United States and Europe intensify trade war over agriculture

by Cynthia Parsons

The United States and the European Community (EC) will meet in Geneva on May 18 in a final attempt to prevent arbitration by the General Agreement on Tariffs and Trade (GATT) of the dispute over the U.S. February sale of wheat flour to Egypt, a traditional market for European agricultural products. Talks between the United States and the European Community on agricultural trade that ended March 18 failed to resolve the disputes over subsidized exports and competition for markets first publicly announced by U.S. Agriculture Secretary John Block in October 1982. A joint statement expressed a "common desire" to settle differences "within existing systems," but gave no hope for a settlement in the near future. This amounted to an agreement to differ, but did not signal an end to the still-threatening trade war. The sale of U.S. wheat flour to Egypt both heightened trade-war tensions and contributed to the lengthening of the trade talks.

Talks between U.S. Secretary of State George Shultz and the EC Commission President Gaston Thorn on agricultural trade have been postponed because of the delay in settling this year's EC farm price rise. It is also reported that the U.S. State Department is leaning on the Agricultural Department to ease tensions before the end of May Williamsburg economic summit.

The United States has rejected a study carried out by GATT because it does not confirm U.S. allegations that the EC had an unfair advantage in wheat flour trading. According to the *Commodity News Service*, while the decision did not declare the EC in violation of GATT, it did recommend that the EC make greater efforts to limit the use of subsidies. U.S. Trade Representative Bill Brock castigated the panel for "refusing to make the legal conclusions dictated by the facts." Most analysts and trade experts agree that the EC's subsidies only marginally affect the broader trade picture.

However, the EC has claimed that it has suffered a balance-of-payment loss of about $200 million as a result of the sale and demanded $30 million in compensation.

U.S. fails to create new markets

U.S. exports fell $5 billion in 1982. Rather than increase exports by linking long-term development programs to U.S. exports to be facilitated by subsidized export credits, the Agricultural Department has taken money allocated for export expansion and applied it to export subsidies to sell agricultural products to those countries traditionally supplied by Europe. The wheat flour sale to Egypt is a case in point, where the United States sold 1 million tons of wheat flour using subsidized credit and undercutting the European market. In retaliation, the EC is now offering some $80 in subsidy per ton of wheat sold to China, a big U.S. customer.

While using export subsidies constitutes a sound economic practice for the United States, the selective trade action in the Egyptian deal seems to stem from special motives to expand U.S. exports. Though the United States has claimed that the Egyptian wheat flour sale was merely retaliatory, it flagrantly contradicts its claim against the EC.

Both sides subsidize agriculture

The USDA has a formal complaint against the EC for illegally subsidizing its agriculture at the expense of the United States. However, in monetary terms the entire argument is nonsensical since both sides do support their agriculture—the EC's subsidy budget, as found in the Common Agriculture Policy (CAP), is $14 billion for 1983 and the United States's $18 billion. The issue is that the United States wants Europe to stop subsidizing agriculture, just as the free-marketeers in the United States, such as the Heritage Foundation, are demanding for domestic agriculture policy. The recent *Agenda '83* of the Heritage Foundation devotes its agricultural section to the evils of price supports. To the extent that both sides do cut subsidies, it is the food-producing capacity in both countries that will be sacrificed in the war.

To date, the Egyptian wheat deal has caused nothing but trouble for the United States, since the administration ruled in March that, because the deal is government-to-government, 50 percent of the flour shipped to Egypt must be carried on U.S. ships, which is far more costly than using foreign ones. According to Washington agricultural analysts, the program may be too expensive to carry out. To keep delivery price of the flour to the Egyptians at $155 per ton, the U.S. government must fork up $20-$30 million to subsidize cargo preference. At this rate, the government will be paying the client to take the goods.

