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**GROWING SCARCITY OF RESOURCES
A TEMPORARY PHENOMENON OR A QUESTION OF SURVIVAL**

Approaches to food policy in the USA and the European Community

A COMPARATIVE SURVEY

SCARCITY OF RESOURCES - A TEMPORARY PHENOMENON OR A QUESTION OF SURVIVAL? *

Approaches to food policy in the USA and the EEC
a comparative study

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* This text is based on an address given by Mr. Karl-Friedrich Falkenberg, Directorate-General for Agriculture, EEC Commission, at a meeting of experts (24 and 25 May 1976) in America House in Berlin.

In the observations which follow food policy is seen in a world-wide perspective. It is therefore reasonable not to restrict the comparative study to EEC and US policies in respect of our own nutrition only, but - much more importantly - to include the policy of the rest of the world.

This is also justified to some extent insofar as both economic areas mentioned bear a special responsibility for what happens on world food markets.

The USA is the world's greatest exporter and second greatest importer of agricultural products, while the Community is the world's greatest importer and second greatest exporter. Trends in world food markets therefore depend on their policies, and consequently also the prosperity of producers and consumers in other parts of the world.

As an introduction let it be stated that there are no deep-rooted differences in the objective of food policy, which is to supply one's own population and if possible the whole world also with sufficient food.

- Different starting positions - different interests

Opinions do however differ as to how this objective should be attained, and this is something we shall look at later. These different viewpoints are probably due to the fact that there are different starting positions and different interests, which are not related solely to food policy or, to express it better, to agricultural policy. Agricultural policy is not implemented in a vacuum. It always forms part of an economic policy and, in the case of the import or export of agricultural products, it is influenced by general foreign trade policy. This is true not only for the EEC and the USA. EEC agricultural policy is above all subject to the objective outlined in Article 39, which obliges the Community to influence the price level for farm products in the interest of agricultural incomes. This necessarily requires, inter alia, that a corresponding import system be set up at frontiers preventing undesirable price influences from outside. The principles of Article 110 also apply to agriculture; these require the Community to contribute to the harmonious development of world trade and to the progressive elimination of restrictions on international trade. Since overall economic interests find expression in foreign trade policy, something must be said, in a comparative survey, of the respective interests and starting positions.

To begin with the various interests, it can be said that the USA is a net agricultural exporter. In 1975 it exported approximately US \$ 25 milliard worth of agricultural products and imported about US \$ 9 milliard worth. While agricultural products represented about 22 % of total exports they only represented about 9 % of total imports. In the same period the Community imported agricultural products to the value of U.A. 26 milliard or US \$ 30 milliard, representing 26 % of total EEC imports. It exported about U.A. 7 milliard or US \$ 8.5 milliard worth of agricultural products, thus agricultural products represent about 7 % of total Community exports.

Now to say something of the starting positions. The Community is not yet 20 years old. Some 17 years ago it began progressively to introduce the free movement of goods. The USA is celebrating its two-hundredth birthday as an independent Federal State. Production structures in the USA were thus able to adjust from the outset under the influence of competition over a wide area; this trend was not, as in Europe, interrupted by wars of supremacy, which led the continental European nations first foremost to demand of their agriculture self-sufficiency and of their industry priority in the manufacture of armaments rather than of tractors and other modern

agricultural equipment.

This historical development must be presented in a very simplified form to throw some light at least on the initial starting situations. But even today the debts of the past have not been fully wiped out. If one considers the different agricultural and production structures in the USA and Europe, one discovers that there are at present 2.8 million farms in the USA against 5.2 million in the EEC. The size of the average US farm is approximately 200 ha, that of the European farm 18 ha. The manpower-land area ratio is 1 : 10 in Europe, 1 : 136 in the USA. In the Community 9.1 million or just about 9 % of the active population work in agriculture and supply 80 % of the food requirements of 260 million people from about 90 million ha. In the USA about 4 million farmers or 3 % of the active population work in agriculture and farming close on 500 million ha, supply food for 220 million Americans; to this must be added an additional 40 to 60 million people enjoying an American standard of life in other parts of the world.

The US farmer feeds about 52 people, the EEC farmer about 25; and while there are scarcely any acreage reserves in the Community, a considerable margin exists in the USA.

