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TTIP and Agricultural Trade: Chicken War Over Again?

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Old wine in new bottles?



THE COMMON AND UNCOMMON AGRICULTURAL POLICIES: AN ETERNAL ISSUE?

May 6, 1998

19

4 Conclusions

1 The New
Relations

2 Is Free
Options

3 What
Transa

- └ agriculture continues to be a contentious sector in transatlantic relations
- └ ag. policy reforms will ease tensions
- └ traditional economic problems may be the easiest to solve
- └ new problems (technical standards) are more difficult to tackle
 - └ because of fundamentally different attitudes

Let us consider some ...



... history

... facts

... issues for negotiations

... potential landing zones

30 years of conflict in transatlantic ag trade



- Tensions abounded since creation of EEC (1958) and introduction of CAP (1962)
- Example: 'Chicken War' of 1963
 - EEC introduces high tariffs on chicken
 - US retaliates by introducing punitive tariffs on brandy (France), VW pick-ups (Germany), potato starch (Netherlands)
- Example: GATT disputes
 - US takes EEC to 'court' over EEC subsidies for pasta, canned fruit, wheat flour, poultry, ...
 - famous 'oilseed dispute' of 1988

Conflict and convergence in GATT negotiations

- US and EEC fought each other in all GATT rounds
 - Uruguay Round (1986-94) started with
 - US proposal of "zero option"
 - EEC proposal to manage markets
 - US-EC accord at Blair House opened door to conclusion of Uruguay Round
- Agreement on Agriculture established entirely new regime for ag trade in WTO

Nature of conflicts has shifted



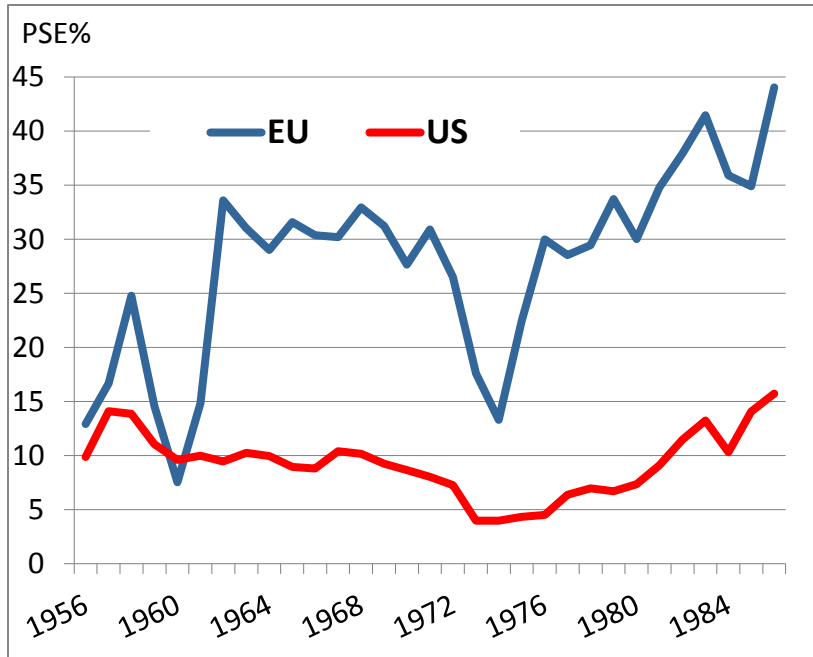
- After Uruguay Round, traditional conflicts (subsidies, tariffs) subsided, but
... new conflicts emerged: non-tariff measures (NTM)
- Examples:
 - beef hormones
 - 'mad cow' disease (BSE)
 - GMOs
 - pathogen reduction techniques
 - Grade A milk
 - raw milk cheese
 - geographical indications (GI)

Some facts (1):

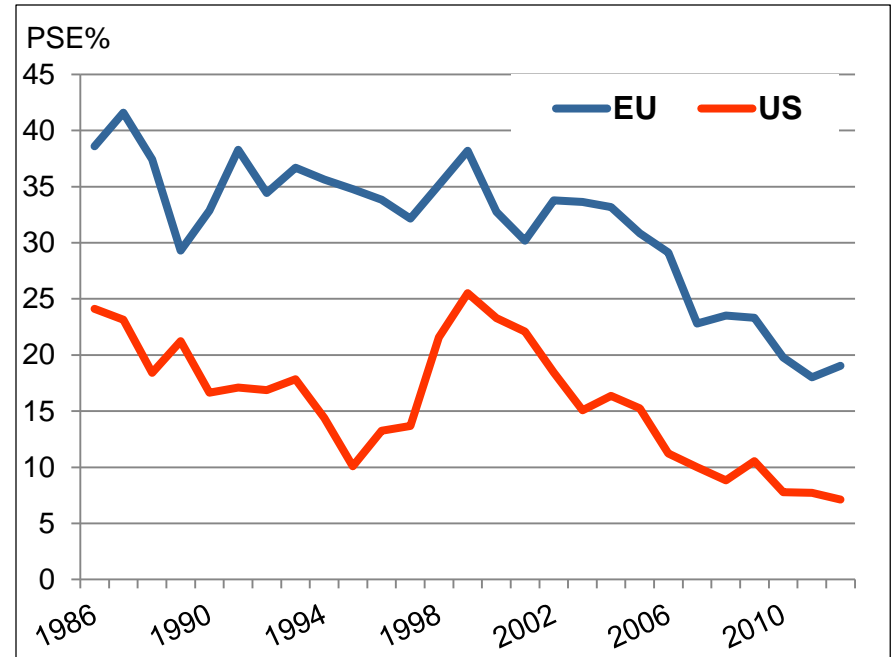
EU provides much more farm support than US



