

NOTE FOR THE FILE

SUBJECT: US/EC Discussion on Almonds

DATE: 11th June, 1982

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During the Tokyo Round negotiations the US sought EC concessions also for citrus, almonds, walnuts and raisins. The US in fact thought that after the accession of Greece, Spain and Portugal and the disappearance of EC import barriers for products from these countries, US products could become uncompetitive.

The failure of the negotiations on these products was acknowledged by the Gundelach letter of 14.6.79 (Annex III) which concluded however with a positive note saying that US/EC discussions of an exploratory character about these problems prior to Spanish accession, would be a natural development. Rather parallel to this letter, the US indicated by letter of 11.6.79 (Annex IV) that the EC would get additional cheese quotas of 2,000 tons "at such time that the Community's offer on agricultural products of particular interest to the United States is significantly improved". It was understood that such improvements should be notably in the area of citrus and almonds.

Knowing the Italian resistance to concessions in these areas, DG VI and DG I Commissioners and Director-Generals suggested to the US to work directly with the Italians to find a solution. In case the Italians would agree on any solution for any of the products the mentioned EC officials were ready to get Commission proposals on the matter to the Council.

Already in March 1980 it became clear that concessions on Citrus fruit could not be obtained and US side decided to separate the citrus question from the Almond issue and started to reassess their position on whether or not the Casey-Soames agreement is still of interest to them. What is of interest with respect to citrus fruit is that during the Tokyo Round and thereafter the US were still ready to make concessions in exchange for EC citrus concessions while now as already to a lesser degree in the past, they consider our preferential agreements with mediterranean countries GATT-illegal. The record of the negotiations is full of similar cases (regarding Japanese trade barriers for example) where concessions were offered or made for the reduction of barriers which are in fact or at least in the perception of one party illegal barriers. It would be a nice subject for a Ph.D. thesis.

Independently from the citrus fruit issue which entered recently formal GATT procedures, the US continue to seek concessions on the importation of US citrus juice, offering in exchange among others financing of juice etc. research and a joint venture. No success is in sight.

Back to almonds. The only import charge applied by the EC is a 7% added value duty which has a more important effect already now on US almonds than on Spanish almonds as US almonds are higher priced because of the quality difference but also because of the transport cost element and right now the higher dollar exchange rate.

The final US aim is to have the duty eliminated before Spanish accession. But they would already be happy about a suspension of the duty until Spanish accession. This would help them to build market presence in the E.C.

The Commission rejected suspension of the duty with the argument that market supplies are adequate and a suspension some years earlier was made exclusively under the aspect of bad EC crops and resulting short supply. The US made in the last two years every possible effort to get the Italians around. The US naturally offered the residual 2,000 cheese quota and promised to define it in a way that mostly Italian cheese manufacturers would profit. They established a long list of possible other concessions of particular interest to Italy (bicycle parts, Italian marble, toilet accessories, etc.). They also sent two nice ladies of the Administration to Rome and Sardinia to show to the ... (President, Prime Minister ?) at that time, who was from Sardinia, how much the US are interested in his home area. The ladies enjoyed the trip (prior to a GATT meeting in Geneva, where they had to participate) and might have been successful but unfortunately the Italian for whom the show was made, had to resign one week later (not because of the ladies). In mid-1980 the US sent also an almonds expert team from California to Italy to discuss possible industry to industry arrangements on US technical assistance to the Italian almond industry. The US team was also received by MM Marcora and M roni and had a "really good time" as I heard. But the only Italian response was to ask for more details on the suggested technical assistance. The details were provided _____, but apparently without any further substantial response from Italian side.

Continuing discussions between US and Italy were like hot and cold showers. The US delegates were always extremely optimistic after US/Italian meetings and then learned some time later that things are the same as they were before. Apparently nobody in Italy, including Italian farm organizations, is really opposing the US proposals, but nobody is much in favour either to a point where he would press for a US/Italian understanding.

Finally the rumour goes that one of either Mr. Marcora or Moroni has, together with some brothers, very large nut plantations and it would be rather unlikely that he would wish to see increased competition from U.S. almonds.

The last wrinkle in the story is that President Reagan had in his Versailles Summit dossier a briefing note on almonds to discuss the question with Spadolini. USTR has not yet any indication as to whether or not the question was brought up during their recent meetings.

Regarding the present production and export situation in US almonds please see annexes I and II. It becomes apparent from both documents that exports

- become more and more important for the US almond industry, increasing from nearly 8,000 tons in 1968 to more than 70,000 tons in 1981 (81,000 tons in 1980).
- Exports now account for about 40% of US production.
- EC imports (particularly Germany) account for 50% or more of US exports.



Ulrich Knüppel

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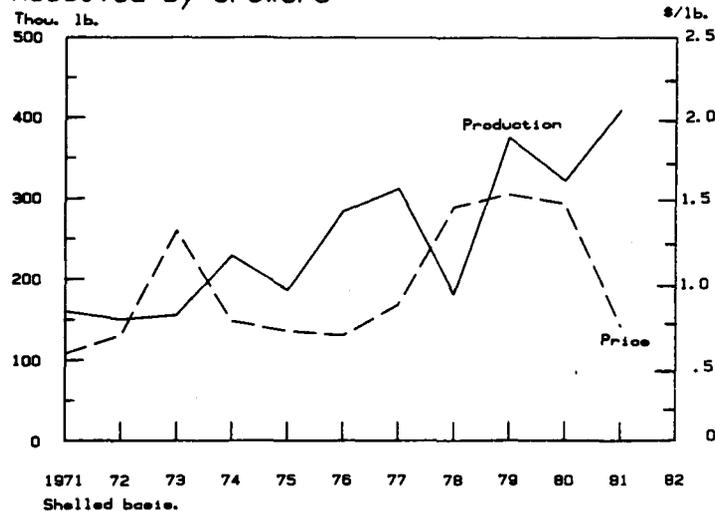
Almonds

California's 1981 production of almonds was a record 410 million pounds of nut meats (186,000 metric tons), 27 percent more than 1980 output and 9 percent above the 1979 crop. The record reflects good weather, a continued upward trend in bearing acreage and greater nut sets. The increased production, combined with a sharply larger inventory at the beginning of the season, have resulted in considerably bigger supplies during 1981/82. However, the Secretary of Agriculture's establishment of a 25-percent reserve under the authority of a marketing order has reduced the total salable supply to only moderately more than a year ago. In response to lower prices, domestic shipments for the first 7 months were up 23 percent from a year ago.

According to the Almond Board of California, combined domestic and exports of almonds during the first 7 months of the season (July-January) totaled 198.5 million pounds (shelled basis), an increase of 11 percent over

Annex I

U. S. Almond Production and Prices Received by Growers



USDA

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last season. Increases were recorded for both domestic and export shipments. Larger exports reflect substantially increased shipments to Canada, Mexico, Japan, and Australia. However, exports to Europe declined moderately. West Germany, the largest customer, has purchased 41.3 million pounds, down 9 percent from last year. The reduced shipments to Europe arose from intensive competition from record large foreign supplies, primarily from Spain and Italy. In addition, U.S. exporters also face a stronger dollar relative to European currencies. However, continued promotion and lower prices will continue to improve prospects for U.S. almonds in the other parts of the world during 1981/82.

During the first 7 months of 1981/82, total shipments of almonds to domestic markets amounted to 71.8 million pounds (shelled basis), up 23 percent from last season. Consequently, sales to domestic markets accounted for 36 percent of the total shipments of almonds, compared with 33 percent a year earlier. Lower prices and decreased use of cashews, resulting from higher prices, probably have contributed to the increase for almonds.

The U.S. season-average price for almonds has been estimated at 71 cents a pound, compared with \$1.47 a year ago. Consequently, even with a record crop, the total value declined from \$473.3 million in 1980 to \$291.1 million last year.

TABLE 16--U.S. AGRICULTURAL EXPORTS: QUANTITY AND VALUE, COMMODITY BY COUNTRY
CALENDAR YEARS 1980 AND 1981--CONTINUED

SCHED. 8 COUNTRY	QUANTITY		VALUE	
	1980	1981	1980 1,000 DOL.	1981 1,000 DOL.
1454300 ALMONDS, SHELLED				MT
TOTAL	80,976	70,336	334,285	234,882
CANADA	2,226	2,224	8,352	7,422
MEXICO	255	361	676	780
VENEZ	341	370	1,409	1,172
ARGENT	320	558	1,427	2,045
SWEDEN	3,141	3,220	12,868	9,800
NORWAY	1,550	1,975	6,294	5,536
FINLAND	348	356	1,511	1,279
- DENMARK	1,651	1,643	6,605	5,461
- U KING	3,842	3,969	16,832	14,170
- NETHLDS	2,127	1,819	8,975	5,743
- BELGIUM	983	950	4,003	1,896
- FRANCE	6,969	5,946	28,310	19,734
- FR GERM	31,776	24,745	132,705	81,669
AUSTRIA	312	347	1,277	1,021
SWITZLD	2,964	2,112	11,598	7,586
U.S.S.R	4,138	4,793	17,399	16,003
SPAIN	681	50	2,836	207
- ITALY	2,273	657	9,701	2,214
SYRIA	217	458	832	1,609
LEBANON	428	474	1,929	1,514
JORDAN	315	303	1,337	937
KUWAIT	396	444	1,591	1,426
S ARAB	1,915	987	3,435	3,164
ARAB EM	597	475	2,513	1,415
INDIA	809	607	2,959	2,131
SINGAPR	317	246	1,303	945
CHINA T	173	564	708	1,914
JAPAN	6,999	7,163	28,737	27,478
AUSTRAL	657	1,117	2,754	3,640
ALGERIA	1,717	0	7,159	0
REP SAF	226	340	954	1,421
OTHERS	1,213	1,063	5,296	3,550

