

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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EU Market Protection Suppresses Agricultural Imports

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Report Highlights:

Over the past decade the U.S.–EU agricultural trade deficit has gradually increased from \$7 billion in 2005 to \$12 billion in 2015. This report identifies EU domestic market protection mechanisms that skew agricultural imports by heavily discouraging imports of processed agricultural products. Tariff escalation and import duty relief for inward processing mechanisms were introduced with the CAP in the early '60s and have maintained through all CAP reforms.

General Information:

Introduction

Since 1999, the U.S. has run a trade deficit in agriculture with the EU, expanding the gap to a record \$12 billion in 2015. It is anticipated that 2016 will be the fifteenth consecutive year the imbalance will continue even growing to surpass last year's record gap. Since U.S. agricultural exports to the rest of the world have grown exponentially, the United States attributes slow growth in the EU to high tariffs, non-tariff barriers and the constant threat of new EU regulations.

According to the Commission's [Agri-Food Trade Statistical Factsheet](#), the EU is mainly exporting high-value consumer products to the United States, while importing commodities or minimally processed products. This report aims at shedding some light on this phenomenon that generally rules EU's international agricultural trade, and the mechanisms that lie at the basis of this EU trade policy.

The Common Agricultural Policy and EU Agricultural Tariffs

The first European Common Agricultural Policy (CAP) was agreed in 1962. It was established with the support of the United States, with the goal of weaning Europe off the food aid supplied through the Marshall Plan after famine broke out in European countries, especially in Germany, as World War II had crippled European agricultural production. The objectives of the CAP, set out in Article 39 of the Treaty of Rome, were:

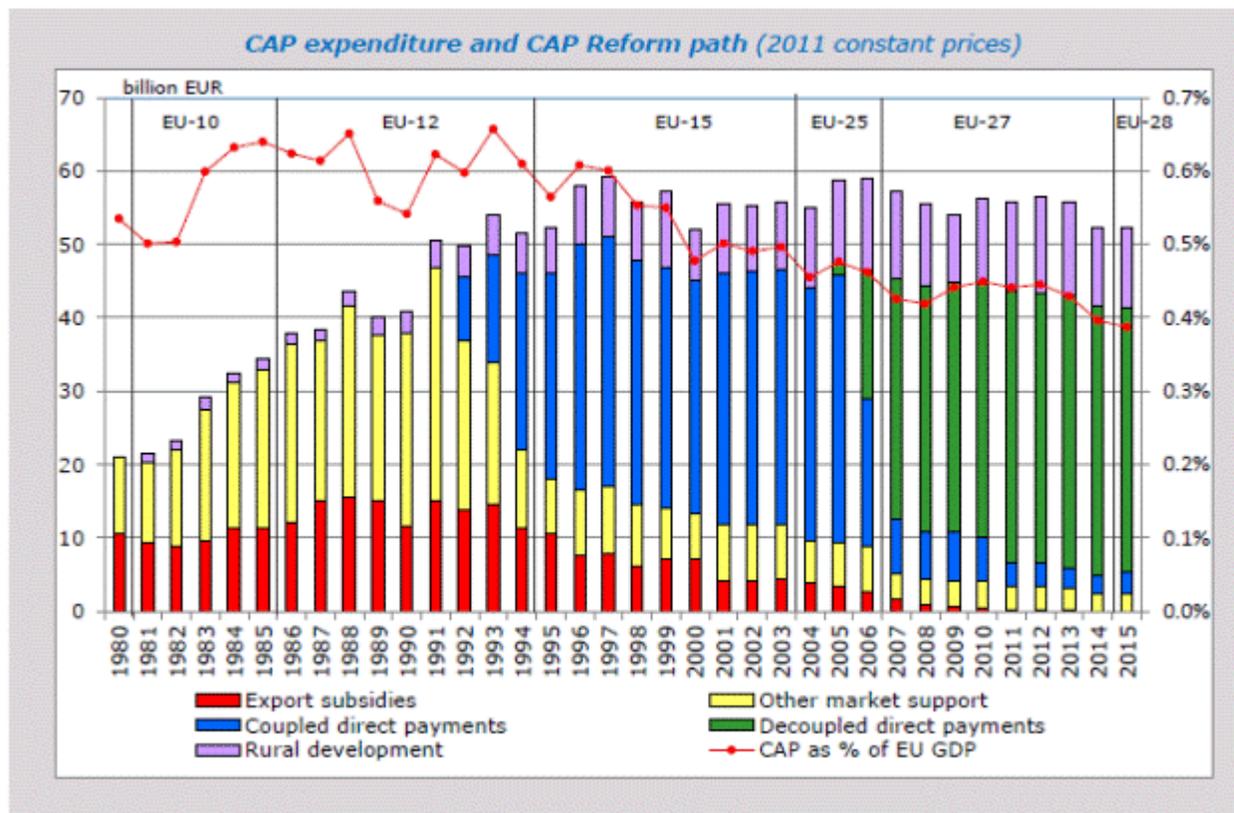
- To increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labor;
- To ensure a "fair standard of living" for farmers;
- To stabilize markets;
- To assure availability of supplies;
- To ensure reasonable prices for consumers.

