

Hillman, Jimmye S.

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Out of the study of agricultural trade agreed at the Geneva ministerial meeting should come a proper and permanent Agriculture Committee. Given the realities of the present situation the main function of that Committee will be to monitor existing protectionist measures and to referee disputes in the hope of avoiding open trade warfare or the spread of agricultural disputes to other areas of international trade. The value of such a committee, which would undoubtedly be questioned by the free trade purists given its acceptance of protection, would be that agricultural trade issues would at last find a forum for regular international discussion in place of the purely bilateral settings in which they now take place. Attempting to regulate trade relations is some distance from the original concept of GATT, particularly if the Committee

found itself advocating one form of protection against another as a means of minimizing the adverse effects on third parties, and especially on developing countries. In the longer term one might hope that the regulation would be more ambitious, but that is a long way off and should be recognized as such.

To move to such a position, and to induce member states to participate fully in the work of an Agriculture Committee GATT will have to accept the "individual" character of the farm sector as a permanent and not a temporary phenomenon. If by a recognition of the reality that liberalization is not on the agenda, GATT is able to limit the worst effects of protectionism in a sector of increasing rather than declining importance in world trade, the effort will be well worthwhile.

AGRICULTURAL POLICY

US and EC Agricultural Trade Policies: Confrontation or Negotiation?

by Jimmie S. Hillman, Tucson*

The current American and European mutual accusations of agricultural protectionism are an obvious case of the pot calling the kettle black. What series of events led up to this confrontation? And how can the conflict situation be eased?

The overriding feature of the US agricultural situation during the past decade was the dramatic surge in exports commencing in the early 1970s (see Table 1). This surge in exports was rather unexpected on the part of agricultural policymakers and was largely precipitated by the anomalous series of events beginning in 1972. In 1967, for example, estimates of the USDA for agricultural exports in 1980 did not exceed \$ 10 billion: "Starting from a current (1967) level of about \$ 7 billion, exports of \$ 8 billion are projected for 1970 and \$ 10 billion for 1980 or perhaps even sooner."¹ Actually, exports turned out to be \$ 7.3 billion and \$ 41.3 billion, respectively. Even with some inflated prices, this was a dramatic change.

For several decades prior to the early 1970s, it will be remembered, the US Government played a dominant role in the domestic agricultural economy; and agricultural exports were an "appendage" to policies designed to solve farm problems in Washington, not through foreign markets. Price supports, acreage allotments, production controls, land diversion, government payments, stocks policies and export subsidies were all part of legislative schemes which, to a great degree, ignored the foreign market. To be sure, Public Law 480 was designed to rid the United States of stocks by dumping them on the foreign market. Beginning in the late 1960s, Congress and the

* University of Arizona.

¹ Report of the President's National Advisory Commission on Food and Fiber: Food and Fiber for the Future, U.S. Government Printing Office, Washington D.C., July 1967, p. 295.

Table 1
US Trade in Agricultural Goods: 1970 and 1973-1981
(F.A.S. Values in Billions of Dollars)

