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U.S. and European Community Agriculture:
Changing Policies and Conflicts over Trade

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Bruno Julien, Commission of the European Communities
Marilyn Moore, Office of the U.S. Trade Representative
Ann Tutwiler and George E. Rossmiller, Resources for the Future

U.S. and European Community Agriculture: Changing Policies and Conflicts over Trade

Introduction

The papers included in this publication were first presented on February 4, 1987 during the annual meeting of the Southern Agricultural Economics Association. The topic of this symposium, organized by Mark Newman, was the agricultural conflict between the United States and the European Community (EC), in particular the dispute over enlargement of the Community to include Spain and Portugal. Shortly before the symposuim, U.S. and EC negotiators reached agreement concerning compensation for lost U.S. grain sales to Spain as a result of enlargement and managed to avert an all-out trade war. This exercise in diplomatic brinkmanship was the latest in an increasingly acrimonious conflict between these two important agricultural trading blocks. In recent months, new trade disputes between the EC and the United States have arisen. For example, the United States has recently filed a complaint over EC legislation barring imports of meat from animals treated with growth promoting hormones. At the same time, a new round of multilateral trade negotiations (MTN) has been launched. These negotiations provide both an opportunity and a challange to the United States, the EC and other nations in the world of increasing conflict over shrinking world agricultural markets.

The purpose of the symposium was to examine the intricate maneuverings associated with the enlargement conflict and explore some of the underlying forces behind these surface irritations. In the first paper, Mark Newman (Economic Research Service, USDA) privides a chronology detailing the origin of the conflict, the actions taken by both sides and the final resolution. He points out the costs which both sides would have faced if the potential trade war had not been averted. Newman concludes by noting that conflicts become more frequent in a world of general oversupply and that efforts to liberalize world agricultural trade imply significant changes in domestic policies.

Bruno Julien (EC Commission) provides a European perspective on the conflict. He traces the rising tensions between the United States and the EC suggesting that there has been a progressive hardening of attitudes on both sides of the Atlantic. Julien emphasizes the importance of internal conditions in shaping domestic agricultural policies. These domestic policies in turn determine the posture of a country with respect to international trade in food and agricultural products. Julien illustrates these notions by pointing to the differences between Europeans and Americans in terms of sociocultural and political factors that condition the feasible approaches to agricultural policy. He concludes by arguing that these practical issues must be taken into account in any effort to design a world trading system that overcomes the current problems and conflicts.

A U.S. perspective on the trade war is provided by Marilyn Moore (Office of the U.S. Trade Representative). Moore suggest that the more aggressive stance on agricultural trade recently adopted by the United States was a contributing factor in realizing the agreement on enlargement. She dicusses past and present areas of conflict between the United States and the EC and describes the U.S. procedures for decision-making on trade issues. Moore argues that the threat of a trade war will be present as long as countries retain domestic policies that encourage overproduction. She suggests that agricultural reform should be directed at "decoupling" income support from production, changing current agricultural programs into social programs. The current MTN is significant because domestic agricultural policies, as well as measures that directly influence trade, will be subject to negotiation.

In the final paper, Ann Tutwiler and George Rossmiller (National Center for Food and Agricultural Policy, Resources for the Future) highlight the costs of trade wars, noting that the resolution of the enlargement crisis reduced surface tensions but left the underlying causes of the conflict intact. Tutwiler and Rossmiller also note the problem of domestic agricultural policies. These policies, the product of internal political pressures, are at the root of the long term excess capacity plaguing agriculture in North America and Europe. Tutwiler and Rossmiller suggest that the current negotiations in the context of the General Agreement on Tariffs and Trade (GATT) constitute a convenient forum for achieving domestic and international policy reform. They argue that the United States and the EC should recognize the interdependant nature of world agricultural markets and work to develop cooperative, rather than confrontational, approaches to issues in international agricultural trade.

The authors of these papers all emphasize the importance of domestic conditions and policies in determining the approach to international agricultural trade adopted by a given country. The implication of this relationship is that trade conflicts cannot be resolved through dicussions limited to the more obvious border measures. In fact, the threat of agricultural trade wars will probably persist as long as countries are unwilling to modify the domestic policies that lead to overproduction. Another theme frequently evoked in the papers concerns the opportunity for reform provided by the new round of trade negotiations. As the authors note, nobody wins a trade war and it is to be hoped that the current MTN will result in creative approaches to policy reform and a consequent reduction in agricultural trade conflicts.

The papers presented at this symposium contain much useful information and a broad range of insights. Their presentation led to a lively discussion among the participants. It is hoped that publication of the papers will contribute to further dicussion of these important policy issues. It should be noted in closing that the opinions expressed in the papers are those of the authors themselves and do not necessarily reflect the positions of the organizations for which the authors work.

E. Wesley F. Peterson
College Station
September 28, 1987

UNITED STATE - EUROPEAN COMMUNITY TRADE CONFLICT: INTERESTS AND ISSUES[1]

Mark D. Newman

In proposing a symposium on the conflict between the United States (U.S.) and European Community (EC) over compensation for lost U.S. exports resulting from Spain and Portugal joining the EC, the organizers expected the topic to be timely. We didn't expect the conflict to be resolved only several days before these meetings, however. It may be useful to begin with a brief summary of recent developments.

What Happened?

On January 29, 1987, the European Community agreed that Spain will import 2 million metric tons of corn and 300,000 tons of sorghum annually from non-EC suppliers. The agreement is part of a package of compensation for decreased U.S. feedgrain exports resulting from Spain's accession to the Common Market. Negotiations under Article 24/6 of the General Agreement on Tariffs and Trade (GATT) led to the accord.

Terms call for the U.S. to share the quota with other exporters; and for the quota to decrease by amounts of increased Spanish imports of some nongrain feed ingredients: corn gluten feed, distillers dried grains and citrus pulp. Under the agreement, the EC also lifted a requirement that 15.5 percent of grain imports in Portugal come from the other 11 members of the EC. Tariffs on 26 other agricultural products and industrial goods that the U.S. exports to the EC were also reduced (see Table 1).

The EC agreed that the annual import levels will be met for the next four years, either through reduced levy quotas, or direct purchases. Under a

[1]Presentation at a symposuim on "U.S. - European Community 'Trade War': Changing Agricultural Policies and the Conflict over EC Enlargement" Annual Meeting of the Southern Agricultural Economices Association, Nashville, Tennessee, February 4, 1987. The views presented here are those of the author. They do not represent the official position of the United States Department of Agriculture.

reduced levy quota, European Community importers make bids on the amount of tariff reduction that they would be willing to accept in order to get them to import grain from the United States and other suppliers. The Spanish intervention agency or the EC Commission Cereals Management Committee then decides which, if any, of the bids it is willing to accept.

<u>What was all the fuss about?</u>

The end of January again saw escalating trade tensions between the United States and EC. The most recent round of confrontation has centered on impacts of enlarging the EC from 10 to 12 members in 1986. Spain and Portugal joined the EC at the beginning of 1986, and began a 7 to 10 year transition to the EC's Common Agricultural Policy (CAP) in March, 1986.

