Order Code RL30753

Report for Congress
Received through the CRS Web

Agricultural Support Mechanisms in the European Union: A Comparison with the United States

Updated July 31, 2002

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Summary

The European Union (EU), comprised of 15 member states (countries), is one of the United States' chief agricultural trading partners and also a major competitor in world markets. Both heavily support their agricultural sectors, with a large share of such support concentrated on wheat, feed grains, cotton, oilseeds, sugar, dairy, and tobacco. However, the EU provides more extensive support to a broader range of farm and food products.

The EU's Common Agricultural Policy (CAP) generally has focused on market intervention to support minimum prices for major commodities, often tied to production controls. In recent years, intervention prices have been reduced in favor of more direct payments, tied to historical production. Export subsidies (i.e., "restitution") are provided to traders to cover the difference between internal EU and world market prices for commodities and/or processed foods. Tariff-rate quotas and out-of-quota tariffs keep agricultural imports at prices as high as EU internal prices.

In the United States, those with a history of planting land to grains, cotton, and oilseeds (including peanuts) generally are eligible for both fixed decoupled payments and for "counter-cyclical assistance" payments (tied to per-bushel or per-pound target prices); the total producer subsidy is based on past production. They and producers of several other commodities also are eligible for crop loans and loan-related subsidies that provide further support. Dairy, sugar, and tobacco are supported through various minimum pricing systems, and some of these commodities are subject to tariff rate quotas to limit imports.

According to the Organization for Economic Cooperation and Development (OECD), the EU and United States in 2001 together accounted for nearly two-thirds of all government support to agriculture among the major developed economies. However, EU agricultural spending generally is much higher than in the United States. The EU spends much more on both domestic support and on direct agricultural export subsidies. While the EU has argued that U.S. food aid and loan deficiency payments are in effect export subsidies and should be counted as such, the United States disagrees.

Information comparing how the U.S. and EU governments support their producers is expected to be of interest to policymakers while negotiations are underway among world trading partners to further reform agricultural trade.

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Agricultural Support Mechanisms in the European Union: A Comparison with the United States

Introduction

The European Union (EU) is one of the United States' chief agricultural trading partners and also a major competitor in world markets (see tables 1 and 2, pages 2 and 3).[1] Both the EU and United States have trade-oriented agricultural economies that are heavily supported by their respective governments. Both face challenges over the next several years, as they attempt to support their agricultural producers within spending, trade, and other policy constraints.

The EU operates under a Common Agricultural Policy (CAP; see page 4). The CAP was altered most recently by a package of reforms known as "Agenda 2000." This 6-year program, finalized in March 1999, was developed in anticipation both of the next "enlargement," when additional European countries are expected to enter the EU, and of the new round of World Trade Organization (WTO) negotiations, where talks on agricultural trade reform are underway.

Table 1. U.S.-EU Agricultural Trade CY1997-2001 (billion dollars)

	1997	1998	1999	2000	2001
Exports to EU:	8.9	7.8	6.4	6.2	6.4
Imports from EU:	7.0	7.4	7.9	8.1	7.9
Trade Balance:	+1.9	+0.4	-1.5	-1.9	-1.5

Source: USDA, ERS. *Foreign Agricultural Trade of the U.S.*

On July 10, 2002, the European Commission (EC), the EU's executive body, tabled a review of the CAP, as required under the Agenda 2000 reforms. The review called for a major overhaul of agricultural support (see page 6).

[1] When all goods and services – agricultural and non-agricultural – are counted, the two markets share the largest two-way economic relationship in the world. See CRS Report RL30608, *EU-US Economic Ties: Framework, Scope and Magnitude*, and CRS Report RL30732, *Trade Conflict and the U.S.-European Union Economic Relationship*.

Table 2. Selected Statistics, U.S. and EU Agriculture, 2000 [2]

	United States	European Union
Farms	2.172 million	6.988 million
Average size	434 acres	45 acres
Value of agricultural production	$218.6 billion	$251.9 billion
Top commodity groups	Grains, other field crops (e.g., oilseeds, sugar, tobacco), dairy, beef/veal, poultry/eggs, hogs, vegetables/flowers, fruits	Dairy, grains, other field crops, beef/veal, pig meat, vegetables/flowers, wine/grapes, fruits, sheep/goats, poultry/eggs, olives/oil
Agriculture as % of GDP	1%	1.7%
Agricultural employment	2.1 million (1.5% of all employment; includes forestry, fishing, ag services)	6.8 million (4.3% of all employment; includes forestry, hunting, fishing)
Value of agricultural exports	$50.7 billion	$53.5 billion
Agricultural exports (as % of total agricultural output)	23%	21%
Leading export products	Oilseeds/products; feed grains; meats; fruits, juices, nuts; wheat/products; vegetables; feeds/fodder; poultry/products	Wines and other beverages; grains; dairy and eggs; fruits and vegetables; meats; processed food products
Leading markets	Japan, Canada, Mexico, EU	U.S., Japan, Switzerland, Russia
World export market share:		
Wheat	26%	15%
Beef/veal	19%	11%
Pork	17%	43%
Poultry	46%	18%
Nonfat dry milk	13%	24%

[2] Sources: USDA, National Agricultural Statistics Service, Foreign Agricultural Service, and Economic Research Service (ERS); European Commission, *Agriculture in the European Union: Statistical and economic information 2001*, and from ERS. U.S. and EU farm definitions are comparable but not identical.

In the United States, the President signed a new farm bill (P.L. 107-171, the Farm Security and Rural Investment Act of 2002) that reauthorizes and expands domestic commodity price and income support programs through 2007. The measure also renews and/or amends conservation, export and food aid, the food stamp, farm credit, rural development, and research programs. The measure has attracted intense criticism from U.S. trading partners, particularly the EU, who contend that it will depress world prices and distort trade – at a time when the United States, in the current WTO agricultural negotiations, has called for further reforms (including major reductions) in member countries' domestic and export programs (see page 7).

Overview of Policies

Both the United States and the EU employ a variety of policy mechanisms to provide farm-level price and income support. The programs of both are complex and costly, although the overall costs of support in the EU are higher than in the United States (see "Costs of Support," on page 11).

Many of the two governments' domestic and export programs either directly or indirectly support individual commodities. In both the United States and EU, a large share of agricultural support is concentrated on wheat, feed grains, cotton, oilseeds, sugar, dairy, and tobacco. However, the EU provides extensive support to a broader range of products that also includes meats, poultry, fruits and vegetables, olive oil, wine, and various animal feeds.

EU support generally has focused on market price support provided through institutional prices, tied for many commodities to production controls. In more recent years, intervention prices (essentially, minimum farm prices) have been reduced. Direct payments, tied to historical acreage and yields and land-aside requirements, partially are replacing lost producer income. Export restitutions (refunds) are provided to traders to cover the difference between the higher internal EU commodity prices they must pay and lower world market prices they receive. Export taxes are sometimes used when world prices are higher than domestic prices, keeping farm goods at home and (critics argue) needed supplies out of world markets. Tariff rate quotas protect EU producers by keeping import prices as high as EU internal prices.

In the United States through 2007, those who had land in grains, cotton, oilseeds, and peanuts generally are receiving direct income support payments, based on their past production of these crops. Those with a production history in these crops also are eligible for "counter-cyclical assistance," tied to per-bushel or per-pound target prices, whenever market prices are low. Producers of these crops, and of several other commodities, also are eligible for nonrecourse marketing assistance loans and loan deficiency payments. Dairy, sugar, and tobacco are supported through various minimum pricing systems, with tariff-rate quotas to limit imports. Export and food aid programs include the Export Enhancement Program (little used since 1995), the

Dairy Export Incentive Program, the Food for Peace and other food aid mechanisms, and export credit guarantees.[3]

U.S. and EU agricultural producers and other rural landowners also may have access to a variety of other programs such as: input, investment, and infrastructure aids like farm credit at below-market interest rates; conservation, environmental, and resource retirement programs; and subsidized crop insurance and natural disaster aid. In addition, the United States and the EU operate and/or fund numerous general services of benefit to agriculture and rural areas, such as research, education and information activities; pest and disease control programs; and market regulation, inspection, and grading services.

European Union[4]

The Common Agricultural Policy (CAP) is the body of legislation and practices under which the 15 member states (countries) of the EU jointly set a common, unified policy framework for agriculture. The main objectives of the CAP, which took effect in 1962, in part reflected lingering post-World War II concerns about food shortages and long-term food security. The CAP therefore aimed to increase agricultural productivity, support farm income, stabilize markets, guarantee regular supplies of agricultural products, and ensure reasonable prices to consumers.

Three basic principles have guided the CAP: (1) free movement of agricultural commodities within the EU based on common prices, no national barriers to trade, and harmonization of technical regulations; (2) preference for EU products over those from outside countries, maintained through import protections; and (3) joint financing of the CAP by its member countries.

Since its inception, the CAP has "brought about a massive reversal in the agricultural trading position of the EU, transforming the world's largest importer of temperate-zone agricultural products into the world's second largest exporter of food and agricultural products."[5] Many within the EU view the CAP as a successful policy that has vastly improved the EU's global trade position, helped to keep farmers on the land, and protected rural areas.

But any such benefits have come at a high cost. Steady productivity gains have increased supplies beyond domestic consumer demand. European farmers have continued to be supported through commodity intervention schemes that have held prices for many commodities at levels far above world prices, and high direct export subsidies have been instituted to move surpluses into foreign markets. This in turn

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[3] More details on these support methods appear later in this report.

[4] Sources for this section include USDA, Economic Research Service (ERS), *The European Union's Common Agricultural Policy: Pressures for Change*, October 1999; ERS, *The European Union – Common Agricultural Policy*, updated May 30, 2002, at http://www.ers.usda.gov/briefing/EuropeanUnion/PolicyCommon.htm and various EC documents, at http://europa.eu.int/comm/agriculture/index_en.htm .

[5] *The European Union's Common Agricultural Policy: Pressures for Change*.

has led to high EU budgetary outlays, wider use of supply controls, and increased tensions with the United States and other major agricultural traders.

Achieving reforms to address such problems has always been difficult for the EU, due among other things to a complex decision-making process involving 15 members, each of them a sovereign state with often very differing economic circumstances and policy views.[6] CAP policies are proposed by the European Commission (EC: consisting of 20 Commissioners appointed for 5-year terms from member states, where they have generally held high elective or administrative positions). Policies in turn generally are subject to agreement by the Council of Agricultural Ministers of the EU member states. Voting procedures effectively enable three or even fewer countries to block a decision, according to both EU and USDA officials.

MacSharry Reforms. With the negotiations that were to culminate in the 1994 Uruguay Round Agreement on Agriculture (URAA; see page 10) then underway, the EU in 1992 adopted its most significant CAP changes to date. Widely known as the "MacSharry reforms," after the former EU agricultural commissioner who pressed for them, beginning in 1993, intervention prices for major commodities – cereals, beef, and dairy products – were reduced, and supply controls were extended to additional products. To partly compensate farmers, the EU instituted direct payments linked to historical production and to environmentally sound production practices (volume limitations on certain commodities apply). Such direct payments are more transparent than subsidies provided through market price intervention (which are hidden in higher consumer costs), and therefore are more susceptible to cost-cutting pressures, USDA has noted. (However, the payments do not fully compensate producers for revenue lost due to cuts in intervention pricing, EU officials note.)

Agenda 2000. Agenda 2000 also fixes annual CAP spending through 2006 at 40.5 billion euros in real (inflation-adjusted) terms. Another 4.5 billion euros annually are set for rural development.[7] Agenda 2000 reorients CAP objectives not only to promote a competitive agricultural sector able to exploit world market opportunities but also to provide "a fair standard of living for the agricultural community." Objectives also include food safety and quality; assuring the diversity of European food production; rural development; and preservation of natural resources and of the "visual amenity of the countryside" (i.e., environmental and landscape protection), among others. "In short, the new policy seeks to support the maintenance of the specific model of agriculture which is a key part of Europe's heritage, one that recognizes the multifunctional nature of European agriculture and the wide range of benefits it produces."[8]

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[6] The EU, which began with six members as the European Economic Community in 1957, now consists of Germany, France, Italy, the Netherlands, Belgium, Luxembourg, the United Kingdom, Ireland, Denmark, Greece, Spain, Portugal, Sweden, Finland, and Austria.

[7] The euro was valued at nearly $1.10 about the time the EU agreed to Agenda 2000 (March 1999). By late 2000, its value had declined to around 85 cents. As of July 2002, it had reached approximate parity with the dollar.

[8] *The CAP reform – A policy for the future*, a fact sheet available through the EC website.

This concept of the "multifunctionality of agriculture" is a fundamental element of EU policy that several other governments (e.g., Japan and Korea) also support. It is a controversial issue in the WTO agricultural trade negotiations. The United States, Australia, and some others view it as a disguised rationale for shielding domestic producers through the use of trade-distorting support and protection.[9]

USDA has observed that even in the wake of its recent reforms, EU agriculture remains highly protected. High export subsidies, along with border measures that make it difficult for many imports to penetrate European markets, are still EU mainstays. "The CAP continues to insulate much of EU agriculture from world market forces. This insulation largely exempts EU producers and consumers from adjustments required in the global agricultural sector and increases the adjustments imposed on countries with open agricultural markets. The CAP...remains a dominant influence on international agricultural markets and trade."[10]

ERS has concluded that internal market forces, EU enlargement, and the WTO negotiations "all put pressure on the CAP largely by undermining its reliance on export subsidies to rid itself of surplus. Until these pressures force significant changes on the CAP, it will continue to depress world markets as Agenda 2000 does not substantially reduce incentives to produce and export agricultural commodities."[11]

Mid-Term Review. In a mid-term review of Agenda 2000, EU Agriculture Commissioner Franz Fischler, on July 10, 2002, proposed a major overhaul of the CAP. The proposal calls for:

- Decoupling direct farm payments from production of specific commodities, instead providing payments to farms based upon historical support; and conditioning the new payments on compliance with environmental, food safety, animal welfare, and occupational safety standards;
- Reducing farm payments (except to small farmers) by 3% annually, to a total of 20%, capping them to individual farms at 300,000 euros per year, and redistributing the savings (estimated at 500 to 600 million euros in 2005) to member states for rural development activities, particularly in poorer areas;
- Lowering market intervention prices in the cereals sectors; "adjusting" assistance in the dried fodder, protein crop and nuts sectors; and "simplifying" the direct payment system for beef.

The EU's foreign trading partners reacted positively to the EC proposal. However, it faces an uncertain future. Ten of the 15 EU member country farm ministers – led by France and Spain – were sharply critical of the recommendations. They complained that the mid-term review was envisioned to be a "review" of

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[9] See also ERS, *Multifunctionality in the WTO trade negotiations (overview),* November 15, 1999, at: http://www.ers.usda.gov/briefing/wto/multifunctionalityoverview.htm.

[10] *The European Union's Common Agricultural Policy: Pressures for Change.*

[11] *The European Union's Common Agricultural Policy: Pressures for Change.*

agricultural developments, not a reform proposal. Such a proposal should come later as a part of global reforms, particularly in the wake of a new U.S. farm bill that increases subsidies and maintains their ties to production, critics argued.

United States[12]

The federal government's farm price and income support programs, which comprise the heart of U.S. farm policy, have existed since the Great Depression. They were devised to help the millions of U.S. farm families, the majority of them poor, cope with precipitously falling commodity prices. At the time, agriculture produced primarily for domestic markets, and farm residents represented roughly one-fourth of the entire U.S. population.

Since then, farm residents have declined to less than 2% of the U.S. population, and American agriculture has changed profoundly, into a highly technological, capital-intensive industry that has boosted its production far beyond what can be absorbed through domestic consumption. World markets have become critical for absorbing this production capacity. (The need for world markets is no less important for the EU, where domestic consumption lags more, due to its aging population and to low income growth.)

Meanwhile, U.S. farm policies have retained many of their early features. Congress still requires the U.S. Department of Agriculture (USDA) to intervene in major agricultural markets through various combinations of direct payments, price intervention, and even supply management. Support is mandated for more than two dozen specified commodities. In addition, USDA has broad discretionary authority to assist producers of virtually any other agricultural commodity. Export programs and import protections also are sometimes employed to assist segments of the farm sector.

The programs of the 1930s and 1940s have, in fact, evolved, in response both to changes in agriculture and to fiscal, political, and trade pressures. Over the past three decades, successive Congresses and Administrations have sought to steer price and income support programs onto a more "market-oriented" course, so that producers might look to the private market rather than to government for production incentives and economic rewards. A succession of farm bills since the 1970s slowly nudged farm policy away from such tools as high commodity-based price supports, rigid production controls, and publicly-held and managed surplus stocks.

1996 Farm Bill. The Federal Agriculture Improvement and Reform Act of 1996 (FAIR; P.L. 104-127) was aimed at accelerating this shift toward a more market-oriented policy. Among other things, the FAIR act curtailed annual acreage reduction programs and acreage and yield-based payments tied to high target prices for grains and cotton, giving producers more "planting flexibility." In their place, such

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[12] Sources for this section include CRS Report RS20848, *Farm Commodity Programs: A Short Primer*; CRS Report RL31195, *The 2002 Farm Bill: Overview and Status*; the CRS electronic briefing book on Agriculture Policy and the Farm Bill; and various USDA and congressional briefing materials.

producers received 7 years of gradually declining "production flexibility contract payments" no longer coupled to what they produced. The law also ended farmer-owned grain reserves. It continued marketing loan repayment provisions, enabling farmers to repay their USDA crop loans at less than the per-bushel loan rates, if market prices are lower than those rates. (Also continued were loan deficiency payments, available to non-borrowers when the marketing loan repayment provisions are in effect.) The intention was to avoid forfeitures of those loans to the government (which would otherwise acquire the crops placed as collateral). Finally, the honey, wool, and mohair programs were not re-enacted, and the longstanding surplus dairy purchase program was slated to end after 1999.

The 1996 law retained other features of the old programs besides marketing loans. USDA was required to continue price support programs for dairy, sugar, peanuts, and tobacco that included forms of supply management for the latter two. The approximately $36 billion in market transition payments, although no longer tied to current production, generally went to the same wheat, feed grain, rice, and cotton land holders who benefitted from the previous programs, because the payments were based on past crop-specific program enrollment.

Unanticipated shocks to the agricultural economy since enactment of the 1996 law led to the expenditure of tens of billions of dollars in additional farm assistance. First, USDA outlays for marketing loan assistance have been much higher than policymakers expected in 1996, due to the decline in world market prices. Second, Congress passed a series of laws from 1998 through 2001 providing an additional $30 billion in *ad hoc* aid, over and above amounts that would have been available through the 1996 act alone. Some of the money was to compensate producers for disaster-related losses, but about $23 billion was to help them cope with deteriorating market conditions and low prices. Market loss payments were distributed mainly to those receiving annual transition payments, effectively based on the same 1996 allocation formula – meaning that grain and cotton producers were major beneficiaries. However, producers of such commodities as tobacco, peanuts, soybeans, livestock, and produce also have received *ad hoc* direct payments, not traditionally a form of assistance to them. Congress also extended the life of the dairy price support program and mandated some direct payments to dairy producers.

Such emergency provisions compensating farmers for low prices are "deviations" from the market-oriented 1996 farm act, and, among other things, "have reduced the influence of market signals on farmers' production decisions," according to the Organization for Economic Cooperation and Development (OECD).[13]

2002 Farm Bill. As legislative work began on a new farm policy to replace the 1996 bill, which was due to expire in 2002, U.S. farm interests were seeking a more

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[13] OECD. *Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2000*. OECD was established to promote economic growth, higher living standards, and trade expansion worldwide. Members are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, S. Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

predictable method of helping producers through "temporary" times of economic distress, a concept that came to be known as "counter-cyclical assistance." This concept was incorporated as a key element into the final bill, signed in May 2002 by President Bush. The following provisions are among those for supporting the U.S. farm sector through 2007:

- Those who previously planted wheat, feed grains, upland cotton, rice, peanuts, soybeans, and other oilseeds are eligible both for fixed decoupled payments and for counter-cyclical deficiency payments that make up the difference between a per-unit (bushel; pound) "target price"and the market price plus the fixed payment. Both payments are based on 85% of the farm's past production history, but a recipient does not have to plant these crops to receive the assistance.
- Current producers of the above crops, along with producers of ELS cotton, wool, mohair, honey, dry peas, lentils, and chickpeas can receive nonrecourse marketing assistance loans.
- Sugar continues to be supported through a combination of import quotas and nonrecourse loans, with certain supply controls authorized to control budget outlays.
- Milk price support continues through USDA purchases of surplus dairy products, supplemented by a new system of counter-cyclical payments to farmers when the fluid milk price declines below a statutory target.

The budgetary cost of these commodity programs is estimated to average above $16 billion annually through 2007. When conservation programs are added, spending for the farm sector could average about $20 billion annually.[14]

The Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP), the primary U.S. export subsidy programs which started in 1985, were retained, although EEP has been little used in recent years and DEIP spending is constrained within WTO-permitted levels. U.S. food aid in FY1999 reached its highest level in 25 years, a program level of approximately $3 billion (declining to around $2 billion annually since then), leading some foreign critics to charge that such aid primarily is, in effect, a proxy for export subsidies in response to low farm prices.

Although many recent program modifications have been fueled by concerns about short-term market conditions, a number of longer-term objectives are offered for U.S. farm policy. These include keeping the U.S. farm sector competitive in world markets; providing at least some level of support to undergird individual producer incomes; helping farmers and ranchers manage risks, particularly from natural

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[14] Source: Congressional Budget Office March 2002 baseline estimates. The total estimated cost (direct budget authority) for the entire farm bill, which also includes agricultural trade and food aid, domestic nutrition (mainly food stamps), rural development, research, and other authorizations, was estimated at $273.9 billion over 6 years (an average of $41 billion per year), although nearly $150 billion of this total ($25 billion annually) is for the domestic nutrition title. See pages 2 and 3 of *The 2002 Farm Bill: Overview and Status*.

disasters; ensuring that consumers have an abundance of food and fiber at reasonable prices; stabilizing commodity markets; increasing agricultural efficiency; preserving the family farm; feeding the hungry; conserving natural resources; and supporting rural economies, among others. Some of these objectives have been clearly stated in farm laws, while others may arise only in the course of congressional debate. A number of objectives would appear, on their face, to be difficult to achieve without undermining others. However, their breadth and number help to secure wider support for passage of farm legislation.

Nonetheless, the 2002 farm bill has come under intense criticism particularly from foreign countries, who contend that the scope and level of subsidies in the new law will stimulate U.S. overproduction, depress world prices, amplify global market distortions, and belie the U.S. position in the current trade negotiating round that the world's agricultural subsidies should be sharply curtailed. Besides raising questions about U.S. sincerity regarding its trade negotiating position, the new farm bill will encourage other countries to increase their domestic subsidies and/or import barriers to protect their own farmers, these critics contend.

The bill's defenders counter that the United States cannot unilaterally reduce its own supports before the EU, which spends far more than the United States (see table on page 14), and others agree to do likewise. The measure, with its vigorous program of supports, places U.S. negotiators in a much stronger bargaining position to demand that competitors not only reduce their domestic subsidies but also their generally much higher tariffs and (in the case of the EU) export subsidies, defenders add.

WTO Obligations

The United States and EU share the broad goal of maintaining diverse, prosperous agricultural sectors that are competitive in world markets. However, some of their programs and policies do in fact have the potential to strongly influence – and distort – production, marketing, and prices. Recognizing this, the 1994 Uruguay Round Agreement on Agriculture (URAA) obligates WTO member countries to discipline their domestic farm support spending and export subsidy programs so as to facilitate more open trade. WTO countries also agreed to begin reducing their barriers to agricultural imports.

The Agreement requires that export subsidies be reduced, generally 6 years, by 21% (in quantities) for specified commodities (for example, dairy or wheat), and by 36% (in government outlays). No new export subsidies may be introduced for commodities not previously receiving them. Furthermore, the Agreement defines the types of subsidy programs that are subject to these reductions, such as direct payments enabling exporters to offer commodities to foreign buyers at lower prices, and those that are exempt, such as *bona fide* food aid or export market promotion services.

The Agreement likewise requires member countries to control their domestic farm subsidies, primarily by reducing supports that have the most potential to distort trade, by 20% from a base period (1986-88) over a 6-year period. Exemptions are made for those least likely to distort trade, such as general services and many environmental programs.

Like other members, both the United States and the EU must operate their respective programs within the constraints of this Agreement. Thus, the UR commitments have been a key consideration as each government in recent years has shaped and modified its farm policies. The 2002 U.S. farm bill contains a so-called "circuit breaker" requiring the Secretary of Agriculture to attempt to keep farm program support within the annual URAA limit on U.S. trade-distorting domestic farm subsidies, of $19.1 billion.[15]

Costs of Support

The EU and United States for many decades have spent significantly more money to support their agricultural sectors than other countries. The Uruguay Round disciplines notwithstanding, some of the major agricultural traders, including the EU and United States, in the past several years spent more on farm supports than at any time since the mid-1980s, according to the OECD – although support among all OECD countries has been declining for 2 years (2000-2001) after 2 years of increases. OECD has attributed the changes in spending more to world commodity price and exchange rate movements than to agricultural policy reforms. Such reforms have been "slow, variable, and insufficient."[16]

In 2001, the OECD countries spent an estimated $311 billion in total support to agriculture. About three-quarters of this support went to producers; the rest funded general services like inspection, research, and marketing. The EU and United States together accounted for nearly 65% of this $311 billion – the EU with about $106 billion and the United States with some $95 billion. Putting these high expenditures into perspective, the two have the largest overall economies in the world, and their agricultural sectors also dominate global markets, which is why much of the world is so concerned about U.S. and EU agricultural practices and policies.

According to OECD calculations, the EU provided an annual average producer support estimate (PSE) of 36% of its gross farm receipts in 1999-2001, compared with an average annual PSE of 42% in 1986-88.[17] The U.S. PSE was an annual average of

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[15] Such subsidies may be either direct government spending or the subsidies represented by the difference between higher administered higher prices and lower world prices, for example. The EU is permitted a much higher annual limit on trade-distorting subsidies. See CRS Rept. RL30612, *Farm Support Programs and World Trade Commitments*.

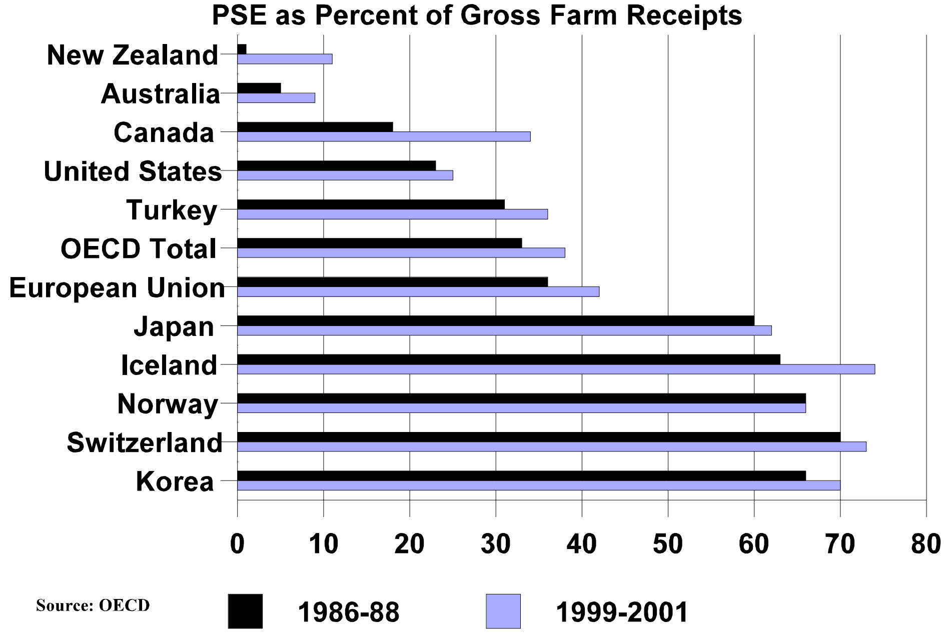
[16] *Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2002*. Information also is drawn from the 2000 and 2001 editions of this report.

[17] The OECD defines PSE as "an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures which support agriculture, regardless of their nature, objectives, or impacts on farm production or income." PSE counts market price support, all payments based on output, on acreage, on animal numbers, on historical entitlements, on input use, on input constraints, on overall farming income, and miscellaneous payments. The PSE can be expressed as a monetary aggregate or percentage. The OECD measurements of support discussed in this section are not the same as the measurements

(continued...)

23% of gross farm receipts in 1999-2001, compared with 25% in 1986-88. Figure 1 compares the EU and U.S. percentages with those for other selected OECD countries.

Figure 1. Producer Support by Country



OECD also annually calculates producer support per full-time farmer and per hectare of land.[18] Support per farmer in the United States (where commercial farms are larger than in the EU), increased from an annual average of $16,000 in 1986-88, to $21,000 in 1999-2001. In the EU, support per farmer increased from $10,000 in 1986-88 to $16,000 in 1999-2001.

The average EU subsidy was $696 per hectare ($282 per acre) in 1986-88, compared with $722 per hectare ($292 per acre) in 1999-2001. For the United States, the average per-hectare subsidy was $98 ($40 per acre) in 1986-88, compared with $122 ($49 per acre) in 1999-2001.

Comparative EU and U.S. subsidies for major commodities (using the PSE as a percent of gross farm receipts) are shown in figure 2 on the next page.

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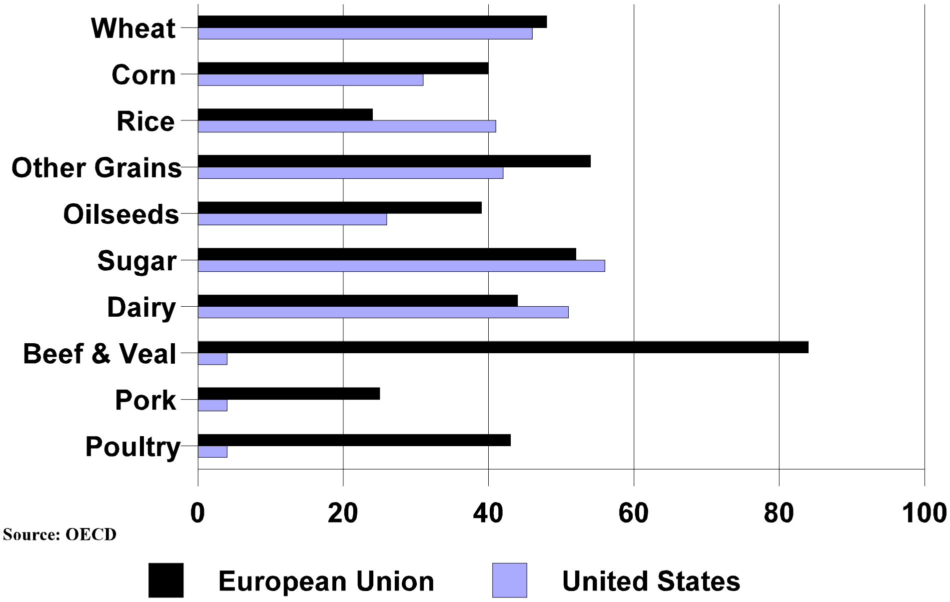
[17] (...continued)
used for WTO notifications under the URAA. For a more detailed explanation, see *Farm Support Programs and World Trade Commitments*.

[18] The OECD definition of full-time farmer equivalent counts all forms of farm labor: farmers, hired employees, and unpaid family workers to the extent the data are available. The per hectare calculation defines agricultural acreage as the sum of arable land and land under permanent crops and permanent meadows and pastures.

Figure 2. Support by Commodity, 1999-2001

(PSE as Percent of Gross Farm Receipts)



Source: OECD

Another yardstick for comparing support to agriculture is to examine only government spending – i.e., annual budgetary outlays for domestic farm programs and agricultural export subsidies. Essentially, this method, unlike the PSE, excludes the extra support to the farm sector via policy-mandated higher prices paid by processors and consumers (more prevalent in the EU than in the United States). As table 3 on page 14 illustrates, these annual budgetary outlays in recent years have been much higher in the EU than in the United States. However, U.S. outlays for domestic farm support have been higher than they were in the mid-1990s due to the *ad hoc* farm spending measures (see page 8). Still, the fact that the burden on consumers is not accounted for in this yardstick may make it a less useful comparison.

As table 3 also shows, the EU spends much more than the United States on agricultural export subsidies, too. U.S. officials calculate, based on WTO notifications, that the EU is responsible for 90% of all reported export subsidies. The EU contends that the assertion is misleading because U.S. food aid spending, which is higher than the EU, is not included in such reports. U.S. annual program levels for food aid have averaged nearly $2 billion over the past decade. The EU argues that this type of food aid spending increases during periods of low prices and high surpluses – indicating an "abuse of food aid...comparable to an export subsidy of 100% of the price of the product."[19] The EU also has argued that U.S. export credit guarantees and

[19] *European Communities Proposal, Export Competition* (G/AG/NG/W/34), September 18, 2000, submission to the World Trade Organization.

commodity loan deficiency payments are, in effect, export subsidies, and should also be counted.[20]

Table 3. Comparison of U.S. and EU Government Spending On Agricultural Support, 1999-2002[21]

European Union	Billion Dollars			
	1999	2000	2001[e]	2002[e]
Export Subsidies [a]	5.984	5.283	3.396	3.328
Domestic Support [b]	32.660	29.119	29.720	34.443
Total	38.644	34.402	33.116	37.771
United States	**1999**	**2000**	**2001**	**2002[e]**
Export Subsidies [c]	0.390	0.414	0.157	.663
Domestic Support [d]	18.272	18.338	24.945	17.206
Total	18.662	18.702	25.102	17.869

e=estimate

a/ EU export subsidies include export refunds (amounts paid to exporters who bought at high internal market prices and sold at world market prices), but exclude food aid.
b/ EU domestic support includes expenditures for intervention purchasing and other price support measures, production and processing subsidies, set-aside and income support, monetary compensatory amounts, and stock depreciation.
c/ U.S. export subsidies include net outlays of the Commodity Credit Corporation for the Export Enhancement Program, Dairy Export Incentive Program, Export Credit Guarantee Programs, and the Market Access Program. Foreign food aid is excluded.
d/ U.S. domestic support includes net CCC outlays, including 1999 emergency assistance, interest payments, and operating expenses, minus CCC export outlays. Conservation Reserve Program spending is excluded.