	1970	1973	1974	1975	1976	1977	1978	1979	1980	1981	% Change 1980-81	% Change 1970-81
Total all Countries												
Exports	7.3	17.7	22.0	21.9	23.0	23.7	29.4	34.8	41.3	43.3	4.85	493.15
Imports	5.8	8.5	10.4	9.5	11.2	13.5	15.0	16.9	17.4	17.0	-2.30	-193.11
Balance	+1.5	+9.2	+11.6	+12.4	+11.8	+10.2	+14.4	+17.9	+23.9	+26.3	10.05	1653.34
Developed Countries												
Exports	4.7	9.9	12.2	11.8	13.2	14.0	15.5	17.3	20.2	20.9	3.47	344.68
Imports	2.0	3.3	3.3	3.1	3.5	3.7	4.8	5.6	5.8	6.1	5.18	205.00
Balance	+2.7	+6.6	+8.9	+8.7	+9.7	+10.3	+10.7	+11.7	+14.4	+14.8	2.78	448.15
Canada												
Exports	0.8	1.0	1.3	1.3	1.5	1.6	1.6	1.7	1.8	2.0	11.12	150.00
Imports	0.3	0.5	0.5	0.5	0.6	0.7	0.8	1.0	1.1	1.2	9.09	300.00
Balance	+0.5	+0.5	+0.8	+0.8	+0.9	+0.9	+0.8	+0.7	+0.7	+0.8	14.29	60.00
EC												
Exports	2.0	4.5	5.5	5.6	6.4	6.6	7.2	7.7	8.9	9.1	2.25	355.00
Imports	0.7	1.1	1.2	1.1	1.2	1.4	1.9	1.9	2.1	2.3	9.53	228.58
Balance	+1.3	+3.4	+4.3	+4.5	+5.2	+5.2	+5.3	+5.8	+6.8	+6.8	0	423.08
Japan												
Exports	1.2	3.0	3.5	3.1	3.6	3.9	4.4	5.3	6.1	6.6	8.20	450.00
Imports	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0	0
Balance	+1.2	+2.9	+3.4	+3.0	+3.5	+3.8	+4.3	+5.2	+6.0	+6.5	8.34	441.67
Developing Countries												
Exports	2.4	5.1	7.8	7.8	7.1	7.7	10.0	12.1	17.1	18.3	7.02	662.5
Imports	3.7	5.1	7.0	6.2	7.4	9.6	9.8	11.0	11.3	10.7	-5.31	189.19
Balance	-1.3	0	+0.8	+1.6	-0.3	-1.9	+0.2	+1.1	+5.8	+7.6	31.04	684.62
Communist Countries												
Exports	0.1	2.0	1.5	1.8	2.4	1.6	3.2	5.5	5.1	5.1	0	5000.00
Imports	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.6	50	100.00
Balance	0	+1.9	+1.3	+1.6	+2.1	+1.3	+2.8	+5.1	+4.7	+4.5	-4.26	
EC as % of all Countries												
Exports	27.4	25.4	25.0	25.6	27.8	27.9	24.5	22.1	21.6	21.0	2.78	23.36
Imports	12.1	12.9	11.5	11.6	10.7	10.4	12.7	11.2	12.1	13.5	11.57	11.57

Source: US-EC Agriculture in Brief, Office of Agricultural Affairs, US Mission to the European Communities, September 1982.

Administration began to reshape farm policies in order to reduce the cost of farm policies and to minimize government interference with the farming business.

With the boom in farm exports of the 1970s, their value as well as their volume went up year after year for more than a decade. US farmers grew to depend on farm exports and nearly 1 acre in 3 was committed to export markets. Government-owned stocks disappeared, idle farm acres were brought back into production, farm output increased, and incomes increased generally throughout the farm sector. Farm programs were modified by the Federal Government so as to provide a modest safety net for producers in case of extreme hardship caused by national disaster and unacceptably low prices. Price supports were well below market prices, which were once again, generally speaking, the result of world supply and demand forces.

In the heat of battle over export markets for farm products, it is often forgotten just how far the United States and the world have come in the last decade or so. In 1981 the United States exported almost \$ 44 billion in farm commodities.

Figure 1 tells a vivid story: in 1980 the United States exported almost 60 per cent of its total production of soybeans, which was more than 60 per cent of the world market—or exports—for soybeans. The same figures for wheat in 1980 were approximately 60 per cent and 40 per cent, respectively, and so on, for other products. These are impressive figures and do not suggest a slump as one might think by listening to the constant drumbeat from Washington for even more exports as an apparent cure for low farm incomes.²

