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REPORT

drawn up on behalf of the Committee on External Economic Relations
on the impact of the CAP on the external relations of the
European Community

Rapporteur: Sir Fred CATHERWOOD

MOTION FOR A RESOLUTION

PE 81.009/fin/A

EUROPEAN PARLIAMENT

CORRIGENDUM to the

REPORT

drawn up on behalf of the Committee on External Economic Relations
on the impact of the external relations of the European Community

Rapporteur: Sir Fred CATHERWOOD (Doc. 1-248/83/B)

The title of Table 2 in para. 38 of the Explanatory Statement should read as follows:

'Share of total value of Australian exports accounted for by the EEC-
Nine (per cent)'

By letter of 11 September 1981, the Committee on External Economic Relations requested authorization to draw up a report on the impact of the CAP on the external relations of the European Community.

By letter of 28 September 1981, the committee was authorized to report on this subject. The Committee on Agriculture and the Committee on Development and Cooperation were asked for opinions.

On 26 October 1981, the Committee on External Economic Relations appointed Lord O'Hagan rapporteur. On 15 September 1982, he was replaced by Sir Fred Catherwood.

At its meetings of 26 October 1981, 26 November 1981, 23 February 1982, 1 April 1982, 18 October 1982, 4 November 1982, 25 November 1982, 18 January 1983, 23 February 1983, 16 March 1983 and 20 April 1983, the Committee on External Economic Relations considered the draft report. It adopted the motion for a resolution as a whole during the latter meeting by 22 votes to 2 with 3 abstentions.

The following took part in the vote : Sir Fred Catherwood, chairman and rapporteur; Mrs Wieczorek-Zeul, vice-chairman; Mr Van Aerssen, vice-chairman; Mrs Baduel Glorioso, Mr Blumenfeld, Mr Bonaccini (deputizing for Mr Galluzzi), Mr Cohen (deputizing for Mr Caillavet), Mr Gauthier (deputizing for Mrs Anglade), Lord Harmar-Nicholls (deputizing for Sir Fred Warner), Mr Helms (deputizing for Mrs Louise Moreau), Mrs Hooper, Mr Jonker, Mr Lagakos (deputizing for Mr Pelikan), Mrs Lenz (deputizing for Mr Filippi), Mrs Le Roux (deputizing for Mrs Poirier), Mr Mommersteeg, Mrs Pauwelyn (deputizing for Mr Pinninfarina), Mr Pasmazoglou, Mrs Pruvot, Mr Radoux, Mr Rieger, Prinz zu Sayn-Wittgenstein, Mr Seeler, Mr Spencer, Mr Stella, Sir John Stewart-Clark and Mr Ziagas.

The opinions of the Committee on Agriculture and the Committee on Development and Cooperation are attached.

The report was deposited on 26 April 1983.

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A.

The Committee on External Economic Relations hereby submits to the European Parliament the following Motion for a Resolution, together with Explanatory Statement :

MOTION FOR A RESOLUTION

on the impact of the CAP on the external relations of the European Community

The European Parliament,

- having regard to its resolution of 18 September 1980 on hunger in the world (1),
- having regard to its resolution of 17 June 1981 on possible improvements to the CAP (2),
- having regard to its resolution of 16 November 1982 on the GATT Ministerial Conference in November 1982 (3),
- having regard to its resolution of 17 November 1982 on the Mediterranean agriculture and the problems of the enlargement of the EEC towards the South (3),
- having regard to its resolution of 17 November 1982 on the enlargement of the Community to include Spain and Portugal (3),
- having regard to its resolution adopted by Parliament of 10 March 1983 on sales of American wheat to Egypt (4),
- having regard to the report of the Committee on External Economic Relations and the opinions of the Committee on Agriculture and the Committee on Development and Cooperation (Doc.1-248/83),

A. having regard to the objectives of Article 110 of the EEC Treaty,

B. whereas the policy of trade in agricultural products should be also in practice part of the general Common Commercial Policy of the Community, as well as of its development policy,

C. having regard to the objectives of Article 39 of the EEC Treaty,

(1) OJ No C 265, 13.10.1980.

(2) OJ No C 172, 13.7.1981.

(3) OJ No C 334, 20.12.1982.

(4) OJ No C 96, 11.4.1983.

- D. whereas agricultural trade was excluded from the many regulations signed in the framework of the Tokyo Round in 1979,
- E. whereas the principles of the Common Agricultural Policy were acknowledged during the GATT negotiations,
- F. whereas the GATT Article XVI requires that contracting parties "must avoid granting subsidies to primary products in a manner which would lead to a more than equitable share of world export trade in that product",
- G. considering that the major trading nations always have believed in the need for agricultural protection in order to ensure a stable base of agricultural production for social and strategic reasons,
- H. considering that the Community has recently become a net exporter in certain temperate products,
- I. whereas the Community is now the world's leading importer of food products,
- J. considering that the Community has given open-ended guarantees for many products to its producers to dispose of surpluses in world markets, and that the policy of limiting guarantees has not yet been strong enough to limit the surpluses which are still increasing,
- K. taking into consideration the increasing number of serious arguments on agricultural trade with the Community's major trading partners,
- L. considering in particular that the agriculture of our major trading partners is also supported, although by different and less transparent methods than those applied by the Community, and regretting the recent initiatives taken and announced for the future by the American Administration,
- M. where the total expenditure on agriculture in the United States, expressed as a percentage of the national product, is comparable to the expenditure of the Community and its Member States,
- N. considering that the growing level of Community's exports is seen as a threat by its competitors,

- O. considering that the Community's Mediterranean trading partners are anxious that the accession of Spain and Portugal will displace their exports to the Community,
- P. considering that the gap between food consumption and food production has grown in many developing countries in the last twenty years,
- Q. recognising that, as forecast by the FAO, the increase of 2 billion in the world's population in the next 20 years cannot be fed by the Community surpluses, but that those surpluses, if they are to be sold on world markets on the scale forecast will, by depressing prices, discourage local production in countries which must depend on increasing local production to feed their growing population and that, by contrast, the curtailing of subsidised surpluses by the major agricultural producers is likely to raise world prices, to encourage local production and to provide the only sufficient source of cash for irrigation and the other investment needed to avoid chronic famine and death in the next two decades,
- R. pointing out that disputes affecting agricultural trade threaten to increase trade protectionism and thereby threaten to damage the major part of the Community's exports, which is non-agricultural and does not require subsidy,
1. considers that an agreement between the United States and the Community, which are the world's biggest economic groupings, is vital for the containment of protectionist tendencies and for the recovery and expansion of world trade;
2. considers that there is no evidence that the United States has lost its share of world export markets in agricultural products due to the export subsidies of the Community and that it cannot therefore complain that the Community has "a more than equitable share" within the meaning of the GATT agreements and points out furthermore that the United States subsidies as a percentage of gross domestic product equal those of the Community and that their subsidies, measured per agricultural worker, substantially exceed them;

3. believes that the main reason why the United States has lost its share of trade in certain major agricultural commodities since 1979 is the unwarranted and excessive rise in the value of the dollar and its policy of economic sanctions, rather than Community surpluses, but points out that a fall in the value of the dollar could greatly increase the cost of the Community subsidies needed to sell its agricultural surpluses and could also make it impossible to match any increase in United States subsidies without a very substantial increase in the Community's budget;
4. therefore considers it desirable under the auspices of the GATT to come to an effective agreement with the United States which would cover the reasonable aspirations of both the Community and the United States in the agricultural markets of the world, and under which both parties would give each other mutual assurances on the limitation of expensive export subsidies and would negotiate the major issues outstanding in agricultural trade;
5. requests the Commission to report on the merits of applying the American "set-aside" provisions which compensate farmers for leaving land fallow and also their new "payment-in-kind" scheme under which farmers, who can demonstrate that they have reduced production of a commodity which is in surplus, are given in kind from the surplus an amount equivalent to their reduction;
6. emphasises the importance of the Australian and New Zealand markets to the Community, and of Australia as a reliable supplier of raw materials, and underlines that both countries are stable democracies having strong links with Europe and that both countries would be greatly helped by a progressive limitation of open-ended export subsidies and a widening of marketing agreements;
7. recognises that the Community will have to implement a more open policy on its internal market for agricultural products from developing countries by an extension of the Generalised System of Preferences, and that the associated countries and those with which the Community has concluded preferential agreements should be properly consulted, and in good time, on the negotiations concerning the accession of Spain and Portugal;

8. believes that the politically desirable accession of Spain and Portugal must be achieved without prejudice to the trade relations of Mediterranean countries. This implies :

- a) in respect of countries that are already part of the Community, the adoption of effective measures that will enable the most threatened Community products - in particular olive oil and citrus fruits - to face the competition of the products of the new partners;
- b) in respect of the other Mediterranean countries, the conclusion of long-term agreements that receive a share of the Community market for their products and increase financial aid for improving output, conversion to other crops and product diversification within the context of an overall strategy of agricultural and industrial cooperation that reduces competition while increasing complementarity between Community output and the output of Mediterranean countries outside the Community;
- c) fixing a transition period following the accession of Spain and Portugal long enough to enable the market for Mediterranean products both of the Community and of the other countries to adapt to the new situation; it should be laid down that during the transition period Spain and Portugal are to be subject to certain rules already observed by Community countries (ban on new olive-grove plantings, quality standards for vineyards and fruit and vegetable products etc.);

9. considers that in the world's growing food needs, the advantages of a strong agricultural production system in the Community becomes obvious on condition however that the Community uses its production responsibly, that is to say :

- a) its surplus of cereals must be used to build an effective food security system in the world, and not add to cyclical price swings;
- b) the Community should not deal with its surpluses of dairy products through massive exports to the developing countries which, together with its other agricultural exports, has extremely adverse consequences for the developing countries concerned, particularly as regards their trade balance, food habits and the steady drift of farmers from the countryside into already overcrowded cities;

10. notes that the policy of the Community and of the Member States should give preference to the exportation of industrially manufactured goods and processed agricultural products which cover their costs and on which the Community therefore depends rather than the exportation of basic agricultural products which require heavy subsidies;
11. recalls its demand for the introduction of a global Community quantum on products in structural surplus for each sector related to the targets established for Community agricultural production for those products where the organisation of the market is based on intervention prices; beyond this global quantum coresponsibility would come into play and the "quantums" method should be combined with arrangements in support of small producers; believes however that the application of quantums based on present levels of production will not reduce the surplus, that a level nearer to Community self-sufficiency is necessary, but that to achieve this without undue damage to farm incomes it is necessary to come to an agreement with other countries which are major exporters of agricultural products to limit subsidies and thus to raise world prices nearer to Community prices;
12. believes that the granting of cheap credit under long-term supply agreements should also be limited in any agreement with major agricultural exporting countries;
13. in view of the increasing surpluses of milk products, invites the Commission to study the possibility of supplying a number of African and Asian consumer regions with hardened butter oil, the production of which has already been tested and, by means of a pilot project, to test the market with a view to laying down the financial structures and supply quantities in order to reduce surpluses and at the same time to supply food to the starving population in tropical areas;
14. recommends negotiations with the Community's trading partners to come to a reasonable compromise on both industrial and agricultural trade; recommends the setting up of firmer guidelines which will avoid the spread of non-tariff barriers to industrial trade and will stabilise agricultural trade; believes that setting up such guidelines will avoid a subsidy race with the Community's partners or even more dangerous a devaluation of their currencies to protect their markets;

15. expresses its confidence about the outcome of the procedure initiated in GATT and hopes that the guidelines referred to above will strengthen GATT and thereby enable it to emerge intact from the recession and avoid the spreading of protectionist practices which would close markets on which the Community depends for selling the major part of its exports;
16. instructs its President to forward this resolution to the Council and the Commission.



B.

EXPLANATORY STATEMENT

I. INTRODUCTION

1. The policy of trade in agricultural products is part of the general Common Commercial Policy of the Community and should, by Article 100 of the Treaty "contribute, in the common interest (of the member states) to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers".

2. The objectives of the Common Agricultural Policy given by Article 39 are :

- a) to increase agricultural productivity by promoting technical progress and by ensuring rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- c) to stabilise markets;
- d) to assure the availability of supplies;
- e) to ensure that supplies reach consumers at reasonable prices.

3. The main political question for the Community is to find the right balance at any given time between objectives which, in the short term, may conflict with each other.

4. While the Community has, with great success, achieved a substantial degree of self-sufficiency, there was only a limited conflict between the internal and external objectives of the Treaty. Now we are not only self-sufficient in temperate products, but have become net exporters (Appendixes 4 and 5). Our increase in self-sufficiency has automatically reduced the market for other producers and our competitors complain that the increasing level of our exports now threatens their market shares. Even more threatening to our competitors than the increase in our exports, however, are the guarantees which we give to producers to dispose of the surpluses on world markets. Until recently they were all open-ended and even now they

still guarantee the larger part of an output, still targeted to increase. In addition our Mediterranean partners are anxious that the accession of Spain and Portugal will displace their exports to the Community and their exports to third countries where they will be in competition with the export restitutions given by the Community. Disputes with our trading partners and competitors are becoming increasingly bitter and threaten to affect and spill over into the trade in manufactured products. This report aims to highlight these dangers and point to possible solutions.

II. PROTECTION AND THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

5. Agricultural trade was given substantial exemption from the general policy of liberalising trade because the major trading nations all believed in the need for agricultural protection in order to ensure a stable base of agricultural production for social and strategic reasons. In particular, a substantial degree of self-sufficiency was seen as a reasonable strategic aim. Protection in the European Community has met that objective. There has been substantial and secure investment in research, development and production with a rapid rise in productivity and a sharp fall in the numbers employed in the industry. No one can accuse the Community's agricultural sector of reduction in efficiency behind protective barriers.

6. However, the situation has been changing. While the Community was aiming at self-sufficiency, it did not make a major impact on the food-exporting countries. But as we have moved from self-sufficiency to export surplus in one commodity after another, we have begun to make a major impact on other food-exporting countries. When the Tokyo Round of the GATT was signed in 1979, agricultural trade was excluded from many of the regulations, so that agricultural products benefit from certain special provisions in the GATT allowing quantitative restrictions on imports (Article XI) and export subsidies (Article XVI). But as our exports have cut into the market share of other countries, their particular anxiety is that the Community subsidy is open-ended: there is no limit either to the volume or the value of Community restitutions. They are worried that we encourage production by intervention prices which are substantially higher than world market prices, regardless of the demand in the world market. Yet we gua-

rantee to the producers that the Community will dispose of the whole surplus at world market price and that price is, in turn, forced down by the disposal of the surplus.

7. Agricultural trade disputes are increasingly likely to be laid at GATT's door in the future - the US now has several complaints lodged there. But GATT is in a weak position to deal with disputes. Its rules permit export subsidies on primary product exports providing that such subsidies "do not lead to a more than equitable share of world export trade in that product" (1). The European Community has not increased its market share in many commodities in recent years because world consumption has increased at the same time as its own production (Appendix 3). In any case that is not the complaint by our competitors. It is that our open-ended subsidies help to maintain a market share which distorts international trade to an unacceptable degree. The main problem is therefore that the GATT rules, drawn up at a time when protected agriculture was desirable and necessary, has no solutions for the situation which has now developed.

8. In all the Community's major commodities, except concentrated milk, our share of world imports has declined between 1975 and 1980 and our share of world exports has risen. The main exception is the unnecessary increase in imports of animal feed due to the very high price of Community produced grain. But we have now put quotas on manioc to stop the increase and there are requests for limits to the imports of corn gluten. The most dramatic increase in exports has been in butter/butteroil when the Community's share of world exports increased from 15.8 % in 1975 to 63.4 % in 1980 (Appendix 3). In 1980/81 we had an estimated surplus of 9 million tonnes of wheat, 3.2 million of sugar in 1981, 410 000 of beef and veal, 284 000 of pigmeat, 407 000 of poultry and in 1980 2 640 000 tonnes of dairy products (Appendixes 4 and 5). The percentage of restitution payments (which depend on world market price fluctuations) to total cost in 1981 was : cereals: 62.8 %, milk and milk products: 56.4 %, sugar: 53.3 %, beef and veal: 57.4 %, sheepmeat: 100 %, pigmeat: 85.8 % (Appendix 6).

III. DANGERS OF PROTECTION IN OTHER SECTORS

9. Agricultural trade disputes cannot be conducted in a vacuum - our present difficulties with the US for instance have come at an especially difficult time. The European economy has been badly damaged by high American interest rates and though interest rates have now come down, there is no agreement between the Community and America on a strategy of recovery from the present economic recession. Meanwhile Europe continues to be vulnerable to the backwash from American domestic economic policy. There is also a pressing need for agreement between the two major economies in world trade. The steel imports and pipeline disputes show the way in which the US is prepared to use the powers which are available to it to pursue its own economic interests, and underline the absence of any general agreement between the two economic groupings, America and the Community, whose agreement is vital for the maintenance of the present trading system.

10. Yet there is a pressing need for such agreement. The post-war economic system, instituted at Bretton Woods in 1944, stabilised currencies, helped the third world economies, progressively reduced tariffs between major trading nations and produced the greatest increase of trade and wealth in the history of the world, until the Americans ceased to support the dollar in 1971. The biggest single economic interest of the Community is the recovery of the benefits of the trading system, which covers both industrial trade on which we depend more than America, as well as agricultural trade on which America depends much more than we. It seems unlikely that any initiative to do this will come from America, but until the Community can put something else in its place, we must, for the moment, keep in being as much of the system as possible. A lapse into a trade war would be a substantial setback to any chances of recovery.

11. There is a danger that with 12 million unemployed, the Community itself will not hold together. Already the recession has produced a series of unilateral actions by member states to protect their own markets and this has hit the smaller member states particularly hard, since their industries depend especially on access to the markets of the larger member states. Were there to be a slide into protectionism it might be possible to mount a Community policy, but none currently exists and therefore the

temptation is for member states to act on their own, if they come under pressure. It is therefore increasingly important that protectionist pressures are removed.

12. Agricultural trade disputes are a part of this hiatus, rather than merely a separate issue. At the GATT Ministerial in November 1982 they were linked and the Community's insistence that agricultural trade was "not negotiable" greatly reduced our bargaining position. It is certainly not possible to pursue an aggressive export policy with an open-ended commitment to export all surpluses regardless of price and regardless of the impact on the trade of other major exporters. That is not either to concede our competitors' case or to negotiate away more than we have to. It is, however, to accept that when disputes such as those now affecting agricultural trade, threaten to interfere significantly with the Community's trade with major partners in other sectors, the time for working out an agreement has arrived.

IV. AREAS OF PARTICULAR CONCERN

A. USA

13. Our present disagreements with the US, some of which have now been referred by them to the GATT, have brought to a head the present debate on the effects of the CAP on our trading relations. The vital importance, not only for the immediately interested parties, but, in the long term, for much of the rest of the world too, of a stable trading relationship between the two great trading nations of the world, makes it imperative that some agreement is reached.

14. The exchange rates between the dollar and the European currencies has been a major factor in agricultural trade. The rise in the value of the dollar since 1979 (2) has greatly helped European agricultural exports and is, in the view of your rapporteur, the main reason why the US has lost its share of trade since then in certain major agricultural commodities and the reason for the lack of profitability and bankruptcies in American agriculture.

15. The Americans could well reverse their policies, let the dollar fall again and expand their exports, giving an export-led boost to their whole economy. This would lower the world price for agricultural exports, bringing in the substantial unused American agricultural capacity and thus make it prohibitively expensive for the Community to sell its surpluses in world markets.

16. Negotiation is therefore called for : what are the issues which are presently creating so much controversy?

The United States and the European Community have disagreements in both bilateral trade and in trade with third countries

i) Bilateral Trade

The key issue is the repeated policy statements from Brussels and member states which propose to solve the problem of cereals over-production by limiting the imports of substitutes at current levels and the problems of enlargement by duties on the much higher value soya imports.

ii) Trade with Third Countries

The key issue is whether growing EC exports, especially of wheat and wheat products, dairy products and poultry meat constitute "fair competition" within the GATT rules.

17. These two aspects are interrelated to some degree. The EC only imports corn gluten feed (CGF) because of its heavy support for grain prices. Without such price support, EC subsidised grain exports would also be lower. However, the major issues raised by both sides differ substantially according to whether it is bilateral trade or trade with third countries which is under discussion.

a) Bilateral Trade

18. The US Arguments (put first without comment in their simplest form)

- The fact that agricultural trade was left out of early GATT negotiations was to help the EC become politically established, and has greatly damaged US agriculture.

- The access of the US to EC markets for animal feeds and vegetable oils was an integral part of the last round of GATT talks and thus any change would have to be part of a wider package of reciprocal action.
- US acceptance of the CAP in 1979 was linked to the idea of non-disruption of the markets. In fact, the EC has become a major force on the world markets for cereals, dairy products, beef and sugar, to an extent that was not envisaged in the negotiations leading up to the 1979 agreement (the same could be said of other suppliers like Brazil).

19. The EC Arguments (also put first without comment in their simplest form)

- Both the US and the EC are highly protectionist of their own agriculture. There is therefore no reason why the EC should not seek to protect its agriculture. In any case, the EC is the world's largest importer of agricultural produce, with 25 % of the world's imports.
- The balance of US/EC agricultural sector trade is against the EC to the tune of \$ 7 billion. The EC is keen to see this corrected, at least to some degree, but US protectionism in agriculture is deeply rooted and the EC cannot redress the trade balance by exports to the US.
- "Voluntary restraint" by the US on CGF exports will help to lower EC cereal exports as cereals will be substituted for CGF in EC animal feeds and the US exports of cereals have increased much more than those of the Community during recent years, both in volume and in percent, whereas the Community's total share of the world market has remained approximately constant for years (Annex No. 7). . . . A more detailed analysis shows that it is in fact the increase in the US production which at several occasions during the last ten years has led to a break-down of world market prices.

- In the world market for dairy products both the Community's arrangements with New Zealand and the GATT arrangement on dairy products work satisfactorily. Nor has the US been a major exporter of dairy products. The only possible threat to the world market is the export of the present US dairy surpluses.
- The US has contributed to the disruption of the world market by import restrictions which have stimulated an increased production of sugar substitutes. The US has very low import quotas and a guaranteed price for its own sugar production at the same level as the Community's.
- Beef is not an issue between the US and the Community because the US has never been a significant exporter.
- US agricultural export programmes are as costly as those in the EC expressed as a percentage of GDP, and export aids are as available as in the Community although less transparent.
- US problems on the world market have been caused by an overvalued dollar and the use of trade embargoes as a political weapon much more than unfair competition from the EC.

