The EU-U.S. Hormone Dispute: The Negotiations Continue

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The European Union's ban on hormone-treated beef remains one of the United States's most contentious agricultural trade disputes. *Iowa Ag Review* last addressed this dispute in the Summer 1999 issue, just after the World Trade Organization (WTO) arbitrator had ruled that the EU ban was inconsistent with WTO sanitary/ phytosanitary principles relating to risk assessment. This article updates negotiating activities and issues regarding the hormone ban.

On July 29, 1999, the United States imposed retaliatory duties against imported EU products valued at $116.8 million by placing 100 percent tariffs on a selected list of products. The list includes several categories of beef and pork as well as several other product categories such as Roquefort cheese, goose pate, Italian tomatoes, and French chocolate. A "carousel" provision allowing for scheduled changes in the dutiable product mix has never been implemented, and this is one of two common complaints against the current compensation system. The other is that compensation does not provide any direct benefit to the U.S. beef industry.

Table 1 compares the value and volume of trade for these products in 1998 (the last full year before the duties were implemented) with trade in 2001. As shown, Italy, France, Germany, and Denmark have been most affected by the tariffs, and last year's imports of the listed products were only 14 percent of the 1998 value.

In July 1999, the European Union discovered traces of growth-promoting hormones in U.S. beef shipments. After temporarily suspending exports of untreated beef to the European Union, the United States restarted exports in September 1999 under stricter controls, with the European Union testing 100 percent of U.S. shipments. In September 2000, mandatory testing was reduced to a 20 percent test-and-release system that allowed shipments to be released pending receipt of final testing results. In February 2002, the EU Standing Veterinary Committee cleared the way to repeal the 20 percent testing requirement for U.S. beef shipments and to return to random testing.

As negotiations over this issue continue, the three major areas now being addressed are the level of compensation for damages to the U.S. industry, type of compensation mechanism(s), and product testing.

Table 1. Value of imported EU products subjected to 100 percent duties

	1998	2001
	($1,000)	
Austria	99	40
Belgium - Luxembourg	490	96
Denmark	18,097	639
Ireland	283	2
Finland	295	0
France	32,408	9,378
Germany	17,795	1,566
Greece	988	434
Italy	27,845	548
Netherlands	4,279	1,426
Portugal	62	23
Spain	824	597
Sweden	576	25
Total	104,041	14,774

Source: USDA-FAS online.

Alternatives such as labeling are not currently on the table.

With regard to the level of compensation, EU imports of beef from Canada and the United States are limited by the Hilton quota for high-quality beef, which allows 11,500 metric tons of untreated beef at a 20 percent tariff. Table 2 shows U.S. beef exports to the European Union for the past ten years. Given that the quota has never been filled, it is unlikely that increasing the quota alone would offer any benefit to U.S. exporters.

Earlier talks for a larger quota broke down because there were no guarantees that the larger quota would be in place long enough to compensate producers and processors for the additional costs of raising and shipping untreated beef. In mid-2001, U.S. and EU negotiators continued to discuss increasing the annual quota for hormone-free beef, but the two sides have been unable to agree on the size of the increase and several related issues. At that time, however, European Agriculture Commissioner Franz Fischler noted that reduced consumption in the wake of the BSE and foot-and-mouth disease (FMD) crises had depressed the European market to the point that increased market access would make no difference to U.S. exporters. More recently, with FMD under control and many EU markets recovering to more normal patterns, EU beef consumption is gaining ground.

In January 2002, EU Trade Commissioner Pascal Lamy confirmed that the European Union is developing protocols for a set of industrial, shipping, and control processes that will support an acceptable system for segregating untreated beef. Any

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Table 2. U.S. beef exports to the European Union

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(metric tons)									
5,062	3,674	3,692	4,815	4,439	5,074	6,675	6,299	4,980	2,040

Source: U.S. Meat Export Federation.