This was achieved by isolating the European internal market from the world market and by stimulating domestic production by guaranteeing profitable domestic prices. The tools to reach this goal were:

- High guaranteed domestic prices
- Tariff walls
- Export subsidies
- Inward processing mechanism

This CAP kick started European agricultural production again and the goals of self-sufficiency and food security were mostly reached within a decade. By the late 1970's this unbridled production stimulus and the lack of market signals led to overproduction and the generation of the infamous wine lakes and butter mountains. This situation continued through the '80s, until the 1992 [Mc Sharry CAP reform](#) started the process of turning the CAP from a price support system into a farm support system. In the late '90s, the [Agenda 2000](#) CAP reform was agreed to increase competitiveness of EU agriculture by making it more market oriented, with defined economic, social, and environmental goals and while introducing a new rural development policy as a second pillar of the CAP. The start of the WTO [Doha](#)

[Development Round](#) (DDR) in 2001, forced the EU to make further efforts to make its CAP less trade distortive, leading to the [2003 Fischler Reform](#) and the [2008 Health Check](#). However, while different reforms were successful in converting the CAP measures from amber box before 1992 into mainly green box with the implementation of the 2008 Health Check, the EU has upheld its strong protection of the internal market through high tariffs and restrictive TRQs.



Sources: CAP expenditure: European Commission, DG Agriculture and Rural Development (Financial Report). GDP: Eurostat. Annual expenditure in 2011 constant prices.

Tariff Escalation and Inward Processing

Another mechanism protecting the EU food market that has survived all CAP reforms is the European system of [tariff escalation](#), whereby import tariffs increase with each step of processing. Not only does this system discourage imports of processed products, but it guarantees that added value through processing stays with the European food processing industry. Because the protection of the EU internal market keeps EU internal prices above world market prices, EU food processors also continue relying on a mechanism that allows them to compete with processors from other countries on the world market. The European [Inward Processing](#) system, which exempts EU importers from paying import duties when the imported product is re-exported again after further processing, provides EU processors access to raw materials at world prices at times when EU prices are higher.

Examples of tariff escalation

Tariff escalation of cereal products					
Regular duty in €/MT	Grain	Flour	Pellets	Flaked	Starch

Common wheat	95	172	175	175	224
Durum wheat	148	172	175	175	224
Barley	93	171	171	189	166
Corn	94	173	173	173	166
Oats	89	164	164	182	166
Brown rice	65	138	138	234	216

Tariff escalation in oilseed processing			
Regular duty in percentage	Seed	Crude oil for food	Refined oil for food
Soya	Free	6.4	9.6
Rapeseed	Free	6.4	9.6
Sunflower seed	Free	6.4	9.6
Palm nuts	Free	3.8	9.0
Peanuts	Free	6.4	9.6
Linseed	Free	3.2	9.6

