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Agricultural trade and the Common Market

As the theme of this second lecture you have proposed "Agricultural trade and the Common Market". I feel that there is something of a challenge in this subject, for behind it lurks the idea of Agricultural protectionism of the Common Market. Well, I accept the challenge. If I had been unwilling to do so I would not have accepted your invitation to the American Middle West; for all agricultural exporting countries in the world fear that EEC - even if its importance in partnership of the Atlantic World is not disputed - is developing an agricultural policy aimed at autarky, at complete self-sufficiency in foodstuffs, and that the result will be profound changes in the pattern of world agricultural markets.

I will first adduce four arguments which can help to dispel these fears:

- (1) In its own economic interest EEC cannot afford agricultural autarky. Its economic structure is more strongly attuned to exports than that of any other economic block.

The share of exports in the gross national product is:

4.0% in USA

3.4% in USSR

11.2% in EEC

He who wishes to export must also import. The EEC's farm imports have an important place both in the framework of its own imports and especially also in the setting of world agricultural markets.

\$22.3 billion (Total EEC imports exclusive of intra-Community trade 1962 of which
(more)

\$6.1 billion consisted of Imports of farm products and of foodstuffs, or 27.2%)

The Community is the world's leading importer of agricultural products, with the United Kingdom its only close competitor. It absorbs almost one-third of all world imports of these commodities, the United Kingdom about one-fifth. These two leading buyers each account for a quarter of world imports of foodstuffs and animal feeding-stuffs. As an importer of agricultural raw materials such as cotton, jute, rubber, and tobacco, the EEC is far ahead of all others with 40%. It also takes almost half the world's imports of fats and more than a quarter of the world's imports of grain.

The origin of EEC's agricultural imports is also of interest.

The value of agricultural imports by the EEC countries from non-member countries in 1959 was about \$5.5 billion. Of this sum, imports from the United States, from the British Commonwealth Countries, from the overseas territories associated with the Community, and from Central and South America each accounted for about \$1 billion.

One half (51%) of EEC's total imports of farm products and foodstuffs from non-member countries come from exporters in the temperate areas, which include the advanced countries (North America, Australia, New Zealand, Western Europe). The high share of this group in livestock products and grain (75%) is noteworthy. The non-member countries of

the tropical and sub-tropical areas have a predominant part in imports of sugar (80%), rice (82%), coffee, cocoa, etc... (97%), and cork, flax and hemp (77%). One half of the EEC's imports of oils and fats come from the highly developed countries of the temperate areas, particularly the USA, and one half from tropical or sub-tropical countries.

Imports of those products for which European market organizations came into force under the common agricultural policy with effect from 1962 are mainly from the highly developed farm export countries of the temperate areas. The EEC's common agricultural policy therefore primarily touches on the farm export interests of West European countries outside the Community, of the United States and, among British Commonwealth countries, of New Zealand, Australia and Canada.

- (2) And this brings me to a second worry, which is felt by certain of the developing countries--that they may be injured by the common agricultural policy. It is true that the exports of agricultural products for which common European market organizations operate (cereals, beef and veal, sugar, rice, vegetable oils) sometimes form a major part of the total exports of the countries in question, even if they are only a minor part of total EEC imports. However, the degree of protection which the EEC grants its farmers under the common agricultural policy is not the decisive factor for the development of most of these countries.

For, there is the question, if higher exports will show a way out of the difficult situation of developing countries. Recent studies answer in the negative. If there is a possibility of raising exports of food by developing countries between 1960 and 1970 by 2 billion \$ every year, the necessary raising of exports for paying all imports is more than 3.5 times greater than 2 billion \$ (i.e. 7.2 billion \$),

The solution to the development problems facing these countries is not to be found in increased agricultural exports; with increasing improvement of their economies and living standards the growing demand for food will absorb their own farm production. Much more decisive is the question whether the developing countries will find markets for their industrial production, which is the backbone of their economic development, i.e. whether the advanced countries are prepared to open their markets to those industrial products. This concerns the EEC, the USA, the United Kingdom and others.

- (3) Let us now turn to the special problem of American farm exports to EEC. The possible decline of these as a result of the common agricultural policy is often mentioned as a factor in the United States balance-of-payments problem. On this point two things may be said:

The value of farm exports from the USA to EEC in recent years has averaged 1,260 billion dollars. (1960-61-62) Of this 822 million dollars (65%) consisted of duty items.

These include such important US exports as cotton, tobacco, oilseeds, fruits and vegetables. The customs duties for these products are laid down in the EEC common external tariff and in some cases bound in GATT. Particularly for cotton, tobacco and also oilseeds, there is no reason to suppose that a prohibitive customs protection which could lead to a decline in US exports will be erected under the common agricultural policy.

