

No. 22/1985
July 30, 1985

Contact: Ella Krucoff
(202)862-9540

THE EUROPEAN COMMUNITY'S COMMON AGRICULTURAL POLICY: SOME FACTS

E.C. Is One of U.S. Farmers' Best Customers

While the European Community has evolved from being a net importer to a net exporter of some products, it has over recent years been the U.S. farmers' best customer. Even in 1984, with a strong dollar discouraging U.S. exports, the E.C. bought \$6.7 billion worth of U.S. farm products and ran a farm trade deficit of \$3.6 billion with the U.S.

The E.C. also remains the world's largest agricultural importer overall and runs a farm trade deficit with the rest of the world of around \$20 billion a year.

Most U.S. Farm Exports Enter the E.C. Duty Free

Most of the E.C.'s farm imports from the U.S. enter without import charges. For example, in 1984, despite having ample supplies of cheap feed wheat of its own available, the E.C. imported free of levy or duty one third of all U.S. soybean exports and almost half of all U.S. soybean meal sales overseas. The combined export value of these two products alone totaled \$2.4 billion--more than was sold to the whole of Asia.

E.C. Is Not a Competitor for Most U.S. Farm Products

Some 75 percent of all U.S. farm exports are of products where competition from the E.C. is for the most part nonexistent, or at best indirect (e.g., soya, cotton, corn). Thus, the blame for any problems the U.S. may be having for the bulk of its exports cannot be ascribed to the E.C.

...../

Major Reasons for Drop in U.S. Exports of Farm Products

Independent observers agree that U.S. exports have declined largely as a result of the strong dollar, lack of cash in client countries, the U.S. embargo on grain shipments to the Soviet Union and the level of U.S. support prices.

E.C. farm exports in dollar terms have fallen by a proportion similar to that of the U.S.

E.C. Not Taking Unfair Share of World Market Through Subsidies

Subsidies on farm exports are permitted by international trading rules provided that they are not used to gain an inequitable share of the market or to undercut world market prices. The E.C. has never been found to have failed to respect these rules.

E.C. Share of World Wheat Market Stable Since 1981-82

International Wheat Council statistics show that the U.S. share of the world wheat market fell from 49 percent in 1981-82--the year in which the U.S. obtained its biggest market share--to 38 percent in the most recent marketing year (1983-84). However, they also show that the E.C.'s share moved only marginally during that period--from 14 percent to 15 percent. Thus, the bulk of the lost U.S. share has been taken by exporters other than the E.C.

U.S. Share of World Dairy Market Up Sharply

U.S. exports of heavily subsidized dairy products, especially of skim milk powder, have expanded rapidly recently. Although rarely attaining 15 percent of world trade up to 1982, they now account for more than 25 percent. This gain has been largely at the expense of the E.C.

Farm Subsidies Not an E.C. Monopoly

Both the U.S. and E.C. subsidize their agriculture. Precise comparisons are difficult because methods of support as well as budgetary treatment are different. But budgetary expenditure on direct farm price support has been similar in both the E.C. and U.S. over recent years:

...../

Budgetary Expenditure on Direct Farm Price Support

	1982	1983	1984	1985(est.)	1986(est.)
	(\$ billion)				
E.C. ¹	12.2	14.2	14.5	14.7	16.1
U.S. ²	11.7	18.9	7.3	16.8	15.0

1. Guarantee expenditures under the European Agricultural Guidance and Guarantee Fund, covering the minimum price support and export refund programs.
2. Net Commodity Credit Corporation outlays. Does not include the giveaways under the PIK (payment in kind) program valued at \$8.4 billion in 1983.

The projected increase in E.C. expenditure between 1985 and 1986 is more apparent than real since much of the rise is due to forecast changes in exchange rates relative to the dollar. This apart, the increase is only 2.4 percent, compared with a forecast inflation rate of 5 percent over a comparable period, and includes the cost of Spain and Portugal joining the Community.

Farm Business Results Not Good in U.S. or E.C.

Farmers in the U.S. have been suffering--and continue to do so--from falling incomes and land values coupled with rising debts. They are not alone. This is and has been the experience of European farmers, who have seen their real incomes stagnate over the last 10 years and none of whom, contrary to popular myth, have guaranteed incomes.

E.C. and U.S. Both Have Similar Problems--E.C. Already Taken Significant Steps to Resolve Them

Both the E.C. and the U.S. share the problems of surplus production, stagnating markets and budgetary restraint. While discussion of a new Farm Bill continues in the U.S., the E.C. has already made a start on putting its house in order. For example, just over a year ago, restrictive production quotas were introduced in the dairy sector. As a result, in the first year, milk production fell by 5 percent and butter production by more than 10 percent. Milk production should fall further this year. Last month, E.C. grain support prices for the 1985-86 crop year were reduced.

Compared with the E.C., the U.S. has a farmed area about four times larger, but a farm population of well under half the size. Because of the E.C.'s larger farm population and its much smaller farms, the U.S. type of solution is not necessarily the right one for the E.C. Nevertheless, and while more remains to be done, the days of unlimited guarantees are over in the E.C.

