

## U.S.-EC Blair House Agreement

*In November 1992, bilateral negotiations produced a common U.S.-EC position with respect to several unresolved issues in the agriculture negotiations of the Uruguay Round. The agreement, reached at Blair House, also contains side accords that address U.S.-EC disputes on oilseeds, corn gluten feed, malted barley sprouts, and the Enlargement Agreement. [Michael T. Herlihy, Joseph W. Glauber, and James G. Vertrees]*

In December 1991, Arthur Dunkel, then Director-General of the General Agreement on Tariffs and Trade (GATT), released the "Draft Final Act" containing draft final texts for all areas of the Uruguay Round negotiations. The document was to serve as the basis for concluding the Uruguay Round. The United States and most other GATT members were prepared to accept the "Dunkel Text" as the basis for concluding the agriculture negotiations. However, the European Community (EC), Japan, Korea, and a few other countries rejected key provisions of the text on agriculture.

As the two principal players in the agriculture negotiations, the United States and the EC (represented by the Commission) engaged in bilateral discussions to work out an approach that would allow the negotiations to conclude. The agreement reached at Blair House<sup>1</sup> on November 20, 1992, was the culmination of nearly a year of these bilateral negotiations (see table 13.1). The agreement would require specific changes to the Dunkel Text. Under the Blair House Agreement, the United States and EC agree to support a Uruguay Round agreement for agriculture that would:

- cut the volume of subsidized exports by 21 percent and the annual expenditure for export subsidies by 36 percent,
- reduce internal support by 20 percent as measured by a Total Aggregate Measure of Support (AMS)<sup>2</sup> for the whole sector,
- exempt direct payments to producers that meet production-limiting criteria from the commitments to reduce internal support, and
- exempt certain policies from challenges in the GATT.

The Blair House Agreement addressed another sensitive Uruguay Round issue--the EC's desire to restrict imports of non-grain feed ingredients (rebalancing). Some key Uruguay Round issues, principally those relating to market access, were not addressed in the Blair House Agreement and are still being negotiated.

In addition to Uruguay Round issues, the Blair House Agreement also contains side accords that address a host of long-

standing transatlantic trade disputes. Agreements were reached on disputes over EC production subsidies for oilseeds, restrictions on imports of corn gluten feed and malted barley sprouts, and continued access for U.S. feed grains to the Spanish market under the U.S.-EC Enlargement Agreement.

The December 1991 Draft Final Act and the November 1992 Blair House Agreement are the current working documents for the GATT negotiations on agriculture. They provide the basis for moving the Uruguay Round to a successful completion. While other GATT member countries are not party to the Blair House Agreement, it has considerable multilateral support although it is not yet a multilateral agreement.

### Uruguay Round Issues

#### Export Subsidies

The United States and the EC reached an agreement on export subsidies that requires cuts in the quantity of subsidized exports of 21 percent over 6 years from a 1986-90 base. Under the Dunkel Text, the quantity of subsidized exports would have been cut by 24 percent. The cut in the annual expenditure for export subsidies is the same as under the Dunkel Text, 36 percent of average annual expenditures during 1986-90. The quantity and expenditure cuts apply on a product-by-product basis (no aggregation of product groups, i.e., into categories such as total grain, meat, or milk). Processed products are not subject to the volume commitment and bona fide food aid exports are not covered by either the volume or expenditure commitments.

The Blair House Agreement also clarifies the Dunkel Text provision on flexibility for export subsidy commitments. In the first year, the volume of subsidized exports must be reduced by the amount that would apply if equal cuts were made over the 6-year implementation period. In the second through fifth years, the maximum flexibility is half the annual linear cut, 1.75 percent  $[(21 \text{ percent} / 6) \times 0.5]$ . Once fully used, flexibility cannot be used again until it is "paid back," i.e., until the cumulative level of subsidized exports is equal to that under a linear cut. Total subsidized exports over 6 years cannot exceed the level under a straight linear cut.

Because the reductions in subsidized exports must be made from the levels during the 1986-90 base period, the percentage cut from current levels will vary. Under the Blair House Agreement, the United States would cut the volume of subsidized exports by 2 percent to 81 percent from 1992 levels

<sup>1</sup> The President's official guest house, referred to as Blair House, is located across the street from the White House at 1651 Pennsylvania Avenue.