At the mid-March National Grain and Feed Association's annual convention, Michel Fribourg of Continental Grain Corporation proposed a three-step program that he claimed might stop trade war, and he gave some insight into the direction that subsidy removal would take the United States. He proposed a five-year freeze on existing support prices on both sides of the Atlantic and an agreement by Western nations to expand their traditional markets through such plans as the Caribbean Basin Initiative.

The Caribbean Basin Initiative is a program of the Commerce and Agricultural Departments that provided funds for investors to set up labor-intensive shops and agricultural projects such as sugar cane plantations in underdeveloped areas of the Caribbean. The produce of these small industries and farms would be sold in the United States with assured preferential access to markets. Such "development projects" would nominally increase participating developing sector nations' foreign trade so that they could purchase more U.S. agricultural produce. The real effect would be to dump produce grown in labor-intensive projects on the U.S. market, which could threaten the domestic markets of high-technology U.S. farmers.

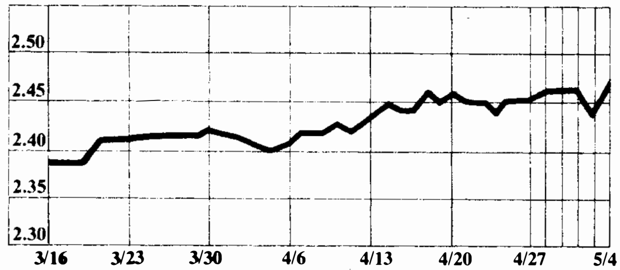
Attack on the CAP

The United States has led a two-year attack on the policies of the CAP to force the EC to phase out all export subsidies over the next five years. Such demands have been unacceptable to CAP members, which subsidize both domestic farm prices and export prices to ensure that farmers receive sufficient income to maintain production, even though world prices are falling. Such policies, the EC nations correctly believe, will ensure that Europe and the rest of the world will never again face the same food shortages it did during and after World War II. CAP has helped increase the EC's share of world food exports from 8 percent in 1976 to 17 percent at present, making it the biggest exporter of food after the United States. With a real development push by the OECD, there would be expanding markets for every member nation in both the advanced sector and the Third World.

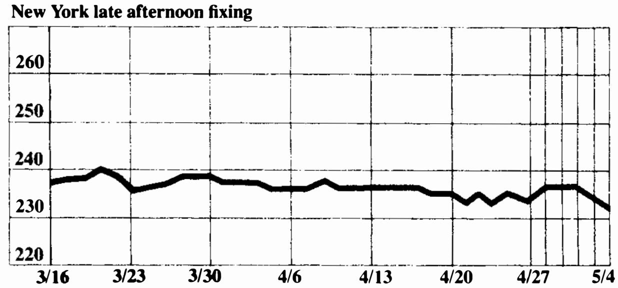
The opening salvo in the current agricultural trade war was fired in October 1982, when U.S. Agricultural Secretary John Block declared that if the EC did not stop subsidizing agriculture, then he would not stop at trade war with Europe. After Shultz's meeting with other members of the commission in Brussels in December, both sides have met three times, keeping the issue alive. As justification for the Egyptian deal, Block said at the U.S. Feed Grains Council annual board of directors meeting early in March, "We will not stand idly by and lose markets because of unfair competition or trade restrictions," and that, while he encourages free trade, he saw a "potential role for carefully targeted measures aimed at convincing" other countries to reduce their "trade distortions."

Currency Rates

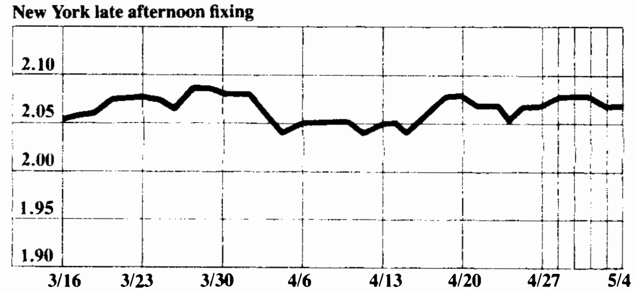
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing