TBR PROCEDURE

AGAINST THE EFFECTS OF U.S. OILSEED MARKETING LOANS

I - The Complainants: the European Oilseed Alliance (EOA)

The European Oilseed Alliance EOA) includes organizations representing the various professions composing the EU oilseed sector (producers, manufacturers, stockers, processors, seed growers) in the oilseed sector of several European Union countries.

The complaint is lodged under Article 3 of the Trade Barriers Regulation (TBR) of the European Council (Regulation 3286/94).

II - Subject of the complaint : subsidies the United States provides to oilseeds since the 1996 Farm Act

1. 1996 Farm Act

- The level of **oilseed loan rates increased** under the 1996 Farm Act compared with pre-1996 levels ($5.26 /bus versus $4.92 beforehand for soybeans and $9.30 versus $8.70 /cwt for other oilseeds). In 2000 and 2001 the Secretary of Agriculture **decided to maintain at their prior level** contrarily to the provisions of the Act that projected a reduction in parallel to the drop in market prices.

- During the 1998/99 to 2001/02 marketing years, market prices dropped below the loan rates (average farm price for soybeans over the period: $4.5 versus $6/bus on average). This situation triggered the payment of loan marketing subsidies compensating the gap between the loan rates and the market price.

These subsidies were provided as either **loan deficiency payments** (direct payments) or as **marketing loan gains** (non-reimbursement of part of the crop loan).

These subsidies reached very high levels: $1.2 billion in 1998; $2.8 billion in 1999; $3 billion in 2000; and $3.8 billion in 2001. Equal to an ad valorem support of 9% in 1998, 19% in 1999 and in 2000, and **27% in 2001.**

- **Emergency payment programs** compensating **oilseed** price drops were also implemented in 1999 and continued in 2000 and 2001 reaching an annual total of $460 million. These payments represented a **4% subsidy** of the crop value.

- Finally, previous cereals payments were replaced by **flexibility payments** and as such extended to oilseeds.
  Since 1998, these direct payments were complemented by emergency payments for equivalent amounts.
  These payments are granted as lump-sums on historical cereal bases but with exclusion clauses for some crops and subject to farm use. Oilseeds were not excluded and benefit from this new support. These **supports** reached a total **of around $100 per hectare for arable crops.**

2. The Farm Security and Rural Investment Act : FSRIA

The new 2002 Farm Act (FSRIA 2002-2007) changes and strengthens oilseed support.

- Oilseed support increased by implementing **target prices ($5.80 /bus for soybeans ;** $9.80, then starting in 2004, $10.10 /cwt for minor oilseeds).
- The target price is guaranteed through the payment of **direct and counter-cyclical payments.** Direct payments are fixed ($0.44 /bus for soybeans, $0.80 /cwt for other oilseeds). Counter-cyclical payments vary with market prices (at their maximum they equal the gap between the loan rate and target price minus direct payments, i.e., $0.36 /bus for soybeans).
- These are lump-sum payments based on the farm's references. The new "oilseed bases" are established on 1998-2001 references .
- **Loan rates are reduced to $5 /bus for soybeans (-5%)**; minor oilseeds loan rate is increased to $9.60/cwt for 2002 and 2003 then back to $9.30/cwt from 2004 on.
- The **marketing loan mechanism is preserved.** The amount of subsidies it provides potentially **remains unlimited.**
- **Cereals payments are continued** in lump-sum form and still benefit oilseed planted acreage.

III - Subsidies resulting from oilseed price support (Marketing loans) are actionable

- The **Peace Clause** in the Marrakech Agricultural Agreement is subject to compliance with a **maximum level of support** per commodity corresponding to the support provided in **1992.**

- Before the 1996 Farm Act's implementation, support provided to U.S. oilseeds was practically nil.

- Within the scope of the 1996 Farm Act, **1992 levels were exceeded** by: an increase in oilseed loan rates ($5.26 versus $4.92 /bus of soybeans); specific emergency oilseed payments; payment of marketing loan subsidies at a theoretically unlimited level that have reached more than 25% of commodity value; finally, the benefit of lump-sum grain subsidies must be added.

