A Letter from Europe

A monthly update on the European Community from its Delegation in Washington

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CHANGES IN THE COMMON AGRICULTURAL POLICY: WOULD THESE HURT U.S. FARMERS?

On October 17 the United States Senate held hearings about the proposals which the Commission of the European Communities has recently made (and which are now before the Community's Council of Ministers) to change the Common Agricultural Policy (CAP)--the European Community scheme for ensuring food supply, price stability and supporting farm income. Some concern was expressed at these hearings about these proposals. This is understandable. Any European who addresses audiences in the U.S. quickly discovers that the mention of the CAP does not produce loud and enthusiastic cheering at the back of the hall. But we think that our proposals have been misunderstood. We would like to set the record straight. In the immortal words of Lewis Carroll's "The Hunting of the Snark":

> "You may charge me with murder or want of sense
> (We are all of us weak at times)
> But the slightest approach to a false pretense was
> never among my crimes."

Let me explain why the broad effect of these proposals would be to help rather than hurt the American farmer.

What are we trying to do? The main thrust of the Commission's proposals is to limit EC spending on farm support and to adapt the CAP to meet the changed conditions of the 1980's by discouraging surplus farm production.

Why have we made these proposals? For two reasons. First because the Community is running out of cash and, secondly, because productivity gains in European agriculture have meant output rising faster than consumption--thus, surpluses.

The proposals. This is the background to the tough program proposed for rationalization of European agriculture. It would

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

b.) require EC farmers to foot the bill for their own over-production;

c.) reduce the EC-world price gap.

This package represents a major shift in the direction urged for years by US critics of the CAP.

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 it is not unreasonable to review its treatment of competing imports, provided that this is done strictly in accordance with the international trading rules set out in GATT.

Grain substitutes. The EC cannot reduce support for grain without stabilizing imports of grain substitutes, which displace Community-grown cereals in animal feed and thus force more EC grain on to the world market. This is not a proposal aimed specifically at the US. Substitutes are imported from a wide range of sources and action has already been taken on manioc and bran coming in from such areas as Southeast Asia. It is therefore proposed to stabilize imports of other important substitutes--corn gluten feed and citrus pellets. EC 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 stabilizing these imports after discussions with the EC's major suppliers and in full accordance with the GATT rules.

Oils and fats tax. This would be a non-discriminatory sales tax on all oils and fats (excluding butter) consumed in Europe, whether produced locally or imported. A non-discriminatory tax of this kind squares fully with the international trading rules. Imports of soybeans and soybean meal would not be directly affected.

Furthermore, even indirectly, it is extremely doubtful whether the proposed tax would have any discernible effect on the quantity of soybeans and meal the EC imports. 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. Secondly, all other vegetable oils, including olive oil, whether obtained from imported or domestic seeds, would be taxed. This would have a proportionally greater effect on the lower priced oils (such as rapeseed oil). Lastly, soybeans are imported by the EC very largely for animal feed and not for oil production.

Conclusion. This comprehensive package of proposals has not been designed to shift the burden of adjustment away from European agriculture on to the shoulders of US exporters. European farmers would bear the major burden of reduction in price, severely limited production quotas and generally severe cuts in financial assistance. The measures with some external impact, the stabilization of corn gluten imports and the tax on vegetable oils, would be carried out in scrupulous conformity with the GATT rules and in full consultation with the US. These are only one part of a tough package of measures calling for major sacrifices by European farmers but unlikely to reduce current levels of US agricultural exports to the EC. Worldwide the US farmer would stand to benefit from the cutbacks envisaged in EC production which competes with US products on world markets.

Roy Denman

Window on the European Community

EC OPENS TALKS WITH DEVELOPING COUNTRIES ON NEW ACCORD...

...The EC formally opened negotiations this month with representatives of about half of the world's developing countries towards the renewal of the Lomé Convention, a trade and aid pact that makes the EC a partner in the economic development of 63 African, Caribbean and Pacific (ACP) nations. Over the 5-year life of Lomé II, the present installment of the Convention, the EC will have given about $5 billion in financial aid to the ACP countries. Lomé II expires in February 1985.

