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US-EEC AGRICULTURAL TRADE: CASE HISTORY OF POULTRY

CENTRAL INTELLIGENCE AGENCY

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US-EEC AGRICULTURAL TRADE: CASE HISTORY OF POULTRY

The Common Market countries individually have long had agricultural policies which are in varying degrees protectionist, but there is danger that the gradual merging of their farm policies under the EEC may result in an increase in the over-all level of protection. This would pose adjustment problems for US agriculture and increase US balance-of-payments difficulties. The recent drop in US poultry exports to Europe has already become a particular source of friction between the US and the EEC.

US Agricultural Exports to EEC

About 20 percent, or $3.5 billion, of annual US exports are agricultural products. Between mid-1961 and mid-1962 about $1.2 billion of these farm exports went to the Common Market area. On $700 million of these exports--mainly cotton, soybeans, hides, and certain fruits and vegetables, which are not produced in any volume within the EEC itself--the EEC is adopting liberal trade policies. Prospects are therefore good for a continuing expansion of US exports of these commodities.

The remaining $500 million in 1961-62 exports to the EEC, however, represented products on which difficulties may arise, notably wheat and wheat flour ($121 million), feed grains ($271 million), and poultry and eggs ($67 million). On wheat and other grains, the Common Market has not yet taken the key decisions which will determine whether the EEC's emerging Common Agricultrual Policy (CAP), which was introduced last July, will as a whole be more protectionist than the average of the previous national policies of the Six.

US Poultry Exports

Prior to introduction of the CAP, total US exports of poultry meat had increased rapidly since 1958; much of the increase went to one EEC country, West Germany (see Figure 1). Because of various restrictions, the US was never able to crack the market in any significant degree in the other EEC nations. Even in Germany, most of the increase

Figure 1 US POULTRY MEAT EXPORTS

(million pounds)

	1958	1961	1962
Chicken (broilers and fryers)	24	149	173
Fowl and stewing hens	13	52	48
Turkeys	5	28	37
Other poultry and game	6	6	5
TOTAL US EXPORTS	48	235	263
of which: to EEC	10	160	180
of which: to West Germany alone	8	138	152

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in US exports occurred after early 1961, when Bonn lifted dollar import restrictions.

The German tariff on imports of poultry meat was about 5 cents per pound prior to the introduction of the CAP. Efficient US poultry producers were able to surmount this tariff and take over an increasing portion of the German market.

The modern breeding and feeding methods which have given US poultry producers a competitive edge in recent years are just now beginning to take hold in Western Europe. As shown by the US example, these technological changes can progress very rapidly. With or without increased protection under the CAP, the Common Market's domestic poultry production is expected to become increasingly competitive with that of the US over the next few years.

Post-CAP Situation

After the CAP took effect, the total duties on each pound of US chicken imported into West Germany more than doubled and now are about 13 cents per pound. As a consequence, US exports to West Germany have plummeted (see Figure 2). The drop resulted initially from an abnormal build-up of poultry imports from the US prior to introduction of the CAP, in anticipation of the increase in duties. The continued low level of US exports in recent months, however, quite clearly indicates American poultry exporters, saddled by the higher duties, are being effectively squeezed out of the EEC market.

Figure 2

WEST GERMAN IMPORTS OF US POULTRY BEFORE AND AFTER INTRODUCTION OF EEC'S COMMON AGRICULTURAL POLICY

(in million pounds)

	Before CAP (Aug '61 thru Mar '62)	After CAP (Aug '62 thru Mar '63)
Chicken (broilers and fryers)	62.4	23.5
Fowl and stewing hens	23.6	6.5
Turkeys*	18.5	16.9
TOTALS	104.5	46.9

* Turkey imports failed to decline substantially because supplies from sources other than the US are extremely limited.

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Strenuous US efforts for the past eight months to obtain a reduction in the CAP poultry levies have had little success. EEC farm interests argue that the temporary US technological lead in poultry raising has given the US an unfair and abnormal share of the West German market in recent years. It is also argued that there are millions of small farmers in the EEC area--far more than in the US--and poultry is one of the few outlets they have for earning a good income.

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French and Dutch poultry groups have also played a major role in maintaining the EEC levies at present levels. (See Figures 3 and 4 for details of how EEC poultry import duties are determined, and a chronological summary of EEC-US negotiations on poultry since early 1962.)

Politicians vs. Technicians

The technical complexity of the EEC poultry levies is the source of another difficulty facing the US in negotiations with the Common Market on agriculture. Many of the political leaders in the EEC countries have admitted that they do not understand or follow closely implementation of the details of the poultry and other agricultural regulations. While discussing the EEC's agricultural policy with President Kennedy last November, Belgian Foreign Minister Spaak expressed the view that technicians had taken over the subject, and that it must be lifted back to the political level.