PSE% (Producer Support Estimate)
Share of government support in farm revenue



Source: Josling and Tangermann (2015)

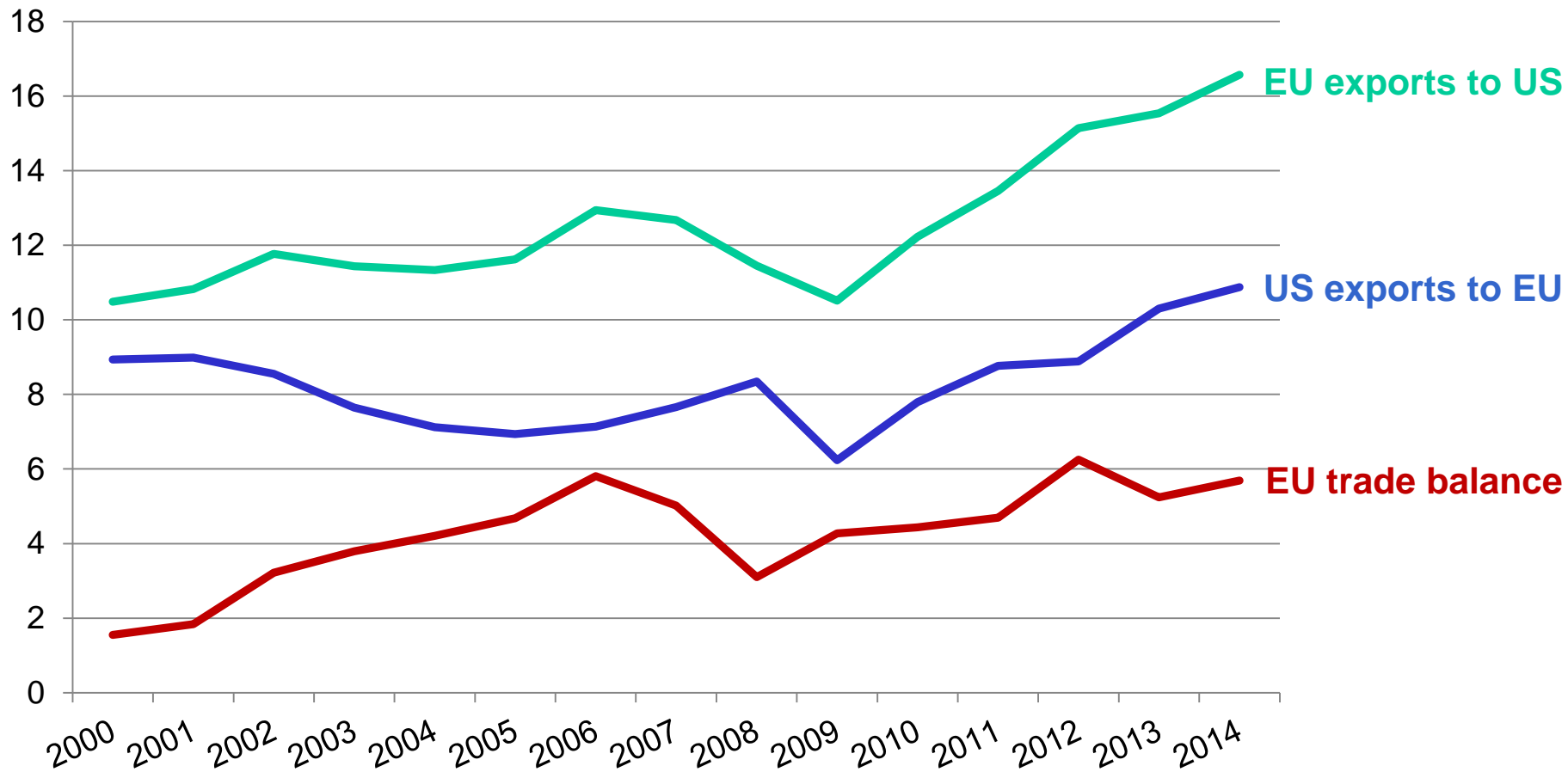


- Since early 1990s there were reforms of farm policy in US and EU
- farm support reduced, less market distortions: partial convergence

