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European Community Grain Trade Practices

Their Impact and the Reasons They Are Being Challenged

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European Community Grain Trade Practices

Their Impact and the Reasons They Are Being Challenged

The grain trade practices of the European Community (EC), long a subject of controversy, have come under even greater international scrutiny in recent years because of their highly protectionist, trade-distorting nature. This booklet highlights these practices and illustrates their impact on other countries, especially the United States.

The central feature of EC grain trade practices is a system of import levies and export subsidies that operates to keep internal EC grain prices artificially high, well above world market prices. The large import levies keep cheaper foreign grain from entering the EC. Meanwhile, the export subsidies enable the high-priced EC grain to move onto the world market whenever EC production is in surplus.

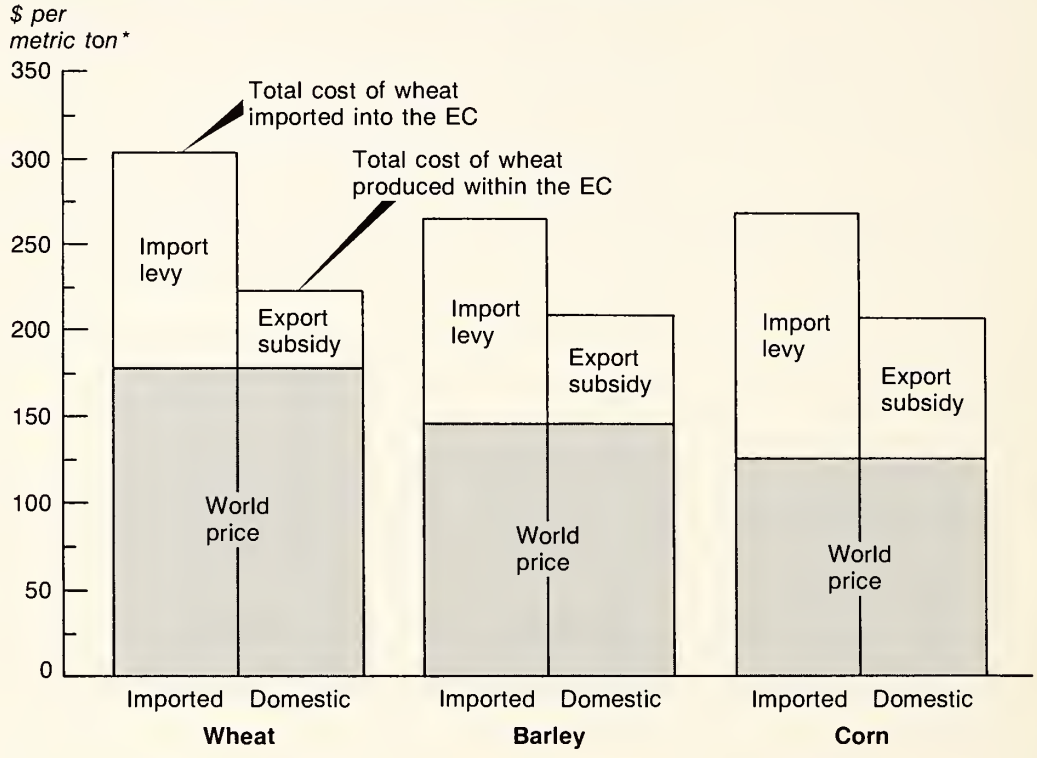
The consequences of the levies and subsidies, and the high internal prices, are the artificial stimulation of production and the artificial restraint of grain use within the EC.

Over a relatively short period, such practices have propelled the EC from one of the world's largest importers of grain to one of the world's largest exporters. The result has been a very large displacement of other countries' grain exports. Much if not all of this has been a displacement of U.S. grain.

In illustrating these impacts, the accompanying charts also explain why the United States and other grain-exporting countries are acting, through both negotiation and trade-enhancement measures, to challenge and offset unfair trade practices in the world grain market.

The 12 member nations of the European Community are Belgium, Denmark, France, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, United Kingdom, West Germany, and Greece.