20. Conclusion

As the specific intention of the EC at the present time is limited to "voluntary restraint" on CGF exports, and as the EC has indicated willingness to link this to bringing domestic grain prices and world market prices close together, there appears to be some basis for satisfactory resolution for the time being of differences in bilateral trade.

b) Trade with Third Countries

21. The US Arguments (put in the baldest terms and without comment)

- The EC is subsidising wheat and wheat products exports far more heavily than the US, although its market share is not increasing. The GATT rules only forbid export subsidies for primary products if they "lead to a more than equitable share of world export trade in that product". However, differences in the level of subsidies lead to a position which is "inequitable" in terms of world trade defined in terms of what would have been the situation without those subsidy differentials. In addition, enormous increases in EC grain exports are predicted for the 1980's.

- In the case of poultry products, the EC subsidised exports are leading to a rapid growth in EC market share so they are clearly contravening the GATT regulations. Subsidies are intended just to cover the difference in feed costs arising from high-cost grains in the EC. However, in practice they are far greater because the assumed conversion ratio for feed : poultrymeat is unrealistically high, and in practice nearly 50 % of feeds used in poultry production are not EC produced grain but cereal substitutes imported at or close to world market prices.
- In the case of dairy products, there appears to be no attempt to reduce the growth of huge export surpluses. These are so large and so heavily subsidised that they have greatly undermined world prices and they are making it impossible for the US to dispose of its surpluses on world markets without huge subsidies to compete with EC products.
- There is no end in sight for the growth of these surpluses. They continue to grow, and the move towards long-term contracts with importing countries will tend to institutionalise them, as well as further undermining levels of world market prices.

22. The EC Arguments

- According to GATT rules, the basis for defining unfair competition is mainly to be found in Article XVI, paragraph 3, which stipulates that export subsidies should not lead to more than an equitable share of the world market. In none of the cases which have been examined by GATT panels has it been found that the EC has taken more than an equitable share. The GATT code on export subsidies was approved only a few years ago after years of negotiations. It remains the basis for any discussion of whether export subsidies are justified or not.
- Total US federal spending on agriculture has, as a percentage of national product, been comparable with EC and member state spending : US spending on farm income support was higher than the EC equivalent until 1979 (3). (Per head of farm employee the US figure is still higher, presumably because of their higher productivity).
- Part of the reason for wheat and poultry products surpluses is US imports of soya and CGF. If the US will reduce exports of these products, the EC will be able to reduce cereal and poultry exports.

- The real reason for poor US agricultural export performance on world markets is not EC competition but the overvaluation of the dollar.
- The US also subsidises exports through policies such as large shipments of grains (ten times larger than EC grain aid shipments) and export credit financing.
- In the long term the world wheat price will rise owing to the world's growing food gap which will automatically bring EC grain prices into line with world prices.

23. Comment

- The US argument (presented in paragraph 21) that the Community subsidies on exports of poultry are contravening the GATT regulations is not substantiated. Until now the US has not followed up consultations which have taken place on this subject by any complaint in the GATT. In fact, Brazil has been the most aggressive supplier of exports in this sector, especially to the Middle-East.

- The Community would argue that it is incorrect to say that it exercises no attempt to reduce the growth of export surpluses in dairy products. The Community has taken a series of measures to increase the domestic consumption, it has introduced the co-responsibility levy and in 1982 it established a production threshold. For 1983 it has been proposed to reduce prices in real terms in consequence of the fact that the threshold was exceeded in 1982. The present surplus of US dairy products is evidence of the fact that the US has at least as big difficulties as the Community in balancing supply and demand of dairy products.

However, the following points are also true :

1. The CRL has had no effect in reducing cow numbers, and the income from it has not been used for the purposes originally intended - i.e. market promotion.
2. The direct amount of 120 million tonnes which formed part of the 1982 price package was used in some member states to dilute pressures to retain production.
3. The "deduction" in prices proposed in the 1983 price package is sufficient to recover over half the cost of increased output, rather than the food cost as intended in the Commission's original declaration of intent.
4. Community targets are intended to rise, even without evidence of a growing domestic market.

Possible Solutions

24. Three major issues need to be addressed to resolve these disputes on agricultural trade :

i) Is it level of subsidies or only market share which is at issue? If subsidy levels, then detailed discussions will be required to determine the level of subsidies on both sides. If market share is the issue, more precise limits for each product, with perhaps variable quotas for each product need to be agreed.

ii) What limits on credit and financing arrangements are acceptable within the GATT?

iii) As some of the immediate surpluses are so large that they require emergency action, how will these be handled and what time period will be allowed for the required adjustments in domestic production?

25. On bilateral trade there seems to be some real scope for negotiations especially in relation to CGF imports and the gradual relative lowering of EC grain and price levels. A tax on imported oils and fats would of course affect the US predominantly, but at this stage there is no certainty that a tax will be needed and there is room for manoeuvre if such a need should arise.

26. But the argument between the US and the EC over the EC's open-ended commitment to subsidise exports is most acute in the context of trade with third countries. While the EC's argument that American agriculture is just as supported, although by different, less transparent, methods is just, it must be accepted on both sides that the situation has become untenable and agreement must be sought, if necessary, though not preferably, through the GATT. The purpose of this report is to point out the impact of the CAP on our trade relations with third countries - it is with the US that the most pressing and urgent disagreements exist, and it is with the US that the EC would have most to lose if agreement could not be reached.

27. It is therefore, in the view of your rapporteur, desirable while the US is still pursuing hard money policies, to try to come to some agreement with them which would cover the reasonable aspirations of both the Community and the US in the agricultural markets of the world and under

which both parties would give each other mutual assurances on the limitation of expensive export subsidies. If the American subsidies are in fact as great as those of the Community, then a mutual reduction of subsidies should not leave us any less competitive and would be in both our interests. And we should remember that agricultural exports are a vital national interest of the United States.

28. Over the last four years America's agricultural exports have been over 20 % of their total exports, while the Community's agricultural exports have varied between 7.9 % in 1978 and 9.7 % in 1981 (Appendix 1).

B. AUSTRALIA AND NEW ZEALAND

29. Both Australia and New Zealand have encountered severe economic problems as a result of the CAP of the EC. Measured in volume terms both have progressively lost markets, first in the EC-6, then in the UK. More recently they have been faced with loss of markets in third countries as a consequence of CE competition with subsidised exports to those markets. New Zealand has tended to be silent about the difficulties as it has still had significant markets in the EC for lamb, and in the UK for dairy products. However, recently even these markets have been threatened in changes in the CAP.

30. Both Australia and New Zealand have lost market share in the last seven years in third markets as a consequence of the huge growth of EC subsidised exports as the figures in Table 1 (and Appendix 3) show.

Table 1

	<u>EC share of world exports</u>	
	<u>1975</u>	<u>1980</u>
Sugar	8.3 %	16.2 %
Butter and butter oil	15.8 %	63.4 %
Skimmed milk powder	32.2 %	54.4 %

31. Similar figures are not available for beef, but they would show the same alarming trend, as net exports rose from zero to 300,000 t from 1978 to 1981. The GATT rules require that contracting parties "must avoid granting export subsidies to primary products in a manner which would lead to a more than equitable share of world export trade in that product".

If an "equitable share" is determined by past norms, Australia and New Zealand might be able to claim this Article has been contravened.

32. Australia and New Zealand claim that they cannot afford to subsidise their exports of agricultural products, as these products form such a high proportion of total exports (still 50 % in the case of Australia and even more for New Zealand).

33. When the EC claims that sugar exports are not subsidised, as a quota system applies which only provides the world market price for C quota products, the Australians point out that :

- i) real price increases for the A and B quotas are substantial and result in a quantity too large for Community consumption;
- ii) Australian farmers have to produce everything at close to the C quota price as Australia is not in a position to subsidise production significantly;
- iii) EC producers are able to cover their overheads by A and B quota sales, so that they can afford to produce at C quota prices for marginal quantities over and above the A and B quotas.

34. The Australians also do not accept the EC argument that EC exports are non-negotiable as they are just a by-product of domestic policy decisions. Although they recognise that the CAP is fundamental to the concept of the Community, they believe the external effects of any policy, however domestic, must be taken into account when they harm the interests of friends and neighbours.

35. The EC arguments that their policies have contributed to stabilising world markets for sugar and wheat, have also been attacked by Australia. In the case of sugar, these are exemplified in their complaints with Brazil in 1978 to the GATT. To quote their argument :

"At a time when all other major sugar exporting countries were subjecting themselves to production and export cutbacks under the International Sugar Agreement in order to shore up the ailing international sugar market, the EC increased its exports of sugar from 700,000 tonnes in 1975 to 3.6 million tonnes in 1978, assisted by massive export subsidies up to twice as much as the world sugar price." (4)

36. It has to be admitted that the world sugar market is in a state of disarray. The International Sugar Organisation has failed to stabilise prices because production restraint is not being imposed in a fair way, with countries habitually failing to fulfil their quotas being spared to the cost of more efficient producers. The US has also contributed substantially to the problem by its severe limitations of imports, its protectionism, and the abandonment of large sections of its market to corn sweeteners. The Community can claim that when the full levy on A and B quota is in operation this has the effect of reducing returns sharply to the producer. It can also claim that the 1.3 million tonnes of ACP imports at EC prices represent a higher proportion of total ACP output than the A quota represents of EC output and that this guaranteed sale to the EC compensates for any depression in the world market caused by the EC surplus. Finally, the EC can claim that plantings respond to the market, with a 7 % drop in plantings last year and further drop this year. All this being said it remains true that the EC output has a depressing effect on the market. Producer co-responsibility limits the budgetary problem but not to the same extent the production problem. The commitment to stocking sugar is a welcome interim EC response to the problem, but a fuller solution must depend on the agreement of a new International Sugar Agreement which includes EC participation and in which the EC is prepared to accept the concept of organisation of the world market.

37. In the case of wheat, the comparison of instability indices for the EC and the rest of the world shows not only that production fluctuates more in the EC than in the rest of the world, but yields and area harvested fluctuate more as well. It is also argued that price stabilisation tends to stabilise area planted, but gives less inducement than free price movement for replanting if the first planting fails for some reasons. This may explain how price stability can contribute to production instability.

38. As well as losses in third markets, both Australia and New Zealand have lost major markets within the EC as a result of rising EC production under the CAP. The extent of the loss of this market is shown in Table 2.

Table 2

Share of Australian exports in total EC consumption (per cent)

	<u>1958-59</u>	<u>1965-66</u>	<u>1980-81</u>
Beef and veal	71	31	4
Dairy products and eggs	69	58	3
Sugar	48	47	Zero
Wheat	48	12	Zero

39. At the same time, the Australians point out the level of ad valorem equivalents of EC variable levies in 1976/77, which have been estimated as follows :

Table 3

<u>Product</u>	<u>%</u>	
Milk powder	571	
Butter	401	
Soft wheat	204	
Beef and veal	192	
Sugar	176	(6).

40. The Australians estimate a loss of over \$ 1 billion a year through this loss of market share, even without taking account of the price depressive effects of EC subsidised exports in third markets. New Zealand's loss has been more particularly in the British market, which in 1946 took 70 % of all New Zealand food exports, and today takes only 13 %. If New Zealand loses much of its Lamb market in the EC over the next few years due to recent sheepmeat policies under the CAP, and if the steady erosion of special dairy quotas continues, by the second half of the 1980's little will be left of New Zealand's once substantial share of the European markets for lamb, beef and dairy products.

41. It is important to emphasize the importance of cooperation between the European Community and New Zealand in dairy markets. The basis of this is guaranteed access for New Zealand butter to the UK on a quota, levy payment basis in return for cooperation in world butter markets which are $\frac{2}{3} - \frac{3}{4}$ controlled by the European Community and New Zealand. This enables a higher world price to be obtained than would otherwise be possible, permitting both parties to minimize public subsidy. It is worth

noting that New Zealand, with EC agreement, bought 100,000 tonnes of US butter in 1981 in order to keep it off the world market - and hence to avoid disruption, but that the new threat of US butter being sold on the world market has already depressed prices.

42. The importance of the Australian and New Zealand markets to the EC should not be lost sight of. In 1981 we ran a trade surplus of \$ 17 bn with Australia. 95 % of our exports to that country are industrial. Although by value, Australia takes only 1.4 % of our exports, it is an important market for many products, for example footwear. In any trade war with Australia on the industrial front, we would have far more than they to lose (7).

43. Australia is important to us as a reliable supplier of strategic raw materials, without which we could be in great difficulties (Moreau Report on Strategic Raw Materials) and Australia and New Zealand are two stable democracies with strong links with Europe and their friendship is important to us politically.

C. MEDITERRANEAN COUNTRIES

44. Access to Community markets for the agricultural produce of our Mediterranean partners is secured under preferential agreements, but the accession of Spain and Portugal, accepted by all Community countries as politically desirable, poses a huge threat to the security of the Community market for those countries. There is an urgent need to develop policies which can absorb the extra production of "southern" produce that Portugal, and especially Spain, will bring, but which will also preserve a stable trading link with an area of great strategic and political importance to the Community. The European Community ran a trade surplus of 9,000 million ECU with the Mediterranean countries in 1979, over double that of 1973, the year after an agreement had been finalised, specifically designed to increase Mediterranean countries' exports to the EC (8). As a result, some countries have imposed severe tariffs on imports from the Community. Enlargement without some restriction of agricultural production of "southern" produce will severely exacerbate the problem.

45. As an example, one Mediterranean producer which started to sell avocados in Milan was displaced within days by well marketed and more competitive Spanish avocados, who have since dominated the market.

46. The products which will be most affected by enlargement will be citrus fruits, fresh tomatoes, potatoes, especially new potatoes, wine and olive oil. The countries likely to be most severely affected in the field of agricultural exports will be Cyprus, which currently exports 60 % of all its agricultural exports to the Community, Morocco (50 %), Tunisia, where olive oil accounts for more than 50 % of its agricultural exports, Israel, where citrus fruits, fruit juice, avocados, vegetables and cut flowers represent 65 % of its agricultural exports, and Yugoslavia. Yugoslavia is less geared to the Community for exports, but it is important to the Community that its present trade balance with Yugoslavia is maintained for political reasons (9).

47. If imports from those countries were significantly curbed as a result of enlargement, the stability of the entire Mediterranean area might be disturbed. The countries would be forced to trade more heavily with the Eastern Europe bloc. In any case, the Mediterranean is a major route for fuel and raw material supplies, and an important link with the Arab world. Mediterranean countries take more than 10 % of total Community exports, and offer potentially much larger markets. But they need to increase their exports in order to pay for the extra capital goods and food imports that they will require.

48. A great deal seems to depend on the estimates of potential Spanish production which is bound to be stimulated by the higher prices farmers will get for their agricultural products in the CAP. For instance, olive oil prices will virtually double on accession, and will encourage new planting and better husbandry of existing areas of plantation. The raising of the price of olive oil in Spain will inevitably lead to a fall in consumption, and thus will increase exportable surpluses. Under these conditions the argument for a vegetable oils tax to reduce competition from low cost vegetable oils is likely to be very strong, but this would affect relations with our chief suppliers, notably the US, as well as raising our costs. On the other hand, tight controls on Spanish production look very difficult to administer.

49. The same difficulties pertain to citrus fruits; after Spain's accession, EC imports are likely to drop from 2 million to 1 million. In small citrus fruits a deficit of 100,000 tonnes will turn to a surplus of 200,000 tonnes and in lemons a surplus of 150,000 tonnes in 1980 will grow to 250,000 tonnes by 1985 (10). These estimates probably underestimate the magnitude of the problem, because at present Spain's citrus prices are only at half the level of the EC intervention prices. Spain is at the moment at a disadvantage to competitors like Israel, Morocco and other Mediterranean countries, but by joining will enjoy protection from non-Community producers. The huge price rise will increase production from the existing tree stock even without new planting. Economic returns to irrigation and fertiliser use, for example, will increase by some multiple at the higher prices. The increased production will mean lower imports from our Mediterranean neighbours especially, and will also require substantial export restitutions, which will help to keep world prices low and thus threaten our Mediterranean partners in third countries as well.

50. Similar arguments apply to all the other main products in which Spain is a significant producer. Even if new planting is prevented by negotiation, the potential for increased production through increased irrigation, closer inter-planting and better husbandry could be massive and is unquantifiable. It is true that the costs of Spanish farmers will rise, but one lesson of the UK entry to the Community has been the huge increase in production which can result when farmers suddenly receive a major jump in price, even though it takes some years for the full impact to be felt.

51. The problems of Spanish entry go well beyond these considerations of external agricultural trade, but it is, in the opinion of your rapporteur, vital that these matters are settled before Spanish entry, and that the manner of their settlement does not leave a problem of structural surplus afterwards. There is no doubt of the political importance of Spanish entry, but it is equally important that the Community of 12 can live together and that we are not left, as we were in 1973, with "problems which can be settled afterwards". It is for the Spaniards too to balance the political importance of entry against the political hazards of continued argument over the rate of agricultural expansion and the tensions it produces.

52. It is not within the competence of the Committee on External Economic Relations to consider the domestic effects of Spanish entry. The Committee on External Economic Relations accepts the view of the Parliament, in the vote on the Douro report, that Spanish entry is necessary on broad political grounds, but the effect on the Community's own agricultural market, which is likely to be considerable, has been dealt with in Mr Sutra de Germa's report of the Committee on Agriculture.

53. Your rapporteur's conclusions therefore on Spanish entry are :

- i) Our Mediterranean partners will not only need quotas, but in face of the effective marketing and low cost of Spanish production, they will need financial assistance to sell those quotas.
- ii) A long transition is necessary to allow both Mediterranean countries (and domestic producers) to accommodate the increase in Spanish production - though this should not be used to maintain the high tariffs now protecting Spanish industry for the same period.
- iii) It is best to face these problems frankly and to negotiate on them rather than to delay Spanish and Portuguese entry, which is so important both to the Community and to the two countries.

D. DEVELOPING COUNTRIES

54. Early in the life of the directly elected Parliament we had a major debate on hunger in the world, to which the Committee on External Economic Relations contributed. It is worth reminding ourselves of the reasons for world hunger and for our anxiety that they are likely to get much worse.

a) The Population Explosion

With economic development in many third world countries, the great advances of medicine have been made available to millions who were previously caught in a trap of poverty and disease. This has greatly increased the number of live births, reduced infant mortality and prolonged average life expectancy. Although contraceptive devices are now technically advanced, it has proved difficult to make them readily available to the poor in the third world. Even where available, the need to have children who can then provide income in old age, and religious and cultural

norms, have often inhibited their application. As a result, world population is rising rapidly. It will probably increase by nearly 50 %, around 6.5 bn, in the next 20 years (11).

b) The Growing Third World Food Gap

Historical trends show that food consumption has expanded much faster than food production among 100 LDC's in the last 20 years. Although the bulk of the increase in food consumption can be attributed to population growth, nearly a fifth of the increase can be attributed to a growth in incomes. In addition, there has been a significant drift in developing countries towards the consumption of livestock and poultry products among the wealthier LDC's, which has greatly increased the demand for cereals as animal feeds. As a consequence of all these factors, net imports of the major food staples by third world countries rose from a yearly average of about 10 m metric tonnes in 1961-65 to 28 m metric tonnes in 1973-77, or at more than 9 per cent per year (12).

c) Difficulties of Achieving Agricultural Production Growth in the Third World

Heroic measures will be required to reduce the growing food gap as there is little new land left to bring into cultivation. Capital costs to produce the additional food crops needed by 36 third world countries have been estimated at \$ 95 bn (1975 US) of which half is required for water resource development (13). Another major need is for agricultural research to provide the technology required for a substantial increase in yields. In turn, new seed varieties require fertilisers, new input distribution systems and road networks. All of this requires an institutional framework which takes time to develop. Climatic extremes are also a major barrier to implementing agricultural production strategies in many areas.

55. Mr Islam, assistant director-general of the FAO, said to the Committee on External Economic Relations in Rome on 4 November 1982:

"The population of the world is expected to increase from 4.43 bn in 1980 to 6.12 bn in 2000, an annual rate of growth of 1.6 %. This is according to the medium variant of the population projections undertaken by the United Nations. The developing countries' population will increase from 3.27 bn in 1980 to 4.79 bn in 2000. Africa faces the highest rate of growth of population of about 3.1 %. Developing countries per capita calory supplies have little or no margin above what is considered minimum nutritional requirements.

About 1 bn people live in countries where average food supplies are 90 % or less than their requirements. In the majority of these countries food production per head has fallen.

The world has the knowledge, the resources, technology, to achieve rates of growth of production in the developing world. We estimate that more than two thirds of this required increase in output would come from increased yield per hectare from expansion of land.

The gross annual investment in agriculture would have to go up to something like 200 bn dollars a year by the year 2000 from the present low level to enable the developing world as a whole to achieve such rates of growth of output.

The percentage of purchased inputs must go up significantly.

The area of irrigated land would have to be expanded from about 106 million hectares to 150 million hectares and there would have to be increases of about five fold in the use of fertilisers in tractors, agricultural equipment as well as in commercial energy over the same period.

We estimate that the annual flow of external resources to the food and agricultural sector which is around 425 bn dollars in 1975 prices today, would have to be quadrupled by the year 2000 and five dollars out of six have to be found from within the developing world."

56. In this context of the world's growing food needs, the advantages of a strong agricultural production system in the Community become obvious, especially as the Eastern bloc's agriculture appears to be so ineffective. However, it is vital that the Community uses its production responsibly. Its surplus of cereals must be used to build an effective food security system for the world, and not add to cyclical price swings. It must help to keep down international prices for essential commodities needed by the third world without infringing the legitimate trading rights of other exporters. Above all, it must be careful not to discourage in any way the efforts of LDC's to develop their own agricultural production systems so that eventually they can feed themselves.

How far is the CAP measuring up to those requirements?

57. In 1979 the European Community took 30 % of all LDC agricultural exports and the European Community had a negative trade balance of \$ 17 bn with the third world (14). Of course many of the imports are products not produced in the European Community, such as tea and coffee. The main impact of the CAP is in those commodities in which we compete directly and the effect of which may not be measured so much in direct trade as in the indirect effects.

58. European Community exports of CAP-regulated products are growing rapidly. This is of obvious advantage to LDC's which are net food importers as the EC subsidised exports lower their costs through downward pressure on world prices, and give them more foreign exchange to import capital goods to establish their industries. But there is also increasing competition in world markets between the EC and the LDC's for a range of labour-intensive commodities such as sugar and beef. The subsidised price for dairy products has also discouraged any LDC from producing for world markets. The effective insulation of such a large producer and consumer as the EC from the effect of world markets in these temperate products narrows severely the market base in which fluctuations in supply and demand are reflected in the price and this in turn destabilises the export earnings of the LDC's. This is not an argument for unregulated markets, but for EC help in stabilisation of world markets at better average prices.