Some facts (2): US-EU ag & food trade grows dynamically



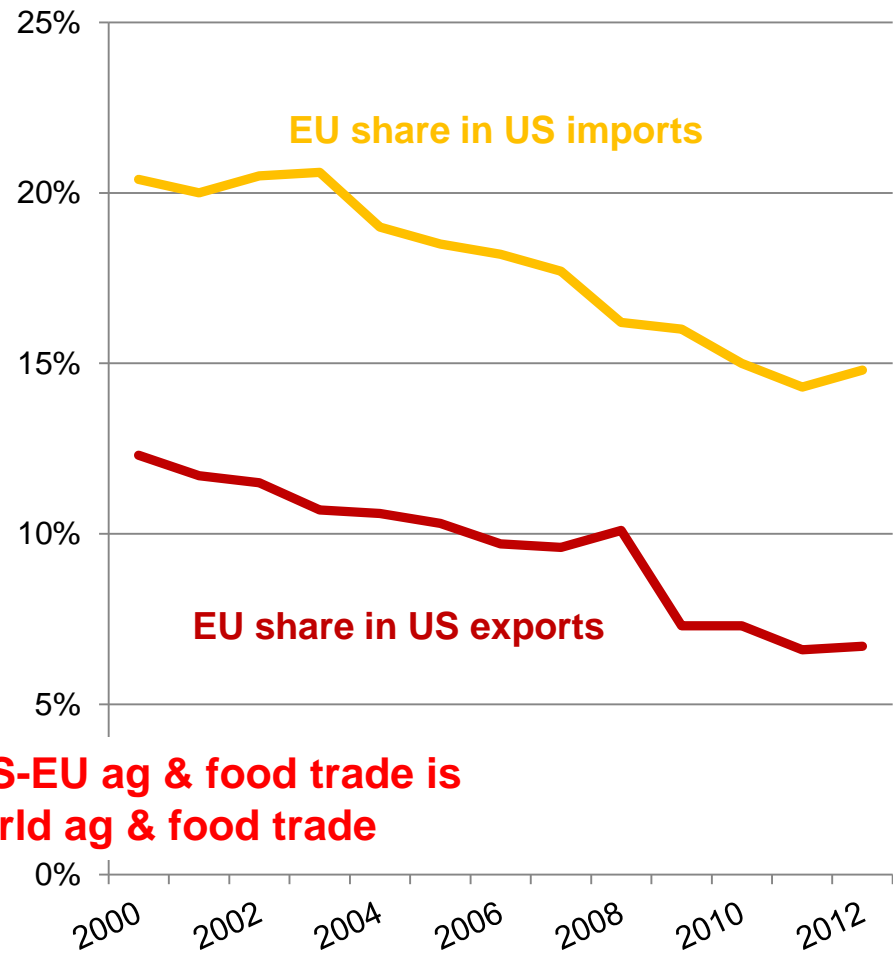
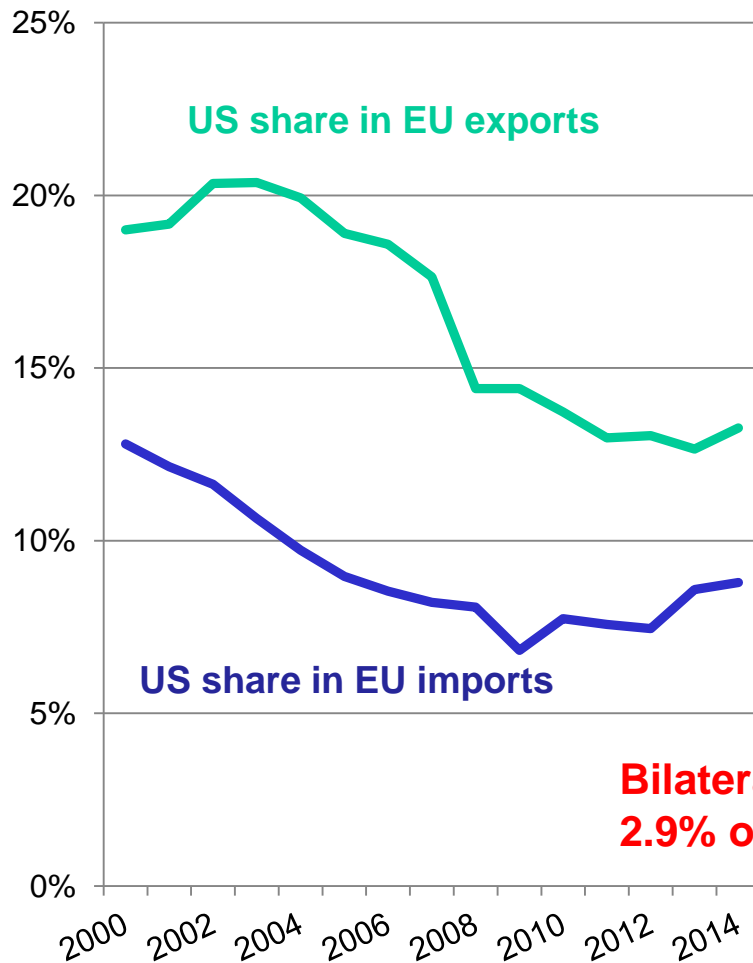
Billion EUR



Source: Josling and Tangermann (2015) updated

Some facts (3):

