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PROCEEDINGS
OF THE
CARIBBEAN FOOD CROPS SOCIETY



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I. INTRODUCTION

Since the end of the second world war considerable interest has been shown in the formation of economic blocs. Now, what is the essence of an economic bloc? We might define an economic bloc as the collaboration in the economic field between two or more countries with the purpose of increasing their welfare by means of the mutual granting of certain trade preferences on as large a scale as possible. In this context welfare is understood to be synonymous with income.

The increase in welfare takes in two ways. These have been designated by the terms *trade creation* and *trade deviation* by the American economist Jacob Viner (2).

Trade creation is the increase in the volume of trade resulting from the more efficient production due to stronger mutual competition. In accordance as the obstacles to trade are eliminated production will take place in the country which has the greatest advantages. The result is a better international division of labour.

Trade deviation is the increase in trade between the partner countries due to the diversion of the trade from traditional trading partners to the participants. Trade deviation will take place in cases where a protective barrier is erected against third countries by means of higher import duties or other obstacles.

In this paper we will be concerned with the European Economic Community, an economic bloc to which Surinam also belongs since 1962 as an associated member.

1. Ministry of Agriculture, Surinam. The author is indebted to B. Persaud of the University of the West Indies for many valuable suggestions. The responsibility for the views expressed is entirely his own.
2. Jacob Viner ; *The Customs Union Issue*, New York 1950.

II. GENERAL CHARACTERISTICS OF THE EEC

The Rome Treaty which established the EEC became operative in 1958. The EEC is distinct from other economic blocs primarily due to its broad objectives. The Treaty numbers hundreds of articles. This can be compared with the Treaty of Montevideo, which established the Latin American Free Trade Association (LAFTA) with its 65 articles. It can also be compared with the British Commonwealth which *de facto* is an informal coöperation with few or no written stipulations. With a surprising thoroughness the founding fathers tried to anticipate all kinds of difficulties which were likely to arise, to make provisions for them. It seems as if they thought that the time was ripe for economic coöperation in Europe and they tried to forestall by means of legal stipulations divisions and dissensions which might arise in future.

In essence the objective of the EEC is to create one common markets for all European products with no obstacles whatsoever at the national frontiers. The smooth operation of the community implied the consequent introduction of policies other than the mere elimination of barriers. Common policies had to be adopted on monetary, fiscal and social affairs as well. These policies covered the following four main aspects :

- (a) The introduction of competitive trade rules for the market and the progressive elimination of discrimination, monopolies and government or semi-official subsidies ;
- (b) Progressive uniformity in the fiscal legislation of the member countries, in order to prevent discriminatory taxation of exports and imports, as of capital and services ;
- (c) The establishment of permanent machinery for consultation and joint action to deal with economic fluctuations, the balance of payments and the monetary situation ;
- (d) Acceptance of the principle of progressive uniformity in social legislation relating to employment conditions and remuneration of labour.

All this would take place in the course of the transition period which will end on or about 1970.

The two problems which proved the most hard to tackle were without doubt the problem of the inclusion of agricultural commodities and the overseas territories in the framework of the preferential arrangements.

III. THE OVERSEAS TERRITORIES

At the establishment of the EEC four of the six members were colonial powers *viz.* France, Belgium, Holland and Italy. The colonies were tied to the metropolis in numerous ways. To present and idea of the interlocking relationship : we can look at the position of France *vis-à-vis* its colonies. For some products such as sugar and rice France had a marketing arrangement for both the French producers and the producers in the colonies. In other instances (coffee and groundnuts) there existed an arrangement only for the producers in the colonies. France guaranteed the purchase of specified quantities of said products at minimum prices which were higher than world market prices.

For other products such as bananas, pepper and palm oil, France had quantitative restrictions on imports from other countries. For cotton France granted outright deficiency payments to the farmers in the colonies (1).

Due to this support we had in France the phenomenon of *surprix* meaning a higher domestic price for tropical products than in the remainder of Europe.

Concursively French products entered the colonies freely.

Surinam also enjoyed some preferences in the markets of Belgium, Holland and Luxembourg the so-called Benelux countries. This is an older economic bloc preceding the EEC. (2).

The preferences Surinam enjoyed were for the import of bananas, pineapples, oranges, lemons, sugar, plywood and sleepers. In some cases the preference was substantial e.g. sugar. Surinam sugar entered the Benelux market at zero duty. Sugar from other countries had to bear a duty of 59 per cent. In other instances — for example for sleepers — the preferential margin was only 3 per cent.

