

# EUROPEAN PARLIAMENT

COMMITTEE ON AGRICULTURE, FISHERIES AND FOOD

WORKING DOCUMENT

ON

EXTERNAL AGRICULTURAL TRADE

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## Introduction

The most extensive recent treatment of the subject of agricultural trade was the Catherwood report (Doc 1-248/83/ ). A very thorough and detailed opinion was provided for the Agriculture Committee by Mr. Gautier, the conclusions of which are included, as an annex to this working document. As Mr. Gautier's opinion was produced with considerable research effort and was discussed over a period of months the purpose of this initial working document is to produce a number of ideas and recent statistical information which could form the basis of a more substantial and up to date analysis of agricultural trading questions.

Within the overall context of the Community's international trade commitments, the broad aim of Community agricultural trade is to shield CAP prices from the world market while enabling Community merchants to trade competitively on world markets through export refunds.

The common customs tariff which codifies the measures applying to imports is the cumulative result of many years of negotiations. The aim has been to reach a trade-off in the EEC's overall trading relations with the developed countries, while allowing the duty-free import of most agricultural products from the less developed countries on a non-reciprocal basis. It is for this reason that any action which may be contemplated within the agricultural sector must always be considered in the broader trading framework.

Preferential bilateral agreements have been concluded with most of the Mediterranean countries through association or co-operation agreements, although these may be substantially affected by enlargement.

A large number of tariff concessions have been allowed to developing countries under the auspices of UNCTAD with special measures for the least developed countries. There are also

special arrangements under the Lomé Convention for the importation of agricultural products into the Community.

Favourable arrangements also exist for the EFTA countries and for Yugoslavia.

At the world trading level the European Community has co-operated in seeking solutions to agricultural trading matters within the context of the Kennedy Round and Tokyo Round. The arrangements for the world trade in dairy products, for instance, were determined in the latter round. Also in the GATT context the enlargement of the Community requires a review in order to restore the equilibrium with regard to concessions, especially with regard to the US. As was seen at the recent Bonn Summit agriculture will be a major issue in the next GATT round.

#### Commentary

The tables and text below provide an indication of the present state of self-supply in the Community, the principal trends in agricultural trade and budgetary aspects. At the Community level the Common Agricultural Policy has more than reached the objective of providing sufficient supplies to meet our requirements. Indeed in the period 1975 to 1983 agricultural production has been rising at a steady rate of about 2 per cent but consumption has not kept up with demand and this trend is likely to continue unless there is a radical change of policy. The result is that self-sufficiency is over 100 per cent for many products and the Community has become a major world exporter.

TABLE 1

Degree of self supply (%) of major agricultural products

	1973	1982	1990 (est'd)
Total cereals	90	105	127
Sugar	92	154	122
Wine	90	94	123
Total meat	92	100	100
Total Beef and Veal	85	102	103
Pigmeat	101	101	101
Sheepmeat and Goatmeat	61	72	89
Poultrymeat	103	112	108
Milk products	108	118	113
Eggs	99	103	102
Tobacco	-	48	63

Source: Agricultural situation in the Community 1984 p.151.

Table 1 illustrates the extent to which agricultural self sufficiency has been achieved over the last decade and pinpoints those areas where surpluses have built up. The figures also show an estimate for the year 1990 on the basis of current policies.

**Table 2**  
Trend of EEC agricultural imports from third countries (million ECU)

		Extra EUR-9 1977	Extra EUR-9 1978	Extra EUR-9 1979	Extra EUR-9 1980	Extra EUR-10 1981	Extra EUR-10 1982	1983
0	Food and live animals	22 352	21 680	22 382	23 908	26 399	28 382	29 884
1	Beverages and tobacco	1 481	1 960	1 877	1 929	1 890	2 273	2 573
21	Hides, skins and furskins, undressed	1 186	1 121	1 576	1 427	1 332	1 453	1 338
22	Oil seeds, nuts and kernels	3 032	3 029	3 354	3 271	3 728	3 857	3 630
232	Natural rubber	581	549	695	771	737	647	767
24	Wood, lumber and cork	4 102	4 139	5 255	5 902	5 131	5 089	5 814
ex 26	Natural textile fibres	2 344	2 201	2 328	2 380	2 738	2 824	3 156
29	Crude animal and vegetable materials	852	875	964	1 036	1 123	1 250	1 349
4	Animal and vegetable oils and fats	1 513	1 476	1 712	1 579	1 631	1 808	1 843
592.1	Starch, inulin, etc.	9	5	6	8	12	11	8
	Total	37 453	37 035	40 150	42 210	44 722	47 595	50 362

ex 26: 261, 263, 264, 265, 268.  
Source: Eurostat.