The U.S. and EC are both faced with costly agricultural support programs and demand that is expanding more slowly than supply. Spain and Portugal were markets for 10 percent of U.S. feedgrain exports and 11.6 percent of U.S. soybean exports in 1983. Adoption of CAP barriers to imports threatened these markets, and the U.S. wanted compensation from the European Community under the terms of Article 24/6 of the GATT. That article provides for injured countries to be compensated for increased tariff rates that result from enlargement of a customs union. It also specifies that due account is to be taken in the negotiations of compensation afforded by reducing other duties.

The U.S. targeted three impacts of enlargement in seeking compensation:

- o imposition of the variable levy in Spain;
- o a 15.5 percent quota for EC origin grain imported by the private trade in Portugal; and
- o a marketing limitation in Portugal, requiring reexport of oil produced from imported soybeans above a certain quota[2]

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[2]For more detailed discussion of enlargement terms for grains and oilseeds, see Reed E. Friend, Brooke Schwartz and Mark D. Newman. "Accession of Spain and Portugal to the European Community: Focus on Grains and Oilseeds." <u>Western Europe Situation and Outlook Report</u>. RS-86-4. Econ. Res. Serv. USDA. May, 1986..

Accession to the EC will result in other changes in agricultural and trade policies in Spain and Portugal that will affect U.S. exports. However, not all changes lead to a right to compensation under the GATT. For example, variable levies will also apply to grain imports by portugal, but Portuguese tariffs on grain were not bound under the GATT, so no compensation is provided for.

U.S. coarse grain exports to Spain fell to 1.7 million metric tons in FY1986, down from a FY1981-83 average of 3.7 million tons. Without levy reductions, U.S. feedgrain exports were expected to decline further, even though the 1986 Spanish grain harvest fell 30 percent as a result of drought. Imports of grain from France and the U.K., as will as sales of grain stored ty the Spanish intervention agency filled part of the shortfall. Nongrain feed ingredient imports also increased as a result of the combination of the variable levy on grains and the zero binding on EC tariffs on oilseeds and most nongrain feeds.

Chronology of the Conflict

When Spain and Portugal began the transition to the Cap in March, 1986, no provisions for compensation to the United States or other trading partners were announced. In April, 1986, the U.S. announced a set of retaliatory tariff reductions and import quotas that were to have taken effect on July 1, 1986 in the event that compensation was not agreed to (see Table 2). The EC responded with a list of U.S. products for which imports would be monitored, and a promise to mirror any actions that the U.S. took to limit EC exports to the U.S.

The July 1986 truce

Negotiations prior to a July 1, 1986 deadline led to a truce through December 31, 1986 and EC agreement to a reduced levy import quota of about 1.2 million metric tons of U.S. feedgrains during July - December, 1986. The size of the reduced levy quota was based on the difference between previous Spanish feedgrain imports and the amount of feedgrains and nongrain feeds that Spain was expected to import during July - December, 1986.

As the end of the truce period approached, grain imports under the levy reductions remained far below the reduced levy quota. The United States announced that in the absence of a satisfactory agreement by January 31, 1987, duties on selected hams, cheeses, vegetables, low cost white wines, brandies and gin were to have tariff rates raised to 200 percent. U.S. imports of products included in the list come largely from the European Community. The 1981-83 average value of these imports was $400 million, rising to almost $500 million in 1985 (see Table 3).

The 200 percent level was selected because the introduction of variable levies on feed grain imports to Spain represents an increase from tariff levels in Spain bound at 20 percent under the GATT to EC levies that were about 200 percent at the time of the decision. The value of products to be affected was based on the United States Trade Representative's extimate that imposition of the variable levy would lead to a $400 million annual loss in U.S. feedgrain exports to Spain.

The variable levy is an import tax that increases as the difference between world prices and internal EC prices increases. Thus, as the decline in the value of the dollar, lower loan rates and the Export Enhancement Program have let to lower world feedgrain prices, the levy has increased, keeping imported feedgrains from competing with higher priced European feedgrains. Within the EC-10, the levy on corn rose from 29 percent of the cif price in 1983/84 to its early 1987 level of about 200 percent.

U.S. Corn Gluten Feed and Rice as targets for EC retaliation

In keeping with plans announced in April 1986, the EC promised to counterretaliate for any prohibitive U.S. tariffs with the introduction of large tariffs on corn gluten feed and rice. The EC estimated that U.S. exports of corn gluten feed to the EC-12 were valued at $395 million and rice exports were valued at $7 million, making the values of affected trade nearly equivalent. USDA data indicate that corn gluten feed eports to the 12 EC members were valued at an average $477 million during 1981-83 and $433 million in 1985.

While some other nongrain feeds might have been substituted for corn gluten and exported to the EC, the establishment of a precedent for tariffs on imports of corn gluten could have had important implications for future U.S. exports to the EC. Tariffs on oilseeds and most other nongrain feed ingredients were bound at zero during an early round of GATT Multilateral Trade Negotiations (MTNs).

With talks for the new Uruguay round of MTNs to begin in February, 1987, the potential stakes in a protracted trade confrontation over enlargement were high for both the U.S. and the EC. The U.S. hopes to use the MTNs to limit use of exports subsidies by the EC. The EC is interested in discussing arrangements that would permit it to "harmonize" protection of its agriculture, trading some reduction in protection of grains for the opportunity to eliminate zero bindings on tariffs on oilseeds and nongrain feeds. Retaliation in the recent trade war skirmish would have started this process in motion.

<u>Measurement Issues</u>

For agricultural economists, contributing useful analysis to the policy process in often one objective in undertaking research. A number of studies are underway or have been conducted to estimate impacts of EC enlargement on the U.S. and other countries.

As a point in passing, it is useful to note that while a variety of approaches may be used to estimate enlargement impacts, the apparent standard in negotiating compensation under the GATT is to estimate losses in trade relative to a base period. Spanish corn import levels have been extremely volatile over the last decade, and the U.S. has seen substantial erosion in market share in recent years (see Table 4). Thus, the choice of base year or period becomes critical to estimation of losses. Furthermore, as accession to the EC has been discussed in the Iberian nations for a long time, some of the institutional adjustment to prepare for accession began prior to 1986. Treatment of effects of such adjustments in both economic and negotiating terms also make a difference when the basis for discussing compensation is being established.

Conclusions and Implications: Points for Discussion

The January 29, 1987 announcement of an agreement to end the confrontation over enlargement brought a sigh of relief from some. At the same time, producer groups on both sides of the Atlantic have expressed considerable dipleasure. U.S. producer groups have indicated that the level of compensation provided by the EC is not large enough, and that not all compensation was in terms of improved market access for feedgrains. Some EC observers and producers organizations have charged that EC negotiators "sold out" on the principle of a common market, by negating part of the preference for products produced within the 12 member Community (Le Monde, January 28, 1987).

The U.S. Trade Representative (USTR) has argued that as the first time that substantial compensation has been agreed to after an enlargement, the agreement is a step in the right direction. Given the cries of discontent echoing from both of the Atlantic's shores, the agreement may have been the best "deal" attainable.