438 million dollars (35% of total exports) consisted of products on which levies are charged when they are imported into EEC. Only in the case of these goods (grain and grain products, poultry) can we speak of a possible influence of the common agricultural policy on US exports.

If the sums concerned are looked at in the setting of the United States balance-of-payments problem; it should be pointed out that the American balance of payments with EEC shows a growing deficit to the disadvantage of the Community. In 1958 this amounted to 1.2 billion dollars and in 1962, 2 billion dollars.

(EEC imports from USA 1958 = \$2.8 billion 1962 = \$4.4)

(EEC exports to USA 1958 = \$1.6 billion 1962 = 2.4)

It is not my task to analyse this deficit. I only wish to bring out its real order of magnitude in connection with US exports of farm products.

(4) Finally fears about the repercussions of the common agricul-

tural policy on farm imports from non-member countries can be dealt with by showing the import statistics of recent years.

Agricultural products - total (1) : Imports (gross)

	<u>1958-1961</u>	<u>1962</u>
Third countries	7,790	8,908
USA	1,065	1,299
Commerce "Intra EEC"	1,635	2,220

Food - total (2)

Third countries	4,106	4,973
USA	526	825
Commerce "Intra EEC"	1,191	1,640

Products in market-Regulations (3)

Third countries	1,818	2,195
USA	373	533
Commerce "Intra EEC"	679	877

Wheat (4)

Third countries	304	366
USA	82	76
Commerce "Intra EEC"	34	30

Other grain (5)

Third countries	474	728
USA	199	351
Commerce "Intra EEC"	42	60
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- (1) CST 0,1,4,21,22,231-1, 24 261 - 265, 29
- (2) CST 0,1
- (3) CST 041.0, 045.1, 043.0, 045.2, 044.0, 045.9, 046.01,
046.02, 047.01, 047.02, 048.11, 048.2, 055.4.4, 599.5.1,
599.5.2,081.2, 081.99, 001.3, 011.3, 011.6, 411.3.1,
012.1, 081.3, 013.4, 013.8, 012.9 001.4, 011.4, 001.81,
025.01, 025.02, 054.4, 054.5, 051.1.1., 051.1.2,
051.2.1, 051.5, 051.4, 051.9.2, 051.9.3, 051.9.4,
112.1.1, 112.1.2., 112.1.3.
- (4) CST 041.0.
- (5) CST 045.1., 043.0, 045.2, 044.0, 045.9.

Sources: Analytical Bulletin of the Statistical Office of the
European Communities

The facts which I have laid before you show that fears about agricultural autarky on the part of EEC are not supported by the development of imports so far, but that such tendencies would run counter to the economic interests of the Community, which is turned towards exports. They have also shown the orders of magnitude which must be kept in mind when the EEC's agricultural protection is set against with the problems of the developing countries and of the United States payments balance.

But even if you follow this empirical analysis of the economic situation because it is based on solid facts and is logically compelling, you still may have a feeling of doubt and uncertainty about future development. I understand this and I admit that I share this feeling of uncertainty. The reason is that, as

I said in my first lecture, we so far know only the machinery of the common market organization but not yet the extent of agricultural protection, i.e. the price level at which this machinery will operate.

Therefore we must examine the development of farm imports and the position of the Community in world agricultural markets primarily from the angle of the future farm price policy; for it is this which decides what incentives agricultural production will receive in the Community and what outlets will continue to exist for imports from non-member countries.

But before making this examination I would like to make two observations:

1) We should be careful not to attribute to EEC everything that happens on world agricultural markets in the next few years. Agricultural protectionism, national and world-wide surplus problems, shifts in the so-called "traditional" pattern of trade existed even before the Community was founded. The chaotic situation on many world agricultural markets was not created by EEC. The economic fusion of countries which are leading importers of agricultural products on the world market nevertheless makes it imperative to lose no time in seeking concrete solutions for an untenable situation.

2) With regard to the common agricultural policy we should clearly distinguish three things:

(a) Is its aim agricultural autarky for EEC?

(b) Does it offer European agriculture reasonable protection?

(c) Could it lead - almost despite what is intended (as a by-product) - to complete self-sufficiency in foodstuffs?