- Within the scope of the new 2002 Farm Act, total support is increased even more by the creation of target prices (for soybeans $5.80 /bus) that more than compensate the drop in loan rates to $5 /bus. The creation of oilseed bases per farm on recent references (1998-2001) strengthens these new support measures and constitute an additional advantage.

IV - The effect of oilseed subsidies: an increase in U.S. oilseed production and world price suppression

Since the 1996 Farm Act's adoption, U.S. **soybean acreage** has **increased by over 20%.** It now reaches 30 million hectares.
Comparisons with other U.S. commodities as well as with soybean acreage in other producing countries show that **the increase is a direct consequence of the 1996 Farm Act.**

On a regional basis, the increase mostly affects the Corn Belt (a traditional corn and soybean area) which contributes by two-thirds to the overall increase in acreage.

Economic analysis shows that soybean progression is directly tied to improving its profitability against cereals, because of the "flexibility" introduced by the 1996 Farm Act, i.e., the opening of acreage to subsidies previously reserved for cereals.

This analysis is confirmed by comparing trends in other producing countries: the progression observed these past few years in these countries reflects a persistent trend over 20 years, contrarily to the U.S. where the 1996 Farm Act introduced a break with the trend after a long period of stagnation.

- The drop in market prices below the loan rates in 1998/99 triggered the **payment of marketing loan subsidies** that enabled **maintaining and even increasing acreage growth** (+1.5 million ha.) in a context of historically low prices .

- Subsidies paid prevented U.S. production from responding to market signals and to adjust on the down side. The **artificial excess production is responsible for additional market price suppression and the extension of the period of low prices.** Indeed, market suppression observed from 1998 to July 2002 has beaten 25 year level and duration records.

- **The new 2002 Farm Act (FSRIA)** increases support even more and preserves marketing loans. By increasing oilseed support by creating target prices at the level of $5.80 /bus for soybeans the FSRIA sustains soybean acreage at the level reached since the 1996 Farm Act, in spite of a modest decrease by around 1 to 2% that may be caused by a drop in the loan rate to $5/bus. **Continuation of marketing loans** entertains the prospect of unlimited subsidies being paid in the event of depressed prices as well the ensuing threat of market distortion.

V - Injury to oilseed producers and the European Union

- **<u>Injury to oilseed producers and the oilseed sector enterprises</u> : a European oilseed price suppression and a decrease in acreage in the European Union.**

  Marketing loan subsidies payments artificially preserve high production in the U.S., which has a downside effect of world prices and prolongs low market prices.
  Econometric models indicate that subsidies paid when the 1999 and 2001 crops were marketed may have **supported acreage at a level of 15 to 20% above the equilibrium level.**
  Econometric models make it possible to evaluate subsequent market distortions in the European Union: **a depressionary** effect on the **prices** of European oilseeds (rapeseed and sunflower) of **15 to 20%** and a d**ecrease in acreage and in production in the European Union of around 10 to 14%.**

- **<u>Injury for the European Union</u>: an increase in imports.** The drop in production leads to increased EU imports of soybean meal.

  The increase caused by subsidies over the 99-2001 is likely **around 7%** according to econometric models.
  A review of imports of the EU over the period shows moreover that they have **increased by 5 million tons** since 1999 reaching 35 million tons in 2001 (i.e., + 16%).

VI - Interest the European Union has in opening consultations with the USA

- Subsidies granted to US oilseeds starting in 1996 upset **the balance of concession negotiated** in the various oilseed agreements (1962 Dillon Round, Blair House Memorandum on Oilseeds, Marrakech Agricultural Agreements).

- The distorting effects of subsidies on the markets, the consequent decrease in production and increase in imports in the European Union, **frustrate the objectives of agricultural policy,** worsen the **deficit in vegetable protein** for livestock feed and **destabilize the balance of production** for arable crops.

- **The lack of a safety net** for oilseeds in the European Union makes it impossible to protect against market distortions. **Consultations with the United States remain the only recourse** to find a solution to eliminate these effects.

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