The costs of a protracted trade war were potentially high for both the United States and the European Community. For the U.S., the threat of establishing a precendent if the EC retaliated by breaking the zero binding on corn gluten feed is important. Disruption of other agricultural trade with the

12 member EC, when it now accounts for about 25 percent of U.S. agricultural exports is also a major consideration. In addition, progress toward U.S. objectives of overall liberalization of world agricultural trade in the context of the MTNs requires that the parties be willing to sit down together.

For the EC, the U.S. has been a growing agricultural market, as well as an important supplier and competitor. Some producers groups in the EC-10, particularly in France, feel that improved access to the Spanish and Portuguese markets is the price they received for acceptance of Spanish and Portuguese entry into the Community, and with it costs of supporting Iberian agriculture and increased competition from the new entrants within previously protected EC markets. Thus, agreement to "give up" a part of the market to the U.S. is viewed as undesirable, even though EC market shares have historically been extremely small in Spain and Portugal. Apparently, the desire to maintain smooth commercial and other relations with the U.S. won out over these sentiments.

Finally, to understand more of the current trade conflict, it is necessary to look to some of the factors that contribute to a climate for confrontation. World grain markets are currently oversupplied, at least relative to effective demand. This has given rise to huge stocks and costly programs to support agricultural prices and incomes in both the U.S. and the EC. Many issues associated with adjustment of agricultural policies in light of developements in productivity, demand and farm structure are common to both regions.

While the MTN promises to provide an important forum for discussion of changes in agricultural and trade policies, many of the suggested adjustments to free up trade will require significant domestic policy reforms.

An important issue for discussion in the context of the recent trade conflict is "Where do agricultural economists come in?" In terms of estimating impacts of enlargement on trade and trading partners, a number of analyses have been conducted, and more are sure to come. Other useful contributions might be made in evaluating linkages among national policies and international impacts; as well as in identifying and evaluating domestic and trade policy alternatives for a second best world.

Table 1. Agreement for Compensation for Enlargement, January, 1987.

* EC will assure annual Spanish imports of:
  2 million metric tons of corn
  300,000 metric tons of sorghum

Imports from all non-EC suppliers by means of reduced levy quotas or direct purchases; increased distillers dried grain, corn gluten and citrus pulp imports count against quota.

* EC dropped requirement that 15.5 percent of Portugal's grain imports through private importers come from the EC-11

* EC reduced tariffs on 26 products:
  dried onions, avacado, vegetable seeds, roasted nuts, apple, grapefruit and cranberry juice, bourbon, cigars, plywood, some chemicals, aluminum sheets and silicon wafers

Table 2. Chronology of the "Trade War" over Enlargement

JANUARY 1, 1986 SPAIN AND PROTUGAL JOIN EC

MARCH 1 - TRANSITION TO CAP BEGINS

APRIL 1 - ANNOUNCEMENT OF U.S. RETALIATION

THREE TRADE IMPACTS OF ENLARGEMENT CONTESTED BY U.S.

* VARIABLE LEVY OF GRAINS IN SPAIN
* 15.5 PCT EC QUOTA ON GRAIN IMPORTS TO PORTUGAL
* MARKET LIMITATION ON OILSEEDS

ARTICLE 24/6 OF THE GATT - IN ENLARGING A CUSTOMS UNION IF TARIFF RATES ARE INCREASED, NEGOTIATIONS PROVIDED FOR ... DUE ACCOUNT TO BE TAKEN OF COMPENSATION AFFORDED BY REDUCING OTHER DUTIES

U.S. RETALIATION

* WITHDRAWAL OF GATT TARIFF BINDINGS
* INCREASE OF TARIFFS TO PRODUCE COMPARABLE TRADE LOSS IF NO COMPENSATION
* QUOTAS WITH EQUIVALENT RESTRICTIVE EFFECT

APRIL 9 * EC ANNOUNCEMENT OF COUNTER RETALIATION

MAY 16 * EC COUNCIL APPROVES SURVEILLANCE OF IMPORTS FROM UNITED STATES AND PROMISES TO MIRROR U.S. ACTIONS

U.S. EXPORTS TO EC SUBJECT TO RETALIATION

SOYBEAN MEAL, CORN GLUTEN FEED, WHEAT, RICE, ALMONDS SUNFLOWERSEED, HORSE MEAT, OFFALS, TALLOW, DRIED FRUIT, FRUIT JUICES, CANNED CORN, FRESH FOLIAGE, HONEY, BEER, WINE

JULY 1 * TRUCE UNTIL DECEMBER 31, 1986 DECLARED

* EC AGREES TO REDUCED LEVY IMPORTS IF SPAIN IMPORTS LESS THAN 1.4 MILLION METRIC TIONS OF FEED INGREDIENTS (CORN, SORGHUM, NONGRAIN FEED INGREDIENTS) JULY - DECEMBER
* AGREEMENT TO RESOLVE 24/6 NEGOTIATIONS BY END OF 1986

DECEMBER 1986

PORTUGAL HAD NOT PURCHASED 15.5% OF GRAINS FROM EC

* EC MINIMUM PURCHASE QUOTA WAS TO TAKE EFFECT IN JANUARY, 1987
* US RETALIATORY QUOTAS WERE TO FOLLOW

JANUARY 29, 1987 * AGREEMENT ANNOUNCED

Table 3. Imports from the EC on which U.S. threatened 200 percent duties

TSUSA NUMBER	DESCRIPTION	VALUE FROM EC-12 1985 ($ millions)	EC-12 SHARE US IMPORTS 1985 (percent)
107.3515	Hams and shoulder , < 3 lb.	21.3	86
117.00	Blue mold cheese in original loaves	9	100
117.05	Blue mold cheese nspf	1.4	100
117.25	Edam and Gouda cheese	13.5	96
117.8875	Soft Ripened Cheese nsfp > 25c/lb	37.7	99
136.1	Endive, including Witloof chicory	7	94
141.82	Carrots in airtight containers	2.8	90
148.42	Olives in brine, unripe, not green	4.2	93
167.3015	White wine, < $4/gallon	119.1	96
168.78	Brandy, nspf, > $13/gallon	195.5	99
169.07	Gin in containers < gallon	82.5	100
	TOTAL	494	

Source: compiled from White House Press release, USTR and FAS data

Table 4. Spanish corn imports and country market shares
(volume in MT)

	1981	1982	1983	1984	1985
EC	5,534	183	1,333	31,659	81,563
ARGENTINA	253,483	200,045	801,601	613,109	1,011,696
U.S.	4,548,316	4,677,652	3,100,891	1,905,257	2,608,268
TOTAL	4,829,592	5,430,945	4,455,212	2,712,036	3,857,830

Source: U.N. Trade Data

POLICY CONFLICT BETWEEN THE U.S. AND THE E.C.

Bruno Julien

Let me begin with a quote: "Agricultural programs have resulted in enormous budgetary costs, huge surpluses of farm products, major trade disputes with other countries and great harm to well-functioning international markets."

