MEMO N° 138 1.12.1982

EEC AND US VIEWS OF THE COMMON AGRICULTURAL POLICY : MYTH AND REALITY

741.2(103)

Speech file

446.382(103)

When Poul Dalsager, European Commissioner for agriculture, recently addressed a joint meeting of representatives of business and farming in the European Community and the US, he asked - rhetorically - whether anyone could seriously support specious comparisons between European and American policies on agriculture, suggesting that the US has low farm prices fixed by the market, low expenditure on agricultural support, modern farms and believes in free trade, whereas the EEC has high prices fixed by the authorities, a high level of public expenditure, backward farmers and believes in interventionism. These are simply slogans for domestic consumption, he said, none of these matters can be viewed in black and white terms. (1)

Apparently, some people do still take this black-and-white view of the EEC's common agricultural policy. This note sets out to refute some of the more wide-spread myths about the CAP - that the CAP is uniquely protectionist, that public expenditure on agriculture in the EEC is greater than in the US, that the growth in EEC farm exports is responsible for the troubles of American agriculture, or that the CAP (including the system of export refunds) are somehow contrary to the GATT rules. To complete the picture, there is an appendix listing the specific complaints involving the EEC currently being examined by the GATT (including two complaints brought against the US by the EEC) and summarising the Community position.

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(1) EC-US trade relations in the agricultural field - Time to give up the policy of passing the buck : Summary of speech by Mr. Dalsager to the US Chamber of Commerce and COPA in Frankfurt on 5 October 1982 IP(82)245.

1. The CAP is uniquely protectionist

All the industrialised nations protect their agriculture. This is because of the enormous political, economic and social importance governments attach to the goals of self-sufficiency, food security, price stability and maintaining the incomes of their farmers and the rural population generally. The inherent instability of agricultural markets, reflecting seasonal variations in output, is another reason why governments have always applied special rules to trade in agricultural products.

Because of the repeated public attacks on the CAP from such countries as the US and Australia, it is sometimes assumed that the EEC must be particularly protectionist. This belief is hardly grounded on fact. Only cereals, rice, sugar, olive oil, dairy products and beef benefit from the full system of variable import levies to offset the difference between internal EEC and generally lower world prices. All other products benefit from a relatively modest degree of tariff protection and are subject within limits to a considerable degree of competition from imports. Even for those products subject to import levies, special arrangements have been made to allow continuing imports of butter (from New Zealand), sugar (from the ACP) and beef (ACP and traditional GATT suppliers), though this does not of course exclude other intervention measures.

In practice, almost all other West European countries either because of the need to keep people on the land in mountainous or peripheral regions, or because of the political importance attached to self-sufficiency, have more restrictive import policies and frequently higher internal prices than the EEC. It is well known that Japan, in spite of being one of the three leading industrial powers, rigorously protects its numerous small farmers against competition from more efficient overseas suppliers, including US and European producers.

As regards the United States, it is worth re-calling that the US has had since 1955 the benefit of a waiver from the rules of GATT for a series of agricultural products including dairy produce, sugar, cotton and peanuts. This allows the US, among other things, to impose whatever import restrictions it likes in order to ensure the effectiveness of internal price support measures. The current farm support legislation provides for intervention measures to support prices for milk, wool, wheat, maize, soya beans, rice, sugar, cotton and peanuts. Furthermore, US prices for beef, sugar and dairy produce, which are kept up by restrictive import policies , are comparable to those in the EEC - indeed, support prices for dairy produce have risen faster since 1973 in the US than in the EEC, with the result that the US how has a bigger surplus disposal problem in the dairy sector than the European Community. In other words, the US itself does not hesitate to support prices by intervention measures or import restrictions whenever this is felt to be desirable. In these circumstances, it is arbitrary and inconsistent for US officials to criticiseEEC agricultural protectionism.

