

# Introduction

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The aim of this book is to examine and explain the evolution of US–EU trade relations in agricultural and food products over the past five decades. The relationship between countries that share broadly similar political and economic systems and social values has been disturbed on numerous occasions by disagreements over agriculture. High-level political discussions have time and again been interrupted by low-level issues concerning wheat, beef, chicken, bananas and soybeans. The tensions have far exceeded the normal differences in viewpoint of exporters and importers of a product. Each side of the Atlantic has in effect demonized the other in the realm of agricultural policy, attributing motives and perpetuating stereotypes sometimes far removed from reality. The current negotiation on a Transatlantic Trade and Investment Partnership (TTIP) is the latest stage in which this family drama is played out. But it also offers a possible resolution to the intractable issues: a convergence to an open market in agricultural and food products across the Atlantic.

The early history of this relationship was one of constant confrontation: a game of chicken that indeed started with a dispute over poultry. Agricultural policy on each side of the Atlantic was set on its own idiosyncratic course, and neither the EU nor the US was prepared to swerve. A collision in the trade arena was inevitable, as in a Greek tragedy where the participants know the outcome but cannot avoid it. The post-war institution that had been set up to resolve trade problems (the General Agreement on Tariffs and Trade, or GATT) proved quite inadequate to arbitrate the tensions between the US and the emerging EU. Eventually the trade rules had to evolve to deal with such conflicts or risk a crisis of credibility. The GATT Uruguay Round proved equal to the task. The nature of the trade tensions changed markedly after the Agreement on Agriculture and the emergence of the World Trade Organization (WTO). But the question still lingers as to whether there has been a sufficient convergence between the policies of the EU and the US to allow a rapprochement or at least an “agreement to differ” on agricultural and food issues. Or are attitudes and interests still so far apart that they will threaten the outcome of the TTIP talks?

## RESEARCHABLE QUESTIONS

The approach of this book is to focus on five questions: (i) what was the nature of the major conflicts in the area of agriculture and food trade; (ii) what external political and economic events and priorities influenced the trade relations in farm and food products; (iii) to what extent did these agricultural trade conflicts reflect philosophical differences and how much was due to simple commercial rivalry; (iv) how helpful were multilateral institutions in resolving these conflicts, and what opportunities were missed for reconciliation; and (v) have the policies and positions of the US and the EU converged enough to resolve the problems of the past and allow the transatlantic partners to focus on other matters of trade?

The nature of the conflicts in agricultural trade reflects predominantly the tension between exporters looking for markets and importers seeking to protect their own producers from competition. In the case of the EU this was complicated by the switch in the 1970s from being an importer of a number of basic agricultural products to becoming an exporter looking to dispose of growing surpluses. In addition, price levels remained at a high level even when the CAP was under pressure. Was the EU slow to make the adjustments in policy that would have smoothed the transition from being an importer to being an exporter? Was the decision process in the EU unable to make the shift in policy implied by the change in market balance? Did the US policy reflect the new reality of expanded EU agriculture? Or did the mindset in the US of the EU as a natural market for agricultural exports outlive the reality?

Agricultural trade issues are always conditioned by the overall political scenery and the macroeconomic environment. What was the connection between domestic decisions on food and agricultural policies and political relations across the Atlantic? The early years saw an encouragement of European integration on the part of the US. But did this help in developing a cooperative approach to agricultural markets? Or did it merely confuse the process of reconciling trade issues by demonstrating an ambiguity between foreign and commercial policy? Later the defense relationship was overtaken by economic rivalries and changes in the international monetary system. Why was cooperation in agricultural policy issues so difficult over this period, and why did small trade issues become *causes célèbres* in the transatlantic relationship?

And how much of the transatlantic trade conflicts between the EU and the US on agricultural matters reflects divergent philosophical differences? The similarities in economic and political approaches seem to overwhelm the differences in most areas of trade, but in agricultural markets the divergence in points of view has been apparent. Free trade as opposed

to managed trade? Trade liberalization or management through international commodity agreements? The contrasting approaches dominated trade discussions in the agricultural area for a couple of decades. And when consumer health issues began to be important a new “philosophical” disagreement emerged: should these be subject to “scientific evidence” or should the concerns of the public dominate even where scientific opinion agrees that there is no cause for such concerns? And what is the role of the “precautionary principle” in situations where scientific evidence is not considered adequate for such decisions?

How did the bilateral tensions play out in the multilateral framework of the GATT and the WTO? Could the early tensions in the Dillon and Kennedy Rounds of GATT negotiations have been avoided by a different approach? Might the Kennedy Round, in particular, have dealt with the problem of domestic farm policies by using techniques that proved constructive in the Uruguay Round? Or was the GATT too fragile to impose any significant disciplines on agricultural trade policy?

Has there been any sign of a convergence of policies between the EU and the US in recent years? Have price levels converged and the instruments employed to maintain prices changed in similar ways? If so, how long is this state of affairs likely to last? Do the TTIP negotiations offer an opportunity to put the historical tensions eventually to rest, or will they end up as another game of chicken?

## COMMON THREADS

One theme that recurs in the book is that tensions in trade relationships reflect the different policy approaches to common underlying problems, often exacerbated by differences in the structure of agricultural production and specific political sensitivities. Both the US and the EU have faced the challenge of devising agricultural and food policies that meet conflicting goals. These goals include: stabilizing farm incomes; maintaining a socially acceptable relationship between rural and urban incomes; safeguarding food supplies; and ensuring the appropriate environmentally sustainable use of rural resources. In both the US and the EU there are powerful political forces that can dominate decision making when it comes to farm policies, making the straight-line approach to a viable policy often elusive. An account of these different approaches to common problems, along with the political constraints under which decisions are made, is a major feature of this book.

The main diplomatic and political manifestations of such domestic decisions come about through trade conditions. In attempting to find a

stable rural policy both the EU and the US have struggled with surpluses of commodities that need to be removed from the home market. Both maintain high tariffs against imports in sensitive areas. As a consequence domestic policy decisions spill over into trade conflicts. But these trade clashes take place within the context of trade rules. A major effort over the past five decades has therefore been to devise a set of rules that act to restrain domestic farm policies. The agreement on such rules finally came in the Uruguay Round, and the nature of the agricultural trade conflicts has changed notably since that time. The relationship between the domestic policy developments and the positions taken in trade negotiations and trade conflicts represents another major theme of the book.

Though trade tensions have indeed reflected the different farm policy decisions taken by the EU and the US, several other factors are also at play. One of them is the heavy impact that broader political and economic factors have on the relatively minor share of transatlantic trade represented by food and agricultural products. Thus the relationship between the US and the EU in the context of post-war security had a major impact on the way in which the US viewed the formation of the EU and its agricultural and trade policies. The macroeconomic environment of the 1970s, of monetary instability, high oil prices and inflation, also had a profound impact on the development of agricultural policies over that period, and the effects lasted for a decade. The process of globalization of the food market in the past 20 years has changed once more the context in which domestic policy has to be seen: consumer tastes and a desire for a wider choice of foods have become a potent driving force for trade. And the rise of emerging countries in Asia and Latin America has had a significant impact on the framing of agricultural trade issues in both the EU and the US. The political and economic context in which policy decisions are made plays a major role in explaining the tensions between the US and the EU, as recognized in the structure of each chapter.

It is a fair question to ask why these conflicts in agricultural trade can persist over the span of five decades. Agricultural conflicts are more intense and long-lasting than one might have thought on the basis of their economic importance. In fact, there seems to have been a remarkable lack of political leadership in the resolution of these issues. Agriculture has often been treated as a vexatious child causing annoyance to all but eluding any restraint. However, the situation has changed in the past decade, with fewer transatlantic clashes over agricultural market access issues but rising tension on a handful of regulatory matters in the food industry. The increasingly global food market has provided its own challenges, stemming mainly from differences in regulations dealing with food safety and quality. Moreover, the need for such a transatlantic resolution

is increasing as the balance of power in global markets and institutions shifts and poses fresh challenges to both the EU and the US agricultural and food industries.

There appears now to be political support for a resolution of some of these issues in the context of the TTIP negotiations that are underway. The start of TTIP talks marks an important stage in the transatlantic relationship. Though the negotiations could drag on beyond their target date, and could even fail, the issues will still remain relevant. The motivation for the book is the desire to document and explain the trajectory of transatlantic agricultural relationships and to bring that narrative to bear on the current negotiations. Such an approach may help to inform the debate around agricultural and food trade issues as the transatlantic trade discussions proceed over the next few years.

## ORGANIZATION OF THE BOOK

The content of the book follows a broadly chronological treatment. Chapter 1 focuses on the emergence of transatlantic agricultural tensions in the 1960s. This chapter highlights the differences in post-war farm structures, market balances and agricultural policies in the US and the EU that set up the conditions for the trade tensions to come. But these tensions are understandable only in the context of the major issues of the day, in particular the US political support for European integration despite the concerns about the protectionist tendencies in the reconstructed continent. The establishment of the European Economic Community in 1957 led to the evolution of the CAP (1962) and a threat to imports of agricultural products from the US. The attempt to resolve the disputes through the GATT was hardly successful. The disappointing conclusion of the Dillon Round of GATT negotiations (1962) gave way to the more ambitious Kennedy Round in 1964. However, agreement on disciplines on farm policies was elusive in this round as well. The two rounds of trade negotiations revealed the different paths taken by farm policy in the EEC and the US, and the divergence of views on the treatment of agriculture in trade rules became solidified over this period. The US was particularly sensitive to the situation in grain markets: surpluses of grains on the US market had led to significant reductions in support prices in the US (in the 1965 Farm Bill) along with cash compensation. The strategy of the US to keep its export market in Europe in spite of the CAP proved untenable.

Chapter 2 deals with the turbulence of agricultural markets that marked the 1970s. The concerns of the US with market access into the EU were exacerbated by UK accession into the EEC in 1973. In addition, the EU

was beginning to have an exportable surplus of grains as well as dairy products and wine. A period of high international prices in the 1970s reduced tensions temporarily, but the reactions to that high-price period differed markedly. The EEC found it difficult to adjust prices downwards after the price spike, and was left on a high-price plateau. Exports had to be helped on their way by subsidies. As a consequence a virtual trade war erupted in the early 1980s as the US and Europe sought export market outlets for their surpluses. This led to a rethink on both sides of the Atlantic (and indeed in other developed countries) of the need for trade rules for agriculture and led to the inclusion of domestic agricultural policies in the negotiations of the Uruguay Round in 1986.

The Uruguay Round negotiations proved a turning point in the development of transatlantic agricultural trade relations. Chapter 3 discusses both the round itself and the parallel developments in domestic policies, both during the talks and subsequent to the agreement. A new era in agricultural policies had arrived in the 1990s that shifted support from prices to direct payments. The EU adopted the MacSharry reforms in 1992 and the US agreed to the 1996 Farm Bill with its “freedom to farm” emphasis, and both facilitated the adherence to the disciplines of the Agreement on Agriculture (AoA) that emerged from the Uruguay Round. Other trade disputes, such as that over the importation of bananas into the EU, were resolved with the more effective dispute settlement mechanism of the WTO.

Chapter 4 describes the situation since the conclusion of the Uruguay Round. This has been a period of significant reform in the EU, and this has opened up a path to reconciliation of old transatlantic differences. The context has been the ongoing Doha Round of WTO negotiations that began in 2001. This round has provided an opportunity for challenges from other exporters (such as Canada, Argentina, Brazil and Chile) that were wary of both EU and US export policies. The emergence in 2003 of the (agricultural) Group of Twenty put the focus on reductions in domestic support in both the EU and the US. The failure of the US and the EU to get the agreement of countries such as India, China and Brazil to complete the WTO Doha Round in 2008 signaled the end of the US and EU dual hegemony in agricultural trade matters. The policies themselves faced challenges from within, as both grappled with the need to justify direct payments in an era of budget stringency. On both sides of the Atlantic the promise of biofuels raised hopes of environmentally sound reductions in oil consumption, but the food price spikes starting in 2007 caused a rethink of the wisdom of this approach.

Chapter 5 addresses the differences between the EU and the US in the area of food safety regulations. Though farm policy conflicts have been

on the decline over the past two decades the transatlantic tensions have mounted over food safety and regulation. The food industry emerged as a major driver of trade, developing long supply chains to make use of favorable conditions in other countries. This brought with it a rise in private standards to offer a range of consumer attributes. Meanwhile, government regulations dealing mainly with health and safety provoked a series of complaints across the Atlantic. New technology also added to the tensions as public opinion in Europe broadly rejected the biotech advances made by US companies.

Chapter 6 considers the path to reconciliation. The present state of agricultural trade relations is more positive than for 50 years. The EU and the US are considering an agreement that could change the terms of the debate both across the Atlantic and more generally in global markets. The current negotiations over a Transatlantic Trade and Investment Partnership (TTIP) could lead to a resolution of many of the long-standing agricultural and food issues. However, progress will not be easy: high tariffs remain on imports of sensitive items, on both sides of the Atlantic, and the long-running disputes over regulatory differences will not easily be solved. However, the prize is attractive. Regulatory convergence and a phased elimination of tariffs could potentially result in a single transatlantic food market with no trade barriers and broadly compatible regulations.

Chapter 7, the concluding chapter, attempts to pull together the threads of the story of 50 years of conflict. An attempt is made to answer the questions posed above. The nature of the conflicts reflects tensions over market conditions in agriculture, price levels set for domestic producers, and instruments employed to achieve policy objectives. The importance of external events is demonstrated and the implications are discussed in the context of the massive changes in global economic and political structures. Philosophical differences across the Atlantic may now be much less important than those between the emerging countries and the members of the Organisation for Economic Co-operation and Development (OECD). At the least the foundations for the multilateral trade framework are firmly in place, though the building needs to be completed. Work on this has been delayed by the diversion of attention towards bilateral, regional and plurilateral approaches. The multilateral system has yet to embrace these other building projects, and incorporate them into the broader design. The transatlantic market for food and agricultural products is one area where the possibility exists to build outwards from a regional base. This market would be a dominant factor in global food and agricultural trade. This would be a fitting end to 50 years of disagreement and distrust over food and agricultural policies among the transatlantic partners.