

GREEN EUROPE

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AGRICULTURE IN THE UNITED STATES AND IN THE EUROPEAN COMMUNITY: A COMPARISON

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Agriculture in the United States and in the European Community: a comparison

Structures, producers and consumers

Agricultural production

The United States and the Community are the largest economic units operating on world markets in agricultural products.

They both have highly developed economies and they also both belong to the same temperate zone; as a result, many products are common to the two areas. However, the climatic zone of the United States is wider than that of the Community and the range of products is broad enough to include cotton, tropical fruit, soya, etc.

In addition, differences in structures and outlets have led to a different 'mix' of agricultural production in the United States, with the emphasis more on crop products (grain and oilseeds) and less on livestock.

Pattern of agricultural production

(1981) (percentage shares)

	EC 10 (1)	USA (2)
Beaf/veal	15	20.2
Pigmeat	11.9	6.8
Sheepmeat	1.9	2
Milk	19	12.6
Poultry	4.5	4.2
Eggs	3.5	2.5
Livestock products total	55.8	47.7
Wheat — rice	7.2	12.7
Feed grain	5.2	8.6
Cereals total	12.4	21.3
Oilseeds	0.7	9.8
Fruit and vegetables	12.6	10.4
Cotton and tobacco	0.6	5.4
Sugar beet	2.9	—
Wine	4.2	—
Other	10.8	5.4
Crop products total	44.2	52.3

Source: (1) Eurostat; (2) USDA.

Production structures

Historical and human factors separate the two continents more than types of production. Europe, made up of countries with an ancient agricultural tradition, is limited in area and still has a large rural population, despite the heavy drift from the land in recent years. As a result, most farms are small or medium sized, and there is a great need for consolidation; all the available area is used. Farming is intensive and yields per hectare are generally high.

In the United States, for the opposite reasons, farming had developed along extensive lines, although extensive farming is to some extent now on the decline.

A few figures illustrate the differences (1980 data):

	EC 10 ⁽¹⁾	USA ⁽²⁾
Total area	1.66 million km ²	9.36 million km ²
Total population	271 million	222 million
Population density	163 inhabitants/km ²	23 inhabitants/km ²
Utilized agricultural area	102 million ha	430 million ha
Utilized agricultural area per inhabitant	0.4 ha	1.9 ha
Number of farms	6.6 million	2.6 million
Average size of farm	16 ha	160 ha
Working agricultural population	8.7 million ⁽³⁾	2.2 million ⁽³⁾
Farmers and farmworkers per 100 ha of utilized agricultural area (rounded figure)	8	1

Source: (1) Eurostat; (2) USDA statistics; (3) OECD.

In the United States, the number of farms fell from 6.8 million in 1935 to 4.8 million in 1954, and then to 3.2 million in 1964; in the next 10 years, the decline was slower — there were still 2.8 million farms in 1974. Since that year, the number of farms has shown little change. (1).

The farming population and the number of hours worked on the farm have declined almost proportionately, whilst the average size of farms roughly doubled, from about 80 ha in 1950 to 160 ha in 1980. The total area utilized for agriculture contracted only to a small degree over these 30 years.

In the 10 countries now constituting the Community, the number of farms fell from about 15 million in 1950 to 10 million in 1960, 8.5 million in 1970 and 6.5 million in 1980. As the total utilized agricultural area showed virtually no change over these 30 years, the average size of farms increased in inverse proportion to the decline in the number of farms. In 1950 it was 6.8 ha, in 1960 10.2 ha, 1970 12 ha and 1980 16 ha. It therefore more than doubled. At the same time, the number of persons working in agriculture dropped from about 23.6 million in 1950 to 18.7 million in 1960, 12.5 million in 1970 and 8.7 million in 1980.

(1) In 1977 the United States authorities changed their definition of 'farm' and since that date the official figures have been lower than those given above.

The rate of increase of final agricultural production over the 1973-81 period was 2.75% in the United States, compared with 1.5% in the Community. However, output per person employed in agriculture rose faster in the Community than in the United States.

Incomes and prices

As for farm incomes in the 1976-82 period, the following was recorded per person employed in agriculture:

- (i) the gross farm income was substantially higher in the United States than in the Community;
- (ii) the net farm income in the EEC and the United State was comparable;
- (iii) direct income support in the EEC was equivalent to that in the United States, except in 1982, when it was a good deal higher in the United States. However, Community farmers mainly enjoy support through guaranteed market prices, which on average are higher than in the United States.

