The European View

U.S./EC Struggle Over Agricultural Markets

by Derwent Renshaw

Recent developments on the world agricultural trade scene have tended, if not to turn the spotlight away from the US/EC struggle, then certainly to dim its intense and focused glare. Other events have temporarily—stolen the limelight and upstaged that old and familiar favorite.

I am referring, of course, to such developments as the vigorous protests made by Australia and Canada over what were seen as distinctly unhelpful moves by the U.S. to directly subsidize its grain exports to the Soviet Union. Australia is also upset over the U.S. deal to sell sugar at below market prices to China. And Thailand has raised equally strong objections over subsidized U.S. rice exports.

These events remind us that whilst the EC and U.S. might be the world's two largest farm traders, there are a number of other important exporters. They are also very much involved in the ever more tense struggle for markets—Argentina, Brazil, and New Zealand, for example, in addition to the others already mentioned.

But, in returning to the subject, the European view of the U.S./EC struggle over agricultural markets, it might be useful to first identify what, if any, these struggles are, then to describe some of the developments leading up to them and, lastly, to look towards the future.

The Twenty-Five Percent

But to focus on the question of the "U.S./EC Struggle" some sense of perspective would be helpful. Many do not appreciate that the EC is "struggling" against the U.S. on world agricultural markets for only about 25 percent of the full range of American farm exports. For the overwhelming balance, competition from the EC is either non-existent or, at most, indirect. We either don't grow it, or we do so in insufficient quantities to be able to export.

Of the 25 percent where we do compete, by far the most important element is wheat. Here, the high point for U.S. exports was in 1981/1982 when the U.S. accounted for 49 percent of the world market. A share which has come to be regarded by many Americans as normal. In 1984/85 the U.S. share dropped to 36 percent—a bruising fall of 13 but this 36 percent U.S. share is, nevertheless, larger than it was in the early seventies.

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Over the same period, the EC's share rose only marginally from 14 percent to 16 percent. All other major wheat exporters, apart from the U.S., also increased their market shares over this period. And Australia and Argentina did so by more than the EC.

American Competitiveness Declines

However, the fundamental causes for this drop in U.S. wheat exports were not the wily campaigns waged by its trading partners. First, there was the strength of the dollar between 1981 and 1985. Second, the embargo on grain sales to the Soviet Union which led to a loss in U.S. exports of around 3 million tons in 1982/83 and from which Argentina was the chief beneficiary. Third, there was the level of U.S. support prices. Most perceptive observers are now prepared to go along with this analysis—if only in private.

In other words, the decline in U.S. share was due, not to the actions of others, nor to the "tilted playing field" of which one hears so much, but to a decline in American competitiveness. Increases in the shares of Canada, Australia, Argentina, and the EC were the consequence and not the cause of this decline.

The U.S. has recently taken important steps designed to redress this situation. The Food Security Act 1985 provides both direct and indirect export subsidization which has, inter alia, sparked the bitter complaints mentioned earlier.

The Export Enhancement Program is one example of direct U.S. subsidization of its exports, of course. Indirect subsidization is provided, for example, by generous deficiency payments, which insulate U.S. farmers from the uncomfortable effects of the new market-oriented loan rates designed to improve U.S. competitiveness on the world market. The fall in the value of the dollar should also help to boost U.S. farm exports. But the extent to which increased exports, in quantity terms, will result in increased dollar receipts will depend on the price

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per ton received on a world market, which, at present shows few, if any, signs of recovery.

Dairy Is Part of the Struggle

A second area which forms part of the 25 percent where the EC and U.S. wage their struggle is the world dairy product market. Clearly, this is less important than wheat and one hears rather less about it in the U.S. But, through the use of subsidies, the U.S. has vigorously expanded its market share by far more than the EC's modest expansion on the wheat market. The U.S. share of international trade has increased from nil to 10 percent in the case of butter, and from 10 percent to 26 percent of international trade in the case of milk powder.

America's Best Overseas Customer

Another market where the U.S. should feel satisfied (but does not appear to be so) both with its own performance as a seller and its client's record as a buyer is the European Community. Anyone who reads his newspaper with only the slightest degree of attention will have learned that the U.S. recently recorded three monthly farm trade deficits in a row. However, few among them will appreciate that, year on year, the U.S. runs a healthy surplus on its agricultural trade with the EC.

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Over the last three years, the EC has been the American farmer's best overseas customer, taking around 20 percent of all U.S. farm exports. Looking ahead, USDA is forecasting that in fiscal year 1986, the EC will purchase $6.5 billion worth of U.S. farm products. That is a marginal decline from last year's figure of $6.7 billion, but it is robustly healthy when compared with the expected overall decline in total U.S. farm exports of 15 percent from $31.2 billion to $26.5 billion.

This forecast of sales to the EC is, more than five times the value of expected sales to the Soviet Union and as much as sales to Japan and the whole of North Africa combined. But this should come as no great surprise to those who pause and reflect that the bulk of our farm imports from the U.S. enters the EC free of any levy, duty or quantitative restriction whatsoever. In the words of the American Soybean Association, "Every fourth row of soybeans grown in the U.S. goes to the EC." However, given the quantity and nature of these and other imports, such as corn gluten feed, it is not surprising that the EC has come to play an increasingly important role as an exporter both of grain and animal products. Such factors have certainly not served to lessen tension on export markets.

Other Reasons for Struggle

There are, of course, a wide variety of other reasons for our struggle. An important one is that there are painful similarities between us. Over recent years, we have both, along with others, produced far more than we can sell—either domestically or on the world market. In addition, we both also spend large sums of public money on our farmers—the U.S. with its $2^1/_4$ million farmers and the EC with 11 million.