Last but by no means least, this picture of EEC protectionism is hard to reconcile with the trade figures. The Community remains the world's largest importer of food and agricultural products with 24% of all imports. The US takes only 10% of world imports while accounting for 17% of all exports. The EEC's share of world exports is only 11%.Furthermore, the US has a large and growing export surplus in agricultural trade with the Community, which rose from $ 1.7 billion in 1971 to $ 6.8 billion in 1981. As well as being the biggest customer for American farmers, the EEC is also by far the largest market for agricultural commodities from the developing countries, with imports worth $ 27 billion in 1979 corresponding to 30% of the LDC's agricultural exports. The Community imports approximately $ 100 worth of agricultural products from the LDC's per head, approximately twice the corresponding figure for the US ($ 49) or Japan ($ 56).

2. <u>The EEC gives massive subsidies to enable its inefficient farmers to compete against more efficient overseas suppliers.</u>

All governments subsidize their farmers for the reasons given above. In fact, the EEC agricultural subsidies are proportionately no higher than those in other industrialised countries including the US. While the CAP is certainly designed to protect the incomes of the farm population (article 39 of the EEC Treaty), it has actively promoted structural change to make European farming more efficient and more competitive.

It is sometimes claimed in the US that the cost of farm support in the EEC is 40% higher than that provided by the American government to its farmers. In 1980, total budget expenditure on agriculture in the European Community, including national expenditure by member States, came to $ 37.6 billion as opposed to $ 24.5 billion spent by the US Federal Government for the same purpose a figure which does not take account of agricultural expenditure by the individual states. However, taking into account that the active population in the agricultural sector in the US (3.3 million) is less than half that in the EEC (7.8 million), total budget expenditure per person employed was still considerably higher in the US than in the EEC ($ 7,330 versus $ 4,780).

If you compare budget spending on agriculture with the value added of the agricultural sector - the criterion used by OECD to measure agricultural budget support - you will find that over the three-year period 1976-78 the ratio was 39.2% in the EEC and 37.6% in the US (excluding expenditure by the States). It is hard to avoid the conclusion that farm spending in the EEC is of the same order of magnitude as in the US.

Similarly, the accusation sometimes made in the US that EEC expenditure is designed to keep inefficient farmers in business, does not stand up to examination. Over the period from 1968 to 1979, the number of people employed in agriculture in the EEC fell by more than 4 million or more than a third, while the US farm population remained virtually unchanged. Since the EEC was set up at the end of the 1950's, the EEC Community farm population has more than halved from 17 million to less than 8 million. This fall in the number of people employed in agriculture has been accompanied by an increase in the size of holdings and by improved production methods and yields. This has led to a continuing increase in productivity, which has in turn had a considerable impact on the EEC's agricultural self-sufficiency.

The Community has formally recognized that the increased efficiency of European farmers must lead to changes in the CAP. For a wide range of commodities, including cereals, sugar and dairy produce, the Community has now introduced the rule that if production exceeds a certain level (the so-called guarantee threshold)which takes account of domestic and international demand, EEC farmers must expect either to see their guaranteed prices reduced, or to bear the cost of disposing of the excess production.

3. <u>The EEC has expanded its farm exports at the expense of other suppliers, particularly the US.</u>

Not so.
True, EEC agricultural exports have grown substantially over the past decade, but this has taken place against the background of rapidly expanding world markets. Furthermore, US exports have grown even faster. Thus, while world agricultural trade increased between 1971 and 1980 by 451%, the EEC increased its agricultural exports during the same period by 513%, but the US increased its agricultural sales by as much as 536%. These figures do not indicate any displacement of traditional US exports by competition from the EEC (the question of export subsidies is dealt with in the next section).

This conclusion is borne out by an examination of the growth in EEC agricultural exports. This has been concentrated in five main sectors - cereals, sugar, beef, dairy produce and alcoholic beverages. But the only sector in which the US is a major exporter whose interests could be affected by EEC competition is cereals. However, the growth of EEC epxorts of cereals has not led to the Community increasing its market share - which remains constant at about 5% of the world cereals market - because of the parallel growth in US exports.

Thus, EEC exports of wheat (including wheat flour) doubled between 1969/70 and 1980/81 to 14 million tonnes, but US exports more than doubled over the same period from 16.5 million tonnes to 41.9 million tonnes. EEC exports in fact increased less fast than the world market, with the result that the EEC share fell from 16.6% to 14.9%, while the US market share rose from 38.4% to 44.8% in the same period. These figures hardly confirm the existence of a threat to US wheat sales from EEC "subsidized" exports, especially since EEC export refunds do no more than enable European exporters to align on the world price, which is determined by US market conditions.

