

Newsletter on the Common Agricultural Policy

Weekly

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From an EEC to a world
agricultural policy

Towards a world agricultural policy on the same lines as the EEC's

I

A. Agricultural background to the Kennedy Round

The EEC Treaty requires the Community not only to weld the hitherto self-contained national agricultural markets into a single whole with the same characteristics as a domestic market, but also to develop an agricultural policy in keeping with the objectives laid down in Articles 39 and 110, viz:

- (a) to raise farm incomes by increasing productivity;
- (b) to stabilize markets, in other words to strike a balance between supply and demand;
- (c) to guarantee supplies and ensure that they are delivered to the consumer at reasonable prices;
- (d) to contribute to the harmonious development of world trade.

It was certainly not by chance that the authors of the Rome Treaty set standards for the Community's farm policy of a kind unprecedented in agriculture, at least in the six member countries. It was with some justification, then, that the principles behind this policy were felt to be a revolutionary break with the past. Conservative policy makers nevertheless took the view that the principles implied a policy of concentrating wholly on the economic aspects of agriculture, which they said was impracticable.

Despite all opposition, the common agricultural policy is virtually complete, as far as legislative processes are concerned, since the Council decisions of 15 December 1964, and it is now shaping both the trend of farming in the Community and our relations with the rest of the world.

The implications of the common agricultural policy for Community farming are:

1. Free trade, from 1 July 1967 onwards, between six countries which were previously surrounded by protective walls. This means unrestricted competition with the same rules for everyone, so that production will gravitate towards the areas of the Community where conditions are most favourable.
2. A policy of balance between production and demand - the only way to place agricultural markets on a sound footing.
3. A common price policy as a result of which both producer and consumer prices will be stabilized at a level which satisfies the requirements of efficient producers. The Community's agricultural policy is thus stripped of the element which, in the eyes of the world, was a major source of market disorder - subsidies for uneconomic producers.

While it has been largely determined by economic requirements, the common agricultural policy does not ignore social problems. It is not the EEC's intention to abandon the numerous farmers who will be forced out of agriculture as a result of technical progress and the limited capacity of the human stomach. This is a separate topic which cannot be gone into here, but it is being given the closest attention.

In adopting the common agricultural policy, the EEC drew the logical consequences from the refutation, at least in industrial countries, of the Malthusian doctrine that population grows faster than the production of goods and that a community can therefore expand only if it acquires new land on which to grow food.

Given a rational economic policy and technical progress, it should also be possible to solve the problems of the affluent society. They at least look easier to solve than the problems of an impoverished society, whose members, either individually or collectively, can only thrive at the expense of others.

B. The EEC is not self-supporting

What effects has the EEC agricultural policy or market integration had on its relations with the rest of the world? As is common knowledge, the Community is an industrial entity, deriving more than 20% of its gross product from foreign trade, and cannot therefore afford to be self-sufficient. Let us see what the figures say.

1. Total imports of agricultural produce including tropical and primary farm products rose from £7 356 million in 1958 to £9 438 million in 1963, an increase of 28.3%. Imports in the first half of 1964 were worth £5 330 million.

Figures by area show that farm imports from industrial countries rose by 39.2%, from developing countries 14% and from state-trading countries 87.2%.

2. Imports from all non-member countries of farm products which have been subject to common regulations since 1 August 1962 (cereals, pigmeat, poultry, eggs, fruit, vegetables and wine) went up from £1 753 million in 1958 to £1 995 million in 1963, an increase of 13.8%. The figure for the first half of 1964 was £1 150 million. Here too the increase varied according to source of imports. While those from industrial countries were up by 34.5%, and as much as 108% in the case of the USA, imports from the developing countries fell by 11.9%, and the figure for state-trading countries rose by 46%.

These figures show that the industrial countries have derived considerably more benefit from the expanding Community market than the underdeveloped countries, although the latter's needs are greatest. This is doubtless because the industrial countries are stepping up their agricultural production as well faster than

they can consume it and are also rich enough to get rid of their surpluses on the world market by resorting to artificial measures. In so doing, they clearly compete with the developing countries and force down the price and volume of their exports.

While it certainly cannot be denied that the primary aim of the common agricultural policy was to find an answer to the Community's internal problems, our relations with non-member countries were nevertheless taken into consideration from the outset. Although Article 110 of the Rome Treaty, calling on the Member States to contribute towards the development of world trade, also applies to agriculture, the Council deemed it necessary to emphasize this point by writing a special clause into each of the more recent market regulations, stipulating that it must be applied with due regard to the aims set out both in Article 39 (agriculture) and in Article 110 (international trade) of the Treaty. The Community is thus committed to support endeavours to promote world trade - a commitment which will scarcely be found in any other agricultural policy anywhere.

In the course of the Kennedy Round, then, the Community has tabled concrete proposals for what amounts to an international agricultural code. The ideas contained in the proposals are not new, since they were first put to the members of GATT by the Community as early as 1958; their purpose is to set the world's agricultural markets in order and make them work better.