59. At a time when the IMF and the World Bank are recommending an export-led growth strategy for so many LDC's this makes it difficult for those who have to lean heavily on the agricultural sector to get the strategy going. It is also questionable whether it is in the interests of the EC to force countries into competition with us in industrial exports because they cannot earn enough on agricultural exports.

60. Tables 4, 5 and 6 show the extent of the increases in EC net exports and looks at various forecasts for future trends.

Table 4

<u>Cereals</u>	million tonnes	<u>1970/71</u>	<u>1980</u>	<u>1990</u>	(projected)		
Wheat		-2	11.4	16.7			
Barley		-2.3	4.8	15.3			
Oats		-0.5	0.4				
Maize			-12.9	-4.5			
<u>Sugar</u>	million tonnes	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>		
		-1.76	2.68	4.49	5.83		
<u>Beef</u>	'000 tonnes (EC 10)	<u>1970</u>	<u>1975</u>	<u>1980</u>	(EC 12)	<u>1985</u>	<u>1990</u>
		-442	127	299		260	660

(The inclusion of Spanish and Portuguese consumption by 1985 decreases the EC net exports)

Table 5

<u>Milk products</u>	'000 tonnes	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Butter and Butteroil		-28.1	125.1	120.4	345.2	493.1
Cheese		97.4	119.2	141.3	187.6	234.0
Skimmed milk powder		185.5	428.2	425.0	644.2	602.9
Whole milk powder		235.3	329.0	332.5	384.1	530.6
Condensed milk		470.8	588.1	545.3	555.1	654.4

(No forecasts available)

Table 6 - Poultry and Pigeat

<u>Pigeat</u>	'000 tonnes	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
		-54	52	-38	85	47
<u>Poultry</u>	'000 tonnes	98	155	107	196	263

(No forecasts available)

The World Bank notes :

"The EEC whose present member countries had been the world's largest import area up to the 1960's has become by far the biggest exporter of milk products with about 40 % of the total world trade. Developing countries have virtually ceased to export dairy products." (15)

61. A report by Wye College in 1981 notes that world market prices for milk products lie at only a third of the European Community's internal price (16).

62. These rising surpluses are the major reason for the huge growth in export restitutions, which rose from \$ 1.2 bn in 1975 to \$ 5.8 bn in 1981, an increase of 2,5 times in real terms (17).

63. Ulrich Koester has done some econometric calculations to try to show the effect of the EC policy on third world countries and other studies have been done by Tangermann and Krostitz and Valdes and Zietz (18).

64. Low cost cereals have the most beneficial effect, especially in countries like Bangladesh with a large cereals deficit, though the estimated effect in Bangladesh is only to reduce their costs by 1.2 % of their GNP and in Egypt, the next highest beneficiary by 0.3 %. But the benefit to the poorest members of the population is a substantial part of their income as they are able to consume more cereals and they have more money to spend on food with higher nutritional value. Equally there is a danger

that LDC's may be pushed towards greater long-term import dependence if cereal imports are allowed to undermine price incentives for local producers. In addition, low-cost wheat imports encourages consumption of wheat-based food and discourages local cereal production. Since there is a long-term link between wheat and rice prices, it also discourages international trade in rice. This, for instance, offsets Thailand's gain on the exports of manioc which the EC has to import for animal feed because of the high EC price for grain. Indonesia, and to a lesser extent Brazil and China, also benefit from the export of cereal substitutes. Cheap grain prices also benefit countries with much higher incomes. Lower cost beef and white meats also go to upper-income LDC's.

65. The Indian Ambassador to the Community has explained to the Committee on External Economic Relations how non-fat dry milk has been used successfully in India through the Community's "Operation Flood" to help the rural poor. We understand that other neighbouring countries like Sri Lanka are seeing whether they could use a similar scheme. As the IFPRI report explains :

"'Operation Flood' was initiated some ten years ago with WFP food aid. In order to finance dairy development, dairy products supplied by WFP were sold only on the open market or combined with locally-produced milk by-products for domestic sale..... By using food aid milk to even out seasonal fluctuations in local milk supply, rural dairies have been able greatly to increase their capacity to provide regular supplies for urban consumers, and it is the government's intention to eliminate the rationing system as sufficient supplies become available to meet the market demand." (19)

66. Your rapporteur's impression is that the whole exercise, including the creation of so many cooperatives, demanded a high degree of local organisation and of institutional sophistication, so that while it appears to be a most imaginative and hopeful way of combining low-prices imports with the encouragement of local production, it cannot be expanded fast enough to take up Community surpluses on the scale on which they are growing.

67. The more general rule, regrettably, is that the low-cost imports from our subsidised exports simply lower domestic prices in the LDC's and discourage production. They also tend to discourage governments, who are hard-pressed already, from the research and infrastructure expenditure

which an improvement in local production demands. Certainly there are a great number of LDC's whose self-sufficiency is falling, whose rural population are drifting off the land and into the shanty towns around the capitals and who can then only be kept alive by cheap imported food paid for in hard currency which the country can ill afford. While it is clearly imperative to supply food to alleviate disasters and starvation, it should not be a policy of the Community to achieve a long-term dependence of the LDC's on Community food aid since this demolishes local agricultural capacity.

68. However, the most obvious damage to the LDC's comes in direct competition between the subsidised exports of the EC and the export production of the LDC's. The level of EC subsidies is often in excess of 100 % for milk and beef products and 30 % or more for white meats. In sugar, the export subsidy takes the form of a deduction from the producer's guaranteed price (20). The study by Valdes and Zietz estimated the loss of earnings by LDC's from protection in 17 developed countries on 99 commodities at \$ 3 bn (21). But this does not take into account the loss of potential earnings. LDC's are discouraged from production of animal products and sugar by the uncertain and low prices partly caused by EC export policies. For agriculturally based LDC's it is difficult to see any other way to obtain the foreign exchange needed to import the capital equipment for development and to develop the necessary production technology. The demand for tropical products appears to be inelastic. It is the temperate food products for which demand is more elastic which could be exported for additional export revenue, especially labour intensive commodities like beef, sugar, milk and white meats, for which their economies are most suitable.

69. In the long-term struggle against hunger in the world it is undesirable that countries which could grow extra food are discouraged from doing so. And if they are encouraged to grow products which are saleable in both export and domestic markets, the export revenue will greatly help the development of a healthy agricultural industry which will meet the rising demand for food in the domestic market. There are numbers of examples of very poor communities who, once persuaded and encouraged to grow cash crops for the market, were able to use the money to expand production and look after their own immediate needs as well. And the Community has to ask itself whether we really want to force LDC's out of food production and into industrial pro-

ducts which compete on a much more extensive scale with European industry.

V. CONCLUSIONS AND POSSIBLE SOLUTIONS

70. The Community has now moved into surplus in the broad range of major agricultural products. The Treaty of Rome was drawn up when this achievement was still in the distant future and it is now urgently necessary to decide guidelines by which the agricultural and external objectives of the Community can be reconciled.

71. In raising agricultural production to its present level, the Community's farmers have made an enormous contribution to balancing our trade. But once agriculture moves into trading surplus, we have to consider the promotion of agricultural exports against the promotion of industrial exports. From which do we get the maximum value from our investment, skill and effort?

72. There are those who see agriculture as the Community's natural resource. We may have to import energy, but we can export our own natural resource, the produce of the land, which we have made more productive than ever before in history. Further, the international trading agreements allow us to do this on terms which allow us to expand.

73. In the short term it may pay us to do this. We have already made the investment in agricultural production and we may as well get the best out of it. But in making new investment decisions, we should surely give preference to exports which cover their costs. In some agricultural exports, the price we receive in export markets is only half the cost to the Community. Those exports do not earn us our living in the world. For that we rely on our industrial exports, together with services such as shipping, banking, insurance and all the other professional services which cover their costs and which must, therefore, have priority.

74. The Community is in deficit in our external trade. That need not matter if our economy is strong and our exports are competitive. Then we will attract the inward investment which will balance the deficit, as the Americans balanced theirs without difficulty in the fifties and sixties.

But for a strong economy we need a healthy open world trading system. And for that we need agreement with our major trading partners. We cannot afford to risk the loss of exports which cover their costs through retaliation from our competitors over arguments about exports which need a heavy subsidy.

What possible solutions are there to the problems which beset our agricultural trade relations with third countries and which threaten to spill over into relations with other sectors?

75. It is accepted in this explanatory statement and in many other Commission and Parliament statements (22), that the surpluses the EC currently runs in some commodities must be reduced. Some argue this because of the enormous cost of maintaining and exporting the surpluses - but here your rapporteur has argued that the surpluses are producing a crisis in trade relations with some third countries, which urgently need to be defused. How then can the surpluses be reduced without compromising one of the main policies of the European Community, the Common Agricultural Policy.

76. The three basic methods of limiting output are quotas, price and payments to leave land fallow.

- a) The problem with limitation of price is that it causes maximum social disruption by putting marginal farmers out of business.
- b) The problem of quotas is that it freezes production in the existing patterns, which may curb unduly those whose production is rising fastest. It may also leave prices at unrealistic levels in relation to demand. It also fails to limit extra output at marginal cost. Quotas also require a convenient point of collection or processing at which they can be fixed and a considerable bureaucracy to administer them. If a great deal of money is involved, this also puts pressure on the bureaucracy. Sugar and milk both require processing and grain needs storage, but it would be much more difficult to allocate quotas based on simple storage.
- c) The Plumb report recommends "quantums". The "quantum" is a progressive lowering of the guarantee price beyond the production quantity required by domestic consumption and a reasonable holding of strategic stocks. It is more gradual and more flexible than a rigid quota cut-off which

freezes production in existing patterns and is hard to set and to administer. Unlike overall price reductions, it does maintain a "social" price for Community consumption. It has been argued that the quantum system is too slow to operate, since crops have already been planted and capital investment spent, has not been effective in sugar and is open to reversal by the fixing of a higher overall price which cancels the loss. Against this the Commission argues that output depends on yield which depends on costly inputs and that as the price falls, so will the inputs and the yields. They accept that not all farmers may make the correct economic evaluation in the first year of a quantum system, but say that experience is now beginning to show where quantum operate, and that the correlation between guaranteed prices and output can be clearly seen. They accept the argument that quantum limitations can be offset by a higher than justified annual price settlement, but take the view that an argument for a higher price to offset the quantum limitation is unlikely to prevent and that it is increasingly apparent that the Community cannot guarantee the total difference between domestic and world market price for commodities which are in permanent surplus. (The operation of quantum is set out in Appendix Nr. 8).

77. It seems that an effective limitation requires a combination of basic price and quantum. If the basic price is too high, then the guarantee price will pay for all the capital costs and the amounts produced over the quantum may in some commodities still show a profit at the marginal cost of the extra production.

78. A real effort to set production targets and a determined political effort to keep price levels down, would make it easier for the Community to join international commodity agreements which so far it has joined when it is a major importer and held back from when it is a major exporter.

79. There are some signs that the Commission could find ways at least to start the production curb process. In their own "Guidelines for European Agriculture" (23) they suggest reducing cereal prices over 5 years while giving temporary relief to producers. This would at least hold out some long-term hope of reducing grain prices in the Community.

80. Other more specific solutions have been proposed. Mediterranean countries have shown interest in concluding long-term supply contracts in grain production. This, according to its proponents, would secure an export market for the European Community while at the same time guaranteeing security of supply to those countries.

81. Arguments against long-term contracts are that they might institutionalise our surpluses, that they might bring the Commission into the market in almost the same way as governments in state trading countries, that they might provoke retaliatory measures from other exporting countries of agricultural produce.

82. In any case, the Council of Ministers only viewed these proposals favourably on condition that they did not involve an extra budgetary expenditure. But it is clear that the countries involved (Morocco, Tunisia, Algeria and Egypt) want their supplies at preferential prices. The trade itself is not clear what period a "long-term" contract would practically run for and is in any case wary of further Commission involvement in the commodity markets. Your rapporteur concludes that the prospects for long-term contracts look limited.

83. In the developing countries, the most hopeful use of Community surpluses seemed to be the Indian experiment. In the short term this does not touch the problem of Community surpluses, but if in the longer term more experience was gained in the building up of the local infrastructure it looks like an effective method of expanding cooperation. And of course surpluses from the world's main agricultural producers will always be needed for immediate relief of acute need. But if world population is likely to expand by 1 billion or 2 billion in the next 20 years, it can only be fed by a corresponding increasing of local production. It is inconceivable that high cost surpluses from a Community of 270 million (or with enlargement 320 million) and which is still a major importer, can fill the need.

84. The GATT system is not perfect. It may be that the newly-industrialised get more out of it than we do. But, since we have by far the largest share of world markets, we are, in absolute terms, by far the biggest beneficiary. So we have most to lose if the GATT system fails.

No doubt in 10 or 20 years we could build a new system if we managed to stay together. But under pressure of protectionism we might not hold together, and even if we could, such major change would bring major risks.

85. It is for this reason that your rapporteur's strong advice is to try to negotiate with our partners and to come to a reasonable compromise on both industrial and agricultural trade and to set up firmer guidelines which will avoid the spread of non-tariff barriers to industrial trade and will stabilise agricultural trade, so that our partners are not forced into a subsidy race or more dangerous, to devaluation to protect their markets. It is hoped that such guidelines will strengthen the GATT so that it can come through the recession intact and avoid the risks of spreading protectionism which would cut off the markets on which we depend, for the 90 % of our exports which are not agricultural and which cover their costs without subsidy.

86. Your rapporteur is grateful to Michel Schluter and to the International Food Policy Research Institute (IFPRI) for a report which put together the existing research on the impact of the CAP on LDC agriculture.

Foot Notes

1. Articles XV 13 of the General Agreement on Tariffs and Trade.
2. See "European Economy", Commission series for statistical documentation of this, for instance, No 11, March 1982.
3. For US view see US Government document "A comparison of US and EEC expenditures on farm income support and agriculture", 19 October 1981, and see Poul Dalsager, EC Commissioner for Agriculture, in Europe 82, September 1982.
4. Australian Government submission to the External Economic Relations Committee enquiry on the impact of the Common Agricultural Policy on the Community's external relations, 21 April 1982.
5. Ulrich Koester "Policy options for the EEC grain economy - its implications for developing countries", IFPRI research report (forthcoming).
6. Alexander J. Yeats, "Agricultural protectionism : an analysis of its international economic effects and options for institution reform", Trade and Development, an UNCTAD review, No 3, 1981.
7. Australian Department of Trade and Resources Central Statistics Section EEC 10, 1981.
8. Commission Communication to the Council on the Mediterranean policy for the Enlarged Community, 24 June 1982 (COM(82) 353 final).
9. Ibid.
10. Agricultural aspects of Spain's entry in the European Community, Opinion by the Economic and Social Committee of the European Communities, 1982.
11. Agriculture : Toward 2000, Food and Agricultural Organisation of the United Nations, 1981, p. 131, Table 7.1 Growth rates of population and total demand : 1980 to 2000 and hypothetical 2000 to 2055.
12. See International Food Policy Research Institute Report, 1981, Food Trends Analysis Programme, p. 13.
13. Agriculture : Toward 2000, FAO, Chapter 4, "Sustainable growth and production".
14. Commission of the European Communities study on the Common Agricultural Policy and the EEC's trade relations in the agricultural sector (effects on developing countries). (Unpublished)

15. World Bank "Milk and Milk Products handbook", Commodities and Export Projections Division, February 1982.
16. U. Koester, E. Ryle and P.M. Schmitz, "Milk Policy in the European Community : Some Alternatives", Centre for European Agricultural Studies, Wye College, Ashford, Kent, 1981.
17. Eurostat.
18. U. Koester, "Policy options for the EEC grain economy - its implications for developing countries", Draft of IFPRI research report (forthcoming).
 Stefan Tangermann and Wolfgang Krostitz, "Protectionism in the Livestock Sector with Particular Reference to the International Beef Trade", Göttingen, 1982.
 Alberto Valdes and Joachim Zietz, "Agricultural Protection in OECD Countries : Its Cost to Less-Developed Countries", IFPRI, Washington DC, December 1980.
19. Barbara Huddleston, "Potential Uses of Food Aid as an Adjustment Mechanism", IFPRI Working Paper, 1981.
20. Michael Schluter, "The impact of the EEC's Agricultural Policies on the Third World", IFPRI Working Paper, October 1982.
21. Valdez and Zietz, op.cit.
22. For instance, European Commission's memorandum on "Guidelines to European Agriculture" (COM(81) 608 final), and European Parliament Resolution on "Possible improvements to the Common Agricultural Policy" in OJ of the EC, No C 172, p. 32, 13.7.1981.
23. Commission memorandum "Guidelines for European Agriculture", op.cit.

Importance of Agricultural Products in EUR 10 and US exports

ANNEX 1

Year	EUR 10 ¹⁾			USA		
	Total Exports (\$bn)	Agricultural Exports ²⁾ (\$bn)	Agricultural/Total %	Total Exports (\$bn)	Agricultural Exports ²⁾ (\$bn)	Agricultural/Total %
1975	151.6	12.0	7.9	107.6	23.7	22.0
1978	223.3	17.6	7.9	143.7	33.0	23.0
1979	268.1	21.6	8.1	181.8	39.8	21.9
1980	315.2	28.1	8.9	220.7	46.4	21.0
1981	298.0	29.0 ³⁾	9.7	233.7	48.0	20.5

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Notes

- 1) EUR 10 data, which refer to extra-EC trade, are expressed in \$ US for sake of comparability
- 2) Agricultural exports, using the UN SITC nomenclature, are defined as the sum of the following product groups: 0, 1, 22, 23, 24, 261-265, 29 and 4
- 3) The UK element in EUR 10 agricultural exports has been estimated by the Parliament Secretariat due to the non-availability of detailed export data for 1981 for this country

Sources: The Agricultural Situation in the Community, European Commission
 EUROSTAT Microfiches of Foreign Trade and Monthly Trade Bulletins
 OECD Trade Statistics, Series C and microfiches

WORLD EXPORTS AS A PROPORTION OF WORLD PRODUCTION
OF SELECTED AGRICULTURAL COMMODITIES

8

	1975	1976	1977	1978	1979	1980
Wheat	21.0	14.5	17.3	14.8	18.3	17.1
Other Cereals	10.0	11.3	10.7	9.9	11.5	13.1
Sugar	27.6	31.7	30.4	27.5	30.5	30.6
Butter/Butteroil	7.7	8.4	10.0	9.6	13.3	15.3
Cheese	6.9	7.4	7.9	7.8	8.1	8.8
Skimmed-milk powder	11.1	16.5	24.4	23.9	25.5	25.5
Whole-milk powder	28.9	28.1	35.6	39.7	34.7	43.7
Concentrated milk	10.5	14.6	16.6	18.1	17.6	20.4
Beef and Veal				5.8*		5.7*

* Exports of the seven principal world exporting countries

Source: The Agricultural Situation in the Community, Annual Reports 1977-1981

*
EUR 9 SHARE OF WORLD TRADE IN AGRICULTURAL PRODUCTS

Product:	Trade flow:	%					
		1975	1976	1977	1978	1979	1980
Wheat	Imports	8.7	6.6	5.6	5.6	6.6	5.9
	Exports	10.7	10.1	6.9	6.9	6.8	10.8
Other Cereals	Imports	23.7	25.4	25.2	25.2	16.8	13.0
	Exports	3.3	2.1	0.8	0.8	4.7	3.9
Sugar	Imports	9.4	6.4	6.4	6.7	5.9	5.4
	Exports	8.3	9.6	9.6	14.2	13.8	16.2
Butter/butteroil	Imports	37.1	26.6	19.7	21.2	14.6	11.0
	Exports	15.8	23.7	44.3	47.0	61.7	63.4
Cheese	Imports	20.3	19.0	14.9	13.1	11.9	13.2
	Exports	33.9	36.8	34.7	36.7	41.0	45.5
Skimmed-milk powder	Exports	32.2	24.1	39.8	43.0	60.8	54.4
Whole milk powder	Exports	66.1	68.5	64.9	67.5	69.0	66.5
Concentrated milk	Exports	92.1	78.6	80.1	75.1	71.7	71.4

* By weight.

Source: The Agricultural Situation in the Community, Annual Reports 1977-1981

Trade Balance⁽¹⁾ of EUR γ in Agricultural Products

Table 1: Vegetable products (crop year)

('000 tonnes)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81 ⁽³⁾
Wheat	1,511	681	-491	3,287	5,810	8,993
Maize	-13,887	-19,564	-13,656	-13,843	-11,096	-10,051
Sugar ⁽²⁾	-440	97	1,939	1,635	2,422	3,226

Source: Yearbook of Agricultural Statistics, EUROSTAT
CRONOS-ZPA 1, EUROSTAT

Note: "-" denotes a net import

(1) Balance calculated as total exports minus total imports (extra EC)

(2) White equivalent

(3) Estimate

Trade Balance⁽¹⁾ of EUR 9 in Agricultural Products

Table 2: Animal Products (calendar year)

	('000 tonnes)						
	1975	1976	1977	1978	1979	1980	1981 ⁽³⁾
Beef and veal	10	-172	-202	-211	-72	267	410
Pigmeat	-2	7	83	34	152	115	284
Poultry	67	104	160	113	198	264	407
Dairy products ⁽²⁾	987	1025	1644	1667	2260	2640	n.a.