Two conclusions can be drawn from these figures:

1. the natural and technological advantages of the USA in agricultural production
2. the natural and historical structural disadvantages of the Community.

At the same time one should not forget the tremendous work on the modernization of production structures which has taken place in Europe in the last 20 years - just 20 years ago there were some 20 million people working in agriculture.

As regards external trade policy in relation to agricultural policy, one must take account of the different interests characterising the American and European economies respectively, since these have an influence on the objectives of their agricultural and food policies. The big difference is that Europe is far more dependent on world trade than the USA. In fact in the Community external trade represents about 22 - 23 % of the gross social product, while this figure is only about 6% in the USA.

The different economic positions of the EEC and of the USA can mainly be traced to the fact that Europe possesses scarcely any raw materials, while the USA has abundant resources.

- Different legal positions

Finally one cannot ignore the fact that the USA and the EEC are members of the General Agreement on Tariffs and Trade (GATT) though with different rights and obligations in the agricultural sphere. When the GATT agreement was worked out after the Second World War on the initiative of the victorious powers, it was only accepted by the USA after it had been granted a waiver for agricultural products. Indeed at that time world market prices were lower than prices in America and the abolition of quantitative restrictions, as demanded by the GATT, would have meant the collapse of US domestic farm policy. The waiver, which still applies today, allows the USA to retain quantitative restrictions or to reintroduce them whenever necessary in order not to endanger the US domestic farm policy.

It is certainly true to say that this waiver is not as important for the USA today as it was in the 50s and 60s, since world market prices are usually as high or higher than US domestic prices. The EEC never requested such a waiver. After careful consideration it worked out another import system for those agricultural imports which are in competition with its own products, i.e. a system of levies.

In order to be able to apply this system in accordance with international commitments however, existing consolidations of the customs of the original Community and the states which acceded in 1973 had to be abolished and replaced by new equivalent consolidations in the common customs tariff.

This explains for example why the EEC must import a number of feedstuffs into the Community, free of duty, even if that leads to difficulties for its own agricultural policy.

In other words in international negotiations Europeans have lost part of their economic freedom in exchange for freedom to organize the import system for certain farm products according to their internal requirements, while the USA obtained complete economic freedom of manoeuvre without granting anything in return.

This means therefore that if the Community does not respect its obligations within GATT retaliatory measures can be taken against it, while it cannot take similar action against the USA. So much then for the factual description of the overall economic and farm policy interests and starting positions and the difference in legal positions.

In reporting on agricultural and food policy on both sides of the Atlantic, it can be said that the various starting positions and interests have shown clearly that:

1. due to insufficient resources the EEC depends far more than the USA on world markets, and this naturally has consequences also for its agricultural policy,

2. if its own existing resources are to be fully utilized, the natural and structural disadvantages of the EEC in the agricultural sphere require protection or support now and in the future.

It should not be forgotten that the EEC supports a population the same size as that of the USA on an agricultural area about one-fifth that of the USA. In saying this we are certainly not claiming however that the Community's agricultural policy, as it exists today, is the most efficient imaginable in the interests of producers and consumers.

It cannot it seems be disputed, however, that the higher utilization of resources gives rise to higher costs, and that this will be so even when, in accordance with the objectives of the common agricultural structural policy, structures are achieved which permit the optimal use of technical progress in agriculture.

- World wide responsibility: different agricultural policies

The decisive question of today and tomorrow seems to be whether the world can do without our resources merely because our production costs are higher than those of certain specially favoured areas of the world.

If one looks at the actual exports of vital foodstuffs by these favoured regions of the world, we note that the value of the surpluses exported by these countries is about US \$ 20 milliard, i.e. they represent scarcely one-third of the Community's agricultural production. It must be concluded from the very sensitive balance between supply and demand in the world today that European agricultural production can be replaced neither by the USA nor by the developing countries; unless at the cost of huge increases in world market prices as the goods become scarcer and of millions more people suffering or even dying, as happens today, from hunger.

An example of this is the situation which arose in the case of sugar, where a theoretical deficit of 3 million tonnes of sugar out of a total world sugar production of 91 million led to a six-fold increase in the price of sugar on the world market. Or there is the example of wheat, where prices tripled as a result of massive purchases by the East.