The need for this becomes obvious when we look at the structure of world trade. In 1963, world exports totalled roughly \$143 000 million, of which just on \$42 000 million, some 30%, were accounted for by farm produce including primary products. So agriculture still claims a large share of world trade, which is why every country enters into bilateral and multilateral agreements laying down rights and obligations in the matter of imports and exports of farm produce.

II

A. The twin aspects of the problem of world trade in farm produce

(a) Supply

Thanks to improved techniques, both crop and livestock production in most countries is growing at a rate and on a scale hitherto unknown. Hardly any country has effective machinery for regulating supply, since producer prices are fixed in accordance with political criteria (parity between agriculture and industry, national security, etc.).

(b) Demand

Demand from countries in a position to pay for their purchases is not keeping pace with increases in supply. Surpluses are stockpiled or, bypassing normal trade channels, find their way to countries whose national incomes or foreign-currency holdings are too low to provide an effective backing for demand.

While the imbalance between supply and demand affects international trade policy, its causes must be sought elsewhere. They are to be found in agricultural and development policy. It is here that efforts must be brought to bear if world trade in farm produce is to be placed on the sound footing of structural balance between supply and demand.

Those responsible for external and - even more - for trade policy are fully aware of this. What have they done?

As far as development problems are concerned, both the developed and the developing countries have decided to merge their national policies to form a single international policy.

With regard to agricultural problems, however, no decision has yet been taken to subordinate national policies to international discipline.

B. Will the Kennedy Round be a turning point?

The EEC's answer to this question is "yes", since the Kennedy Round has certain basic features which make it the proper forum to tackle, and finally master, the ever-growing crisis in world agricultural trade. The features which the EEC has in mind are as follows.

The Kennedy Round covers the entire range of both industrial and agricultural products.

Instead of the traditional item-by-item method, negotiations are being conducted on a linear basis, which means that every member of GATT accepts commitments in respect of all farm products.

Commitments must be made on a reciprocal basis; in other words, each contracting party must assume the same, or at least equivalent, commitments in respect of each product.

Rules and procedures have still to be worked out for the agricultural part of the Kennedy Round and provision made for general agreements on a number of products such as cereals, meat and milk products.

C. The EEC's plan⁽¹⁾

With these considerations in mind, the EEC has worked out a plan containing the rules and procedure which it feels should be applied

(1) See Newsletter No. 17/1964.

to the agricultural part of the Kennedy Round. This plan was submitted to GATT on 18 February 1964.

The procedure proposed defines the basis on which commitments are to be made by the contracting parties. Whereas commitments made in the industrial sector are based on customs duties, the EEC has proposed a different basis for agriculture, namely the margin of support.

The rules of negotiation put forward by the EEC provide that margins of support should be bound at their present level.

D. The margin-of-support method and why the tariff approach is not enough

Customs duties are still the main instrument of protection in the industrial sector but no longer play a dominant role in agriculture. A good number of contracting parties have replaced duties on major farm products by other instruments of support such as import monopolies and levies. In many other instances, customs duties have been retained but coupled with other instruments of agricultural support (government market intervention, production subsidies, compulsory mixing regulations, quantitative restrictions, import charges, export subsidies, etc.).

Customs duties are thus no longer the common pillar of agricultural support in all national systems. But the contracting parties cannot simply be expected to replace their national systems by a single instrument of support for the sole purpose of providing a common basis for commitments made under the Kennedy Round. Instead, we must work on the assumption that national support systems will continue.

But national support systems, no matter how widely they differ, have one thing in common and that is their overall effect.

The incidence of a support system is equal to the difference between:

- (a) the price which the national producer receives for the product and
- (b) the normal price at which similar foreign products of comparable quality are offered at the national frontier (reference price).

This difference is what the EEC calls the margin of support, and it can be expressed as a figure.

The EEC proposes that the margin of support be taken as a basis for the commitments to be assumed by the contracting parties.

The EEC's own commitments will not be based on the margins of support granted by the individual Member States but on those resulting from the common agricultural policy.

E. The rules governing the margin of support

Basic commitment

All contracting parties, including the EEC, will bind the margin of support for each farm product at its current level. Countries in which the margin is nil will undertake not to introduce support measures for the product in question.

If the world market price falls below the reference price, the margin of support will automatically be increased by the difference between the two. If the world market price rises above the reference price, the margin of support can only be maintained at the existing level after consultation between the contracting parties.

The margin of support will initially be bound for a period of three years. Before this period expires, the contracting parties will negotiate new commitments for the following three years.

If the balance between supply and demand is likely to be disturbed as a result of the trend of production in all contracting parties, consideration may be given to adjusting the reference price. But if this occurs only in one or two contracting parties, an adjustment of their margins of support should be contemplated.

Each contracting party may, for compelling reasons, terminate the binding of the margin of support. In this case, compensation must be offered to the other contracting parties.

Additional commitments assumed by individual contracting parties

Any country may, of its own accord, assume more far-reaching commitments in respect of one or more farm products.

For instance, a country could offer to bind the margin of support at a level lower than the current one or bind one of the components in its support system for a given product - such as the feed-conversion rate in the support system for poultry.