Source: Yearbook of Agricultural Statistics, EUROSTAT
 CRONOS-ZPA 1, EUROSTAT
 Agriculture series No. 6, European Parliament
 Analytical Tables of Foreign Trade, SITC, EUROSTAT

(1) Balance calculated as total exports minus total imports (extra EC)

(2) Including birds' eggs

(3) Estimate

EAGGF guarantee expenditure by sector and restitution payments
as % of total costs of main regimes

	1976	1977	1978	1979	1980	1981
Cereals : - total cost (mio Ecu)	655,9	629,9	1112,5	1563,7	1669,0	1921,4
- % refunds	61,5	58,0	74,8	75,8	70,4	62,8
Rice : - total cost (mio Ecu)	18,4	13,5	17,9	42,9	58,7	21,7
- % refunds	98,9	98,5	93,9	97,2	75,6	79,3
Milk and milk products : - total cost (mio Ecu)	2277,7	2924,1	4014,6	4527,5	4752,0	3342,7
- % refunds	33,6	48,5	39,0	46,1	57,8	56,4
Oils and fats : - total cost (mio Ecu)	247,1	268,5	324,8	606,0	687,3	1025,4
- % refunds	4,2	0,4	-	0,2	0,5	0,1
Sugar : - total cost (mio Ecu)	229,3	598,4	878,0	939,8	575,2	767,1
- % refunds	27,0	68,4	72,9	72,9	49,8	53,1
Beef and veal : - total cost (mio Ecu)	615,9	467,7	638,7	748,2	1363,3	1436,1
- % refunds	21,7	28,2	22,8	36,1	52,5	57,1
Sheepmeat : - total cost (mio Ecu)	-	-	-	-	53,5	191,1
- % refunds	-	-	-	-	100,0	100,0
Pigmeat : - total cost (mio Ecu)	29,0	37,3	45,0	104,9	115,6	154,1
- % refunds	92,1	78,6	71,6	74,7	79,2	85,1
Fruit and vegetables : - total cost (mio Ecu)	185,1	178,2	100,7	442,9	687,3	641,1
- % refunds	23,7	28,1	47,5	7,8	6,0	6,1
Wine : - total cost (mio Ecu)	133,8	89,9	63,7	61,9	299,5	459,1
- % refunds	1,1	1,2	2,5	7,4	8,8	5,1
Tobacco : - total cost (mio Ecu)	185,4	205,2	216,1	225,4	309,3	361,1
- % refunds	0,9	2,1	1,2	1,6	1,5	1,1

EVOLUTION OF THE PRODUCTION AND TRADE IN CEREALS (EEC 9)

(CEE - USA, in millions of tonnes)

	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83
<u>PRODUCTION</u>													
US	182.9	233.6	224.1	233.3	199.4	243.3	252.8	261.4	270.5	296.8	263.0	325.0	327.8
CEE	91.4	104.1	106.7	109.0	112.1	101	94.7	106.7	120.3	118.8	124.8	122.5	123.5
<u>NET-EXPORTS</u>													
US	38.5	40.5	69.1	73.8	63.6	82.0	76.5	86.9	92.7	108.8	110.7	110.3	116.8
CEE	-20.0	-14.1	-13.6	-12.9	- 9.9	- 8.9	-19.7	-10.1	- 5.1	- 3.2	+ 2.7	+ 3.8	+ 4.7

Source : USDA WORLD GRAIN AND SITUATION OUTLOOK

Present and future use of quantum as an instrument for reducing agricultural surpluses in the European Community

1. The Plumb Report on possible improvements to the Common Agricultural Policy was adopted by Parliament on 17 June 1981, and called for the 'introduction of a global Community quantum for each sector related to targets established with Community agricultural production for those products where the organisation of the market is based primarily on intervention prices; beyond this global quantum, co-responsibility would come into play'. In the main sectors of surplus, Community quantum are now established in differing forms.
2. In sugar, the revised common organisation of the market came into force on 1 July 1981. This involved the setting of production quotas for each country which left to producers themselves the whole financial responsibility for the disposal of sugar exceeding Community internal consumption.
3. In cereals, at the 1982/83 price fixing, the Council introduced a guarantee threshold for all cereals. If it was exceeded, the intervention and reference prices were to be reduced by 1 % for each million tons by which the threshold was exceeded. The threshold was based on the average actual production of the three marketing years from 1980 onwards.
4. A similar system was adopted for milk at the same time, whereby if the guaranteed threshold (based on delivery to dairies in 1981 plus an increase in Community consumption of 0.5 %) was exceeded, intervention would be reduced by a corresponding amount.
5. The Commission thus hopes that the introduction of guarantee thresholds in milk and cereals and of country by country quotas on sugar will gradually reduce the burden to the Community budget of financing the surpluses in these products. In addition, the theory is that, because producers have to finance over-production, there will be a strong

disincentive to continue the recent upward trend in production. Surpluses will therefore stabilise at present levels or even be reduced.

6. In sugar, there is some evidence that both these objectives are at least to some degree being realised. The cost of the sugar regime in 1982 was 440 million ECU, which related solely to the disposal on the world market of the quantity of sugar equivalent to that imported from ACP countries. These imports were agreed at the time of Britain's accession to the European Community because of the ACP's historical dependence on the British markets.
7. In the 1982/83 season, the area sown for sugar beet was reduced by 9 % compared to the previous year, and output, whose trend had been upwards for several years, remained stable. In fact, the 1982 harvest has been estimated at 13.6 million tons (1981: 15.0 million tons), but this of course still greatly exceeds the Community consumption at 9.5 million tons.
8. The Commission forecasts that while the consumption will fall, because of population increase, the total consumption will remain 'relatively stable'. But it argues that the low world price for sugar will make the disposal of 'C' quota sugar 'difficult and financially unattractive'. It is, therefore, hoping that growers will reduce further the total area of sugar beet.
9. With sugar, therefore, the effect of country by country quotas, on one year's experience, appears to be that the quotas do offer a disincentive to over-produce. However, there are still 4.1 million tons of sugar which have to be disposed of on world markets (in addition to ACP sugar) and this remains a significant depresser on world prices. There are hopes now that, with the more structured organisation in the sugar sector in the Community, the way forward on negotiations to join the International Sugar Agreement will be clearer.
10. On cereals, the total production in 1982, excluding durum wheat, is estimated at 124.9 million tons. This is an increase of 5.7 % on 1981. The guarantee threshold set at the 1982/83 price fixing was 119.5 million

tons. The Commission stated that if the average actual production during the three most recent marketing years exceeded this threshold, the intervention reference prices would be reduced by 1 % for each 1 million tons by which the threshold was exceeded. (They also added that if imports of cereal substituted exceeded 15 million tons in the previous season, the difference between the volume of the imports and 15 millions would be added to the guarantee threshold - this was not the case in 1980/81). The Commission thus calculates:

1980 harvest	119.8 million tons
1981 harvest	117.9 million tons
1982 harvest	124.9 million tons

3 year average	120.9 million tons

11. The Commission are therefore proposing that as the guaranteed threshold has been exceeded by more than 1 million tons, the intervention and reference price for cereals should be reduced by 1 %.
12. The Commission forecasts that while the area of cereal plantation will probably not increase in the next five years, the yield will almost certainly increase to the order of 137.3 million tons by 1988, calculated on an annual rate of increase from 1981 to 1988 of 1.8 %.
13. It is hoped by the Commission that the action it has taken will progressively reduce the gap between Community and world prices, so making cereal substitute imports (used in animal feed which is the greatest consumer of cereals - about 60 %) less competitive. In the meantime, it hopes to continue the action it has taken on restrictions of manioc imports and corn gluten feed.
14. But the Commission calculates that by 1989 the exportable quantities of Community cereal could increase from 17 to 20 million tons to some 20 to 25 million tons. Guarantee thresholds therefore will help to reduce the burden to the Community budget, but surpluses, because of increased yield, will continue to mount.
15. For milk, the same problems apply. While the decline in the number of herds is continuing, their yield continues to rise (4 160 kg/dairy cow in 1981 and 4 260 kg/dairy cow in 1982). The Commission forecasts

that deliveries to dairies will increase by 3.5 % in 1982.

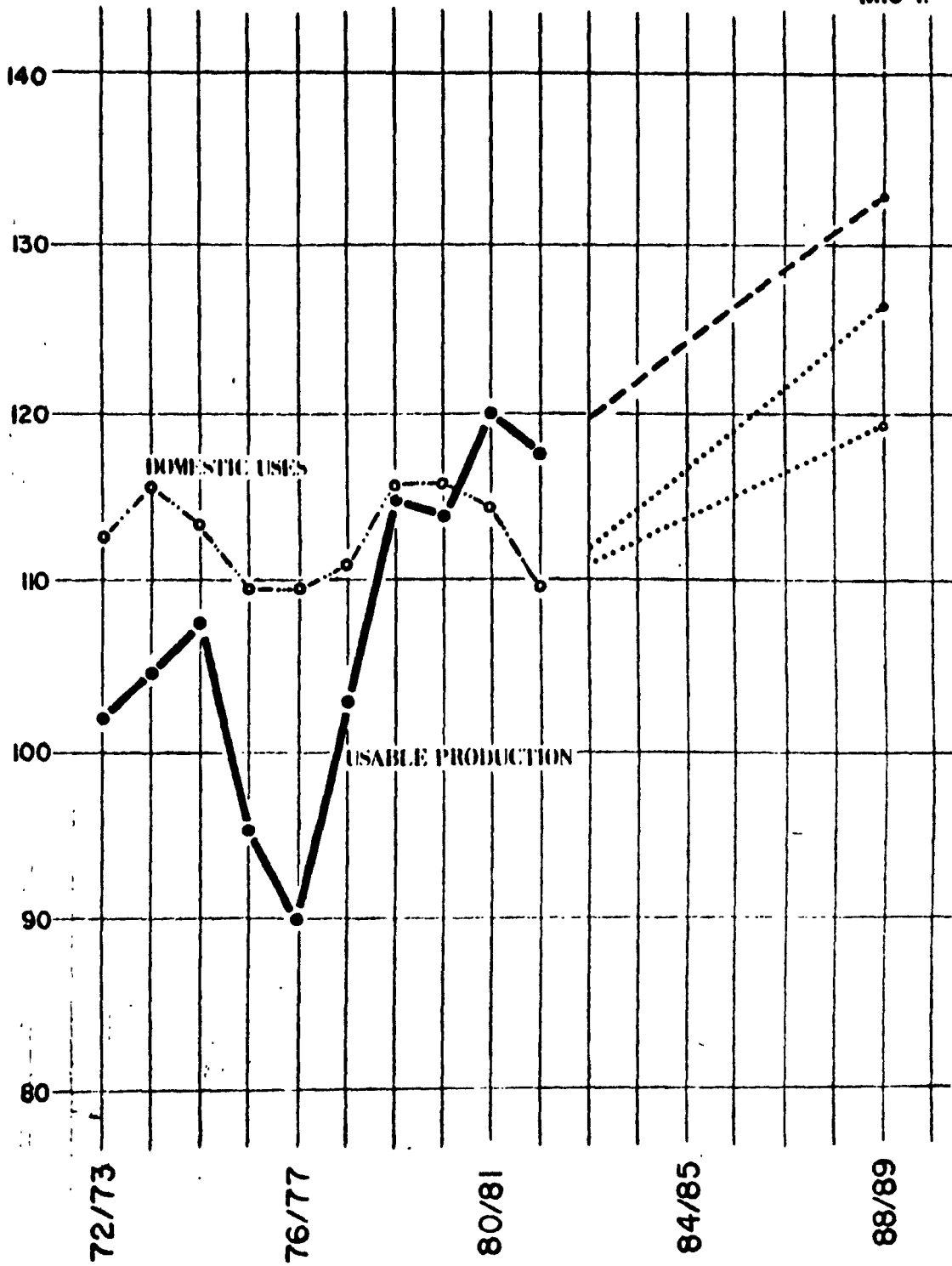
16. The guarantee threshold that the Commission proposed at the 1982/83 price fixing was 1981 deliveries (96.23 million tons) plus the estimated increase in Community consumption (0.5 %), which gave a threshold of 96.71 million tons for 1982. Deliveries are expected to exceed that amount by 3 % and so the Commission has proposed a reduction of 3 % in intervention prices for 1983/84.
17. For the future, yields are expected to increase at 1.5 % per annum, and deliveries to dairies by 1.5 % to 2 % per annum. In 1989, deliveries to dairies will be 110 - 114 million tons (compared with over 99 million in 1982).
18. The Commission accept that delivery will continue to 'exceed consumption in the Community far in excess of the realistic possibilities for export. For the coming year the Commission proposes a threshold equivalent to that for 1982, plus 0.5 % (the present growth in rate of consumption) which corresponds to 97.19 million tons.
19. The problem with the quantum set for milk and cereals, and, to a lesser extent, sugar, is that the guarantee thresholds are based on recent production levels and thus the best they can achieve is to contain present surpluses, by acting as a disincentive to producers to continue such massive overproduction. While they may well help to contain Community expenditure on agriculture, they do not look like radically altering the structural surpluses which plague the Community's relations with third countries.
20. But to expect the Community to choose base years for the guarantee thresholds which would make that kind of impact and still face the kind of American competition on third markets it faces presently, is clearly unreasonable. There has to be a quid pro quo which makes it all the more necessary for the Community and the United States to negotiate a deal which can contain production in both areas and bring stability to world markets.

21. Your rapporteur's conclusions are that quantum cuts could be effective in the fight to reduce surpluses if the base year for their calculation was not, as for instance in milk (1981), a bumper year, and if annual price increases were strictly held back. Even as presently operated, always supposing that the Council accepts the Commission proposals, they offer some hope. Because the regime for milk and cereals are only at the very beginning of operation, there is really no way of predicting their effect, and, as always, so much depends on the political will of the Council of Ministers to resist the temptation to grant overgenerous price increases, and on the perceived urgency of the need to negotiate with the Americans to avoid what could easily be a ruinous trade war.

SOURCE: Commission agricultural price proposals, 1983/84

**TOTAL CEREALS EUR. 10.
excepting durum wheat**

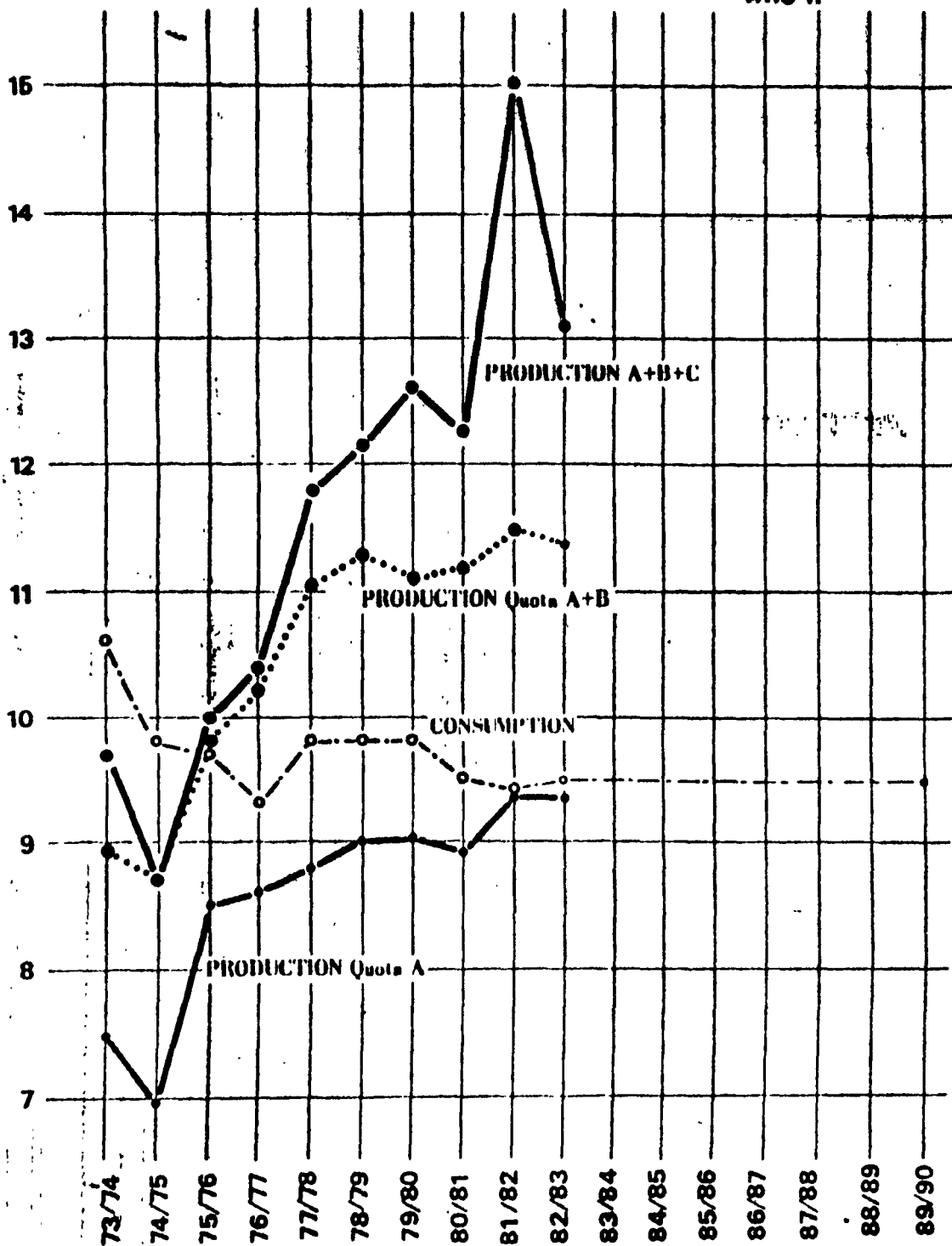
Mio t.



Graph 2

SUGAR EUR. 10.

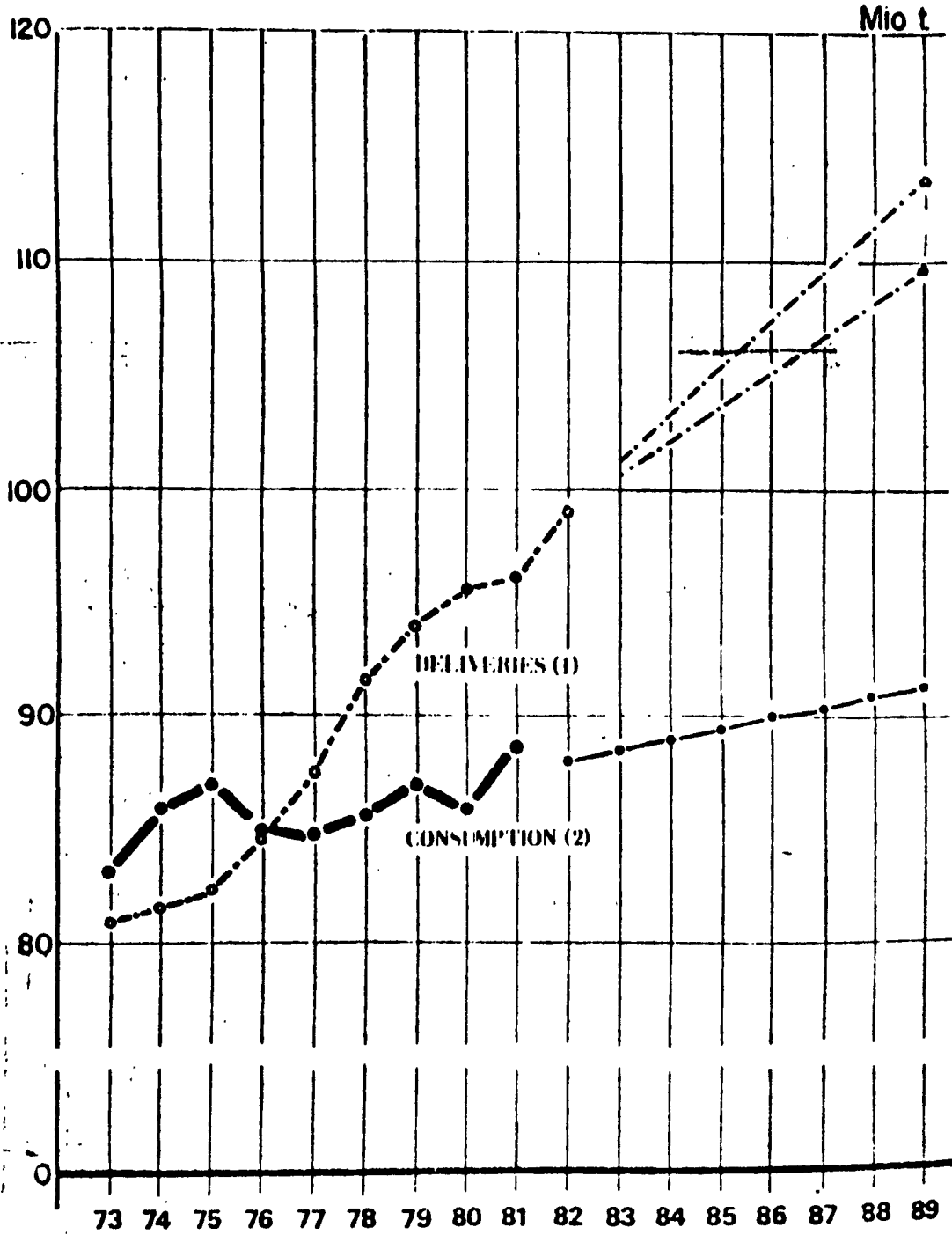
Mio t.



Includes French Overseas Departments
 Quantities expressed in white sugar equivalent

Graph 3

MILK EUR. 10.



(1) Deliveries to dairies except for Greece where total milk production has been used
 (2) Consumption is calculated on the basis of the whole milk equivalent of each product
 (i.e. butterfat basis)

Graph 4

OPINION

of the Committee on Agriculture

Draftsman: Mr GAUTIER

On 21 October 1981 the Committee on Agriculture appointed Mr Gautier draftsman of the opinion.

The committee considered the draft opinion at its meetings of 12 and 13 July, 2 and 3 November and 1 and 2 December. At the latter meeting, it adopted the conclusions by 26 votes to 2 with 1 abstention.

The following took part in the vote: Mr Curry, chairman; Mr Colleselli, vice-chairman; Mr Gautier, draftsman; Mr Abens (deputizing for Mrs Herklotz), Mr Adamou, Mr Blaney, Mrs Castle, Mr Dalsass, Mrs Desouches (deputizing for Mr Thareau), Mr Diana, Mr Eyraud, Mr Jakobsen (deputizing for Mr Fruh), Mr Goerens (deputizing for Mr Maher), Mr Harris (deputizing for Mr Battersby), Mr Herman (deputizing for Mr Marck), Mr Hord, Mr Howell, Mr Kirk, Mr Ligios, Mrs Lizin (deputizing for Mr Sutra), Mr Mertens, Mr B. Nielsen, Mr Provan, Mr Stella (deputizing for Mr Bocklet), Miss Quin, Mr Tolman, Mr Vernimmen, Mr Vitale and Mr Wettig.

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I. INTRODUCTION

Both in its document 'Reflections on the common agricultural policy' and in its 'Report on the Mandate of 30 May 1980' the Commission makes it clear that one of the main objectives of the reform of the common agricultural policy is to develop a genuinely common export policy in the agricultural sector.

The criticisms of the Community's measures to subsidize exports of agricultural products which are frequently heard from partners, such as the United States, Australia and certain South American countries, also demonstrate the need for a thorough examination of this problem within the various institutions.