<sup>2</sup> See the glossary of terms at the end of this article for a definition.

Table 13.1: Summary of Blair House Agreement

Area of negotiations	Terms of the Agreement
<b>URUGUAY ROUND</b>	
Export subsidies-- volume	<ul style="list-style-type: none"> <li>* 21-percent reduction in quantity of subsidized exports from 1986-90 base.</li> <li>* Cuts apply on a product-by-product basis (no aggregation of product groups).</li> <li>* Flexibility in second through fifth years equal to half the annual linear cut (1.75 percent).</li> <li>* Food aid and exports of processed products are not subject to volume commitments.</li> </ul>
Export subsidies-- expenditure	<ul style="list-style-type: none"> <li>* 36-percent reduction in annual expenditure on export subsidies from 1986-90 base.</li> <li>* Cuts apply on a product-by-product basis (no aggregation of product groups).</li> <li>* Food aid exports are not subject to the expenditure commitments.</li> </ul>
Export credits	<ul style="list-style-type: none"> <li>* Members will work to develop internationally agreed-to disciplines for export credits.</li> <li>* After agreement on disciplines, members will "provide export credits, export credit guarantees, or insurance programs only in conformance therewith."</li> </ul>
Internal support	<ul style="list-style-type: none"> <li>* Measured by Total AMS equal to commodity specific AMSs and equivalent commitments.</li> <li>* 20-percent reduction for Total AMS in equal annual installments from 1986-88 base.</li> <li>* Direct payments under "production limiting programs" are not subject to reduction.</li> </ul>
Rebalancing "Peace Clause"	<ul style="list-style-type: none"> <li>* Consultations if EC non-grain feed imports "undermine implementation of CAP Reform."</li> <li>* Exempts certain policies from GATT challenges (see table 13.3).</li> </ul>
<b>BILATERAL ISSUES</b>	
Oilseeds	<ul style="list-style-type: none"> <li>* Establishes an area-based payment trigger for oilseed producers. The EC-12 base is set at 5.128 million hectares from 1995/96.</li> <li>* Base area is reduced by arable crop set-aside rate or 10 percent, whichever is greater.</li> <li>* Oilseed area receiving compensation must not exceed the base area minus the required set-aside (area trigger).</li> <li>* Oilseed payments will be cut by 1 percent for every 1 percent overshoot of area trigger.</li> <li>* Cuts in payments will be carried over through following marketing years and will accumulate until compensated area falls below the trigger.</li> <li>* A limit is placed on production of oilseeds for industrial uses on set-aside land of 1 million tons annually expressed in soybean meal equivalents.</li> <li>* Growers of confectionery sunflowerseeds will not receive oilseed payments.</li> <li>* If the EC expands, the base area will be increased by no more than the average oilseed area in the new countries in the 3 years preceding their accession.</li> <li>* EC grants tariff-rate quota of 500,000 tons of corn into Portugal as compensation to U.S.</li> <li>* EC will incorporate oilseeds pact into its schedule of commitments for Uruguay Round.</li> <li>* U.S. agreed to "forego any further compensation claim for impairment of the binding."</li> <li>* If U.S. or EC feel agreement has been breached, they agree to binding GATT arbitration.</li> </ul>
Corn gluten feed	<ul style="list-style-type: none"> <li>* More precisely defines the production practice for corn gluten feed.</li> <li>* Pending agreement on tests, microscopic analysis will not be used to determine content.</li> <li>* Corn Refiners Association and USDA will work to certify starch, fat, and protein content.</li> <li>* EC will refund all levies and bonds and reestablish normal customs clearance procedures.</li> </ul>
Malted barley sprouts	<ul style="list-style-type: none"> <li>* Malt sprout pellets will be classified under HS 2309 beginning Jan. 1, 1993.</li> <li>* Imports before Jan. 1, 1993 will be assessed a zero duty and the EC will refund all levies.</li> <li>* An interim tariff-rate quota of 35,000 tons at zero duty is set from Jan. 1 to March 31, 1993.</li> <li>* A tariff-rate quota for 85,000 tons at zero duty is set from April 1 to Dec. 31, 1993.</li> <li>* An annual tariff-rate quota will be set for 120,000 tons at zero duty for subsequent years.</li> </ul>
Enlargement Agreement	<ul style="list-style-type: none"> <li>* Extended for another year, through December 31, 1993.</li> </ul>

depending on the commodity (table 13.2). EC cuts would range from 10 percent to 40 percent. For both the United States and the EC, subsidized exports of some commodities, e.g., U.S. poultry meat and EC butter, could actually increase because current levels are less than in the 1986-90 base.