**Table 3**  
Trend of EEC agricultural exports to third countries (million ECU)

		Extra EUR-9 1977	Extra EUR-9 1978	Extra EUR-9 1979	Extra EUR-9 1980	Extra EUR-10 1981	Extra EUR-10 1982	1983
0	Food and live animals	7 941	8 540	9 949	13 662	18 937	17 672	18 394
1	Beverage and tobacco	2 348	2 813	3 116	3 422	4 215	4 901	5 084
21	Hides, skins and furskins, un- dressed	310	328	441	415	559	564	612
22	Oil seeds, nuts and kernels	25	21	16	25	43	27	33
232	Natural rubber	7	6	6	6	5	6	9
24	Wood, lumber and cork	215	203	232	302	343	363	364
ex 26	Natural textile fibres	288	205	218	231	285	301	350
29	Crude animal and vegetable materials	576	567	642	714	820	925	1 021
4	Animal and vegetable oils and fats	563	601	647	717	816	752	827
592.1	Starch, inulin, etc.	34	32	22	27	32	65	73
	Total	12 307	13 318	15 290	19 521	26 055	25 576	26 765

ex 26: 261, 263, 264, 265, 268.  
Source: Eurostat.

Table 4

## NET EC SHARE OF WORLD TRADE (EUR 9)

in 1977, 1979 and 1980/for the major agricultural products (1)  
1982

	1977	1979	1980 - 82 average
Total cereals (except rice) (1)	-11.5	- 5.0	2.1
of which:- total wheat	0.1	- 0.1	9.6
Seed grain (except rice) (2)	-21.0	- 8.8	- 5.1
of which:- maize	-26.5	-16.0	-12.0
Oil seeds (by weight produced)	-45.2	-46.2	-40.8
of which:- soya	-45.6	-45.4	-41.8
Milk	5.4	11.3	18.8
Sugar	1.7	7.1	9.6
Total Milk	61.9	61.7	57.2
butter	13.3	40.9	40.7
cheese	20.5	28.4	33.4
Milk powder (skimmed and whole)	49.4	57.8	56.5
Total meat (except offal) (3)	-10.2	- 5.7	5.5
of which:- beef and veal (4)	- 2.3	5.6	12.9
piguat (4)	-10.1	- 0.9	6.0
poultrymeat	20.3	22.8	25.8
Eggs	5.9	12.3	23.3

Source: Agricultural situation in the Community (p 202 1980; p 266 1982; p 268 1984)

- (1) Excludes process products  
(2) Cereals as grain  
(3) Including salted meat  
(4) Excluding salted meat

Table 4 shows the net European Community share of world trade. While maize and soya are the main deficit items the role of dairy products on the world market is of particular importance. It will take some time to show to what extent real reductions in Community input costs affect the demand for imported cereals and cereal substitutes.

By the mid seventies the community was already a net exporter of wine, sugar, eggs, poultrymeat and dairy products. By 1981 it had also become a net exporter of cereals, beef and veal. Although the Community remains the world's largest importer of agricultural products it is also the world's biggest exporter of animal products and a leading exporter of arable products. The broad statistics, of course, do not show the increasing volatility of world markets.

Table 5

EC IMPORTS OF AGRICULTURAL PRODUCTS BY ORIGIN  
(1983, EXTRA-EC = 100%)

<u>PARTNER</u>	<u>VALUE</u> <u>(000 ECU)</u>	<u>VALUE</u> <u>MARKET SHARE</u>
EXTRA-EC	50361590	100.0
USA	9485677	18.8
BRAZIL	4123662	8.2
SPAIN	2318699	4.6
ARGENTINA	1666991	3.3
CANADA	1664069	3.3
SWEDEN	1405000	2.8
IVORY COAST	1392268	2.8
MALAYSIA	1351050	2.7
NEW ZEALAND	1228904	2.4
COLOMBIA	1054428	2.1
THAILAND	987693	2.0
CHINA	978869	1.9
FINLAND	978651	1.9
SOVIET UNION	877647	1.7
AUSTRALIA	864272	1.7
SOUTH AFRICA	856985	1.7
AUSTRIA	849696	1.7
INDONESIA	848860	1.7
TURKEY	763451	1.5
ISRAEL	663445	1.3
NORWAY	659172	1.3
SWITZERLAND	636907	1.3
YUGOSLAVIA	620582	1.2
INDIA	606805	1.2

Source: EUROSTAT, SIENA

Turning to agricultural imports by country of origin table 5 shows the dominant position of the USA in relation to other major exporters to the European community. The other point to notice is the very wide variety of other suppliers.