Community citizens spend on food (not including tobacco and alcoholic beverages) 19.9% of their disposable incomes (average over 1978-82), whilst the Americans spend only 16.5%. It should, however, be borne in mind that the disposable income per inhabitant in the Community is lower than in the United States and that food consumption patterns are not really comparable either. Guaranteed agricultural prices, though generally higher in the Community than in the United States, do not therefore entail a disproportionate burden for the European consumer, when compared with the American consumer.

In recent years, the food price index has, in the United States, moved almost exactly in line with the general retail price index; in the Community the food price index has lagged behind the general index.

Agricultural support policies in the United States and in Europe

Objectives and principles

While the machinery is not always the same, the aims of the Community's common agricultural policy (CAP) and of that of the United States are practically identical.

The Treaty of Rome, which set up the European Economic Community in 1957, spelt out the objectives of the common agricultural policy as follows:

- (i) to increase agricultural productivity,
- (ii) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture,
- (iii) to stabilize markets,
- (iv) to assure reliable supplies,
- (v) to ensure reasonable consumer prices.

The policy rests on the following three principles:

- (i) the single market,
- (ii) Community preference,
- (iii) financial solidarity (ensured by the European Agricultural Guidance and Guarantee Fund (EAGGF)).

The same principles are applied in the United States:

- (i) a single large market without trade restrictions as between the 50 states,
- (ii) firm protection of American production against world competitors,
- (iii) a Federal Fund—the Commodity Credit Corporation (CCC)—comparable, in its functions, to the Guarantee Section of the EAGGF.

The Commodity Credit Corporation Charter Act of 1948 sets out the following objectives:

- (i) to stabilize, support and protect farm income and prices,
- (ii) to assist in the maintenance of balanced and adequate supplies of agricultural commodities,
- (iii) to facilitate the orderly distribution of agricultural commodities.

For the purposes of its work, the CCC may:

- (i) support the prices of agricultural commodities through loans, purchases, payments and other operations,
- (ii) make available materials and facilities required in connection with the production and marketing of agricultural commodities,
- (iii) procure agricultural commodities for sale to other government agencies, foreign governments, and domestic, foreign, or international relief or rehabilitation agencies, and to meet domestic requirements,
- (iv) remove or dispose of, or aid in the removal or disposal of, surplus agricultural commodities,
- (v) increase the domestic consumption of agricultural commodities by expanding or aiding in the expansion of domestic markets or by developing or aiding in the development of new and additional markets, marketing facilities, and uses for such commodities,
- (vi) export or cause to be exported, or aid in the development of foreign markets for, agricultural commodities,
- (vii) carry out such other operations as Congress may specifically authorize or provide for.

Historical background

The United States agricultural policy has been worked out gradually over 50 years by the successive adjustment of existing schemes, according to the development of American farming and the general economic context within which it has operated.

At the end of the 1920s, agricultural prices collapsed. With a view to improving the market situation, the Agricultural Adjustment Act of 1933 and measures adopted in the period up to the outbreak of the Second World War were designed to curb supply, step up demand and directly support the prices of certain commodities.

The main arrangements—which, on the whole, are still operative—were as follows:

- (i) reduction of areas under crops, with compensation,
- (ii) loans to farmers, their produce being taken as securities, subject, generally, to their participation in set-aside programmes,
- (iii) sowing and marketing quotas for certain products, where appropriate with price guarantees,
- (iv) agreements with the processors to organize, in particular, the milk market and the fruit and vegetables market ('marketing agreements and orders'),
- (v) gifts of surplus products,
- (vi) aids to the promotion of the sale of agricultural products,
- (vii) the possibility of curbing imports.

Because of the need to control the frequent—and expensive—surpluses, other schemes to boost demand were added — gifts, or sales on favourable terms, to developing countries (Public Law 480, 1954), 'food stamps' for low income citizens (Food Stamp Act, 1964), and action was taken to adjust and simplify acreage limitations, and to adjust price and income guarantee systems. In the 1960s, the support prices for certain key items were lowered to world market levels to encourage exports; to offset this, farmers received deficiency payments.