Multilateral cuts in subsidized exports would greatly benefit the United States. For example, EC-subsidized wheat exports would decline by over 7 million tons from current levels. The United States subsidizes exports to counter the export subsidies of other countries, mainly the EC. Only a small share of U.S. agricultural exports is subsidized, but nearly all EC exports are directly subsidized. The EC spent about \$25 in export subsidies for every \$100 of exports in 1990, while U.S. export subsidies were only about \$1 for every \$100 of exports. With multilateral cuts in export subsidies, the United States can cut export subsidies and still be competitive.

### Export Credits and Credit Guarantees

Article 10 of the Draft Final Act on Agriculture, "Prevention of Circumvention of Export Competition Commitments" states that members will not provide export credits, export credit guarantees, or insurance programs other than "in conformance with internationally agreed disciplines." The Organization for Economic Cooperation and Development has developed guidelines for officially supported export credits, but they only apply to sales of manufactured goods and/or services (OECD 1992). Currently, there are no internationally agreed-to disciplines on export credits that cover agricultural commodities.

Under the Blair House Agreement, the United States and the EC agreed to revised language for Article 10. The new language states that members will "work toward the development of internationally agreed disciplines to govern the provision of export credits, export credit guarantees or insurance programs and, after agreement on such disciplines, to provide export credits, export credit guarantees or insurance programs only in conformance therewith."

Table 13.2: Subsidized exports in sixth year under Blair House Agreement

Commodity	U.S.	EC
	---Percent change from 1992---	
Wheat	-28	-30 to -40
Coarse grains	-2	-30 to -40
Vegetable oils	-81	NA
Beef	NA	0 to -10
Poultry meat	6 1/	-25 to -35
Butter	-69	45 to 55 1/
Cheese	-20	-25 to -35
Skim milk powder	-15	20 to 25 1/

1/ Positive number means that subsidized exports could be increased compared to 1992.

Source: Based on country schedules and estimates of 1992 subsidized exports.

### Internal Support

The United States and the EC agreed to measure internal support as a Total AMS that is equal to the sum of all commodity-specific AMSs and equivalent commitments. The Total AMS is reduced by 20 percent in equal annual installments from a 1986-88 base. Credit is given for reductions in internal support since 1986. At the end of the implementation period, the Total AMS will be bound in the GATT.

Under the Dunkel Text, support measures agreed upon as non-trade distorting are exempt from any reduction commitments. These permitted or "green box" policies include conservation measures, crop insurance, disaster assistance, extension programs, and income payments that are not tied to current production.

Under the terms of the Blair House Agreement, direct payments under production-limiting programs are not subject to the commitment to reduce internal support for the period covered by a Uruguay Round agreement. Direct payments that meet the criteria are excluded from the calculation of a total AMS. The agreement specifies the following criteria:

- payments are based on fixed areas and yields, or
- payments are made on no more than 85 percent of the base level of production;
- livestock payments are made on a fixed number of head.

Both U.S. deficiency payments and EC direct payments implemented under the reform of the Common Agricultural Policy (CAP) would not be subject to the reduction commitments during the implementation period for this round. In contrast to this limited exemption, the EC had argued for a "safe box" in which CAP Reform payments would be exempt from reductions in internal support and from countervailing duty actions and other GATT challenges.

No changes would be required in U.S. policies to meet a 20-percent cut in internal support. Policy changes contained in the 1985 and 1990 farm bills and budget legislation have already reduced support substantially for most commodities. The EC also would be able to meet the 20-percent cut in internal support under current policies.