The Committee on Agriculture warmly welcomes, therefore, the decision by the Committee on External Economic Relations to draw up an own-initiative report on the impact of the common agricultural policy on international trade relations. It would suggest, however, that the committee responsible look in detail in its report at the interaction between imports and exports of agricultural products on the one hand and imports and exports of industrial products on the other. It would also be useful if the Committee on External Economic Relations could carry out a global analysis of the trends in purchasing power in the countries which are the major importers of agricultural commodities to evaluate whether, on the whole, it is better for the Community when world market prices for agricultural products increase or when, in certain cases, the majority of these products are sold at lower prices.

This document attempts, by means of a step-by-step approach, to chart the development of the Community's agricultural export policy vis-a-vis a large number of countries, both developed and developing.

The Committee on Agriculture feels that the Community should evolve a fully coherent external trade policy. The relative liberalism of trade in many industrial products, the protectionism practised to a certain extent for some sensitive industrial products

and to a very marked degree in the case of most agricultural products, mainly processed products, are increasingly giving rise to problems, particularly in those sectors of the commodity markets where the interests of agriculture and those of other industrial sectors are closely interconnected.¹

It must be made clear from the outset that as a result of the CAP the development of world trade in agricultural products has always been and will continue to be given close attention.

Figures for Greece are not included in many of the tables in annex to this document, either because import and export statistics for Greece are not available or because they do not permit comparisons with Community statistics.

¹ This opinion also takes account of the motions for resolutions listed in the Annex.

II. THE COMMUNITY IN WORLD TRADE

The establishment of the European Community and with it the setting up of the Common Market brought rapid growth in intra-Community trade, which now slightly exceeds trade between the Community and the rest of the world in terms of value.

In 1979 the Community accounted for 36% of world visible trade, which is 2.5 times more than the United States and 4 times more than Japan.

Intra-Community trade apart, the EEC now accounts for approximately $\frac{1}{5}$ th of the world's exports and nearly $\frac{1}{4}$ of the world's imports of agricultural products (see table I in annex).

III. THE COMMON AGRICULTURAL POLICY AND INTERNATIONAL TRADE RELATIONS

The EEC Treaty contains no specific provisions regarding a common commercial policy for agricultural products, as it does for the Common Agricultural Policy on the one hand and the common commercial policy on the other. To a point, therefore, the policy for trade in agricultural products is derived from a combination of the agricultural policy and the commercial policy. As a result conflicts of interest can arise in the commercial policy between agriculture and trade and also between the need on the one hand to protect European farmers and, on the other, to establish good trade relations particularly with major producers.

The Community is the world's largest importer of agricultural products and foodstuffs. It accounts for nearly 25% of the world's imports of agricultural products, which represent around 20% of the Community's total imports. Some 48% of its imports come from the developing countries and 45% from industrialized countries. The Community accounts for approximately 10% of world exports of agricultural products, while the Community's exports of agro-food products account for nearly 8% of its total exports (see table in annex). In recent years, however, there has been a marked upward trend.

The largest category of products imported by the Community is that of tropical fruit and vegetables, which are either not grown in the Community or if they are, tend to be produced in insufficient quantity or of unsatisfactory quality. The second biggest group is cereal substitutes, which tend to be imported because of the high prices of cereals in the Community. On the other hand, the Community is a net exporter of dairy products, beef and veal, sugar, pigmeat, eggs and, more recently, cereals.

Between 1973 and 1979 exports of agricultural products rose faster than imports, by approximately 120% as against 75%. This follows naturally from the improvement in the Community's rate of self-supply in many agricultural and food products and from the large surpluses in some sectors (see table in annex).

1. The impact of the CAP on trade policy

1.1. Article 110 of the EEC Treaty states that the Member States' aim is to contribute to the harmonious development of world trade.

Apart from trade in agricultural products and in certain sensitive industrial products, such as textiles and steel, the Community does indeed contribute to an open world trade system through its relatively liberal trade policy.

The Common Agricultural Policy, however, is based on a system of common prices for agricultural products which in many cases are systematically protected against world market prices by means of a complicated mechanism applied at the Community's borders to both imports and exports. The purpose of this mechanism is to adjust prices to the price level in the Community. Since common prices are now fixed according to internal parameters, the principles which apply to the Common Agricultural Policy also have an effect on trade in agricultural products.

These principles follow logically from the objectives set out in Article 39 of the EEC Treaty, namely: to increase productivity, to ensure a fair standard of living for the agricultural community, to stabilize markets, to assure the availability of supplies and to ensure that supplies reach consumers at reasonable prices. Although agricultural earnings are the most important factor in the annual farm price review, more account should be taken of the other objectives referred to in Article 39 of the Treaty. The system of Community preference, which is based on these objectives, in turn influences the Community's position in regard to talks with third countries on their exports of goods which compete with Community products.

A further objective is security of supply and in order to attain this objective the Community has come to attach great importance to the level of self-supply in agricultural products. Although the Treaty does not refer explicitly to a degree of self-supply in a number of products (see table in annex). It should be pointed out that the statistics on self-supply are misleading in that they take no account of the Community's dependence on imported inputs.

In order to attain this apparent degree of self-supply the Community has to import, in particular, energy and vegetable proteins. Any increase in the prices of these imported products leads either to a drop in production or productivity in the agricultural sector or to an increase in the prices of agricultural products.

1.2. Since the CAP is based on a system of prices which are different from, and in most cases higher than world market prices and higher than those of competing agricultural producers, the Community is obliged to protect its own market from the world market. A system of variable import levies is applied to imports of a number of important products which are produced in the Community, to make up in full the difference between world market prices and Community prices which, generally, are higher. This makes it impossible to import these products at prices lower than those obtaining in the Community.

Since the common market prices for the main agricultural products are generally higher than world market prices, Community producers are virtually bound to make a loss if they sell these products on the world market. The CAP therefore includes provision for export subsidies, in the form of refunds, designed to make up the difference between Community prices and world market prices and thereby enable EEC producers to compete on world markets. The system of export subsidies applies to all the main agricultural products exported by the Community.

Import duties similar to those imposed on industrial products are applied to the less important agricultural imports. Usually the greater the processing component of the imported product the higher the duty, as is the case with the tariff structures applied in other developed countries. The idea of this, of course, is to protect the Community's own processing industry. In certain cases, such as fruit and vegetables, there are seasonal arrangements and a system of compensatory levies for imports.

The Community has granted tariff concessions, however, to a large number of developing countries. The two main groups are the ACP States and the Mediterranean countries. The preferences granted to these countries are in fact more substantial than the concessions granted under the generalized scheme of preferences which the Community applies together with a number of other industrialized countries within the framework of GATT.

2. International agreements and the CAP

2.1. The generalized system of preferences is the embodiment of the principle that industrialized countries should grant generalized tariff preferences to the developing countries for exports of certain products. These preferences are granted unilaterally and on a non-reciprocal basis for processed and semi-processed agricultural products, manufactures and semi-manufactures and textiles.

The aim of the generalised system of preferences is to grant concessional tariffs in respect of over 300 agricultural products not produced in the Community. These concessions generally take the form of reduced or zero rates of duty and no quantitative import restrictions, apart from certain products which are covered by quotas such as tobacco, tinned pineapple, cocoa butter and soluble coffee. This preferential treatment is only given to products which originate in specified developing countries and regions, of which there are currently 146. The least-developed countries - currently 36 in number, - are also allowed total exemption from duty on imports of specified agricultural products into the Community.

Each year improvements are made to the GSP to assist the developing countries; these include the listing of new products, increasing preference margins for certain products and easing or abolishing restrictions in the case of the least-developed countries.

- 2.2. The basic principles of the Convention of Lomé, which the Community concluded in 1975 and 1979 with some 60 developing countries, are as follows : non-reciprocity of trade concessions, establishment of a system to stabilize export earnings (STABEX), financial and technical cooperation, industrial cooperation, special measures under the STABEX scheme to assist the least-developed countries and the setting up of institutions to administer the Convention.

As far as trade arrangements are concerned, virtually all the products from these countries, which amount to more than 99% of their exports, are admitted into the Community duty-free. This arrangement does not apply, however, to certain agricultural products which are subject to a market organization under the CAP. In such cases preferential arrangements are made.

The object of the STABEX scheme is to compensate the ACP countries for losses of export earnings. It provides a guarantee for those countries which depend heavily on certain staple products for their export revenue, and covers both production losses resulting from natural or climatic factors and drops in sales due to cyclical fluctuations in the economy. This scheme makes up the earnings lost as a result. The products primarily

concerned are staple commodities plus a number of by-products, such as groundnuts, cocoa, coffee, cotton, coconuts, palm nuts and kernels, skins, leather and hides, wood, fresh bananas and tea. Further products were added in the Second Convention, including rubber, pepper, shrimps and prawns, squid, cotton seeds, pulses and oil-cake.

The Convention also makes special arrangements for sugar, beef and veal, meat, bananas and rum, - products which are important to ACP producers.

- Sugar

Protocol No. 7 of the Convention of Lomé contains a mutual undertaking to purchase / deliver approximately 1.3 million tons of ACP sugar, and establishes a link between the prices guaranteed to ACP producers and to Community producers. These prices are closely linked to those applied to Community producers.

- Beef and veal

Although the Community is self-sufficient in beef and veal, it imports an annual quota of 30,000 tonnes of beef and veal from Botswana, Kenya, Madagascar and Swaziland on which it grants a 90% reduction in the import levy; the aim is to allow these countries to maintain their position on certain traditional markets.

- Bananas

Protocol No. 4 specifies that no ACP State will be placed in a less favourable situation than in the past or at present with respect to its exports of bananas to the Community.

The main producers concerned are Ivory Coast, Jamaica and Cameroon.

- Rum

The object of Protocol No. 5 is to enable the ACP States to develop their traditional markets for rum.

Rum, arak and tafia can be imported duty-free until the entry into force of a common organization of the market in spirits.

Imports of agricultural products from ACP states into the Community have more than doubled since the entry into force of the Convention of Lomé. The growth in imports from the ACP states has in fact exceeded the growth in overall imports of agricultural products. Approximately 15% of the Community's agricultural imports now come from the ACP countries, as against 11% in 1973/74.

2.3. The Mediterranean basin

In addition to the ACP States, the Community has a number of cooperation, association or preference agreements with countries from the Mediterranean region.

These are: The Maghreb countries (Algeria, Morocco, Tunisia), the Mashreq countries (Egypt, Jordan, Lebanon, Syria), Cyprus, Israel, Malta, Turkey and Yugoslavia.

The main purpose of these agreements is to encourage the economic development of these countries and to expand trade.

The agreements provide for substantial tariff reductions for agricultural products, combined with quota arrangements and in some cases seasonal arrangements for products which are important to a particular country, such as wine for Algeria, new potatoes for Egypt, citrus fruit and juices for Israel, olive oil for Tunisia, nuts and dried fruit for Turkey.

The Community's imports from the Mediterranean countries amounted to around 350 m ECU in 1978 and 430 m ECU in 1979.

3. Relations with the United States

Since the Reagan administration came to power, the United States has regularly criticized the Common Agricultural Policy.

The following paragraphs outline the main features of our relations with the United States with regard to trade in agricultural products and go on to examine the substance of American criticism of the CAP.

The deficit in our balance of trade with the USA in agricultural products was 4,600 m ECU in 1979 and 5,500 m ECU in 1980. While exports of agricultural products from the United States to the Community increased by a factor of seventeen between 1957 and 1980, the Community's share of American imports of agricultural products fell from 25% to 16% between 1971 and 1980 (source: PE 75.445).

Cereal exports, for instance, dropped from 15.6 to 11.5 million tonnes between 1975 and 1980.

Imports of cereal substitutes, on the other hand, rose between 1974 and 1980 from 37 to 50 million tonnes, of which 23.5 million tonnes were from the USA. These products account for nearly 50% of exports of agricultural products from the United States to the Community in terms of value (3,500 m ECU out of a total of 7,400 m ECU).

The United States' main criticisms of the CAP are:

- that Community 'protectionism' prevents the United States from increasing its exports of agricultural products as it wishes;
- that market support, financed through the Community budget, and more particularly the high level of guaranteed prices, is an incentive to produce more;
- that the Community's export policy, especially the system of refunds, is designed not only to make up the difference between the world market price and the price on the internal market but also to increase the Community's share of world trade at the expense of the US;
- that the scope of the preferential agreements with third countries restricts the field of application of the most-favoured nation clause, to which the US strongly subscribes, and thus creates reserved market zones, once again at the expense of American exporters.

These American charges of protectionism are less than convincing given that the Community is the largest importer of agricultural products (one-quarter of world imports) and that its imports from the United States are steadily increasing (up 15% between 1979 and 1980).

If anything, the protectionist 'cap' fits the United States better, since it is allowed under a GATT decision of 5 March 1955 to waive certain rules of the agreement. For instance, the US regularly makes use of the provision which allows it to introduce import quotas and countervailing duties to regulate imports of agricultural products.

In answer to the criticisms of market support measures it is worth pointing out that the funds earmarked in the US Federal Budget to support agriculture under the 'Farmer Programme' amounted to \$13,000 million in 1981. Compare this with the efforts being made by the Commission, within the framework of the Mandate of 30 May 1980, to limit the growth in expenditure on European agriculture.

Approval of the principle of export refunds was a precondition for the Community's acceptance of GATT rules on support, drawn up during the Tokyo Round in 1979. The United States is currently interpreting these rules as being applicable only to occasional surpluses and not to structural overproduction.

Exports of agricultural products from the Community amounted to only half those from the United States, despite an increase in the former over the preceding years.

Lastly, it should be pointed out that the countries with whom preferential agreements have been concluded are countries with historical trade links with the Community (ACP States or which are close geographically (Mediterranean basin). Besides, such agreements are allowed under GATT rules.

IV. TRADE IN AGRICULTURAL PRODUCTS

1. Intra-Community

Intra-Community trade in agricultural products expanded very rapidly, as was to be expected, following the creation of the Common Market. Its share of total Community trade increased more rapidly than in other sectors. The growth in intra-Community trade in agricultural products has been particularly rapid during the period since 1963, when countries which formerly had to import foodstuffs have been able to expand their exports. Naturally, the green currency system under the Common Agricultural Policy has helped. Germany, for instance, has succeeded in reducing its trade deficit with other Member States to the point where its exports of agricultural products now amount to 50% of its imports.

INTRA-COMMUNITY TRADE IN AGRICULTURAL PRODUCTS AND FOODSTUFFS

Exports as a % of imports

	BLEN	DK	G	F	IRL	I	NL	UK
1958	62	838	13	184	631	183	564	14
1973	91	617	35	238	395	43	264	29
1979	81	415	51	170	251	55	228	50

As the above table shows, even the United Kingdom has managed to achieve a rapid increase in exports of agricultural products. The coverage of imports by exports increased from 29% in 1973 to 50% in 1979. This is not to say that the growth in intra-Community exports occurred at the expense of exports to the rest of the world, for in fact they increased by 12% per year over the period 1973/1979. What has happened, however, is that intra-Community imports have taken the place of imports from the rest of the world, which have dropped in volume over recent years.

The countries which have always been net exporters, namely France, Netherlands, Ireland and Denmark, still have a healthy positive balance in intra-Community trade. Yet even in these countries imports have grown somewhat faster on the whole than exports; this is due, however, to the substitution of products of Community origin for imported products.

Italy is the only country where trade appears to have developed along totally different lines. Until recently the growth in Italy's exports to the Community was very slow while imports were expanding rapidly. Italy's previous trade surplus with the Community was transformed in 1973 into a trade deficit which was almost as large as the United Kingdom's. Since 1973 there has been a noticeable increase in Italian exports to the other Member States.

2. Trade with third countries

2.1. Facts and figures

In spite of the rapid growth in intra-Community trade in agricultural products, nearly half of total imports still come from third countries, which underlines just how open the Community market is.

The value of imports of agricultural products into the EEC from third countries rose from 24,400 m ECU in 1973 to 42,200 m EUC, i.e. by 73%. The figures break down as follows:

Imports from	1973	1978	1979	1980	(in m ECU) % increase in 1980 (1973 = 100)
Industrialized countries	12,016	16,330	18,534	20,291	+ 68.9
Developing countries	10,013	17,136	18,734	18,768	+ 87.4
State-trading countries	2,174	2,651	2,874	3,152	+ 45.0

Source: EUROSTAT

While intra-Community imports of agricultural products and foodstuffs increased on average by 14.1% per year and exports by 14.3% between 1973 and 1979, imports from outside the Community rose by 8.9% per year and exports to third countries by 12.9%.

2.2. Community imports from third countries

The EEC is the world's largest importer of agricultural products and foodstuffs, accounting for 25% of the world's imports in value terms. One-fifth of the Community's total imports in value terms. One-fifth of the Community's total imports fall into this category and the Community has a large trade deficit with the rest of the world.

As the following table shows, it is the imports of products which the Community is unable to produce at all or in sufficient quantities which are the most important.

The next biggest category is animal feedstuffs. These products have had to be imported largely because of the high Community price of cereals. The net level of imports for a number of other temperate products is much lower, and the Community is a net exporter of animal products.

Net trade balance in agricultural products and foodstuffs

EUR 9 - 1979

TCIH-code		£ million
0 7	Agricultural products	3.299
0 5	Fruit and vegetables	3.104
0 8	Animal feedstuffs	1.527
0 3	Fish	800
0 1	Meat	449
00	Live animals	146
0 4	Cereals	85
0 6	Sugar	54
0 9	Others	- 284
0 2	Dairy products and eggs	-1.250
0	Total for category 0	7.861

Source: Agricultural Trade Policy, House of Lords, 2nd report

2.3 Exports from the EEC

The Community accounts for approximately one-tenth of world exports, and exports are increasing more rapidly than imports - 190% and 96% respectively for the period 1973 to 1980. This trend is due to the growing level of self-supply in a number of products and production of surpluses of others.

World trade in agricultural products (EUR 10)

Increase in value of
external trade
(1973 = 100)

Community trade with third
countries as a % of world trade

	Imports	Exports	Imports	Exports
1973	100,0	100,0		
1974	111,1	124,7	30,9	9,8
1975	107,5	123,7	27,0	9,6
1976	123,0	126,8	25,5	9,1
1977	142,3	149,5	26,9	8,8
1978	153,8	181,4	27,7	9,3
1979	183,3	222,7	27,3	10,2
1980	196,1	289,7	25,9	10,0
			24,5	11,5

Source: The agricultural situation in the Community, 1981 report

The following table gives an idea of the importance of the Community as an exporter of agricultural products:

		EEC(9) exports ¹	World exports	EEC(9) as a % of world trade
Sugar (m tonnes)	1976	1,174	15,553	7,5
	1978	3,321	17,443	19,0
	1980	4,233	19,473	21,7
Beef and veal (m tonnes)	1978	0,178	2,778 ²	6,4
	1980	0,650	2,659	24,4
Wheat and wheat flour	1976/77	3,9	61,8	6,3
	1978/79	7,5	71,2	11,0
	1980/81	13,0	93,0	14,0
Butter (1000 tonnes)	1978	277	589	47,0
	1980	560	940	63,4
Skimmed milk products (1000 tonnes)	1978	419	974	43,0
	1980	580	1058	54,8
Cheese (1000 tonnes)	1978	219	597	34,0
	1980	330	726	41,0

Source: Agricultural Trade Policy, House of Lords, 2nd report and 1981 annual report.

¹ Excluding intra-Community trade

² Total exports of the seven main exporters

3. Breakdown by product

This section describes the trade arrangements for certain important products and the relevant facts and figures, both for intra-Community trade and trade with third countries.

The main trade policy regulations in respect of agricultural products were introduced after the establishment of the difference in the respective market situations.

3.1 Dairy products

The following table shows the trend in the net usable production of cow's milk in the world and in the EEC (in 1,000 tonnes):

	World	EEC
	x 10 ⁶ ton Index (1970 = 100)	x 10 ⁶ ton Index (1970 = 100)
1970	364,5	88,9
1971	366,9	88,8
1972	376,0	92,9
1973	381,6	93,0
1974	389,3	93,2
1975	393,1	93,8
1976	400,7	95,5
1977	411,9	98,2
1978	417,6	102,4
1979	422,7	104,5
1980	426,8	106,1
1981	428,1	

The next table shows the importance of the Community as a net exporter of milk products to the world market (1978) :

	World production 1,000 tonnes	World trade 1,000 tonnes	% of world trade		
			Imported into the Community	Exported from the Community	Community net share of world trade
Full-cream milk total	455.293	138	0,7	60,1	59,4
Butter	6.924	650	18,6	48,9	30,3
Cheese	10.702	614	13,2	37,6	24,4
Milk powder (skimmed & full cream milk)	5.701	1.494	0,2	56,6	56,4

Source: The agricultural situation in the Community 1981 report

World trade in dairy products has been governed since 1 January 1980 by an international arrangement under the auspices of GATT negotiated during the Tokyo Round.

The object of this arrangement is to permit the expansion and liberalization in dairy products in the most stable conditions possible on the basis of reciprocal concessions by importing and exporting countries, and to promote the economic and social development of the developing countries.

All the major milk-producing countries, plus some of the minor ones, are party to this arrangement.

This arrangement was very important for the Community as the world's foremost milk producer, because of its surplus of milk products which must be sold on the world market.

The European Community and New Zealand together supply nearly two-thirds of the world market total and both producers have collaborated closely within the framework of the International Dairy Products Council, established under the above-mentioned arrangement, to raise the world market prices for dairy products. In this way the Community has succeeded in reducing export subsidies, while New Zealand has been able to increase its own prices.

In the short term this policy can obviously have a favourable effect on the budget and on the Community's share of the world market. What is less clear, however, is whether in the longer term a policy of high world market prices in fact encourages other countries to export or whether it leads to lower consumption. Moreover our trading partners might well react harshly if the Community appeared to be cornering an excessive share of the world market.

The importance which the Commission attaches to the growth in exports of dairy products also emerges clearly from Regulation No. 507/82 of 3 March 1982, which extends the measures introduced by Regulation No. 1993/78 to expand sales of milk products of Community origin outside the Community.

The object of this Regulation is to establish a framework to finance measures aimed at increasing the sale, consumption and use of milk and dairy products of Community origin outside the Community by means of advertising and sales promotion, with a view to expanding the Community's trade with the third countries concerned.

In the future, too, the Community will have to seek new ways of marketing some of its production on the world market since Community production is constantly increasing and consumption is stagnant.

In its report on the Mandate of 30 May 1980 the Commission indicated its desire to conclude long-term framework agreements with the major trading partners. The world market in dairy products, however, is somewhat unusual in that processed products make up a very large share of world trade. If these 'framework agreements' were to apply to exports of dairy products to third countries, the question then would be whether it is possible to reconcile the commitments undertaken in these agreements and the need to ensure competition between the various exporters.

