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FOREIGN AGRICULTURAL POLICY AND THE EUROPEAN MARKET¹

European Extension Team²

At this point in history the world is facing the threat of annihilation. But also, for the first time in history, technological progress has created the hope that hunger might be conquered. Both these facts are a challenge to mankind.

The rate of Russia's economic growth and her present capacity are known only in crude estimates. But the fact that growth has been rapid is world knowledge. She has already begun to use her economic power as a tool in the cold war. If her ruthless use of this power is also clever enough, Russia may make important strategic gains which do not involve military risks.

In South America, Africa, Southeast Asia, and the Middle East, population is rising rapidly and threatening to engulf the economic growth that is taking place. Hunger and undernourishment persist in a world where men are no longer passive about it.

This is the world setting for America's foreign economic policy. We dare not make serious mistakes. At home we have achieved abundance. We are an "affluent society." This is especially true of the agricultural sector of our economy. Our agriculture is the envy of Russia and her satellites. But technological progress from the application of our research and education has been flowing a little too fast for even our rapidly growing economy to absorb.

Stocks of price supported agricultural commodities have been growing in spite of extensive surplus disposal operations. Prices of commodities not supported by federal price programs are unsatisfactory to many growers.

In this kind of domestic and world environment an often suggested possibility is simply exporting the surplus to a world that needs more food.

These are the broad issues that confront the American public and policy makers. They also constitute the backdrop for the team analysis and report. One of the important tasks facing our nation and specifically assigned to the Foreign Agricultural Service is to develop our

¹This report was prepared under a joint 104(a) project between the Foreign Agricultural Service and the Federal Extension Service.

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foreign agricultural trade policy in such a way that it will expand the demand for the products of American agriculture and relieve some of the pressures of excess output. But this objective must be pursued in a way that is consistent with our over-all foreign policy aimed at national security and the defense of freedom in the world.

The task of this team was to study this policy in process in Europe.

THE EUROPEAN MARKET AS AN OUTLET FOR SURPLUSES

With enough creative imagination, some of the surpluses from abundant agricultural production in the United States can be used for economic development in the underdeveloped part of the world. This is not a feasible program for Europe, and Europeans are concerned about our surplus disposal operations in the rest of the world.

The existing opportunities in Europe are for tough competitive trade, not surplus disposal.

In countries the team visited the postwar recovery is virtually complete. It began with some relief feeding under UNRRA and the army in occupied countries. It changed to recovery with Marshall aid and tapered off with some assistance under Public Law 480. It was, from the point of view of our objectives, fantastically successful. Communism has been stopped and turned back in Europe. Industry is booming. A base for further dynamic economic growth has been established. The 300 million people of Western Europe have regained a high level of nutrition. About 85 percent of the food consumed is produced in Western Europe, and the rest is imported.

Opportunities of the United States for developing markets in Western Europe will depend on what happens to Western Europe's import demand for agricultural products, and it will also depend on the competitive position of the United States in this market.

The United States has a substantial share of this market but a careful look at the forces of supply and demand does not encourage optimistic forecasts for substantial future increases in this market. Europe is our principal unsubsidized commercial market and now takes 50 percent of our 4 billion dollars of agricultural exports.

OUTPUT, TOTAL EXPORTS, AND EXPORTS TO EUROPE
OF SELECTED COMMODITIES, 1959

| Commodity | U. S. Output | Total Exports | U. S. Exports to Europe and U. K. |
|-------------|------------------|----------------|-----------------------------------|
| Cotton | 11 mil. bales | 5.7 mil. bales | 3.2 mil. bales |
| Wheat | 951 mil. bu. | 402 mil. bu. | 77 mil. bu. |
| Feed grains | 143 mil. tons | 10.5 mil. tons | 5.3 mil. tons |
| Meat | 27,000 mil. lbs. | 199 mil. lbs. | 51 mil. lbs. |

On the demand side, population is growing more slowly than in most of the rest of the world. The population increase is only from .6 to .8 percent per year. Incomes have been rising rapidly with per capita rates varying by countries in the 1950-56 period from 2 to 7 percent. Dr. Arthur I. Hanau of Goettingen University of Goettingen, Germany expects this rate to settle at an average of about 2.5 to 3 percent as the first bloom of recovery from World War II ends. He estimates the income elasticity for food to be about .35. This means that a yearly increase in income of 3 percent would increase demand for food 1.05 percent per year at the producer level in Western Europe. Combining a .7 percent increase in demand generated by population growth with 1.05 percent from income growth, the annual increase in demand would be 1.75 percent.

On the supply side, farm output has been growing also. The sources of increased agricultural production in Europe are familiar to Americans. They include: (1) increase of yields per acre and improvement in the feed conversion rate and (2) replacement of animal draft power by tractors (since this replacement is far from complete it will continue to depress demand for livestock feed for some time).

Dr. Hanau estimates that output will increase about 2 to 2.5 percent per year. He does not envisage any major break-throughs. Combining these two figures, the team is not very optimistic about U. S. market expansion in Western Europe.

These are over-all estimates of demand and supply for Western Europe. They do not shed much light on the share of this export market that the United States may have. Market development operations are important. With but limited observations, the team finds it difficult to appraise how effective our market development efforts can be in increasing the United States share in this market.

Examples of the educational and promotional efforts which the team observed were:

1. Cotton promotion work is underway all over Europe with active cooperation from the cotton textile industry and retail distributors of cotton goods under the leadership of the Cotton Council.
2. The use of grain sorghums for feed is being promoted especially in Italy, by the Grain Sorghum Producers' Association.
3. The work of the Soybean Council of America seemed to be imaginative and effective in finding outlets for all kinds of soybean products.
4. Considerable attention is being directed to poultry promotion work all over Europe. With a growing demand for meat the

United States poultry industry is actively promoting the use of poultry products and conducting education on the use of American type packaged frozen poultry. As the retail distribution system changes to include supermarkets and households acquire refrigeration these efforts may prove rewarding.

5. The Farm Bureau has a trade promotion office in Rotterdam, which attempts to serve as an information and contact center for prospective buyers and sellers of any and all U. S. agricultural products.
6. Such trade factors as quality, price, dependable supply, good merchandise, service, and packaging are increasingly important in European markets. The United States has stepped up its efforts in this regard. For example, the Great Plains Wheat Growers office in Rotterdam is actively working to determine the basic characteristics of wheat needed for the European market and assisting buyers in obtaining these kinds of wheat from the United States.

Some new developments will have important influences on supply of and demand for agricultural products in the Western European and United Kingdom markets and will affect the import demand for American farm products. Most of these developments give rise to uncertainties that should be watched rather than measurable variables for purposes of prediction.

First among these variables with a good deal of uncertainty is the Common Market which includes West Germany, France, Italy, Holland, Belgium, and Luxemburg. At this stage in its development it is surrounded by a good deal of speculation and its effect is uncertain. This is especially true for agriculture since the Rome treaty, which created it, provided a good many qualifications for agriculture only.

One of the important considerations is just how much preference member countries will finally receive and how high the barriers for non-member countries will be. The United Kingdom in particular is deeply concerned about this as an outsider doing much trading with Common Market countries. This concern stimulated her leadership resulting in the Outer Seven arrangement. Greece is also deeply concerned.

Holland, as a member country, is likewise concerned. As one example, the very existence of her livestock farmers and livestock industry depends on low priced feeds for low cost production to remain competitive. Only 45 percent of her exports are to Common Market countries, and 55 percent are to other countries. Although Dutch officials are convinced that some compromise toward higher tariffs on feed will be required as common rates are developed for the six-country area,

Holland can be counted on to press hard for the least compromise now and also to work toward progressive rate reductions later. This influence *could* spell the difference between a course of freer trade, as a Common Market policy, as opposed to pressures by some participants to raise a protectionist wall.

For agricultural trade reasons, as well as for broader policy goals, the United States shares this concern regarding whether the Common Market will accentuate trade within Common Market countries at the expense of multilateral trade based on comparative advantage.

In addition to uncertainty about the impact of trade restrictions on our exports to the European market the United States has another concern. The prospects for expanded trade provided by the Common Market are very encouraging to both French and Italian agriculture. Both nations have a resource base for considerable agricultural expansion from the application of capital and modern technology. The Common Market may well spur this development.

Another variable which injects some additional uncertainty into the appraisal of market development opportunities in Western Europe is the direction which price and income policy may take. A number of forces seem to be developing within Europe to encourage adjustment of agriculture toward a more efficient lower cost production. As a result, production incentives have been reduced some and additional moves of this kind may follow. As these changes in agricultural policy take place they may favor increase in trade with the United States. On balance it seems more likely, however, that policy will tend to continue to protect this market during the shift to lower cost output. Expansion in demand will largely be met by increased output that will likely accompany adjustment to lower cost output.