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[20] EC. *OECD "monitoring" report 2000, discussion paper*. June 9, 2000.

[21] Table is from *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy* (CRS Rept. 98-253 ENR), updated July 2002. Figures derived from USDA and EU data.

Comparison of Assistance Tools

The following pages provide a side-by-side description that attempts to cover many, but not all, major tools used by the EU and United States for assisting agriculture. This description:

- Does not include many of the programs that may be offered by individual EU countries or by U.S. states, or privately funded efforts, such as producer-funded export programs and commodity promotion activities.

- Provides levels of price support for illustrative purposes only. These figures are not intended to be comparative – or necessarily the most current.

- Explains methods of support that are authorized but may not necessarily be in effect currently, for various reasons. For example, some mechanisms come into play only when market prices for a certain commodity decline to a prescribed level, or when some other market condition occurs. Also, not all producers may be eligible for the particular policy tool being described.

- Draws primarily from the following sources: *The European Union's Common Agricultural Policy: Pressures for Change;* ERS's EU website, http://www.ers.usda.gov/briefing/region/europe/polcap.htm; various European Commission documents, including recent annual editions of *The Agricultural Situation in the European Union* and from http://www.europa.eu.int/index-en.htm; *C.A.P. Monitor*, published by Agra Europe, London; various WTO notifications by the EU and United States; attache reports from USDA's Foreign Agricultural Service; and various fact sheets and reports published by ERS and by CRS.

GRAINS: EUROPEAN UNION

Intervention prices/purchasing: The EU is obligated to purchase, at intervention prices, many grains (wheat, barley, corn, rye, sorghum, and durum wheat) offered by farmers and traders who are unable to sell at a higher price on the private market. Intervention sales can only be made during specified periods of each year. The basic intervention price is 101.31 euros/metric ton (MT) for the 2001/2002 marketing year; it may be increased in 7 monthly steps of 0.93 euros each.

Area compensatory payments: Used with land set-aside requirements, these are part of the CAP's broader consolidated support system for "arable crops," which also covers oilseeds and certain protein crops (linseed, hemp). Farmers receive decoupled payments, per hectare (2.47 acres), expressed in 63 euros/MT ton for the 2001/2002 and subsequent marketing years. They are called "compensatory" because they partly offset losses from reductions in intervention prices that began after 1992. Each EU region has a limit on total payments; EU countries develop regionalization plans to set payments based on historical yields. Thus, producers in higher-yielding regions tend to receive higher payments. For durum wheat, a supplementary payment is offered, of 344.5 euros/hectare in traditional areas and 138.9 euros in other areas, subject to the regional caps.

Land set-aside (compulsory and voluntary): Farmers must set aside cropland in exchange for area compensatory payments. The basic set-aside rate is 10% through 2006, but can be adjusted if necessary. Set-aside land must be managed to protect the environment, but can also be used to grow certain non-food and non-feed crops. Farmers producing less than 92 tons of grain are exempt from set-aside. Farmers may set aside additional acres for the set-aside payment (equal to the area payment).

Import controls: Imports are tightly regulated through tariff-rate quotas (TRQs, where in-quota imports are usually subject to a lower or no tariff, but those above the quota face a much higher, and often prohibitive, tariff), required import licenses, and other rules. EU countries are required, under world trade rules, to provide "minimum access" levels for grain imports, and the necessary TRQs have been established. (In 2002, the EU announced plans to restructure its grain import controls.)

Export "restitutions" (refunds); export levies: EU exporters receive "restitutions" (a subsidy) to bridge the gap between higher internal prices and lower world market prices. Refund rates are determined weekly following fixed criteria. Exports also require licenses. Export levies may apply when world prices are higher than domestic prices to discourage exports to protect EU supplies.

Rice: Producers are supported through a system of government intervention purchasing (at an intervention price of 298.35 euros/MT of paddy rice); per-hectare compensatory payments (52.65 euros/MT); national hectare bases for rice to which the payments are tied; production refunds to processors of starch and certain other rice-derived products; and export refunds to bridge the gap between higher EU rice prices and lower world market prices. Import protection takes the form of: required licenses; tariffs tied to the difference between import and reference prices; and additional duties which may be imposed when import prices fall below specified "trigger prices" or import volumes exceed specified "trigger volumes."

GRAINS: UNITED STATES

Fixed decoupled payments: Producers with land planted in the past to wheat, rice, or feed grains are eligible for fixed payments so long as they maintain that land in agricultural or conserving uses (they do not have to plant these particular crops on that land in order to receive payments, thus their "decoupled" nature). The total payment is calculated by multiplying 85% of established acreage, times the farm's per-acre yield history, times a statutorily-set per unit rate. These rates (through the 2007 crops) are 52¢/bushel (bu.) for wheat, 28¢/bu. for corn, 35¢/bu. for grain sorghum, 24¢/bu. for barley, 2.4¢/bu. for oats, and $2.35/100 pounds (cwt.) for rice. Annual per-person limits on total benefits apply.

Counter-cyclical deficiency payments: Farmers may be eligible for payments to make up the difference between a crop's average market price plus the fixed decoupled payment (above) and its statutorily-set, per-unit target price. The total payment is based upon past production history generally as calculated for fixed payments (see above). Target prices for the 2002 and 2003 crops are: $2.60/bu. for corn, $2.54/bu. for grain sorghum, $2.21/bu. for barley, $1.40/ bu. for oats, $3.86/bu. for wheat, and $10.50/cwt. for rice (most will increase somewhat in later years). Annual per-person limits on total benefits apply.

Marketing loan gains & loan deficiency payments: Current producers of these crops are eligible for nonrecourse marketing assistance loans, whereby they pledge their harvested grain (wheat, rice, corn, barley, sorghum, oats) as collateral for loans from USDA, at statutorily set per unit rates. These rates for the 2002 and 2003 crops are: $1.98/bu. for both corn and grain sorghum, $1.88/bu. for barley, $1.35/bu. for oats, $2.80/bu. for wheat, and $6.50/cwt. for rice (most will decline somewhat in later years). Loans must be repaid within 9 months or else the borrower forfeits the collateral crop to USDA, which has "no recourse" other than to accept it in lieu of repayment. To limit forfeitures, a "marketing loan" feature enables the producer, when market prices drop below loan rates, to repay the loan at a USDA-calculated market price and retain ownership of the commodity. The difference between the original loan and the lower repayment rate constitutes the amount of the subsidy. When market prices are below loan rates, loan deficiency payments (equal to marketing loan gains) also are offered to eligible producers who choose to forgo such loans. Annual per-person limits on total benefits apply.

Hard white wheat incentive payments: For 3 years, an additional $20 million is to be paid to producers to ensure that hard white wheat on not more than 2 million acres meets minimum quality standards.

OILSEEDS: EUROPEAN UNION

Area compensatory payments: Used with land set-aside requirements (see below), compensatory payments are part of the CAP's broader consolidated support system for "arable crops," which cover not only oilseeds but also cereals and certain protein crops. Producers of approved varieties of rapeseed, sunflowers, soybeans, and linseed receive direct payments, per hectare (2.47 acres), expressed in 63 euros/MT for the 2002/2003 marketing year and thereafter. They are commonly called "compensatory" because they partly offset the loss of previous production subsidies. Until 2002, this support was tied to regionalized historic, average yield levels. By 2002/2003, oilseeds support becomes aligned with the per-hectare payments and land set-asides for cereals, and no longer is a separate program.

Maximum guaranteed areas: Until 2002/2003, when oilseeds support became integrated with that for cereals, oilseed plantings were restricted to maximum guaranteed areas (MGAs) totaling 5.482 million hectares for the EU-15, in order to comply with the 1992 "Blair House" agreement between the EU and United States.

Land set-aside: Producers, unless they are small, must set aside a minimum of 10% of their arable land to qualify for compensatory payments (for more information, see EU grains discussion on previous page).

OILSEEDS: UNITED STATES

Fixed decoupled payments: Producers with land planted in the past to soybeans or other oilseeds (sunflower, rapeseed, canola, safflower, flaxseed, mustard seed) are eligible for fixed payments so long as they maintain that land in agricultural or conserving uses (they do not have to plant these particular crops on that land in order to receive payments, thus their "decoupled" nature). The total payment is calculated by multiplying 85% of established acreage, times the farm's per-acre yield history, times a statutorily-set per unit rate (44 ¢/bu. for soybeans, 0.8¢/lb. for other oilseeds, through the 2007 crops). Annual per-person limits on total benefits apply.

Counter-cyclical deficiency payments: Farmers may be eligible for payments to make up the difference between an oilseed crop's average market price plus the fixed decoupled payment (above) and its statutorily-set, per-unit (bu., pound) target price. The total payment is based upon past production history generally as calculated for fixed payments (see above). Target prices are $5.80/bu. for soybeans through the 2007 crop and 9.8¢/lb. for other oilseeds through the 2003 crop (10.1 cents from 2004 to 2007). Annual per-person limits on total benefits apply.

Marketing loan gains & loan deficiency payments: Current producers of these crops are eligible for nonrecourse marketing assistance loans, whereby they pledge their harvested crop as collateral for loans from USDA, at statutorily set per unit rates of $5.00/bu. for soybeans through 2007 and 9.6¢/lb. for other oilseeds through 2003 (the latter rate declining to 9.3¢ in 2004-07). Loans must be repaid within 9 months or else the borrower forfeits the collateral crop to USDA, which has "no recourse" other than to accept it in lieu of repayment. To limit forfeitures, a "marketing loan" feature enables the producer, when market prices drop below loan rates, to repay the loan at a USDA-calculated market price and retain ownership of the commodity. The difference between the original loan and the lower repayment rate constitutes the amount of the subsidy. When market prices are below loan rates, loan deficiency payments (equal to marketing loan gains) also are offered to eligible producers who choose to forgo such loans. Annual per-person limits on total benefits apply.

COTTON AND OTHER FIBERS: EUROPEAN UNION

Cotton guide price: Support for cotton is equal to the difference between a guide price [106.3 euros per 100 kilograms (kg.)] and the world price. Aid is provided to ginners who then pay a minimum price to producers. When unginned cotton production exceeds a maximum guaranteed quantity, the guide price and amount of aid are reduced proportionally. Greece and Spain, the two most significant cotton producing countries in the EU, are (along with Portugal) assigned maximum quantities (tonnages).

Hectare aid for hemp and fiber flax: Producers have been eligible to receive aid for production of these two crops. For example, per-hectare rates for the 2001/2002 crops of hemp and fiber flax were, on per 100 kg. basis, 646.31 euros and 795.46 euros, respectively. In July 2000, the EU Agricultural Council had adopted a revised support scheme integrating support for hemp and fiber flax into that for other arable crops like grains and oilseeds, bringing gradual reductions in grower payments – to be offset partially by processing aids (see below).

Processing aid for hemp and fiber flax: Aid to primary processors of the straw of flax and hemp, on the basis of the quantity of the fiber obtained, is being implemented. For long flax fiber (mainly used for textiles) such aid will increase from 100 euros/MT in 2001/2002, to 160 euros in 2002/2003 through 2005/2006, and to 200 euros thereafter. For short flax fiber and hemp not containing more than 7.3% impurities (used mainly for paper pulp), payments will be 90 euros/MT from 2001/2002 onward. However, during a transitional period (2001/2002 through 2003/2004), payments can be granted for short fiber flax and hemp fiber that have higher specified levels of impurities. To limit expenditures, EU countries are assigned maximum guaranteed quantities for each type of fiber.