In fact, the biggest problem for US farmers has been the drop in prices for corn and soya beans. Here the EEC is not a competitor but the biggest market for US exports with sales of 9.9 million tonnes of corn, 11.8 million tonnes of soya beans and 7.2 million tonnes of soya cakes in 1980.

Seen from the European side, it is hard to escape the conclusion that the US is trying to export its problems, by making the European Community into the scapegoat for the difficulties of American farmers. But the fall in US commodity prices is not due to EEC subsidized exports. As the US Secretary of Agriculture said in Osaka on 13 September, "lower commodity prices, both at the farm and export terminals, are a result of large US and global supplies, a stagnant economic performance worldwide, the increased real cost of borrowing and the stronger dollar".

Those who see "subsidized" exports from the EEC as getting in the way of US agricultural sales, should remember that US agricultural policy can also disrupt EEC markets. Thus, high guaranteed prices for sugar have resulted in the growing use of corn sweeteners, leading to a contraction in US imports and hence in the world market to the detriment of sugar producers such as the EEC (1). Furthermore, the explosive growth in US exports of corn gluten feed, a by-product of corn sweeteners and ethanol has upset the balance of the EEC cereals market (1). Last but not least, there is the possible disposal of surplus US stocks of butter, cheese and skimmed milk powder on the world market, at the expense of the EEC and New Zealand.

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(1) The EEC has sought consultations in GATT on US import quotas for sugar and exports of corn gluten feed (see appendix).

4. The CAP is contrary to the rules of GATT

Absolutely untrue. The EEC has always respected GATT rules, which is more than be said for some of the Community's critics.
Let's take import restrictions first.
When the CAP was set up in the early 1960's, the EEC negotiated the necessary adjustments to its external tariff in GATT. It did the same after 1973 when Britain joined the Community. In other words, the other Contracting Partners were fully compensated for the introduction of the CAP.

US criticism of the CAP is particularly ironic given the fact that since 1955 the US, unlike the EC, has benefitted from a special GATT waiver that allows it to ignore certain GATT rules on agricultural trade. Under this waiver the US is free to impose whatever import restrictions it likes on commodities benefitting from an internal support programme like cotton,sugar,peanuts and dairy products. Since a waiver is in principle a temporary measure (since 1955...), the US has never had to compensate the other Contracting Parties whose interests were affected.

The EEC is sometimes accused of planning unilateral moves to cut back imports of corn gluten feed, thereby violating US GATT rights. This accusation is also unfounded.

The EEC has merely sought bilateral consultations to discuss the possibility of halting the growth of imports of corn gluten feed from the US. From the US side, we sometimes hear that US right of access to the Community market is "non-negotiable". But GATT gives any Contracting Party the right to withdraw a trade concession in return for adequate compensation. So far, the EEC has made no move to exercise that right,preferring to continue bilateral consultations, but if the Community does ever decide to modify the present import arrangements, the question of compensation will have to be settled - but under GATT procedures the US cannot refuse to negotiate.

In fact, most US criticism focuses on EEC exports to Third Country markets particularly where these benefit from export refunds, the implication being that where "subsidized" agricultural products from the EEC compete with "unsubsidized" exports from the US, this is somehow contrary to GATT trading rules.

This is simply untrue. Article XVI of the GATT lays down that export subsidies for primary commodities are permitted provided that they do not lead to any Contracting Party taking more than an equitable share of world markets. After long and difficult negotiations in the Tokyo Round, agreement was reached in 1979 on a Subsidies Code which confirmed this rule while laying down clearer procedures and criteria for examining alleged breaches. The legitimacy of the EEC system of export refunds on agricultural products cannot be called into question, and was indeed formally recognized by the chief US trade negotiator in the Tokyo Round.