Weight of bilateral ag & food trade declines



**Bilateral US-EU ag & food trade is
2.9% of world ag & food trade**

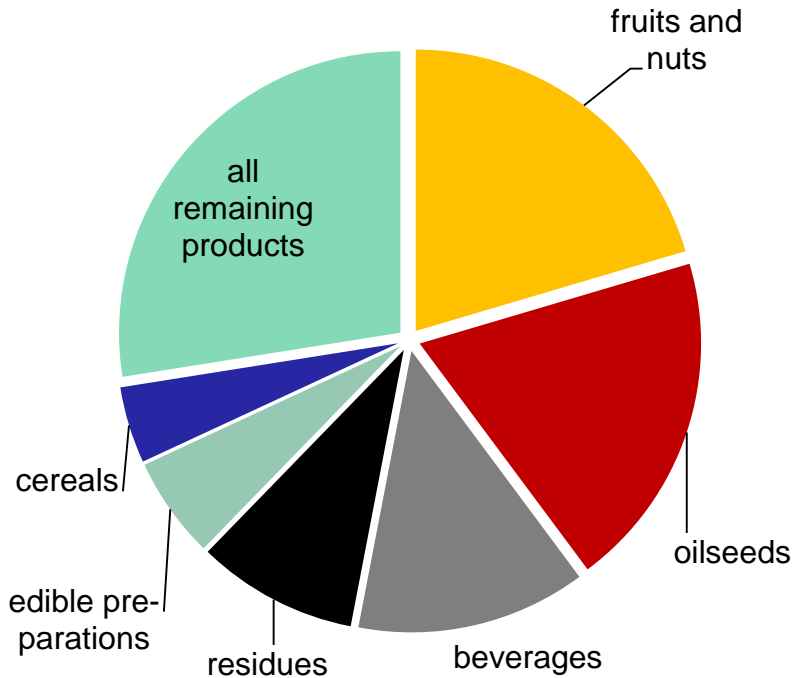
Source: Josling and Tangermann (2015) updated

Some facts (4)

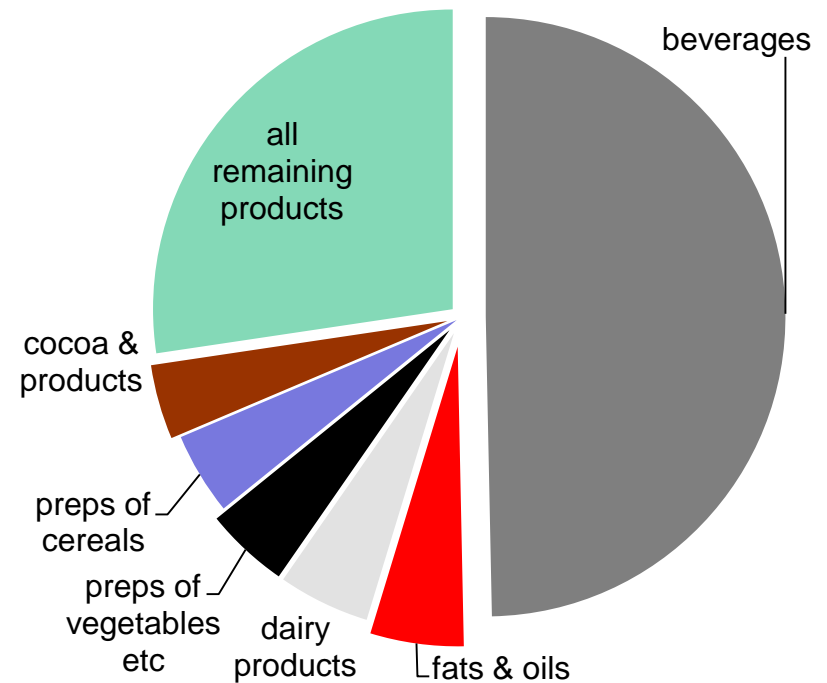
Much of US-EU trade is complementary



US ag & food exports to EU



EU ag & food exports to US



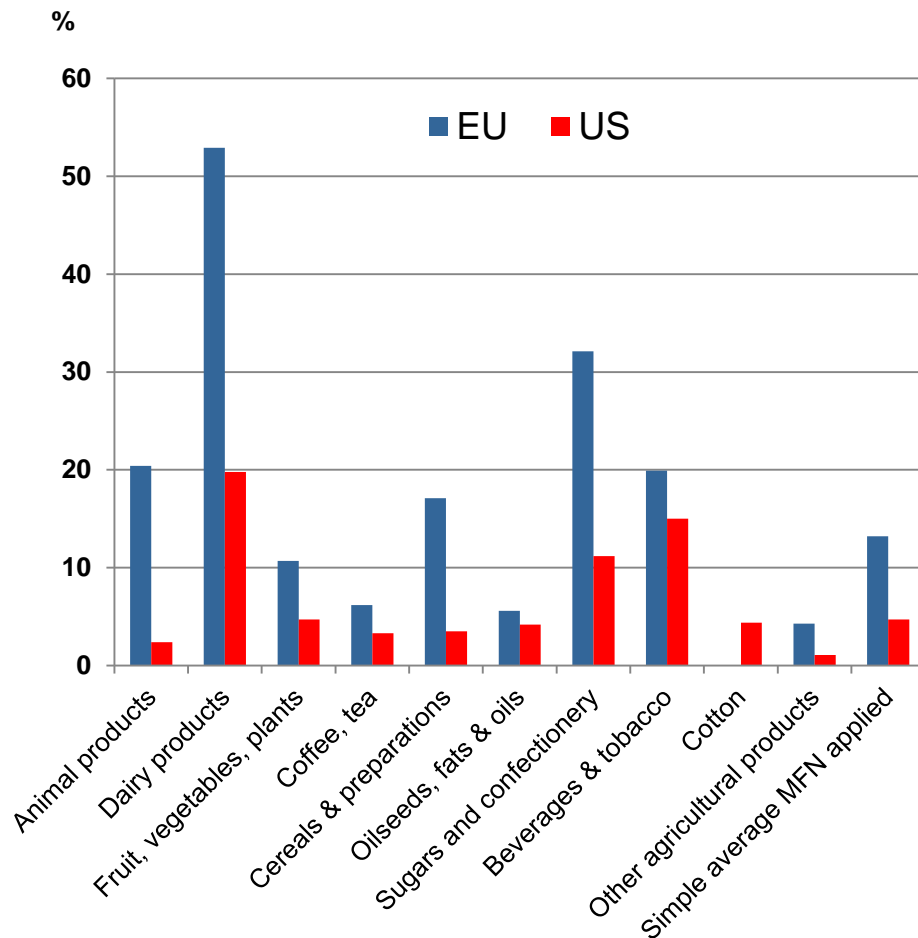
Source: Josling and Tangermann (2015)