One has the impression today that the shortage of the last three years has had its impact on all responsible people in the world. This is also the case in the USA. It is no secret that the USA has been at variance with the Community for the last 15 years over the EEC agricultural policy. The USA reproaches us with supporting uneconomic production, maintaining that the support for uneconomic production was the principal reason for surpluses on world markets in the fifties and sixties. This situation has now changed somewhat.

Indeed, Mr. Dent, Special Advisor to the American President, had the following to say about the USA's objectives in the current international negotiations in Geneva:

"The United States has had its agricultural policy "Revolution", or perhaps I should say evolution, to a basically free market and full production. Such a policy requires export market access on a competitive basis to sustain it, and to offer maximum supplies at anti-inflationary prices at home and abroad.

This is not the case in other countries, where production is price-supported, domestic markets protected by arbitrarily floating import barriers, and exports subsidized.

Such policies are rationalized on grounds of legitimate socio-economic objectives. We recognize and respect these objectives, but not beyond the point at which they unfairly disadvantage domestic sales in our market, or our exports. Again, this issue applies equally to agricultural and industrial trade".

It is true to say that in the Trade Act the USA has adopted an internal legislative instrument which tries to gain recognition for the view expressed by Mr. Dent by threatening to take retaliatory measures against all countries granting export subsidies. This applies both to exports to the USA and to other countries where such subsidized exports are in competition with US exports.

Many experts consider that this US legislative instrument is not in all respects in accordance with GATT, the so-called "Bible of the obligations and rights of world trade".

It will therefore certainly give rise to disputes. What is more important, and this is probably a lesson learnt from the shortage situation

just experienced, is that the USA no longer adheres to the somewhat simplistic formula according to which it and other efficient producers are in a position to meet world food demand.

Without entering into a critical analysis of the new US strategy, let it merely be said that the so-called agricultural policy revolution, which led to the full utilization of US production capacities, was made possible not by an increase in internal demand but rather by the rise in external demand.

External demand is based mainly on additional purchases by the East as well as by the developing countries.

Added to this is the fact that the rise in external demand has led to prices which are considerably higher than before the crisis situation and this now continues to be the case.

The result is that the US no longer has to give any appreciable internal support to its farmers. Indeed this increased demand has allowed US exports to increase from about \$ 9 - 10 milliard in 1972 to \$ 20 milliard or more in 1973 and 1974.

The result is that the average US farmer's income has risen from \$ 6 100 in 1972 to \$ 11 300 in 1973. Another outcome of these events is that the long term US balance of trade deficit has turned into a strong positive balance.

The EEC views all this with benevolent interest although, as has already been said, one has the impression that past EC-US discussions on the subject of imports are being continued now in respect of exports, and that this will be the case as long as EEC agriculture is not fully competitive, or other countries in the world do not fully utilize their agricultural resources, with the result that with our rising population the ensuing increase in demand will continue to push prices upwards on the international markets.

In fact present-day world market prices are not so very far removed from EEC prices, and in the case of certain products they are now higher. The USA does not for example produce milk and beef cheaper than Community farmers.

This new attitude of the USA is important however not only for the EEC but also for those countries where food problems are particularly pressing, i.e. the developing countries. Indeed the new American strategy permits these countries to introduce protective measures in order to enable them to develop their own agriculture and thereby utilize their reserves of productive capacity.

In these countries also one has the impression that the shortages have resulted in a new attitude towards agricultural problems. In the past it was possible to note, in the case of many of these countries, that for them industrial development was synonymous with the building up of industrial production.

What almost certainly contributed to this viewpoint was the fact that there was a time when foodstuffs could be bought very cheaply on the world market. Apart from the question of whether the developing countries are capable of or in a position to develop their agricultural resources, the fact that the world market price level for a number of agricultural products is appreciably higher than in the past ought to encourage these countries to

develop their agricultural production provided that they do not nullify the effect of these incentives by higher export taxes.

Following a period of shortages none-the-less there is a general world-wide inclination to give priority to the development of the agriculture of the developing countries, so that people may have enough to eat. This priority applies also to development aid given by the industrialized countries to the developing countries.

On this issue opinions among the industrialized countries do not differ and the EEC and the USA also hold the same view. However if one broaches the question as to what means and methods should be used to influence the world markets vital foodstuffs so that producers, particularly in those countries which are not in a position to transfer income to their agriculture, can produce the foodstuffs necessary to guarantee a secure supply to consumers, then the Community and the USA hold different views. The USA upholds the principle of a pure market economy. The acting US Minister for Agriculture, Mr. Richard Bell, at the Symposium on World Food Policy on 24 March 1976 in Chicago, had the following to say on this issue:

US policy aims at full production and is market orientated, while the policy of other countries aims largely at self supply. According to Bell the world food situation had improved last year due principally to better harvests. Whether this trend continues will depend largely on weather conditions.

The World Food Conference in 1974 was, in Bell's view, mainly a political event. He thought it difficult to meet the objective of increased food production in those areas where it was particularly important.

Bell named three factors which are important for the functioning of a world food programme:

- greater technical aid where necessary
- greater liberalization of international trade
- ways and means of bringing the required food to countries which cannot pay for it.

The European Community's view is that market orientated production or the liberalization of trade, technical aid and food aid are not of themselves sufficient to ensure secure supply and to increase world trade in agricultural products.

It wants to be sure that if, for example in the interests of world trade, it refrains from production supplies will be available to it at reasonable prices. Let us return to the example of sugar. It is well known that in order to ensure supply in Great Britain and Italy at the EEC domestic price level, some U.A. 100 million had to be used for import subsidies. A further consequence of this situation was that the Council of Ministers raised quota-restricted production in Europe. From this it can be concluded that greater world trade becomes possible only where trading conditions are stable and uncomplicated and that unstable trading conditions increase the tendency to self-supply. The drastic effects which unstable conditions can have on the production and supply of food is seen in those developing countries which are still to a large extent importers of agricultural products. During the period of scarcity and even today some of

these developing countries are not in a position to import vital industrial goods because they have to devote all their export earnings on the purchase of food, which sometimes can only be obtained at speculative prices.

In the round of international negotiations, already underway, the Community is therefore advocating the dismantling of tariffs and non-tariff barriers in order to conclude an international agreement, aimed principally at stabilizing world markets through a system of stock-piling.

This is particularly relevant for wheat and sugar. In the EEC's view the stocks, maintained principally by the industrialized countries and therefore financed by them, should be used to influence the world market price, so that when a given maximum price is reached on the world market, concerted action will be taken to release a part of the stocks held onto the market, and when the market price falls to a minimum level supplies are kept in stock. In addition to this the EEC fully supports the early warning system proposed by the World Food Conference designed to inform participants about the position on the world market, so that they can take it into consideration when drawing up their agricultural policy. Finally these agreements should include undertakings on food aid for the developing countries. Such undertakings destined as a safeguard against catastrophes will be necessary as long as agricultural production in these countries fails to increase in line with the increase in the population. Everyone knows that these countries are experiencing a "population explosion".

This position, which may cost the EEC a lot of money, will not only serve the interests of its own food policy better, but will also enable the EEC to meet its commitments under the "Declaration of Tokyo", which for the first time in the international negotiations lays particular stress on international agreements aiming to promote the economies of the developing countries.

If the EEC does not agree with the U.S. on external food policy, this is due to the different interests and starting positions already outlined. The Community is an exporter of industrial goods and therefore its welfare depends to a large extent on the success of these exportation.

An increase in the purchasing power of the developing countries, through stabilizing prices, is therefore also in our own interests.

It is against this background that one has to view the Community's actions, whether it be its Mediterranean policy, its policy towards the Associated African States on the Lomé model, which provides not only for the opening up of markets, DM 10 milliard financial aid and industrial cooperation, but also for the first time in history a stabilization of the export earnings of these countries on their raw materials, which are to a large extent agricultural products.

Only this can explain why the Community was and still is the advocate of introducing the generalized preferences scheme for all developing countries.

The Community system came into force in June 1971, that of the USA only on the 1 January 1976. The Community's policy is based on cooperation. The USA on the other hand is not only less dependent on world trade but also on raw material imports.

The ability to produce agricultural products at favourable prices and to sell them in large quantities is a weapon which can today be used to engender reason in the unreasonable. The policy of both sides is therefore influenced in the first instance by their own interests.

What is decisive for the future, particularly for world food policy, is that a fruitful compromise be reached in which both sides are forced to bear the main responsibility for the world agricultural markets and in this context of course the way the burdens are shared will certainly play a role.