Trans-Atlantic tensions worsen over agricultural policy

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As during the recent fight over steel, the United States government has passed a protectionist bill whose compliance with World Trade Organization (WTO) rules is questionable. European Union officials have proposed massive subsidy cuts in the Common Agricultural Policy (CAP) and, with an eye to international support, are adopting a free-trade stance while criticizing US subsidies. However, reform proposals are meeting increased resistance from national governments across Europe, and negotiations may last months.

Prior to these changes, total state support (across different governmental levels) for the US and EU farm sectors were broadly similar. According to Organization for Economic Co-operation and Development (OECD) figures, in 2000 the US spent $92.3 billion and the EU $103.5 billion on farm sectors producing $190 billion and $197 billion respectively. These subsidies have helped to keep US and EU farms profitable, despite low crop prices caused by national overproduction and imports from lower-income countries.

The US Farm bill, signed into law by President Bush on May 13, radically breaks with the 1996 Freedom to Farm Act, which gutted a system of subsidies set up during the 1930s. It increases or introduces fixed payments to farmers for growing certain crops, which the 1996 act reduced, as well as introducing a wide range of price floors for different crops and a minimum income guaranteed by supplemental payments, in case the previous payments do not guarantee it. It also has the effect of regularizing the emergency bailouts of US agriculture during the years after the 1996 bill, when crop oversupply massively depressed prices, forced thousands of farmers off their farms, and made the US government intervene.

The US government has calculated the bill's cost at $180 billion over the next decade, although many analysts suspect that it will be significantly higher—like Bush's notorious 2001 tax cut, many of its costs are supposed to mysteriously disappear after the first few years. The bill primarily subsidizes big business: according to a budget analyst at the pro-free-trade Cato Institute, two-thirds of the subsidies will benefit agribusiness and corporate farms, most of which earn over $250,000 a year. The EU has calculated that 8 percent of farms will receive 47 percent of the payments. According to EU officials' interpretations of WTO guidelines, the bill will probably entail spending that violates the US's WTO commitments—significantly, the bill specified only that the US would go "as far as practicable" to comply with them.

The US mass media rushed to condemn the bill as protectionist, pointing out that it risks seriously aggravating national overproduction problems.

Several publications, including *BusinessWeek* and the *Washington Post*, attacked Senate Democrats from the Plains states, claiming they had forced Bush to sign the bill out of fear for Republicans' prospects in crucial Senate races. While this may give an insight into the Senate vote, it hardly explains how the bill became law. In the House, Republicans voted 158-51 in favor of the bill, while Democrats voted 139-61 in favor of it. Under strong pressure from the farm lobby, they kept a Democratic representative from decreasing the maximum possible subsidy to farmers by baldly threatening to eliminate all the projects she had set up for her constituents. All ruling political groups share responsibility for the bill.

Somewhat more plausibly, the Madison, Wisconsin-based *Capital Times* described the bill as "reflecting the power that commodity traders, large livestock packers and other industrial agriculture interests can wield." These layers were probably especially eager to use their influence as legislators were creating what could become the legal framework for a new period of US farm protectionism.

Press coverage suggests that ruling circles view the bill also with an eye to deepening class tensions in the US. While attacking the bill as a handout to wealthy farmers, *BusinessWeek* grudgingly conceded that "rural America is dying, small towns are disappearing, and in much of the Midwest, a 1930s-style dust bowl is reemerging." This is a special concern for Republicans, who have a significant voter base in rural areas. *BusinessWeek* also spoke disapprovingly of the "Soviet-style" bill's re-extending food stamps to legal immigrants, claiming it helped get New York City representatives' support.

While the US bill was becoming law, EU officials were preparing their proposals for a decisive reform of the CAP. Inaugurated in 1962, the CAP initially aimed to make Western Europe self-sufficient in food by instituting tariffs, government-backed price floors, and direct payments to farmers. It quickly achieved this goal and then resulted in significant oversupply of food. In 1992, under pressure at the General Agreement on Trade and Tariffs (GATT) negotiations, the EU launched the first major reform of the CAP. It significantly lowered internal price floors towards world market levels, opened its market to imports, and agreed to subsidize fewer export goods. In 1999, the EU decided to further cut back subsidy levels during the next six-year period.