Some Facts (5)

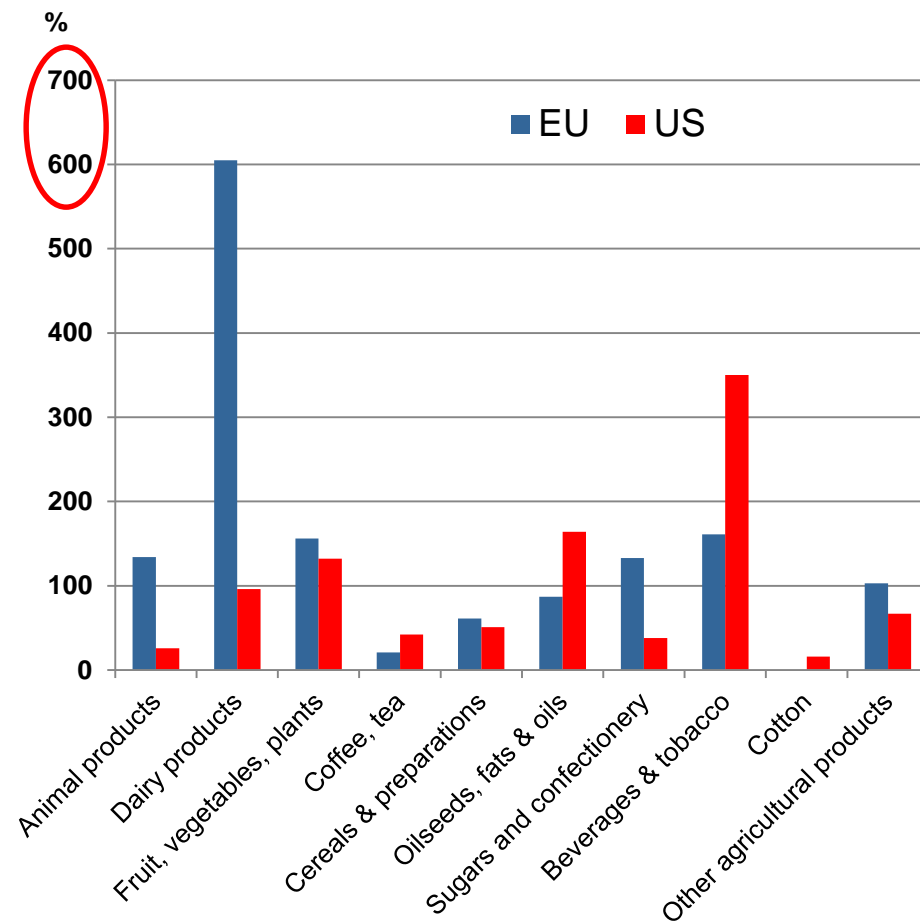
Agricultural tariffs remain high



Average tariffs for individual product groups



Maximum tariffs within individual product groups



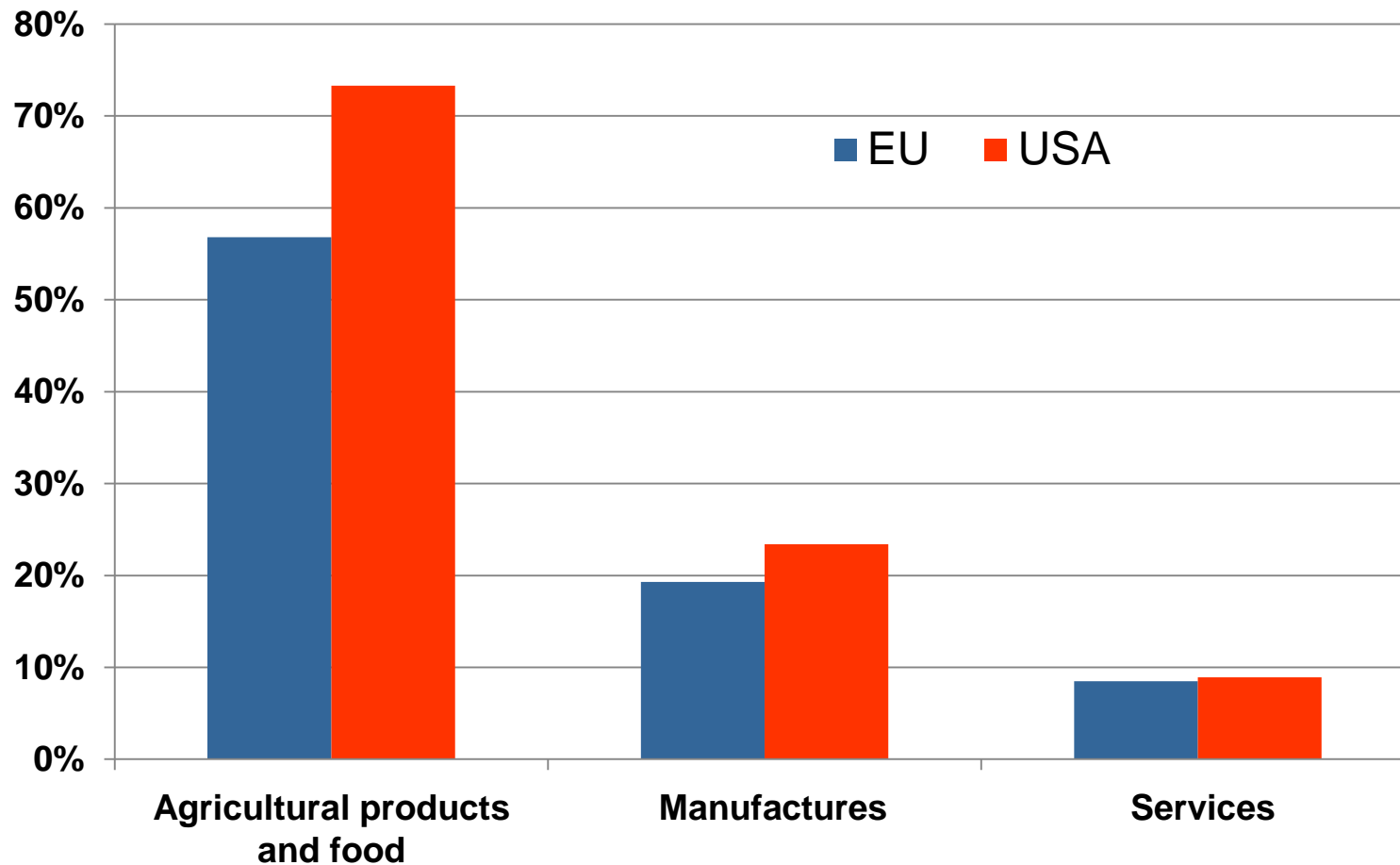
Source: Josling and Tangermann (2015)

