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The Future of the Common Market

Allow me in this third and final lecture to pick up three points which we had noted in the two previous lectures.

1. I reminded you that there was unbalance, not to say chaos, on most world agricultural markets even before the EEC was founded and the common agricultural policy worked out. However, the emergence of this great economic bloc in Europe has thrown the problems of world agriculture into sharp relief earlier than would otherwise have been the case and shown that just to treat the symptoms or to pass difficulties on to other countries is no solution.
2. I further indicated that the development of the Community's agricultural policy affects in particular the problems of trade in temperate farm products between countries with a high level of economic development. More than half EEC's total farm imports come from west European countries, the United States, Canada and Oceania. This group of countries supplies the remarkably high proportion of 75 % of all EEC imports of cereals, meat and dairy products. The solution of these problems is therefore primarily a task for the countries of the Atlantic world, who must be conscious here, as in all sectors, of their great responsibility towards the developing countries.
3. If this be the case, then the question from which we started - EEC imports of farm produce and how they are influenced by the common agriculture policy - cannot be divorced from the overall agricultural problem of the highly developed national economies of the West which you briefly and pertinently call "the problem of plenty".
The root of the problem lies in three factors which confront all these countries.

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- a) The consumption of foodstuffs is growing slowly, either because income elasticities are very small - as in your case in USA - or because the annual growth of population is under 1 %, as in Europe.
- b) Agricultural output is increasing vigorously, as technical progress in various forms creates new production capacity.

These two factors are responsible for the general trend towards agricultural surpluses in the highly developed countries. However, the problem is aggravated by a third factor:

- c) Although technical progress has led not only to an increase in agricultural production but also to an extraordinary rise in labour productivity in agriculture (annual growth rates in Germany and Belgium are 7.5 % and in the USA 6.9 %, i.e. far above the growth rates in other branches of the economy), in every country of the Old World and the New the absolute value added (or per capita income) per person employed in agriculture is far below that in other sectors.

There are various reasons for this, some fundamental, others specific. I will not analyse them here but will merely note that disparity of incomes and the vital importance attached to farm incomes policy in all modern industrial states are among the essential reasons why each country has made the maximum use of the new possibilities of production opened up by technical progress regardless of the limited commercial outlets for foodstuffs at home or abroad.

The situation differs from one commodity to another, but in many cases importing countries have built up barriers to trade and exporting countries have spent large sums to circumvent these barriers.

Some of you will perhaps find this picture too sharply divided into black and white. True, for several products and in several countries there may be cases where economic principles obtain even in agricultural affairs. But there is no highly developed Western industrial state that has not had a
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hand in producing the present situation at some point and in respect of some product or other. The outstanding features of this situation are

- the efforts - so far in most cases successful - to pass ^{difficulties} one's own /
on to one's trading partners;
- the isolation into which agriculture has fallen, both within the national economies and on world markets.

In their own interest and particularly in the interest of their agriculture, but even more in view of the problems of the developing countries and of hunger in the world, the free countries, and especially those which form of the Atlantic Partnership, cannot afford to go on treating only the symptoms/ this agricultural problem. The coming Kennedy Round will be an opportunity, which will perhaps not recur, of working out lasting solutions by joint / efforts

Treating the symptoms would be the right expression if the negotiations on the agricultural question end up as a wrangle between those who see in them only "the creation of acceptable conditions of access to world markets", and those who intend to limit themselves to defending their farmers' in-comes at the highest possible level. It should be recognized that the / problems of the importing and of the exporting countries - however different the / form in which they present themselves - have a common root, and a joint endeavour should be made to find lasting solutions.

I would also define as treating the symptoms any attempt to attack the problems of international trade in farm products by the traditional methods of trade policy. The tangled skein of the international agricultural relations can no longer be unravelled by customs concessions and the laying / down of import and export quotas. This is shown by experience in GATT and - in the European framework - in OEEC. Both these organizations led to welcome results in the liberalization of international trade in industrial products, but failed when it came to agricultural trade. For this reason, too, the / framers

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of the Rome Treaty establishing EEC did not believe that they could create a common market for farm products by diminishing gradually customs and quantitative restrictions. They rightly saw that trade relationships in the agricultural sphere can only be "normalized" or "liberalized" if the partners start from a common concept of agricultural policy.

In my first talk I pointed out how the farm policy concepts of the six Member States of EEC differed and how different were their instruments for carrying out this policy. They too attempted - with success - to pass on / ^{their} domestic farm problems to their trading partners.