With regard to Surinam there was no reciprocity. Surinam did not grant preferences to products from the Benelux countries.

IV. THE ASSOCIATION

France demanded from the partners :

- (1) that the products from the colonies should enter the common market under a preferential regime ;
- (2) that the partners should help bear the burden of economic aid to the colonies ;

The partners demanded in return :

- (1) that their products should also enter the colonies freely ;
- (2) that entrepreneurs would not be prevented from setting up enterprises in the colonies.

After prolonged negotiations the following arrangement was adopted for the inclusion of the colonies in the EEC.

- (a) products originating in the colonies would be allowed to enter the entire common market duty free. This would give them a protection against third countries which would have to face the external tariff of the EEC.
- (b) Products from the member countries would in principle also have free access to the colonies. We accentuate the term in principle, because here are two important exceptions to this principle viz. the colonies were allowed to levy duties on imports from the EEC countries for fiscal reasons and also in order to protect their local industries.

1. cf. Euromarktnieuws, december 1962 p. 253

2. The Benelux will outlive itself as soon as the EEC is in full operation.

- (c) The colonies should also allow the establishment of non-French enterprises on their territories.
- (d) The colonies would receive a substantial sum from the EEC for the development of their economies. The purpose of this aid would be to improve the economic structure of the colonies with the objective that after a certain period they would reach a level which would place them on equal footing with the member-states. The original intent was that in due time the colonies would become fully fledged members of the EEC.

The term which was invented to indicate the relationship between the EEC and the colonies was "association" to distinguish it from integration that denotes the more penetrating intertwining of the European countries.

V. THE AGRICULTURAL SECTOR

We now turn our attention to the agricultural sector of the European countries, the incorporation of which as already remarked also presented the founding fathers with headaches. We shall first place the problem in a general framework and then look at the adopted solutions.

There is possibly no sector of economic activity which is fraught with so many difficulties as the agricultural sector. Problems are encountered both on the side of supply and on the side of demand. We are all well acquainted with the well-known law of diminishing returns so brilliantly expounded by Robert Malthus. Malthus puts it thus:

„It must be evident, to those who have the slightest acquaintance with agricultural subjects, that in proportion as cultivation is extended, the additions that could yearly be made to the former average produce must be gradually and regularly diminishing.(1)

In modern words if we keep one production factor stable for instance land and vary the others e.g. labour, production tends to increase at the beginning more than proportionally but after a very short time it will diminish sharply to reach a maximum sometimes even to drop. Here we have the phenomenon of disguised unemployment. Disguised unemployment being the situation in which the withdrawal of production factors does not cause a drop of output. Economists know this as zero and negative marginal productivity. The stronger the law of diminishing returns the steeper the supply curve for that particular product.

At the side of demand we also have a steep curve be it for other reasons. Due to physiological and biological reasons we are prepared to pay a high price for our food but if food becomes abundant a sharp drop of prices fails to induce us to consume more. This is because of our stomach. The man who becomes twenty times more wealthy could not eat twenty times more food.

1. Quoted in L. Haney. History of Economic Thought. New York 1949 p. 266.

Now we can observe the following phenomenon. In countries with strong population pressure, demand for food increases and prices tend to rise, (1) as long as the agricultural sector has not as yet been able to benefit from technological advances. (2)

In mature countries we observe the opposite. Mature countries are characterized by the fact that population growth has slowed down and also that the agricultural sector is more apt to apply technological advances. Given this set-up if prices are left to themselves in a free competitive market they will tend to drop.

The support of farmers is a wide-spread phenomenon for economic, social and political reasons. Social reasons : to bridge the disparity in income between farm and non-farm population. Economic reasons : the agricultural sector generates a substantial part of national income and should be safeguarded against undue fluctuations. Political : the farmers often form a substantial part of the electorate. International political reasons : in times of war the supply of food should be safeguarded.

The intervention assumes a variety of forms. In the most simple manner the governments maintain prices at a high stable level. Any excess quantity which would cause a fall in price is withdrawn from the market.