Silkworms: Growers of silk worms (a small EU industry located mainly in Greece and Italy) are eligible for production aid for each box of silkworm eggs used. The rate for the most recent marketing year was 133.26 euros per box.

COTTON AND OTHER FIBERS: UNITED STATES

Fixed decoupled payments: Producers with land planted in the past to upland cotton are eligible for fixed payments so long as they maintain that land in agricultural or conserving uses (they do not have to plant cotton on that land in order to receive payments, thus their "decoupled" nature). The total payment is calculated by multiplying 85% of established acreage, times the farm's per-acre yield history, times a statutorily-set rate of 6.67¢/lb. through 2007. Annual per-person limits on total benefits apply.

Counter-cyclical deficiency payments: Farmers may be eligible for payments to make up the difference between an upland cotton crop's average market price plus the fixed decoupled payment (above) and its statutorily-set target price of 72.4¢/lb. through 2007. The total payment is based upon past production history generally as calculated for fixed payments (see above). Annual per-person limits on total benefits apply.

Marketing loan gains & loan deficiency payments: Current producers are eligible for nonrecourse marketing assistance loans, whereby they pledge their harvested cotton as collateral for loans from USDA, at the statutorily set rate of 52¢/bu. Loans must be repaid within 9 months or else the borrower forfeits the collateral crop to USDA, which has "no recourse" other than to accept it in lieu of repayment. To limit forfeitures, a "marketing loan" feature enables the producer, when market prices drop below loan rates, to repay the loan at a USDA-calculated market price and retain ownership of the commodity. The difference between the original loan and the lower repayment rate constitutes the amount of the subsidy. When market prices are below loan rates, loan deficiency payments (equal to marketing loan gains) also are offered to eligible producers who choose to forgo such loans. ELS (extra-long staple) cotton is eligible for loans at 79.77¢/lb., but not for loan deficiency payments. Annual per-person limits on total benefits apply.

Cotton "competitiveness" provisions: Marketing certificates or cash payments are made to domestic users and exporters of cotton whenever the 4-week price of U.S. cotton is too high or not high enough (i.e., when the U.S. price (1) exceeds the world price by 1.25¢/lb., or (2) does not exceed the U.S. cotton loan rate by at least 134%). Also, a special import quota is imposed on cotton when U.S. prices exceed world prices by 1.25¢ for 4 weeks. A limited global import quota is imposed on upland cotton when U.S. prices average 130% of the previous 3-year average of U.S. prices.

Seed cotton recourse loans: Recourse loans (which must be repaid) are available for all upland and ELS seed cotton, at rates set by the USDA.

Wool and mohair: Producers are eligible for nonrecourse marketing assistance loans (see cotton for explanation) at rates of $1/lb for graded wool, 40¢/lb. for nongraded wool, and $4.20/lb. for mohair. Annual per-person limits on total benefits apply.

SUGAR AND HONEY: EUROPEAN UNION

Intervention prices/purchasing: The EU is obligated to purchase, at intervention prices, processed beet, cane, and several other types of sugars that manufacturers cannot sell on the private market at a price higher than the effective intervention price, for white sugar 63.19 euros per 100 kg. through the 2005/2006 marketing year. Beet "deficit" countries – Ireland, Portugal, Finland, the U.K., and Spain – have somewhat higher intervention prices. To help ensure that producers themselves will be aided, the government fixes a basic formula-derived price that processors must pay beet growers (to which the sugar regime is primarily aimed). In practice, intervention buying is rarely undertaken, because such buying is part of a broader support system that relies primarily upon import controls, production quotas, and export subsidies (financed through industry levies) to maintain higher prices.

Marketing/production quotas: Intervention prices only apply to sugar produced within two quotas, so-called "A" sugar, and additional "B" sugar, which receives a much lower price guarantee than "A" sugar. Each of the EU member countries are assigned "A" and "B" quotas, which in principle are based on past production levels. Quotas may be transferred (under certain restrictions) among processors within member countries but not between countries.

Tariff rate quotas: Foreign (third country) supplies are restricted through the use of tariff-rate quotas (TRQs). Most in-quota sugar has been allocated to certain African, Carribean, and Pacific countries and to India, which have preferential access agreements; over-quota tariffs are high. The EU also can rely on a Safeguard Clause that permits the charging of additional duties, when import prices are below trigger prices; such duties increase as world prices decline.

Export subsidies; export levies: Export refunds (restitutions) are paid to manufacturers and traders to make up the difference between high internal prices and lower world prices. They are based largely on export tenders that traders bid for the subsidies they need to be competitive in order to sell "A" and "B" sugar in world markets. ("C" sugar, produced over and above the "A" and "B" quotas, must be exported without subsidy at the world market price.) Refunds are provided for EU-produced sugar and sugar-containing products (based on sugar content), and also for preferential sugar imports. Export levies may apply to protect EU supplies if world market prices exceed domestic prices.

Producer levies: To offset the entire EU cost of export subsidies on quota sugar, growers and processors jointly pay a "co-responsibility" levy under a "self-financing scheme." The "exportable surplus" for which they are responsible generally is the difference between the sugar production (except "C" sugar) and domestic consumption. The basic levy is 2% of the intervention price for white sugar. Additional levies are imposed if the basic rate fails to cover export refund costs, and in practice they have been much higher.

Honey: EU-wide rules guide the application of country-level measures to improve honey production and marketing.

SUGAR AND HONEY: UNITED STATES

Sugar loans: U.S. sugar prices are supported through a nonrecourse loan program with statutorily set rates of 18¢/lb. for raw cane, and 22.9¢/lb. for refined beet sugar. In-process sugar is eligible for loans at 80% of full loan rates. Loan rates may be reduced if competing nations sufficiently reduce support. The loan program is to be operated at no net cost by avoiding forfeitures to USDA.

Supply management: USDA is authorized to offer inventories of sugar stocks (i.e., payment-in-kind, or PIK) in exchange for reducing sugar production and/or plantings.

Tariff rate quotas: USDA restricts the amount of foreign sugar allowed to enter the United States to ensure that market prices do not fall below effective support levels. By maintaining prices at or above these levels, USDA since FY1987 has, except once in the early 1990s, and again in 2000, ensured that it did not acquire sugar due to a loan forfeiture. In practice, WTO trade rules mean that a minimum of 1.256 million short tons of foreign sugar must be allowed to enter the domestic market each year. Quantities entering under quota are subject to zero or low duties; above-quota quantities are subject to much higher tariffs. USTR in consultation with USDA may reallocate any shortfall of one country's shipments to other quota-holding countries.

Honey loans/loan deficiency payments: Producers are eligible for nonrecourse marketing assistance loans, where they pledge their crop as collateral for loans from USDA at the statutorily set rate of 60 cents/lb. Loans must be repaid within 9 months or else the borrower forfeits the collateral crop to USDA, which has "no recourse" other than to accept it in lieu of repayment. To limit forfeitures, a "marketing loan" feature enables the producer, when market prices drop below the loan rate, to repay the loan at a USDA-calculated market price and retain ownership of the commodity. The difference between the original loan and the lower repayment rate is the amount of the subsidy. When market prices are below loan rates, loan deficiency payments (equal to marketing loan gains) also are offered to eligible producers who choose to forgo such loans. Annual per-person limits on total benefits apply.

DAIRY: EUROPEAN UNION

Intervention prices/purchasing: EU intervention agencies in member countries are obligated to purchase surplus butter and skim milk powder (SMP) at preset prices – effectively 295.38 euros/100 kg. for butter, and 205.52 for SMP. Intervention prices are set to help achieve a pre-set price for farm milk delivered to dairies (at 3.7% milkfat) of 30.98 euros/100 kg. Unlike other major EU commodity support, direct aid to dairy producers will not take effect until 2005; this aid will help cushion cutbacks in intervention prices (of 15% over 3 years) also set to take effect then. Payments will be made both on tons produced and on hectares of pasture.

Private storage aids: Intervention agencies may be authorized to pay aid for the private storage of butter, cream, SMP, and some cheeses. The system generally aims to store these products during the surplus season and release them later in the year when production is lower. Rates are set annually and can be altered in response to market conditions.

Marketing quotas: To limit supply, a system of quotas on milk sales to processors and consumers has been in place since 1984. Each member country has a guaranteed quota that cannot be transferred to another country. Within countries, individual quotas are tied to a producer's holdings, with rules for the sale or lease of such quotas between farms. If a country's total quota is exceeded, a levy equivalent to 115% of the milk target price must be paid; these costs are borne by the individual producers who exceeded their quotas.

Marketing subsidies for SMP and other dairy products: Because human food demand accounts for only about a third of SMP production in the EU, payments are made for skim milk and SMP used for animal feed. The level of aid can vary depending on calculations using the SMP intervention price, the recent supply-demand situation, and other market price factors. Aid also may be offered for skim milk processed into casein and caseinates; for the purchase, at reduced prices, of cream and butter (particularly by nonprofit institutions and pastry and ice-cream makers); and for distribution of milk and certain milk products in schools.

Tariff-rate quotas and import licenses: A system of tariff-rate quotas ensures that lower-priced imported dairy products do not undermine domestic prices. The system requires import licenses for foreign (third country) imports, issued by the intervention authority in each EU country. Additional duties may be levied on specified dairy imports if their prices are below a trigger price.

Export subsidies: Refunds may be paid to EU exporters to make up for the difference between EU and world prices. Refunds are set periodically by the EC. Although refunds are the same EU-wide, they may vary by sales destination, particularly for cheese.

DAIRY: UNITED STATES

Price support purchases: USDA is required to support the farm price of milk by offering to purchase surplus nonfat dry milk (NDM), butter, and cheese, that manufacturers are unable to sell at levels above USDA-prescribed prices. These product prices are at levels sufficient to support farm milk prices at the statutorily-set level of $9.90/cwt.

Milk marketing orders: The farm price of about three-fourths of all U.S. milk also is regulated under milk marketing orders (MMOs). Processors in regions with MMOs are required to pay minimum prices for fluid-grade (A) milk based on its end use; the receipts are then pooled so that individual farmers receive a "blend" price for their production. For example, Grade A milk used for various manufactured dairy products (Classes II, III, or IV) receives lower prices than milk used for drinking (Class I, a price that varies by region).

Counter-cyclical assistance: Whenever the minimum monthly fluid milk price falls below a target price of $16.94/cwt., each U.S. producer receives a payment equal to 45% of the price shortfall, on up to 2.4 million pounds of their annual milk production.

Tariff-rate quotas and import licenses: Tariff-rate quotas are used to ensure that high imports of lower-priced foreign products do not undermine domestic prices. A low tariff rate applies to imports up to a specified quantity; all imports in excess of that amount are subject to a higher rate. Import licenses are required for the system, which covers nearly all dairy product imports.

Dairy Export Incentive Program (DEIP): USDA periodically invites private exporters to bid (on a competitive basis) for cash bonuses needed to complete negotiated sales of dairy products in targeted countries. The bonus is a subsidy equal to the difference between that lower foreign sales price and the exporter's cost.

BEEF AND VEAL: EUROPEAN UNION

Intervention prices/purchasing: Intervention purchases, used whenever market prices were below pre-determined prices, was to end on June 30, 2002. Since then, such intervention is only to be used under "extreme market conditions," more specifically when market prices in a member state fall below the equivalent of 1,560 euros/MT for 2 consecutive weeks.