3.2. Beef and veal

The Community produces approximately 15% of the world's total production of beef and is therefore second largest producer along with the USSR, but still remains a long way behind the United States.

Since 1978 imports of beef from third countries into the Community, for the most part under special conditions agreed bilaterally or multilaterally in the framework of GATT, have declined.

Community external trade in beef and veal (1973-1980)

Year	Imports	Exports
1973	951.258	73.358
1974	455.000	200.000
1975	253.718	237.000
1976	415.000	209.000
1977	358.209	152.000
1978	404.000	168.000
1979	399.536	338.000
1980	338.676	642.000

7*

The main suppliers were Uruguay and Argentina (around 42% of total imports and the Eastern European countries (more than 20% of the total imports), with Hungary and Poland providing nearly half the imports of live animals.

Community exports of beef and veal continued to increase in 1980, as expected, to reach a total of 642,000 tonnes. These exports went primarily to the Mediterranean countries (more than 20%), Eastern European countries and the Middle East (17%).

In 1980 the Community's share of the world market rose from around 15% to 25%. Exports in 1981 are expected to be at the same level as in 1980. In 1980 the Community became the world's second largest exporter of beef and veal.

World trade in beef and veal, main exporters 1977 to 1980

	1977 market share %	1978 market share %	1979 market share %	1980 market share %
Australia	35	35	33	28
Argentina	19	23	21	15
New Zealand	13	11	11	10
Uruguay	4	3	2	3
EEC	5	5	10	21
Total of above countries	100	100	100	100

In view of this recent trend for exports to outstrip imports on the European beef and veal market, it would appear that the only way to maintain reasonable producer prices in future is to maintain a relatively high level of exports. This would obviate the need for high levels of intervention spending. A further factor to be considered is the strong protests lodged by Australia, Argentina and the United States in GATT against dumping by the Community.

Lastly, it is worth pointing out that trade policy in beef and veal is governed by rules which are based on an

ad valorem customs duty and a supplementary levy which brings the offer price up to the Community's target price. A reduction of 90% is granted on this supplementary variable levy in the case of imports of 30,000 tons of beef and veal from Botswana, Kenya, Madagascar and Swaziland so as to enable these countries to maintain their position on traditional markets, particularly the United Kingdom.

3.3. Cereals and cereal substitutes

Cereals, which are among the most traded products on the world market, account for about $\frac{1}{4}$ of all trade in agricultural products.

In 1980, 1,170 million tonnes of cereals (excluding rice) were produced in the world. The Community's contribution amounted to 10.6%, the shares of other important cereal exporting countries were respectively 23% (United States), 38 (Canada), 1% (Australia) and 2% (Argentina).

In 1979/80 the Community imported approximately 18 million tonnes, made up of 11.4 million tonnes of maize (more than 85% of which came from the United States) 2.8 million tonnes of common wheat (of which more than 90% came from North America), and around 1 million tonnes of barley (of which 80% came from Canada and 18% from Australia). These figures confirm the downward trend in imports which has become apparent in recent years.

The Community's total exports of cereals and cereal products amounted in 1979/80 to 17.4 million tonnes, of which 10.8 million tonnes were in the form of common wheat and flour. In 1980/81 exports of common wheat and flour rose to around 14 million tonnes. These figures include not only the traditional customers such as West and North Africa, but also various European countries including Poland, and also China and Iran.

The following table shows the trend in exports of the principal types of cereal:

	1975	1977	1979	1980
Wheat	7.854	4.824	8.990	11.404
Barley	2.567	2.067	4.971	13.810

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PE 81.009/fin.

The Community has become one of the major exporters on the world market in recent years, as its share has increased from 5.1% in 1976 to 11.9% in 1980.

Because of the Community's growing importance as an exporter on the world's cereals market, measures are necessary to safeguard this position if the Community does not wish to lose its place on the world market to other grain-producing countries. A large proportion of the cereals trade falls under the international agreements such as GATT, the International Wheat Convention, the Convention of Lomé and certain arrangements made when the United Kingdom joined the Community.

It was agreed in the Dillon Round of GATT talks in 1960 that the Community was free to protect its own market against imports of cereal products by means of fixed or ad valorem customs duties. It was also agreed that other products, such as oil seeds and more particularly soya and manioc, as well as various by-products such as maize gluten feed, should be imported into the Community at a zero tariff or with a very low levy.

The necessary growth in exports of cereals from the Community is due among other things to the sharp increase in imports of cereal substitutes, resulting in a steady decrease in the quantity of home-produced cereals used for animal feed.

As a result of the common price policy the Community has become an importer of the 'industrial by-products of agriculture' as is shown in the following table:

Quantities of imported cereal substitutes

	1974	1977	1980	1981 1 Jan.- 30 Sept.:
Manioc	2.073	3.801	4.366	4.726
Sweet potatoes	177	9	324	59
Molasses	799 (1)	1.324 (1)	1.353	1.273
Grape pulp	13	17	38	46
Citrus pulp	327	968	1.571	999
Other fruit waste	21	164	156	64
Maize gluten feed	700	1.486	2.596	1.876
Maize and rice bran	233	295	235	209
bran and sharps	976	1.207	1.712	465
Cereal for brewing and distilling	64	116	290	232
Maize seed cake		709	822	730
Miscellaneous cake		103	203	-

¹ Actual total imports are twice this figure, but only 50% is used as animal feed

Import arrangements for cereal substitutes

Products	Consolidated in GATT	Tariff or levy
Manioc	yes	6
Sweet potatoes	yes	3
Molasses	yes	import levy based on sugar content
Grape pulp	yes	0
Citrus pulp	yes	0
Miscellaneous fruit waste	yes	0
Maize gluten feed	yes	0
Bran and sharps	no	levy of 24% on feed cereals
Cereals for brewing and distilling	yes	0
Maize seed cake	yes	0

The Commission has since submitted a proposal to the Council aimed at achieving a better balance in the cereals sector. It proposes a temporary amendment to the import arrangements for certain products intended as animal feeding stuffs. Its particular aim is to stabilize imports of manioc and maize gluten feed after consultation with the principal suppliers and in accordance with the Community's international commitments. It should be borne in mind, however, that the voluntary restraint by certain suppliers for agricultural crops such as manioc cannot be applied to by-products of the food industry since there is still a very wide scope for new products which are as yet unknown or not yet marketed and which may quite easily replace other products and lead to a reduction in imports.

Relations with our main trading partners in the field of cereals and cereal products have been deteriorating for some time. Whereas a few years ago bilateral talks were usually sufficient to solve a particular problem, the United States have now stated quite firmly that the problem of corn gluten feed, for instance, is non-negotiable. On the other hand, the Commission has concluded a voluntary restraint agreement with Thailand for manioc imports.

There are numerous other examples, such as the complaint lodged by Argentina in GATT, which make it clear that our trading partners are not inclined to let the Community expand further its share of the world cereals market.

3.4 Oils and fats

The oils and fats sector has the lowest degree of self-supply in the Community. Consequently, a large proportion of the oils and fats needed for consumption have to be imported as the following table shows.

Degree of self-supply in colza, rape seed and sunflower seed

	1000 t			% TAV	
	1978/79	1979/80	1980/81	1979/80 1973/74	1980/81 1979/80
<u>Colza and rape seed</u>					
Seed:					
Production	1.231	1.205	1.994	2,2	65,5
Imports	419	664	155(1)		
Exports	3	8	20(1)		
Quantities available	1.647	1.861	2.129	4,9	14,4
Oil:					
Production in the Community					
- from Community-grown seed	479	467	770		
- from imported seed	163	259	60	4,0	14,3
Total production	642	726	830		
Imports	32	12	11(1)		
Exports	180	179	111(1)		
Quantities available	494	559	730	3,4	30,6
Pressed cake:					
Community production	922	1.042	1.192	5,7	14,4
Imports	240	268	113(1)		
Exports	22	8	0(1)		
Quantities available	1.140	1.302	1.305	8,0	0,2
<u>Sunflower seed</u>					
Seed:					
Production	123	222	305	12,3	37,4
Imports	997	1.261	640(1)		
Exports	1	2	1(1)		
Quantities available	1.119	1.481	944	29,5	- 36,3
Oil:					
Production in the Community					
- from Community grown seed	46	84	116		
- from imported seed	379	479	243		
Total production	425	563	359	29,4	- 36,2
Imports	85	44	13(1)		
Exports	10	31	13(1)		
Quantities available	500	576	359	7,5	- 37,7
Pressed cake:					
Community production	481	637	406	29,7	- 36,3
Imports	440	466	266(1)		
Exports	0	0	2(1)		
Quantities available	921	1.103	670	21,1	- 39,3

Source: The agricultural situation in the Community, 1981 Report

1

Only July-December 1980

For a number of years the Community has been subsidizing the production of colza and sunflower seed, which lend themselves to production in Europe. This has made it possible to use Community-grown seed to cover some of the Community's demand for oil cakes, which until recently has always been covered by imports. This policy has led to a dramatic increase in Community production of these seeds over the last two years. The cost to the budget, however, is very high when one considers that the Community's degree of self-supply has only increased from 4% to 6%.

Production of these seeds is closely connected with the Community's protein supply. Because of the growth in rape seed production, the Community has to export the large quantities of oil which are produced when rape seed is ground to make flour. At the moment, however, there is a serious oil surplus on the world market and a number of important competitors are extremely active in the export field; consequently, scope for expanding exports of this oil remains limited.

There are better prospects, however, for the expansion of sunflower seed production, because there is more room on the market for sunflower oil than for rape seed oil. In fact, sunflower seed production in the Community rose from 156,000 tonnes in 1975 to around 450,000 tonnes in 1981.

The Community's production of linseed is around 60,000 tonnes per year. The importance of linseed for oil production, however, is declining in the Community.

Another possible way of reducing our dependence on imports is to expand soya production. Although some attempts have been made to expand soya production, results have so far been disappointing. The Community's biggest crop was 25,000 tonnes in 1979, practically all of which came from southern France.

Soya oil is a major competitor on the European oils and fats market. The Community accounts for 45.5% of world trade in soya, with more than 10 million tonnes per year. The bulk of this is imported from the United States. In recent years, however, it has been possible to diversify the sources of supply since Brazil and Argentina have significantly increased their soya production.

Importing these vast quantities of soya has caused serious problems on the European market, where this product is much cheaper than other oil-bearing products. The cutbacks of soya imports, which has already led to a strong protest from the United States, should mean more scope for marketing home-produced oil.

Since the accession of Greece, the Community's degree of self supply in olive oil has increased to 95%. The EEC now accounts for approximately 47% of world production, but still has to import considerable quantities of olive oil. as the following table shows:

Imports of olive oil in EEC

Origin	1000 ton			% TAV	% TAV
	1977/78 88	1978/79	1979/80	1978/79 1973/74	1979/80 1978/79
Third countries	90.556	140.864	155.973	- 28,1	10,7
Spain	19.785	20.287	44.143	- 68,3	117,6
Greece	17.417	49.758	15.859	211,8	68,1
Portugal	84	85	77	-	- 9,4
Turkey	8.609	8.350	7.672	- 21,8	- 8,1
Tunisia	35.815	60.234	71.831	- 12,7	19,3
Morocco	4.437	1.883	14.815	- 91,8	686,8
Others	4.409	267	1.576	- 98,2	490,3

Source: The agricultural situation in the Community, 1981 report

The fact that the production costs of olive oil are much higher than for other oils and that, consequently, its price is up to 2½ times higher, gives rise to serious problems on the olive oil market. It is a product which is very important, however, for Italy, Greece and to a lesser extent France.

The high price has made olive oil very difficult to market and has led to a number of measures, including production subsidies to support producers and consumption incentives.

If the price of the olive oil imported into the Community is lower than the threshold price, which is derived from the market intervention price laid down for the Community, a levy can be introduced. Special arrangements apply to imports from Spain, Morocco, Tunisia, Algeria, Turkey and Lebanon. Refunds may be granted on exports and export levies can be introduced if the world market price is high.

Colza, rape-seed and sunflower seed can be imported into the Community without payment of levies or customs duties. There is no levy on imports of seed oils and there is a zero tariff for imports of seed cakes. There is a 10% ad valorem customs duty on unrefined vegetable oils, 15% on refined oils and 25% on margarine.

A zero tariff is applied under the Common Customs Tariff to imports of soya beans and linseed.

3.5 Fruit and vegetables

The balance of supply for fruit and vegetables is shown in the following table:

Balance of supply for fruit and vegetables EEC-10

	1000 ton			% TAV	
	77/78	78/79	79/70	78/79 72/73	79/80 78/79
<u>Fresh fruit</u>					
(excluding citrus)					
Production	12.641	15.208	15.684	0,8	3,1
Imports	4.058	4.108	4.157	4,6	-
Exports	518	595	579		- 2,7
Consumption	16.351	18.827	n.b.	0,6	
Degree of self-supply %	77	81	n.b.	0,3	
<u>Citrus fruits</u>					
Production	3.569	3.359	3.486	4,0	3,7
Imports	4.076	4.015	n.b.	1,1	
Exports	112	257	n.b.	- 1,2	
Consumption	7.217	6.830	7.273	1,1	6,5
Degree of self-supply %	50	49	48	2,9	- 2,6
<u>Fresh vegetables</u>					
Production	30.725	31.840	32.699	2,0	3,9
Imports	3.169	3.017	n.b.	4,6	
Exports	844	1.212	n.b.	14,1	
Consumption	32.853	33.054	n.b.	0,6	
Degree of self-supply %	94	95	n.b.	0,1	

Source : The agricultural situation in the Community, 1981 Report.

Approximately 470,000 tonnes of the Community's total imports of fruit and vegetables came from the ACP States, 2,600,000 tonnes from the Mediterranean countries, 145,000 tonnes from state-trading countries and 3,000 tonnes from other developing countries.

As the table shows, the Community's rate of self-supply for citrus fruits is only around 50%; this is primarily due to the fact that many citrus fruits cannot be grown in the Community.

The seasonal nature of fruit and vegetable production makes it necessary to import fruit and vegetables at certain times so as to provide the consumer with a supply of fresh products. The accession of Greece, and the forthcoming enlargement of the Community to include Spain and Portugal, will lengthen the growing season for a number of products and will mean increased competition in many cases on the internal market between products grown in these new Member States and products which have traditionally been imported.

Imports of fruit and vegetables into the Community are covered by the Common Customs Tariff plus, in some cases, the imposition of a compensatory levy. Furthermore, where there is a disturbance of the market certain safeguards can be put into operation. Refunds may be granted on exports and can be fixed in advance.

The Common Customs Tariff is applicable to trade in products processed from fruit and vegetables; levies can also be applied based on the amount of sugar added to the products. Here too, safeguard measures may be taken where there is a disruption of the market. Export refunds on these products are determined according to the amount of sugar added in processing.

In conclusion, it should be pointed out that imports of fruit and vegetables have remained relatively stable over the past few years, while exports have increased slightly. Imports of processed fruit and vegetables have declined to some extent over the last year, while exports, particularly of tomato concentrate, have increased.

V. CONCLUSIONS

The Committee on Agriculture requests the Committee on External Economic Relations as the committee responsible to incorporate the following points in its report:

1. The European Parliament's resolution on the reform of the agricultural policy (PLUMB report, Doc. 1-250/81), in particular the section on trade policy, constitutes a sound guideline for the development of external trade in agricultural products.
2. The European Community's policy for external trade in agricultural products must ensure that the industry which processes agricultural products into industrial finished products can obtain these raw materials at the same price in all the Community Member States.
3. In view of the one-sided interpretation of GATT rules by the United States (e.g. in the case of steel), the European Community should adhere strictly to its commitments under GATT.
4. As far as cereal substitutes are concerned, the European Community should immediately enter into talks with the USA in the framework of GATT on the stabilization of imports of corn gluten feed, as proposed by the Commission (COM(82) 175 final).
5. The European Community should continue to pursue and, where possible extend its policy of preference agreements.
6. Wherever possible, the tendering procedure should be used for the granting of export refunds.
7. The European Community should endeavour to hold regular consultations with the other exporters of agricultural products on the development and control of individual agricultural markets. The Interparliamentary Delegations of the European

Parliament should also address themselves to the problems of agricultural trade.

8. Changing the price structure within the European Community and stabilizing the volume of domestic production must continue to be among the principal aims of the Common Agricultural Policy.
9. The European Community should support product-oriented international agreements. It should become party to the International Sugar Agreement, as advocated by the European Parliament.
10. There is no point in restricting imports unless the European Community is able to produce the relevant products itself in sufficient quantity and of sufficient quality.

Community trade in agricultural products and foodstuffs
by economic zone (EUR 10)

	IMPORTS (m EUA)				EXPORTS (m EUA)			
	1978	1979	1980	% tav $\frac{1980}{1979}$	1978	1979	1980	% tav $\frac{1980}{1978}$
Intra- Community	31.183	34.547	37.034	18,8	31.045	34.973	36.961	19,0
With third countries								
- total	36.367	40.447	42.497	16,8	13.617	15.550	19.862	45,9
- applicant countries	1.590	1.827	2.048	28,8	424	598	643	51,6
- industrialized countries	16.240	18.432	20.212	24,4	6.374	7.123	7.772	21,9
- developing countries	17.391	19.045	19.041	9,5	6.076	6.871	9.435	55,3
- state-trading countries	2.736	2.970	3.244	18,6	1.167	1.556	2.655	27,5

Source: The agricultural situation in the Community, 1981 report

CEREALS

	Production				Consumption				Degree of self-supply			
	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100
Deutschland	19.637	18.560	23.087	117,6	24.876	25.148	25.453	102,3	78,0	73,6	90,7	114,9
France	40.491	32.691	47.973	118,5	24.061	23.709	26.809	111,4	168,3	137,5	178,9	106,3
Italia	14.855	15.486	17.043	114,7	22.127	22.259	23.316	105,4	67,1	69,6	73,1	108,9
Nederland	1.321	1.142	1.276	96,6	4.754	4.346	4.677	98,4	27,8	26,3	27,3	98,2
Belgique/België	2.105	1.841	2.015	95,7	4.885	4.545	4.197	85,9	43,1	40,5	48,0	111,4
Luxemburg												
United Kingdom	15.339	13.114	17.220	112,3	23.608	22.078	21.454	90,9	65,0	59,4	80,3	123,5
Ireland	1.431	1.252	1.788	124,9	2.195	1.961	2.177	99,2	65,2	63,9	82,1	125,9
			(1)				(1)	(1)			(1)	(1)
Danmark	7.067	5.902	7.070	100,0	7.264	5.704	7.106	97,8	97,3	103,5	99,5	102,3
EUR 9	102.246	89.988	113.697	111,2	113.770	109.750	115.688	101,7	89,9	82,0	98,3	109,3
			(1)	(1)			(1)	(1)			(1)	(1)
Elbas	3.354	3.945	5.213	155,4	3.750	4.223	4.211	112,3	89,4	93,4	123,8	138,5
EUR 10	105.600	93.933	117.766	111,5	117.520	113.973	120.364	102,4	89,9	82,4	97,8	108,8
			(1)	(1)			(1)	(1)			(1)	(1)

(1) 1980

-: no data available

Source: CHRONOS

COMMUNITY IMPORTS OF CEREALS

(1000 t)

COMMUNITY EXPORTS OF CEREALS

(1000 t)

	Imports								Exports							
	Total				Intra-Community				Total				Intra-Community			
	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100
Deutschland	7.728	9.077	5.885	76,15	3.393	2.952	3.189	94,0	3.052	2.672	3.399	111,4	676	1.327	884	130,8
France	863	1.893	1.744	202,1	206	225	413	200,5	17.068	10.782	22.620	132,5	9.506	7.499	19.711	102,1
Italia	7.657	8.203	7.310	95,46	592	1.341	2.618	442,2	1.003	898	1.804	179,9	163	265	271	166,2
Nederland	5.877	7.667	5.171	87,98	2.411	1.385	3.047	126,4	2.451	4.612	1.753	71,5	1.894	4.175	1.203	63,5
Belgique/België	4.349	5.714	6.505	100,60	3.483	1.809	3.599	103,3	3.483	3.071	4.355	125,0	1.638	2.597	2.643	161,3
Luxemburg																
United Kingdom	8.935	9.319	6.205	69,4	976	4.744	1.675	171,6	404	718	2.320	574,2	238	367	1.128	473,9
Ireland	803	835	597	72,1	230	431	492	213,9	84	147	232	276,2	83	108	205	247,0
			(1)	(1)			(1)	(1)			(1)	(1)				
Danmark	618	702	503	81,4	454	62	325	71,6	435	624	690	158,6	254	579	274	107,9
EUR 9	25.085	30.461	18.590	74,1	11.745	12.949	15.692	133,6	14.390	10.875	18.856	131,0	-	-	-	-
			(1)	(1)			(1)	(1)			(1)	(1)				
Ellas	404	494	421	104,2	-	-	-	-	8	216	980	122,5	-	-	-	-

(1) = 1980

-: no data available

Source: CHRONOS

VEGETABLE OILS AND FATS (1000 t)

	Production												A B/A 1980
	A Total				B From home-produced raw materials				C From imported raw materials				
	1973	1977	1980	Index 1973- 100	1973	1977	1980	Index 1973- 100	1973	1977	1980	Index 1973- 100	
Deutschland	933	1.242	1.457	156,2	74	82	112	151,3	859	1.160	1.345	156,6	7,7
France	546	539	626	114,6	251	241	274	109,2	295	298	352	119,3	43,8
Italia	802	668	974	121,4	438	394	573	130,8	364	274	401	110,2	58,8
Nederland	444	425	625	140,8	11	13	5	45,4	433	412	640	147,8	0,8
Belgique/België	-	173	213	-	-	1	2	-	-	172	211	-	0,9
Luxembourg	-	-	-	-	-	-	-	-	-	-	-	-	-
United Kingdom	-	373	443	-	-	21	73	-	-	352	370	-	16,5
Ireland	7	10	5	71,4	0	0	0	0	7	10	5	71,4	0,0
Denmark	89 (1)	106	96	107,9 (1)	5 (1)	7	7	140,0 (1)	84 (1)	99	89	105,9 (1)	7,3
EUR 9	3.489 (1)	3.536	4.459	127,8	1.189	859	1.163	97,8	2.331	2.677	3.296	141,4	26,1
Elles	-	-	-	-	-	-	-	-	-	-	-	-	-