The EEC Commission, which under the Treaty was instructed to work out the common agricultural policy, found itself faced with two alternatives:

- It could stitch together the patchwork solutions of the six member countries, retaining the same defensive attitude towards the outside world which was characteristic of agricultural policy in each country; or
- it could seize the unique opportunity offered by the call to work out a common agricultural policy and boldly fit agricultural policy into overall economic policy, thus bringing agriculture out of its isolation and making it an integral part of the overall economy.

The Community has chosen the second path, which is certainly not the simpler and the easier. It is overshadowed by difficulties, some of them artificial and some very real. But we are convinced that it is the right approach in the long run, because it goes to the root of the problem.

It is therefore logical that in the second Mansholt Plan the Community has proposed a solution for world agricultural questions in the Kennedy round which does not stop at the symptoms but gets to the roots.

Nevertheless, the means are different from those which could be applied in the framework of the common agricultural policy. Here, as I said in my first lecture, we were able to replace by simple common instruments -

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customs and levies - all the complicated and often confused machinery used in the agricultural trade policies of the various countries (Licenses, quotas, compulsory delivery, state trading, mixing regulations, etc.).

This cannot be done of course at world level, first because of the great number of partners to the negotiations, and also because of the even greater variety and multiplicity of trading practices. For this reason the second Mansholt plan takes account of the results of the protective measures imposed by the various countries, without going into the machinery and practices by which they obtain these results.

For each country the effect of its protective measures is taken to be as the difference between the world market price of the product in question and the price actually received by farmer in that country; this is known as the "support amount". The support amounts in the different countries for individual farm products are to be noted, bound as the result of negotiations among the GATT Contracting Parties and possibly reduced or, in any case, regularly subjected to joint review. Changes in the support amounts are then subject to GATT rules as in the case of industrial products. This is the EEC proposal for tackling and solving agricultural questions in the Kennedy round. It should not be regarded as an offer in the sense of traditional customs negotiations, but as a contribution to the solution of the whole complex of problems relating to production and international trade in agriculture. The proposal is novel, shockingly novel, for many traditionally-minded makers of trade policy. But we are convinced that the special nature of agricultural problems demands a special approach if these problems are to be solved. So far no genuine, that is no constructive, alternative to this proposal has been offered.

The proposal also corresponds to the principles propounded by the GATT Ministerial Conference in May, 1963 in relation to the Kennedy round. I name the three most important of these principles:

1. None of the elements likely to affect the equilibrium of world agricultural markets should be excluded a priori from the negotiations;
2. The negotiations are to cover all classes of products, industrial and non-industrial, including agricultural and primary products;

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3. "The rules to govern, and the methods to be employed in the creation of acceptable conditions of access to world markets for agricultural products" are to be established.

The implementation of the first principle demands in fact an approach like the proposed method of support amounts. For only such an approach and not customs concessions and quota agreements cover all factors which influence the balance of world agricultural markets, i.e. the whole policy on agricultural production, price, income, trade and consumption pursued by each of the countries which takes part in world trade in these products. With the support amounts method, importing countries and exporting countries will lay all the cards of national farm support policy on the international negotiation table.

In relation to the second principle, the question has been raised whether the method can really be applied to all farm products. Here I would like to make two points:

1. Great care must in fact be taken that all farm products are given equivalent treatment when we are fixing the level of protection in the individual countries which is to result from the negotiations. You yourselves have some experience of the economic results which can occur at national level when you apply an unbalanced policy of support for different agricultural products. Possibilities of substitution exist everywhere within agricultural production. Think what it would mean, for instance, if the Community were to obtain agreement to a relatively high support amount for feed grains by accepting complete liberalization for eggs, poultry and bacon. West Europe would emerge on the world markets as a grain exporter, whereas livestock production would be reduced in a territory which has a small and medium farm structure.
2. Although therefore great value must attach to uniform handling of the whole farm sector if the method adopted is to prove effective, we are in no way dogmatic but ready to accept a pragmatic approach. We were happy to note American agreement that the idea of determining, binding and if possible reducing the

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internal cereals price may be usefully applied in an agreement on cereals; and that the same view is held in relation to the application of the method to meat and dairy products.

I will however not deny that when it comes to applying this concept, which is so simple at first sight, complications might appear.

We believe however, that wherever they concern the applicability of the method to other farm products we can to a great extent dissipate any anxieties during the negotiations by practical examples.

Finally, the question has been brought up whether the method really takes into account the aim of the Kennedy round to free international trade from existing obstacles. The fear has been expressed that the method is more likely to lead to the legalization of high levels of protection than to the expansion of trade. As against this, we are of the opinion that the method is a genuine contribution towards solving the problems of agricultural production and trade which today weigh heavy on the free world.

I would like to put forward the following arguments to support this claim:

1. No One can say beforehand what effect the customs reductions negotiated in the industrial sector during the Kennedy Round will have on production and trade, and on access to world markets as well.
2. For the first time in the history of international trade the method proposed offers the possibility of finding out what protection farm production enjoys in the various countries of the world and expressing this in such a way as generally to permit negotiations on this protection in terms of GATT. Farm products have so far been excluded from GATT terminology and have been the subject of special arrangements and ad hoc waivers.
3. The mere fact of the binding of a maximum margin of support has a restraining effect on the countries offering the binding. Hitherto, provided they refrained from applying any customs duties or charges with equivalent effect other than those included in their tariff and respected the tariff bindings granted in the

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past, contracting parties were perfectly free to develop their agricultural support measures and to finance exports at a loss. In future, if this approach were adopted, countries would renounce part of their freedom and would be able to act autonomously only to the extent that the economic repercussions of action by the public authorities would not result in the bound support margin being exceeded. In the past however, the very close link between economic and social aspects in the agricultural sector led governments to increase support measures in order to respond somehow to the demands of their agricultural producers. For the countries benefiting from the binding, its value will depend first of all on whether the binding country has blocked its maximum support at an amount which represents an equitable compromise between the understandable interests of the countries concerned.

4. Furthermore, for these countries, the binding of a maximum support margin would have the added advantage of clearly defining conditions of access to import markets. In recent years, the partitioning of markets has been strengthened and import conditions have been made more difficult because of the multiplication of internal measures and the resulting instability. Henceforth, exporters would be able to draw up their export policy and even their production policy without running the risk of seeing their efforts jeopardized by sudden changes in the support measures granted by importing countries.
5. More than any other approach, the method of negotiation proposed by the European Economic Community thus places reciprocity of concessions in the forefront of attention.
6. So far as it is concerned, the European Economic Community is aware that by binding its own amount of support it would limit considerably for the future the existing scope of its levy mechanism, and consequently would slow up the natural tendency to expansion of its production, due in particular to the rapid technological development of an agricultural system which has frequently been acknowledged to be backward.

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7. The support margin constitutes a direct and flexible link between the various national markets and the world market. Henceforth, isolation is impossible and the world market no longer appears as an abstract and arbitrary concept, since the various national markets are attached to it by their margin of support. The support margin also serves to cushion the effects of fluctuations which may occur on the world market and is a stabilizing instrument: adjustments in it, the details of which will be determined at a later stage, can thus offset a sharp drop in prices in international trade, or reflect at regular intervals a general improvement in productivity due to a technical advance which would bring about an appreciable reduction in production costs. In world arrangements, the reference price becomes an equilibrium price in international trade and at the same time a target price in the long term; and in most cases, it will be a negotiated price.

For this reason, the support amount is also an important if not a necessary preliminary for future world commodity agreements. This too corresponds with the principles agreed at the GATT Ministerial Conference, which clearly brought out that the rules laid down for the negotiations on agricultural products as a whole should be amplified for certain products and should eventually lead to world agreements.

The "world commodity arrangement" should, however, be different from the international agreements concluded in the past which, on account of their limited number as well as the methods used, being unduly limited to the trade aspects, would not suffice to settle current problems. Nor can it be envisaged as a mere arrangement on conditions of access to a few privileged markets. The world arrangement must cover, as in the case of all agricultural products, internal support measures and other measures for organization of markets, both in the importing and the exporting countries. It must, in addition, constitute a superstructure in relation to the general rules of negotiation for agricultural products.

The world commodity arrangement is essentially aimed at promoting the broadest possible multilateral co-operation with a view to achieving:

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- equilibrium between production and demand in the long term as well as the limitation of short-term fluctuations, in general by means of expanding existing demand and broadening the international market and, to the extent necessary, by means of restricting supply or even production;
- stabilization of world market prices at an equitable and remunerative level.

In addition, the world arrangement should take account of the food needs of the developing countries.

Arrangements of this kind could be concluded for the following products: wheat and coarse grain, meat of bovine animals; certain dairy products e.g. butter; sugar; and perhaps oilseeds.

In this third lecture I have shown that the question of international agricultural trade, which is now becoming so urgent as our common agricultural policy develops, is basically a problem which concerns all of us in the Atlantic Community. No country, whether importer or exporter, can claim to be without blame; it is therefore only by common action that lasting solutions can be found. Attempts to cure the ill by merely treating the symptoms would fail to fully take account of the difficulty and the importance of the questions which here confront the free world. Instead, President Kennedy's bold initiative must be followed up in the endeavour to find a lasting solution to the agricultural problems of the highly developed countries which feel themselves bound together in the Atlantic Community.

I have discussed in detail the method which the EEC has proposed: determining, binding and, if possible, reducing the support amount. In this connection we naturally also discussed technical details.

You may ask how I come to include these remarks under the heading "The future of the Common Market", which was given me for this third lecture. I will end by answering this question. The Common Market has: a) to continue and consolidate its internal build-up, and b) to define its relationship with non-member countries, in particular with its partners in the Atlantic Community.

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I do not think that these two necessities conflict with each other. The Community cannot build up its internal order if it fails to take the surrounding world into account and leaves for some future date negotiations about its relations with this outside world. This applies also and even particularly to the common agricultural policy.

The system of levies which we now use for major farm products is an instrument, a mechanism which is neither good nor bad in the trade policy sense. The economic results to which it leads are determined by the policy at whose service it is placed: price policy. The Community will not evade this question. The internal build-up of the common agricultural market requires that our farmers should know the prices on which they can count. The Kennedy round is the international forum in which the Community must expose and defend its price policy. This policy should offer our agriculture reasonable and legitimate protection, which will however have a ceiling at the point where necessary trade begins to be throttled. The Community is prepared to bind the support amount if the other parties to the negotiations undertake to grant reciprocal concessions.

This is not the easiest or most painless way, either from the angle of internal policy or perhaps from that of trade policy. To evade the decision by ad hoc solutions on the lines of the old state-trading practice would be simpler, and is for that reason preferred by some.

The Community is nevertheless prepared to tread the path which will make it possible

- to lead agriculture out of the isolation into which it has fallen in Europe and in the world economy, so that it shall again become an integral part of a dynamic economy;
- to place agricultural negotiations between the countries of the free world on a clear and comprehensible foundation resting on a common responsibility for and common conception of agricultural policy on the part of the importing and exporting countries, and

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- to establish the conditions necessary for a comprehensive reorganization of the main world markets for farm products.

After thoroughly examining other possibilities we are convinced that the support amount is the only possible approach to these aims. There will be difficulties in applying it in practice, but this does not justify condemning the method. For the alternative (ad hoc solutions, state-trading practices, treatment of the symptoms) means capitulating before the burning problems of the world's agriculture.

And this brings us back to the point at which we started.

A clearly defined and reasonable EEC farm price policy is necessary for the internal development of the Community and for the clarity of the concept underlying its trade policy visavis the world.

The binding of such a price policy in GATT in return for reciprocal undertakings by the other parties to the negotiations is a decisive contribution to the solution of the world's agricultural problems, which are of equal concern to countries which import and those which export. It is also the surest guarantee that the exporting countries will continue to enjoy genuine sales outlets on the EEC market.

Only if these results are achieved for agricultural commodities will it be possible to achieve successive the Kennedy round as a whole.

The successful conclusion of the Kennedy round is important not only in relation to trade, it is a decisive element in the strengthening of the Western world and of the Atlantic partnership. The future of everyone of us will be determined by the fate of this partnership.

We are, therefore, prepared to make our contribution by binding agricultural protection at a reasonable level. We are convinced that this is a constructive contribution. If the best forces in the Community, in awareness of their responsibility to their Atlantic partner and to the rest of the world, set about devising a reasonable and a durable solution to the agricultural question, we will be entitled to count on their shouldering their part of the responsibility.

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In dealing with this matter we need from you a clear expression of support and your understanding when grain prices are fixed at a reasonable level.

For if the bold action initiated by President Kennedy were to be bogged down in a mass of minor problems, we would all be the losers. It would mean a return to isolation - for agriculture, for the large economic units, perhaps even for the sovereign countries. But what we have to do is to tread the road ahead together.