Private storage aids: As of July 1, 2002, intervention buying was to be largely replaced by private storage aid, where payments are made to traders to store beef for specified periods. Storage aid may begin when average market prices are below 103% of the basic price of 2,224 euros/MT.

Special beef premium: From 2002 onwards, beef producers can receive a special premium for each steer, of 150 euros made twice (at 9 months and 21 months of age). For each young bull, a one-time payment is made of 210 euros. Payments generally are limited to 90 head for each age; further, each EU country has a total annual ceiling (e.g., Germany's is about 1.8 million head.)

Suckler cow premium: A producer keeping suckler cows on the farm can qualify for an annual premium, at 200 euros/head in 2002 onwards. Each country has a total annual ceiling (e.g., Germany's is about 640,000 head). Premium rights can be transferred or leased temporarily to other producers.

Stocking density/"extensification" premium: The total number of animals qualifying for the special and suckler cow premiums is limited by the application of a stocking density on the farm of 1.9 livestock units per hectare (falling to 1.8 units from January 1, 2003. Producers who comply with stricter stocking density limits can receive the "extensification" payment of as high as 100 euros/head, made by individual EU countries.

Slaughter and "deseasonalization" premiums: A producer keeping animals on the farm for a certain period can qualify for a slaughter premium, granted upon slaughter or export to a non-EU country. For bulls, steers, cows, and heifers, the rate is 80 euros/head; for calves, it is 50 euros. Each country has a total annual ceiling.

Additional payments: Member countries yearly make additional payments to producers, within global amounts, to respond to structural and natural disparities in beef production conditions in different parts of the EU. These payments may be made in the form of headage payments and/or area payments.

Tariff rate quotas: An extensive tariff-rate quota system is used to limit imports of non-EU beef to protect domestic producers.

Export subsidies: Refunds are paid on exports of beef, veal, and live cattle so that exporters can offer lower prices on world markets. Refund rates generally are fixed for prescribed periods, based on certain market conditions.

BEEF AND VEAL: UNITED STATES

Section 32: This section of the Act of August 24, 1935 (P.L. 320), provides a permanent appropriation for supporting a range of U.S. food and agricultural activities. Although the program is not designed specifically to support beef and veal, USDA usually devotes a portion of its available funds each year (for example about $150-165 million per year in recent years) to purchase beef products (on a bid basis) to help bolster prices.

Grazing fees: Producers who graze cattle on federal lands pay fees for those rights that generally are lower than private fees. The federal fees are set by formula.

Tariff rate quotas: The United States uses tariff-rate quotas to limit foreign beef imports to protect its domestic producers.

OTHER ANIMAL PRODUCTS: EUROPEAN UNION

Headage payments for ewes: An annual premium payment per animal is made for eligible ewes based on computed income losses when the EU average market price is unfavorable when compared to the EU basic price, adjusted (the basic price for 2001/2002 was 504.07 euros/100 kg., carcass weight). Producers of sheep's milk qualify for less than those only producing animals for meat. Supplementary payments are offered to producers in certain "less favored areas." Premium rights may be transferred or leased. Limits are placed on the number of ewes for which payments will be made.

Private storage aids for pigmeat and sheepmeat: The EU can support private storage for pigmeat when the reference price is expected to stay below 103% of a basic price (set at 1,509.39 euros/MT); rates vary depending upon the cut of meat, and are determined either in advance or by tender. Private storage aid for sheepmeat can be used when market prices are below certain computed trigger levels, calculated as either 90% of the seasonally adjusted EU price or 70% of the basic price (see above); it is available, normally through a tendering process, only for lamb carcasses less than 12 months old.

Intervention prices/purchasing for pigmeat: Intervention agencies can make pigmeat purchases whenever the EU reference price (a computed internal market price for pig carcasses) is predicted to stay below 103% of the basic price (see above). In practice, the other support measures are used instead of purchases.

Tariff-rate quotas: For pigmeat and sheepmeat and live animals, the EU imposes a system of tariff-rate quotas to limit the supply of non-EU imports to protect its domestic producers. Special safeguard measures to further limit imports may be invoked to protect against import surges and/or very low import prices. Eastern European countries have special "concessionary" arrangements for pig meat they export to the EU. Similar import protections also are used for poultry meat and eggs/egg products.

Export subsidies for pork and poultry: Export refunds can be paid to pork exporters to help compensate for high internal feed prices so that they can offer lower prices on world markets. Refund rates are under consideration on a weekly basis, tied to a number of production and market factors. Export refunds are paid to poultry exporters for similar reasons, with rates also tied to market conditions.

OTHER ANIMAL PRODUCTS: UNITED STATES

Lamb meat adjustment assistance program: Producers are eligible for direct cash payments "to help improve their opportunity for equitable participation in import competition," under a special 4-year program implemented in 1999. In the first year, producers could receive up to $100 for each ram they purchased for breeding, and 50¢ for each sheep enrolled in an authorized sheep improvement program, plus up to 20% of the cost of a facility improvement; there were caps on payments to individuals for these activities. In the second year, payments were set at $3 for each feeder lamb and $5 for each slaughter lamb (up to an $8/head total for slaughter lambs marketed during June 1 through July 31). In years three and four, payments also are available, of $18 for each ewe lamb purchased or retained for breeding purposes. There currently are no payment caps, but producers must meet gross income limitations.

Sheep Industry Improvement Center: Congress in 1996 authorized up to $50 million ($20 million of it mandatory) for a revolving fund to be operated by a new, eventually privatized, National Sheep Industry Improvement Center. The Center is authorized to use the fund to provide loans and loan guarantees to the sheep and goat industries for such activities as improving production and marketing methods, purchasing equipment and other inputs, constructing and modernizing processing facilities.

Section 32: This section of the Act of August 24, 1935 (P.L. 320) provides a permanent appropriation for supporting a range of U.S. food and agricultural activities. Although the program is not designed specifically to support designated animal products, USDA usually devotes a portion of its discretionary funds each year (for example about $100-165 million per year in recent years) to purchases of various products like pork, poultry, lamb, and/or bison (on a bid basis) to help bolster prices.

Grazing fees: Producers who graze livestock (e.g., sheep) on federal lands pay fees for those rights that generally are lower than private fees. The federal fees are set by formula.

Economic assistance: The 2002 farm law authorizes the Secretary of Agriculture to provide compensation to dairy and other livestock producers for economic losses related to livestock mortality, feed shortages, "sudden increases" in production costs, and other losses as the Secretary considers appropriate. However, such aid is contingent upon an advance appropriation.

TOBACCO: EUROPEAN UNION

Producer premiums: Premiums are paid to producers, generally in poorer regions of the EU, for income support, up to a limit (see "guarantee threshold," below). Premiums vary for eight types of tobacco. For example, the premiums for the 2001/2002 marketing year are about 2.98 euros/ kg. for flue-cured, and 2.38 euros/kg. for light and dark air-cured types. Supplementary premiums are offered for certain types from Austria, Germany, France, and Belgium. The EU started in 1999 to vary a portion of the premium to account for quality, deemed to be very low in the EU. The variable portion (which in several years will account for between 30-45% of total premium) is paid to producer groups for distribution to their members.

Specific aid: Producer groups also receive 2% of the premium for such specified purposes as improving quality and protecting the environment.

Guarantee threshold/production quotas: The government sets a quantitative limit called the guarantee threshold on eligible production to limit surpluses. Thresholds are set by tobacco type for each country, which in turn divide production quotas among producer groups, based on their past harvests. Provisions are in place to enable the transfer of quota between tobacco types and among producers.

Community tobacco fund: A deduction of 2% of the premium finances a tobacco research and information fund that underwrites such activities as discouraging tobacco consumption; researching less harmful varieties; and seeking options for alternative farm enterprises.

Quota buy-back: Also authorized is a system for the EU to buy back quota to encourage producers to exit the sector.

Import duties: Import duties for raw tobacco are much lower than for finished products, in order to protect EU tobacco processors, who rely heavily on imports due to the poorer quality of domestic tobacco and to strong demand for American-style cigarettes.

TOBACCO: UNITED STATES

Price support loans: Producers are guaranteed minimum selling prices through USDA nonrecourse loans, which operate in conjunction with marketing quotas (see below). If bids at tobacco auction sales fall below the loan rate (in 2002, $1.656/lb. for flue-cured and $1.835/lb. for burley, the two major U.S. tobacco types), the producer is paid the loan price by a local price stabilization cooperative with money borrowed from USDA. The cooperative then stores the tobacco as collateral for USDA and acts as the agent to later sell the tobacco in order to repay the loan with interest.

Marketing quotas: A national marketing quota is set at a level deemed sufficient to meet domestic and export demand. This quota restricts production and enables farm support to be provided through artificially higher market prices paid by tobacco buyers and consumers. From the national quota, individual farm quotas are derived and assigned to the land; in other words, the right to grow and market a specified quantity of tobacco resides with the owner of the land. Quota land may be purchased or rented.

No-net-cost assessment: An assessment is imposed on all tobacco marketed to reimburse the government for any financial losses resulting from tobacco operations. This occurs when cooperatives sell collateral tobacco at less than the loan amount plus interest (see above). Growers and buyers each pay half of the assessment, which for 2002 is 5¢/lb. of flue-cured and 2¢/lb. of burley.

Tariff-rate quotas: Flue-cured and light air-cured (including burley) tobacco imports are subject to tariff-rate quotas, but imports have not reached levels to trigger the higher tariff rates.

WINE: EUROPEAN UNION

Private storage aids: Such aid is triggered whenever the projected quantity for each table wine type for the coming year exceeds 4 months' normal consumption. Nine-month storage contracts (which can sometimes be extended for 4 months) are offered to producers for table wine and grape must (crushed wine grapes). The recent storage payment rate for table wine was 0.01544 euros/hectoliter (hl.) per day.

Distillation measures: Such measures, which may be voluntary or compulsory, depending upon the situation, are used when storage aid alone does not correct market imbalances. Distillers pay producers a minimum price to remove table wine from the market (there are limits on how much can be delivered). The wine or byproduct then must be distilled into a product that is at least 52% alcohol by volume. More specifically, for example, a preventive distillation program (of up to 7 million hls.) was introduced during 2000/2001, whereby producers received minimum prices (per percent of alcohol per hl.) ranging from 1.723 to 2.1054 euros, depending upon country. The distillers in turn were eligible for aid ranging from 2.09 to 2.4726 euros. Under compulsory distillation of wine by-products, producers and distillers also receive aid, but at lower rates. Distillers receive assistance for disposing of the alcohol from distilling; e.g., intervention authorities pay for storage, depreciation, and disposal costs. Much of the alcohol ends up being sold, through the intervention agencies, for fuel – usually, but not always, outside of the EU.

Other aid for grape musts (i.e., grape squeezings and byproducts): Other types of aid include: enrichment aid to compensate producers for the higher cost of using grape musts to increase the alcoholic strength of their wines compared with sucrose; aid for use of EU grape musts and concentrated grape musts for producing British and Irish home-made wines; and use of grape musts for making grape juice and other grape-based products.

Supply controls: New vineyard plantings are prohibited until 2010 unless the producer has new or replanting rights (with priority given to new, younger growers). Rights are tied to "reserves" allocated across the EU by country. Another measure is the use of premiums to producers who destroy ("grub up") vineyards, who are paid on a per-hectare basis, also tied to such variables as yield and type of grape. Other rules governing conversion and replanting of vineyards also have been used.

Import controls: Third country imports of wines and wine grape byproducts are limited by a system of licenses and tariff-rate quotas to protect domestic producers.

Export subsidies: Producers may be eligible for export refunds, equivalent to the difference between domestic and world prices, to encourage exports of table wines.