	Consumption				Degree of self-supply			
	1973	1977	1981	Index 1973- 100	1973	1977	1981	Index 1973- 100
Deutschland	1.122	1.114	1.214	108,2	6,6	7,4	9,2	139,4
France	858	916	933	108,7	29,3	26,3	29,4	100,3
Italia	1.301	1.245	1.337	102,8	13,7	11,6	42,9	127,3
Nederland	354	433	451	127,4	3,1	3,0	1,1	35,5
Belgique/België	-	201	252	-	-	0,5	0,8	-
Luxembourg	-	-	-	-	-	-	-	-
United Kingdom	-	993	854	-	-	2,1	9,5	-
Ireland	26	39	44	169,2	0,0	0,0	0,0	0,0
Denmark	61 (1)	102	99	162,3 (1)	8,2 (1)	6,9	7,1	86,6
EUR 9	4.728 (1)	5.041	5.184	109,6 (1)	24,5	17,0	22,4	91,4
Elles	-	-	-	-	-	-	-	-

(1) - 1974

-: no data available

Source: CHRONOS

VEGETABLE OILS AND FATS (1000 t)

	Imports								Exports							
	Total				Intra-Community				Total				Intra-Community			
	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100
Deutschland	625	574	685	109,6	157	159	255	162,4	426	724	888	208,4	252	370	423	167,6
France	557	696	728	130,7	206	300	381	184,9	270	319	464	171,8	135	156	200	148,1
Italia	426	411	580	136,1	142	191	241	169,7	46	42	90	195,6	28	23	37	132,1
Nederland	401	460	524	130,7	120	172	149	124,2	502	465	709	141,2	374	336	458	122,4
Belgique/België	-	223	279	-	-	163	186	-	-	195	238	-	-	162	220	-
Luxembourg	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United Kingdom	-	665	478	-	-	86	122	-	-	42	63	-	-	20	51	-
Ireland	26	32	42	161,5	5	17	29	580,0	3	3	3	100	3	3	2	66,7
Danmark	9	23	39	433,3	3	4	14	466,7	37	27	36	97,3	8	3	11	137,5
	(1)			(1)	(1)			(1)	(1)			(1)	(1)			
EUR 9	1.854	1.992	1.978	106,7	933	1.092	1.377	147,6	614	725	1.073	174,7	-	-	-	-
	(1)				(1)				(1)							
Ellas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(1) : 1974

-: no data available

Source: CHRONOS

	Production												B B/A 1980
	A Total				B From home-produced raw materials				C From imported raw materials				
	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	
Deutschland	2.500	3.407	4.133	165,3	99	123	172	173,7	2.401	3.284	3.961	165,0	4,2
France	930	979	1.336	143,6	327	306	390	119,3	603	673	946	156,9	29,2
Italia	1.218	1.327	1.681	138,0	293	297	195	66,5	925	1.030	1.486	160,6	11,6
Nederland	1.299	1.260	2.546	196,0	15	20	8	53,3	1.284	1.240	2.538	197,7	0,3
Belgique/België Luxembourg	373	710	878	235,4	6	1	4	66,7	367	709	874	238,1	0,4
United Kingdom	737	1.064	1.247	169,2	8	66	114	1.425,0	729	998	11.133	155,4	9,1
Ireland	6	6	4	66,7	0	0	0	~	6	6	4	66,7	0
Danmark	422	325	376	89,1	5	8	5	100,0	417	317	371	89,0	1,3
EUR 9	7.485	9.078	12.201	163,0	936	953	1.066	113,9	6.549	8.125	11.135	170,0	8,7
Ellas	-	-	-	-	-	-	-	-	-	-	-	-	-

	Consumption				Degree of self-supply			
	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100
Deutschland	4.345	5.624	7.268	167,3	2,3	2,2	2,4	104,3
France	2.544	3.071	4.360	171,4	12,9	10,0	8,9	69,0
Italia	1.765	2.196	3.147	178,3	16,6	13,5	6,2	37,3
Nederland	2.576	2.231	2.829	109,8	0,6	0,9	0,3	50,0
Belgique/België Luxembourg	1.023	1.239	1.376	134,5	0,6	0,1	0,3	50,0
United Kingdom	1.455	1.641	2.189	150,4	0,5	4,0	5,2	1040,0
Ireland	141	276	420	297,9	0,0	0,0	0,0	~
Danmark	1.077	1.731	2.073	192,5	0,6	0,2	0,2	33,3
EUR 9	15.000	17.799	23.662	157,7	6,2	5,4	4,5	72,6
Ellas	-	-	-	-	-	-	-	-

PRESSED CAKE (1000 t)

	Imports															
	Total				Intra-Community				Total				Intra-Community			
	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100
Deutschland	3.107	3.069	4.507	145,1	380	268	604	158,9	1.263	844	1.359	107,6	227	394	623	274,4
France	1.779	2.275	3.276	184,1	315	494	742	235,5	165	157	243	147,3	143	139	231	161,5
Italia	625	909	1.511	241,8	4	2	7	175,0	78	40	45	57,7	43	23	13	30,2
Nederland	2.028	1.669	2.056	101,4	219	219	191	87,2	756	696	1.769	234,0	660	681	1.555	235,6
Belgique/België	971	948	1.043	107,4	466	354	493	105,8	321	417	540	168,2	305	480	480	157,4
Luxembourg																
United Kingdom	783	699	1.012	129,2	87	183	302	347,1	59	115	58	98,3	54	114	57	105,5
Ireland	123	222	417	339,0	9	31	50	555,5	3	3	2	66,7	3	3	2	66,7
Danmark	851	1.325	1.836	215,7	0	365	488	~	121	76	61	50,4	0	30	19	~
EUR 9	8.787	9.200	12.781	145,4	1.480	1.916	2.877	194,4	1.286	432	1.200	93,3	-	-	-	-
Ellas																

-: no data available

Source: CHRONOS

VEGETABLES (1000 t)

ANNEX

	Production				Consumption				Degree of self-supply			
	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100
Deutschland	1.743	1.451	1.489	85,4	4.486	4.674	4.335	96,6	38,9	31,0	34,3	88,2
France	6.324	5.912	6.858	108,4	6.562	6.305	7.025	107,1	96,4	93,8	97,6	101,2
Italia	10.601	11.005	13.403	126,4	9.596	9.538	11.637	121,7	110,8	115,4	115,2	104,0
Nederland	2.145	2.193	2.409	112,3	1.167	1.084	1.210	103,7	183,8	202,3	199,1	108,3
Belgique/België Luxembourg	1.077	915	936	86,9	889	856	865	97,3	121,1	106,9	108,2	89,3
United Kingdom	2.961	2.565	3.287	111,0	3.934	3.722	4.455	113,2	75,3	68,9	73,8	98,0
			(1)	(1)			(1)	(1)			(1)	(1)
Ireland	254	296	287	113,0	216	275	340	157,4	117,6	107,6	84,4	71,8
Danmark	199	173	191	96,0	239	254	291	121,7	83,3	68,1	65,6	78,7
EUR 9	25.304	24.510	28.921	114,3	27.062	26.708	30.166	111,5	93,5	91,8	95,9	102,6
			(1)	(1)			(1)	(1)			(1)	(1)
Ell-s	2.607	2.842	3.622	138,9	2.489	2.650	-	-	104,7	107,2	-	-
			(1)	(1)								
EUR 10	27.911	27.352	32.543	116,6	29.551	29.358	-	-	94,5	93,2	-	-

FRUIT (1000 t)

Deutschland	2.216	2.573	3.051	137,7	5.489	5.678	5.437	99,0	40,4	45,3	56,1	138,9
France	3.220	3.250	3.246	100,8	3.345	3.538	3.357	100,3	96,3	91,9	96,7	100,4
Italia	6.243	6.583	6.530	104,6	4.916	4.861	5.142	104,6	127,0	135,4	127,0	100,0
Nederland	598	575	630	105,3	946	1.137	1.309	138,4	63,2	50,6	48,1	76,1
Belgique/België Luxembourg	385	376	456	118,4	643	663	726	112,9	59,9	56,7	62,8	104,8
United Kingdom	578	513	575	99,5	1.807	1.780	1.822	100,8	32,0	28,8	31,6	98,7
			(1)	(1)			(1)	(1)			(1)	(1)
Ireland	22	25	22	100,0	98	92	118	120,4	22,4	27,2	18,6	83,0
Danmark	119	91	81	68,1	213	195	186	87,3	55,9	46,7	43,5	77,8
EUR 9	13.381	13.986	14.397	107,6	17.457	17.944	13.185	104,2	76,7	77,9	79,2	103,2
Ell-s	1.092	1.371	1.283	117,5	732	777	774	105,7	149,2	176,4	165,8	111,1
			(1)	(1)								
EUR 10	14.473	15.357	15.214	105,1	18.189	18.721	13.833	103,5	79,6	82,0	80,8	101,5
			(1)	(1)				(1)			(1)	(1)

(1) = 1980

-: no data available

Source: CHRONOS

COMMUNITY IMPORTS OF FRESH FRUIT (1000 t)

COMMUNITY EXPORTS OF FRESH FRUIT

	Imports								Exports							
	Total				Intra-Community				Total				Intra-Community			
	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100	1973	1977	1981	Index 1973 = 100
Deutschland	3.399	3.337	3.006	88,4	1.807	1.879	1.589	87,9	129	245	607	470,5	94	212	546	580,8
France	901	1.055	1.147	127,3	153	242	349	228,1	776	767	1.036	131,5	687	652	828	120,5
Italia	494	395	489	99,0	34	7	76	223,5	1.821	2.117	1.877	103,1	1.377	1.746	1.581	114,8
Nederland	589	874	1.115	189,3	306	489	722	235,9	256	312	436	170,3	230	282	391	170,0
Belgique/België	386	435	475	123,1	-	241	272	-	128	148	205	160,2	-	140	179	-
Luxemburg																
United Kingdom	1.266	1.342	1.322 (1)	104,4	296	438	532 (1)	179,7	37	75	67 (1)	181,1 (1)	28	47	52 (1)	185,7 (1)
Ireland	86	81	120	139,5	24	31	60	250,0	10	14	24	240,0	9	13	24	266,6
Danmark	109	132	130	119,3	-	52	69	-	15	28	25	166,7	-	8	5	-
EUR 9	-	4.272	4.157 (1)	-	-	3.379	3.676 (1)	-	-	327	387	-	-	-	-	-
Ellas	4	2	-	-	-	-	-	-	321	596	-	-	-	-	-	-

(1) = 1980

- : no data available

Source: CHRONOS

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	COMMUNITY IMPORTS OF VEGETABLES (1000 t)								COMMUNITY EXPORTS OF VEGETABLES (1000 t)							
	Imports								Exports							
	Total				Intra-Community				Total				Intra-Community			
	1973	1977	1981	Index 1973=100	1973	1977	1981	Index 1973=100	1973	1977	1981	Index 1973=100	1973	1977	1981	Index 1973=100
Deutschland	2.800	3.345	2.982	106,5	2.037	2.426	2.177	106,9	57	122	136	238,6	39	90	97	248,7
France	885	1.303	1.027	116,0	377	685	526	139,5	647	910	860	132,9	561	780	757	134,9
Italia	261	230	200	76,3	50	40	113	226,0	1.293	1.697	1.966	152,0	817	1.143	1.240	151,8
Nederland	400	465	567	141,7	209	207	272	130,1	1.378	1.572	1.766	128,1	1.220	1.363	1.603	131,4
Belgique/België	270	411	430	159,2	226	357	389	172,1	458	470	501	109,4	431	444	478	110,9
Luxemburg																
United Kingdom	1.022	1.269	1.807 (1)	176,8 (1)	416	500	624 (1)	150,0 (1)	49	112	639	1.304,1	19	66	531	2.794,7
Ireland	32	51	70	218,7	13	19	54	415,4	70	72	17	24,3	30	67	16	53,3
Danmark	59	102	130	220,3	14	42	73	521,4	19	21	30	152,9	7	5	46	228,6
EUR 9	2.387	2.897	3.097 (1)	129,7 (1)	3.342	4.277	4.723 (1)	141,3 (1)	629	699	1.852	294,4	-	-	-	-
Ellas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(1) = 1980

- : no data available

Source: CHRONOS

COMMUNITY IMPORTS OF
WHOLE MILK (AS RAW MATERIAL) (1000 t)

COMMUNITY EXPORTS OF
WHOLE MILK (AS RAW MATERIAL) (1000 t)

	I m p o r t s								E x p o r t s							
	Total				Intra-Community				Total				Intra-Community			
	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100	1973	1977	1980	Index 1973 = 100
Deutschland	65	46	93	143,1	65	0	81	124,6	238	619	751	315,5	238	619	730	306,7
France	6	7	13	216,7	6	7	13	216,7	203	186	231	113,8	105	162	231	220,0
Italia	315	758	838	266,0	315	758	838	266,0	0	0	1	~	0	0	1	~
Nederland	1	0	0	0	1	0	0	0	12	0	0	0	12	0	0	0
Belgique/België	0	4	0	0	0	4	0	0	0	6	6	~	0	6	6	~
Luxemburg	0	4	0	0	0	4	0	0	0	6	6	~	0	6	6	~
United Kingdom	42	0	10	23,8	42	0	10	23,8	0	0	0	0	0	0	0	0
Ireland	0	2	1	~	0	2	1	~	0	2	11	~	0	2	11	~
Danmark	0	0	0	0	0	0	0	0	26	5	25	96,1	26	5	25	96,1
EUR 9	0	48	-	-	429	771	-	-	50	47	25	50,0	-	-	-	-
Elias																

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PE 81.009/fin.

-: no data available
Source: CHRONOS

ANNEX

LIST OF MOTIONS FOR RESOLUTIONS

1. Motion for a resolution tabled by Mr Clinton and others pursuant to Rule 47 of the Rules of Procedure on Community exports of beef and veal (Doc. 1-618/81);
2. Motion for a resolution tabled by Mr F. Cluskey pursuant to Rule 47 of the Rules of Procedure on the threat to employment in the meat industry caused by Community policy on live cattle exports (Doc. 1-644/81);
3. Motion for a resolution tabled by Mr Almirante and others pursuant to Rule 47 of the Rules of Procedure on American restrictions on meat imports (Doc. 1-18/82).

O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Committee on Development and Cooperation

Draftsman: Mr VITALE

On 21 October the Committee on Development and Cooperation appointed Mr VITALE draftsman.

At its meetings of 24 November and 1 December 1982 the committee considered the draft opinion. On 19 January 1983 it adopted the conclusions by a majority.

The following took part in the vote: Mr Poniatowski, chairman; Mr Vitale, draftsman; Mr Bersani, Mr Denis, Mrs Focke, Mr Fellermaier, Mr Enright, Mrs Dury, Mr Cohen, Mr Filippi (deputizing for Mr Luster), Mr Narducci, Mrs Rabbethge, Mr Vankerkhoven, Mr Lezzi, Mrs Herklotz (deputizing for Mr Kühn), Mr Ferrero, Mr Papantoniou (deputizing for Mr Fuchs), Mr Irmer, Mr de Courcy Ling, Mr C. Jackson, Mrs Cassanmagnago Cerretti, Mr Lomas (deputizing for Mr Loo) and Mrs Carettoni Romagnoli (deputizing for Mr Vergès).

OPINION OF THE COMMITTEE

1. The common agricultural policy must be adapted to the new conditions under which it has to operate, taking account on the one hand of the likely trend in world demand and on the other of the development of agriculture in the developing countries.
2. This adjustment will basically involve the gradual reabsorption of the CAP's structural surpluses. This would make it possible to reduce Community demand for raw materials for feedingstuffs on the world markets, which would help a number of developing countries to achieve a better balance between the expansion of food crops and those produced for export.
3. At the same time the Community will have to implement a more open policy on its internal market for products such as sugar, some fruit and vegetables, tobacco, processed products etc. The associated countries and those with which the Community has concluded preferential agreements should be properly consulted and in good time on the negotiations concerning the accession of Spain and Portugal.
4. As soon as the price level of agricultural products in the Community approaches the world market price level, it is important that the Community should provide itself with new instruments in the trade policy field, such as a policy of export credits and long-term contracts. This policy should gradually replace the existing system of export refunds.
5. The overall aim should be to stabilize prices of the main agricultural products on the world markets. To this end the Community should play a more active and more positive role in all international negotiations.
6. This basic strategy will require a specific approach on individual products:
 - (a) in the case of cereals destined for human consumption, the aim must be to influence production costs to bring about the gradual alignment of internal prices with world prices;

- (b) the rate of self-sufficiency in feed grains within the Community should be increased by the adoption of appropriate measures within the framework of the agricultural prices policy;
- (c) while the imposition of a blanket levy on the entire sector of protein-oilseed products is considered inappropriate, a more detailed study of this question should be made, particularly of the possible effects of the introduction of an import duty on soya beans;
- (d) urgent consideration will have to be given to ways of reducing surpluses of milk and milk products.

7. In the case of sugar, the Committee on Development calls for:

- (a) implementation of the sugar agreement and fixing of the price of ACP sugar in accordance with the provisions of that agreement;
- (b) stricter control over the entry of isoglucose as an artificial sweetener;
- (c) introduction of a ceiling on Community sugar production and reconsideration of quotas within the EEC;
- (d) a more active policy on aid for economic diversification in those countries and areas characterized by the single crop production of cane sugar;
- (e) ratification by the Community of the ISA.

EXPLANATORY STATEMENT

In analyzing the impact of the CAP on the development of the agricultural economies of the developing countries, we must attempt to answer two questions which must be kept distinct. The first, which concerns trade policy in this sector, is: Whether and to what extent the CAP helps the Community to fulfil its obligations under Article 110 of the Treaty of Rome as regards contributing to the development of world trade; in other words, what grounds are there for the accusations of 'protectionism' levelled in many quarters (beginning with the USA), especially for the present purposes in our dealings with the developing countries (DCs). The second, and different question is : Whether and to what extent the Community production system, as it has evolved under the stimulus of the CAP, influences, directly or indirectly, through the import and export requirements resulting from such a system, independent agricultural development in the DC's in their attempts to achieve self-sufficiency in food.

Debate between supporters and detractors of the CAP has often tended to confuse these two questions, which are even more distinct in political than in technical-economic terms. The one, assuming that at the base of world development and particularly that of the DC's, is a continuous and progressive expansion of market economies, is concerned with discovering the role of the CAP in promoting or hampering this expansion; the other, starting from the assumption that changed political relations imply a new international division of labour which must include the DC's capacity for independent agricultural development, aims to ascertain whether and how far the CAP is consistent with, or in contradiction to, this aim of a redistribution of agricultural and feed resources, - an objective to which the Community also aspires to contribute in other ways through policies on development cooperation.

Obviously, when making these three distinctions one must avoid oversimplification. Increased trade undoubtedly contributes to development but experience shows that the free play of market forces does not of itself rectify imbalances and improve North-South relations; stress should therefore be laid both on the contrast and the link between trade policies and policies for development cooperation, and any assessment of the impact of the CAP on the agricultural economies of the DC's should start from a recognition of these facts. In anticipation of his conclusions, the rapporteur submits to the committee his own answers to the two questions: the first is that in this sector one cannot speak of generalized protectionism; the second is that there are, nevertheless,

various elements of conflict between the CAP and the objectives of development policies which aim to encourage self-sufficiency in food production in the DCs.

1. THE CAP AND THE EEC'S IMPORT POLICY

The recent study by the Commission (Sec-82/1223) on 'the Common Agricultural Policy and the EEC's trade relations in the agricultural sector' concentrates mainly on one aspect of the problem by seeking to refute the charges of protectionism levelled against the Community. The data it gives on the policy on imports from the DCs show:

- (a) that 43% of agricultural imports by the Community (which is the world's largest importer of agricultural products) comes from the DCs and that this percentage remained constant, with annual variations, between 1962 and 1979. By absorbing just under a third of all agricultural exports from the DCs the Community is by far their largest market outlet;
- (b) that a considerable share of products from the DCs, roughly 60% of the overall value, enter the EEC at a zero rate of duty and a further 30% on favourable terms.

If we restrict our considerations to these very general figures and compare them, for example, with those for relations between the USA and the DCs (percentage-wise, the USA imports less from and exports more to the DC), we find that on a quantitative basis the Community market is, on the whole, and except in the specific cases of certain products, quite an open one and that the charges of protectionism are exaggerated.

- 1.1 It is well known, however, that statistics for large aggregates often conceal rather than reveal facts. A breakdown of the above data and an analysis along qualitative as well as quantitative lines in order to assess the impact of the CAP on the economies of the DCs from varying angles, gives a more structured picture which reduces the basis for the optimistic conclusions stated in the Commission's study.

Community imports of major relevance to relations with the DCs can be subdivided into main categories which together make up 70% of the total agricultural imports: one includes tropical products originating almost exclusively in the DCs (bananas, cocoa, tea, rubber), the other includes animal feeds, mainly soya beans and oleaginous plants, a sector in which the DCs compete with developed countries.

If we look at the trends in the Community trade for each of these categories, we find that for the first group during the 1970s there was a relatively stable flow of Community imports with a low growth rate while, for the group of animal feeds the overall EEC imports of oleaginous products increased between 1973 and 1980 by 7% per year, but the share of imports from industrialized countries, particularly the United States, was rising each year whereas that of imports from the DCs declined. In 1980, soya beans and sunflower seeds from the USA accounted for about 70% of the total imports of oleaginous products, while those from the DCs (ground-nuts, copra, palm kernels, castor seed), fell by 50% during the 1970's. It is true that over the same period there was a considerable increase in imports of oil-seed cake from the DCs. But, as indicated in the Commission's study, a large part of this increase was due to the growth in imports of soya cake from Brazil which devotes a major part of its agricultural resources to this export product.

From these facts the need for the distinction made by the rapporteur between the two initial questions clearly emerges for this sector. There is no doubt that with regard to protein and oil-seed products the Community market is extremely open and there is no question of protectionism since the products concerned benefit from a zero rate of duty. But this 'liberal' approach on the part of the Community has served and is still serving not so much a policy of development for the DCs as an overriding advantage for the USA. 'The principle of non-discrimination' frequently mentioned in the Commission's study is in reality becoming a policy of gradual exclusion of all the DCs. The fact that one of these countries, namely Brazil, has been encouraged by the rapidly increasing demand to invest in the production of soya cake and has obtained a share of the EEC market, far from representing a contribution by the CAP to an effective development policy has, in your rapporteur's view, introduced - at least in the geographical area elements of distortion in economic policy decisions and discouraged the introduction of appropriate food strategies.

1.2 In the area of imports of animal feeds, similar conclusions are inescapable with regard to maize and cereal substitutes. The point of reference is different here, since in this case a levy is charged at the frontier to protect Community output. But here, too, the EEC's contribution to the expansion of international trade through a high demand for imports works primarily to the advantage of the United States which dominates the market for maize.