The first assumption-that agricultural autarky is the aim of the EEC and its agricultural policy - can be excluded from the discussion. This would be in flagrant contradiction with the Treaty of Rome and with what political leaders have stated over and over again. It would also run counter to the economic interests of the Community as an exporter of industrial products. The second point is based on the assumption that European agriculture has a claim to reasonable protection against the other suppliers on the world market. This claim is often disputed, as being in contradiction with the economic principles of division of labour in the world and of comparative advantages. However, these economic principles do not - much as we may regret it- hold good on important world agricultural markets. With some exceptions the prices at which foodstuffs are at present offered cif Europe do not reflect the supply/demand situation or the costs of marginal producers. Take all important countries add all important products and you will find that for some sensitive item each country protects its producers from the world market by some means or other. Agricultural protection is a worldwide fact. I have, however, spoken of reasonable protection. If, for instance, we set the common EEC price for wheat at \$2.86/bu. this would be 17% above the price at which a farmer in the Middle West of the United States can offer his wheat in Rotterdam. This calculation is based on a support price of \$2.00/bu. and takes into account transport within the USA (so far as there are no freight-restitutions)

and transatlantic freights, but not export subsidies.

1962/63

\$/bu

Wheat

US-support-price	2.00	
Whole sale price Fort Worth		
US-Hardwinter II 2.57 \$/bu		
calculated on EEC-quality	2.32	
Freight Fort Worth-gulf port	0	
(freight-restitution)		
Freight gulf/Rotterdam/Antwerp	12	
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Theoretical offer-price	2.44	-
Antwerp/Rotterdam (basis EEC-quality)		- 100
without subsidies		
Threshold-price EEC adapted in the		
"Plan Mansholt" (DM 420.-)	2.86	- 117%

But to justify a reasonable agricultural protection in EEC I must put forward another argument. Yesterday, I spoke of the defects in the structure of Europe's agriculture and of the resulting low labour productivity. In this connection I pointed to the dynamic process of development which our agriculture is going through and to the help which it receives from the States and the Community. I would now like to say something about the historical background of these defects.

In some States farmers were for several generations made to feel that their first duty was to feed the nation in time of war, and that economic considerations and costs calculations took second place to the "national task". No wonder that such an agriculture, in view of its structure and the mentality

of its farmers, is not in a position to cope with wider competition. We cannot however make the present generation of farmers responsible for the fact that because of the State's power politics in former times their competitive capacity has lagged behind. It is an obligation for society to help this agriculture progressively to find its place in the industrial society of the twentieth century, with its worldwide ramifications.

If we accept the principle that reasonable agricultural protection in the framework of the common agricultural policy is justified, we are faced by the third question of whether this might not, almost despite what was intended, lead to full EEC self-sufficiency in food.

I am prepared to say firmly that this need in no way be so if EEC follows a reasonable farm price policy. But the onus of proving this lies with me. In so doing I can call on the results of scientific projections.

In order to judge with methodical precision the effects of the common agricultural policy on self-sufficiency and agricultural imports, one ought first to examine what would have happened if there had been no EEC and no common agricultural policy. Without holding strictly to any method I would like to attempt to give you a composite picture showing three things:

- (a) The degree of self-sufficiency of the six countries before the common agricultural policy;
- (b) The way import requirements would have developed if the national agricultural policies were continued, and there were no change in price policy;
- (c) The way import requirements will develop in the

Community when there is a common price policy.

In doing this I will take as an example developments in the grain-livestock sector. It is in this sector that we find the problems of particular interest to the United States. In the years after the second world war Europe had heavy food import requirements. Agricultural production, moving with the general development of the economy and also stimulated by national farm policies, expanded rapidly, in 1951, it was back to its pre-war level. In 1958 it practically covered internal consumption for most products in the six EEC countries. When the Rome Treaty came into force the degree of self-sufficiency in foodstuffs within the community was as follows: (in %)

wheat	93.0	pig meat	101.5	beef	92.3
rye	99.4	poultry meat	93.7	sugar	97.6
barley	76.5	eggs	90.2	vegetable oils and fats	42.0
maize	63.3				
oats	90.2				

It was, then, only in cereals - particularly feed grains - beef, and vegetable oils and fats that the Community needed to make large and regular imports. Net imports of cereals (and pigmeat, eggs and poultry in terms of cereals) were a bare 10 million tons annually.

The margin within which the common agricultural policy could develop liberal and worldwide conceptions was therefore strictly limited by the state of affairs already in existence.

But the development trends which production, consumption and imports had been following in the fifties under national farm policies were another economic fact.

In Europe, as in other countries, farm output, influenced

technical progress and national agricultural policies, rose faster than food consumption. A projection of how the grain-livestock-economy in West Germany could be expected to develop was published in 1956 lead to the following conclusions:

The annual increase of agricultural output in Germany (compound rates) is estimated by 2.5 - 3%.

