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*Issues for the 1990's: TRADE*

## EC Agricultural Policy Reform

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**Issue.** The European Community (EC) has adopted a significant reform of its Common Agricultural Policy (CAP) that could help the EC meet commitments called for in the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT). The reform was spurred by the growth of EC expenditures for agriculture, continued surplus production, and the ongoing agriculture negotiations under the GATT (see chart). Changes in EC agriculture, brought about by CAP reform, could lead to lessening of tensions in the U.S.-EC agricultural trade relationship.

**Context.** Previous CAP policies increased agricultural output, changing the EC from a net importer to a net exporter of many major commodities. U.S. exports were displaced in EC and third markets. A stalemate between the United States and the EC in the agriculture negotiations had been a factor in preventing a conclusion to the GATT talks. Numerous other agricultural trade disputes, including the oilseeds dispute and the EC's ban on hormone-treated meat, have contributed to tensions in the U.S.-EC relationship. The reform contains changes in the policy mechanisms used to support the grains, oilseeds, protein crops, beef, sheepmeat, and tobacco sectors. These changes will be phased in over 3 years beginning in 1993. For arable crops and beef, producers will be compensated for reductions in support prices through increased direct payments. In addition, new supply control measures designed to reduce output and limit EC budget outlays will be instituted for arable crops, beef, tobacco, and sheepmeat.

Price reductions and supply control measures in the arable crops sectors will reduce production of grains, oilseeds, and protein crops. EC consumption will be encouraged by the lower prices. Lower output and increased domestic use should reduce the EC's supplies available for export. These changes in EC agricultural production, consumption, and trade will affect international and U.S. markets, and the EC's ability to make commitments in the GATT talks.

**At Stake.** CAP reform has important implications for the U.S.-EC trade relationship because of its impacts on the GATT negotiations. The negotiations aim to reduce internal support to agriculture, reduce subsidized exports, and improve import access. CAP reform will help the EC meet its commitments on reducing internal support. The EC could also meet export subsidy reduction targets for some commodities. A GATT agreement providing solutions to individual disputes and multilateral disciplines on export subsidies would alleviate much of the pressures on the U.S.-EC relationship.

An agreement in the GATT would also impose multilateral disciplines on the EC. The effectiveness of the CAP reform program depends on how it is implemented. Modifications to the reform could result in smaller reductions in internal support and subsidized exports. The EC has not yet determined what penalties will apply to producers who evade the set-aside and other supply control measures. Without sufficient penalties, the effectiveness of the reform could be lessened.

A GATT agreement would require the EC to adopt important agricultural policy changes beyond the scope of CAP reform. Not every agricultural sector is included in the CAP reform: changes in the dairy sector are minor, and no reforms have been implemented for sugar, wine, or fruits and vegetables. These products would be covered by an agriculture agreement in the GATT. CAP reform makes no changes to the highly protective import regime. A GATT agreement would include commitments to improve import access for farm products.

**Alternatives.** The United States has responded, both unilaterally and in multilateral forums, to market distortions caused by CAP policies. For example, the U.S. Export Enhancement Program was

designed to counteract EC export subsidies in traditional U.S. export markets. At the same time, the United States has actively sought an agreement on farm trade in the current Uruguay Round of the GATT.

**Multilateral action:** The United States can continue to seek a GATT agreement which would impose multilateral discipline on the EC's implementation of CAP reform, and require the EC to include import access commitments in its agricultural policy reform.

**Unilateral action:** In addition to or instead of multilateral negotiations in the GATT, countries have used unilateral approaches to resolve trade disputes. For example, Section 301 of the 1974 trade act authorizes the United States to take action against unfair trade practices of other countries. The United States has authority to expand its export subsidy program, as it has through the GATT triggers contained in the 1990 budget reconciliation act. The United States can likewise unilaterally alter its production and/or stockholding behavior to respond to EC production and trade.

**Agenda.** U.S. policy responses will depend on the outcome of the GATT negotiations, and on EC implementation of CAP reform. Some of the provisions of the reform may be modified to lessen the impact on EC production and exports. A GATT agreement in agriculture would impose international discipline on EC implementation of CAP reform. In addition, a GATT agreement would require the EC to provide improved import access for agricultural products, and to cover all commodities, neither of which CAP reform does.

**Information Sources.** Two U.S. Dept. of Agriculture, Economic Research Service, reports: *Agricultural Outlook*, July 1992, and *Western Europe Agriculture and Trade Report*, Dec. 1992.

#### Transition to the new Common Agricultural Policy

*Prices are lowered and direct payments increased over 3 years.*

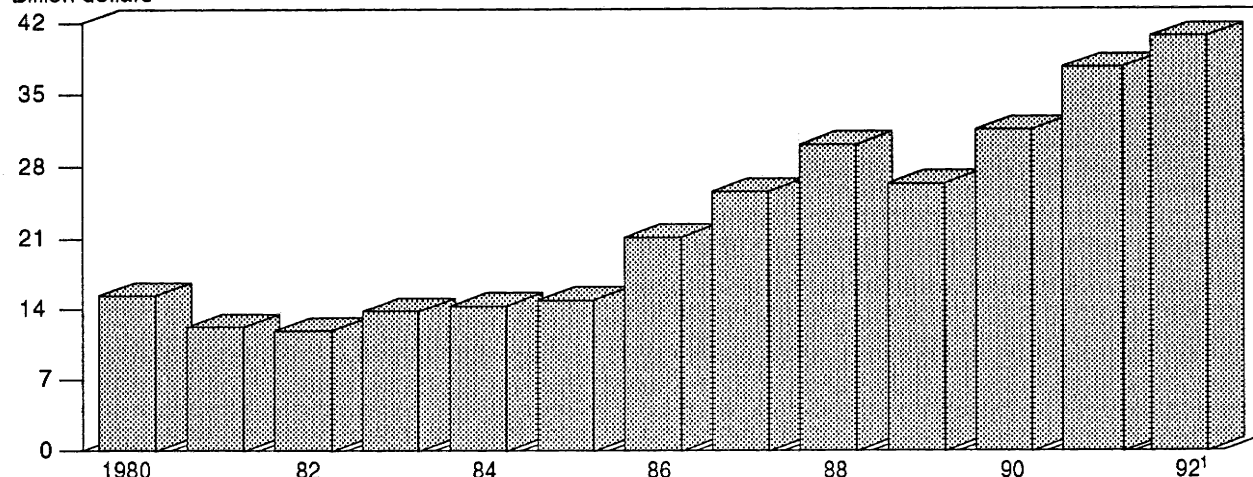
Policy mechanism	Unit	1991/92	1993/94	1994/95	1995/96
Cereals intervention price	ECU/t	155.0	117.0	108.0	100.0
Cereals payment	do.	NA	25.0	35.0	45.0
Oilseeds payment	do.	162.5	152.0	152.0	152.0
Protein crops payment	do.	NA	65.0	65.0	65.0
Set-aside payment	ECU/ha	Varies by country	207.0	207.0	207.0
Beef intervention price	ECU/t	3,430.0	3,258.5	3,087.0	2,915.5

Payments shown are based on EC average yields. Actual payments will depend on regional yields in each member country. 1 ECU (European Currency Unit) = \$1.46. 1 hectare (ha) = 2.471 acres. t = metric ton. NA = not applicable.

#### EC expenditures on market support

*EC agricultural spending increased steadily in the 1980's.*

Billion dollars



<sup>1</sup> Estimated. Source: EC Commission.