EC Import Levies and Export Subsidies for Grain



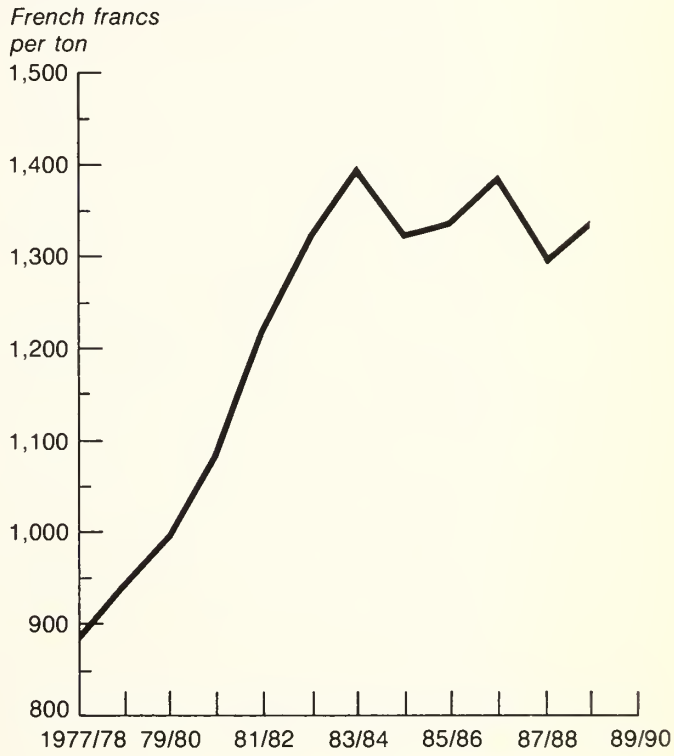
*Data for May 1989.

- Import levies make lower cost foreign grain more expensive than EC-grown grain, thus discouraging imports.
- Whenever world prices decline or the U.S. dollar weakens relative to European currencies, the import levy (which is adjusted daily) simply increases to negate the change. It continues protecting the high internal EC prices, known as "target prices," which are fixed once each year.
- Subsidies on exports enable high-cost EC grain to sell overseas.
- The EC export subsidy increases to ensure sales whenever there is a bumper EC crop, more competition from other exporting countries, or a decline in world import needs.
- Together, these practices keep internal EC grain prices well above world market levels and also well above the internal prices of most other countries.

EC Export and Internal Wheat Prices

EC Wheat Export Prices (FOB)

EC Wheat Producer Prices



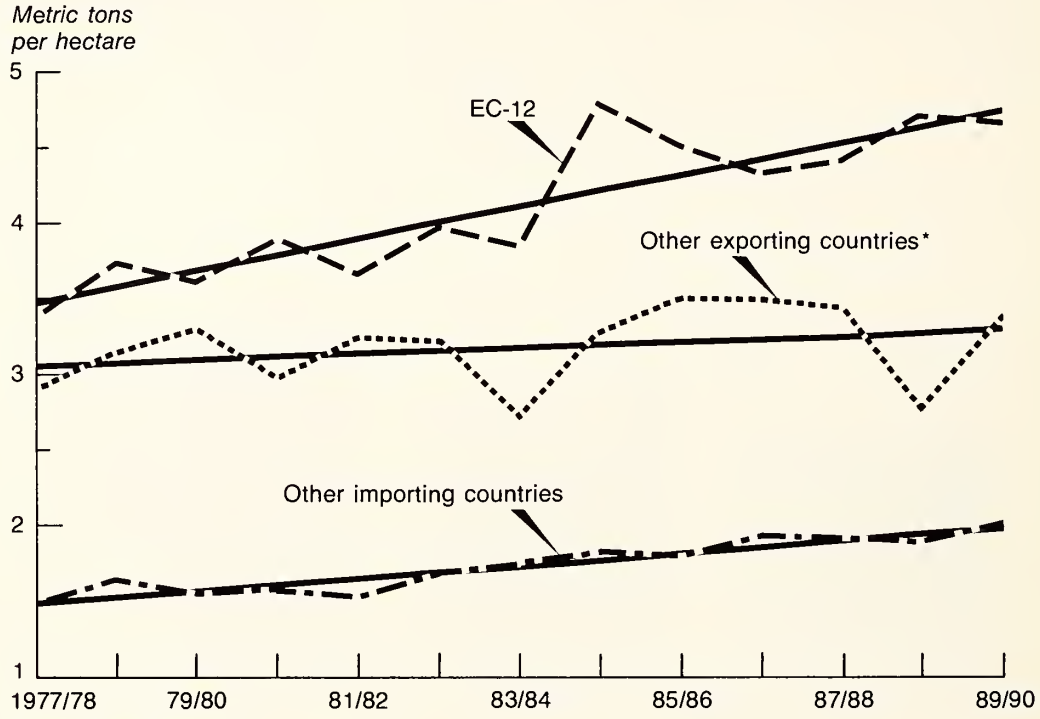
- EC levy and subsidy practices almost completely insulate internal EC prices from month-to-month or year-to-year fluctuations in grain prices on the world market.

