

The United States and the European Union (EU) are two of the world's largest agricultural producing, consuming, and trading entities. The bilateral trade relationship in agricultural products is among the world's largest, while the two countries also compete for export markets for many agricultural commodities. The commodity makeup of agricultural production in the two countries, productivity and competitiveness of each country's producers, tastes and preferences, and agricultural and trade policy determine to a large extent the level and composition of U.S. and EU agricultural trade. At the same time, both countries' agricultural sectors and agricultural policies are changing in response to the dynamics of the world market and to the growing importance of regional trade agreements. Differences between the two countries may contribute to agricultural trade disputes and could account for fundamental differences in their approaches to agricultural trade liberalization in the World Trade Organization (WTO). The purpose of this report is to examine similarities and differences in multiple aspects of their agricultural sectors and policies.

The first chapter provides the reader with a basic overview of agriculture's role in the two economies. In both countries, agriculture is declining as a contributor to gross domestic product (GDP) and as a source of employment. Both the U.S. and EU agricultural sectors have undergone significant structural adjustment. Farm consolidation and exit from the sector have resulted in fewer and larger farms. Changes in the farm economy and in society have resulted in an increased incidence of part-time farming and a growth in the importance of off-farm income. The two countries' farm structures remain vastly different, however—for example, the United States has a much greater endowment of farmland, with fewer and, on average, significantly larger farms than the EU.

Both the United States and the EU have undertaken significant changes to commodity policy in the past decade. They share many of the same goals for farm policy, and in some cases, have moved toward similar approaches to meeting those goals in recent years. The two countries face similar pressures from tight budgets, trade constraints, and increasing public connection of agricultural policy with issues beyond traditional goals for supporting production agriculture. The U.S. 2002 Farm Act introduced additional new policies, while the EU has enacted reforms that, if applied to all commodities, would fundamentally restructure the Common Agricultural Policy (CAP). Their commodity policies remain different in significant ways—particularly their differing reliance on income versus price support, their use of surplus disposal and supply control, and their reliance on border measures. With the recent adoption of EU policy reforms, U.S. and EU commodity policies are becoming more similar, with increased emphasis on decoupled income support and greater focus on the interactions between agriculture and the environment.

As the European Union reduces price support for some commodities and contemplates further reforms, its producers, policymakers, and others are considering the need for and the availability of risk management instruments for agricultural commodities. Policy changes that have increased exposure to world market prices appear to have stimulated demand for price risk management vehicles by creating or increasing price volatility for agricultural commodities. Agricultural insurance programs are varied across European countries, but are generally smaller and more limited in scope than the crop insurance program in the United States. Both the United States and the European Union use agricultural futures and options markets to manage risk. Many of the new European agricultural futures and option markets were introduced after reductions in price supports for major commodities resulting from successive reforms of the CAP and implementation of the WTO Agreement on Agriculture.

Farms in the United States and the EU have increased agricultural output over the decades, mostly as a result of technical change, increased efficiency and scale of production, better