### Rebalancing

Corn gluten feed, corn germ meal, citrus pellets, and other non-grain feeds enter the EC duty-free or at relatively low tariffs as a result of negotiations in previous GATT rounds. Because non-grain feeds imported at or near world prices compete with much higher-priced EC-produced feeds, the EC has proposed several measures to limit non-grain feed imports. Past proposals included increased tariffs, voluntary restraint agreements, import quotas, and a tax on vegetable and marine fats and oils. The EC also has proposed, as part of its negotiating position for the Uruguay Round, that it be allowed to "rebalance" support and protection for directly competing products, e.g., exchange reductions in support for grains for increased protection on non-grain feed imports. The United

Table 13.3: Comparison of GATT rules provisions of Blair House agreement and Dunkel Draft Final Act

GATT challenges	-----Domestic supports-----			Export subsidies
	"Green box"	Not subject to reduction	Subject to reduction	
Countervailing duties	Blair House: exempt Dunkel: exempt	Blair House: due restraint and material injury 1/ Dunkel: not addressed	Blair House: due restraint and material injury 1/ Dunkel: not addressed	Blair House: due restraint and material injury 1/ Dunkel: not addressed
Serious prejudice	Blair House: exempt Dunkel: not addressed	Blair House: exempt (subject to 1992 cap) 2/ Dunkel: not addressed	Blair House: exempt (subject to 1992 cap) 2/ Dunkel: presumed exempt	Blair House: exempt Dunkel: presumed exempt
Nullification or impairment	Blair House: exempt Dunkel: not addressed	Blair House: exempt (subject to 1992 cap) 2/ Dunkel: not addressed	Blair House: exempt (subject to 1992 cap) 2/ Dunkel: due restraint	Blair House: not addressed Dunkel: due restraint

1/ A determination of injury or threat of injury must be established in accordance with Article VI of GATT 1993 and Part V of the Subsidies Agreement. Blair House requires due restraint be shown in initiating any countervailing duty investigations.

2/ Direct payments not subject to reduction and other domestic supports that are subject to reduction are exempt from nullification and impairment actions and serious prejudice actions provided that "such measures do not grant support to a specific commodity in excess of that decided during the 1992 marketing year."

States has strongly opposed any attempt by the EC to restrict imports of non-grain feeds.

The EC non-grain feed market is very important to the United States. U.S. exports of non-grain feeds to the EC, excluding oilseeds, amounted to about \$984 million in 1991. Corn gluten feed shipments alone accounted for \$717 million, over 70 percent of the total. Corn gluten feed is the second largest U.S. agricultural export to the EC after soybeans.

Under the Blair House Agreement, the United States and the EC agreed that if "EC imports of non-grain feed ingredients increase to a level, in comparison with the level of imports in 1986-90, which undermines the implementation of CAP Reform, the parties agree to consult with a view of finding a mutually acceptable solution."

**"Peace" Clause**

The United States and the EC agreed that during the implementation period for a Uruguay Round agreement, permitted (green box) policies are exempt from countervailing duty actions and other GATT challenges (nullification or impairment actions, serious prejudice actions).

Direct payments not subject to reduction commitments during this round, and other domestic supports that are subject to reduction would be exempt from nullification or impairment actions and serious prejudice actions provided that "such measures do not grant support to a specific commodity in excess of that decided during the 1992 marketing year."

Export subsidies would be exempt from serious prejudice actions.

The exemptions to GATT challenges only apply as long as the reduction commitments and other disciplines agreed to under a Uruguay Round agreement on agriculture are respected. In addition, if support rose above the levels agreed to in 1992, the United States could bring nullification or impairment actions and serious prejudice actions in the GATT. Actions such as these led to the recent GATT oilseed panels.

Direct payments not subject to reduction commitments, as well as other domestic supports and export subsidies that are subject to reduction, would not be exempt from countervailing duty actions. Countervailing duty actions may only be undertaken after a determination of injury or threat of injury has been established in accordance with Article VI of the GATT 1993 and Part V of the Subsidies Agreement. In addition, the Blair House Agreement stipulates that due restraint must be shown in initiating any countervailing duty investigations. See table 13.3 for a comparison of proposed GATT rules provisions of the Blair House Agreement and the Draft Final Act.

<sup>3</sup> Direct payments and other support measures provided for under CAP Reform are being phased in over a 3-year period beginning with the 1993/94 marketing year. However, since CAP Reform was adopted in July 1992, CAP Reform supports would be exempt from nullification or impairment actions and serious prejudice actions as long as support did not exceed that agreed to in 1992.

