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## Guest Editorial

# The Agricultural Trade Confrontation between the United States and the European Community: a Challenge to our Profession

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Several international agricultural commodity markets, particularly the most important in terms of total value of trade namely the wheat market, are largely shaped by the current 'subsidy war' between the United States and the European Community. The consequences of this trade war for producers, tax payers and consumers on the two sides of the Atlantic are obviously important. They are also very significant for economic actors in many other countries affected by these markets, be they net importers or exporters. In the short term, net importers benefit from the lower real, net prices resulting from this trade war. But in the long run the uncertainties of these markets are greatly enhanced by the US–EC confrontation. For many developing countries, these uncertainties are often presented as justifications for policies promoting a greater degree of food self-sufficiency. Thus the total cost of this trade confrontation is probably very high. One would thus expect that economic analyses of this confrontation could be very valuable. They should provide a better understanding of the issues and interests at stake, of the confrontation process itself, and hopefully ideas to reduce the confrontation and the associated uncertainties.

Unfortunately, there are not many such objective analyses. Ideological positions shroud the issue and agricultural economists are too often blinded by their own, often implicit, perhaps unconscious, ideological biases. The purpose of this paper is to call attention to the responsibility of agricultural economists, as a profession, in such a situation. For this purpose it will be useful to characterize first the nature of the US–EC agricultural trade confrontation and then to draw two main consequences of the interpretation for our profession.

## **I. Four features of the US–EC agricultural trade confrontation**

Because the confrontation is as old as the Community itself, one may feel that things have not changed significantly and/or that they do not really mat-

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ter much. The expression ‘chicken war’ itself, as it was used in the 1960s, reflects that feeling. There was indeed a confrontation but is not the idea preposterous that two allies, having such major, strategic and geopolitical interests in common, could go to war over chickens? In order to clarify the ambiguities revealed by this question, let us recall that:

- the confrontation results from real conflicts of economic interests;
- political restraints on both sides of the Atlantic have limited the escalation;
- but a process of escalation can be observed and it seems to have accelerated in recent years;
- deep ideological differences have hindered the search for a compromise.

These four features of the confrontation will be successively reviewed.

### **1. The confrontation results from real conflicts of economic interests**

This first feature of the confrontation is obvious and does not require a very extensive discussion. It must however be stressed as one root-cause of the problem, lest the complete situation be obscured by the complications brought to the analysis by consideration of the other features of the confrontation.

The role of conflicts of economic interests can be illustrated by a broad examination of the evolution of the issues being disputed over the last three decades. In late 1950s and during the 1960s, the main bone of contention was US access to the European market. The very formation of a common market threatened the traditional trade flows. Such a phenomenon is acceptable under GATT rules. Article 24-6 specifically states that members of a newly established common market must negotiate with other trading partners and provide them with compensations for the distortions in trade flows. Such negotiations took place and this was the first acrimonious step in the US–EC agricultural confrontation. The compromise reached on that occasion included a promise by the European Community to eliminate all customs duties on soybeans. During the ensuing Kennedy round of multilateral trade negotiation, the United States wanted ‘guaranteed access’ to the European market, which was then the main outlet for US agricultural exports. The European Community offered to put a ceiling on its ‘margin of support’ to agriculture. Neither proposal was acceptable to the other party; hence the Kennedy round achieved little in terms of agricultural trade liberalization.

In the late 1970s and early 80s, the main center of conflict had shifted to the competition between the United States and the European Community for agricultural exports to other countries. This is indeed what is at stake in the current subsidy war between the two trading blocks. This is not the place to review in detail this new phase of the confrontation, but here again general conflicts of economic interests are clear. When the US government subsidized the sale of wheat flour to Egypt in early 1983, thus knocking out a traditional

French market, some European interests were clearly hurt. Similarly, when the European Community increased its market share of the international wheat market while the US share declined, various US interests were hurt.

In addition to these broad interests, one may easily identify specific interests at play in recent US–EC agricultural controversies, be they within or outside the GATT:

The pasta dispute, which was just settled, pitted the interests of pasta makers and grain producers in Europe against those of the United States.

The complaint filed in GATT by the US government on citrus reflected a conflict between the interests of US citrus producers, particularly in California, and the political advantages for the European Community of a preferential arrangement with non-Community Mediterranean countries, threatened by the trade distortions resulting from Greek, Spanish and Portuguese membership.

Similarly, in the dispute on dry raisins, the interests of California growers are in direct conflict with those of their Greek counterparts.