<u>It is hard to reconcile the current American campaign to eliminate EEC export refunds on agricultural products with the agreement reached by the Community and the US on this question in the Tokyo Round.</u>

The GATT has never yet ruled in a specific case that EEC export refunds have been used to take an unfair share of world markets. For example, the panel set up to examine the Australia/Brazil complaints against the EEC sugar policy in 1978, stated that although the EEC had increased its share of the world market, it was unable to conclude that this had resulted in the Community having more than an equitable share of world export trade in sugar in terms of Article XVI.

As regards the various US complaints in GATT that the EEC has taken more than a fair share of world markets or otherwise failed to respect its obligations, the US sees these cases not as a means of correcting alleged unfair competition in particular cases, but as a means of obtaining changes in the CAP, which would allow the US to expand its own exports. (1) The US has made clear that it expects the EEC to change its policies if the GATT panels find that the EEC is in the wrong. By contrast, if the GATT fails to uphold the US position, US officials have stated they will seek to change the rules, i.e. renegotiate the Subsidy Code. This is what is known as : "heads I win, tails you lose". Other officials have implied that the US will have recourse to competitive export subsidies aimed at the EEC, which amounts to saying that if the GATT fails to condemn EEC export refunds as contrary to the Subsidies Code, then the US itself will adopt the kind of aggressive export policy the EEC is accused of practising. This attitude has been described by the Commission as a strange interpretation of the rules of international trade and a very dangerous policy (2).

As far as the Community is concerned, there can be no question of renegotiating the international trade rules with respect to agriculture in general, and the system of export refunds in particular, so soon after the end of the Tokyo Round, when a balanced agreement was finally reached after long and difficult negotiations. What is more, it is arbitrary and illogical to criticise the EEC use of export refunds without examining the methods used by other Contracting Parties to promote their exports including US concessional sales under PL 480, "blended credits" and other forms of interest rate subsidy, as well as the "Export Boards" by which the traditional agricultural producers support their export trade.

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(1) See analysis of current GATT complaints involving the EEC in the appendix to this note.

(2) See speech by Mr. Dalsager to the joint meeting of the US Chambers of Commerce and COPA in Frankfurt on 5 October 1982.

Appendix

State of current GATT procedures involving the EEC

Product	Date introduced	Complaint by	Complaint against	Object	State of procedure
Wheat flour	September 1981	US	EEC	"subsidized" exports to 3rd country market	panel's conclusion awaited
poultry	November 1981	US	EEC	idem	bilateral consultations inconclusive; no panel yet requested
Pasta	December 1981	US	EEC	legality of export subsidies on processed products	panel began work in July 1982
Canned fruit and dried	December 1981	US	EEC	production aids	panel began work in September 1982
Citrus fruit	December 1981	US	EEC	tariff preferences for Mediterranean countries	bilateral consultations inconclusive : request for panel established in November
Sugar (i)	January 1982	US	EEC	export subsidies : alleged effect on US domestic prices	bilateral consultations inconclusive : no panel requested
(ii)	July 1982	EEC	US	import quotas and export subsidies	first bilateral consultations October 1982
(iii)	April 1982	Australie Brazil (and 8 others LDC's)	EEC	subsidized exports	bilateral consultations in July 1982 : no request for panel

Wheat flour

1. The US complaint is based primarily on the Subsidies Code agreed during the Tokyo Round. It is alleged in particular that the EEC had used export subsidies to take more than its fair share of world export markets at the expense of US exporters and to undercut US prices. In the second place, the US has challenged the legality of export subsidies on flour on the grounds that it is not a primary product and that, consequently. all forms of export subsidy are prohibited.

2. The EEC as replied as follows :

- The figures do not show any displacement of US exports by "subsidized" EEC sales during the preceding 3 years, which is the reference period indicated in the Code (the US complaint is based on figures going back to the 1960's before the CAP was in full operation). Anyway, the US figures are distorted by the substantial volume of concessional sales of the PL 480 type (2/3 of all sales). Closer examination reveals no case where US exporters have been undercut by EEC flour sold with the benefit of export refunds. These refunds, which are paid in order to offset the higher cost of EEC cereals by comparison to world cereals prices, are calculated very strictly. The Community flour milling industry is highly efficient and internationally competitive, as illustrated by the trade in flour from wheat imported under the inward - processing regime and reexported without any refund.