Some Facts (6)

NTMs are even higher than tariffs



Tariff equivalents of NTM



Source: Ecorys (2009)

The challenge of negotiating agriculture in TTIP



- Against historical background, negotiating free transatlantic trade in food and agriculture is a courageous endeavour
- Complete elimination of tariffs will be difficult
- Reduction of regulatory divergences (NTM) will be even more difficult, as it is
 - ... technically complex
 - ... raises fears among public (in particular in EU)

Protest against TTIP is popular (in particular among Germans)



<http://www.faz.net/aktuell/wirtschaft/ttip-und-freihandel/freihandelsabkommen-fuer-oder-gegen-ttip-13849917.html> 12/10/2015

Germans don't trust US standards



Americans, Germans Prefer Own Standards

% trust American/European standards for _____

	U.S.		Germany	
	European standards	American standards	European standards	American standards
	%	%	%	%
Auto safety	33	55	91	4
Data privacy	29	49	85	3
Environmental safety	27	60	96	2
Food safety	22	67	94	2

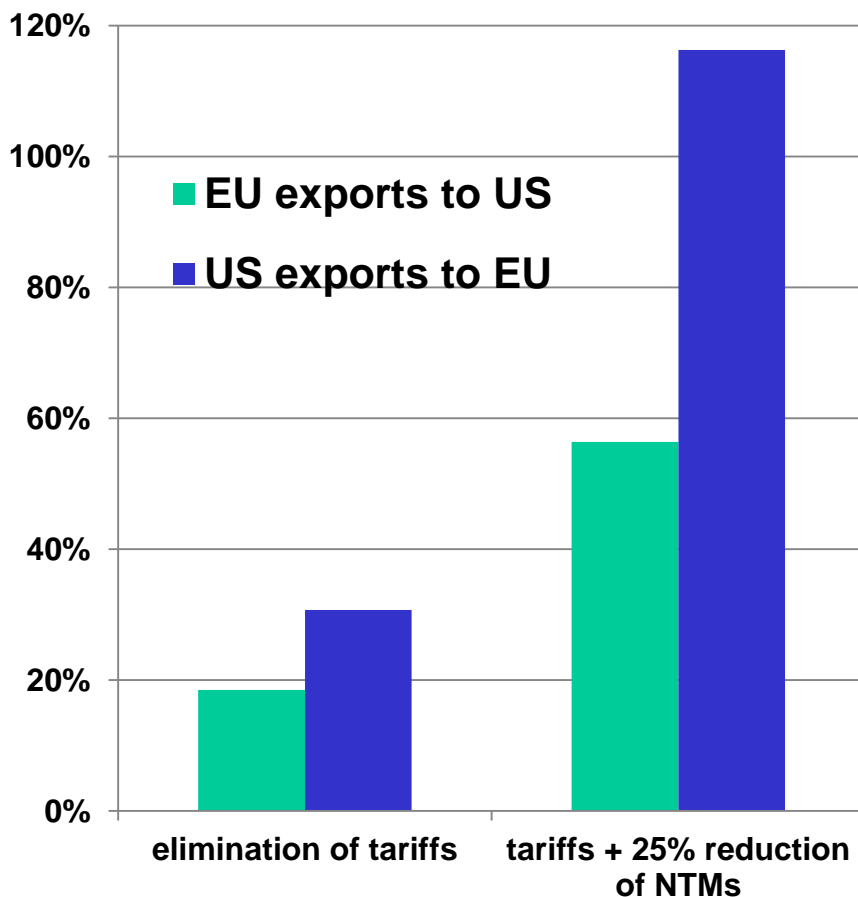
Source: Pew Research Center - Bertelsmann Foundation survey.
Q4a-d.