Does this sound like a criticism of the Common Agricultural Policy (CAP) of the EC? Could this be the comment of a European or American economist deploring the wastefulness and inefficiency of the CAP ? Certainly it could. However, in point of fact the citation above is taken from the 1987 Economic Report of the President of the United States and the criticisms are directed at U. S. agricultural policy not the CAP.

When I arrived in your country three years ago, there was only one villain on the agricultural scene, the European community. We Europeans were the scapegoat accused of being responsible for all the difficulties faced by world agriculture. I am now happy see that over the past few months there is a new mood. Some Americans realize that all agricultural policies of the developed countries have deficiencies which should be addressed in common and in cooperation. But we are still far from agreement.

In January 1987 there were news reports on hostages, deadlines, retaliation and feverish negotiations. Beirut? Of course not. Washington and Brussels. The hostages were food products, the emissaries De Clercq and Yeutter. The quarrel was over markets affected by enlargement of the EC. A major trade crisis was avoided at the last minute but it must be recognized that we are witnessing a progressive degradation of relations between the two super farm powers of the world. The agricultural issues dividing the U.S. and the EC, strong allies in most other matters of international import, seem to be increasing in number at an alarming rate. Some observers may feel that this is good, suggesting that a major crisis is needed to force countries to make the difficult agricultural policy adjustments that are necessary for solving current farm problems faced by all industrialized countries.

The agricultural trade conflict between the U.S. and the EC did not begin yesterday. Since the accession of the Reagan Administration in the early 1980's, the EC has been under heavy attack. It is quite clear that the U.S. administration wishes to impose its own conception of agricultural policy on European policy makers. Consider the different phases of recent U.S./EC trade conflicts.

1981/82: Official Administration statements attacking the basic principles and mechanisms of the CAP.

1982/83: GATT Panels; dicussions of export restitutions (wheat, flour, pasta, poultry); complaints about production subsidies (raisins, canned fruit); disputes over preferential tariffs on citrus from developing countries in North Africa and the Middle East.

1983: Aggressive U.S. export policy designed to diplace Europe from such traditional markets as the Egyptian markets for wheat flour and butter.

1983: EC/U.S. discussions on agricultural policies with the EC committed to maintaining its traditional share of the world market for wheat.

1984: The committee on trade and agriculture (Geneva) agrees on the approach to take in GATT concerning agricultural subsidies: Track one - export subsidies; Track two - all subsidies.

1985: A new U.S. farm bill is adopted including the Export Enhancement Program (EEP), Targeted Export Assistance (TEA) and export credits.

1986: GATT disputes between the EC and U.S. concerning citrus and pasta. Conflicts over EC enlargement and the Spanich feedgrain and oilseed markets.

1986: New round of GATT negotiations launched.

This chronology suggests that there is a progressive hardening of attitudes on both sides of the Atlantic and an increased tendency for the U.S. to file complaints with GATT against the EC while aggressively attempting to displace European food exports on world markets. This aggressive U.S. posture has developed as the U.S. farm sector has experienced declining sales, lower prices and increased farm financial stress. The roots of policy conflict between the U.S. and the EC are to be found in the internal conditions in both places.

On both sides of the Atlantic there have recently been some changes in farm policy. In the U.S., the 1985 farm bill includes provisions to lower support prices to levels more closely related to market conditions. In the EC, a reform process is under way and the CAP has already been modified by the introduction of supply controls (dairy quota, guarantee threshold) and somewhat lower support prices. Nevertheless, neither the U.S. nor the EC has modified the goals, the mechanisms or the basic tools of agricultural policy. These goals and mechanisms are rooted in the 1933 Agricultural Adjustment Act for the United States and the 1962 legislation creating the CAP for the European Community.

Even if both sides recognize that the surrounding economic environment has changed and that policy evolution is both necessary and inevitable, inertia and a reluctance to modify domestic policies slows the process of change. Each side asks why is should change given that the other side continues to pursue long standing objectives with its traditional policy tools. For example, European farmers ask why they should be forced to give up current EC support programs when direct payments to American farmers are, on the whole, greater than what they receive and in some cases have reached as much as $10 million. If the EC modifies its policies would the U.S. Congress agree to give up the GATT waiver and the related Section 22? U.S. farmers respond that EEP and other export subsidies are simply efforts to "level the playing field" in a world where European farm exports are encouraged by export restitutions.

But let us return to the current policy conflict. This conflict is only the latest in a long series of disputes dating back to the creation of the CAP. Many recall the "chicken war" and an "enlargement war" was only averted at the last minute. The next in line will probably be the "meat war" (Third Country Meat Directive) or the "hormone war." It should also be emphasized that agricultural policy is only one element of the confrontation. The role played by exchange rates, interest rates and macroeconomic policies in general has certainly been as important for agriculture in recent years as agricultural policy itself. All of these elements are included in the different approaches to agriculture adopted in the two regions. I believe that differences in the approach to agricultural policy are the counsequences or sociocultural differences between the U.S. and the EC. This thesis is illustrated in table 1.

Americans are characterized by a pioneering spirit. It should be recalled that many of today's Europeans are the descendant of those who did not elect to explore new worlds. Americans change jobs and residence much more readily than Europeans who prize stability and certainty even if that implies greater control by the state and less opportunity for individual success (or failure). Americans come from all parts of the world but there is a sense that, after passing through the "melting pot," these different peoples are part of one culture. The European Community is made up of twelve countries with different histories, cultures and languages. Imagine how difficult it would be for the U.S. Congress to pass legislation if it had to conduct all of its business in nine different languages.

Table 1: Some Differences Between the U.S. and EC

FIELD/COUNTRY	US	EC	
PEOPLE	PIONEERS	SEDENTARY	JOB MOBILITY STABILITY (PRICE, POLICY CHANGES) ROLE OF THE STATE CONSERVATION - ENVIRONMENT DYNAMISM
CULTURE	MELTING POT	DIFFERENCES	CONSENSUS
REGIME	NEW REGIME	HERITAGE OF THE PAST	CENTRALISATION INTERVENTION WARS (FOOD SECURITY)
COUNTRY	LARGE SPACES	SMALL COUNTRIES	STRUCTURES
POPULATION	URBAN	RURAL	WEIGHT OF THE FARM POPULATION IN POLITICS JOBS
ECONOMIC DEVELOPMENT	HIGH	MEDIUM	UNEMPLOYMENT NEW JOBS

History has much to do with the differing approaches to agriculture found in the two regions. The United States is a relatively new regime that is not burdened by the weight of history as is the case for European nations. Of particular importance in this regard is the long history of war and conflict in Europe, most notably the two world wars of this century. With this historical background it is not surprising that food security is extremely important for Europeans. Geography is also an important factor. With a population somewhat larger than that of the United States, the twelve countries making up the EC have a surface area equal to about 25% of the area of the United States. France, with the largest surface area of the twelve EC countries, is only about four fifths the size of Texas. With greater population density and a larger farm population, it is natural that EC farms are smaller and more fragmented than their American counterparts. Because the farm population makes up a greater proportion of the total population, rural interests have more political clout than in the United States. Finally, although Europe has made dramatic economic progress since the end of World War II, few new jobs are being created and there are limited urban opportunities for displaced farm workers. For all these reasons, the European approach to farm policy must differ from that of the United States.

