Bruxelles, le 5 fevrier 1982.

Note BIO (82) 57 aux Bureaux Nationaux
cc. aux Membres du Groupe du Porte-Parole

441.2 (103)
446.382 (103)

Visit of Mr. Dalsager to the US (M. Vasey)

Mr. Dalsager, who left for Washington on Wednesday, met Secretary Block, congressional and farm leaders on Thursday to be briefed on US agricultural problems and prospects before travelling out to Iowa to visit an agricultural research centre and then New Orleans to meet leaders of the grain trade. After the ministerial talks this Monday and Tuesday he goes to Florida to meet representatives of the American citrus industry. In his contacts with the US authorities and farm leaders, Mr. Dalsager is expected to emphasize the need for closer cooperation between the EEC and the US, who should avoid seeing each other primarily as competitors. Both play a major part in international trade in food and agricultural commodities : the US is the biggest exporter (17 % of world exports in 1980) followed by the EEC (11 %), while the EEC is the biggest importer (24%) followed by the US (10 %). The EEC is by far the biggest market for the US with imports of 10 billion dollars in 1980. This compares with EEC exports to the US of 2.7 billion dollars, corresponding to a Community deficit of 7.3 billion dollars on agriculture alone.

The following background material on EEC-US relations in the agricultural field may be of some use in your contacts with the press :

In the agricultural field, there seems to be a systematic attack by the US on the CAP in general and the Community's export policy in particular. These attacks take the form both of public statements by Administration officials and congressional leaders and of a series of complaints to GATT in particular sectors (eg. wheat flour, sugar, poultry and pasta). The public attacks on the CAP as such seem hardly consistent with the political understanding reached in the Tokyo Round with the previous Administration. What is more serious, the negative attitude taken by the US Administration on the principle of export refunds in the agricultural sector would appear to go beyond strict application of GATT rules and thus call into question the agreements reached in the Tokyo Round. The same goes for US pressure on the EEC to allow increased access for American exports. While denouncing EEC agricultural protectionism and export subsidies, the US itself subsidizes its own producers (1), it sets guaranteed intervention prices for a wide range of commodities (milk, wool, wheat, maize, cotton, rice , soya beans, sugar and peanuts), and it takes advantage of a 1955 GATT waiver to impose quantitative import restrictions on such commodities as dairy products, sugar, cotton and peanuts.

The main area of contention concerns the Community's export refunds.
The Community position on this subject is absolutely clear and consistent with GATT rules. Article XVI allows export subsidies for primary products, including those in processed form, provided that the subsidies shall not be applied in such a manner as to procure the country in question more than an equitable share of world export trade in that product. The Community insists on its right to grant export refunds and accepts the obligations that go with the use of such refunds (including the rules on the interpretation and application of Article XVI laid down in the Subsidies code negociated in the Tokyo Round). The Community is not prepared to reopen negotiations on the existing rules which were accepted by both sides.

Quite apart from the issue of principle, specific US complaints that Community export refunds have increased the EEC share of world markets or depressed prices to the detriment of US interests are not borne out by the facts :

## 1. Cereals

The relationship between the US and EEC shares of world wheat exports (including wheat flour) has remained more or less constant since the end of the 1960's. The US took more than 50 % of the expansion in the world market in the last five years with about 25 % going to the EEC. The US accounts for more than 70 % of coarse grain exports, of which the EEC remains a net importer. The EEC has no influence on cereal prices which are determined essentially by the size of the US harvest and the level of demand in major importers.

## 2. Poultry

Following the Tokyo Round concessions , the US and EEC share of world markets have been stable since 1978. If anything, the US are increasing their share of the expanding Middle Eastern market.