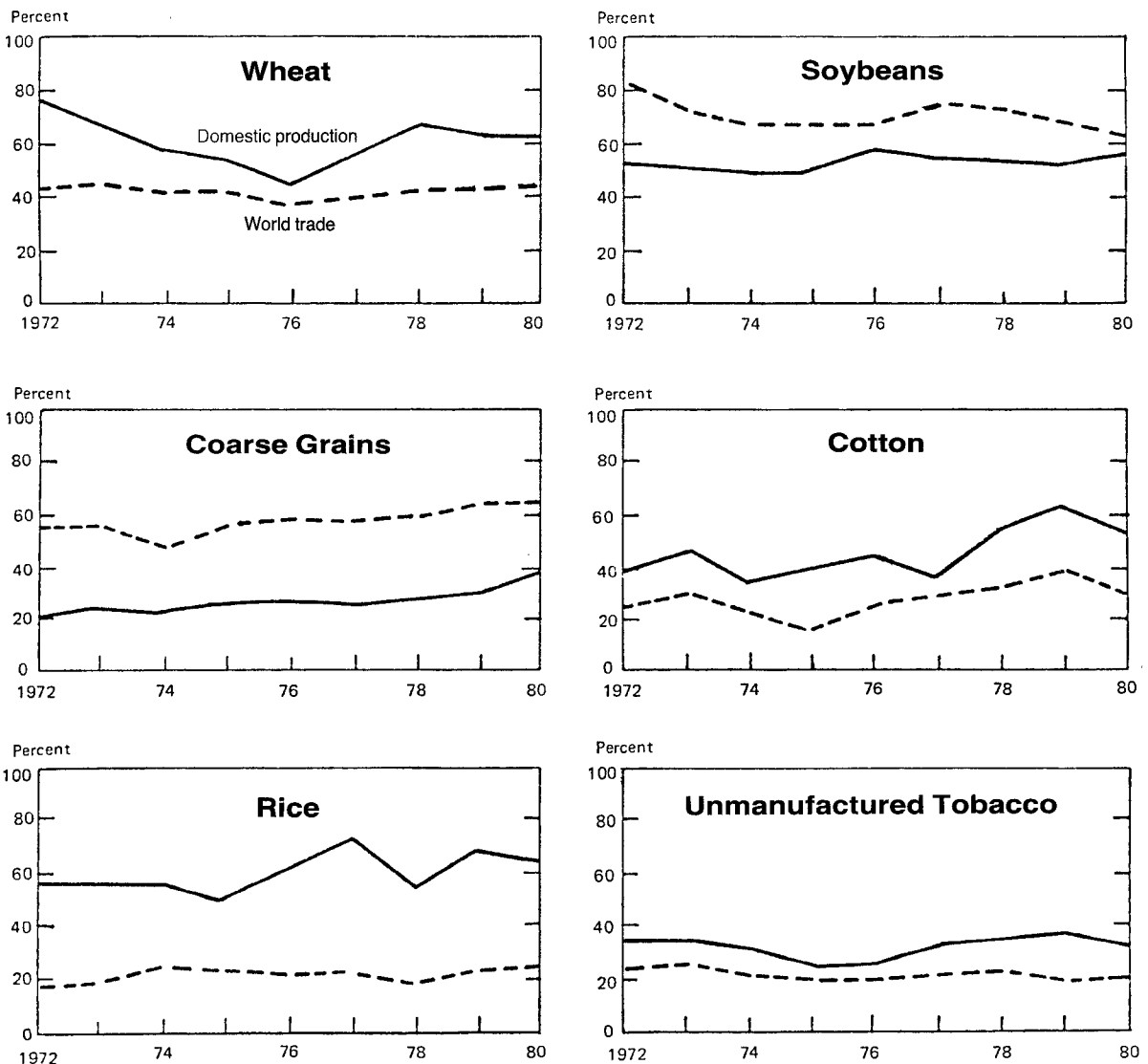
² Lauren Soth: The Grain Export Boom: Should It Be tamed, in: Foreign Affairs, Council on Foreign Relations, Inc., New York, Spring 1981, pp. 895-912.

Although the value of US farm exports fell in fiscal 1981-82, to a little over \$ 39 billion – the first value decline in more than a decade – this is still a large figure. The decrease, however, added to low farm prices and incomes, and the rise in European agricultural exports and subsidies constitute the principal irritant in US-EC relations.

Epitomizing the issues which face US agriculture in the foreign sphere is the emergence of Europe as a major competitor in foreign markets, including their

increased emphasis on self-sufficiency. The discordant notes raised by Americans upon the birth of the Common Agricultural Policy (CAP) of the EC-6 in the late 1950s became a trans-Atlantic cacophony during the Kennedy Round of GATT negotiations, increased to a series of trade cadenzas and fugues during the Tokyo Round, and is now confrontational orchestrations. This musical metaphor is about as accurate as I can describe the situation. The two sides have been shouting at each other and are at this moment continuing negotiations on important topics, one of which is the matter of

Figure 1
US Exports: Share of Domestic Production and World Trade



Notes: Crop years for shares of domestic production. Milled rice.
Source: 1981 Handbook of Agricultural Charts, USDA Ag. Handbook 592.

agricultural protectionism — including agricultural export subsidies.