Tariff escalation in meat processing			
Regular duty in percentage	Live animal	Carcass and cuts	Processed meat
Bovine	10.2 + €93.1/100kg net	12.8 + €141.4 - 304.1/100kg net	€303.4/100kg net
Pork	€41.2/100kg net	€46.7 - 86.9/100kg net	€85.7 - 156.8/100kg net
Lamb	€80.5/100kg net	12.8 + €119.9 - 222.7/100kg net	€46.7 - 86.9/100kg net
Broiler	€20.9/100kg net	€26.2 - 102.4/100kg net	€86.7 - 102.4/100kg net
Turkeys	€23.8/100kg net	€34 - 85.1/100kg net	€102.4/100kg net
Ducks	€32.3/100kg net	€38 - 128.3/100kg net	€86.7/100kg net

Tariff escalation schemes aren't always straight forward. For some commodities, the raw commodity may face a high import tariff, while products from a basic processing step may face a much lower tariff. This occurs when EU production of this commodity is considered sensitive and needs special protection, while the EU market has a deficit. For example paddy rice faces a regular import duty of €211/MT, but the import tariff escalates from €65/ MT from brown rice to €175/MT on semi-milled and milled rice.

In a similar vein, fruit and vegetables face a different entry price during the European production season than in the off season, protecting EU producers during the season, while allowing access to cheaper imports during the off season. As an example, the tomato entry price during the production season is 14.4 percent + a fixed duty, the same percentage as for preserved tomatoes, while the import price is lowered to 8.8 percent + a fixed duty during the off season. However, tariff escalation kicks in from 8.8 percent + a fixed duty depending on quality for fresh tomatoes during the off season, increasing to 14.4 percent on prepared or preserved tomatoes to 16 or 16.8 percent for tomato juice. Tariffs for potato processing escalate from 9.6 percent on fresh potatoes off season to 14.1 percent on thin sliced fried or baked potatoes (chips and fries). In contrast, an exemption to the tariff escalation

principle, the cakes from oilseed processing can be imported duty-free, because of the high EU deficit of proteins for its animal production.

Tariff escalation continues in further processing steps. However, these are less obvious as the resulting products usually become composite products with complex tariff structures.

Impacts on EU Agricultural Imports

The high tariffs and the tariff escalation result in EU agricultural imports being skewed towards products that the EU doesn't produce itself or for which its production is insufficient. Such products will usually benefit from low or zero tariffs in the EU tariff schedule and in EU FTAs and other trade agreements. A [Commission report](#) about the nature of EU agricultural imports in 2014 boasted that 71 percent of those imports, worth €72 billion, entered at zero duty.