Annex II

TABLE 3--U.S. AGRICULTURAL EXPORTS: QUANTITY OF SELECTED COMMODITIES
AND GROUPS, CALENDAR YEARS 1968-81--CONTINUED

	ALMONDS, SHELLED
	METRIC TONS
1968----	7,821
1969----	16,616
1970----	27,199
1971----	32,236
1972----	30,860
1973----	24,044
1974----	36,077
1975----	42,628
1976----	55,030
1977----	60,530
1978----	59,883
1979----	53,892
1980----	80,976
1981--	70,336

Dear Mr McDonald,

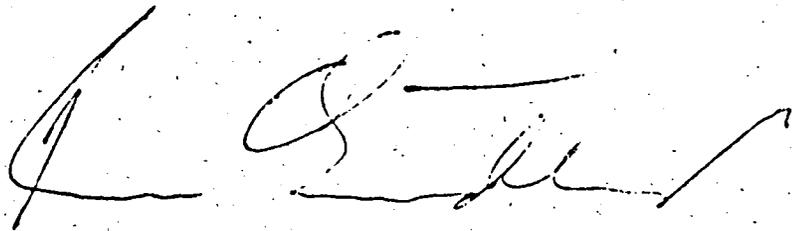
I wish to refer to our discussions this morning, where you referred to certain agricultural products in the multilateral trade negotiations. During the MTNs a great deal of attention has been given to agricultural problems in conformity with the decision in 1973 in Tokyo. Among many problems discussed, we have extensively discussed citrus fruits, almonds, walnuts and raisins. For reasons already known, it has not been possible to arrive in these negotiations at an agreement in regard to these problems. You and the American delegation have very fully explained the reasons for your requests and consequently I and my collaborators have answered and explained our difficulties of an economic, social or political nature. I repeat my regret that despite the considerable efforts on both sides the questions discussed have not been resolved. I have, as you know, had occasion to discuss these problems with representatives of the trade of one important producing area of the United States, that is California.

From our conversations including my conversation with industry, it is clear that one important reason behind the United States' concerns is the effect of the enlargement of the Community with Spain. We are aware of these difficulties - there are indeed a series of substantial problems to solve in order to achieve the politically desired objective of Spain's accession to the Community. The impact of the enlargement in the field of agriculture on third countries is undoubtedly greatest in the Mediterranean area. That is why the Commission has undertaken to submit an analytical document to the Council before the summer recess on these problems. Whilst the Mediterranean area is undoubtedly most affected, we will make it clear

The Honorable Alonzo McDonald
Ambassador
Office of the Special Representatives for
Trade Negotiations
1800 G. Street
N.W. WASHINGTON DC 20506
U.S.A.

in this paper that there are other third countries (including the U.S.) which will be affected as well. It is obvious that at the end of the negotiations concerning the Spanish accession the accession agreement will have to be submitted to the GATT for treatment under its rules (Article XXIV). The GATT procedure comes, however, at a very late stage of developments. I consequently feel that discussions about these and undoubtedly other problems of an exploratory character would be a natural development.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'A. G. ...', written in a cursive style.



UNITED STATES DELEGATION
TO THE
MULTILATERAL TRADE NEGOTIATIONS

1-3, avenue de la Paix
1202 Geneva, Switzerland

June 11, 1979

Mr. Claude Villain
Director General for Agriculture
European Economic Community
200 Rue de La Loi
1049 Brussels, Belgium

Dear Mr. Villain:

This is to confirm our mutual understanding that the arrangement concerning cheese negotiated between the United States and the European Community in the Multilateral Trade Negotiations would be implemented at the level of 45,554 tons at such time that the Community's offer on agricultural products of particular interest to the United States is significantly improved. Until such time the quantity of cheese allocated to the Community of cheeses subject to the quota system will remain at the level of 43,554 tons indicated in paragraph 2 of the arrangement.

*California
Product*

Sincerely,

Alonzo L. McDonald