The issues between Europe and the US are not all black and white and there is enough blame to go around. There are literally reams of data and analyses on the US-EC quarrel. What is often forgotten on both sides is the dramatic surge in agricultural trade during the past decade.

Always at issue is the centerpiece of EC agricultural policy, the Common Agricultural Policy. The United States points out that since its operational inception in the early 1960s, the CAP has not only made incursions into traditional or "normal" US sales to Europe, but has increased the level of protection, and has threatened a trade breakdown because of the inflexibility of positions in Brussels relative to CAP operation. Illustrative of the US position are the following remarks:

"Last year the EC became a net exporter of grains and is now the third largest exporter of wheat in the world. It doubled its sugar exports during the past 4 years, shifting from its traditional status as the world's largest importer to become the second largest exporter. Similar changes have taken place in other commodities, and now the EC is the world's largest exporter of poultry, dairy products, and barley and is even number two in beef and veal.

"The EC's policy-induced deviation from normal trade patterns has substantially affected the world agricultural economy. For example, from 1973 to 1980, EC agricultural exports nearly tripled to \$ 28.1 billion, which was substantially faster than the growth in exports of all other countries that increased only 2½ times. Yet EC imports only doubled to about \$ 60 billion, which was significantly below the growth in world imports.

"These global figures, although enormous, understate the EC's impact on trade in specific commodities where the EC has shifted from being a major net importer to a net exporter in less than a decade.

"We want to challenge EC export subsidies and persuade the EC, preferably by reason, but also by threat or even retaliation should that prove necessary, to respect our trading rights both within the EC market and in trade with third countries.

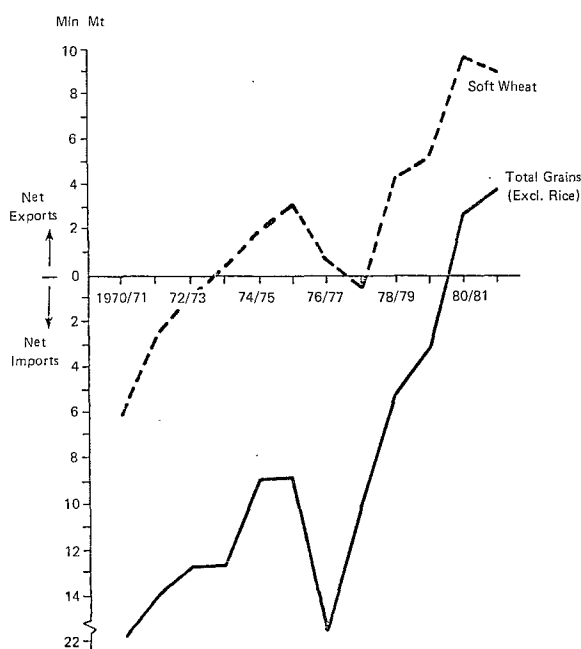
"We are going to pursue our rights against the EC through our GATT cases, through high-level meetings, through support of allied third country interests in the EC, and through retaliation if we feel this will be productive. I don't have to tell you about the current state of overall relations between the U.S. and the EC. But I can assure you that our agricultural concerns will not be put aside in order to improve our relations. Agriculture is indeed a fundamental part of our relationship with the Community.

"At issue is the type of international trading system we are going to have and what are the rules of the game. The community seems to want to play by another set of rules, and the temptation to join them is great. Hence we must continually evaluate how we can most effectively advance our agricultural interests in this troubled world economy and in the face of current EC policies."³

Further, similar evidence supporting the US argument is illustrated by Figure 2. The huge growth of EC exports of grains (shown in Figure 2), sugar, poultry and even red meats since about 1976, coupled with its dominant position as dairy products exporter, have raised the ire of US agricultural policymakers as well as US farm product exporters. Export subsidies, as a policy instrument of the EC, have now become the predominant irritant.

Import levies make internal EC prices much higher than they would be without traditional tariff protection. This disguised transfer of resources to agricultural

Figure 2
Net EC-9 Grain Trade Position: Soft Wheat and
Total Grains July/June 1970/71-81/82



Source: Office of Agricultural Affairs, United States Mission to the European Communities: U.S.-E.C. Agriculture in Brief, September 1982.

