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THE UNITED STATES AND CHANGES IN THE COMMON AGRICULTURAL POLICY

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The Commission of the European Communities has recently made proposals to change the Common Agricultural Policy (CAP), the European Communities' system for ensuring food supply, price stability and supporting farm income. These proposals have been the subject of considerable misunderstanding in the United States where they have been interpreted as an attack on the American farmer. So this note sets out what has been proposed, why it has been proposed and what the effects are likely to be on the American farmer.

What is the objective of the EC Commission's proposals?

The main thrust of the Commission's proposals is:

a) to limit European Community spending on farm support.

b) to discourage surplus farm production.

Why have these proposals been made?

a) because the Community is running out of cash. From 1974 to 1979 expenditure on supporting agricultural markets and guaranteeing prices grew at 23% a year, almost double the rate of growth of EC revenue which amounted in 1982 to some 23 billion dollars. EC agricultural expenditure (roughly two-thirds of this amount) remained relatively steady in 1980-82 largely because prices remained high on world markets. Since then however expenditure has increased sharply - by about 30% in 1983. So the cash is running out.

b) Productivity gains in European agriculture have meant output rising more rapidly than consumption and thus rising surpluses.

The proposals

This is the background to the program proposed for the rationalisation of European agriculture. The Commission proposes

a) to extend the application of the guarantee threshold system to more products. The guarantee thresholds discourage surpluses by putting a ceiling on the amount of a crop EC farmers may produce without being forced to contribute to the cost of disposing of the surplus. In the Commission's view it is no longer reasonable or possible to provide an open-ended guarantee to farmers when outlets no longer exist.

b) to accelerate the EC's continuing efforts to narrow the gap between EC prices and world prices.

How would some specific products be affected?

Milk, which accounts for about one-third of the EC's current farm price support spending, provides an important example of how the new EC proposals are designed to discourage over-production. The EC Commission has recommended that milk producers be required to pay a supplementary levy on the amount of milk they produce exceeding

101% of their 1981 production. This supplementary levy would be equal to 75% of the EC's milk target price. In addition, the Commission proposed a further 4% levy on all milk produced on intensive dairy farms.

The Commission's proposals would also extend guarantee thresholds for grains and oilseeds. Sugar producers would be required to continue paying the full cost of disposing of excess sugar production, as they have done in the past two years.

This proposed EC farm package would therefore

a) restrict the volume of their production on which farmers are entitled to receive a guaranteed price,

b) require EC farmers to foot the bill for their own over-production, and,

c) reduce the EC-world price gap.

This package represents a major shift in the direction urged for years by U.S. critics of the CAP and should be welcome news for U.S. farmers who have long complained about the European Communities' "extravagant" farm spending.

External effects

The proposals would require substantial sacrifices from EC farmers and have not generally been well received by them. When the EC is asking its own farmers to make sacrifices and in fact to control their production, the Commission believes that it is not unreasonable for the Community to review its treatment of competing imports provided that this is strictly in accordance with the international trading rules as set out in GATT.

Grain substitutes

The EC cannot implement a guarantee threshold for grain without stabilising imports of grain substitutes, which displace Community grown cereals in animal feed and have the effect of forcing more EC grain on to the world market. This is not a proposal aimed specifically at the United States. Substitutes are imported from a wide range of sources and action has already been taken on manioc and bran coming from such areas as South East Asia. It is therefore proposed to stabilise the imports of other important substitutes - corn gluten feed and citrus pellets. Imports of corn gluten feed have in fact soared from 700,000 tons to 3 million tons since 1974.

What is being proposed for corn gluten and citrus pellets therefore is not banning imports or reducing them, but stabilising these imports after discussion with the EC's major suppliers and in full accordance with the GATT rules.

Oils and fats tax

This proposal is frequently presented as an external measure which will impair the duty free access to the EC of soybeans, soymeal and other oilseeds and oilseed products valued at around $4 billion in 1982. This is not so.

First, the tax would be a non-discriminatory sales tax on all oils and fats (excluding butter) consumed in Europe whether produced locally or imported. Imports would not be treated differently from domestic products; this non-discriminatory treatment squares fully with the international trading rules. Imports of soybeans and meal would not be affected.

It is extremely doubtful whether the proposed tax would have any discernable effect on the quantity of soybean imported. First, the low rate of tax proposed combined with the reduction in butter subsidies is not likely to alter consumption patterns of soybean oil or margarine. Second, all other vegetable oils including olive oil whether obtained from imported or domestically produced seeds would be taxed. This would have a proportionally greater effect on the lower priced oils (such as rapeseed oil). Lastly, soybeans are imported very largely for animal feed and not for oil production.

Will the U.S. bear the burden of CAP reforms?

This major package of proposals has not been designed to shift the burden of adjustment away from European agriculture onto the shoulders of US exporters.

First, soybean exports should not be affected by the proposed tax on vegetable oil.

Second, the stabilisation of imports of corn gluten feed and citrus pellets will be carried out in compliance with GATT rules.

Third, European farmers would bear the major burden of the reforms which would

- reduce price increases for farm products
- fix prices for some surplus commodities for more than one marketing year
- set production quotas with severe penalties for farmers who exceed them
- extend guarantee thresholds
- reduce EC support buying to prop up farm prices
- discontinue many other forms of financial assistance.

The Commission's proposals are a tough package of measures which call for major sacrifices by European farmers but which are unlikely to reduce current levels of U.S. agricultural exports to the EC. In fact, world wide the U.S. farmer stands to benefit from the cutbacks in the production of EC products which compete with U.S. products in third markets.