Table 6

EC EXPORTS OF AGRICULTURAL PRODUCTS BY DESTINATION  
(1983, EXTRA-EC = 100%)

<u>PARTNER</u>	<u>VALUE</u> <u>(000 ECU)</u>	<u>VALUE</u> <u>MARKET SHARE</u>
EXTRA-EC	26766359	100.0
USA	3818085	14.3
SOVIET UNION	1825263	6.8
SWITZERLAND	1758858	6.6
SAUDI ARABIA	1270679	4.7
ALGERIA	967335	3.6
AUSTRIA	910966	3.4
JAPAN	906404	3.4
SWEDEN	888739	3.3
EGYPT	859975	3.2
SPAIN	783944	2.9
NIGERIA	772384	2.9
CANADA	603157	2.3
IRAN	567707	2.1
LIBYA	490093	1.8
POLAND	381548	1.4
SECRET CTRS.	360611	1.3
NORWAY	351564	1.3
IRAQ	299589	1.1
U.A.EMIRATES	289825	1.1
HONG KONG	277161	1.0
FINLAND	270230	1.0
AUSTRALIA	252404	0.9
YUGOSLAVIA	251228	0.9

Source: EUROSTAT, SIENA

Table 6 shows that the USA is also our major export market taking over fourteen per cent of the value of our agricultural exports. This figure again shows the vulnerability of our exports to protectionist action by the United States. While the Soviet Union imports less than half the value of the goods sent to the US it is important to note that it is our most valuable market after the United States. Given the nature of the products sold to the Soviet Union this illustrates the subsidy offered to them by the EEC. The table also highlights the importance of Switzerland as one of the Community's principal trading partners.

Table 7

UNITED STATES' IMPORTS OF AGRICULTURAL PRODUCTS, 1979-1984

```

*****
* PART:* WORLD      *EUR10      *
*      *           *           *
*****
(1) IMPORTS IN $'000
*****
* 79 * 25277941 * 3010220 *
* 80 * 25040807 * 3187934 *
* 81 * 25403513 * 3437189 *
* 82 * 23696287 * 3695392 *
* 83 * 25996721 * 4012731 *
* 84 * 29788542 * 4640350 *
*****
(2) SHARE OF EC IN WORLD IMPORTS (%)
*****
* 79 * 100,00 * 11,90 *
* 80 * 100,00 * 12,73 *
* 81 * 100,00 * 13,53 *
* 82 * 100,00 * 15,59 *
* 83 * 100,00 * 15,43 *
* 84 * 100,00 * 15,57 *
*****

```

Source: United Nations, Comtrade 04/29/85

Tables 7 and 8 take a closer look at the United States. The share of the European Community in the agricultural imports of the United States has increased steadily over the years to reach almost 16 per cent in 1984.

Table 8

UNITED STATES' EXPORTS OF AGRICULTURAL PRODUCTS, 1979-1984

```

*****
* PART:* WORLD      *EUR10      *
*      *           *           *
*****
(1) EXPORTS IN $'000
*****
* 79 * 40346812 * 8790744 *
* 80 * 46993265 * 10339145 *
* 81 * 48619689 * 9970467 *
* 82 * 41710603 * 9084155 *
* 83 * 40872021 * 8102782 *
* 84 * 42529526 * 7187091 *
*****
(2) SHARE OF EC IN WORLD EXPORTS (%)
*****
* 79 * 100,00 * 21,78 *
* 80 * 100,00 * 22,00 *
* 81 * 100,00 * 20,50 *
* 82 * 100,00 * 21,77 *
* 83 * 100,00 * 19,82 *
* 84 * 100,00 * 16,89 *
*****
(3) SHARE OF AGRICULTURAL PRODUCTS IN TOTAL (%)
*****
* 79 * 22,19 * 20,25 *
* 80 * 21,29 * 18,93 *
* 81 * 20,80 * 19,29 *
* 82 * 19,64 * 19,35 *
* 83 * 20,38 * 18,59 *
* 84 * 19,51 * 15,55 *
*****

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Source:United Nations, Comtrade 04/29/85

While agricultural products as a percentage of the total exports have been falling it is clear from the figures that the share going to the EC has declined abruptly in recent years and stood at just under 17 per cent in 1984. This contrasts to the situation with regard to imports. In Sir Fred Catherwood's view (Doc 1-248/83/B p 16) it was the rise in the value of the dollar after 1979 which greatly helped European agricultural exports and was the main reason for the US loss of market share. The figures show the exposure of Community agricultural trade to the movement of US currency.

Table 9

UNITED STATES' TRADE BALANCE IN AGRICULTURAL PRODUCTS, 1979-1984