Additional commitments in respect of individual products

World agreements based on the following principles will be concluded in respect of products such as cereals, beef and veal, butter, sugar and oleaginous fruit, which account for a large proportion of world trade but suffer from a lack of balance between supply and demand.

Contracting parties will pursue a production policy designed to prevent surpluses. Where surpluses seem likely to accumulate, they will take steps to cut back supply and even production if necessary.

Before taking steps to limit production, the contracting parties will examine what can be done to stimulate the demand in a number of countries that has not been satisfied through either commercial or "non-commercial" channels.

Contracting parties exporting through "non-commercial" channels will observe the principles and procedures which have been or will be recommended by FAO or other international bodies.

The contracting parties will stabilize world trade prices by agreeing on reference prices and ensuring their enforcement through the machinery of import and export procedures.

These prices will be fixed at a level which ensures a fair return to exporting countries, and satisfies the desire of importing countries to safeguard the legitimate interests of their consumers and the stability of their finances.

F. Will the plan be accepted?

The chief objections to the plan are summarized below:

- (a) Until 15 December 1964 there was some doubt, both inside and outside the Community, whether the EEC would be able to agree on the common prices without which the plan cannot work. This has now been done for cereals, and every effort must be made to lay down common prices for other farm products (beef and veal, milk, rice, etc.) in 1965.
- (b) While the EEC Member States agree that commitments are also required in respect of national farm policies, certain exporting countries go further calling for an undertaking from importing countries to make purchases to a specified amount. Some importing countries seem willing to go along with this - the concept of the division of markets.

The EEC rejects it for two reasons, which can be explained by taking the case of cereals:

1. An import guarantee for cereals does not put exporting countries in a position to assume a reciprocal (i.e. identical or equivalent) commitment for cereals.
2. Import guarantees for cereals would allow both importing and exporting countries to pursue production policies of their own without conforming to international discipline. But without such discipline, the balance of the world cereal market cannot be restored. If the present imbalance continues, the political, commercial and agricultural consequences will be serious.

The EEC further believes that the quest for security implicit in the desire for import guarantees cannot be justified by calling in question the margin-of-support method. For the economic effects of binding a customs duty - the procedure in the industrial part of the Kennedy Round - cannot be predicted with as much certainty as the binding of the margin of support, which represents the cumulative effect of all government support measures, of which customs duties are but one.

- (c) The third objection is that the method of calculating and supervising the application of the margin of support has not been put to the test. The EEC does not dispute this fact, which undoubtedly gives the members of GATT good grounds for laying down certain procedures whereby supervision can be exercised and decisions taken if problems should arise.

Although the dissensions and difficulties still blocking the adoption of the plan or the principles it embodies should not be underestimated, the EEC believes that with political determination on all sides it should be quite possible to regulate world agricultural markets in such a way as to put an end to structural imbalance with all the serious agricultural, commercial and political consequences it entails.

G. Towards a world agricultural policy

The EEC's common agricultural policy must therefore be completed before its negotiating plan can be put into effect. This plan is tailored to agricultural co-operation among countries belonging to the same economic and social system as the EEC.

By practising the kind of co-operation proposed by the EEC, these countries will prepare the way for others with different economic and social systems to take part in an international agricultural policy.

1. This applies first and foremost to those countries where modern methods of production and marketing have not yet been applied to farming. Many of them are members of GATT.

The UN Conference on Trade and Development held in 1964 left the following questions unanswered.

- (a) What international commitment must the developed countries assume? The views of the developed countries themselves were widely divergent.
- (b) What international commitment must the developing countries assume? This question was not even discussed, though that is not surprising since it should have been brought up by the developed countries, who are not sure of, and cannot agree on, what their own commitments should be.

Once accepted, the EEC plan - or at least its principles - would provide the developed countries not only with a common approach towards their own commitments but also with a concept on which to base and negotiate the agricultural commitments of the developing countries.

2. Also involved are those countries in which agricultural undertakings are not privately owned and run. Some of them are already members of GATT, and others wish to join.

Once accepted, the EEC plan would give the capitalist countries a clear idea of the extent of their own agricultural commitments and, by the same token, a yardstick with which to measure the equivalent commitments to be assumed by the other countries.

The EEC's common agricultural policy, once completed, together with its Kennedy Round plan, once accepted, would thus lead to world agricultural co-operation along the following lines.

1. The starting point for such co-operation is the realization that the present imbalance between supply and demand on world agricultural markets affects the agriculture and the rest of the economies of all countries.
2. The purpose of co-operation is to strike and maintain a balance.
3. The basic tenet of co-operation is to apportion the responsibilities it entails in accordance with a single set of rules based on the level of development reached in the countries concerned.
4. The instruments of co-operation are the commitments which all countries will assume in binding the margin of support and concluding world agreements for certain commodities.
5. Procedures for supervising and extending co-operation will be negotiated by the contracting parties at the regular or other meetings held under the auspices of GATT or in pursuance of world agreements.

Co-operation of this kind, once put in hand, will mean the beginnings of a world agricultural policy.