Spaak seemed to be implying that the subject has international implications and therefore should be solved at high levels of the governments involved. The protectionist farming--including poultry--interests in most of the Common Market countries, however, tend to be so strong on the domestic political scene that solutions to agricultural problems are often based too much, rather than too little, on "political" considerations. Athough Spaak's statement reflects a general disquiet among various EEC leaders about their lack of close control over experts in agriculture and other technical fields, this does not offer much hope for immediate solution of EEC-US agricultural difficulties.

Recognizing that poultry exports have become an important political issue in the US, however, the EEC Commission has recently proposed various changes in the CAP poultry import levies which would reduce the duties on West German imports from about 13 cents per pound to about 11 cents. The EEC Council of Ministers, which must approve such changes in CAP regulations unanimously, refused to take action on even this relatively moderate reduction at its

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Figure 3 HOW POULTRY IMPORT LEVIES ARE DETERMINED UNDER EEC'S COMMON AGRICULTURAL POLICY

Feed grain is a major item of poultry production costs. Grain prices in the EEC are supported at levels higher than on the world market, and this results in higher prices on poultry produced within the EEC. EEC poultry import levies are intended to equalize this difference, and beyond this to provide a degree of added protection for domestic producers.

The EEC poultry import levies have two elements:

A regular levy which consists of a relatively low fixed tariff and an equalization fee intended to make up the difference between grain prices in each EEC country and on the world market. This equalization fee varies from one EEC country to another and is recomputed every three months to take account of changing grain prices both on the world market and within the EEC.

A supplemental levy, computed as the difference between an administratively determined "sluice-gate" or minimum import price, and the c.i.f. offer price of imported poultry. The supplemental levy is ostensibly a protection against dumping.

On present imports of US poultry by West Germany,

The regular levy amounts to . . . .10.72 cents per lb.

The supplemental levy amount to . . 2.27 cents per lb.

The total levy therefore is . . . .12.99 cents per lb.

Since the price-before-levy of US quality chicken is about 32 cents per lb. c.i.f. Hamburg, the total EEC levy of 12.99 cents per lb. is equivalent to a 40-percent import duty.

Relative powers over Common Market poultry regulations of the EEC Commission (supranational body) and the EEC Council of Ministers (composed of national representatives):

Changes in the regular import levy and in the sluice-gate price can be proposed by the Commission, but require unanimous approval of the Council. Beginning in 1966, such changes can be approved by a qualified majority vote of the Council.

The Commission can on its own authority change the supplemental levy, but only on the basis of a factual determination that it does not accurately reflect the difference between the sluice-gate price and the actual offer prices of imported poultry.

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last meeting on 1 and 2 April. The council pigeonholed the proposal for "further study."

Vice President Mansholt of the EEC Commission was in Washington from 7 through 9 April discussing poultry and other agricultural problems with US officials. Mansholt and the EEC Commission are more sympathetic to the US on these problems than some of the EEC national governments. The Commission, however, cannot in general make commitments on the poultry levies without approval of the EEC ministerial council, which reflects more directly the individual national interests within the Common Market. [redacted] 25X1

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Figure 4

CASE HISTORY OF EEC POULTRY LEVIES ON IMPORTS FROM THE UNITED STATES

14 Jan. 1962	EEC member countries agree after long negotiations on broad outline of Common Agricultural Policy (CAP), to go into effect on 30 July 1962.
[redacted]	
30 July 1962	Poultry regulation of CAP goes into effect. Total duties on US exports of poultry meat to West Germany are increased from 4.9 cents per lb. to 10.72 cents per lb. Initially, no uniform supplemental levy is charged on all imports. Instead, national governments of the EEC are to check invoices of individual import orders and charge whatever supplemental levy is required to bring import prices up to the sluice-gate level.
[redacted]	
Early Aug. 1962	West German Government asks EEC Commission for approval to reduce regular levy on German poultry imports by about 4 cents per lb., which would bring it down close to the level of the previous West German fixed tariff.
[redacted]	
7 Nov. 1962	EEC Commission imposes uniform supplemental levy of 2.8 cents per lb. on all poultry imports in effort to assure that all prices are brought up to sluice-gate level before regular levy is imposed. Since prior to this time no supplemental levy had generally been paid, the measure increased the effective total levy on US poultry exports to West Germany from 10.72 cents per lb. to 13.52 cents.
Nov. 1962 to Present	US officials at all levels press EEC for reduction or elimination of supplemental levy, or reduction of sluice-gate price, which would automatically accomplish same thing.
31 Jan. 1963	EEC reduces the supplemental levy from 2.8 cents per lb. to 2.27 cents, thus reducing total levies on US poultry exports to West Germany from 13.52 cents per lb. to 12.99 cents.
27 Mar. 1963	Under heavy US pressure, EEC Commission proposes to Council of Ministers a reduction in the sluice-gate price (and thus the supplemental levy) as well as a reduction in the regular levy. The overall reduction would amount to 1.83 cents per lb., and would leave total levies on US exports to Germany at 11.16 cents per lb.
1-2 Apr. 1963	EEC Council of Ministers postpones consideration of the Commission proposal outlined above. The proposal is not scheduled for consideration again until 20-21 May 1963.

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