December 10, 1981

441.2(103)
Special file

US/EC RELATIONS IN AGRICULTURE

Both the United States and the European Community are major exporters of agricultural products. At the same time, the Community is also the world's biggest food and feed importer and the United States' most important client for agricultural ~~feeds~~ products, buying nearly 9 billion dollars annually from the U.S. Half of its imports from the U.S. are soybeans and soybean products, corn, corn gluten feed, etc.

These imports enter the Community market mostly duty and levy-free and replace EC domestic grains which, due to the price support level around 20% above world market prices, are not fully competitive with those imports. This results in the need for the Community to dispose of some of its grain through subsidized exports.

At the same time, these cheap imports helped the Community to develop a very productive poultry and livestock industry whose products also find their way to the world market with the help of export refunds which cover the difference between Community prices and the lower world price levels.

Although every country with major agricultural production, including the U.S., has support programs for its farmers with mechanisms to regulate imports and to favour exports, the Community has always been criticized by its major competitors for the mechanisms in place.

When the Subsidy Code was established during the Tokyo Round of Multilateral Trade Negotiations, the Community agreed to it in exchange for the general recognition of its agricultural policy. At the same time, this meant the end of the so-called chicken war between the U.S. and the E.C.

The Subsidy Code, as you may know, allows export subsidies for agricultural products on condition that the exporting country does not use such subsidies to take an undue share of the market or to undercut world market prices.

Since entry into force of the Code on January 1, 1980 the Community has closely respected these obligations.

It may therefore be surprising that the new government of the United States came up with several formal complaints against the EC on among others, wheat flour, sugar and poultry. This offensive can easily be explained by the new government's policy to vigorously promote its own production and exports at a time when U.S. real farm income is the lowest since 45 years.

The main U.S. argument under the Code is based on an interpretation of the Code which is different from our own interpretation. It concerns the question of the representative reference period on the basis of which we have to determine what the equitable market share should be. In our view, the Code is very clear on this point.

It says that we have to look at the average of a recent representative 3-year period. The U.S. government, however, argues that a reference period during which the Community applied export subsidies, cannot be considered as representative. If this had been the view of the authors of the Code, the Community would never have signed the Code and the Tokyo Round would probably have never ended with an agreement.

In the sugar area, we no longer even have EC funding for domestic production. Since last year, producers have been obliged to bear the entire costs of surplus disposal. This is particularly noteworthy at a time when the U.S. is preparing for an increase in its own sugar support, shielded by increased import fees. What are the prospects?

The above-mentioned cases will have to be solved within settlement procedures provided by the Subsidy Code, and we hope that once this is done, further disputes can be avoided in the interest of both sides; otherwise, such disputes could spill over into other areas and finally damage our overall bilateral relationship. In the present difficult times, we could not afford a second chicken war.

But the Community is working hard to reform its Common Agricultural Policy which, if successful, would make any further dispute under the Code unnecessary.

The European Commission, in the context of its so-called "mandate proposals" to reform Community institutions and policies, will seek to give its agriculture an orientation which avoids further production of costly surpluses.

For example, we would hope to bring our cereal support prices down in the next few years to the U.S. price support level. However, U.S. cooperation will be necessary if the ambitious plan to reform the CAP is to be successful.

At the same time, we would hope that the United States would itself succeed in its goals of eliminating surplus production in the dairy sector, which is a point of great concern to us.

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