Despite differences in European and American histories and attitudes toward farming. It may not be inevitable that the two regions engage in an all-out trade war. In Tokyo last year, there was agreement among Western leaders on the causes of the current farm crisis and the need to develop common solutions to the problems. Important modifications of European agricultural policy were undertaken three years ago and it will become clear that these initiatives are continuing when the European Commission publishes its price proposals and market management rules for the next campaign. Let us hope that we will continue progressively on this track in both the United States and the European Community. Our goal should be to reach an "orderly free trade policy" that takes into consideration the sociostructural and political realities of both of these important agricultural regions.

U.S. - EUROPEAN COMMUNITY "TRADE WAR": ONE U.S. PERSPECTIVE

Marilyn K. Moore
Office of the United States Trade Representative*

Mark Newman has already described for you the details of the settlement that we recently reached with the European Community in the dispute over the Spanish grains market. We are very satisfied with the settlement. Much of it was in corn and sorghum--the products that were adversely affected when the Spanish duty binding of 20 percent was replaced by the EC's variable levy. These products represented about 90 percent of the value of trade for which the U.S. had claims under GATT Article XXIV:6.

It is important to note that while the EC had an obligation to compensate us for the broken bindings, it had no obligation to do so in feed grains. However, the U.S. would not have accepted a settlement that did not contain a significant feed grain component. Thus, complaints by the feed grain industry representatives that the settlement offered too little in grains have little basis--the fact is that this is the best deal that we could get for them under the circumstances. Had we entered into a retaliation and counter-retaliation cycle, they would certainly have sold significantly less grain to Spain, and possibly nothing at all. And we would have suffered additional trade damage on other items.

This package also represents a milestone in that it is the first time that we have ever gotten anything close to full compensation for broken duty bindings resulting from the formation or enlargement of the European Community.

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*The views stated in this paper represent those of the author and in no way should be regarded as official statements of the Office of the United States Representative.

While many are breathing a sigh of relief that our dispute in Spain is at an end, let me remind you that this does no conclude all the agricultural issues that have arisen as a result of the Community's enlargement. When we first began to examine the potential enlargement problems a year ago, there were three major areas of dispute: the Spanish feed grain bindings, which we have jsut settled; a requirement that Portugal buy at least 15 percent of its grain imports from other members of the EC; and a new quota on comsuption of soybean oil in Portugal. The 15 percent grain import requirement in Portugal was dropped as a part of the Spanish settlement. However, the--in the U.S. view--GATT-illegal quota on soybean oil consumption in Portugal remains.

Last spring, we asked the EC to remove this new quota, but were told that they could not since it was a part of the accession treaty. However, the EC did commit--at least for 1986--to keep the quota at such a high level as to be non-restrictive. In response, the U.S. implemented "mirror" quotas on a group of products imported from the EC. We pledged to deep our own quotas non-restrictive so long as the Portuguese soybean oil consumption quota was maintained at a non-restrictive level.

We are still trying to determine whether the EC kept its pledge in 1986. It appears that the Portuguese oil consumption quota may have been very slightly restrictive. Based on this information, and on consumption and import data for the early months of 1987, we will have to decide whether the oil consumption quota level set for 1987--65,000 MT, or 5,000 MT above the annualized 1986 figure--is sufficient to be nonrestrictive. If it is not, we will ask the EC to raise it to an acceptable level. Otherwise, we will have to decrease the level of our "mirror" quotas.

In addition, another issue has surfaced in the context of enlargement: a tax on the consumtion of soybean oil in spain, which was implemented beginning in November 1986. We view this as another infringement of our zero duty binding on soybeans--recently extended to Spain as a part of our settlement under Article XXIV:6. We are still considering what action might be taken in this case.

<u>Aggressive Nature of U.S. Trade Policy</u>

One reason for the success of the U.S. effort in the recent negotiations is more aggressive stance taken on trade issues. There appear to be a number of reasons for this more aggressive stance:

- The generally poor world market situation for agricultural products. In earlier times, it might have been easier to ignore some trade damage if the market was strong and there were plenty of other destinations for displaced products. Today it is very difficult to find alternative markets, even with relatively low world prices.

- The U.S. is running a huge trade deficit. This is another factor that makes any trade loss--especially one worth hundreds of millions of dollars--a matter of great concern. Coincidentally, this deficit also provides a powerful "club" in a trade dispute, since a "trade war" would cost others more than it would cost the U.S. in terms of lost exports.

- There is less foreign policy influence on trade matters. Whereas in the past the U.S. might have been reluctant to make an issue of a dispute with an ally, these concerns are less apparent now. And even where such concerns perist, they are often overridden by the economics of the situation.

- It is evident that the rules and procedures of the GATT are not working satisfactorily. The GATT rules on agriculture are inadequate at best. Even when the rules apply, they are so vague that a dispute settlement panel often has difficulty reaching a conclusion. The entire process may take years--in the meantime, trade is being lost. Finally, after all this, a panel report can be blocked by a single country--usually the one on the losing end of a decision. As a result, the U.S. is less likely to pursue GATT dispute settlement, and more likely to take direct action under our own trade laws.

- Last, but not least, is the fact that the U.S. Trade Representative is Clayton Yeutter, who has spent much of his career in agriculture, and has a personal interest in agricultural issues.

Decision-Making on Agricultural Trade Issues

Let me turn now to the mechanics of decision-making on trade issues as it is currently done. A trade issue may surface from many directions, often taking the form of complaints from the affected industry. We may also receive information via cable traffic or telephone from our people in the embassies. In agriculture, it is usually USDA or the agricultural group at USTR that brings the issue to the attention of the interagency group.

USDA and USTR will work with the industry to develop as much information as possible about the issue, including likely effects on our trade and our legal position under the GATT and under domestic trade legislation. this information is then discussed at the Trade Policy Staff Committee (or a TPSC subgroup, if appropriate). The TPSC is made up of upper-level staff representatives from all interested agencies, with the most active participants usually being USTR, USDA, State, Treasury Commerce, OMB and the Council of Economic Advisors. This group examines the information developed and identifies areas where further work is necessary. When the issue has been fully explored, the TPSC tries to develop a consensus recommendation for consideration by the Trade Policy Review Group. this is not always possible, and the TPSC will often send forward a set of options for dealing with the situation.

Most of the actual decision-making is done by the Trade Policy Review Group, or TPRG. This interagency body consists of subcabinet level officials. On agricultural questions, Under Secretary Amstutz generally represents USDA, and the TPRG is chaired by one of the Deputy U.S. Trade Representatives--Alan Woods or Mike Smith. Almost all disagreements among agencies are resolved at this level, and often actions are decided. In cases where an issue still cannot be resolved, or when a decision is particulary sensitive, the issue is forwarded to the Economic Policy Council, which is made up of Cabinet-level officials. A very few issues may end up on the desk of the President.

Throughout the process, the government relies on the private sector for information and advice. Often those in the trade have a better feel for the likely effects of the particular action than do government officials, and they often have more current information.