Perhaps a few commodity generalizations are justified in looking at market development prospects in Western Europe.

Free Europe and the United Kingdom are essentially dependent on imports for cotton supplies. During the past two seasons Free Europe imported an average of about 350,000,000 bales and produced about 514,000 bales. Only slight increases in production are in prospect; therefore, Free Europe will continue to depend on imported cotton. Greece is the largest producer (averaging about 290,000 bales the last two years) and Spain is next. Neither is in the Common Market.

Efforts in the Common Market area to expand agricultural output will not include cotton. Furthermore, tariff concessions are likely to be more liberal for cotton than for many other farm products. Under the

Common Market agreement, cotton along with other raw materials is to be admitted at a tariff rate not exceeding 3 percent.

European demand prospects for cotton depend almost entirely on the extent to which synthetics continue to replace cotton and the extent of total economic development in Free Europe. Tendencies toward self-sufficiency, as well as relative prices of fibers, can be important in stimulating the use of European made synthetics. If economic integration results in general economic development in the six countries, per capita consumption of textiles could be expected to increase. This poses the question of whether such increased demand would be met by synthetics, cotton from other exporting countries, or cotton from the United States. Perhaps Common Market countries will increase takings of U. S. cotton enough at least to offset effects of the declining cotton textile industry in England. Thus, prospects for stabilizing United States cotton exports to Europe seem better than prospects for materially increasing them.

Theory would indicate that demand expansion prospects for U. S. exports might likely be best for those commodities with higher income elasticities. Dr. Hanau has made estimates of income elasticities which he says are "guesses based on experience and *some* statistical evidence" as follows:

| | |
|----------------|----------|
| Total food | .35 |
| Potatoes | -0.2 |
| Cereals | 0.0 |
| Vegetable oils | 0.2 |
| Meat | 0.6-0.65 |
| Fresh fruits | 0.5-1.0 |
| Fruit juice | 1.0+ |

This theoretically, at least, suggests good prospects for either feed grains or meats and for fruits.³

From the team's observations, such demand prospects as are indicated by relatively high income elasticities for meat seem much more likely to be translated into export demand for feed grain than for meat. Our meat exports are small. United Kingdom and European farms have almost no alternative for livestock production as a means for providing balanced farm organization and use of labor. Livestock production also makes possible intensification where labor is plentiful and mechanization reduces the demand for crop labor. Our meat prices have not been competitive either with domestic European prices or other sources.

³With an income growth rate of 3 percent per year and population growth of .7 percent, these figures indicate an estimated growth in demand for all food of 1.75 percent per year. With .6 income elasticity for meat and 1.0 for fruit juice, the comparable estimated demand increase for meat would be 2.5 percent and for fruit juice 3.7 percent.

The team found considerable optimism about market development for broilers, but equal enthusiasm from the European poultry industry for expanding broiler production in Europe.

The United States, with plentiful supplies and lower prices for feed grain, has increased exports and appears to be in a strong competitive position. Nevertheless, our export market is essentially a residual market. The other feed grain competitors are forced to sell at whatever price our market or export policy sets since they have neither a good alternative market nor adequate storage facilities and financing. For this reason, if our market prices remain as low as they are now, they will not tend to encourage expansion in the rest of the world, and we will be less subject to criticism for dumping.

But a number of sobering facts need to be considered before we become optimistic about expanded markets for feed grains.

Most of the opportunities for increased agricultural output with improved technology in the United Kingdom and Northern Europe are in livestock feed—either forage or feed grain. Most opportunities for lower cost or more mechanized crop production are also in this direction. As one example, even with the low income elasticity for cereals, exports of *high quality* wheat might be expanded a little, but if this demand develops and as soft wheat is replaced as bread grain, the next most economical use for this European wheat is livestock feed.

Fruits, especially processed fruits, offer grounds for limited optimism. Even here, this optimism must be tempered. Because economic development is an important national goal for all the nations around the Mediterranean, our over-all policy also is committed to help promote development. Economic development programs for Italy, Greece, Israel, Spain, and other Mediterranean areas must recognize the high comparative advantages these areas have for fruit growing. A strong program for market development for U. S. fruits would compete with our economic development goals.

Market development opportunities may be summarized as follows:

1. Surplus disposal opportunities in Western Europe have virtually disappeared.
2. Opportunities to improve the competitive position of the United States may be found by being sensitive to the unique specifications to meet market requirements.
3. The opportunity for large market expansion is limited by a relatively slow rate of growth of demand which is likely to be matched by expanded output on European farms.