The story of cereal substitutes, as they have been affected by the relationship between agricultural trade policies and development policies demonstrates the difficulties the EEC faces in balancing international trade and trying to reduce its dependence on the USA in this sector. When the high price of feed grains opened up the Community market to manioc and maize gluten feeds the Commission, in its search for a remedy, behaved in a way that can only be described as a discriminatory fashion by immediately starting negotiations with Thailand to establish quotas for imports of manioc, without showing any similar concern for maize gluten (only recently has a mandate been requested for opening negotiations with the USA). It should be said, however, that Thai manioc with levy-free entry into the Community (and subject to a simple customs duty of 6%) has always found an outlet on the Community market. But, as we have already pointed out in the case of Brazilian soya, although this 'liberalism' absolves the Community from the charge of protectionism it is a long way from providing support for the development policies for self-sufficiency in agriculture in the DCs. And this for a number of reasons:

- (a) it diverts manioc from traditional uses in internal consumption thereby increasing the demand for grains and hence external dependence;
- (b) it promotes what amounts to an agricultural counter-reform by substituting a small group of large producers/exporters for tens of thousands of small-scale producers who are effectively excluded from the production process;
- (c) the expansion of manioc cultivation at the expense of forest land destroys more local resources than it creates;
- (d) it diverts aid from the Community coffers which could be used towards diversification and exploitation of local resources.

If, as stated in the Commission's most recent guidelines, the relationship with the DCs should be based increasingly on an overall political approach towards objectives acknowledged as sound by both donors and recipients, the consistency of the CAP with development policies must be judged on these issues.

1.3 If we consider imports in the cereals/livestock sector - the basic underlying structure for the entire system of CAP regulations - we see the shallowness of the statement in the Commission's study that 'the CAP does not appear to have had any significant effect on the composition of agricultural imports from the DC's. The chaotic expansion in stock-farming sustained by unlimited guarantees has had and continues to have far-reaching direct and indirect repercussions on the agricultural economy and trade relations of the DCs, for varying reasons:

- (a) because when large quantities of resources (proteins, fats, carbohydrates) are directed towards processing into animal products (with the concomitant surpluses) the DCs find it harder to meet their own food requirements by resorting to the world market;
- (b) because by helping to maintain high prices for raw materials for livestock raising, it has made it more difficult to include stock-farming in the agriculture of the DCs in all those cases where local production of these raw materials presents problems;
- (c) because in some cases it has encouraged an 'unreasonable' expansion of the agricultural economy in directions unrelated to the real needs of the local populations;
- (d) because, by strengthening the predominance of some exporting countries and of small groups of importers, it has hampered the diversification of the sources of supply for the DC's in this domain and thus the chances of independent development of their agriculture (while, at the same time, as pointed out in the Commission's study, increasing the vulnerability of Europe's own agricultural economy).

2. With regard to imports of sugar from the DCs, the European market can hardly be described as open, if one excludes the 1.3 million tonnes of imports from the ACP countries. There has been much criticism of the Community's support policy in this sector, which has led to an expansion of areas under cultivation resulting in a rate of self-sufficiency to 125% !

There is no doubt that this criticism is well founded. Community policy in this case provides a classic illustration of the fact that in setting up the mechanisms necessary to protect internal production, in accordance with the objectives of Article 39 of the Treaty, enough account has not been taken of the equally important commitments set down in Article 110 of the same Treaty. This relationship should have been kept in sight from

the very beginning, both when the size of quotas was fixed and in establishing the level of guaranteed prices both of which should have been determined with due regard to, on the one hand, the legitimate defence of the internal market for European sugar-beet production and, on the other, the outlets to be reserved within the framework of international cooperation, for imports from the DCs. Since this has not been done, the entry of sugar into the Community is basically limited to imports under special agreements (ACP, India, overseas countries and territories (OCT)).

In the absence of a special commitment to diversification, these agreements are likely to aggravate the existing inconsistency in this sector, whereby single-crop specialization is encouraged on the one hand, but market outlets for these crops are closed, on the other.

The foreseeable prospects are for considerable tensions on the sugar market both because the rising production of isoglucose will tend to reduce demand in some markets, e.g. the USA, Canada and Japan, and because the increased competitiveness of beet-sugar will tend to reduce even further the already restricted European outlets for cane sugar.

3. Among other imported products in competition with Community output, milk and dairy products, beef and veal, fruit and vegetables and olive oil should be mentioned. No special remarks need be made about the first of these since there are practically no imports from the DCS. Beef and veal imports to the Community from the DCS have shown a steady annual growth. This has been particularly encouraged by the special arrangements under the Lomé Convention (quotas exempted from customs duty or at reduced duty, and a levy offset by a corresponding export duty collected by the ACP States); there are also import tariff quotas for certain types of meat agreed under GATT.

With regard to fruit and vegetables, of which the Community imports on average 20% of its requirements (50% for citrus fruits) under the Common Customs Tariff, possibly increased by a compensatory levy based on the reference price, it should be said that the defence mechanisms are much more flexible than for other imports. However, the greatest beneficiaries of this increased flexibility are once again some Mediterranean countries, principally Spain and Israel, while only a minimal share of the overall imports comes from the DCs, including the ACP countries. Even this share of the market is in danger of diminishing with the expected accession of Spain and Portugal to the Community.

Similar considerations obtain for olive oil, where the accession of Spain is likely to create surpluses thereby jeopardizing the special arrangements for the Maghreb countries and Turkey within the framework of the cooperation agreements signed with them.

4. THE CAP AND EEC EXPORTS

On the subject of the Community's export policy the Commission study to which we refer throughout, quotes one fact of a general nature purporting to present an overall description of its relations with the DCs: they take 42% of the Community's total agricultural exports; this represents only 16% of the DCs agricultural imports, less than for the USA which imports 23% of its requirements. Between 1962 and 1978 (the years in which the CAP was being put into operation) the share of exports to the DCs increased from 26% to 42% of total exports from the Community, while the rate of coverage of the DC's requirements by imports almost doubled. The percentage increase in Community exports to the DCs was no higher than the increase in EEC exports on the world market, rising from 6.4% to 10.6%. All this shows, or is intended by the authors of the study to show, that the CAP has resulted in a particularly aggressive policy vis-à-vis the markets of the DCs.

4.1 But once again a more detailed study of the overall figures leads to a much more complex assessment. At least four questions of a general nature need to be asked:

- (1) The rise in Community exports is accompanied by an increasingly narrow range of exports with a predominant concentration on bread grains, milk and milk products and sugar. Who can gainsay that this is due in large part to the working of the CAP and the support it provides to these sectors?
- (2) If it is argued that by exporting these products the Community has merely responded to the growing demand for food products on the part of the Third World, how is it that, while in the early stages exports went to all the DCs, subsequently a large part of the increase has come to be concentrated in certain areas of the Middle East and Latin America?

In other words, is the increase in exports to the DCs to be considered as an aspect of EEC development policies, or is it not rather a purely commercial response to the processes of differentiation which have expanded effective demand in a limited number of DCs?

- (3) If it is true that the EEC's share of agricultural imports into the DCs has been achieved at the expense of trade between the DCs themselves (more so between 1963 and 1972, less in the succeeding period), to what extent have the CAP support mechanisms played a part in this substitution which is undoubtedly a restraining factor on the overall development of the agricultural economies of the DCs and has reduced marketed outlets for their output?
- (4) If it is true that there has been an effective increase in the demand for grain and for milk and milk products, to what extent does this particular demand correspond to a failure to develop local food resources or a misallocation of resources on account of the high demand by the Community for certain products, (soya beans, manioc, etc.), caused by the CAP which, in the final analysis, has substituted patterns of consumption for earlier ones, to satisfy which local production base already existed or could have been developed?

These are questions to which the study by the Commission does not and cannot provide the answer, since they call for assessments which cannot be expressed in simple quantitative terms, since comparisons between various possible political and cultural options are involved.

4.2 In order to provide a more detailed assessment, we should consider certain sectors which account for the major part of Community exports: cereals, livestock products, sugar.

With regard to cereals there is no Community policy to speak of. While, other exporting countries like the USA, Canada and Australia (which have long-term contracts and export credits), the Community has not even provided itself with the means to pursue such a policy. Faced with growing internal grain production (+33% during the 7-year period 1973-1980) and with a steadily increasing external demand from the DCs, Community policy has been leaning towards food aid rather than creating the necessary investments for an expansion of exports on terms compatible with the solvency of the DCs. This choice has been due largely to the fact that the Community is a prisoner of the mechanisms at work in this sector. Once the CAP system of levies and refunds based on the considerable difference between international and domestic prices had been consolidated, there was a steady growth in expenditure on refunds, which rose from 56 ECU per tonne to 116 ECU between 1973/74 and 1979/80.

A burden on the Community budget of this size would seem hard to sustain with the added burden caused by a policy of export credits of the type existing under Public Law 480 which has opened up various DC markets to the USA. The lack of an EEC credit policy in this domain is undoubtedly one of the major obstacles to fuelling the other important issue, that of long-term contracts.

Under these circumstances your rapporteur feels that favourable consideration should be given to measures which provide for the fixing of a ceiling on Community output and a staggered system of decreasing support for surplus production, with the aim of gradually aligning internal prices with world prices.

These measures will serve not only to ease the burden on the Community budget, but, more importantly, to create the conditions for an effective export policy which - guided by proper selection criteria and medium- and long-term forecasts - could ultimately provide better coordination between disposal of Community cereals on the world market and the development policies and food strategies of the DCs.

4.3 As regards exports in the sector of milk and milk products (butter, powdered milk, butter oil), in which the EEC holds a dominant position on the world market (72% of exports of powdered milk), those to the DCs are very considerable, with an annual increase of 15% in volume and 23% in value (and higher still for skimmed milk powder and cheese). These figures also include those for food aid which amounted to 37% for milk powder and 11% for butter oil of the total of all exports to the DCs. This state of affairs has given rise to repeated comments, which thus need not be repeated here. The capacity for expansion in the EEC is merely one effect of the policy for the livestock sector which was referred to in connection with fats and cereals. Processing of raw materials originating in large part in the USA into products for the DC lies at the core of the Common Agricultural Policy.

It is true that in this sector the EEC contributes to solving the food problems of some countries and that an increase in demand has been forecast for these products, as for cereals, up to the year 2000. But even in this context it should be remembered that, on the one hand, a large proportion of the produce goes to a relatively limited number of 'emerging' countries (Middle East and Northern Africa), where effective demand has risen, and, on the other, that there has been much criticism of the increase of this component in the diets of many DCs and of this phenomenon's consistency with the food strategies of the DCs.

In this domain, the CAP in its evolution has increasingly laid stress on the co-responsibility levy as a means of curbing production. Regrettably, experience so far shows that, while it has had some effect in reducing the burden on the Community budget, this measure has not brought about the desired effect of reducing deliveries of milk to dairies. In the opinion of your rapporteur there is a need in this sector, as in the case of cereals, for a system of decreasing support based on ceilings of production to be stepped down over time.

4.4 Lastly, we come to the question of sugar exports which has been widely debated during the last few years. There is no need here to repeat the observations on the fact that in the past few years the Community has been exporting nearly double the amount of sugar that it imports under the terms of the protocol to the Lomé Convention. While the ACP countries have had a guaranteed price on the Community market comparable to the internal price, the Community supply has helped to depress world prices and to reduce trade between the DCs themselves.

The Commission's study professes great faith in the new organization of the market which began in July 1981 under which the financing of exports of quantities in excess of the agreed quotas is to be borne by the producers. Unfortunately, experience in the milk sector makes it hard to share the author's optimism as to the efficacy of this measure in limiting production. In view of the increasing competitiveness of beet sugar in respect of cane sugar and the growing availability of substitute products on the American markets, EEC production and hence supply of sugar can be expected to continue to rise, leaving the problem unresolved, except for the question of part of the burden on the Community budget. Greater difficulties are therefore likely in the years to come: already a considerable drop in world prices is forecast for next year.

In the opinion of your rapporteur a further review of the sugar regulation is called for in order to renegotiate the size of quotas, the ceiling to be reached and the pricing system.

5. THE CAP AND FOOD AID

If food aid is considered as the instrument of a permanent strategy to relieve food deficits in various guises rather than an exceptional relief measure for emergencies, it follows that:

- (a) it must be diversified in order to respond to nutritional requirements;
- (b) it must be consistent with the national food strategies to be worked out by the recipients;
- (c) it must be programmed on a multi-annual basis to provide a framework of assurances enabling the recipients to formulate their own programmes for agricultural development;

and, lastly, wherever possible, 'triangular operations' should be effected by purchasing foodstuffs in countries neighbouring the recipient country.

Obviously, putting these guidelines into effect will conflict with some aspects of the current agricultural policy.

The diversification of food aid will call either for a wider range of the Community's own products to be made available or for the foodstuffs required to be purchased on world markets. The first of these solutions is hampered by the inflexibility of the European production system due to the privileged position enjoyed by some sectors, which limits possibilities of Community intervention to the usual celebrated sectors in which surpluses accumulate: cereals, milk powder and butteroil; the second solution, involving purchases on world markets, would require considerable financial resources which the Community cannot muster, both because of its limited revenues and of the inordinate cost of the CAP. The fact that food aid remains tied to straightforward policies of surplus disposal in a limited range of products is due in large part, although not exclusively, to the machinery of the CAP.

Moreover, the undertaking of multi-annual commitments in this sphere is hampered further by the lack of any production programmes and related trade policies which go beyond the annual cycle.

Prices and aids are fixed on a yearly basis in response to annual forecasts with little reference to long-term trends. Thus, it is difficult for the Community to undertake commitments over several years, a vital factor in linking food aid to the development strategies of the DCs.

6. THE REPERCUSSIONS OF THE CAP ON MULTILATERAL NEGOTIATIONS

Questions concerning the Community's position in multilateral negotiations go well beyond the particular scope of this opinion. However, it should be mentioned that much of the dispute within the GATT, particularly with other industrialized areas, concerns the agricultural sector and specific criticisms levelled at the CAP. The rapid evolution of trade and production systems calls for a great degree of flexibility in bargaining positions in this sector, instead of the current obdurate and confrontational approach which stems largely from inconsistencies built up over the years.

Complaints from the USA over the surpluses of milk products, for example, take no account of the fact that these surpluses are actually a result of the duty-free importation into the Community, agreed under GATT, of raw materials for animal feeds - which is wholly to the advantage of the USA. Changes in the CAP called for in this sector, as in many others, would only make sense in the framework of an overall debate on the redistribution of benefits and disadvantages resulting from the GATT agreements. In your rapporteur's view the Community should take the initiative in calling for a general debate within GATT, using Spain's entry to the EEC as the occasion for a general review of the situation - something for which the GATT regulations actually provide (Article 24, paragraph 6).

The same applies to the system of generalized preferences, where a response is now needed to the demands for a more specific and selective use of this instrument which works on the basis of now outdated classifications and criteria, no longer applicable to the changed conditions in the various beneficiary countries.

The Community has had a much greater success in the last few years in the sphere of preferential agreements, particularly through the Lomé Convention. Again, however, there are problems concerning their effectiveness and consistency between the CAP and the development policies, as the recent Pisani memorandum points out. However, this is not the place to analyse this aspect of the problem which will have to be discussed when the Convention comes to be renewed.

Finally, in connection with the multilateral agreements, we should note that there has been little Community initiative to achieve progress on the international wheat agreements and that there is still no international agreement on sugar.

The connection between the Community's poor showing in this field and the CAP regulations in the cereals and sugar sectors need not be reiterated.

7. INSTRUMENTS OF TRADE POLICY

Lastly, some mention should be made of the question of the instruments of trade policy. There is a clear inconsistency between the fact that the EEC is the world's largest importer and second largest exporter of agricultural products and the lack of trade policy instruments compared with those in force in the USA, Canada and Australia. The preferential system applied to the DCs under the Common Customs Tariff and the levies and rebates involved - the real cornerstone of the Community trade system - certainly constitutes a major factor in directing trade flows between the EEC and the DCs and requires no specific consideration in this opinion.

Of greater importance in relations with the DCs is the question of long-term contracts, on which debate recently reopened with sharp differences among the countries of the Community: at the level of principle - as to the desirability of these instruments; at the practical level - in connection with fears of provoking reprisals on the part of other exporting countries, and because of the lack of the political will to achieve harmonization of legislation on export credits. Your rapporteur feels that if, as it is claimed, the Community's cooperation policies should be part of long-term strategies serving the objective of the autonomous development of agriculture in the DCs, the adoption of this instrument is absolutely essential for the contribution it would make to the stabilization of world prices and for the opportunity it would provide to the DCs for planning their own development over a substantial period.

8. - CONCLUDING OBSERVATIONS

8.1 Both the Parliament in many statements of position (notably that on the Ferrero report) and the Commission in its reply to the Mandate of 30 May, have acknowledged the need for a revision of the CAP to adjust it to the new conditions under which it has to operate. In the opinion of your rapporteur three questions concerned with adapting both the supply and demand of agri-foodstuffs to these new conditions must be considered:

- (a) how to achieve gradual reabsorption of surpluses - both in order to free financial resources for other uses and to eliminate the negative effects of these surpluses on the independent development of the agricultural economies of the DCs and on the food-aid policy;
- (b) how to make the best use of the Community's internal resources in order to reduce its dependency, particularly on the USA, in the field of raw materials with a view both to reducing the trade deficit, and thus freeing more financial resources, and to halting the escalating costs of these raw materials thereby also making them more accessible to the DCs;
- (c) how to provide the Community with effective instruments and the financial means for a new policy on exports which would take account of the diminishing solvency of the DCs and at the same time of the need to provide the DCs with long-term security of supplies of the products necessary for the development of their agri-foodstuffs strategies.

8.2 The pursuit of these strategic objectives will require different measures and selective approaches according to sector on the basis of foreseeable trends in world supply and demand. It is not for the Committee on Development to indicate the technical solutions to be adopted in each sector of production, but only to suggest certain guidelines it considers useful with regard to the needs of the DCs. Thus, it considers that:

- (a) in the case of cereals destined for human consumption, the main issue is to reduce the amount of the refunds through measures to influence production costs which will gradually align internal prices with world prices; there is then agreement between the committee and the Commission as to the need to fix a ceiling above which the support measures would decrease;
- (b) in the case of feed grains, effort must be made to reduce internal consumption (by discouraging off-pasture cattle-raising) and to achieve greater self-sufficiency within the Community by encouraging the production of feedgrains in areas where these are in short supply by devoting to this purpose, for instance newly irrigated zones and hilly regions; the committee welcomes the proposal for making these low-quality grains for feeding stuffs increasingly advantageous; if these measures are to be

effective agreement must be reached on the voluntary restraint of exports of maize gluten feed by the USA in addition to the agreements already concluded on restricting imports of other substitute products (manioc);

- (c) in the case of protein oleaginous oilseed products also efforts must be made encourage Community production to the full, although the committee is opposed to the imposition of a levy on the entire sector, as has been suggested in various quarters. It does feel, however, that a detailed study should be made of the possible effects of the introduction of an entry tax on soya beans with a view to raising the question in the context of GATT;
- (d) in the case of milk and milk products, the problem is again that of surpluses, and the measures suggested above for limiting imports of foreign foodstuffs could play an important part at the input end of the production process. Steps should also be taken at the output end to limit increases in milk deliveries to dairies. Since the co-responsibility levy has not had the expected effect, it would appear necessary in this sector, as in the cereals sector, to try the system of staggered decreasing support for production beyond a ceiling which fixes the annual rate of increase;
- (e) in the case of sugar, the main problem is how to obtain effectively equality of treatment between ACP and European sugar on the Community market: when prices are fixed, due account should be taken of the growing cost of sea freight; with regard to the wider question of opening up the internal market to products from all the DCs and reducing exportable surpluses at the same time, it is hard to see how this can be achieved, when the co-responsibility levy proves ineffective, without a new series of regulations on quotas and on a ceiling on domestic output eligible for community support;
- (f) in the case of Mediterranean products, a careful assessment should be made of the impact of the entry of Spain and Portugal on trade with the DCs. The committee feels that it should be consulted on the overall problems when the Commission presents its Mediterranean programmes, announced response to the Mandate of 30 May. But it is already clear that a number

of questions will arise concerning olive oil, fruit and vegetables, and tobacco. Preventing surpluses in olive oil (by means of general regulation of oils and fats which would fix the relative prices for the various types of vegetable oils), to opening up the market for fruit and vegetable imports from the DCs (particularly for processed products), reducing support for certain types of tobacco encouraging conversion towards varieties which would not compete with those from the DCs it is obvious that all these will require a review of the regulations and a new and more realistic trade policy.

8.3 On the question of the instruments of trade policy, the twin problems of long-term contracts and export credits and the interrelation between them call for immediate consideration. Your rapporteur feels that substantive proposals should be put forward as early as possible for the harmonization of legislation on export credits since only then can the question of long-term contracts be tackled. Export credits should be a major factor in development policies for their role in financing of agri-foodstuffs imports by the DCs; the rates of interest and repayment schedules should be compatible with the limited solvency of the DCs. The credit scheme should be backed up by a large financial reserve which could be provided in part by funds recovered through the measures for reducing refunds and controlling surpluses.

8.4 All these measures for revising the CAP should provide the Community with a more effective voice in any multilateral negotiations: in GATT, on the System of Generalized Preferences, at the UN, on questions concerning the way its operation instruments should function, and, finally within the framework of the international agreement on wheat. It should also enable it to join the international sugar agreement at last.

8.5 Finally, the rapporteur would like to recall a point made on other occasions: if, as is generally maintained the solution to the problems of the CAP will have a decisive influence on the direction of development policies, of food-aid policy and the general problem of world hunger, and of Community involvement in collection security programmes, closer coordination, probably through the establishment of appropriate bodies (inter-departmental groups in the Commission, ad hoc working groups in Parliament), will be required both within the Commission and in Parliament, of the decision-making processes relating to the pursuance of the CAP, of development policies and to the other

areas falling within the responsibility of this committee. It is particularly important to bear this in mind during the debate on the agricultural prices and related measures which are of crucial importance in the development of the CAP. In a year like the present, in which so many disturbances have occurred (the rise of the dollar, the purchase of large quantities of wheat by the USSR, the expected fall in world sugar prices etc.) it is more important than ever, in your rapporteur's view, that the Committee on Development be involved in the discussion process from the moment the Commission presents its proposals, and that there should be at least one joint meeting between the Committee on Agriculture and the Committee on Development and Cooperation to assess the Commission's proposals in the light of the needs of the European producers as much as those of the DCs, and by reference to the policies which the Community has formulated to deal with them.