WINE: UNITED STATES

There are no comparable U.S. intervention programs.

PEANUTS: EUROPEAN UNION

There are no comparable EU intervention programs.

PEANUTS: UNITED STATES

Compensation for quota holders: Until 2002, domestic edible peanut prices were supported through a system of strict poundage quotas allocated among producers, who received a much higher price support loan rate for in-quota than for non-quota ("additional") peanuts. The 2002 farm law makes peanut support similar to the system for grains, oilseeds, and upland cotton. The law compensates quota holders for loss of their quotas at $220/short ton (11¢/lb.) per year for 5 years (i.e., for a total of $1,100/ short ton).

Fixed decoupled payments: Producers with a history of peanut plantings are eligible for fixed payments so long as they maintain that land in agricultural or conserving uses (they do not have to plant peanuts on that land in order to receive payments, thus their "decoupled" nature). The total payment is calculated by multiplying 85% of established acreage, times the farm's per-acre yield history, times the statutorily-set rate of $36/short ton (1.8¢/lb.). Annual per-person limits on total benefits apply.

Counter-cyclical deficiency payments: Farmers may be eligible for payments to make up the difference between the average market price for peanuts plus the fixed decoupled payment (above) and the statutorily-set target price of $495/short ton (24.75¢/lb.). The total payment is based upon past production history generally as calculated for fixed payments (see above). Annual per-person limits on total benefits apply.

Marketing loan gains & loan deficiency payments: Current producers are eligible for nonrecourse marketing assistance loans, whereby they pledge their harvested peanuts as collateral for loans from USDA, at the statutorily set rate for all peanuts of $355/short ton (17.75¢/lb.) Loans must be repaid within 9 months or else the borrower forfeits the collateral crop to USDA, which has "no recourse" other than to accept it in lieu of repayment. To limit forfeitures, a "marketing loan" feature enables the producer, when market prices drop below loan rates, to repay the loan at a USDA-calculated market price and retain ownership of the peanuts. The difference between the original loan and the lower repayment rate constitutes the amount of the subsidy. When market prices are below loan rates, loan deficiency payments (equal to marketing loan gains) also are offered to eligible producers who choose to forgo such loans. Annual per-person limits on total benefits apply.

Tariff-rate quotas: A tariff-rate quota system is used to limit imports. Those entering within quota are subject to low tariffs (no tariffs apply to Mexican and Israeli in-quota imports); above-quota imports are subject to much higher rates.

OLIVE OIL: EUROPEAN UNION

Production aid: Growers receive a subsidy based on the difference between a "production target price" (fixed at 3,837.7 euros/MT through the 2003/2004 marketing year) for wholesale marketings of ordinary virgin olive oil, and a theoretical "producer selling price." The subsidy has been fixed at 1,322.5 euros/MT of actual production through 2003/2004. Since 2001, only oil from olive groves planted before May 1, 1998, has been eligible for production aid. There is also a production refund, related to the import duty on imported oil used in the processing of preserved foods.

Storage aid: Since 1998-99, private storage assistance has replaced government intervention purchases as the primary method for removing olive oil surpluses. Private storage contracts with producer groups and associations generally may be authorized when the average market price declines to a trigger price, currently 1,664 euros/MT.

Production controls (maximum guaranteed quantity): To control production and subsidy costs, an EU-wide maximum guaranteed quantity, set at 1.777 million tons annually, is apportioned among member countries. Production above this level results in proportionate cuts in the level of producer aid. However, a portion of countries' production shortfalls can be reallocated to other countries with overproduction; also a portion of any annual shortfalls can be credited against a subsequent year's overproduction.

Export subsidies; export levies: Because EU olive oil prices tend to be higher than world prices, export refunds are available to exporters, who compete for them in a once-monthly bidding system. Export levies may be applied to protect EU supplies if world prices are higher than domestic prices. (The rate has been fixed at zero since 1998.)

Import controls: Fixed tariffs are applicable, based on type of oil imported; there are special concessions for Tunisia. Imports also are subject to licensing.

OLIVE OIL: UNITED STATES

There are no comparable U.S. programs

FRUITS AND VEGETABLES: EUROPEAN UNION

Operational programs/funds: The EU pays for 50% of the operational costs of more than 1,000 producer organizations, which conduct such activities as price and supply management, and quality improvement; grower-members pay the rest.

Compensation for market withdrawal: Producers are eligible for compensation when their organizations withdraw as surplus any of about 15 designated fresh fruits and vegetables. Aid is limited to a specified (and annually declining) percentage of each organization's total marketings of a product. Withdrawn produce may be distributed free to charitable groups and institutions, or used for other purposes that do not undermine private markets. Rates vary, and were being reduced through 2002/03. Producer funds may supplement EU funds.

Processing subsidies: Production aid is paid to processors who in turn pay minimum prices to producers who provide figs and prunes for drying, pears and peaches who have contracts with producer organizations. Also, growers of citrus fruits, tomatoes, peaches, and pears for processing are eligible for assistance.

Bananas: Specified geographically-remote producer groups can receive compensation for the difference between a "flat rate reference income" for EU produced and marketed bananas and the "average production income" in the EU market for a given year. The EU sets a maximum quantity eligible for payments, allocated among 7 producing areas. An EU import regime has given preferential entry – through tariff-rate quotas and import licenses – to bananas from so-called African, Caribbean and Pacific (ACP) countries that have preferential trading rights and historical links with EU countries. The EU since has resolved a dispute with the United States over its import regime by agreeing to implement a tariff-only system for imports in 2006. In the meantime, the EU will establish quotas and a licensing system based on historical trade shares that should increase the prospects for Latin American banana imports in the EU market, especially bananas marketed by U.S. firms, while continuing to provide preferential entry for ACP countries.

Import measures: Approximately 20 imported fresh fruits and vegetables have an established entry price. Imports valued above this price are subject only to an ad valorem duty; those below the entry price pay not only the ad valorem duty but also a tariff equivalent in order to bring their price up to the entry price. A number of processed products may be subject to minimum import prices. Certain products are covered by tariff-rate quotas, and special safeguard clauses that trigger additional import duties under certain conditions.

Export subsidies: Some fresh fruits and vegetables and processed products are eligible for export refunds to bridge the gap between EU and world prices.

Quality standards: Marketing standards such as quality, size, and labeling apply to most fresh produce after the farm gate to ensure transparency for buyers and sellers and to keep unsatisfactory items off the market. EU countries enforce standards.

Other aid: Various aids have been offered for such items as raspberries, hazelnuts, locust beans, hops, white asparagus, dried grapes, dried figs, apples, and grape juice.

FRUITS AND VEGETABLES: UNITED STATES

Section 32: This section of the Act of August 24, 1935 (P.L. 320) provides a permanent appropriation for supporting a range of U.S. food and agricultural activities. Although the program is not designed specifically to support designated fruits and vegetables, USDA usually devotes a portion of its discretionary funds each year (for example about $100-150 million per year in recent years) to purchases of such products (on a bid basis) to help bolster prices. The 2002 farm law now requires that not less than $200 million annually in purchases of fruits, vegetables, and specialty crops be made through Section 32.

Market regulation: The government has given grower-handler committees the authority to use "marketing orders" to regulate the quality, size, packaging, and other aspects of marketing (including, sometimes, certain volume controls) for more than two dozen fruits, vegetables, and specialty crops. The orders are binding on all growers and handlers in an area. Other regulatory and marketing programs include the Perishable Agricultural Commodities Act to promote fair trading practices in the fruit and vegetable industry, and use of government grades and standards for produce.

Ad hoc emergency assistance: Congress from time to time has provided *ad hoc* "emergency" economic assistance to fruit and vegetable producers. Recent examples were about $159 million for specialty crops via FY2001 supplemental appropriations, and $94 million for 2000 crop market loss assistance to apple producers via the 2002 farm law.

OTHER CROPS: EUROPEAN UNION

Compensatory payments for protein crops: These, used with land set-aside requirements (see below), are part of the CAP's broader consolidated support system for "arable crops," which cover not only certain protein crops (e.g., peas, beans) but also cereals and oilseeds. Producers receive direct payments, per hectare (2.47 acres), expressed in euros per metric ton (63 euros for grass silage).

Land set-aside for protein crops: Farmers, unless they are small, must set aside a minimum percentage of their cropland (10%) in exchange for their compensatory payments. In addition, protein crop farmers may be eligible for payments for voluntarily setting aside additional acres. For member countries that make grass silage eligible for payments, a separate base area is set.

Dried fodder payments: Processors receive a flat payment of 68.83 euros/MT of artificially dried fodder and 38.64 euros/MT of sun-dried fodder. An EU-wide maximum guaranteed quantity is allocated, as national guaranteed quantities, among member countries.

Compensatory payments for potato starch: Although potatoes are not included as arable crops, potato starch is linked to the arable crops regime because it is used as a substitute for starch from cereal crops. Producers receive direct payments of 110.54 euros for the quantity of potatoes needed to produce one metric ton of potato starch.

Minimum prices for starch potatoes: Starch potato producers also must be paid a minimum price of 178.31 euros/MT of produced starch. Processors paying these minimum prices in turn have been eligible for compensation.

Marketing quotas for potato starch: Quotas for the production of potato starch are in effect and allocated among member countries. Some import protections may apply.

Seed for sowing: Aid may be granted for the production of basic or certified seed (for sowing) for more than a dozen crops. A per 100 kg. rate is fixed by taking into account EU supply-demand conditions and third-country market prices. Some import protections apply.

OTHER CROPS: UNITED STATES

Dry peas, lentils, small chickpeas: Current producers of these crops are eligible for nonrecourse marketing assistance loans, whereby they pledge their harvested crop as collateral for loans from USDA, at statutorily set rates. These rates for 2002 and 2003 crops are: $6.33/cwt. for dry peas, $11.94/cwt. for lentils, and $7.56 per cwt. for small chickpeas; the rates decline somewhat in 2004-2007. Loans must be repaid within 9 months or else the borrower forfeits the collateral crop to USDA, which has "no recourse" other than to accept it in lieu of repayment. To limit forfeitures, a "marketing loan" feature enables the producer, when market prices drop below loan rates, to repay the loan at a USDA-calculated market price and retain ownership of the commodity. The difference between the original loan and the lower repayment rate constitutes the amount of the subsidy. When market prices are below loan rates, loan deficiency payments (equal to marketing loan gains) also are offered to eligible producers who choose to forgo such loans. Annual per-person limits on total benefits apply.

FARM INPUT, INVESTMENT AND RELATED AID: EUROPEAN UNION

Farm business investments: Assistance is provided to help cover investments in farm businesses for modernizing machinery, equipment, and systems, etc. Combined EU and member nation assistance is limited to a portion of the eligible volume of investment, subject to the farmer meeting certain criteria such as being a new entrant into farming, undertaking environmental practices, etc.

Infrastructural services: EU programs provide aid for arterial drainage, collective irrigation schemes, construction of farm roads, etc.

Insurance programs: Some member countries operate insurance or other types of risk management programs.

FARM INPUT, INVESTMENT, AND RELATED AID: UNITED STATES

Farm credit: USDA serves as lender of last resort for family farmers unable to obtain credit from commercial sources. USDA provides low-interest, direct farm loans and also guarantees repayment of loans made by private lenders, which farmers can obtain either to finance the purchase of farm real estate or to meet operating expenses.

Irrigation subsidies: Irrigation water from federal reclamation projects in 17 western U.S. states is available at lower than market rates to agricultural irrigators because users effectively are repaying project debt at low or no interest.