- EC wheat export prices have shown a great deal of variability over the 12-year period that EC exports have been consistently increasing. This variability illustrates the impact of world supply and demand conditions on EC export prices.

- Internally, EC producer prices rose from 1977/78 to 1983/84 and have since leveled off, showing much less variability.

- The protection EC producers enjoy from world market movements is illustrated by the rising or relatively stable producer prices, during a period of volatile world market prices.

Grain Yields: Comparison of Growth Rates Between the EC and Other Areas of the World



*Excludes United States.

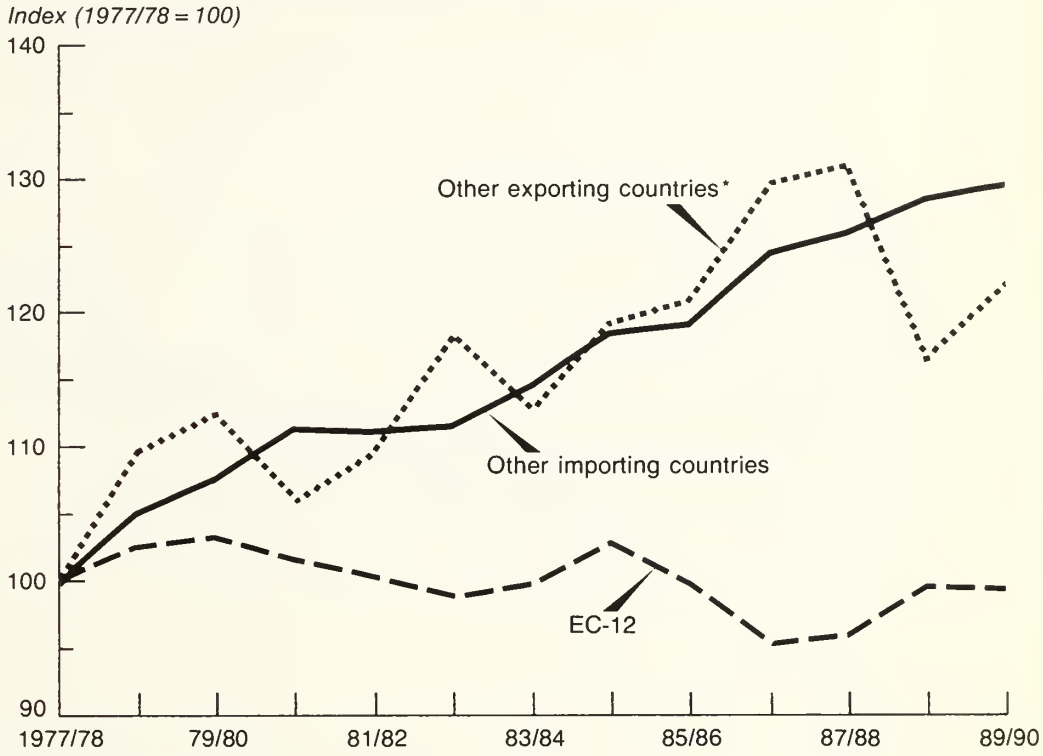
- As a result of the levy and subsidy practices which create artificially high price incentives for EC producers, EC grain yields have increased far more rapidly than yields elsewhere in the world.

- The annual growth rate in yield per hectare in the EC since 1977/78 has averaged 10 times that of the major exporters and over twice that of other importing countries.

- With their prices protected, EC producers and their input suppliers receive much more encouragement to invest in better and more equipment, seed, fertilizer, and other inputs, which their counterparts in other countries often cannot afford.

- Twelve years ago, overall EC grain yields were about 10 percent above the aggregate of the world's major exporting countries. Today, that margin has grown to 55 percent.

