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AGRICULTURAL TRADE PROBLEMS WITH THE USA

Summary

Trade relations between the United States and the European Community have deteriorated sharply in recent months. A high-powered EC delegation has been in Washington this month to try and sort things out.

Mr Dalsager, the European Commissioner responsible for agricultural matters, has emphasised the need for closer co-operation between the Community and the US. Both regions play a major part in international trade in food and agricultural products, and should avoid seeing each other primarily as competitors, he says.

Background

The United States is the biggest world exporter of agricultural products (17 per cent of world exports in 1980) followed by the EC (11 per cent), while the Community is the biggest importer (24 per cent) followed by the US (10 per cent). The Community offers America by far its biggest market, with imports of $10 billion in 1980. This compares with EC exports to the US of $2.7 billion, corresponding to a Community deficit of $7.3 billion on agriculture alone.

Despite this favourable balance of trade, the United States appears to have engaged in a systematic attack on the Community's Common Agricultural Policy (CAP) in general and on the Community's export policy in particular, in the form of public statements by Administration officials and Congress leaders and specific complaints to the General Agreement on Tariffs and Trade (GATT).

The European Commission considers that many of these complaints are unfounded and that Administration officials' attitudes to the Community's export refund system under the CAP would appear to go beyond strict application of GATT rules, thus calling into question the latest agreements reached in the Tokyo Round. The same goes for pressure on the Community to allow for increased access for American exports while denouncing EEC agricultural protectionism and export subsidies. The Commission notes wryly that the US itself subsidises its own producers (where budget expenditure per person employed in agriculture is well above the corresponding level in the EC); that it sets guaranteed intervention prices for a wide range of commodities (milk, wool, wheat, maize, cotton, rice, soya beans, sugar and peanuts); and that it takes advantage of a 1955 GATT waiver to impose quantitative import restrictions on such commodities as dairy products, sugar, cotton and peanuts.

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Export refunds

The Commission is particularly annoyed at the US attack on the Community's export refund system. It points out that on this issue the EC position is absolutely clear and consistent with GATT rules. Article XVI of GATT allows export subsidies for primary products, including those in processed form, provided that the subsidies shall not be applied in such a way as to procure for the country in question more than an equitable share of world export trade in that product.

The Community, the Commission says, insists on its right to grant export refunds and accepts the obligations that go with it in the use of such refunds (including the rules on the interpretation and application of Article XVI laid down in the subsidies code negotiated in the Tokyo Round). In this respect the Community is not prepared to re-open negotiations on the existing rules which were so recently accepted by both sides.

Quite apart from the issue of principle, the Commission considers that specific US complaints that EC export refunds have increased the EC share of world markets or depressed prices to the detriment of US interests are not true, as the following shows.

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 per cent of the expansion in the world market in the last five years with about 25 per cent going to the EEC. The US accounts for more than 70 per cent 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 shares 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. Combined 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).

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

4. CITRUS FRUIT

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

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, the Community will negotiate with GATT under 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 excluded 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

US policy involves government purchases 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 per cent in 1981, leading to an 8 per cent increase in production of butter and SMP and the accumulation of public stocks (in spite of sales of butter to New Zealand for onward 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 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 million 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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