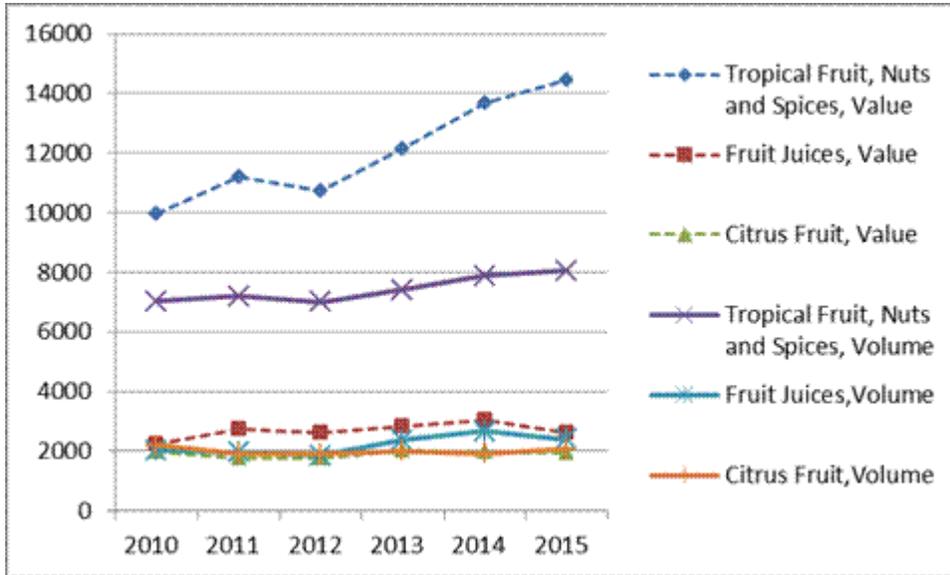
Conclusion

As part of the CAP, the EU established trade policy tools that actively disadvantage agricultural imports into the European market particularly higher value products. Through various reforms domestic support tools of the CAP were deeply overhauled, but market protection and trade policy tools remained intact, with exception of export subsidies, which were ended in 2013. As a result, EU agricultural imports remain focused on commodities and other agricultural primary products, with imported volumes remaining flat or increasing only slowly for a limited number of commodities (See graphs below).

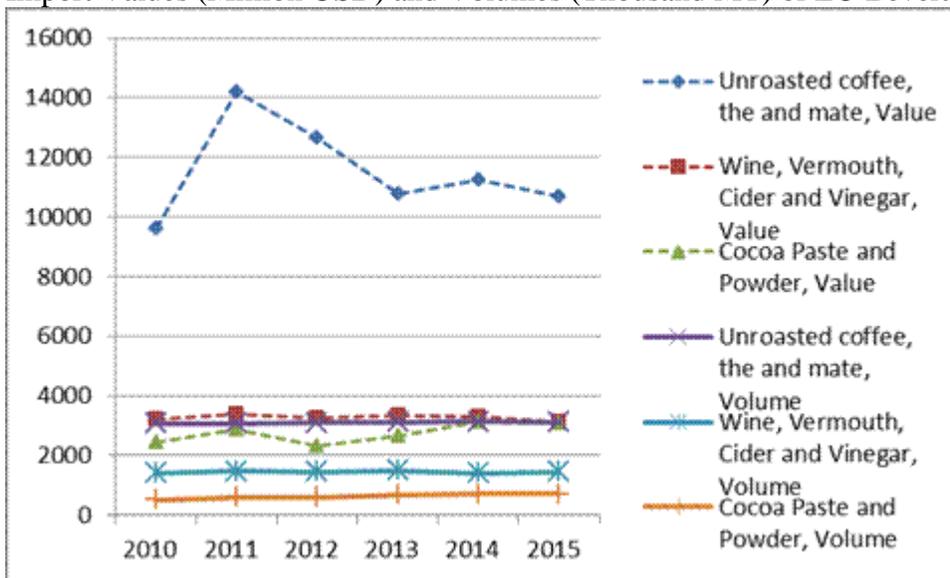
As a result of this restrictive EU agricultural import policy, the increase in imports from the United States is highly skewed towards commodities and primary products that the EU doesn't produce itself or for which it has a large deficit. Increases in import volumes of highly processed or consumer ready products are limited. Increases in value mostly reflect price increases and changes in exchange rate. EU exports, including to the United States, have soared in recent years taking advantage of the low Euro value. In 2015, 68 percent of EU agricultural imports were commodities, while processed products accounted for 64 percent of EU agricultural exports.

Especially foreign small and medium sized enterprises (SME's) are suffering from EU protection mechanisms of the internal market, as large companies simply choose to build local production plants in the EU. All major U.S. food industries thus operate production plants in the EU, which in turn may compete with U.S. based plants for exports to other parts in the world.