In 2002, at the mid-term review of the current six-year CAP, several problems pushed policymakers towards more drastic reforms. First, the CAP costs the EU roughly 45 billion euros—nearly half the EU budget, which needs to accommodate new expenditures, such as an expanding military. The EU's eastward expansion also made the CAP problematic. Absorbing 10 new Eastern European member states would significantly increase the cost of the CAP due to direct payments to the large number of farmers there (there are 10 million farmers in Poland alone—but only seven million in the current EU). The European Commission also worried that production-linked subsidies would exacerbate overproduction due to the large number of former collective farms which, if re-equipped, could become highly productive. Finally, upcoming WTO negotiations would militate against maintaining high subsidies.

With these factors in mind, and against the backdrop of the US Farm Bill's passage into law, European Commissioner Franz Fischler prepared his reform proposals. Speaking on July 10, he called for totally de-linking the payments a farmer receives from the amount he produces, basing it instead on a payment per farm, based on what a farm "historically" has received and capped at 300,000 euros. He also proposed further reductions in price floors and increased spending on "rural development"—suggesting that farmers convert farms into hotels and spend more time on making the countryside attractive to urban visitors and tourists. The commissioner thus proposed a subsidy cut that would discourage overproduction and limit expenses coming from the EU's eastward expansion.

Fischler prepared his proposal for use in a confrontation with the US at upcoming trade negotiations. If it were adopted, according to Fischler, "Unlike in the Uruguay-Round, the EU would be in a position to actively shape the negotiations on the WTO agriculture chapter under the 'Doha Development Round', with a strong negotiating hand and enjoying a level of credibility forfeited by the USA as soon as it introduced its Farm Bill." Fischler left open the possibility of the EU "defending" itself—i.e., bringing a suit against the US over the farm bill to the WTO—if the need arose. In the meantime, the EU is preparing memos attacking US claims about the bill, available on European agricultural syndicates' websites.

CAP reform is meeting stiff resistance, although it is not clear how negotiations will end. National agricultural ministers must vote to approve the reforms; the German, English, Dutch, Danish, and Swedish governments—who pay more than they receive from the CAP—are supportive of the reforms. However, France, Italy, and Spain—the main beneficiaries of the CAP—are opposed to them. *Le Temps* announced on July 16 that the French government had also rallied the support of agricultural ministers from the other EU members. Certain regional governments also condemned the measure: Till Backhaus, the Agriculture Minister of the German region of Mecklenburg-Vorpommern, said in *Der Spiegel* that the reforms "take a knife to the only economic sector in the new [East German] regions that works to some degree."

The general rightward turn in EU politics—including the recent election of a right-wing government in France, whose President Chirac and Prime Minister Raffarin both have extensive ties in agricultural and regional politics—may provide a more favorable climate for protectionism. Such layers calculate that social spending cuts, a downward revision of the percentage of standard CAP aid available to new Eastern European members, and relying on the ill will that the US has already generated at the WTO might solve the problems that first led officials to suggest CAP reform.

Even in other sections of the European ruling class, protectionist sentiment is increasingly popular. In a July 16 editorial, *Le Monde*, a center-left French newspaper, criticized Chirac's opposition to the reforms while supporting "preference" for EU farming in the face of US subsidies.

Farmers' organizations are hostile to the reforms. A group of Spanish farmers is protesting in Brussels. The French and German farm syndicates—the FNSEA (National Federation of Syndicates of Agricultural Workers) and the DVB (German Farmers' Union)—plan on presenting a united statement of position representing farm syndicates across the EU. In an interview in *Libération*, the head of the FNSEA said that its calculations showed the CAP reform forcing 200,000 French farmers—almost half the total—off their farms in 10 years. European farms are on average quite small (18 hectares as compared to 207 in the US), and he also claimed that EU officials were using these measures to increase concentration of farm ownership—i.e., force small farmers off their farms, presumably with an eye to increasing the overall profitability of the sector.

Faced with rural desertification and a long-term farm profitability crisis, the US government is handing large subsidies to agribusiness while the EU debates enforcing a potentially devastating austerity policy. Ruling elites are presenting a choice between a 1930s-style protectionism, or the devastating social consequences of free trade farm policy on the US and European countryside. The reorganization of farming within the context of a rationally planned global economy, free from national rivalries, is long overdue.