European Community offers opportunities, obstacles

WASHINGTON, D.C. — The European Community presents a mix of opportunities and obstacles for U.S. exports. However, as the scales have tipped toward fewer opportunities and greater obstacles, strains in U.S.-EC trade relations have intensified. In the balance may be billions of dollars in U.S. agricultural exports, reports Harold A. McNitt, economist with the International Economics Division of USDA's Economic Research Service.

The 10 EC member nations are often viewed as a single body because of their common agricultural policies. As such, they make up the largest overseas market for U.S. farm products, accounting for around 20 percent of the total value of U.S. agricultural exports. U.S. exports to the EC (including Greece) were worth $9.5 billion in fiscal 1980, and roughly $9 billion in each of the last two recession-depressed trade years.

Behind the impressive sales figures are 280 million EC consumers whose average purchasing power approaches that of U.S. consumers. Further supporting U.S.-EC trade are close commercial ties, efficient shipping channels, modern port facilities, and a well-oiled banking system that links the two markets.

Yet partially offsetting these stimulants to trade is the EC's array of tariffs, import levies, and other barriers to protect its own producers. Import levies ensure that the price of an import from outside the EC is higher than the price of a corresponding item produced within the Community. These charges make it difficult, if not impossible, for many U.S. commodities to compete in the EC market.

In addition, the EC's internal system of farm price guarantees, subsidies, and other benefits for producers and processors has spurred agricultural output. Protected from outside competition and prodded by big price supports, EC producers now meet or exceed many of the EC's domestic needs for food and livestock products.

As a result, the EC has become one of our slowest growing farm markets. In 1980, for the first time in history, Europe fell behind Asia in purchases of U.S. farm products, and the spread has since widened.

The EC's expansion adds to the difficulties faced by U.S. exporters. Greece joined the Community in 1981, and Spain and Portugal are scheduled to enter in the mid-1980s. Membership in the EC will give them additional trade advantages. These nations, Spain in particular, are large producers of several items important in the U.S. agricultural export picture, including almonds, lemons, raisins, preserved fruit, and fresh and frozen vegetables.

With all these obstacles, how are U.S. agricultural exports faring in the EC market? The export record varies considerably, depending on the commodity in question. Here's an update and a look at prospects for major commodity groups.

Soybeans: A Strong Market

EC demand for soybeans developed rapidly during the 1970s to meet the needs of an expanding commercial livestock sector. U.S. soybean exports to the EC rose from 5.5 million tons in 1975 to an estimated 9.8 million this year.

High-protein feed based on soymeal is used for intensive poultry, hog, and dairy production. In recent years, EC crushers more than doubled their meal output, relying largely on U.S. soybeans which account for about four-fifths of EC soybean imports.

Since the demand for soymeal itself is not fully met by EC crushers, processed soymeal is also imported, mainly from the United States and Brazil. Although Brazil usually captures the larger share of the market, the United States will continue to rank as one of the top two suppliers.

The EC has been trying, with little success, to reduce its dependence on imports of high-protein feedstuffs. Soybean cultivation is highly subsidized, but yields have been low, and annual production is only about 18,000 tons. Also, the EC is offering incentives for the production of pulses (broad beans and field peas), rapeseed, and sunflower seed. Yet, so far, none of these crops has been able to supply more than a small proportion of the EC's protein feed needs.

The EC has considered imposing taxes or other barriers on soybean and meal imports, but these proposals have not been adopted. The United States has strongly objected that any such barrier would violate the EC's international trade agreements, which assure free entry to all oilseeds and oilmeals. A proposed EC vegetable oil tax seriously concerns the United States because it would cut demand for soybeans and other oilseeds.

Besides soybeans, the United States is also the leading supplier of sunflower seeds—bought mainly by West German crushers to produce oil for margarine—and is usually the primary source of peanuts imported by the EC.

Corn Outlook Poor

Corn, second only to soybeans among the top U.S. exports to the EC, faces a declining or stagnant market. Since 1975, U.S. corn exports to the EC have fallen from 11.8 million tons to an estimated 10 million this year.

While high EC farm price supports stimulate domestic output of grains for feed, EC import levies ensure that the price of imported corn is always higher than the price of the home-grown product.

France is Europe's foremost feed grains producer, and it has first claim on EC purchases because of the built-in price advantage. U.S. corn remains a major EC import only because—unlike barley and soft wheat—local producers are not able to satisfy demand. In fact, though the United States plays the role of residual supplier, we usually get a larger share of the EC corn market than France, our principal rival.