³ Wayne N. Sharp, Counselor for Agricultural Affairs, U.S. Mission to the European Communities: US-EC Agricultural Relations at the Crossroads, Remarks prepared for the U.S. Chamber of Commerce's Agricultural Delegation to the EC, 4 October, 1982, Frankfurt.

producers has cost consumers more than US \$ 20 billion annually in the last year or so. A more specific way to assess the high degree of EC protection for its farmers is to look at comparative support prices (see Table 2). For example, wheat prices are 41 per cent higher in Europe than in the United States, and those of soybeans almost 300 per cent of the US support price.

The Response to EC Policies

The above are but samples of agricultural trade complaints presented by US officials. Recently, Congress passed legislation providing the Secretary of Agriculture with additional export subsidy matching funds. The Secretary, taking advantage of this, announced October 20th, 1982, a 3-year \$ 1.5 billion "blended credit" export enhancement program for US agricultural exports. Secretary Block said this program would combine interest-free funds with traditional Commodity Credit Corporation (CCC) interest rates for overall lower interest rates to foreign customers. He estimated that \$ 500 million in such funds this year would generate additional export sales of approximately \$ 1.9 billion. The maximum proportion of interest-free direct credit for any individual export arrangement in the program will be 20 per cent.

In addition to subsidized credit, the President's offer to sell the USSR 15 million additional tons of grains and his signature (October 25, 1982) authorizing the CCC to pay a further \$ 346 million to 12 US commercial creditors for defaulted, US government-backed loans to Poland are further indications that US trade and agricultural interests are in a fighting mood.

American farmers apparently think they have little to lose by responding to EC policies and subsidies in this fashion; that in an international trade showdown, the US Treasury and American farm efficiency can more than match anything used against them; can, in effect, win a trade war. This may be a correct assumption, but the cost to the US Treasury would be high. A recent estimate showed that if the United States subsidized wheat exports at \$ 40 per ton on 45 million tons, the US subsidy cost would be around \$ 1.8 billion; but the EC would be forced to pay only additional subsidies of under \$ 100 million to maintain their export market – or a 5 cent cost to the EC for each dollar spent by the United States.⁴

Looking at the situation from another and different angle, US agricultural and trade interests appear either to have misjudged and/or misunderstood the European reaction to, and subsequent defense against, American attacks on the Common Agricultural Policy. As has been

Table 2
US and EC Support Prices, 1982-83

Commodity and Unit	US Support Price ¹ \$	EC Support Price ² \$
Wheat (MT)	148.63	209.10
Barley (MT)	119.35	179.27
Corn (MT)	106.38	179.27
Rice (paddy) (MT)	239.20	290.55
Soybeans (MT)	194.23	527.40
Milk (100 kgs)	28.88	26.81
Butter (100 kgs)	330.69	349.70

¹ US support prices are target prices for wheat, barley, corn and rice; loan rate for soybeans; support price for manufacturing milk containing 3.5 % fat; CCC purchase price for butter (bulk, Chicago) at October 1, 1982.

² EC support prices are intervention prices for barely, corn, rice, and butter; reference price for milling quality wheat; target price for milk; guide price for soybeans. Converted at 1 ECU = \$1.00 at mid-1982.

Source: The Economist, January 8, 1983.

intimated already, the United States is not the only nation which has suffered recently from economic woes and low farm prices and incomes; this after a period of boom and instability in world trade. The EC has used the CAP to stabilize and protect its internal market – at great cost to consumers. The idea of food self-sufficiency has been promoted. Consumers' interest via the market mechanism has not been of the same relative concern as in the United States. Farm structural policies and rural social considerations both present enormous problems to many of the EC countries.

Why, however, do US interests continue to imply that their principal farm export problem – even the US farm problem itself – lies with the Europeans? It is not as if Europe has been a declining market, either since World War II or during the past decade. Table 1 shows that between 1974 and 1981, US agricultural exports to the EC-9 increased by 65 per cent. Moreover, the US net trade position vis-à-vis the EC-9 for 1981 was a surplus of 55 per cent; that is, the United States shipped to the EC-9 55 per cent more than it bought from them. Many other such calculations could be made from Table 1.

