

EUROPEAN PARLIAMENT

EUROPEAN PARLIAMENT DELEGATION

for relations with
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Background note

on

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BACKGROUND

Agriculture is one of the biggest bones of contention between the Community and the United States. And yet the Community is the US agricultural exporter's biggest customer : in 1983 the US exported 7.25 billion dollars agricultural products (in 1982 the figure was nearly 9 billion dollars) resulting in a surplus on their agricultural trading account with the Community of no less than 5 billion dollars. About half of US exports enter the Community duty and levy free. Why then has the Common Agricultural policy been for several years the subject of sustained attack by the US at both the bilateral and multilateral level? After all, the US has its own expensive agricultural policy (see below and separate brief) which is costing the US taxpayer more and more to finance its array of income and price supports, loans to farmers, deficiency payments and so on. Why single out the Community for attack?

Export subsidies

The first main argument is about agricultural export subsidies. Here there is a general misconception, borne of a mix laissez-faire ideology and myth that Europe is subsidising its farmers beyond all reason and economic sense, bankrupting itself in order to cheat American farmers of what they perceive as their rightful access to world markets. Agricultural Secretary Block has accused the Community of "stealing markets away from US" and others. Subsidies are not however a uniquely European phenomenon and the US also subsidises its farm exports in a number of ways. In 1983, for example, Egypt bought 1 million tons of US wheat flour at a subsidised price of only 136 dollars per ton, about one third below the average world market price. However, it is true - and this may be one reason for the vehemence of US attack on export refunds - that the US makes comparatively less use of export subsidisation in disposing of surplus agricultural production. The total Community budget last year amounted to some 23 billion dollars - less than one percent of Community GNP. Of this something like 15 billion dollars went on agricultural price support. In the United States, according to a report of the Council of Economic Advisers, federal expenditure on price support in 1983 amounted to 18.9 billion dollars. The Farm Bureau has calculated that in fiscal year '83, the Commodity Credit Corporation (the US version of our PEOGA) in theory paid out a sum of almost 12,000 dollars to each of 2.4 million farms in the United States. Subsidies for agriculture are a fact of life.

This the US and its trading partners recognised in the last major round of trade negotiations, the Tokyo Round, which finished in 1979. What was agreed then was that agricultural export subsidies should be permitted providing that they did not lead to a country taking more than an equitable share of world trade. What, Americans ask, does equitable mean? The Community gives a pragmatic answer.

The figures for wheat and wheat flour which alone account for something like 20 percent of American exports provide a good example. What happened to our exports from the Community in the 1970's? They went up from 10 to 14 percent of world trade - an increase to be sure. American exports went up from 34 to 46 percent. We argue that on this basis we can hardly be accused in Europe of either breaking the world trade rules or hogging the world market. Nevertheless we are continuing to talk in the GATT agriculture Committee in Geneva about further defining the permitted use of agricultural export subsidies.

US access to EEC market

The second main cause for complaint concerns US access to our market and is typified by corn gluten feed - a cereals substitute imported in large quantities from the United States and which with other substitutes accounts for the major part of the US agricultural trade surplus with the EC. We are making a real attempt in Europe to cut subsidies to our farmers. We took some painful decisions mainly in the dairy products field in the spring of 1984. We are going to have another go at grains early in 1985 (price reduction of 3.6% proposed by Commission). But we cannot cut support to and impose disciplines on our farmers without looking at imports which compete.

Exports of corn gluten feed from the United States to the Community soared from 400,000 tons in 1974 to over 3 million tons in 1983. And this is driving our Community wheat onto world markets (at considerable budgetary cost) where it competes with American exports. It has also contributed to our dairy surplus. We proposed that we discuss between ourselves the possibility of stabilising these imports, stabilising not slashing, against payment by us of compensation to be agreed. This is exactly what the international trading rules provide. Discussions have been held in the GATT in Geneva on this. Our hope as partners in a reasonable dialogue is that we can come to an agreement. It is against this general background that other more specific EC/US agricultural issues need to be considered.

1985 Farm Bill

Major new legislation is required to replace the expiring Agriculture and Food Act of 1981. The draft Bill was presented on 22 February. Broadly the intention of the US Administration is to make US agriculture more market-oriented, hence cheaper to finance, by reducing price and income supports to farmers. However, the Bill ran into serious difficulty in Congress as a result of widespread opposition to it by US farm lobby. The Bill as originally presented is admitted, even by Agriculture Secretary Block to be dead. Legislation is needed but it is clear it will not be that which the US Administration would have preferred.

Export Enhancement Programme

Agriculture Secretary Block announced on 15 May a \$2 billion export enhancement programme which gives government-owned US commodities as bonuses to US exporters. The scheme obviously amounts to subsidisation of exports. However, it is not certain (in the absence of full details) whether or not there is a breach of GATT. What is certain is the aggressive way in which the scheme has been rushed into force, and the way in which it is specifically targeted against the Community.

GATT - Committee on Trade in Agriculture

Dialogue with the US in GATT is carried on through the Committee on Trade in Agriculture (CTA), set up by Trade Ministers in 1982. The CTA has the task of working out approaches "as a basis for possible future negotiations" under which all measures affecting trade in agriculture are "brought within the preview of strengthened and more operationally effective GATT rules and disciplines". The Community is reasonably content to participate in the CTA which is a forum for balanced discussion; its terms of reference were the subject of hard negotiation and compromise. While the US will concentrate on subsidies, the Community will for its part want to look at other kinds of measures which the US applies to imports. Current feeling of stalemate because of lack of consensus on how to proceed, due in large measure to continued US attack on Community export refunds.

GATT - Citrus Panel

On 31 January the GATT published its report on the case brought by the US in which it was claimed that Community tariff preferences to certain Mediterranean partners on citrus products were in breach of GATT obligations under the most favoured nation clause (Article 1 of the General Agreement). The report poses problems for the Community since it seems to be saying that although our bilateral agreements with the Mediterranean countries have never been declared illegal by GATT, we nonetheless should offer the US compensation for the alleged trade damage which they have suffered. For legal and political reasons (unacceptable to ask our Mediterranean partners on the eve of Community enlargement to help pay compensation to US) the Community cannot accept the panel report as it is, and our policy is firmly to oppose its adoption. US approach is to evade political difficulties involved for Community and concentrate on purely economic aspects of panel. Secretary Shultz wrote to Member States (not the Commission) in April 1985 pressing them to accede to the US request for compensation, failing which US would act unilaterally. Mr. De Clercq replied pointing to political difficulty for the Community in reducing margins of preference granted to our Mediterranean partners and drawing a parallel with US preferences under the Caribbean Basin Initiative.

The tone of debate has hardened recently with a specific threat of unilateral retaliation by US against Community exports. This would be illegal under GATT.