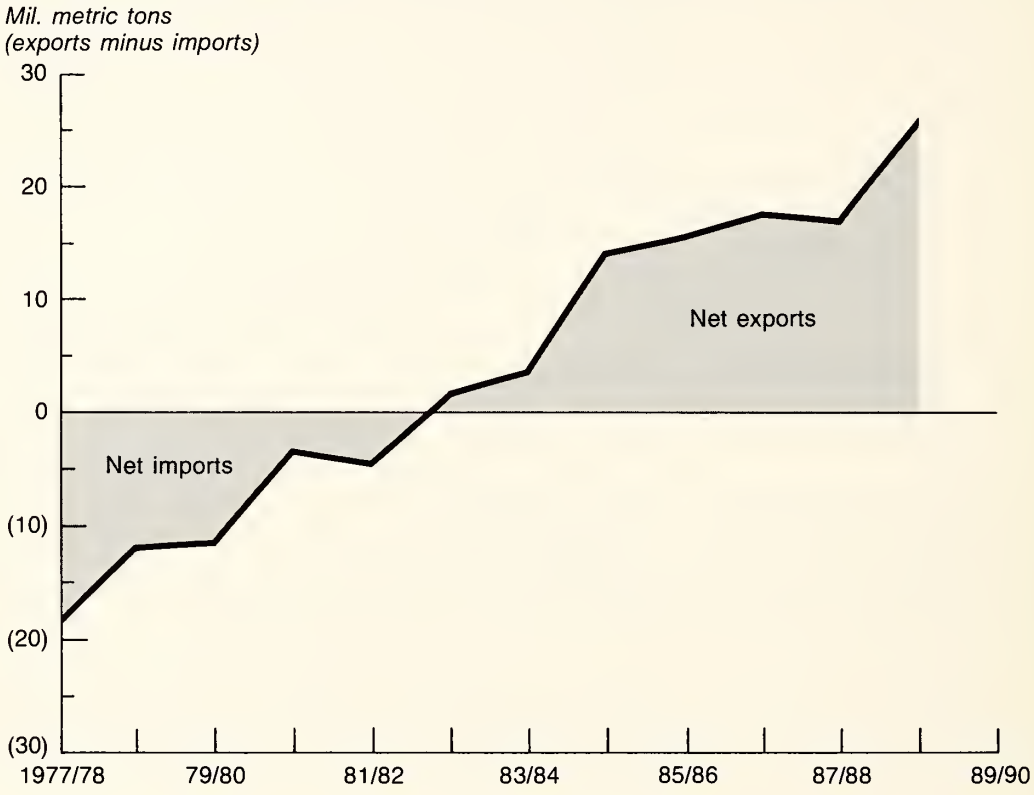
Grain Consumption Index: Major Importers, Major Exporters, and the EC



*Excludes United States.

- Artificially high internal prices discourage EC consumption of grain, either domestically produced or imported.
- Consumption of grain by importing countries (other than the USSR and China) has grown over the past 12 years by about 30 percent. Grain consumption by exporters has increased 22 percent.
- In sharp contrast, EC consumption of grain has not changed appreciably over the same period, either because of a forced shift to substitutes or because high costs have reduced the purchase of grain products by EC consumers.
- The lack of growth in grain consumption in the EC has contributed to increases in the EC exportable grain surplus.