From 1973 onwards, poor world harvests and very heavy Soviet purchases coupled with a weak dollar and mounting inflation spurred on United States sales, brought stocks down and forced up prices. Consequently, the emphasis was on the maintenance and development of competitive production to meet growing demand. Deficiency payments were thenceforth based on the difference between a target price covering production costs and productivity and the market price; arrangements were also made to compensate farmers who had suffered from natural disasters (disaster payments) and to build up buffer stocks. In 1977, a system of aid to storage on the farm ('farmer-owned reserve') was started; at the same time existing support machinery was strengthened, especially for milk products.

Devised at a time of rising United States sales, these arrangements caused difficulties when the trend changed direction at the end of the 1970s. The world recession, the heavy debts of the developing countries, the rising dollar and the

embargo on grain sales to the Soviet Union closed off markets at a time when production was booming. In 1980, stocks reached record levels, and farm incomes collapsed.

The administration then adopted the Agriculture and Food Act (1981), which set minimum target prices for the 1982-85 period instead of the indexed prices previously applied. For milk products, a minimum support price was also to be applied instead of the support price, indexed as it was partly on the purchasing power of farm income in the 1910-14 period; for these products, the annual increases could be cancelled, and from 1982 onwards a levy charged, if CCC purchases exceeded certain limits, which is in fact what happened. Initially, storage on the farm was encouraged. Programmes to encourage farmers to set aside land were strengthened.

Faced with further surpluses and record support costs after the good harvests of 1981 and 1982, a very large-scale scheme for reducing acreages was started in 1983. The PIK ('payment in kind') programme grants compensation in kind drawn from public stocks of agricultural products, to reduce production and stocks at the same time; the scheme is an expensive one. At the same time, very large sums are to be assigned to the promotion of export sales and to gifts.

The above indications show that United States agricultural policy is a result of successive adjustments of existing arrangements, and sometimes of the creation of new schemes, to meet new situations, approximately every four years since the war. It also shows that, apart from a short period in the 1970s, the organization of the markets in the United States has generally had to cope with problems resulting from more rapid growth of production than of consumption. In the 1980s, it will probably also have to adapt more flexibly and more promptly to changing economic conditions.

In the Community, before the inception of the common agricultural policy, the organization of the markets varied very widely from one country to another, depending on the importance of agriculture in the relevant economy. High tariffs protected the national markets. Overall the Community was a net importer of agricultural products, with the exception of a few items (certain milk products and pigmeat).

The common agricultural policy has sharply reduced the need for imports of agricultural products into the Community, thus bringing it near to being a net exporter of many agricultural products. There are still some differences in this area as between the EEC and the United States.

Self-sufficiency in certain agricultural products

	EC 10 ⁽¹⁾	USA ⁽²⁾
Wheat	118	315
Rice	83	250
Sugar	124	64
Grain-maize	62	160
Soya beans	—	185
Skimmed-milk powder	116	199
Butter	118	121
Cheese	106	99
Beef/veal	102	93
Poultrymeat	108	106
Eggs	101	104
Pigmeat	101	98
Cotton	11 ⁽²⁾	265

(1) Source: Eurostat: crop products, average for 1978/79, 1979/80, 1980/81; animal products, average for 1978, 1979, 1980.

(2) Estimate.

(?) Source: USDA; sugar and animal products, average 1981/82; crop products other than sugar: average 1981/82, 1982/83.

While the EEC has achieved self-sufficiency in certain products, it remains the world's leading importer of agricultural and food products that it cannot, at the present time, produce itself. The United States is still the world's leading exporter of agricultural and food products, as the following table shows:

Basic and processed food : external trade balance (1982)

(USD 1 000 million)

EC 10 ⁽¹⁾	USA ⁽²⁾
-21.6	+18.1

(1) Source: Eurostat.

(2) Source: USDA.

Note: The Communities' deficit has varied in recent years in relation with the performance of the dollar, the unit used to express the value given.

Organization of the internal market

In the Community there are guaranteed prices for cereals, sugar, milk products, olive oil, colza, sunflower, beef/veal, sheepmeat, etc.: the Member States' intervention agencies must buy in at these prices all products offered to them, whenever intervention has been approved. For other products, such as pigmeat, certain fruits and vegetables, and table wine, a more flexible intervention system is operated, supported by storage or distillation aids, to stabilize the market.