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NTM reduction has largest impact: results of model analysis

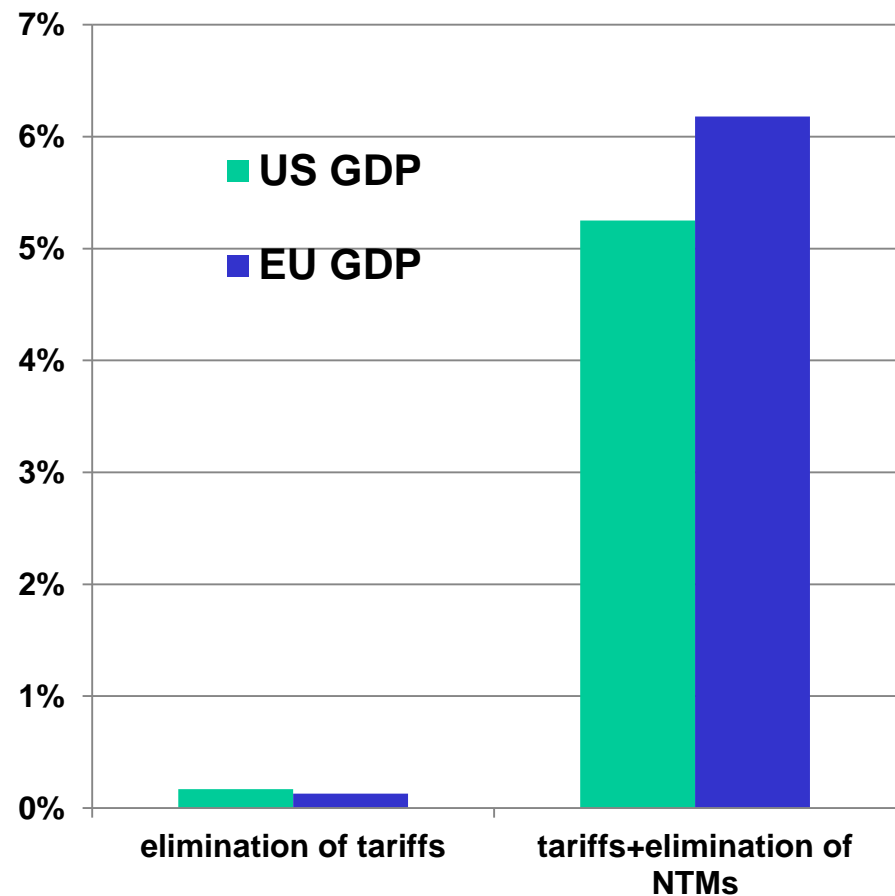


TTIP impact on agricultural trade



Source: Bureau et al. (2014)

TTIP impact on GDP



Source: Felbermayr et al. (2013)

What's the problem with NTM?



- NTM are regulatory measures that impede imports as they differ from country to country
 - Many NTM are indispensable (e.g. import ban for animal products from countries with foot-and-mouth disease)
 - Many divergences of regulatory measures have only historical reasons (path dependency), e.g.
 - turn-signal indicators have to be yellow in EU, red in US
 - regulations regarding cover of cans for spraying cream differ between EU and US
- ... and this creates unnecessary costs

"Free trade" and NTM



- Reduction of NTM in bilateral EU-US trade is a central aim of TTIP
- Aim is to reduce regulatory divergences, not to eliminate regulatory measures
- "Free trade" under RTAs (and TTIP) does not imply complete opening-up of borders
- Which NTMs are reduced is a matter of negotiations, there is no automatic result, no firm requirement in the WTO

Hierarchy of options for dealing with regulatory divergences



1. leave NTMs untouched
(and establish joint committees)
2. reaffirm intention to respect WTO provisions
(in particular SPS Agreement)
3. mutual recognition of conformity assessment
procedures
4. agree equivalence of regulations
5. mutual recognition, some or all ("Cassis de Dijon")
6. full harmonization

Labeling is an alternative (good) approach

The case of beef hormones (1)



- In the US, use of hormones as growth promoters in beef fattening is permitted, hormones are used in ~ 90% of large cattle herds
- In the EU, use of hormones in cattle feed is banned since 1989 (after cases of illness in Italy and decline in consumption of veal meat)
- US launched dispute cases against EU in GATT/WTO; decision: EU has not conducted appropriate risk assessment, should not block imports

The case of beef hormones (2)



- US imposed punitive tariffs on imports from EU
- Dispute was then settled: EU continues to block imports of hormone treated beef, but opened up tariff rate quota for hormone-free beef imports
- Scientific studies cannot prove any risks related to hormone treated beef – but also not contrary
- US continues to push for opening up of EU markets for imports of hormone treated beef

The case of GMO crops (1)



- In US, GMOs are used on ~ 90% of area planted to maize, soybeans and cotton
- EU has approved import of more than 50 varieties of GM crops for use (mainly in feed)
... but process of approval is slow, even after EFSA has decided positively
- EU has approved only two GM varieties for planting (maize MON810, potato Amflora)
... and Member States can ban planting even after positive vote of EU Commission (based on positive decision of EFSA), on purely political grounds

The case of GMO crops (2)



- US has brought WTO case against EU (2003) and largely won the case, but does not pursue it
- US pushes for acceleration of EU approval process for use

... but has, for the time being, largely given up on hopes to achieve EU approval for planting (???)