French output appears to have leveled off for now, so the United States may remain the largest supplier for the next few years. However, total EC corn consumption isn't expected to grow, and it may even decline further. The reason: Barley and wheat are both substituted for corn in EC feed rations, and their prices tend to be lower because they are surplus EC crops.

Corn remains necessary for some poultry and other feeds, but its use is dropping for feeds in which wheat, barley, and nongrain feedstuffs are cheaper substitutes.

Other Feedstuffs Score Gains

EC imports of U.S. corn gluten feed (used mainly for EC dairy cattle and hogs) more than tripled during the last half of the 1970's, and the U.S. share of the market soared to well over 80 percent as the U.S. corn refining (wet milling) industry combined high efficiency in manufacturing with active export promotion to boost sales.

Corn gluten feed enters the EC free of levies or tariffs in accord with the EC's international trade agreements, so it's very competitive as a nutrient in many formulas. However, future sales growth could be jeopardized by an EC proposal to place quantitative limits on corn gluten feed imports.

U.S. citrus pulp, a carbohydrate feedstuff used in cattle rations, also achieved big sales gains during the late 1970's. The United States supplies more than half of the EC's imports, with Brazil providing most of the remainder. Brazil may narrow the U.S. lead, but the United States should retain its position as principal supplier during the next few years at least.

Problems for Processed Foods

The EC is a very tough customer when it comes to introducing or expanding U.S. exports of many processed agricultural products, as well as unprocessed commodities with high unit values. More than half of EC members' import needs for processed and high value products (HVP's) are met by trade within the Community. The rest comes from a variety of countries, with less than 5 percent from the United States.

Variable levies and other import charges render a large portion of American HVP's uncompetitive on the EC market. The HVP's hit hardest include poultry, beef, pork, dairy products, eggs, milling industry products (except corn gluten feed), and bakery goods. Among meats, the exceptions are edible offals and horsemeat, which are big U.S. sellers on the EC market.

Trade in fruits, vegetables, and nuts may offer greater opportunities for U.S. exporters, especially for novel and high quality varieties. But the competition is fierce, and the EC's own producers have the advantage because their goods are free from import duties and levies. In addition, most Mediterranean producers outside the EC and many developing countries receive preferential tariff treatment. Spanish and Israeli oranges, Turkish raisins, Spanish lemons and almonds, and many other items are given a competitive price advantage over U.S. products.

The most rapidly growing American HVP exports are edible nuts. Sales more than tripled during the 1970's. Almonds, like all edible nuts, are free of variable levies, but they are charged a 7-percent tariff. The United States is the major supplier, but we will soon face increased competition from Spain because its almonds will have duty-free access when it joins the EC.

The small U.S. share of the EC fresh citrus fruit market is due partly to the high tariff faced by U.S. oranges during October-April, when Spain and other Mediterranean suppliers receive large tariff preferences. Lemons and grapfruit—subject to lower tariffs—are somewhat more successful.

On the EC dried fruit market, the Unites States is the leading supplier of prunes because of the Community's own producers, France and Italy, can't meet demand. However, U.S. prunes still face a 12-percent tariff. U.S. raisin sales may continue to decline, partly because EC processors are eligible for subsidies if they use EC-grown grapes.

Dried beans account for three-fourths of EC imports of dried legumes from the United States. Half go to the United Kingdom for further processing into baked beans and soup. Preferences are extended to certain Meditarranean suppliers, but tariffs on U.S. dried beans are relatively low.

Prepared and preserved fruits and vegetables are among the most difficult HVP's to export to the EC. The U.S. share of EC imports of these items is averaging only about 3 percent.

The EC is still the largest importer of unmanufactured U.S. tobacco, but the extension of tariff preferences to most major U.S. competitors exerts a downward push on U.S. sales. The U.S. market share may continue to drop during the next 5 years, possibly falling below 20 percent. U.S. cigarettes and other manufactured tobacco products are virtually excluded from the EC by very high tariffs.

Overall, the EC is a challenging market for some U.S. exports, but an unreachable one for others. In a free trade atmosphere, a product's success is determined by such factors as quality, availability, price competitiveness, and product differentiation. However, EC import policies frequently cast the United States in the trade role of "least favored nation," and these policies must be part of any realistic assessment of a U.S. product's market potential.