Recently the Commission of the European Community proposed a tax on the consumption of oils and fats other than butter. Although technically non-discriminatory against importers, since domestic production would also have been taxed, it is clear that the economic interests of exporters, in particular US soybean producers and traders, would have been hurt; this proposal fueled the confrontation.

Many other examples of the same type could be quoted: for instance, the US Wine Equity Act, the suit filed in the US International Trade Commission against French and Italian wine imports into the United States, the 1986 threats and counter threats of retaliations following the Iberian enlargement of the Community. All of these events are clear illustrations of the fact that real conflicts of economic interests are at stake in the US–EC agricultural trade confrontation.

## **2. Political restraints have limited the escalation of the confrontation**

Even though the conflicts of economic interests just reviewed are real, the stakes involved seem very small compared to the geopolitical importance of the Atlantic alliance. Thus one would expect that political leaders would prevent the confrontation from escalating and endangering the alliance. The record shows that such restraint has indeed been exerted on both sides of the Atlantic.

During the Kennedy round of multilateral trade negotiations, several agencies of the US government, particularly the State and the Defense Departments, restricted the pressures coming from the Department of Agriculture. Geopolitical considerations led to the support of the general movement of Eu-

ropean integration, including the establishment of the European Community through the Treaty of Rome. If a protectionist Common Agricultural Policy was the price to pay for political stability and economic prosperity in Western Europe, so be it. The long-term advantages for the general US interest were viewed as far outweighing the short-term costs to special interests in agriculture.

The management of public stocks of dairy products by the US Commodity Credit Corporation (CCC) provides another example of restraint. If the US objective had been to inflict maximum damage to the European Community, the CCC could have, on many occasions over the years, dumped large amounts of products, such as butter or skimmed milk powder, on the very small international markets and driven down world prices considerably. One must however recognize, in this instance, that such an action would at the same time hurt the economic interests of the CCC.

Reciprocally in a sense, the European Community has exerted restraint in the management of its grain exports. In 1983–84, the Director General for Agriculture pledged that 'restitution' (export subsidy) payments would be restricted so that the total volume of European wheat exports would not exceed 14 million metric tonnes. One must recognize here that this could be viewed as a first step in the direction of a 'de facto' agreement to share markets, i.e. a direction long advocated by the European Community but adamantly opposed by successive US administrations.

In recent years, various summit meeting statements and intergovernment ministerial declarations have expressed the view that international agricultural trade disputes result from domestic support to agriculture in most countries and that coordinated efforts should be undertaken to reduce these tensions. Such was the case at the Tokyo summit in the spring of 1986, and the OECD Ministerial Declaration in the spring of 1987, followed shortly thereafter by the Venice summit in June 1987.

The Punta del Este Ministerial Declaration, launching the Uruguay Round of GATT multilateral trade negotiations in September 1986, can be viewed as belonging to the same series of statements at the highest political level, indicating that agricultural disputes would not be permitted to endanger more general agreements or compromises. In addition, the very fact that this Ministerial Declaration was adopted even though it did not settle the dispute on procedure which had dominated the preparatory work in the field of agriculture illustrates the political desire to restrain agricultural problems from escalating into an all-out trade war. In the GATT Committee on Trade in Agriculture (CTA), two main theses were in opposition. US representatives wanted to place first on the agenda discussion relative to the banning of export subsidies. Community representatives, pointing out that all governments in developed countries support their agriculture in one form or another and that all these measures have an influence on international trade, wanted a discussion of all forms of support to agriculture, without any specific attention to export subsidies, which

happen to be a major instrument of the EC Common Agricultural Policy. The dispute was settled neither before nor at the Punta del Este meeting. The very fact that the Ministers decided to go ahead with launching the MTN's in spite of this difference, can be taken as an indication that it is not important enough to block the entire process of negotiations.

### **3. But the escalation continues**

In spite of these evident signs of political restraints, the escalation continues. This third feature of the US-EC agricultural confrontation is also quite obvious; thus two recent events will be sufficient to illustrate it.

The Iberian enlargement of the Community, i.e. the entry of Spain and Portugal, led in 1986 to a very acrimonious dispute. The US government put direct pressure on the Community to change a disposition of the transitory arrangements regarding the grain market, which had been agreed by the two new countries, whereby a minimum proportion of their grain imports should come from the Community. As indicated above, GATT Article 24-6 provides a specific procedure for negotiation in such a situation. But the US government did not resort to it. They requested immediate compensation through direct negotiation, threatening retaliation on US imports from Europe. The dispute was very acrimonious, involving threats of counter-retaliation by the European Community. It took a provisional 6-month agreement in July 1986 and an extra month of discussions after the expiration of the 6-month delay in January 1987 to finally reach a compromise and settle the dispute. Generally speaking, the terms of the compromise were widely viewed in Europe as very much slanted in favor of the United States; they left a sore feeling of having been 'bullied'.