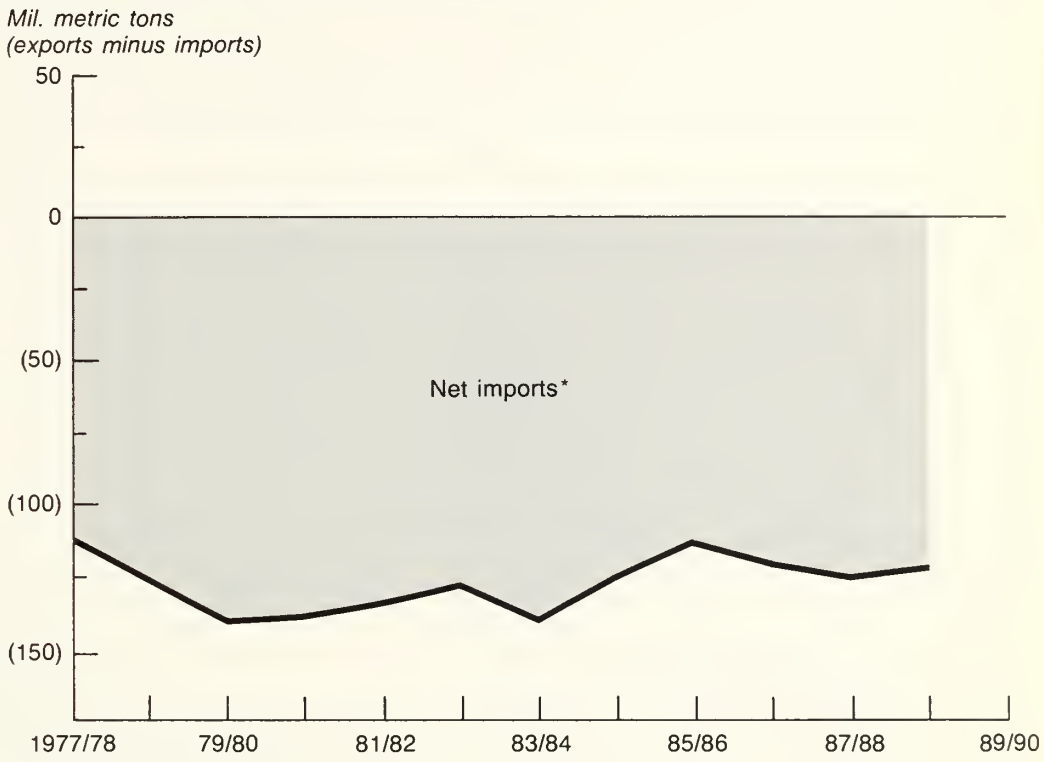
EC Net Trade in Grain



- With the dual effects of stunted consumption and enhanced production, the net trade position (total exports minus total imports) of the EC has changed dramatically. The EC has transformed itself from one of the world's largest grain importers into the world's second largest grain exporter.

- The EC was a net importer of almost 20 million tons of grain in 1977/78. The EC became a net exporter in 1982/83 and, by 1988/89, was a net exporter of more than 25 million tons. The result, all else being equal, is that other countries today have a world market that is 45 million tons smaller than it would have been if the EC net trade position over the past 12 years had not changed.

Net Trade in Grain by Other Countries



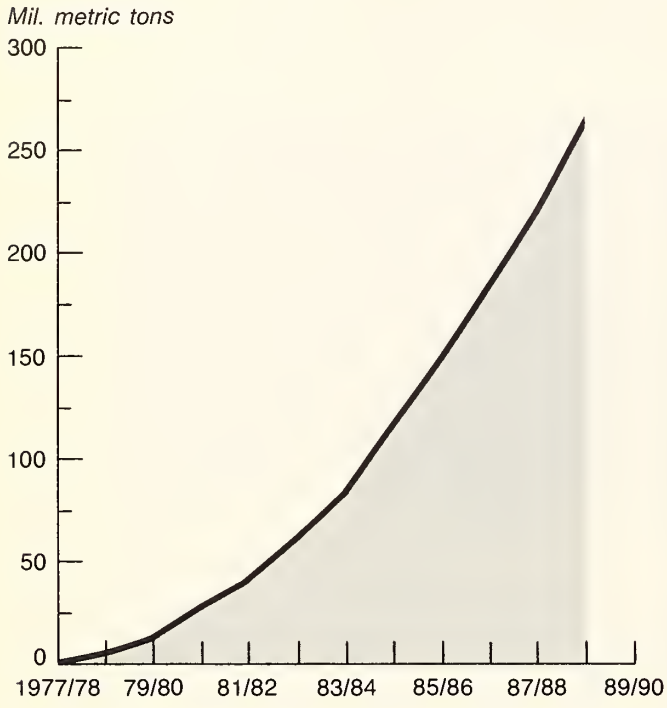
*Excludes China and the USSR.

- Most of the world's importing countries do not allow or cannot afford protection on the order practiced by the EC.

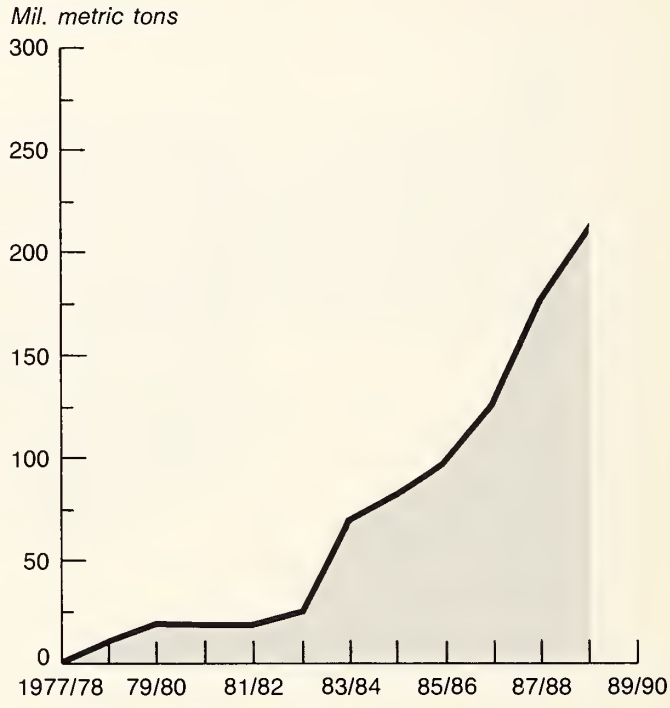
- Among those countries, net trade during the same period was essentially unchanged. The contrast with the EC speaks for itself.