## Bilateral Agreements

### *Memorandum of Understanding on Oilseeds*

The Memorandum of Understanding on Oilseeds resolved the U.S.-EC dispute over EC oilseed subsidies. The EC agreed to modify its existing oilseed regime, implementing changes that will take effect with oilseeds harvested in 1994. The main provisions of the agreement are:

- An area-based payment trigger is established for oilseed producers. The base (area planted to rapeseed, sunflowerseed, and soybeans) is set at 5.128 million hectares for the EC-12 for the 1995/96 marketing year.
- A transitional regime applies for the 1994/95 marketing year. Individual base areas, that count against the EC-12 total, are set for sunflowerseed in Spain (1.411 million hectares) and Portugal (122,000 hectares) in recognition of EC commitments under the Treaties of Accession. The EC-12 base area for other oilseeds is set at 3.966 million hectares.
- The base area is reduced in each year by the set-aside rate for arable crops, or 10 percent, whichever is greater.
- EC oilseed compensation payments will be cut if the oilseed acreage receiving compensation exceeds the base area minus required set-aside (area trigger). For every 1-percent overshoot of the area trigger, compensation payments to oilseed producers will be reduced by 1 percent in the same marketing year. In addition, the cut in compensation payments will be carried over through the following marketing years and will accumulate until compensated area falls below the trigger.
- A limit is placed on production of oilseeds for industrial uses on set-aside land. The United States and the EC agree that if "the byproducts made available as a result of the cultivation of oilseeds on land set aside for the manufacture within the Community of products not primarily intended for human or animal consumption exceed 1 million metric tons annually expressed in soybean meal equivalents, the EC shall take appropriate corrective action within the framework of the CAP Reform."
- Beginning with the 1994 harvest, confectionery sunflowerseed producers will not be eligible for oilseed payments. Under CAP Reform, confectionery sunflowerseed producers were eligible for oilseed payments.
- If the EC expands to include new members, the base area will be increased by no more than the average oilseed area in the acceding countries in the 3 years immediately preceding the accession.
- The EC agreed to grant a tariff-rate quota for imports of 500,000 tons of corn into Portugal as compensation for damage to U.S. oilseed exports caused by EC subsidies and aids under the old oilseed regime. The quota will begin with the 1993/94 marketing year and will continue for an open-ended term. The within-quota tariff rate will be

bound at a level that will ensure that the quota will be filled. The EC Commission has indicated it will apply the corn imported under the tariff-rate quota toward any market access commitments contained in a final Uruguay Round agreement.

- The EC agreed to incorporate the commitments specified in the Memorandum of Understanding on Oilseeds into the EC schedule of domestic support commitments to be annexed to the Uruguay Round Protocol to the GATT.
- The United States agreed to "forego any further compensation claim for impairment of the binding." If either the United States or the EC believes the agreement has been breached, the parties agree to undertake binding arbitration in the GATT.

### *Corn Gluten Feed*

Since the end of 1990, U.S. corn gluten feed shipments to the EC have been hampered by the reclassification of shipments to a dutiable category of mixed animal feeds because of the presence of corn germ meal, screenings/cleanings of corn, and yeast from steep water. Corn gluten feed shipments were reclassified on the basis of microscopic analysis which the U.S. considers unreliable. The presence of corn germ meal, screenings/cleanings, or yeast led Customs officials in some EC member states, particularly the Netherlands and Germany, to charge bonds equivalent to the variable levy for mixed animal feeds in spite of the zero-duty GATT binding for corn gluten feed and corn germ meal. This situation created considerable uncertainty and concern among feed importers in the EC and has at times all but halted U.S. shipments of corn gluten feed to major EC ports.

At Blair House, the United States and EC agreed to resolve the outstanding issues related to the duty-free access of corn gluten feed into the Community. The agreement more precisely defines the production practice for corn gluten feed and addresses the issue of microscopic analysis. As a result of the agreement, no further delay in corn gluten feed shipments will occur, all outstanding bonds will be released and all levy demands will be rescinded, and normal customs clearance procedures will be reestablished. The agreement on corn gluten feed includes the following specific provisions:

- Screenings/cleanings - The EC agreed that screenings/cleanings of corn used in the manufacture of starch constitute an acceptable constituent of corn gluten feed. Their inclusion does not alter corn gluten's classification as a residue of starch manufacture (Combined Nomenclature 2303.10.19). The United States agreed that screenings/cleanings may only be derived by wet milling corn for the manufacture of starch and starch products and that screenings/cleanings will not account for more than 15 percent of the weight of the corn gluten feed.
- Steep water - The EC agreed that steep water derived from the corn wet milling process that is currently used in the manufacture of alcohol and other starch derived products is properly classified as a residue of starch manufacture and thus is a proper constituent of corn gluten feed. It is

recognized that the use of steep water for such a process should not result in an increase in the feed value of corn gluten feed.

- Microscopic analysis - The U.S. Corn Refiners Association and the EC Commission will work in collaboration to determine the feasibility of establishing a semi-quantitative method of microscopic analysis for corn germ meal and screenings/cleanings in corn gluten feed. Pending completion of the work and agreement on tests for determining the chemical requirements of the 1991 Memorandum of Understanding on Corn Gluten Feed,<sup>4</sup> microscopic analysis will not be used to determine the amount of corn germ meal and screenings/cleanings in corn gluten feed.
- Certification - The U.S. Corn Refiners Association and USDA's Federal Grain Inspection Service will work to certify that corn gluten feed meets the starch, fat, and protein requirements of the October 1991 Memorandum of Understanding on Corn Gluten Feed.

### **Malted Barley Sprouts**

Malted barley sprouts, or malt sprout pellets, are a byproduct from the process of converting barley into malt. The U.S. has shipped malt sprout pellets to the EC duty-free for over 25 years. During 1992, Irish Customs officials began reclassifying U.S. shipments of malt sprout pellets to the leviable category of mixed animal feeds because the pellets contained both post-malting sprouts and pre-malting screenings. Irish Customs officials charged over \$4 million in levies on U.S. shipments of malt sprout pellets, effectively stopping trade.

The resolution of the malted barley sprouts dispute included an agreement on classification and the level of a zero-duty annual tariff quota. The EC also agreed to refund all variable levies and bonds charged on U.S. shipments in 1992. The provisions of the agreement are as follows:

- Malt sprout pellets, of the quality currently exported to the EC, will be classified under HS 2309 from January 1, 1993.
- Malt sprout pellets imported into the EC before January 1, 1993, will be assessed a zero duty. All levies and bonds charged on imports before January 1, 1993, will be refunded.
- An interim tariff-rate quota of 35,000 tons at zero duty will be set for imports from January 1, 1993, to March 31, 1993.
- From April 1, 1993 through December 31, 1993, a tariff-rate quota will be set for 85,000 tons of imports at zero duty.

<sup>4</sup> On October 15, 1991, the United States and the EC signed an agreement in Geneva on corn gluten feed, "Memorandum of Understanding Reflecting Results of Article XXIII:1 Consultations on European Community Restrictions Affecting Imports of Corn Gluten Feed." The agreement limits the content of starch (maximum 28 percent on a dry matter basis), fat (maximum 4.5 percent on a dry matter basis), and protein (maximum 40 percent) in corn gluten feed.

- An annual tariff-rate quota will be established for 120,000 tons of imports at zero duty for subsequent years.

### **Enlargement Agreement**

When Spain joined the Community in 1986, its 20-percent duty on feed grains was replaced by the EC's much higher variable levy, cutting off U.S. feed grain exports. The United States negotiated a settlement with the EC under GATT Article XXIV:6 which provides for compensation for any trade loss resulting from the enlargement of a customs union. Under the terms of the agreement, the EC guaranteed that Spain would import 2 million tons of corn and 300,000 tons of sorghum annually for the next 4 years (1987-90). Part of the import requirement could be met through imports of selected non-grain feeds (corn gluten feed, brewers' dried grains, and citrus pulp).

As part of the Blair House Agreement, the U.S. and EC agreed to extend through 1993 the concessions set out in the 1987 U.S.-EC Enlargement Agreement. The agreement, originally set to expire on December 31, 1990, had already been extended for 1991 and 1992.

### **EC Implementation of Blair House Agreement**

The EC Council of Foreign Ministers approved the Memorandum of Understanding on Oilseeds contained in the Blair House Agreement on June 8, 1993. However, the provisions of the oilseeds agreement still have not been officially implemented because the detailed regulations bringing the existing oilseeds regime into compliance with the agreement have not been approved by the Council.

The Council of Ministers has not yet approved the changes to the Dunkel Text that were agreed upon by both the United States and the EC under the Blair House Agreement. In addition, the EC has not implemented either of the agreements it has negotiated with the United States on corn gluten feed, i.e., the October 1991 Memorandum of Understanding or the accord contained in the Blair House Agreement. U.S. exports of corn gluten feed are entering the EC under an interim "cease fire" agreement that has already been extended several times.

On April 23, 1993, the EC published official regulations establishing tariff quotas for certain mixtures of malt sprouts and barley screenings (malted barley sprouts). The Community suspended customs duties and agricultural levies, for January 1 to March 31, 1993, for imports (under Combined Nomenclature 2309.90.31 and 2309.90.41) within the limits of an EC tariff quota of 35,000 tons. The EC established a second tariff quota, suspending customs duties and agricultural levies on 85,000 tons of the same products, for April 1 to December 31, 1993. On the same day the quotas were opened, the EC officially extended the provisions of the U.S.-EC Enlargement Agreement until December, 31, 1993.

## Glossary of Terms

**Implementation Period** - The 6-year period beginning on the date of entry into force of a Uruguay Round agreement.

**Aggregate Measure of Support (AMS)** - The annual level of support, expressed in monetary terms, provided for an agricultural product in favor of the producers of the basic agricultural product, or non-product-specific support provided in favor of agricultural producers in general, calculated in accordance with the provisions of Annex 5 to Part B of the Draft Final Act.

**Equivalent Commitment** - The annual level of support, expressed in monetary terms, provided to producers of a basic agricultural product through the application of one or more measures, the calculation of which in accordance with the AMS methodology is impracticable and so is determined in accordance with the provisions of Annex 6 of Part B of the Draft Final Act.

**Total Aggregate Measure of Support (Total AMS)** - The sum of all domestic support provided in favor of agricultural producers, other than support provided under programs that qualify as exempt from reduction under this agreement, calculated as the sum of all AMS calculations for basic agricultural products, all non-product-specific AMS calculations, and all equivalent commitments for agricultural products.

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## CAP Reform Implementation

*The EC Commission, member state governments, and producers began implementing the CAP Reform program adopted in May 1992. The first price reductions have been phased in, as was the set-aside requirement for larger producers who wish to receive direct payments to compensate for price reductions. Some modifications to the program have already been adopted, which may lessen the Reform's impact on EC production and trade.*

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CAP Reform changes the way that support is provided to EC farmers, reducing the amount of support provided through administered prices, and partially replacing it by direct payments. The CAP Reform program includes changes in the support regimes for arable crops (grains, oilseeds, and protein crops), beef, dairy, sheepmeat, and tobacco. Reforms are also planned for the wine, sugar, and fruit and vegetable sectors.

In July 1993, the Commission presented the outline of reform for the wine sector. The proposals call for national quotas, and less direct market support through lower prices for compulsory distillation. Winemaking practices that increase output--such as adding sugar or must to wine--would be limited under the reform. The EC would continue to finance pulling

out vines in order to reduce production. The Council of Ministers must approve the proposals before they can be put into effect.

Support prices were reduced or eliminated for grains, protein crops, dairy, and beef, and new production control measures were implemented for arable crops, beef, sheepmeat, and tobacco. Producers of arable crops will receive direct per hectare payments to compensate for lower prices, and beef producers will receive payments for male bovines and suckler cows in beef herds.

The first CAP Reform price reductions went into effect with the 1993/94 marketing year. Prices for grains were reduced

an average of 22 percent, and prices for beef and butter were cut 5 and 3 percent. The guide prices for protein crops (field peas, beans, and lupins) were eliminated. In addition to these reductions, changes in the agrimonetary system necessitated an additional price cut of just over 1.3 percent for all commodities (see "New Agrimonetary System Promotes Free Trade Within EC").

### ***New Administrative Measures Determine Payments, Control Fraud***

To administer a system of direct payments, an EC-wide Integrated Administration and Control System (IACS) was established. Producers must submit official forms detailing their planted and set-aside area, and declaring their bovine animals and ewes eligible for premiums. Completed forms had to be submitted to national agriculture ministries by May 15, and many producers missed the deadline. Producers who submitted their forms late face the loss of 1 percent of support a day for each day past the deadline. Those whose forms were late 20 days or more are to lose their entire entitlement to payments. The Commission has promised leniency in the first year of the transition, and the actual penalties imposed are likely to be less harsh.

The Commission has also detailed measures to combat inaccurate IACS forms. For example, a producer who sets aside 28 hectares, but recorded his set-aside area as 30 hectares, would have his aid for that year reduced by 14 percent - twice the percentage of the error. An error of 20 percent or more would exclude producers from receiving any aid on the area or animals for which they claim payments. Similar penalties apply for livestock payments (see box). Intentional filing of false applications for aid can exclude producers from payments in both the year of the application and the following calendar year.

The forms themselves vary considerably among the 12 member states, and in some countries by region. Farmers in the United Kingdom completed 8-page IACS forms, with the help of a 79-page explanatory booklet. French farmers received an 8-page booklet, and completed a 6-page form. Each German state or Land distributed its own form, and producers whose farms overlap state boundaries must complete two separate forms.

Member state national governments are responsible for enforcing the new system, including carrying out on-site farm inspections. The Commission has mandated that member states conduct inspections of 5 percent of the farms for which arable aid applications were submitted (3 percent in countries where more than 700,000 applications have been filed). In the first year of the Reform, it is likely that fewer farms will actually be inspected. The new administrative systems of national governments were probably not well enough established to process all the applications and conduct inspections between May 15 (when the forms are submitted by producers) and July 15 (the earliest date for the end of the set-aside). Limited enforcement in the initial year of the transition may encourage producers to evade the rules.

### ***Regionalization Plans***

Two mechanisms facilitate the administration of the new arable crops regime. Base areas limit the area for which per hectare payments can be received. Yield regions establish the average regional yields used to calculate per hectare payments.

Base areas can be established for individual producers, or for regions. In the initial phase of the Reform, all EC member states have elected to establish regional rather than individual base areas. Most member states lack sufficient data at the farm level to administer a system of individual base areas. In addition, regional base areas take advantage of differences in individual farmers' rotations. While some farmers may plant all their area to eligible arable crops in 1 year, others may be planting part of their area to other crops, such as sugarbeets or potatoes. The area planted to eligible arable crops is more likely to balance out over a regional base area.

The member states are allowed to choose from a variety of methods for calculating per hectare payments. Payments for grains and protein crops must be based on the average grain yield, but the oilseed payment may be calculated using either the average grain or average oilseed yield. Separate yields may be established for calculating compensatory payments for corn. If separate corn yields are used, then a separate base area for corn, with its own set-aside requirement, must also be set up. Yield regions may also differentiate between irrigated and nonirrigated land.

The member states have considerable leeway in drawing up their regionalization plans for the new arable crops regime. The CAP reform legislation does not limit the number of yield or area regions that may be adopted. Consequently, the regionalization plans vary considerably across the EC (table 14.1).

Table 14.2 presents the total of the regional base areas that have been established for each of the member states, as well as the area entered into the set-aside program for the first year of CAP Reform. The actual area planted to arable crops may indeed be larger than the base area. The area entered in the set-aside program may not be area withdrawn from production. Some of the area set aside in 1992/93 may have also been set aside the previous year under either the 5- or 1-year set-aside programs.

Member states have introduced variations in their regionalization plans that were not included in the CAP Reform legislation. For example, France has calculated its regional yields as a weighted average of the average yield in the region (two-thirds weight) and the national average yield (one-third weight). This calculation is designed to provide extra compensation to farmers in lower-yielding regions. However, the oilseed payments are calculated using different grain yields, namely those used in the 1992 oilseeds regime.

The Portuguese regionalization plan does not establish a single yield for the southern part of the country. The plan allocates a specific yield to each holding according to its soil class, and distinguishes among yields depending on the irrigation technique used. Although neither plan meets the criteria of the