For wines other than table wines, fruit and vegetables not eligible for intervention, and eggs and poultry, the market is supported solely by frontier protection. In the case of a few products enjoying neither protection at the frontiers nor market support (hops, soya, etc.), direct or indirect aids are paid to the farmers. In addition to the market organization machinery, the Community has made and is making appreciable efforts with regard to veterinary care, protection of animal and human health, and marketing standards.

In the United States, there is a support price for milk products the machinery of which is comparable with that of the intervention price. Cereals, rice, cotton, sugar and soya are covered by loans which the farmers can repay through products stored at a fixed price ('non-recourse loans'), which is a system bearing a resemblance to the intervention system. In addition, cereals, rice and cotton qualify for deficiency payments on the basis of target prices; aids to on-farm storage are paid for cereals. No direct support is provided for oilseeds other than soya, or for beef/veal.

Deficiency payments are made for wool; loans and buying-in schemes are operated for honey. The support price for groundnuts is varied depending on the share going to internal utilization or to exports.

A large number of fruits and vegetables are covered by marketing orders and administrative arrangements, also governing standards; quotas ensure that that part of production corresponding to internal consumption is sold at satisfactory prices, and surplus production cannot be sold unprocessed on the internal market.

Control of imports

In the Community, the prices of many agricultural products are higher than on the world market; to maintain the differential, frontier protection is required.

This may be ensured by a levy matching the difference between the cif price of the imports and an import threshold price (cereals, sugar, milk products, olive oil), by a system combining duties and levies (beef/veal), by a minimum import price (fruit and vegetables, wine, seafood), or by ordinary customs duties (flowers). For pig-meat, poultrymeat and eggs, the Community calculates a 'sluicgate' price, applied to imports.

Many imports come in over lower barriers on the basis of international agreements, and there is no protection at all against corn gluten feed and soya. Only 15% of the Community's agricultural imports from industrialized countries attract levies.

Protective measures may be activated where there is serious disturbance of the market.

In the United States, import quotas are operated as a result of 'waivers' for milk products, cotton, sugar and groundnuts; quotas may be operated for beef/veal in certain circumstances. For these products, customs duties are also charged; for sugar, a variable import charge may be made. There is no protection, apart from customs duties, against cereals or soya, but the United States position with regard to the production of these two items is so dominant that it itself determines the world market price and no foreign exporter could hope to undercut it, given the transport and marketing costs; subsidized imports could be stopped by countervailing duties.

For fruit and vegetables coming under marketing orders, the rules or standards are changed so often that imports are generally not worthwhile.

Also, as in the Community, protective measures may be activated if excessive imports are a threat to market equilibrium.

Exports

This is the area in which the mechanisms used by the EEC differ most from those operated in the United States; there are economic and historical reasons for this.

The objective as regards prices in the Community is to ensure steady supplies to the market and at the same time to provide farmers with a fair income, which

could not be obtained from the fluctuating prices of the world market without deficiency payments.

Consequently, refunds must be paid to reduce the prices of the Community's agricultural products, when they are exported, to the level of world market prices; in the United States, deficiency payments enable farmers to sell at a price lower than they would otherwise need to obtain a fair income. American producers of beef/veal and poultry can export without direct aid because they have been able to buy maize at 'artificially' low prices; their European opposite numbers, who must buy much of their animal feed at Community prices, must be able to claim back the extra cost on export.

It should, however, be noted that a large share of Community exports of agricultural products to the United States (wine) is not eligible for refunds. Conversely, export aids were common in the United States until 1972; the relevant machinery is still available and has been used increasingly in recent years, because of the difficulties American farmers have had to cope with. Aids to trade promotion, export credits and food aids under Public Law 480 are effective instruments for boosting exports. Another form of aid is the tax carryover on export earnings, which applies to agricultural exports as well. Lastly, equalization schemes including high prices for the rest of production are operated in the United States for products coming under a 'marketing order', as they are in the Community for sugar.

Adjustment of the agricultural policies

Apart from these differences, which concern degrees of self-sufficiency and especially quantities involved, there are, then, similarities in market support and trade control arrangements. There are other resemblances; for example, when the Community carries out its annual price review, it adjusts its support policy in the light of market developments, the situation of farmers and the economic context, as the United States does about every four years.

