestlé churn collection routes. Local manufacturers are turning to cheaper imported milk powder as world market prices are kept down by subsidies in developed countries like Europe.

There were 25 small dairy farmers on the Manchester routes three years ago and now one farmer remains. In January 2002 the milk price fell from J\$18 per litre to J\$14 per litre and the farmers would now have to deliver their milk in churns to a collection station 35 km away, at their own expense. Mr Taylor had his own car to transport his 4 churns (120 litres) so he was one of the last farmers to fall from the scheme but when the milk had to be delivered by 4:30 a.m. he could no longer milk his cows in time and get the milk there. Mr Taylor says he and many smaller farmers who depended only on their milk cheque every two weeks are frightened now as to what the future holds for them.

Mr Taylor says right now he is bankrupt, he put himself out to do dairying and it has failed. "There was no money from dairy to fall back on like at this time. I am waiting to see if the industry will come back. The pastures are already established, everything has been done and we are waiting to see if anything can be done to put us back in business."

Impact on small farmers

Subsidies have been fundamentally distorting the dynamics of the Jamaican milk market and the structure of the local dairy industry. Faced with the availability of cheap milk powder imports Jamaican food companies have been turning their backs on Jamaican fresh milk. In particular they have been cutting back on purchasing from the smallest farmers based in rural areas.

Small farmers based in rural areas, like those in Case study 1, depend upon their ability to transport their produce to markets. Previously in Jamaica a substantial infrastructure existed in which milk companies, with the support of government, would collect, process and sell milk. This formed the basis of the Jamaican national dairy industry – linking poor rural producers with urban consumers – and the terms on which small farmers were able to participate and benefit from the dairy market.

Cheap subsidised milk powder has helped break down this infrastructure, and the ability of small farmers to maintain their livelihoods. Nestlé – a traditional, and major, purchaser of fresh milk from local farmers – has steadily reduced its purchases of fresh milk from farmers. As recently as 2001, Nestlé purchased 10 million of the 25 million litres milk produced by Jamaican dairy farmers. This was reduced to 6 million litres in 2002. The smallest farmers have dwindled from producing 2.5 million litres to just over 300,000 litres in 5 years.¹⁰

The problem has been compounded by the powerful buying influence of large milk processors and wholesalers in Jamaica. By buying cheap subsidised milk powder from the EU and US, companies have been using the lower prices as a benchmark to drive down the prices it pays local farmers for the milk they produce. Concurrently, the benchmark price offered by Nestlé to local farmers has fallen over the last year or so from JA\$22 per litre to JA\$18 per litre and heading for a marginal price of JA\$13 per litre.

Even at this reduced price the volume purchased by Nestlé from the local farmers is not guaranteed and has been dwindling steadily to the extent that it is now commonplace for Jamaican farmers to dump their milk after it has been produced, as described in Case study 2. A rival industry has grown up around cheap subsidised dairy powder. Large local wholesalers and distributors have been purchasing cheap imports and selling on with minimal value added - such as merely repackaging in smaller quantities or adding flavouring to the powdered milk. These

companies have cashed in on the availability of cheap imports, making handsome profit margins on what is a low risk and low investment business. In some cases wholesalers and retailers are giving a 150% mark-up to be paid by the end user.

Case study 2: Impact of Nestlé on milk collection routes

Vincent Hynes, 68 years old, lives on his farm in Hopeton district, near Mandeville in Manchester, Jamaica. He has been widowed 11 years and has 6 children.

He went into the milk business with his father in 1957. In those days there was a Nestlé cooling station in Mandeville and there was a programme encouraging new farmers to start supplying milk. Years later in 1987 the milk was picked up in churns on collection routes. Mr Hynes improved the genetics of his cows and tells proudly of the 2 cows that could fill a 32-litre milk churn. He has 8 acres and lived comfortably with 6 cows, always 4 milking and delivering 2 churns (50 litres of milk) daily with a milk cheque of J\$10,000 every 2 weeks. That was when Nestlé was working with government support to develop Jamaica's dairy industry. Now, local manufacturers are turning to cheaper imported milk powder as world milk prices are kept down by subsidies in developed regions like Europe.

Last year Mr Hynes was forced to stop supplying milk when Nestlé stopped all milk collection routes. Mr Hynes said: "In January 2001 Nestlé told us they were planning to get a milk cooler and we would bring the milk to Shooters Hill (10 km). Then they said we have to take it to Rhymesbury(40 km). Someone volunteered to take the milk to Rhymesbury but it was costing us. Then he said it can't work out and we stopped." He says his milk cheque was J\$6,000 when he stopped but now has only his monthly pension which lasts for one week. He is forced to live off his savings.

