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AGRICULTURAL TRADE UNITED STATES-EUROPEAN COMMUNITY

Michael Deckwitz

The United States and the European Community (EC) are allies and major trading partners, but they are also major competitors in international agricultural markets. Agriculture accounts for a larger share of employment and national income in the EC than in the USA. Income in agriculture has declined and become more variable than income in the general economy on both sides of the Atlantic.

CONTRASTS IN U.S. AND EC AGRICULTURE AND POLICY

USA farms are larger and fewer than EC-farms, averaging 438 acres, while the average EC-farm is only 42 acres. Enlargement of the EC to twelve countries raised the number of farms to almost 10 million. This compares with about 2.2 million USA farms.

Dairy products, livestock and poultry products and grain account for the bulk of EC-agricultural production. Fruits and vegetables, and oilseeds are becoming more important. While oilseed production remains small relative to use, internal support prices have led to a fourfold increase in production in the last decade. Coarse grains make up a larger share of USA grain production, while wheat is more important in the EC. The EC is regarded as a major importer of grain, but in the case of wheat it is also regarded as a major exporter on world markets.

The EC is a custom union, and most of its trade is within the Community. Almost 40 percent (\$45 billion) is traded across national borders within the EC. The EC has shifted from a net-importer of most agricultural products to a net-exporter since the early 1960s. Transition has been gradual, beginning with wheat in 1974 and coarse grain in 1984. In the late 1980s the USA and EC are the world's largest agricultural exporters. The value of EC and USA agricultural exports has tended to move in tandem over the past 15 years in the range of \$28 billion in 1987.

The EC is a major USA-competitor and is also U.S.'s most important agricultural export market. The EC-12 purchases about one fourth of all USA-agricultural exports. On the other hand EC provides one fifth of USA agricultural imports. Looking at industrial countries, the top twenty markets for USA exports include nine EC countries. Despite declines, the EC

remains a very important market for oilseed and oilseed products, grain and feed, livestock-products and others.

Governments have become big players in the market place especially through subsidization of produce exports in the EC and the USA. Government program costs have skyrocketed, reaching almost \$26 billion in the USA and about \$23 billion in the EC in 1986. Due to higher internal prices, EC-consumers have been paying more to support agriculture than have USA consumers.

Both, the USA and the EC, have been finding ways to dispose of stocks in order to reduce storage costs. The USA has used Export Enhancement, payment-in-kind-certificates and reduced sales price on international markets. The EC uses export refunds. USA farm policies provide price and income support to grain (including rice), cotton, milk, sugar and to a limited extent to soybean producers. Primary mechanisms are non-recourse loans, deficiency payments and production input control measures, such as set aside and paid land diversion.

The EC-Common Agricultural Policy (CAP), which provides support to an even broader array of agricultural products, is based on three basic principles, 1) creation of a single community market, 2) internal preference for community products, and 3) common financing of policy costs. The basic mechanism used in the EC-commodity regimes involves high internal prices, maintained through variable levies. These increase as world prices fall relative to internal EC-prices, and permit disposal of surpluses at world prices, while producer prices remain high. The CAP was instituted by the EC to increase food production and decrease dependence on imports. By the mechanisms of the CAP, in particular by high internal prices -- the EC has become more than self-sufficient in grain, dairy products, beef and sugar.

CONSEQUENCES OF PREVAILING POLICIES

Facing tremendous problems of distorted world markets, subsidized exports, government stocks and skyrocketing budgets, governments face a big "window of opportunity" in 1988-89 for agricultural policy reform and liberalization of international trade. General Agreement of Tariffs and Trades

negotiations provide an unique opportunity to open markets and reduce subsidy levels. Since there are no real "free traders" - as international analysis shows - everybody around the table in Geneva is requested to contribute seriously.

Can it be done? GATT has existed for forty years. During that period the trade in industrial products has been largely liberalized, but agricultural protectionism has greatly increased.

From the beginning of GATT's existence, agriculture has held an exceptional position. Article XVI allows agriculture to subsidize exports. Under article XI the quantitative restriction of imports is possible. Industry never had these options. Moreover, in the practice of trading, other instruments have been developed which have greatly restricted trade such as "voluntary" export restraint agreements, minimum import regulations, variable levies, restitutions, etcetera.

Again, does the Uruguay Round stand a real chance of realizing a breakthrough in the liberalization of agricultural trade? I am convinced that it is possible. Never before has the political will been so clear.

With regard to the long-term solution, the American proposals are the most drastic including full market access, from farm income support decoupled from production and market incentives on the other. All other subsidies would be phased out over a period of 10 years.

The European Community proposal is less drastic. The EC negotiators propose to maintain the two price system and can therefore not accept the complete decoupling of markets. Improved access to the EC-market, however, is offered. Furthermore, the Community negotiating plan includes the idea of decoupling income support from the market and price policy. Finally, the EC wishes to negotiate a considerable reduction in commodity price support levels.

SUMMARY AND IMPLICATIONS

In summary, exporting countries such as the United States and the countries of the Cairns Group propose to completely integrate agriculture in GATT. In other words, these countries propose to completely eliminate the exceptions which under articles XI and XVI have been created for agriculture concerning quantitative import restrictions and export subsidies.

The EC proposals are less drastic in this respect and leave open the extent to which the Community wishes to integrate agriculture into GATT. It shows the dilemma of the EC, being both an importer and an exporter. Finally, there are Japan and the Nordic countries whose export of agricultural products is negligible and which therefore do not object to more drastic disciplines in the field of export subsidies. With regard to imports, however, these countries wish to fully control them.

They are prepared to restrain domestic production in favor of higher level of imports.

In this delicate stage of negotiations, the countries most involved should not introduce measures which create potential for more protection. Should this happen, the climate for negotiations will severely deteriorate.

The USA and the EEC must realize that the negotiations can only succeed when they are willing to create a favorable climate. Rather than to look back on the past, it is more important to look toward the future. The present predicament of agriculture can only be resolved with less restricted access to markets. Competition will be possible again when trade barriers are eliminated. I am convinced that we can succeed. The political will is there.

Michael Deckwitz is Agricultural Attache in the Embassy of the Federal Republic of Germany, Washington, DC.