

Bloomberg

California Wine May Not Pair With French Cheese in Talks

By Brian Wingfield, Alan Bjerga & Rudy Ruitenberg - Feb 15, 2013

Europeans and Americans, linked by shared cultures and centuries of history, are about to face off over some of the toughest issues that divide them: cheese, wine, foie gras and steak.

Farm products will be a central part of negotiations aimed at creating a trade agreement between the U.S. and the 27-nation European Union, which was endorsed this week by President Barack Obama and his counterparts across the Atlantic.

Both sides -- whose economies collectively represent almost half the world's output -- say they're ready to knock down barriers that for years have bedeviled their compatibility on trade. Few are greater than those dealing with food and agriculture, which raise thorny issues of national identity, ethnic pride and economic security.

"We've fought over bananas, we retaliate against their beef ban with Roquefort cheese," Alex McCalla, a professor of agricultural trade at the University of California-Davis, said in a phone interview. "There has to be a more lucrative approach."

Getting to a deal that could add \$200 billion in annual total trade between the two blocs will involve overcoming disparate views about genetically modified crops, livestock hormones, food safety and farm subsidies, according to analysts and economists.

Complex regulatory structures, political opposition and competing perceptions of how farming should be done may also pose barriers.

Treated Beef

"It's hard to see hormone-treated beef entering Europe," Jean-Christophe Debar, head of Agri US Analyse, a Paris-based consultancy that advises the French Agriculture Ministry, said in a phone interview.

The potential windfall from a trade deal could keep negotiators at the table. The value of trade and investment between the U.S. and EU is already about \$4.5 trillion a year. An accord would cement their economic ties as the EU recovers from a sovereign-debt crisis and China increases its role in global commerce. Such a deal may also open markets for small farmers and large food companies including Archer-Daniels-Midland Co. of Decatur, Illinois, Cargill Inc. of Minneapolis and Barilla Holding SpA of Parma, Italy.

"Agriculture will be the toughest part of any negotiations," Tim Burrack, 61, who raises more than 2,000 acres of corn and soybeans along with hogs on a farm near Arlington, Iowa, said in an interview. He's part of a farmers' group called Truth About Trade & Technology, which pushes for greater acceptance of genetically modified goods.

Small Farms

Structurally, U.S. farms are larger than their EU counterparts and rely more on economies of scale. The U.S. had an estimated 2.2 million farms in 2010, with an average

size of 418 acres (169 hectares), USDA data show. The EU had about 12 million agricultural holdings that year, with an average size of 14.3 hectares, based on Eurostat data.

“When you’re talking about a small farmer in the U.S., you’re talking about 50 to 200 hectares,” Pierre Pagesse, a former chairman of Chappes, France-based Groupe Limagrain Holding, which breeds and produces corn and wheat, said in a telephone interview.

“For European and French agriculture, it’s giving up the cards without much in return” on a deal, said Pagesse, who operates a 135-hectare farm in Pardines, a rural community a four-hour drive south of Paris. “If I’m in direct competition with a 40,000-hectare farm, I’m dead.”

California Wines

California last year banned the sale and production of foie gras, the French delicacy of fatty goose or duck liver made by force-feeding animals, prompting a politician in southern France to call for a ban on the sale of California wines.

Italy prefers that Parmesan cheese originate only in its region of Emilia-Romagna, not in factories in America or elsewhere. The EU limits beef injected with hormones, a restriction U.S. lawmakers including Senate Finance Committee Chairman Max Baucus, a Montana Democrat, have said will need to be relaxed in a trade deal.

There is a “fundamental philosophical difference” in European and American attitudes to agricultural policy, particularly over health and safety issues, Erik Jones, director the European Studies program at Johns Hopkins University’s School of Advanced International Studies, said in a phone interview from Bologna, Italy.

‘Battle Royale’

U.S. officials have said they plan to resolve these differences during the negotiations, which both sides are aiming to finish within two years.

Livestock and biotech produce could be “the real battle royale here, and what I believe would be a dealbreaker,” Clayton Yeutter, a former U.S. Trade Representative and Agriculture secretary, said in a phone interview. “It’s extremely difficult to get congressional approval of free trade agreements without agricultural support,” he said. There will also be political opposition in Europe, Yeutter said.

“The big question is the one on subsidies,” which bilateral accords generally don’t cover, according to Debar. “Every country has the right to keep its system, in terms of direct aid,” he said. Despite high levels of government support, “French beef producers could have some problems if there are massive quantities of meat coming from the U.S.,” Debar said.

Farm Supports

Both trans-Atlantic partners have historically supported farmers, through U.S. agriculture bills and the EU’s Common Agricultural Policy. Both are meant to boost farmer income while providing a stable, safe and affordable food supply.

Farmers in France, where the policy remains popular, were traditionally the biggest beneficiary, though in recent years aid to Greece and Spain has increased. EU direct aid to farmers amounted to 40.2 billion euros (\$53.73 billion) in 2011, on a total budget for agriculture and rural development of 58.2 billion euros, data from the bloc show.

Crop subsidies for U.S. farmers, excluding insurance assistance, will be \$10.9 billion this year, the U.S. Agriculture Department reported this week. Government-subsidized crop insurance payments from companies including Ace Ltd. and Wells Fargo & Co. for 2012 losses have already reached a record \$14.2 billion, according to a congressional estimate.

Trade Figures

U.S. imports of agricultural goods from the EU were valued at \$16.6 billion in 2012, while the U.S. exported \$9.9 billion of similar products goods to the European bloc, according to the U.S. Trade Representative's office. After Canada, the EU is the second-largest agricultural supplier to the U.S., the agency said.

While U.S. officials have said they'll consider all issues, European Commission President Jose Barroso said Feb. 12 that "basic" accords on hormones in livestock and genetically modified goods won't be part of the talks -- signaling an early disagreement. In dollar terms, the U.S. would probably gain more from the agricultural component of a trade deal than the EU would, Gary Clyde Hufbauer, a senior fellow at the Peterson Institute for International Economics in Washington, said in a phone interview. Tight government budgets on both sides of the Atlantic may help reduce agricultural subsidies, he said. Still, ingrained attitudes toward farming will play a significant role along with economic arguments, said Sallie James, a trade analyst at the Cato Institute in Washington, in an interview.

"We basically have a little bit of a clash of culture," she said.