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Nationwide, the split of biotechnology varieties present in the 2001 corn crop was 18 percent *Bacillus thuringiensis* (Bt) insect-resistant corn, 7 percent herbicide-resistant corn, and 1 percent a stacked gene variety having both insect and herbicide resistance. The 2002 intentions survey shows nationwide that corn producers intend to grow 4 percent more Bt corn but only 1 percent more herbicide-resistant and stacked gene varieties.

Statewide, 32 percent of the 2001 Iowa corn crop was genetically modified: 25 percent was Bt corn, while 6 percent was herbicide resistant corn, and 1 percent was a stacked gene corn variety. Iowa appears to be ahead of the national trend of accelerating biotechnology adoption; in 2002, Iowa corn growers intend to sow 43 percent of their crop acreage to genetically modified varieties, increasing use of Bt, herbicide-resistant, and stacked gene corn by 30, 9, and 4 percent, respectively.

In 2001, a majority of the nation's soybean crop was genetically modified, with 68 percent of soybean acres planted to herbicide-resistant varieties. In Iowa, the percentage was even higher, at 73 percent. The intentions for 2002 show continued growth for herbicide-resistant soybeans. Nationally, producers indicate that 74 percent of the soybean crop will be of a biotechnology variety. Iowa soybean producers indicate that 78 percent of the new crop will be herbicide resistant.

Livestock

The March 28 USDA *Hogs and Pigs* report raised the inventory on U.S. farms to 58.7 million head of hogs, up 2 percent from a year ago. While the breeding herd is similar to that of last year, the March inventory of market hogs is up 2.3 percent. Summer and fall pig crops are expected to stay within last year's levels, but the winter slaughter is projected to rise 3 percent. Analysts predict that winter slaughter may reach 1998 levels because of an increase in Canadian hogs and pigs in U.S. markets and larger-than-expected increases in spring farrowing intentions. A slowing in the increase of domestic pork supply may occur later, as farrowing intentions for spring and summer are less than 1 percent higher than a year ago. In Iowa, the inventory of market hogs was estimated at 14.9 million head, up 3.5 percent from March 2001. However, the state's breeding herd is the same as last year, indicating a higher number of out-of-state feeder pigs.

According to one estimate, the United States exported a record 1.563 billion pounds of pork in 2001, which amounts to 8.17 percent of national production. Despite dedicated efforts to become more competitive in international markets, compared to last year, U.S. pork exports are not as strong because of the stabilization of the foot-and-mouth disease outbreaks in Europe and Japan.

Average hog prices fell from $38.5 per hundredweight in February to $36.3 in March, down 20 percent from a year ago. Falling prices can be blamed on large supplies of beef and poultry—pork's immediate competitors—along with pork stocks fixed at 505.3 million pounds as of February 28, up 7.9 percent from last year. Market analysts predict that prices will remain at marginally profitable levels this spring and summer but will likely take a dangerous dip during the winter season.

Farm Income

Statewide cash receipts rose in 2001. Total cash receipts of over $11 billion exceeded 1998 levels but have not reached the $12.8 billion received in 1997. Unlike last year, most of the increase came from the crop sector. Crop cash receipts rose by $38 million between 2000 and 2001, while livestock accounted for only $12 million of the total increase. The increase in crop cash receipts has been reflected, to a certain extent, in rising cropland cash rental rates that averaged $117 per acre of Iowa cropland, up $2 from last year. In addition, government payments continue to increase, as they've done every year since 1996. Fiscal year government payments for Iowa rose from $2.062 billion in 1999 to $2.302 billion in 2000. ◆

Editor's Note: Beginning with this issue, we're adding a graph for Iowa milk prices (p.7) in response to a reader's suggestion.

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agreement package will also need to address other barriers to U.S. beef such as the costs of testing for residues other than hormones and the high costs of gaining and retaining plant approval to process beef for export to the European Union. In the meantime, both U.S. and EU consumers will continue to bear the costs of "protecting" the EU consumer from beef produced with growth-promoting hormones. EU consumers have no choice but to pay higher prices for untreated beef at their supermarket counters. U.S. consumers are the biggest losers in the dispute because the price they must pay for a wide variety of imported food products has increased dramatically due to the 100 percent tariffs. ◆