We also rely on existing research to help in the analysis of trade issues, but rarely have time to wait for new research projects to be initiated. There is a practical need for some simple information not generally available, such as import elasticity estimates for products grouped by TSUSA category. This type of information is extremely important in trying to estimate and match trade damage, for instance. In the absence of such information, we must rely on "back of the envelope" calculations.

Outstanding Issues With the EC and the Likelihood of Further "Trade War"

As I noted earlier, we have not yet settled all the outstanding issues resulting from the enlargement of the European Community; we must still resolve the Portuguese quota on soybean oil consumtion and the Spanish soybean oil comsumption tax. In addition, we have a whole laundry list of non-enlargement issues with the EC on agricultural products.

- The EC Commission is once again considering the implementation of an EC-wide vegetable oil tax. We would consider this a very serious impairment of the zero duty binding that the EC has on soybean imports. Our soybean sales to the Community average between $2 billion and $3 billion annually.

- A related issue is the EC's domestic subsidies for oilseed production and processing. These subsidies indirectly impair the zero binding on soybeans by encouraging the substitution of domestic production for imported soybeans.

- The agreement that ended the citrus-pasta dispute last August, after 16 years, has still not been resolved in detail. The text approved by the EC differed in some important ways from that approved by the U.S. As a result, the entire agreement may possibly fall through.

- Even if this agreement is somehow worked out, the handling of the EC's pasta subsidies themselves remain unresolved. Although there is a mutual commitment to find a solution by next summer, to date there has been little progress.

o There are two serious barriers that are being erected against meat imports into the EC: The third-country meat directive, and a ban on any meat product that has been produced with the use of hormones. The third-country meat directive essentially says that meat from foreign sources must be butchered and handled in a manner prescribed by the EC--even if the current practice in the foreign country is safe and healthful by scientific standards. (In fact, many of the meat production facilities in the EC do not meet the standards.) With regard to the hormone ban, even EC official admit that the action is political rather than health-based.

Thus, it appears that the likelihood of a recurrent "trade war" threat is very high and will remain so as long as the EC's policies--and those of other countries, including the U.S.--encourage overproduction in agriculture.

Need for Long-Term Reform of Agricultural Policies

There is growing recognition in the international community that most agricultural trade problems are the rusult of domestic policies. Another way of looking at this is that we would not have trade programs and policies--such as the export enhancement program in the U.S. and export restitutions in the EC--if our domestic policies did not lead us to produce a surplus that cannot be absorbed by the market at the prices that we are trying to protect.

Even countries that import significant amounts of agricultural products, such as Japan, are not exempt from this general indictment. Highly protectionist border policies result in internal prices many times the level of world markets, and in much higher production and much lower levels of import than would otherwise be the case.

The result of these policies is the significant overcommitment of resources to agriculture, at the expense of the rest of society. In the case of the United States, the expense of such policies shows up largely in the federal budget. In the European Community, there are very large budget costs, but consumer costs are high as well. In Japan, it is the consumer that foots the largest portion of the cost. These costs have provided the impetus for the serious consideration of agricultural policy reform.

Countries are beginning to realize that some of the goals that they have tried to achieve through agricultural policy instruments would be more efficiently accomplished through more direct means. For instance, many agricultural policy goals can be summarized under the heading of social policy. These include preserving the "family farm", providing farm families with sufficient income, helping disadvantaged farmers to stay on the farm, and preserving the fabric of the rural community. However, the instruments that are used to accomplish these goals have been extremely inefficient and of debatable effectiveness.

Most support programs are generally available without regard to need, and most are tied to production. This means that those who do not need help receive windfall benefits and that the largest producers receive the greatest amount of aid. Producers are encouraged to increase output so as to qualify for even greater benefits. At the same time, those who really do require the assistance may not receive sufficient amounts to maintain the family. The lesson that we learn here is that income support should be provided by direct payments, predicated upon a means test, and not linked with production. Social problems should be solved with social programs, not with agricultural programs.

Such an approach also addresses two other concerns of importance to some countries: protecting the environment and maintaining agricultural employment. If environmental preservation is important, then society should be willing to make direct payments to those who are providing this service. And direct "decoupled" payments would preserve those working in agriculture with the least distortion to market signals. It is worth noting, however, that some believe that urban unemployment itself may at least partially be the result of excessive resources devoted to agricultural programs, and that if such programs were reformed, new employment opportunities in urban areas would more than offset lost opportunities in agriculture.

The most frequent objection to the reform of agricultural policies is that of food security. Both the EC and Japan have used this as an argument for encouraging agricultural production in the past. However, it is worh noting that this "food security" is often dependent on the import of significant amounts of agricultural inputs, such as petroleum. Thus, such arguments may have emotional appeal but are not necessarily logical. The debate about agricultural policies and their effects on trade has been facilitated by work taking place in the Organization for Economic Cooperation and Development (OECD). For the past four years, the OECD has been developing an inventory of agricultural support policies and quantifying them so as to be able to assess and compare the degree of protection provided to various products in various countries. This information has been used in a trade model to demonstrate that multilateral reductions in levels of protection result in increases in world prices, thus ameliorating part of the impact on producers. This work is continuing, and we expect that it will play an important role in the upcoming round of multilateral trade negotiations.

Multilateral Trade Negotiations

The growing recognition of the need for long-term agricultural policy reform has made agriculture a very important part of the Uruguay Round of multilateral trade negotiations, which was launched last September. The members of the GATT agreed to negotiate all direct and indirect measures that affect trade. This is significant becasue it will for the first time make domestic policies, as well as border measures, the subject of negotiation.

On January 29, agreement was reached on a negotiating plan for agriculture. This negotiating plan envisions a first phase in which the problems and framework of the negotiations will be laid out, and a second phase of actual negotiations. Because of the extensive ground work already done in the GATT, OECD and elsewhere, we see no reason that the first phase cannot be completed in 1987. We hope that we will be able to begin negotiations in early 1988 with an eye to a rapid conclusion. In any event, the negotiontons will conclude in no longer than four years.

By the standard of past negotiations, this is a very rapid time schedule. However, the state of affairs in agricultural trade is so poor that prompt action is essential. In any event, even if a timely agreement is reached, the implementation of the reforms is likely to be phased in over a period that may last as long as ten years.

Because of the serious nature of the problems in agriculture, it is possible that it may be necessary to take some short-term "interim" measures while we are phasing in the long-term reforms. Such measures should complement the long-term reforms and ideally should reflect less rather than more market interference. These short-term measures would attack the symptoms resulting from excessive production incentives rather than the production incentives themselves. Such measures might include production controls, limits on export subsidies, or stocks disposal schemes. However, it is important to note that short-term measures should be taken only in the context of a commitment ot long-term reform. To do otherwise would only delay the inevitable.

THE REAL CHICKEN WAR: THE UNITED STATES VERSUS THE EUROPEAN COMMUNITY

M. Ann Tutwiler and George E. Rossmiller

In the opening scenes of the move "Rebel Without A Cause," James Dean is challanged by a gang of punks at his new school to a high stakes game of chicken. To be respected, he must race his car against one of the punks' cars towards a cliff. The first to bail out of his car before it plunges over the cliff loses. All the spectators expect that both boys will bail out in time, but the punk's sleeve gets caught on the door handle and he is trapped as his car crashes over the cliff and into the ocean.