The EC hopes the new pact, Lomé III, will provide for more efficient use of aid in promoting self-reliant and self-sustaining economic development in the recipient countries. It has also called for human rights provisions to be included in the new accord. Negotiators of the new accord are expected to take into account the achievements and short-comings of Lomé II in devising a successor arrangement, keeping in mind the worldwide recession that has eroded Third World living standards and has left many developing countries heavily indebted.

SPECIAL EXPORT SUBSIDY ANNOUNCED FOR FLOUR SALES TO EGYPT...

...The EC Commission recently announced a supplementary export subsidy equivalent to about $6 per ton on sales of up to 400,000 metric tons of EC wheat flour to Egypt for December through July delivery. The Commission said the special subsidy was necessary to allow EC exporters to recover a share of the Egyptian market, traditionally an important outlet for European flour. It said the EC has been virtually unable to sell flour to Egypt since January 1983 when the US agreed to sell that country 1 million tons of heavily subsidized American flour.

EC COMMISSION FORECASTS MODEST ECONOMIC GROWTH FOR 1984...

...The EC's economy will grow by a modest 1.5% in 1984, according to economic forecasts released this month by the EC Commission. That growth rate would be a significant improvement over the 0.5% increase in gross domestic product the EC is expected to register in 1983, but would still be well below economic growth rates anticipated elsewhere in the industrialized world. Despite brighter prospects for economic growth, EC Finance Commissioner François-Xavier Ortoli, presenting the Commission's forecasts, warned against undue optimism. He said that high interest rates, exchange rate uncertainties and international debt still posed risks to Europe's fragile economic recovery.

FARM AGREEMENT POSITIVE STEP FOR ACCESSION NEGOTIATIONS...

...Negotiations for Spain and Portugal's entry into the EC are expected to get a shot in the arm from a recent agreement among EC Farm Ministers on changes in the Community's farm programs for fruits, vegetables and olive oil. The amendments are designed to enable the EC eventually to incorporate Spanish and Portuguese farmers into the EC's Common Agricultural Policy without creating massive surpluses of those products or hurting farmers in Mediterranean regions of the present 10-member Community. The agreement will enable the EC to launch negotiations with Spain and Portugal on the agricultural aspects of their admission to the EC. The accession of Spain and Portugal will increase the EC's production of vegetables by 25%, fruit by 48% and olive oil by 59%.

SPECIALTY STEEL TALKS EXTENDED THROUGH NOVEMBER...

...The US and the EC have agreed to extend to November 30 the deadline for reaching a settlement to an on-going dispute over US restrictions on imports of specialty steel products. The decision to extend the consultations was made after it became clear that the two sides were too far apart to reach an agreement before the original October 20 cut-off date. The consultations have revolved around an EC demand to be compensated for export losses stemming from tariff increases and import quotas that the US imposed on specialty steel goods in July.

EC APPLAUDS NEW EXPORT CREDIT CONSENSUS...

...The EC has hailed as a "major breakthrough" a new consensus among 23 of the world's leading industrialized nations on guidelines for government-backed export credits. The new arrangement, which took effect on October 15, is the latest in a series of efforts to prevent countries from using credit subsidies to undercut one another's export prices. Jos Loeff, EC Deputy Director-General for External Relations, said the most important feature of the new agreement was the introduction of an automatic system for adjusting the minimum interest rates permitted on government-supported credit. Under the new arrangement, interest rate minimums would be adjusted every six months using a formula designed to reflect changes in market interest rates. Loeff said the automatic adjustment feature would spare parties to the agreement the "agonizing discussions and the uncertainties" that up until now have surrounded annual review of interest rate minimums. The initial minimums under the new accord were established at between 9.5% and 12.4% depending on the relative wealth of the recipient country and the length of the credit terms. The new plan was negotiated under the auspices of the Organization for Economic Cooperation and Development.