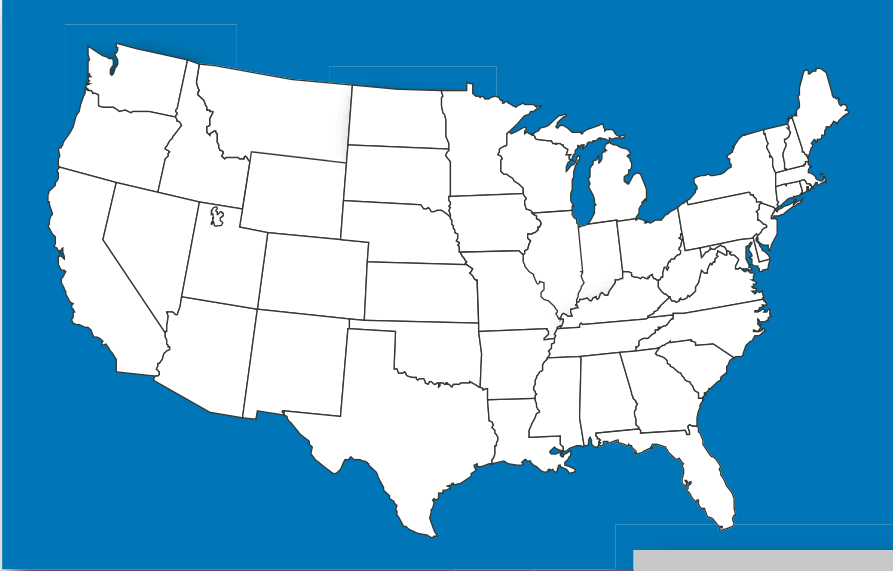
skills in the management of farm operations, and the influence of government programs. A comparison of agricultural output growth and productivity growth of the EU and the United States shows positive output growth driven by productivity growth rather than more intensive input use over the past 30 years in both cases. Technical change has been the main source of productivity growth in both the United States and the EU, although efficiency appears to be increasing in the EU. Continued productivity growth could strain budgets and risk breaching WTO limits on production-related subsidies. Higher productivity due to technical change and efficiency in the Central and Eastern European countries, who will become EU members in 2004, could result in larger grain crops.

Food consumption patterns differ between the United States and the EU, yet food consumption in both countries is changing in response to similar trends, including demographic changes, longer working hours, greater consumption of prepared food, and consolidation in the food retailing sector. Differences in food consumption expenditures reflect differences in prices, income, and preferences. Differences in consumption patterns have implications for U.S.-EU trade. These may vary as much within the EU as between the EU and the United States. EU and U.S. diets differ somewhat, but rather less than regional EU variation for some food groups. While European diets are changing and even becoming more alike in most EU countries, significant differences still remain. Consumers in both the United States and the EU are becoming increasingly concerned about healthy diets, food safety, and how food is produced, with consequences for food consumption patterns.

Both the United States and the EU utilize agri-environmental programs to encourage the provision of environmental amenities and to reduce negative environmental effects associated with agriculture. Both target environmental objectives through a mixture of voluntary programs, regulatory programs, and “cross-compliant” programs. The two countries differ in the types of programs, in implementation, and in the objectives of agri-environmental policy. While conservation is at the heart of most U.S. programs, the EU’s policies target rural development and provision of environmental amenities to a greater extent. At the same time, both the United States and EU use environmental programs to support farm income. Both the United States and the EU are giving increased emphasis to agri-environmental programs. Authorized funding for agri-environmental programs was increased in the 2002 U.S. Farm Bill, while the EU is strengthening the connections between environmental protection and agricultural support in its 2003 CAP reform. Farm policy’s greater emphasis on environmental objectives is particularly significant in light of WTO regulations that exempt environmental programs from restrictions that apply to producer support spending.

In 2004, 10 countries—eight Central and European (CEE) countries plus Cyprus and Malta—are scheduled to become new members of the European Union. An agreement reached in December 2002 established the terms under which these countries will become EU members. Two additional CEE countries (Romania and Bulgaria) continue negotiations over eventual EU membership. The addition of 10 CEEs to the EU could profoundly change the shape of EU agriculture. With accession, levels of support to CEE producers could rise substantially, providing an incentive for producers to expand output of several products, and are likely to affect most significantly the grain and livestock sectors. Potential opportunities for U.S. agriculture are closely linked to developments in the CEE livestock sectors, but the future of U.S. trade also depends on potential for expanding markets in the CEEs for high value foods, and this potential depends on future income growth. While the December 2000 agreement was designed to keep EU spending within agricultural budget limits, in the longer term providing support to the candidate country farmers will be costly to the EU budget and could accelerate pressures for CAP reform. The result of any significant CAP reform could be further reductions to trade-distorting agricultural support, which could improve opportunities for U.S. agricultural exports.

U.S.



The United States and the EU

■ The countries currently in the EU:

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Luxembourg
- Netherlands
- Portugal
- Spain
- Sweden
- United Kingdom

■ The 10 countries that will be joining the EU in 2004:

- Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Slovakia
- Slovenia