Since the early 1960s, the United States and the European Community have been playing chicken over agriculture-- the one or the other threatening sanctions and retaliation. For the most part, both have been able to bail out before going over the cliff into a trade war. But with the recent arguments over the accession of Spain and Portugal into the Community, the two came closer than ever to catching their sleeves on the door handle and plunging over.

While the dispute over Community enlargement and feedgrain imports appears to be settled, there are more conflicts on the horizon. Before either side is tempted into acceleration towards that cliff, it might be useful to remind the contenders of the stakes. First, there is the size of the trade flowing between the two countries. Over $5 billion, or almost one-fifth of U.S. agricultural exports wind up in the European Community. The Community takes over one third of U.S. oilseed, soybean and soybean meal exports, and over 90

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percent of corn gluten feed and other corn by-product exports. The Community also takes about 20 percent of U.S. nonagricultural exports. EC agricultural exports to the United States in 1984 and 1985 totaled $3.5 billion, and the EC's nonagricultural exports totaled $56 billion. (Foreign Agricultural Trade Statistics of the Untied States, 1985 Calendar Year Supplement.) With world trade in a slump, neither the United States nor the European Community can afford to lose even part of these markets.

Second, a trade war would be costly for both sides, although more so for the United States than for the Community. If general direct export subsidies are the chosen weapon, the United States would have to outspend the EC by at least three to one--roughly the amount by which U.S. grain exports exceed EC grain exports--in order to fight EC subsidies. And, if the European response to the 1985 Farm Bill is any indication, Europeans will most likely meet subsidized U.S. prices ECU for dollar. With both the Europeans and the Americans experiencing budgetary pressures, neither can afford to pour money down the subsidy rat hole. But, if the issue becomes one of honor or principle, monies will be found on both sides of the Atlantic--budget constraints aside.

Third, both sides have a stake in a successful GATT negotiation--again the United States more so than the Europeans. Trade disputes threaten to spoil what appears to be the best environment in recent GATT negotiations for significant trade reform. Should the Cairns group (a group of "free trade" countries including Canada, New Zealand and Australia) succeed in keeping domestic policies on the table, both the U.S. and the EC may find it to their advantage, vis-a-vis each other, to continue talking. Further, both the U.S. and the EC want more market access in developing countries for agricultural as well as industrial products. Their bargaining chip might well be some measure of domestic agricultural policy reform.

Fourth, there is the spillover effect a U.S.-EC trade war would have on the rest of the world. According to a recent working paper by Tim Josling and Stefan Tangermann, together, the United States and the Community account for 60 percent of dry milk exports. The two account for 30 percent of cheese trade, 24 percent of meat trade, and 40 percent of soybean trade. More importantly, the U.S. and the EC account for one fifth of world agricultural output. With trade and output shares of this magnitude any significant price or policy changes by these two governments will have profound effects on world trade.

A trade war would depress commodity prices as both sides used subsidies and stocks in an effort to regain markets. An analysis by the Economic Research Service showed that, in the first year, each dollar per ton subsidy on U.S. wheat exports would depress world prices 67 cents per ton (Internal IED/ERS/USDA analysis of U.S. and EC Export Subsidies: Domestic and Trade Policy Implications). While lower prices, in the short term, would benefit importing countries and increase the volume of trade (although by less than the decline in prices), in the longer term, artificially lower prices will dampen production in these countries and keep them dependent on the international market. In addition, artificially lower prices will hurt some important exporters. Debtor countries like Brazil and Argentina (and increasingly Australia) that rely on agricultural exports to repay their debts to U.S. and European banks will be further stretched and encouraged to renege on their obligations. Other exporting allies, such as Canada, Australia, Thailand, the Philippines, and Indonesia will see their export earnings plummet. The richer developed countries will likely retaliate; the poorer developing countries will learn to live on less.

As retaliation pushes commodity prices down further and export dependent countries become poorer, there would be fewer pesos and rupiahs to buy U.S. and European products. The volume of world trade, in both agricultural and industrial products, would decline. As the historians among us might recall, the last time countries pursued such beggar-thy-neighbor policies was in the interwar period of the 1920s and 1930s.

While optimists might dismiss such comparisons as the predictions of Cassandra, it would be well to remember that the global economy is none too robust. The recent sharp fall in the dollar is putting pressure on the economies of Germany and Japan, two of the world's largest exporters and most powerful economies. The cheaper dollar may lower their exports to the United States but may leave them too weak to increase their imports from the United States. While the dollar's decline will mean lower debt repayments for debtor nations, a cheaper dollar will also lower their potential exports to the United States. In addition, a cheaper dollar will also make it more difficult for the U.S. Treasury to attract the dollars it needs to finance the U.S. budget deficit, making it necessary to either raise interest rates of print money--or both--leading to recession, inflation or both. And, though the dollar depreciation may begin to turn the U.S. trade deficit around, it may not forestall protectionists in time.

The compromise over Spain and Portugal's accession removes, for the moment the threat of tariffs and the prospect of a replay of 1930 or even 1981. However, the frictions between the United States and the Europeans have not disappeared. The potential for trade disputes remains in agriculture, as well as industrial products. So, it is important to remember the larger implications of moving towards that cliff, and to remember that even a small chance of an infinitely bad event leaves policy-makers facing an unacceptable risk.

Aside from being costly, a trade war would not solve the underlying problems that confront the United States and the European Community. The United States and the Community have different goals and use different tools to provide support to their agricultural sectors. The Community espouses a role for the government in agriculture, while the United States espouses a larger role for market forces. In reality, both countries intervene heavily in their agricultural sectors, only each perceives the other sort of intervention to be "more bad."

For example, the United States sees the 1985 Farm bill as an effort to move the farm sector back to the market; the EC sees it as a declaration of war. In a piece for the European Confederation of Agriculture, we estimated the cost to the EC of the 1985 farm bill. Before the recent decline in the dollar, we predicted wheat export restitutions would increase from about 500 million ECU in 1986/87 to about 1.7 billion ECU by 1988/89. Export restitutions on coarse grains (barley) would rise from 250 million ECU to 350 million ECU over the same time frame. And, since most commodities are priced in dollars, the recent fall in the dollar will further increase export restitutions--by an estimated $100 million for every percent depreciation of the dollar against the ECU (Curry, David M. "Farm Trade: A European View." Europe. April, 1986). The Community also views, with hostility, the new export incentives and subsidies added to the 1985 bill.

For its part, the United States accuses the EC of stealing markets by encouraging overproduction and then exporting that excess, whatever the price. It views the Community as an irresponsible trader, forcing domestic adjustments onto the world market. The United States sees efforts by the Community to reform the CAP--freezing prices, instituting quotas--as feeble.

Both the United States and the Community perceptions are true to an extent, but neither side is going to change its policies solely because of outside perceptions or pressures, including a trade war. In both countries the formulation of farm policy is high politicezed, with vocal interest groups demanding support and protection for farmers. In both countries historically, support for farmers has been something of a gospel. In both countries there appears to be no budget constraint when foreign "threats" are at issue.