An equilibrium between production and consumption, and net-imports depended largely in the development of consumer income. With an annual increase rate of consumer income per capita of 4% it was possible to maintain German feed grain imports at the level of the reference period of the projection. With an increase rate of 3% or lower the alternative, for Western Germany, would have been either to accept falling producer prices for barley or to reduce feed grain imports for the benefit of the increasing home-production. This was the outlook for an important feed grain importer for the period 1956-65 under national farm policy.

The Commission has published projections covering consumption, production and import requirements in the Community. Those forecasts, which are based on assumptions of an average economic growth (per capita growth rate of national income 3-4%) and constant prices, can be regarded as "projection without integration." The finding was that net imports of grain, which in 1957-59 amounted to 10 million tons, might tend to fall off slightly (to 8.4 million tons in 1970.)

As against this the forecast under EEC conditions showed that net imports of cereals from non-member countries can be kept at the level of 10 million tons if, among other things, two essential conditions are fulfilled;

(1) Vigorous economic growth resulting from integration (5% rate of growth of the per capita national income) which will cause a strong rise in the consumption of meat and eggs.

(2) Price policy does not lead to an extension of the areas under cereals in EEC. Even without any price incentive an increase in average yields per hectare in the Community from 37.4 bu/acre (23.1 dz/ha) to 47.0 bu/acre (29.0 dz/ha) can be expected as technical progress spreads throughout the mass of farms, and this will in fact be sufficient to equalize the expected raising of consumption.

We can draw the following conclusions from these projections:

- (1) Because of the well-known factors to be noted in the production and consumption of farm products in all advanced countries, the cereals import requirement of the EEC countries has, if anything, a long-term tendency to decrease.
- (2) Provided a cautious price policy is followed in the cereals sector, the effect of integration on economic growth, consumers' incomes and consumption makes it possible to maintain an import requirement of 10 million tons.
- (3) Within this total import requirement of 10 million tons of cereals, shifts will occur. Wheat imports will be concentrated on special qualities required for mixing on technical grounds. There will be an increase in imports of feed grain for livestock products. I should point out that this means that grain can be imported into the Community either as raw material or as livestock products (such as broilers.)
- (4) Whether this forecast is actually borne out, depends

very materially on the common cereals price not leading to expansion of the area under cereals.

Our problem is that the agricultural policy of the Member States in the last ten years had stabilized the price of wheat in a different level. So was the highest price for wheat at the moment of Common Market coming into force by \$3.24/bu, but the lowest price by 2.34/bu.

We must find an EEC price within this range. There is no need to tell you what economic, commercial and political factors are at work in this connection in the Community.

The solution of the problem is made more difficult by the fact that France, the state with the lowest prices, still has reserves to mobilize for grain-production which are estimated at 1.5 million hectares. If these should be brought under cereals, the Community's import requirements would fall by 2-4 million tons.

I should like to make it clear that we do not believe that it is possible to reduce cereals production through price policy. In raising the French grain price - and it must be raised in the framework of a common price policy - we wish, however, to avoid passing the point at which the area still unused is brought under cereals. For, as pointed out, this could lead to a fall in net imports.

After thorough investigation into the possible reaction of French farmers, the Commission has proposed a wheat price in the French wheat-growing areas of \$2.75/bu. This corresponds to a price of \$2.89/bu in Rotterdam when inner-European transport costs are taken into consideration.

It is not only as an academic exercise that I refer, here
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in the heart of the wheat belt, to the anxiety of EEC that outlets for cereals from non-member countries might decline if EEC were to mobilize the reserve acreage in France by providing too large a price incentive. You will find, in all political documents of the EEC Commission and in all political speeches, in particular by Vice-President Mansholt, a demand that this point be given due consideration. We are in fact convinced that a cautious price policy, which ensure that there shall still be genuine commercial outlets for imported cereals, is in the long run the surest guarantee of access to the EEC market which we can offer the exporting countries. Naturally, price policy must be regularly reviewed to see whether it takes sufficient account of these requirements.

On the other hand, import quotas and obligations to purchase fixed quantities are short-sighted solutions which only cover up the real problem for a while. Such undertaking would mean a step backward into state-trading practices; they would hamper the absolutely necessary fitting of our agriculture into the total economy. If the Community stimulates internal production through a policy of high prices to the point where it produces all the cereals it requires, or even has surpluses to export, guaranteed gross import quantities would again appear, in some other form, on the world market. This is no help to the importing countries which must subsidize these artificial sales, even less to the exporting countries, whose outlets in other markets would be reduced, and least of all to the ordered conditions which we are all striving to establish in the world grain economy.

* All tonnage figures are in metric tons.