```

*****
* PART: * WORLD      *EUR10  *
*      *           *      *
*****
(1) BALANCE IN $'000
*****
* 79 * 15068870 * 5780530 *
* 80 * 21952461 * 7151207 *
* 81 * 23216175 * 6533279 *
* 82 * 18014317 * 5388766 *
* 83 * 14875301 * 4090051 *
* 84 * 12740982 * 2546740 *
*****

```

Source: United Nations, Comtrade 04/29/85

UNITED STATES' TRADE BALANCE IN ALL PRODUCTS, 1979-1984

```

*****
* PART: * WORLD      *EUR10  *
*      *           *      *
*****
(1) BALANCE IN $'000
*****
* 79 * 37042624-* 7674529 *
* 80 * 32292432-* 16271579 *
* 81 * 39486048-* 8019052 *
* 82 * 42585136-* 2473327 *
* 83 * 69321440-* 2290732-*
* 84 * 123288528-* 14055429-*
*****

```

Source: United Nations, Comtrade 04/29/85

While tables seven and eight appear to give some support to US arguments on trade relations table 9 is the significant table for it shows that although the US has moved into a massive deficit overall both with the Community and the world in general the United States still had a trade surplus of 2.5 billion dollars in 1984 in agricultural products.

### Budgetary aspects

When taken as a proportion of total public expenditure support for agriculture is probably no higher in the Community than in other developed economies, but it is much more transparent. Other countries whose policies artificially lower production costs are just as much subsidising exports but in a less obvious way. Support from the CAP represents but a tiny fraction of GDP. Furthermore some of the expenditure under the CAP heading is more directly concerned with food aid or other objectives. However, no amount of changing of definition will increase the funds available for agriculture. In total agricultural expenditure rose by 22 per cent in 1983 by 14 per cent in 1984 and is likely to rise again by over 10 per cent in 1985. Furthermore about 55 per cent of the 1984 budget was spent on export refunds and storage payments. Table 10 shows the very high proportion of support accounted for by export refunds for certain product sectors and table 11 shows the percentage of budget spent on refunds and the percentage of revenue arising from levies.

### Relations with the US

Now that the Community is a major force on world markets the financing of the CAP is more open to factors beyond the control of Community management. With regard to the United States the administration has set itself the objective of cutting back on domestic subsidies and lowering prices to farmers and shifting the emphasis to export markets. It is thus clear that it is in our relations with the US that the main agricultural trade questions will arise.

It is apparent that the US administration is using the Community as a target to deflect the mounting criticism from the farm sector. While a recent report to Congress by the National Commission on Agricultural Trade and Export Policy listed the value of the dollar as one of the main reasons for the United States' loss of foreign trade - farm exports may be down \$10 billion this year - it still also attacked what it described as "unfair competition".

Table 10

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

	1976	1977	1978	1979	1980
Cereals : - total cost (mio Ecu)	655,9	629,9	1112,5	1563,7	1659,0
- % refunds	61,5	58,0	74,8	75,8	70,4
Rice : - total cost (mio Ecu)	18,4	13,5	17,9	42,9	58,7
- % refunds	98,9	98,5	93,9	97,2	75,6
Milk and milk products : - total cost (mio Ecu)	2277,7	2924,1	4014,6	4527,5	4752,0
- % refunds	33,6	48,5	39,0	46,1	57,8
Oils and fats : - total cost (mio Ecu)	247,1	268,5	324,8	606,0	687,3
- % refunds	4,2	0,4	-	0,2	0,5
Sugar : - total cost (mio Ecu)	229,3	598,4	878,0	939,3	575,2
- % refunds	27,0	68,4	72,9	72,9	49,8
Beef and veal : - total cost (mio Ecu)	615,9	467,7	638,7	743,2	1363,3
- % refunds	21,7	28,2	22,8	36,1	52,5
Sheepmeat : - total cost (mio Ecu)	-	-	-	-	53,5
- % refunds	-	-	-	-	100,0
Pigmeat : - total cost (mio Ecu)	29,0	37,3	45,0	104,9	115,6
- % refunds	92,1	78,6	71,6	74,7	79,2
Fruit and vegetables : - total cost (mio Ecu)	185,1	178,2	100,7	442,9	687,3
- % refunds	23,7	28,1	47,5	7,8	6,0
Wine : - total cost (mio Ecu)	133,8	89,9	63,7	61,9	299,5
- % refunds	1,1	1,2	2,5	7,4	8,6
Tobacco : - total cost (mio Ecu)	185,4	205,2	216,1	225,4	309,3
- % refunds	0,9	2,1	1,2	1,6	1,5

CAP

Table 11a

Percentage of budget spent on agricultural export refunds

	1983	1984
a) Export refunds	5,220.5m ECU	6,362.5m ECU
b) Total budget	15,431.1m ECU	12,990.9m ECU
c) % a)-b)	33.83%	35.36%

Table 11b

Percentage of revenue from agricultural levies

	1983	1984
a) Agricultural levies	1,946.65m ECU	1,347.064m ECU
b) Total revenue	24,765.506m ECU	25,361.461m ECU
c) % a)-b)	7.86%	5.3%