Displacement of Other Countries' Grain Exports and Adjustments in U.S. Grain Production

Cumulative Displacement of Other Countries' Grain Exports by Change in EC Net Trade Position



Cumulative Amount of U.S. Grain Production Forgone by Acreage Reduction Programs



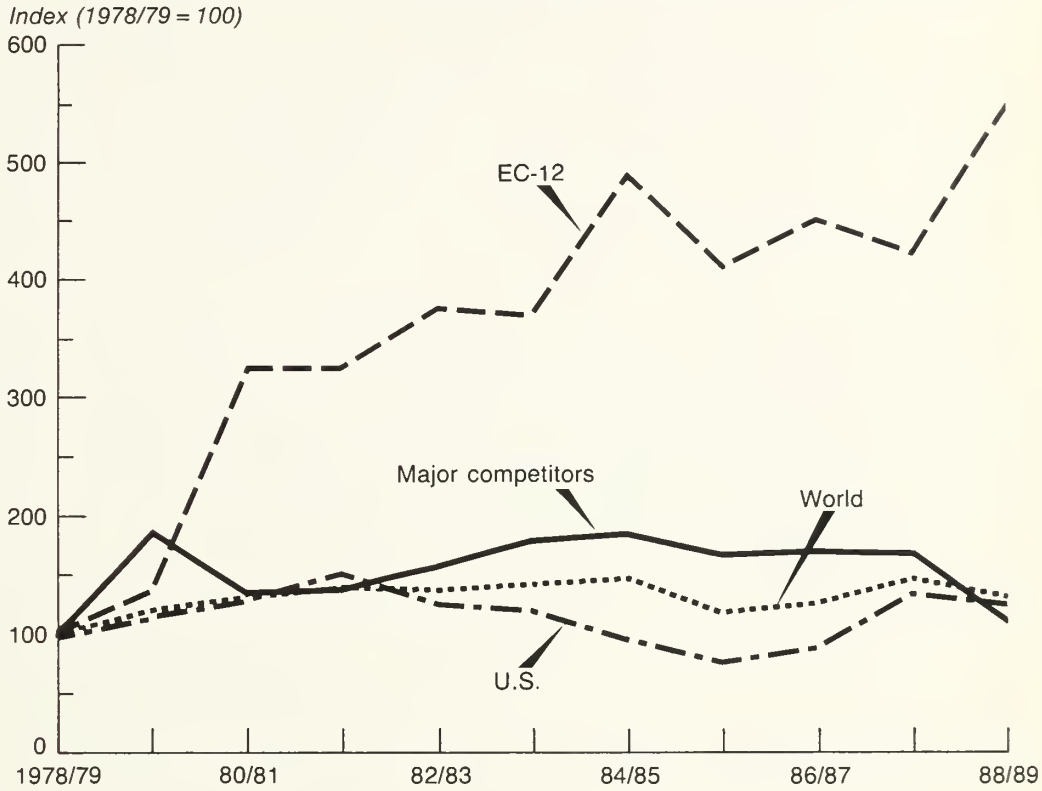
- Over the 12-year period, the EC's transformation from net importer to net exporter has displaced a cumulative total of more than 260 million tons of other countries' exports.

- Whether directly through loss of U.S. sales to the EC, or indirectly through lost sales to other countries, much of this displacement impacted on the United States. One indication is the similarity between the cumulative EC displacement for the past 12 years and the cumulative amount of U.S. grain production forgone through acreage reduction programs (ARP's) over the same period.

- This comparison suggests that it has been necessary for the United States to adjust grain area and production to make room for EC surplus production.

- The United States is affected by this direct and indirect displacement not only by the costs of ARP's. All else being equal, the United States is also affected by the loss in export earnings due to both lower world prices and lower export volume.

Wheat Export Index: EC, Major Competitors, World, and United States



- EC wheat exports are now about 5½ times as large as they were in 1978/79.
- The exports of the United States and the other major competitors have grown hardly at all over the same period.

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