4. We should probably consider as successful, a market development program which manages to maintain our present level of export demand.

THE COMMON MARKET

As indicated earlier the development of the Common Market poses many unknowns. In no area do we find more uncertainties than in the development of agricultural trade policy.

In spite of General De Gaulle's insistence that he looks upon the Common Market only as an institution for economic integration in Europe, it probably would not have developed had it not been for the hope that economic integration would also be a step toward political integration in Western Europe. This is the reason why Chancellor Adenauer supported it, and it is one of the reasons it received the blessing of the United States.

The very hopes that have inspired our support are also the fears that have inspired strong attacks from the Communists. These attacks strengthen our conviction that somehow the developments from the Common Market will strengthen the economies and raise the level of living of the countries of Western Europe, that it will ultimately lead to a greater flow of trade benefiting all and contribute indirectly to our national security.

But these hopes may not materialize. The forces most likely to lead the Common Market away from the "Promised Land" and make it a new institution for internal restricted trade are in agriculture. United States policy will have an important bearing on the direction developments will take.

THE COLD WAR AND THE THREAT OF ECONOMIC WARFARE

By the nature of her political system and because she is committed to world revolution, Russia is in a position to create political and economic furor almost at will. As a consequence she tends to hold the initiative in the cold war chess game.

In any case we apparently face a situation where international trade and economic development aid will be used as tools for economic war. We are uncertain how much economic power Russia and her allies have and we cannot predict how they will use it. But one thing is fairly clear. If they can actually achieve a substantial breakthrough in agricultural production, they can materially improve their levels of living and they may have a surplus to use ruthlessly as an economic weapon to create difficulties in the free world.

Few Americans would be opposed to the Russians eating well. Their eating well might even gradually reduce their enthusiasm for world revolution. For this reason it is not necessarily inconsistent with our interests to help them with technical agricultural exchanges, or even to participate in limited bilateral negotiations to trade some of our surpluses for something we might want. More relevant, our friends and allies may benefit from such bilateral trading. Greek fruit for Russian oil would be an example.

The policy issue we must face is that Russia is likely at any time to use economic policy and even agricultural policy as a political tool quite unrelated to typical economic motivation. Our foreign agricultural policy must recognize this fact. Our friends on the rim of the Iron Curtain are perhaps more aware than we are of these dangers and they are, through their trade, in a position to alert us to dangers and to help us develop policy to meet these dangers.

OPTIONS FOR FOREIGN AGRICULTURAL POLICY

As a summary of our considerations for foreign agricultural policy we have discussed the following:

1. We may allocate our resources and energy to market development. If we are to maintain our competitive position in the European and United Kingdom markets, a sound program of market development will be important. In pursuing this policy we should recognize that trade is a "two way street"—in order to export agricultural products we must be prepared to import products (industrial and agricultural). In the short run market development efforts will do well to maintain our present level of exports. It will not be a substitute for a sound foreign trade policy and a general foreign policy, nor will it be a substitute for a domestic agricultural policy. It will not relieve the American people of the responsibility to cope with the problems of agricultural abundance.

2. The trend of United States trade policy since World War II has been to remove restrictions on trade and encourage private foreign investment. We have strongly supported GATT. Partly as a result of this policy, the dollar position of European nations has improved sharply. Maintaining the volume of agricultural exports to Europe in the next decade or two will depend in part on whether we continue to liberalize our general trade policy.

3. We can also recognize that adjustment to technical progress in agriculture is a world-wide phenomenon. Different nations at various stages of economic development have different problems but these problems also have much basic similarity. The United States might

take the leadership in sharing the mutual knowledge, research, and experience in dealing with adjustment problems. The agricultural attache's office is the obvious avenue through which such interchange could flow.

4. The United States has greater stakes in the development of the Common Market than our economic concerns, important as they are. We can apply ourselves to the difficult problems which agricultural trade poses. We can take the leadership in moving toward relaxation of trade restrictions and use our influence as a rich, powerful trading nation to encourage progress in the Common Market toward trade based on comparative advantage.

5. Our foreign agricultural policy can recognize the overriding importance of the cold war in our foreign policy. Not only can our foreign agricultural reporting recognize the importance of being alert to dangers of economic warfare, but we can also take the leadership in preparing to deal with this sort of warfare if it develops.

PART II

*Extension Program Guides
to Public Affairs*