- The qualitative difference between EEC and US flour has led to a de facto specialisation, which also corresponds to the bread-making techniques and dietary habits of the importing countries, all of which virtually precludes any comparison between EEC and US markets and prices.

- Flour has always been classified as a primary product, and consequently eligible for export subsidies, i.e. the US interpretation of the Subsidies Code on this point is incorrect.

3. The panel set up to examine the dispute is expected to publish its findings by the end of the year.

Poultry

1. The US complaint alleges that subsidized exports of poultry by the EEC have taken more than an equitable share of world markets and have undercut US prices, thereby damaging the interest of US producers.

2. The EEC replies that EEC sales have in no way displaced US exports. The US has its traditional markets in America and the Far East, while the EEC has traditionally been the dominant supplier of the rest of Europe, Africa and the Middle East. Though total EEC exports have risen marginally faster than US sales (1), this geographical pattern has not changed significantly since the end of the Tokyo Round, except that the US has been increasing its exports to the Middle East.

In the Middle East, however, the most aggressive competition has come from Brazil, which entered the market in 1975 and now has 35% of the market as against 53% for the EEC and 6% for the US (2). In July 1982, the US decided to investigate Brazilian production and export subsidies on poultry and to seek consultations with that country.

3. The US indicated in July 1982 that it would not proceed further with the complaint against the EEC until the effect of Brazilian export subsidies on US sales has been established.

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(1) EEC sales of poultry increased from 193,000 tonnes in 1978 to 455,000 tonnes in 1981, while US exports rose in the same period from 194,000 tonnes to 391,000 tonnes.

(2) US figures.

Pasta

1. The US has challenged the legality of such refunds for pasta under Article 9 of the Subsidies Code, which lays down that export subsidies may only be granted on primary commodities. The US argues that pasta cannot be considered a primary product.

2. The EEC replies that it only grants export refunds on primary commodities (e.g. durum wheat or other cereals), incorporated in processed products such as pasta, the refund being designed to offset the difference between EEC and world prices for the commodity concerned and not to subsidize the processing industry concerned.

There is no case for saying that EEC exports have injured US producers. EEC exports to the US (95% of which come from Italy), went up from 15,000 tonnes in 1977 to 27,000 tonnes in 1980, i.e. from 0.7 to 1.1% of US production. Total imports remained constant at 3% of US domestic consumption.

The US complaint is consequently to be viewed as an attempt to obtain endorsement of a new interpretation of Article 9 of the Subsidies Code, which would force the EEC to abolish export refunds on all processed agricultural products, even if the refund relates solely to the primary product content.

3. The panel held its first meeting in July 1982, and its second meeting in October.

Tinned fruit and raisins

1. The US has complained about EEC processing aids for tinned peaches, pears, mixed fruit and raisins. They claim that the processing aids for tinned pears and peaches, introduced by the EEC in 1978, are likely to stimulate EEC production and hence reduce imports, thus impairing the trade benefit they were entitled to expect as a result of the EEC tariff concessions on their products (GATT binding). As regards the aid for raisins, which was introduced in 1981 on the accession of Greece, it is claimed that this represents a threat to US exports which benefit from a tariff binding.

2. As regards tinned peaches and pears, the Commission has replied

- that the aids were introduced in order to help low income producers, particularly in the Mediterranean regions of the EEC. The aids are paid to processors who in return must pay a minimum price to the producers and have been fixed at a reasonable level.

- The trade figures do not substantiate the alleged damage to US interests. As regards tinned pears, total imports have been stable at about 45.000 tonnes a year since 1977 (1981 imports = 42.500 tonnes). US exports to all destinations have been falling, while sales to EEC have been limited and irregular, varying from 0 to 3% of the market.
  As regards tinned peaches, US imports have been fluctuating round an average of about 10.000 tonnes a year. 1981 sales were 9.600 tonnes representing 13% of the EEC market as opposed to 9.500 tonnes in 1977 and 8.000 tonnes in 1976.

As regards raisins (dried grapes) the Commission argues that

- from the legal point of view, the Greek tariff on raisins was not bound in GATT, and that Article XXIV (6) negotiations to regularise the tariff situation following Greek accession are not yet completed.