The current subsidy war on grain markets is another illustration of the ongoing escalation of the confrontation. Export 'restitutions' (i.e. export subsidies) have been a feature of the European CAP since its inception in the 1960s. But at first, when the Community was a net importer, they were not very important. In the late 1970s their importance has increased and they became a very sore point in US-EC agricultural matters. Since the violent verbal attack by US representatives in the 1982 GATT Ministerial meeting, it appears that suppressing these restitutions has become the main US objective in agricultural trade negotiations. US actions have not been restricted to verbal attacks. The subsidized sale of 1 million tonnes of wheat flour to Egypt in 1983 was the first step in the recent escalation. It was followed by the Bonus Incentive Commodity Export Program (BICEP) in April 1985 incorporated in the December 1985 Farm Security Act as part of the Export Enhancement Program. Similarly the decision to lower loan rates, i.e. US price support levels, by 25% can be viewed in the same perspective. It was clearly aimed at restoring the competitiveness of US agricultural products on world markets. The lower world prices, which were expected to result from this action, were viewed as a wel-

come source of pressure on the Community, since they would lead to a higher budget cost of the European restitutions which are fixed so as to offset the difference between European and world prices.

The magnitude of this subsidy war can be illustrated by the following observations: In 1986–87, about 40% of US wheat exports will have been made possible by EEP grants, averaging US\$42/tonne, compared to an average US export price of US\$70/tonne or \$1.88/bushel. For the same period the US loan rate was \$2.28/bushel, the target price (i.e. the price, including a government payment, received by farmers participating in the Government acreage reduction) was \$4.38/bushel; by comparison the price received by French cooperatives during the same crop year was equivalent to \$5.40/bushel. These magnitudes are such that many doubt that such a situation can last very long. Whatever may happen in the future, these figures clearly demonstrate that the escalation has continued until now.

#### **4. Ideological differences complicate the search for a compromise**

If the US–EC agricultural trade confrontation was purely a result of conflicts of economic interests, it would not have escalated to the current situation. The subsidy war between the United States and the European Community is clearly not in the interest of either party. The main beneficiaries are the major grain importers such as the U.S.S.R. and Japan. Some form of a cartel agreement between the five wheat exporters (U.S.A., Canada, E.C., Australia, Argentina) would be much better for them than the current situation. Yet, in spite of numerous meetings among them, this has not happened and it has not even been possible to reach a tacit agreement on limiting the use of export subsidies and credit facilities.

One is left with only one possible interpretation of this situation: ideological differences have prevented a compromise being reached. The ideological differences between the two sides of the Atlantic are deep indeed. More precisely, they probably oppose an ‘anglo-saxon’ approach, a priori favoring market mechanisms, to an attitude, quite general on the European continent, seeking a political solution when faced with a major conflict of interests. Accordingly, Community officials have consistently proposed some form of international commodity agreements in international trade discussions regarding agriculture and such proposals have consistently been rejected by successive US administrations as both unworkable and undesirable.

The recent (July 1987) US proposal in GATT to abolish all subsidies to agriculture, including subsidies to research and extension, by the year 2000 can only be viewed by Europeans as the assertion of an ideological position, not recognizing political realities on either side, taken for tactical reasons, but signaling no willingness to compromise and hence no real desire to negotiate. Yet from the point of view of the US administration, this position is perfectly con-

sistent with its previous actions, positions and statements of objectives. In addition, at the beginning of a negotiation, the opening bid is always above what one may hope to obtain: the same US administration followed the same tactic on the domestic scene in the spring of 1985, when it launched the Farm Bill debate with a proposal to do away with price support above long-term equilibrium levels. It was then obvious that such a drastic policy change would not be politically feasible. From the point of view of the Administration, asserting its position in ideological terms, irrespective of the political constraints, was probably viewed as the best way of weighting the debate so that its final outcome would be as close to the preferences of the Administration as possible. Whatever the tactical merits of this judgement, the main lesson to be drawn for the purpose of this paper is that assertions of ideological positions play an important role in the policy process. Have agricultural economists been fully conscious of all the implications for their work of this feature of the US-EC agricultural trade confrontation?

## **II. Consequences for our profession**

If one accepts the interpretation of the trade confrontation presented in the first part of this paper, two features stand out for the agricultural economists' attention: the role of conflicts of economic interests and of ideological differences. These two points will be reviewed successively, as they point out responsibilities to be assumed and tasks to be performed by agricultural economists. Because of the pervasive, and often implicit, influence of ideologies in the work of economists, the clarification of ideological, or more precisely doctrinal, differences will be discussed first.

### **1. Clarification of doctrinal differences**

First, what is to be understood exactly by ideological differences as the expression was used in the first part of this paper? Economists discussing policies usually recognize that values and beliefs in addition to specific economic interests play an important role in the positions taken by participants in the policy debates. The first two terms are interrelated. The set of beliefs and values held by one individual depend on his ideology and constitute what is often labeled his 'philosophy', in spoken American English. Even though this may be a useful short-hand expression, it is not intellectually satisfactory. Philosophy is a serious and long-established intellectual discipline. Giving the word a very different meaning can only be confusing.

Besides, economists are equipped with an existing concept, namely economic doctrine, which allows a much greater degree of precision in our thoughts than the loosely defined alternatives used so far in this paper.



For our purpose, and in line with most dictionaries, we define economic doctrine as a set of general answers to questions regarding what economic policies should be. Thus doctrines have clearly a normative content. In that sense, they must be distinguished from economic theories and analyses which primarily provide objective statements about economic phenomena, including about how societies treat value problems but without prescribing how values should be treated. Of course doctrine and analysis are closely interrelated because prescribing what policies should be (the purpose of doctrine) implies many answers to many questions regarding how the economic system works (and that is the task of economic analysis). Conversely, analysis, being necessarily partial, is oriented by a consciousness of which problems are important, and this is often judged on the basis of some doctrine.

In the US-EC agricultural trade confrontation, the main doctrinal difference bears on the merits of the market mechanism. Free traders emphasize the advantages of free or freer trade and the costs of interrelated government interventions by the various trading countries. Their doctrinal opponents are more difficult to characterize because they probably do not share a common doctrine. For our purpose it may be sufficient to call them pragmatists, as they point out the practical difficulties, and hence the political impossibility, of moving to completely free trade in agriculture. It is clear that the positions taken by the US administration are consistent with the free trade doctrine whereas the European Community's reference is more pragmatic. Admittedly these differences do not determine directly the trade regimes adopted by each one of these economic giants. After all quite a few agricultural products enter Europe with very limited protection and several US markets are heavily protected. Accordingly, the trading partners of the United States often point out the contradictions between US officials 'preaching free trade' and the high protection of the US markets for such important commodities as sugar or dairy products.

But the important point which is made here is that doctrinal differences are important in determining the positions taken by each side in trade disputes. For instance, US officials easily admit that the US dairy or sugar markets are protected. They regret the fact and even point out to their European counterparts that an international move towards free trade would help them to exert pressure on the domestic scene to reduce protection. Such a position is indeed logically consistent with a free trade doctrinal position. But to many pragmatists it appears somewhat hypocritical and primarily designed to extract maximum concessions in a negotiation.

Given the high economic stakes of this ideological difference, agricultural economists run the risk of implicitly, and perhaps unwillingly, supporting one side without even being aware of it. Most agricultural economists trained in the neo-classical tradition are convinced that market forces are very powerful and they are conscious of the great economic costs resulting from public interventions interfering with these market forces, e.g. the surpluses resulting from

price-support programs above market clearing levels. Thus, they tend to accept the free trade doctrinal position. If they do so without precaution, they willy-nilly take sides in the US–EC agricultural dispute and give the US position a scientific legitimacy which is not warranted.

Indeed the limitations of market mechanisms (distribution impacts, emergence of monopoly power, adjustment costs) have long been identified and are (or should be) well known by economists and economic policy makers. Yet many economists discussing policies tend to ignore these limitations. Such has been the case for instance, of some of the most important authors who pioneered what is now ‘the new political economy’. The main contributions of such authors as Stigler, Krueger or Olson concern answers to the question: why are policies what they are? Yet their policy conclusions or later works have been mainly concerned with the evil consequences of government economic interventions. In so doing, they have strengthened the doctrinal position against government intervention.

The dangers for economists of uncritically accepting a doctrinal position must be emphasized in discussing the economists’ responsibilities vis-a-vis the US–EC agricultural trade confrontation. Doctrines, as indicated above, provide general answers. They do not invite specific analyses of the economic stakes involved in a given policy debate. Yet, as argued below, this is precisely a task that economists should perform. In addition, economists, blinded by their doctrinal preferences, may forfeit a chance to suggest possible compromises in the current confrontation. Such compromises may not be construed as optima in any general sense. Yet if they were less costly than the present situation, they would clearly be desirable.

## **2. Analysis of the economic stakes in the confrontation**

For economic giants such as the United States and the European Community, agricultural trade positions are essentially by-products of the domestic agricultural policy debate on each side of the Atlantic. Thus understanding the trade confrontation and predicting its evolution, a legitimate task for the agricultural economics profession, requires an understanding of why domestic policies are what they are. Such an understanding is indeed necessary if one is to be able to appreciate the margin of manoeuvre of each side in agricultural trade negotiations.

For this purpose, this author has suggested that the analysis of the conflicts of interests involved in any policy debate is essential. Moreover, stressing the distributive issues, in addition to the search for allocative efficiency, is in the best tradition of our economic discipline.

Agricultural policies can be viewed as resulting in the short run from conflicts of economic interests regulated by the political process. Observation of the policy process permits one to identify various policy actors pursuing their

own objectives. Public policy decisions can be viewed as the outcomes of this process, they are the products of the interaction among policy actors. Two types of actors can be distinguished on the basis of their legal status: organizations representing purely private interests, and government agencies. Each one pursues different objectives and is subjected to specific constraints. The objectives and constraints of each actor are determined by the nature of the organization or of the government agency and by its place relative to other actors. Thus for instance, the main objective of the Minister of Agriculture in most countries is to maximize the political support of farmers to the government. He is constrained by numerous considerations, including the main objective of his colleague in charge of the Budget who seeks to minimize government spendings. Similarly, the objectives of farm organization leaders are dictated by the nature of the organizations which they lead. They are constrained by such factors as the general place of farmers in society (which varies significantly from one country to another: compare for instance Germany, the U.K., India and Mali), the existence of other competing organizations, and the current Budget cost of agricultural policies.

In the long run, agricultural policies change under the influence of long-term economic forces, such as trends in relative prices or trends in the agricultural domestic supply and demand, which profoundly affects the distribution of the interests involved in the agricultural policy debate. The evolution of the dominant ideology in society has also a long-term influence inasmuch as ideology is a very powerful tool of coordination among the various government agencies. Ideological shifts influence government agency behavior and, as a result, the political process regulating conflicts of economic interests.

If one accepts these hypotheses about the determinants of agricultural policies, identifying precisely the interests at stake in the various episodes of the US-EC agricultural trade confrontation is essential. This will provide the analyst with the identification of the forces involved on each side of the Atlantic, of the pressures exerted on public authorities and, as a result, with the first elements of an interpretation of the behavior of public officials in international fora. Such interpretations are indeed essential ingredients of an understanding of the confrontation.

The approach suggested here provides a framework for interpreting the determinants of domestic agricultural policies and of the resulting agricultural trade confrontation between the United States and the European Community. This is its great merit; one limitation must be recognized, however. The approach does not easily lend itself to the formulation of specific hypotheses, refutable through an empirical test. Refutation of the approach can only come from the construction of an alternative, competing set of hypotheses rendering better account of the evolution of the confrontation. The power of such a test can appear very limited indeed. This opens the door of a debate on scientific

methods which will probably not be settled soon. For the purpose of this paper it will be sufficient to flag it here.

## **Conclusion**

The US–EC agricultural trade confrontation is serious because of the significant costs which it entails for both parties and for many others. It can be interpreted as resulting from real conflicts of economic interests. Experience shows that political restraint exerted on both sides of the Atlantic has limited the escalation of this confrontation. Yet the escalation has not been stopped, the recent disputes being more serious and having more drastic consequences than past ones. Such an escalation cannot be explained by conflicts of economic interests alone. Deep doctrinal differences, regarding in particular the role to be given to free-market forces in the international trade of agricultural products, have played an important role in the confrontation; they have seriously complicated the search for a compromise and, so far, hindered the elaboration of a definite solution.

Agricultural economists have special responsibilities in face of this confrontation. First of course, they must analyze the economic interests at stake in specific disputes. Such analyses are needed inasmuch as conflicts of economic interests play a critical role in the determination of domestic agricultural policies. In addition, a thorough analysis of the interests at stake is probably a precondition for finding acceptable compromises having a chance to be durable. Secondly, but more importantly perhaps, economists have a special responsibility in clarifying the doctrinal differences between the United States and the European Community. Such a clarification is difficult because economic doctrine and analysis are closely interrelated. It is up to the economists to sort out these interrelationships. The clarification is also difficult because doctrinal positions are often taken for granted. Considering them uncritically can lead economists to give unwarranted scientific legitimacy to economic doctrines instead of pointing out their limitations. Economists then run the risk of becoming ideologues instead of fulfilling their main role of analysts and social critics.