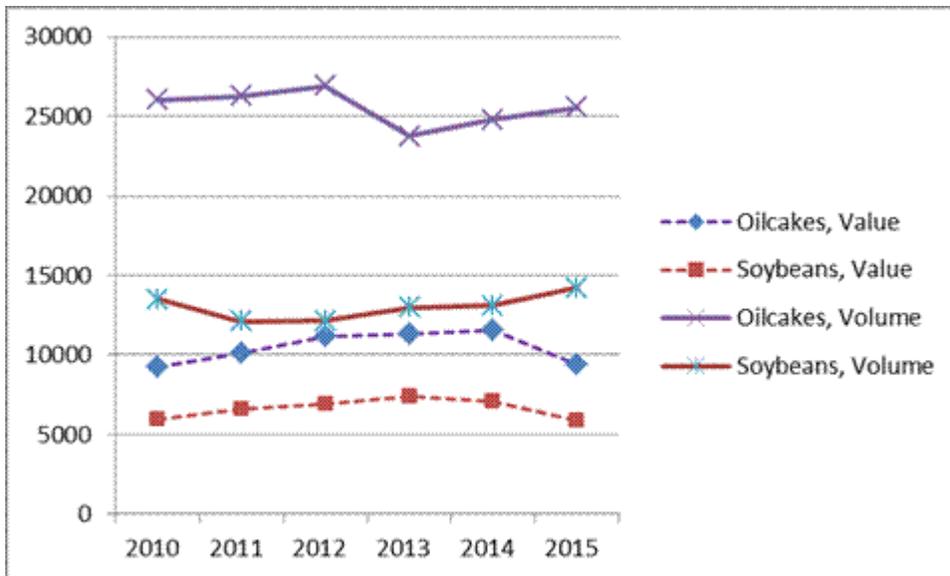
Import Values (Million USD) and Volumes (Thousand MT) of EU Fruit/Nuts and Fruit Juice Imports¹



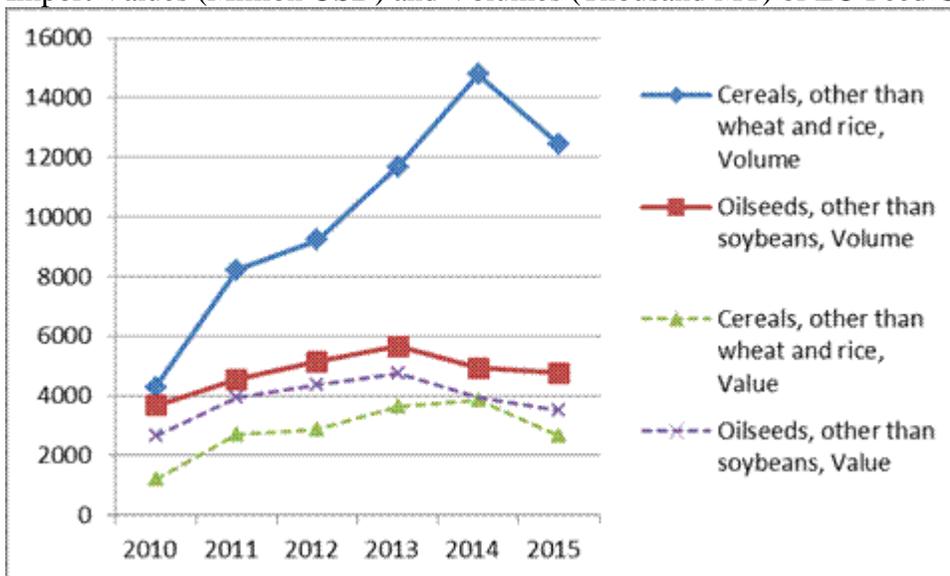
Import Values (Million USD) and Volumes (Thousand MT) of EU Beverages and Cocoa Imports¹



Import Values (Million USD) and Volumes (Thousand MT) of EU Soybean and Oilcake Imports [1]



Import Values (Million USD) and Volumes (Thousand MT) of EU Feed Grain and Oilseed Imports¹



Data Source: Global Trade Atlas (GTA)

^[1] Product groups are as referenced in the [Agri-Food Trade Statistical Factsheet](https://ec.europa.eu/agriculture/sites/agriculture/files/trade-analysis/statistics/outside-eu/2015/product-classes-details_en.pdf) and are defined in https://ec.europa.eu/agriculture/sites/agriculture/files/trade-analysis/statistics/outside-eu/2015/product-classes-details_en.pdf