European Community NEWS

BACKGROUND NOTE:

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THE EC'S COMMON AGRICULTURAL POLICY--
DEBUNKING SOME COMMON MYTHS

Agriculture may become a flashpoint in US-EC relations in 1983. In the United States, the European Community's Common Agricultural Policy (CAP) has in some quarters been perceived as a major threat to American farmers. The purpose of this note is to emphasize some aspects of the CAP which critics often ignore. In brief:

A) The CAP is essential to the existence of the European Community.

B) The CAP supports European agriculture, but the American farmer also enjoys massive farm income support from federal funds - more in terms of dollar per farmer than in the EC.

C) The EC is the American farmer's biggest foreign customer. In 1981 the EC bought $9 billion worth of farm goods from the US.

D) The EC has not taken more than a fair share of world farm trade and has complied with the international trading rules for farm products agreed in the Tokyo Round of the General Agreement on Tariffs and Trade (GATT).

E) The EC is not to blame for the problems facing American agriculture. These problems are the result of high interest rates, a strong dollar, lower sales to the Soviet Union, record US harvests and the world recession.

F) The CAP is not immutable. It is evolving and becoming more market-oriented and better adapted to deal with over-production.

The following addresses these points in greater detail:

Why does the European Community need a common policy on agriculture?

The CAP was and remains to this day an essential element in holding the Community together.

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When the Common Market was created in 1957, it was based on a political deal whereby trade was opened up between its members - not only in industrial goods, but also in farm products. Free trade in industrial goods was established by eliminating customs tariffs between the Community's Member States. But because of the different agricultural structures and different forms of farm price support among the Member States, cutting tariffs on agricultural products would have been meaningless in terms of freeing agricultural trade. The only solution was to harmonize these different national agricultural policies into a common European policy. Thus, the CAP became a key element in European integration.

What are the objectives of the CAP?

The CAP's goals are very much the same as those of US farm policy:

- to increase productivity
- to secure a fair standard of living for the farm population
- market stability
- assurance of an adequate food supply
- reasonable consumer prices.

How are these objectives achieved?

To achieve these goals, the EC regularly fixes common prices for a major part of its agricultural production.

When the world market price is below the internal EC price level, variable levies are applied to imports in order to bring prices up to the EC level in the interest of internal price stability. Refunds are also paid by the EC on exports in order to bring their prices down to a level at which they can compete in the world market. When the EC price is below the world market price - as happened with wheat and sugar in the 1970s - an export levy is applied in order to prevent disruption of the EC market. For a number of other products, mainly fruits and vegetables, farmers are assisted by deficiency payments.

How has the policy worked out?

Some think that the CAP has helped to maintain outdated farm structures. But the fact is that over the last 20 years the EC agricultural labor force has dropped by more than 50 percent: from 18 million to less than 8 million (excluding - for purposes of comparison - Greece, which joined the Community in 1981). During the same period, the average farm size doubled to about 45 acres and productivity rose sharply.

Another misconception is that the CAP has feather-bedded European farmers. In fact, since 1975, EC farm incomes have fallen well behind average EC incomes.

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The creation of a single agricultural market enabled agricultural products to move freely between Member States and has resulted in a dramatic growth in intra-Community trade.

The CAP has stabilised consumer prices. EC food prices generally are higher than those in the US, but assurance of supply - like any insurance policy - costs money. Real prices for a number of foodstuffs have fallen in recent years. The Community has reached and, in some cases exceeded, self-sufficiency in some commodities. These include dairy products, sugar, barley and wheat. But it has increased its dependence on outside suppliers for other products, particuarly animal feedstuffs such as soybeans, corn gluten feed and tapioca.

Has the Community built a trade wall against imported farm goods?

The European Community is the biggest importer of agricultural goods in the world. In 1980 it accounted for a quarter of all world agricultural imports and it ran a trade deficit in agriculture of $32 billion. Only about 15 percent of EC farm imports from industrialised countries are covered by the variable levy system. Of the remainder, just over half enter the Community free of all levies and duties. Nearly all the EC's farm imports from developing countries enter levy free and at very low, if not zero, duties.

The EC bought $9 billion worth of US farm products in 1981, making it the American farmer's largest foreign customer. US exports to the EC during that year (half of them levy and duty free) included $2.8 billion worth of soybeans, $1.6 billion worth of animal feedstuffs and $680 million dollars worth of fruits and vegetables. The US in 1981 enjoyed a substantial agricultural trade surplus with the EC of some $7 billion.