Mr Hynes said: "The problem in the dairy industry has made a great difference to my life because that was my income and I have to be living off what I had saved and it is going now. I am thinking how I will manage after this."

For the future he says: "I am looking to see what will come. Nothing more I can do. The government sent their new land tax bill (J\$6,000 for 5 acres) and I don't know how I am going to pay it. Milk was my income and there is nothing on the land now."

The Jamaican government has made attempts to address the problems of cheap imports after pressure from the Jamaican dairy industry. In 1996 it raised tariffs on milk powder from 30% to 50%. However this has proved largely ineffective in combating the problem because the tariff for importers who classify themselves as manufacturers is only 5%. A manufacturer can be, and is, loosely interpreted to mean any company adding value to the imported milk powder product which may involve in fact simple processes such as repackaging, flavouring and so on. As we have seen above, this category covers not only the major milk companies in Jamaica, but also a series of new importers who have been set up purely to capitalise on the profits to be made from selling on milk powder. In effect therefore the import duties on most milk powder in Jamaica are only 5% – a nominal and ineffectual tariff. As early as 1994, a study by international accountants KPMG for the Jamaican Anti-Dumping Advisory Board concluded that the EU and US were actually dumping milk products on the Jamaican market and recommended that an anti-dumping duty of 137% should be imposed.¹¹

In reality increased tariffs are the only short term action available to the government to level the playing field and help local farmers in their competition with cheap imports. However the Jamaican government appears powerless to implement increased tariffs given IMF (International Monetary Fund) and World Bank conditionalities for further loans on which the country depends. The Jamaican recourse to take action at the WTO (World Trade Organisation) is also limited. Due to WTO fine print Jamaica is unable to use the simplest mechanism (the special safeguard provision of the Agreement on Agriculture) available to protect itself from floods of cheap imports.¹¹ It has been unable to impose an anti-dumping duty on dairy products as Jamaica's internal procedures were found to be inconsistent with WTO anti-dumping rules. Jamaica has also faced the further barriers imposed by the high costs and complex procedures that bringing such actions within the WTO take. There is also the dilemma of Jamaica taking trade remedy measures against the EU, because it depends on Europe for preferential access for banana and sugar exports.

Conclusion

On its fortieth anniversary rural poverty is one of the major challenges facing Jamaica. Securing the livelihoods of small farmers and the health of the agricultural sector should be at the forefront of efforts to meet this challenge. Agriculture is vital to the social and economic health of Jamaica. It provides much needed employment, incomes and is a cornerstone of social stability. As the largest segment of the rural poor, small farmers underpin the fabric of rural economies. But rather than benefiting from concerted action to help with poverty reduction, small farmers have instead found themselves undermined by unfairly subsidised products from rich countries.

European subsidies have perverted the development process in Jamaica, destroying the terms on which poor rural producers could benefit from the Jamaican dairy market, drying up a valuable source of rural income and economic growth, entrenching rural poverty, increasing the marginalisation of poor producers and corroding decades of national effort towards establishing a local industry providing employment for thousands of Jamaicans. In return the benefits of cheap subsidised imports have accrued largely to the powerful parts of the dairy supply chain and have created distortions that encouraged short term profits over long term development. This has been to the detriment of Jamaica's terms of trade and overall economy. As a consequence Jamaica, the second most heavily indebted country in the world (measured as debt per GDP) is spending approximately €10 million per year importing powdered milk.

Footnotes

- 1 The author would like to thank Fiona Black for her contribution to the research on which this paper is based.
- 2 Figures from 1996, World Bank, *World Development Indicators*, Washington, 2001
- 3 "Agriculture, trade and food security issues and options in the WTO negotiations from the perspective of developing countries - Vol. 11 country case studies", FAO, Rome, 2000
- 4 World Bank, "Jamaica - Country Assistance Strategy Document", 2000
- 5 World Bank, "Jamaica - Small Farmers Support Services Project", 1997
- 6 "Agriculture, trade and food security issues and options", *op. cit.*
- 7 "Dumping in Jamaica: dairy farming undermined by subsidised EU exports", EuroStep 1999
- 8 "Rigged rules and double standards", Oxfam, 2002
- 9 Figures from the Jamaican Dairy Board
- 10 Jamaica Dairy Farmers Federation Grade "B" milk statistics
- 11 "A milk production strategy for Jamaica", Commonwealth Secretariat, 1996
- 12 Jamaica under WTO rules is not allowed to have recourse to the Special Safeguard provision of the Agreement on Agriculture because it did not undertake "tariffication" in the Uruguay Round. For more information on this see "Agriculture, trade and food security issues and options", *op. cit.*