Farm storage facility loans: USDA offers a farm storage facility loan program which offers low-interest, 7-year financing (up to $100,000) for on-farm structures for storing grains, various oilseeds, and silage.

Federal crop insurance: (See description under “Crop Insurance and Disaster Assistance: United States,” page 45.)

CROP INSURANCE/DISASTER ASSISTANCE: EUROPEAN UNION

Natural disaster assistance: Compensatory payments due to weather, and other natural disaster assistance have been made available, generally by member countries; for example, the total spent on such aid in the 1999/2000 marketing year was reported at 365 million euros.

Crop insurance: There is no EU program comparable to the United States.

CROP INSURANCE/DISASTER ASSISTANCE: UNITED STATES

Federal crop insurance: Approximately 70 crops are eligible for federally-subsidized crop insurance in most (or, for fruits and vegetables, in many) U.S. counties to protect their growers from unavoidable risks associated with natural disasters. USDA absorbs a large percentage of the program losses (the difference between premiums collected and indemnities paid), subsidizes a portion of producer premiums, and compensates private companies (who sell and service policies) for a portion of their operating and administrative expenses. All eligible producers can receive catastrophic (CAT) coverage without paying any premium (except a nominal administrative fee). Under CAT, producers in designated disaster areas receive a payment equal to 55% of the estimated market price of the crop, on losses in excess of 50% of normal yield. A producer has the option of buying additional coverage. (Also available is subsidized revenue insurance; see page 51 for a description.)

Noninsured assistance program (NAP): Farmers who grow a crop not insurable under the federal crop insurance program (including mushrooms, floriculture, nursery, Christmas trees, turfgrass sod, aquaculture, and ginseng), and who applied for aid before the planting season, may be eligible for direct payments under USDA's NAP. A participant must experience at least a 50% crop loss caused by a natural disaster, or be prevented from planting more than 35% of intended acreage. Losses above the minimum loss threshold are covered at 55% of the average market price for the covered commodities. An annual payment cap and a gross revenue test apply.

Emergency disaster loans: Family farmers who have production losses of at least 30%, cannot obtain commercial credit, and are in federally designated disaster (and contiguous) counties, are eligible for low-interest USDA loans to help them recover from production or physical (structure, equipment) losses.

Emergency conservation and watershed assistance programs: Farmers and ranchers may receive emergency funds for sharing the cost of rehabilitating agricultural lands damaged by natural disasters and for carrying out water conservation measures during severe drought. Farmers also may indirectly benefit from emergency funds that have been provided – through the Watershed and Flood Prevention Act – to repair damage to waterways and watersheds.

Tree assistance program: Subject to appropriations, natural disaster aid is authorized for commercial growers of trees, vines and bushes, to cover 75% of the cost of replanting due to natural disaster losses in excess of 15% mortality.

Livestock assistance: The 2002 farm law authorizes the Secretary of Agriculture to provide compensation to dairy and other livestock producers for economic losses related to livestock mortality, feed shortages, "sudden increases" in production costs, and other losses as the Secretary considers appropriate. However, such aid is contingent upon an advance appropriation.

Other ad hoc assistance: Since 1989, emergency appropriations have provided $16-20 billion to compensate farmers for a variety of disaster-related losses.

CONSERVATION AND ENVIRONMENT: EUROPEAN UNION

Agri-environmental measures: Member countries must offer producers payments for undertaking, for at least 5 years, farming practices – beyond their usual practices – that will improve the environment, protect soil and genetic diversity, and maintain the landscape and countryside. Maximum annual amounts eligible for EU co-financing are 600 euros per hectare for annual crops, 900 euros for specialized perennial crops, and 450 euros for other land uses. Actual payments are lower because they are based on a calculation of income forgone.

Aid for less favored areas: Certain rural areas are considered less favored because they may be mountainous or have other natural features that increase costs and reduce yields; they are threatened with abandonment when maintenance of the landscape is necessary; and/or continued agriculture is important for conservation, environment, landscape, or tourism reasons. In these areas farmers can receive compensatory payments of up to 200 euros per hectare used for agriculture.

Environmental constraint area payments: Farmers in areas subject to prescribed environmental constraints can receive payments of up to 200 euros per hectare to compensate them for the costs and income losses associated with these constraints. Such areas are specified by member countries and can be no more than 10% of the country's total land area.

Afforestation: Support for afforestation of agricultural land is made available as "annual premiums" to cover management costs for up to 5 years and to cover income losses due to afforestation for up to 20 years. Farmers or their associations can receive up to 725 euros per hectare annually; other private persons, up to 185 euros. These premiums are in addition to other EU financial support for forestry development generally (e.g., 40 to 120 euros per hectare annually).

CONSERVATION AND ENVIRONMENT: UNITED STATES

Conservation reserve program: Farmers and other agricultural landowners bid competitively for USDA contracts to retire erodible or other environmentally sensitive cropland from production, usually for 10 years. In return, they receive annual rental payments (which vary but average almost $50 per acre in recent sign-ups) plus cost-sharing payments to establish permanent vegetative cover on the land. The law limits total national CRP lands to 39.2 million acres.

Wetlands reserve program: Producers receive payments for long-term protection of wetlands, through permanent easements, 30-year easements, or restoration cost-share agreements. Average FY2001 per-acre costs were $1,200 for permanent easements (where 79% of WRP land is enrolled), $760 for 30-year easements, and $480 for restoration cost-sharing. The law limits the national program to 2.275 million acres.

Grasslands reserve program: Starting in FY2003, producers will be eligible for payments for placing farmland into grasslands for up to 20 years (for which 40% of total funds will be devoted) and for 30-year and permanent easements (60% of funds). National acreage is capped at 2 million acres.

Environmental quality incentives program: This is a cost-sharing assistance program that generally covers up to 75% of a producer's cost of addressing soil, water, and related natural resource concerns on their lands through vegetative practices, land management practices, or improved structures. Sixty percent of the annual funds are targeted to livestock and 40% to crop production. Total payments per contract (which can be for 1-10 years) are limited to no more than $450,000 between FY2002 and FY2007.

Conservation security program: Starting in FY2003, the 2002 farm bill requires USDA to offer incentive payments to producers for adopting and expanding conservation practices over 5 to 10-year periods on "working" farm lands. The cap on total annual payments ranges from $20,000 to $45,000 per producer, depending upon the intensity of the practices.

Farmland protection program: This program is carried out through state, tribal, or local entities to fund the purchase of conservation easements on land having desirable agricultural production qualities that are threatened by nonagricultural development. The federal contribution is up to 50% of the total easement cost. Through FY2001, nearly 108,000 acres of land on 543 farms were in the program, at an average cost of $1,740 per acre with the federal share at 27%.

Wildlife habitat: Cost-sharing assistance is available to landowners for undertaking on-farm management practices to improve wildlife habitat. Participants can receive compensation for up 75% of such costs; overall, the average reimbursement was $5,825 on average acreage of 149 acres.

Watershed projects: Producers indirectly benefit from USDA's flood reduction, sediment, erosion control and water conservation projects (operated cooperatively with other federal, state, and local entities) under the Watershed and Flood Prevention Act.

EXPORT SUBSIDIES AND FOOD AID: EUROPEAN UNION

Export credit/insurance: Most export subsidies are commodity-specific (see above sections) or provided by individual EU countries.

Food aid: Responsibility for the delivery of food aid is divided between (1) the EU, which distributes its aid mainly through grants to nongovernmental organizations (NGOs) and the World Food Program, which usually buy the food from local sources; and (2) the EU's 15 member nations, which mainly provide bilateral (country-to-country) aid. A Working Group of the European Council of Ministers and a Food Aid Committee manage and coordinate these (in effect) 16 different programs. All EU food aid is provided as donations. Food aid generally is both humanitarian and developmental in nature.

Market promotion programs: The EU provides funds for activities similar to those undertaken through U.S.-funded market promotion programs (see next page), although virtually all of such support for the European programs comes from individual countries and from producers.

EXPORT SUBSIDIES AND FOOD AID: UNITED STATES

Export enhancement program: Exporters can receive cash payments from USDA enabling them to complete sales of designated commodities to specified countries at more competitive prices. USDA awards bonuses based on a competitive bidding process among exporters and based on available funding; however, the program has been used little in recent years. While most past bonuses have been used to assist wheat sales, a number of other commodities have been assisted.

Export credit guarantees: USDA's Commodity Credit Corporation (CCC) guarantees repayment of short-term (up to 3 years) or longer-term (up to 10 years) financing of commercial credit extended to eligible countries that purchase U.S. farm products. Because repayment is guaranteed by the federal government (the CCC must assume the debt if there is default), private institutions can offer credit on more favorable terms.

Food aid: U.S. government food aid abroad is through three channels: the P.L. 480 program, also known as Food for Peace; Section 416(b) of the Agricultural Act of 1949; and the Food for Progress Program. Title I of P.L. 480 provides for concessional sales of agricultural commodities to developing countries for dollars on credit terms or for local currencies. Title II of P.L. 480 provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs. Title III of P.L. 480 provides government-to-government grants to support long-term growth in the least developed countries. Section 416(b) provides for the donation overseas of commodities owned by USDA. Food for Progress provides commodities (through P.L. 480 or Section 416(b) authority) to support countries that have made commitments to expand free enterprise in their agricultural economies. Non-governmental organizations are extensively involved in U.S. food aid activities.

Market promotion programs: Through the Market Access Program and the Foreign Market Development Cooperator Program, USDA supports, through partial reimbursements to cooperating trade organizations, the cost of such private sector activities as consumer promotions, trade shows, overseas market research, and technical assistance, in order to promote foreign markets for various agricultural products.

MISCELLANEOUS ASSISTANCE: EUROPEAN UNION

Producer retirement payments: Farmers over 55 with at least 10 years' experience may receive support if they agree to cease all commercial farming. Payments are up to 15,000 euros per year, with a 150,000 euro cap, up to age 75. Farmworkers (family helpers or paid hands) of the same age who have devoted at least half of their working time to farm work in the prior 5 years also are eligible for retirement payments of up to 3,500 euros per year, with a 35,000 euro cap.

Aid for young farmers: First-time farmers under 40 are eligible for two types of aid: (1) a single payment of up to 25,000 euros; (2) an interest subsidy for loans taken out to cover start-up costs (capitalized value cannot exceed 25,000 euros).

General services: The EU and its member countries fund a wide variety of programs and activities such as research, producer training and education, marketing and promotion assistance, quality and certification services, livestock inspection, crop and animal pest and disease control and eradication. The estimated total value for these services reported for 1999/2000 was approximately 6.7 billion euros.

Agri-monetary aid: Member countries have granted compensatory aid (to which the EU has contributed 50%) to farmers due to currency revaluations. For example, such payments were reported by the EU to total 957.5 million euros in 1999-2000.

MISCELLANEOUS ASSISTANCE: UNITED STATES

Revenue insurance: This is a crop insurance "buy-up" option available since 1997 on a pilot basis for major crops in some regions. Revenue insurance combines the production guarantee component of crop insurance with a price guarantee to create a target farm revenue guarantee for a crop farmer. An insured farmer who opts for revenue insurance can receive an indemnity payment when his actual farm revenue falls below a certain percentage of the target level of revenue, regardless of whether the shortfall is caused by low prices or low production levels. Three major versions of these pilots are: Crop Revenue Coverage; Income Protection; and Revenue Assurance.

General services: The federal government and states provide support for a wide variety of programs and activities such as research, producer training and education, marketing and promotion assistance, quality and certification services, livestock inspection, crop and animal pest and disease control and eradication. The estimated total annual value for these services is approximately $7 billion, of which more than $3 billion represents state programs.