But has not the Community turned from a net importer to a net exporter of various products?

True. But in the 1950s large sections of European agriculture were inefficient and out of date. The Common Agricultural Policy has brought about a revolution in productivity. Just as productivity has increased in the US, it has also increased in the EC. In both countries, for example, grain yields have doubled over the last 20 years because of better seeds and cultivation techniques.

But has not the major expansion of EC exports of farm products been based on large government subsidies?

Both the US and the EC subsidise their agriculture. Comparisons of expenditure are difficult because methods of support as well as budgetary treatment are different. Moreover, public expenditure is only one element influencing the farmer's income. For example, US measures such as import restrictions on sugar, dairy and beef products have an income-supporting affect without requiring a public expenditure. But the level of price support is substantial on both

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sides of the Atlantic. In 1982 EC farm support expenditures, originally programmed at nearly $13.5 billion maximum is now likely to amount to $12.3 billion. In the US in the same year, federal income support for agriculture has been estimated at nearly $12 billion.

In 1982 the farm budgets of the EC and its Member States together amounted to nearly the same amount as the US federal budget for agriculture, namely $30 billion. Since the agricultural work-force of the US (3.3 million) is now not much more than a third of that of the EC (just under 9 million, including the newest Member State - Greece), it is clear that total US Government agricultural expenditure per farmer is higher than that of the EC.

Should there not be a GATT ruling that export subsidies for agricultural products be eliminated?

The GATT Tokyo Round, to which the US was a party, recognized agricultural export subsidies as a fact of life. Thus, under international trading rules, agricultural export subsidies are permitted as long as such subsidies do not result in any GATT member securing more than an equitable share of world trade.

Has the EC taken more than its fair share of trade?

The US and EC shares of the world market have followed parallel trends for those products in which they compete:

- as regards grains, between 1974 and 1981 the Community expanded its share of the flour market more rapidly that the US (from 55% to 62%, compared with 18% to 25%), but the US expanded its share of the wheat and feed grains markets more rapidly than the EC (wheat up from 47% to 55%, compared with the EC's 8% to 9% and feed grains up from 55% to 60%,compared with down from 6% to 5%). The overall balance is in the favour of the US.

- as regards poultry, the EC share has increased slightly faster than the US share. However, this increase occurred in a fast growing market where the US (like the EC) has been able to substantially increase its exports. In 1981 US export growth slowed down, but this seems to be largely because of the rapid expansion of Brazilian exports.

Are EC exports unfairly depressing world prices?

The EC is an importer, not an exporter, of products such as cotton, corn and soybeans, whose US producers seem most seriously affected by depressed prices. As far as grains in general are concerned, the two major factors which determine prices are: first, the size of the harvest in North America - particularly in the US - and secondly, demand in the main importing countries such as the Soviet Union. Given that demand has remained relatively static while wheat production in the US is forecast at a record 76.5 million metric tons in 1982-83 (an increase of 18% over 1980-81), it is hardly surprising that market prices have declined.

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<u>Will the CAP result in ever-growing production and subsidisation of Community agriculture?</u>

No. The CAP is not a system of open-ended price guarantees on unlimited quantities of production. The Community budget must be balanced and increasingly will be subject to financial constraints. Thus, the CAP uses price flexibility and other measures to ensure that its objectives can be achieved in a changing world at a reasonable cost.

A number of measures have been implemented to ensure a better balance between supply and demand and to make producers aware of the cost of over-production.

In the dairy sector the EC applies a farmer co-responsibility levy which now covers 10 percent of its dairy surplus disposal costs. In addition, in 1982 it introduced a threshold for milk production so that action would be taken if milk deliveries increased by more than 0.5%. That is why the EC Commission has proposed to cut the milk price increase for 1983 by 2.2 percent.

As for grains, the EC has embarked on a programme of reducing the gap between its own support prices and those of other major producing countries such as the US. In recent years, EC grain prices have increased less than other farm prices, and the gap is narrowing. In addition, the EC introduced a threshold for grain production in 1982 requiring an adjustment in intervention prices if the threshold is exceeded. As a result, the EC Commission has proposed a 1 percent cut in the grain price increase for 1983.

Financial support for sugar has been curtailed and EC sugar producers must now themselves bear all the costs of financing EC net exports of sugar. Meanwhile, the EC continues to import 1.3 million metric tons of sugar a year from developing countries.

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