The case of "chlorine chicken" (1)



- US approved pathogen reduction techniques for cleansing of carcasses (chlorine wash, lactic acid and other antimicrobials)
- US is second largest global exporter of chicken
- EU banned these techniques for chicken in 1997, on the grounds that they can cover lack of hygiene in production process
- US brought WTO case in 2009, but does not pursue it currently; proposed practical approaches

The case of "chlorine chicken" (2)



- CODEX considers use of chlorine wash safe (2011)
 - EFSA found chlorine wash safe
- ... which led EU Commission to propose approval, but Council of Ministers voted against
- Majority of scientists in EU favour approval of chlorine wash, given significant microbial contamination of chicken from EU slaughterhouses
 - In 2013, EU approved lactic acid wash for cattle carcasses (but not for chicken)

EU has also requests to US, for example:



- Reduction of excessive food safety standards for fresh milk products ("Grade A" regulations)
- Approval of raw milk cheese matured less than 60 days
- Expeditious approval of imports of plants, fruit, vegetables (US checks often take more than 10 years; US: positive list – EU: negative list)
- Protection of EU Geographical Indications (e.g. "Gouda" and "Brie" are considered generic terms in US and thus not protected)

TTIP negotiations are in full swing



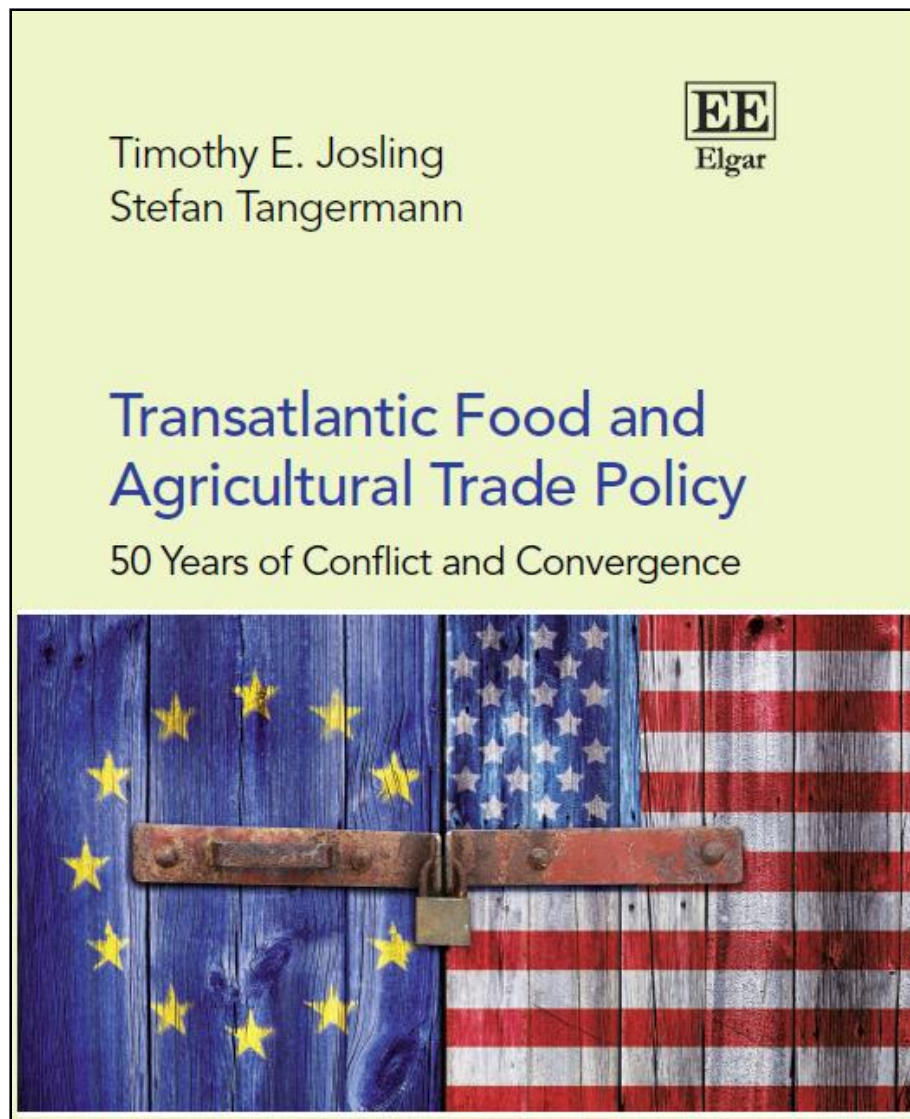
- Difficult to predict outcome, and eventual success is not certain
- Negotiations may drag on well into 2016 (or even until after November 2016 US presidential elections)
- If a TTIP is agreed, many issues in the domain of regulatory measures will remain open, to be resolved later in joint EU-US committees

Potential landing zones



- Tariffs: elimination for 95-97% of tariffs lines; TRQs for sensitive products
- Beef hormones: no change to current status
- GMO crops: EU accelerates approval process for use, but does not change current status for planting
- "Chlorine chicken": joint EU-EU body develops proposals for approach to pathogen reduction techniques
- Geographical Indications: list of selected EU GIs to be protected in US

Reference



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