The administration's reforming zeal is unlikely to be carried through in full. Nevertheless in whatever form the farm bill emerges from the US legislature it is clear that there will be a growing emphasis on exports which can only have a further harmful effect on the Community budget quite apart from the effects of a changing value of the US dollar.

Given the EC's international commitments and the strain which export restitutions place on the budget, there can be no easy solutions based simply on increased protectionism. One should recall that it was as early as the Dillon round of GATT that it was agreed that oil seeds and especially soya and manioc as well as various by-products should be imported into the community at a zero tariff or a very low duty. The need for continuing intensive negotiations with the United States at every level must be stressed.

#### Other possibilities

As Mr. Pranchère stated in his farm price report the EEC must exploit its agricultural potential to the maximum not just in the production of food but also for non-food uses. (Doc 2-1770/84/c p.6).

The trade figures given above show the Community's particular dependence on imports in certain sectors such as timber. Every time straw is burnt in a field in Europe we are destroying a source of cellulose and other products, for instance. The research which has been done for the Commission by Rexen and Munck shows that there are many potential industrial uses of cereals - if we are able to provide the raw materials at competitive prices and if we are able to persuade the agricultural industry to look at farming in new ways. (1)

(1) Cereal crops for Industrial Use in Europe, F. Rexen and L. Munck report prepared for the European Commission 1984.



This road could lead to greater demand for agricultural products without the need for costly and uncertain export subsidies.

It is also clear that the world population will continue to rise. Many countries are unable to afford the necessary food imports and will be dependent on food aid but the extent of world trade illustrates the effective demand which can be exploited.

In certain Member States the legal, administrative and trading institutions have been more attuned to food importing than food exporting. both at the intra Community level and at the world level attitudes need to change so that better quality products are produced which can stand up to international competition. Traders who have learnt to seek supplies from world markets must also become aggressive marketers.

### Some areas for discussion

This document is a preliminary Working Document. It is perhaps too early to attempt to draw specific conclusions on action to be taken in different places, and more useful to set out a statement of the major points which are revealed and the major priorities to which we must address ourselves. If we can agree on these, we can create the necessary policies, and within these, the action required will become evident.

The tables above illustrate the following points:

1. Self-sufficiency exists in many important sectors.
2. Over one third of the agricultural budget is used in export refunds.
3. U.S. is our most important agricultural trading partner.
4. There exist unexploited world markets for the Community.
5. There are large, still unexploited new markets for non-food uses for agriculture.

Given that we must maintain viable rural populations, that we must protect our environment, that we must assist the less favoured areas without adding to surplus production and that we have obligations to the less developed nations of the world where can we look for change?

I believe that technological development should not be held back. Physical controls on output in the longer term tend to increase prices and make agricultural output less competitive. Protectionism only leads to further retaliatory action. If less money is to be spent on restitutions then the real price of cereals must be reduced. If this is achieved we can hope for a better balance between livestock and cereal production. We can hope to consume a larger proportion of our output and be less dependent on certain imports. We can then also encourage the new industries which can make use of agricultural products and help to cushion our economies when the energy crisis returns.

We also need a better balance in the cereals sector to meet internal and external requirements more effectively and we need to sell our products more efficiently abroad.

Conclusions to Mr Gautier's opinion for the Catherwood Report (Doc 1-248/83)

## 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.