## 3. Sugar

Under the new sugar regime the Community sugar producers finance through a levy the cost of exporting sugar if world market prices are below Community guaranteed prices. Only the cost of exporting 1.3 million tonnes of sugar corresponding to imports from the ACP countries is financed by the Community Budget (sugar produced in excess of the agreed production quotas must be exported without any refund). The new sugar regime is designed precisely to avoid the traditional criticism of EEC export subsidies. As regards the world market the Community has this year decided to withhold up to 2 million tonnes of sugar in order to help stabilise prices. It should be noted that the US itself has just introduced a support programme for sugar with a guaranteed support price. Combine ' with the existing system of import fees, this should operate to keep sugar prices above the intervention level. The increased price support levels can only help accelerate the replacement of sugar by corn sweeteners, leading to reduced imports of sugar plus growing exports of refined sugar which also benefit from an export refund (claw-back of duties paid on imported raw sugar).

The US is also attacking the EEC on the question of market access for some of its traditional exports.

4. Citrus fruit
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The US is complaining about the effect of the EEC's preferential tariff arrangements with various Mediterranean countries, which a previous Administration accepted in May 1973 as part of a bilateral agreement with the Commission. While the figures hardly bear out the US complaint, it is worth noting that any increase in US exports to the Community would presumably be at the expense either of the developing countries of the Mediterranean region or Israel.

5. Vegetable oils
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The US has in the past exerted pressure to prevent the EEC introducing a tax on vegetable oils in connection with Spanish accession. Although the Commission delegation is not planning to raise this question in Washington on this occasion, it is worth pointing out that the Community merely wants to ensure that Spanish accession does not result in increased imports of vegetable oils into that country, displacing olive oil which would have to be disposed of at considerable cost to the Community Budget. The aim is to maintain in the enlarged Community the present equilibrium between consumption of olive oil and other oils.

The Commission is ready to discuss with the supplier countries concerned the best way of attaining this objective. Meanwhile, no immediate action is envisaged which should reassure the US. Following enlargement, tjhe Community will negotiate with GATT unter article XXIV the new import arrangements for vegetable oils resulting from Spanish accession. In the light of these negotiations and any internal structural measures we might take, the Community will have to consider how to find the necessary financial resources. It is not exluded that one of the possible solutions might be the introduction of a non-discriminatory tax on the consumption of all vegetable oils, which would be perfectly compatible with the Community's GATT obligations.

The Community also has certain concerns about the impact of US agricultural policy on its own interests :

6. Dairy products
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US policy involves government purshases of butter, cheese and SMP at fixed prices and subsidised export sales plus quantitative import restrictions , which seem hardly consistent with the liberal trade principles invoked by the US against the Community's agricultural policy. The Community is more concerned with the way the policy is currently operating : milk production up 2 % in 1981, leading to an 8 % increase in production of butter and SMP and the accumulation of public stocks (in spite of sales of butter to New Zealand for ontward distribution and to Poland) which are liable to depress the world market.

7.Cereals substitutes

In its guidelines for European agriculture the Commission proposed to reduce progressively the gap between cereal prices in the EEC and the US. This should inter alia reduce the incentive to use cheap imported cereals substitutes which are not subject to import levies instead of Community cereals in animal feed. It also proposed discussions with suppliers such as the US in order to stabilise imports at their present level while waiting for reduction in community price levels to become effective.

EEC imports of cereals substitutes amounted to the equivalent of 14 million tonnes of cereals in 1980. In the absence of any change in import conditions and relative prices, future additional demand for animal feed would be covered by imported substitutes rather than by community cereals, and the increase in community's cereals production would therefore have to be exported at a cost to the Community budget (Which will incidentally aggravate the dispute with the Americans). The cereal substitute of most concern to the US is corn gluten. EEC imports have risen from 694,000 tonnes in 1974 to 2.9 tonnes in 1980 almost entirely from the US, and is forecast to reach 4.5 million tonnes by 1985. US corn gluten, which is produced essentially for the EEC market, is a by-product of the production of alcohol which is directly subsidised and of the production of corn sweeteners which is indirectly subsidised through the high support prices for sugar.

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(1) US and EEC(including Member State) expenditure is approximately equal as a percentage of agricultural value added. The budget expenditure per person employed in agriculture in the US remains well above the corresponding level for the EEC.

Amities,
Manuel Santarelli Comeur 17h/////