This adjustment has taken the form, in the Community, of a prudent prices policy (since 1977), of an attempt to introduce machinery for support costing little or nothing (new organization of the sugar market in 1981), and of an effort to control production (co-responsibility for dairy farmers from 1977/78 onwards); similar adjustments have been made in the United States in recent years, as noted above.

Production targets were proposed by the Commission in 1981 and applied for certain products (cereals, colza and milk) from 1982/83 onwards; whenever production exceeds the targets, prices are to be reduced proportionately the subsequent year. In 1983, the Commission proposed further measures for the control of production and the budget cost of support. ⁽¹⁾

Thus, as in America, the Community's agricultural policy is tending to adapt by stages to the changing environment. It is, however, clear that the objectives of the policy are not questioned.

Trade in farm products and relations between the United States and the Community

General picture

Trade relations in the agricultural area between the United States and the Community have always been fraught with difficulties.

In the early 1960s, the application of the Common Customs Tariff and the introduction of the first market organizations, with protection at the frontiers, seemed to pose a threat to traditional American sales in Europe, at a time when general economic growth in Europe would otherwise have helped to boost American sales there.

To offset the measures it had just adopted, the Community agreed to 'bind' the nil customs duty on imports of certain products and to start new negotiations on completion of the CAP. None the less, the decline in certain American exports (chicken) to the Community sparked off reprisals in 1963 against exports of certain European products to the United States.

Subsequently, the improvement in the United States agricultural trade balance helped to relieve American pressure. In terms of value, imports of American products into the Community gathered rapid momentum and were still nearly 22% of American agricultural exports. However, in 1971, better access to the Community market was once more demanded, and when the Tokyo Round started in 1973, United States pressure grew heavier. In 1976, 16 complaints were filed against the

⁽¹⁾ See the introductory chapter to this Report: 'The year 1983'.

Community, and the 'turkey war', of the same origin as the 'chicken war', started. It finished in 1979 with mutual and balanced concessions, and at the same time the machinery of the CAP was acknowledged as being in line with the rules of international trade (GATT).

Recent events

Since then, substantial changes have occurred. The Community maintained its 22% share in American exports of agricultural products; but these have in fact increased considerably (USD 7 700 million in 1971, rising to USD 41 000 million in 1980), so that they are of crucial importance to American agriculture and the American economy; at the same time, the Community has become a major net exporter of certain agricultural products. Thus, the United States administration, while still defending concessions obtained from the Community, now emphasizes the competition from the Community on other outside markets, which in some cases it regards as unfair; the refunds are particularly criticized. It should be recalled, however, that export aid machinery, direct or indirect, is also operated by the United States, as has been noted above.

In addition, the Community's export refunds mechanism was endorsed as in line with GATT rules in 1979. Lastly, even if the Community has stepped up its exports in certain sectors, these have expanded a good deal less rapidly, at any rate in absolute value, than American exports from 1961 to 1981 (by USD 38 000 million for the United States, compared with USD 27 000 million for the Community), whilst Community imports have climbed steeply; the United States trade surplus with the Community doubled between 1973 and 1981, to reach USD 6 800 million.

In 1981, the United States filed a number of complaints with GATT concerning in particular refunds on wheat flour, poultrymeat and sugar; action was also started to align the rules for agricultural trade on those for manufactures, for which export aids are generally prohibited. Having failed to win its case at the GATT ministerial meeting in 1982, the United States used very heavy aids in 1983 to conquer traditional Community markets, and the Community filed a complaint with GATT. None the less, a general 'trade war' in the agricultural sector has so far been avoided, and bilateral contacts continue. (1)

(1) The chapter on the 'External relations of the Community' in this Report gives a detailed analysis of these problems and of recent developments.

Conclusions

The United States and the Community are the two leading contenders on world agricultural markets; together, they account for about one third of world trade and nearly 30% of world agricultural exports. The Community is both the leading world exporter of poultrymeat and milk products and the leading world importer of agricultural products overall; in the United States, about one third of farm acreage is producing for exports, and more than half the wheat and cotton grown in the United States is sold abroad. Each party therefore has everything to gain from a more harmonious working of agricultural trade. Whilst defending its economic and trade interests vigilantly, but in compliance with international commitments, the Community has been and is still prepared to cooperate with the United States, as with other non-member countries, in the promotion of world trade, rather than allowing fruitless squabbling to pose a threat to living standards. On this point at least, the United States and the Community agree.