However, both countries face similar problem with their agricultural policies and have a stake in finding alternatives to current policies. High producer and consumer prices in the Community and high target prices in the United States have encouraged over-production, which depresses prices and increases storage costs. While the United States attempts to dampen surplus production with mandatory set-asides and acreage reductions, U.S. grain stocks are equivalent to about two years of total world trade. The Europe Community's beef stocks represent about 30 percent of world trade. Sugar stocks have risen 45 percent since 1980 and prices are 86 percent below their 1980 levels. Butter stocks have reached 1.7 metric tons (Miller, Geoff. The Political Economy of International Agricultural Policy Reform. Australian Government Publishing Service: Canberra. 1986).

Both countries' agricultural budgets are coming under increasing pressure. In the Community, the direct subsidy cost of the CAP totals about $23 billion, twice as much as five years ago. The CAP costs non-farm family households in Europe--through taxes and higher food costs--$900 each annually. For the past three years, expenditures have threatened to exceed resources and the community has been forced to impose production quotas, once an anathema, and value added tax (VAT) increases to contain costs. In the United States, the 1985 farm bill is conservatively expected to cost $30 billion its first year, or nearly ten times the annual cost in 1980. This $30 billion represents about 15 percent of the total national budget deficit. The U.S. agricultural policy costs non-farm family households--through higher taxes--$700 each. (Geoff Miller, op. cit.) With the Gramm-Rudman-Hollings targets looming, revisions to the farm bill focus on reducing the costs of the farm program.

Both the Community and the United States face shrinking markets for their products. U.S. exports have fallen from $44 billion in 1980/81 to just over $26 billion this past year. Over that same period the Community, under the protective cover of high U.S. loan rates and a high dollar, has been able to expand its maket share and export volumes. But, that party is over with lower U.S. prices, targeted export subsidies and the depreciating dollar. The playing field is more level, and both must face the fact that there is too much food and too few customers. More importantly, both must face the fact that the problem is not just one of short term surpluses, but one of longer term excess capacity.

Farmers in both the United States and the Community are troubled. In both countries land prices are dropping. In the United States, without government payments, agricultural income would have declined. About a fifth of U.S. farmers have heavy debts. In Europe, farm income has been encreasingly unstable and uneven across regions. Despite large and increasing budget costs, neither the U.S. nor the EC's farm policies are achieving their stated goals: promoting an equitable level of living among the nations' farmers.

The time is ripe for both the U.S. and the EC to devise new agricultural programs, and so much the better if revisions take place simultaneously along complementary lines. For if we can devise policies which serve both the United States' and the European Community's domestic objective without wreaking havoc between them, the world trading system will be better off.

There are several avenues the U.S. and the EC should explore together and separately to achieve reform.

First, the upcoming GATT negotiations privide a convenient excuse for the United States and the European Community to come to a truce, and to begin serious discussions about how each country can achieve its domestic objectives without jeopardizing international relations. Such conversations, which must be bilateral, frank and above all creative, might better take place under the

GATT umbrella but outside of the GATT proper. The common task in the GATT is to agree, multilaterally, on workable trade rules, not to promote changes in domestic policies, per se. Further, outside the GATT, issues are less politicized and less publicized. Agreements should be easier to reach because there are fewer parties to satisfy.

Initial discussions might fruitfully take place in a nonpoliticized atmosphere where agricultural policy makers and experts can openly discuss creative economic and political solutions to the United States' and the Community's joint problems. We at the National Center for Food and Agricultural Policy have proposed establishing such a forum: the International Policy Council on Trade and Agriculture. While the Policy Council would include policy makers and interested parties from other countries, certainly the resolution of U.S.-EC trade disputes would be a major objective.

In this and other fora, the U.S. and EC should explore the possibility of simultaneous, complementary adjustments in policies. As pointed out earlier, both countries are beset by similar policy problems. It is to their individual advantage to reform their agricultural policies, but to do so unilaterally could be costly. Such simultaneous adjustment could speed reform, as well as help defuse the debate, both within and between our respective countries.

Second, the U.S. and the EC should work to take the GATT seriously. The GATT negotiators have agreed on the rules for agriculture. The agenda is still broad, including all measures affecting directly of indirectly agricultural trade. Agriculture has been moved off the fast track: there is no set timetable for the negotiations. While this may disappoint the United States, it is likely that attempting a speedy resolution of agricultural trade issues would have failed in the current charged atmosphere.

Third, the European Community and the United States should learn to play trans-Atlantic politics. In neither geographic region are decisions made by one agency, on commodity group or, in the EC, one country. For example, while the compromise on enlargement is billed as a victory for the United States, in reality, it is a victory for U.S. corn farmers. Wheat farmers stand to lose as the Community is forced to export more wheat in order to accomodate U.S. corn. This EC wheat will then compete with U.S. wheat. Had the Community played U.S. commodity groups against each other, an EC official might not have had to admit to the press that the United States always bullies the EC into submission. Similarly, the United States should learn to play the countries within the EC off against each other, and to help create coalitions of those countries desiring particular reforms. The U.S. should also learn that pursuing a hard line through what some have referred to as "megaphone diplomacy" only serves to coalesce the Community's warmongers and undermine the Community's reformers.

Fourth, because of the politics of decision making in both the United States and the Community, controversies tend to focus on a single issue or commodity. The recent debate over enlargement is a case in point. The issue came to be corn, although U.S. wheat farmers stood to lose from higher EC corn imports and U.S. industrialists stood to gain from a wealthier Spain and Portugal, Community preference notwithstanding. While interagency and intercountry politics complicate a holistic approach, both sides would find more room to maneuveur if they allowed themselves more possible trade-offs.

Finally, both the United States and the European Community could benefit by not rejecting seemingly preposterous proposals out of hand, without first considering what the other side might be willing to trade and what the world is likely to look like 10 years hence. For example, several years ago the Community offered to freeze self-sufficiency in grains at 86 percent. At the time the United States thought 86 percent self-sufficiency too high and rejected the proposal. Now, the EC's self-sufficiency level is approaching 120 percent. Another time, the Community also offered to freeze the level of support at what seemed then an outrageous level to the United States, but now would seem quite reasonable. Currently, the EC would like to unbind the zero tariff on soybeans, an idea unthinkable to the United States. However, the United States should ask what the EC would be willing to give for unbinding the tariff. And, the United States should ask itself what will happen to U.S. soybean exports as the Community continues to expand rapeseed and sunflower acreage.

It is to both the United States' and the Community's advantage to approach the coming years in a spirit of cooperation, not confrontation. Fighting over individual issues will not resolve the underlying crisis within U.S. and EC agriculture nor the underlying causes of the disputes between the two. and fights within agriculture could well spill over into industrial and possibly strategic issues. Both sides should focus on the possibilities for reform that arise out of what appear to be contentious issues: budget pressures, enlargement, debt problems, oversupply. Continued trans-Atlantic games of chicken will only bring us closer to a time when one country's honor is at stake and it is forced to go over the edge.