In examining in a little more detail some other stress producing factors, it is, perhaps, worthwhile returning to take a closer look at developments on the world wheat market which remains the scene of our most intense struggles and where the situation of imbalance is particularly alarming.

Over the last 15 years, world wheat

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View of the Rotterdam Port—a key link in the movement of U.S. farm products to European customers.

The wheat market is a market in which the United States and the European Community compete vigorously. One reason for this competition is the significant yield increases in the European Community.

production has risen by about 55 percent—an increase to which all the major exporters have contributed. For example, U.S. production rose by 65 percent, EC's by 69 percent; Canada's by 71 percent; and Australia's by 78 percent. These production increases were achieved by changes in both acreages and yields but with very different emphases.

Over this period, U.S. wheat acreage rose by around 40 percent, the EC's by just 13 percent and Australia's by as much as 69 percent. Yields, on the other hand, tell a quite different story: +16 percent in the U.S.; +27 percent in the EC and only +3 percent in Australia. All of which inspires the thought that since increases in wheat production around the world have been achieved by rather different means, perhaps equally varied methods should be employed to reduce production—if that is the general direction in which we want to go.

Many—particularly in Europe—feel that production has to be limited in order to bring it closer into line with consumption and thereby improve the health of a very sickly world wheat market. At the risk of stating the obvious, it is because the trend in production increase has far outstripped that of consumption that we all find ourselves in the unhappy position we do today. While consumption showed, in broad terms, a fairly healthy growth in the 1970's, in every single year since 1981, it has been markedly lower than production.

World trade has, to a large extent, reflected the developments in production noted earlier, with 1981/1982 emerging very clearly as a turning point. Between the beginning of the 1970's (1969-1971) and the 1981/1982 marketing year, world wheat exports almost doubled from 53 million tons to 101 million tons.

All five major exporters shared in this trade expansion with the U.S., Argentina, and the EC increasing at more than the average world growth rate. In fact, during this period, the U.S. succeeded in obtaining two thirds of the total increase in world trade (32 million tons out of a total increase of 48 million tons). And it is by this exceptional bench mark achieved in 1981/1982 that many in the U.S. persist in measuring current performance and in setting future goals.

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Between 1981/1982 and 1984/1985, however, U.S. exports fell by 11 million tons and with it, as noted earlier, its share of the world market from 49 percent to 36 percent, while the other four major exporters increased theirs.

U.S. Export Weapons

Faced with this situation—distressingly grim for U.S. exporters, particularly when compared with the salad days of 1981/1982—it is not entirely surprising that U.S. criticism of its trading partners has increased and nowhere more so than its criticism of the policies of its best customer—the European Community. Nevertheless, it needs to be borne in mind that for many years the U.S. has used a number of devices itself to promote its exports, especially P.L. 480 and the various credit programs offered by the Commodity Credit Corporation.

More recently, other weapons have been added to this not inconsiderable armoury. Blended Credit, BICEP, transformed—"born again" one might say—as the Export Enhancement Program and, of course, the "fire sale" loan rates of The Farm Security Act.

Attempts are made to justify much of this escalation by claiming that the EC is acting unfairly on world markets, undercutting the world price by means of its export refunds and annexing large chunks of what is perceived as the U.S.' fair share.

I have already explained that the decline in the U.S. share was largely due to a loss of its own competitiveness. Moreover, it should also be emphasized that international trading rules permit subsidies on agricultural exports provided that they are not used to gain an inequitable share or to undercut the going world market price. It would be extremely difficult to sustain the argument, on the basis of market percentage figures quoted earlier, that the EC had gained an inequitable share of the world wheat market, or to support the allegation that the EC had undercut the going price. It is not in the community's interest to do so—if only for simple budgetary reasons. Certainly since the introduction of the Export Enhancement Program we have been obliged—particularly on our traditional markets—to follow U.S. prices. It would be hard to find a case where the Community was the first to drop its price.

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Exporters Need to Cooperate

As to the future, it would be a brave—or even foolhardy—person who attempted a prediction as to what lies ahead on world markets. Nevertheless, it is clear that given current and expected levels of production and consumption around the world, there would seem to be little prospect of significantly expanded market possibilities for exporters.

With the policies being followed by major exporters—particularly by the U.S. since the passage of the Food Security Act—and in view of the transformation of erstwhile importers such as India, China, and even Saudi Arabia into exporters, all the signs point towards a weak world market—certainly in the short and medium term.

The expected increase in world production and in the number of exporting nations. The progress already made and yet to be made in biotechnology, resulting in a remorseless increase in yields. The difficulties in augmenting the purchasing power of those whose need for food remains unsatisfied. All these factors seem to magnify the potential for a continued and intensified struggle between the EC and the U.S.

This throws a sobering and weighty responsibility on both the EC and the U.S.—the world's two largest agricultural traders—to cooperate together with other exporters to find solutions. Otherwise, as competition intensifies still further on a shrinking world market, we shall continue to rely on temporary expedients. These will lead to increased budgetary costs, and a further weakening of the world market. We will reap unhappy results not only for ourselves but also for developing countries. And we will have provided no lasting benefits for anyone's farmers.

We should, therefore, cooperate in planning the adjustment of our support policies in such a way that the actions of both are directed to the same ends. But, having such markedly different farming conditions on either side of the Atlantic implies that while we should have the same ends, we will not necessarily have the same means. C

Above: Dairy is part of the struggle between the United States and the European Community. These Holstein are grazing on a 40-hectare farm in Germany.

Below: A farmstead in the Po River Valley, one of the most productive regions of the European Community.