As to the "infamous" variable levy, Europeans point out that between the years 1974 and 1982, US agricultural exports to the European Community *not subject* to the levy rose 84 per cent, but between the same years exports *subject* to the levy rose only 6 per cent (see Table 3). Each year, of course, relates a different story. Also, strict comparability between these two aggregates of commodities presents problems of

⁴ Jerry A. Sharples, Philip L. Paarlberg: Japanese and European Community Agricultural Trade Policies: Some U.S. Strategies, IED-ERS-USDA Staff Report, Washington, D.C., December 1981.

statistical and economic measurement, as well as of political judgment. In any event, European farm interests – especially grain producers – are touchy about American accusations. They point out that in recent years, European cereal producer returns have deteriorated at a time when a generally unfavourable agricultural situation already existed. They see the attempt by the European Council to bring European grain prices closer to what is termed American “dumping prices” as a portent of continued deterioration of returns – at least until 1987. Further, such a continued direction would mean greatly reduced investment in the agricultural sector in Europe. The implication is that the current difficult economic situation may explain the need for austerity, but does not justify wrong assessments and errors of judgment, or a wrong choice of objectives.

An almost infinite variety of data and arguments – as well as problems – can be constructed from the abundance of data and information on trade between the United States and Europe. In addition, there is the US-Japanese trade disequilibrium in which agricultural exports of the United States is a major issue. Shouting and threats by US agricultural interests are no more likely to solve fundamental issues between these two countries than they are between the United States and Europe.

Whither Agricultural Trade Policies?

It is suggested in this article that agricultural and trade policy conflicts involve more fundamental and structural kinds of questions than is indicated by a short-term slowdown in United States agricultural exports. In fact, long-term basic economic, political, and even philosophical issues are called into question.

Table 3
US Exports of Agricultural Commodities to the
European Community (EC-9), 1974-1982
(Million US Dollars)

	Subject to Variable Levies	Not Subject to Variable Levies	Total
1974	1,735	3,762	5,497
1975	2,317	3,246	5,563
1976	2,493	3,927	6,420
1977	1,880	4,740	6,620
1978	1,616	5,533	7,149
1979	1,708	5,934	7,642
1980	1,956	6,973	8,929
1981	1,866 (prelim.)	7,035 (prelim.)	8,901
1982	1,800 ^a	7,000 ^a	8,800 ^a

^a Forecast based on 6 months data.

Source: Foreign Agricultural Trade Statistics, ERS/USDA.

It is highly unlikely that any of the industrial countries will *unilaterally* reduce the protection to their agricultural sectors. Since the United States has returned to its “residual supplier” position in several products, and since no coordinated system of wheat stockpiles seems likely, some attention should be given to ways of integrating agricultural policy discussions into negotiations among countries. World agricultural adjustment and liberalized trade are necessary so that agricultural resources will not be wasted and so that efficient production and marketing methods may be used to improve world food and, to a degree, fiber consumption standards. Without such adjustment, the cycle of inward-looking agricultural policies will be perpetuated from crisis to crisis.

One thing is certain: the United States must take the leadership role toward moving the world back from the abyss of a breakdown in world trade. Throughout this article if it appears that I have been harder on the United States than on other countries, it is perhaps because I see its “sins” and responsibilities more clearly. However, US agriculture cannot be blamed for economic inefficiencies and bad management of its industrial, manufacturing and services sectors; nor for poor monetary policies; nor for faulty political judgment. For a decade, US agriculture has been carrying the “cross” for bad management and policy mistakes in other areas of the US economy. Because of this, many US farmers are, indeed, over-capitalized due in great part to the expectations which were built on the world situation and on strong export markets which commenced in the early 1970s.

Europeans and Japanese are very guilty of agricultural protectionism, but if it is any consolation, their farm problems supersede those of the United States as a result of their negligence toward enacting and implementing policies for basic agricultural and political adjustment. We are wrong, for example, to assume that all the problems between Europe and the United States stem from practices which began with the Common Agricultural Policy. Europe (not including Great Britain) had a strong protectionist policy for its agriculture dating as far back as 1870. Trade, of course, was at a very low level in those days; and with Japan it was almost nonexistent.

Finally, many agricultural problems of the world, of the United States and of Europe, lie deeper than the CAP and agricultural protectionism. Negotiators are now trying to hammer out some partial accommodation. Such accommodation will not be accomplished by confrontation and unrealistic demands. Fruitful negotiations always necessitate understanding and compromise.