- The competitive position of Greek raisins on the EEC market vis-a-vis imports has not been changed as a result of Greek accession. Greek exports already benefited from tariff-free access to the EEC market under the 1961 Association Agreement. The system of processing aids introduced by the EEC in 1981 is modelled on the pre-existing Greek scheme, the only change being that the budgetary burden has been transferred from Greece to the Community.

- Greek exports of sultanas to the rest of the EEC actually halved in 1981 as result of price-undercutting by Turkish exporters (1), and so cannot be held responsible for the fall in US sales of sultanas to the Community.

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(1) 60,000 tonnes out of total Greek production of 95,000 tonnes of sultanas in 1981 were sold to intervention. In October 1982 the EEC introduced a minimum import price of $ 1,000 per tonne, in order to avoid a repetition of the 1982 crop, but this will not affect imports from the US and Australia.

After reaching 30.000 tonnes in 1980, US exports fell to 13.000 tonnes in 1981, but this figure was still well above the average level of exports to the EEC for the previous three years (1977-78-79) which were just over 9.000 tonnes. The competitivity of US sultanas in 1981 and 1982 has been adversely affected by the strong dollar, which has priced them out of all but the upper end of the market.

With respect to both tinned fruit and raisins, the proceedings have failed to establish material prejudice to US exporters. Nevertheless, the US claims that subsidies of this kind to domestic producers, ipso facto, eliminate foreign producers' price advantage and are therefore to be regarded as impairing the trade benefits to be expected from the relevant tariff binding. If this thesis was accepted, any form of production aid, including deficiency payments, on products bound in GATT could be challenged in the GATT. This would be a completely new departure.

Citrus fruit

The EEC has granted tariff preferences to a series of Mediterranean countries with which it has concluded association or preferential trade agreements (Spain, Turkey, Cyprus, Malta, Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon and Israel). Following a dispute between the EEC and the US about the Community's preferential policy, a gentlemen's agreement was reached in May 1973 (the so-called Soames - Casey agreement) under which the EEC agreed not to conclude further preferential agreements beyond those already established, and not to seek reverse preferences from the developing countries concerned; in return, the US undertook not to challenge the preferential tariff agreements concluded by the EEC in the GATT.

In November 1976, the American citrus producers tabled a complaint under Section 301 of the US Trade Act. The US sought informal consultations with the Community on the basis of the Soames-Casey understanding and then formal consultations in GATT, which were held in October 1980, both without any result. In December 1981 the Reagan Administration informed the Commission that if the EEC did not agree to negotiate a reduction in its tariff on citrus, the US would invoke GATT.

1. The US complaint alleges that the EEC tariff preferences on citrus fruit violate the most favoured nation (non-discrimination) clause of GATT, and have damaged US interests.

2. The EEC argues in reply that

- politically, this amounts to a unilateral move to call into question a past agreement, i.e. the Soames-Casey understanding, which the EEC on its side has always respected, even if it has no legal standing in GATT.

- Legally , the Community has notified all its preferential agreements under Article XXIV of GATT, which allows contracting parties to set up a customs union or free trade area. The examination of these agreements under Article XXIV has been long since concluded.

  Neither the Community nor the other GATT contracting parties concerned are prepared to reopen those negotiations. Furthermore, GATT specifically allows preferential treatment for developing countries in derogation from the MFN clause.

- Economically, the volume of trade is modest, and there is no evidence of prejudice to US exporters as a result of EEC tariff preferences. Total US exports to the EEC of oranges, grapefruit and lemons amount to $ 70 million, ie. less than 1% of total US agricultural sales to the Community. Over the four years 1978 to 1981, US citrus exports have remained fairly constant at just under 5% of total EEC imports, with the Mediterranean countries supplying a fairly constant 83%. Italian sales to the rest of the Community have even declined slightly from 8% to 7% of imports. The strength of the dollar and high freight charges explain why US citrus exporters have difficulty in competing on the EEC market with Mediterranean suppliers who account for more than half of EEC consumption.

3. Bilateral consultations were held in April 1982. The GATT Council decided in November 1982 to set up a panel to examine the US complaint.

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(1) The US has also used this provision, for example,in favour of certain Caribbean countries.