Another system which is not so obvious but practised widely is that the government subsidizes the farmers to dump their surplus stock on the world market. They get the difference between world market price and the domestic price from the government. This system which is less expensive for the domestic tax payers than the first system gluts the world commodity markets thus increasing instability. Simultaneously the domestic market is insulated from other countries by means of a variety of measures such as protective import duties, quantitative restrictions, vexatious sanitary and foreign exchange regulations etc. etc.

VI. THE AGRICULTURAL POLICY OF THE EEC

At the establishment of the EEC it was decided that at the end of the transition period, all obstacles to free trade in agricultural commodities, originating in national protectionist policies, not controlled and coördinated by the community's agencies would have to disappear. These national autonomous policies would be replaced by a common policy of the six countries, drawn up within the framework of the EEC, consisting of a common system of marketing crops and of stabilizing agricultural prices. The norms governing this agricultural organization of the six countries would have to be prepared gradually during the transition period in order to realize a smooth re-allocation of factors.

How does this common agricultural policy operate ?

It proceeds from three main ideas :

1. For a monetary explanation compare Walther R. W. Donner : *El Efecto Económico de la Asociación de Surinam con el Mercado Común Europeo*. Caribbean Studies July 1966 p. 3 sec.
2. Compare : Economic Commission for Latin America : *An Agricultural Policy to expedite the economic development of Latin America*, 1961 p. 9 sec.

- for the trade in agricultural products between the member countries there will be a gradual disappearance of all restrictive measures; agricultural products can be sold in the entire common market, as it was only between the borders of the national states ;
- the community finances the costs of the interventions to stabilize the prices and the subsidies on the export of agricultural products to third countries, and contributes towards the modernization of the agricultural structure ;
- for trade in agricultural products with third countries there is a common trade policy.

For most products the transition period, that is the period in which all obstacles on the trade in agricultural products would be abolished terminates at the end of July 1968. Import duties and import restrictions which in the past protected the internal markets, are being substituted by a system of levies. The purpose of the levies is:

- to bridge the difference in price levels existing between the individual member states
- between the member states and third countries.

At the end of the transition period the internal levies will disappear because then one common price for all of the member states will be reached.

To finance the agricultural policy a Stabilization Fund was established which obtains its resources from contributions made by the national governments. At the end of the transition period the community will obtain its funds entirely from levies on imports from third countries.

To give an idea of the levy system we shall look into the measures taken for three products viz. cereals, sugar and rice. Cereals are produced throughout the community, sugar in all the member states but also in the associated countries. Rice in only two of the member states, also in the associated countries.

(a) *Cereals*

Cereals form one of the most important products of trade between the EEC countries. The community can cover about 87 per cent of its needs (1). The common policy for this product went into force in 1962 when all national protective measures were abolished especially the quantitative restrictions. The only protection against imports both from the partners and from third countries was a levy. This levy had to prevent import from third countries from disrupting internal prices. The levy is a variable amount which changes daily to compensate for price differences. Every member state has the following system of prices:

- (1) a basic target price. This is the planned price for the zone with the greatest deficit.
- (2) derived target prices for other zones in a state.

1. Het Landbouw beleid in de EEG. Uitgave van de Europese Gemeenschappen November 1966, p. 53.

- (3) an intervention price which is somewhat lower than the target prices. It is a guaranteed price for farmers. As soon as the market price drops below this price the Fund intervenes by purchasing all the products.
- (4) a threshold price. This is the minimum price for imported products and is about the same as the basic target price.

What happens when cereals are imported ?

(a) if the imports proceed from third countries the c.i.f. price is increased by the variable levy until it is the same as the threshold price.

(b) if the cereals come from member countries the free at frontier price is also increased with a levy until it is at the same level with the threshold price. However to give the partners a certain preference the amount of the levy is reduced by a standard amount (montant forfaitaire). This amount is increased every year to increase the preference of the member countries, without unduly disturbing the pattern of trade.

In the course of the transitional period the national target prices will gradually be aligned, so that eventually a common target price is achieved. The common target price will then be the only price objective of the community.

The transitional period for cereals ended this month (July 1967)

(b) *Sugar*

The degree of self sufficiency of the EEC with regard to this product is about 110 per cent. The Community therefore is a net exporter. All member countries with the exception of Italy cover their sugar needs out of domestic production. France and Belgium are traditional exporters (1).

The levy system resembles that for cereals with a difference. To prevent an over production of sugar every factory is tied to a maximum production. Production in excess of this maximum may not be sold on the common market. The quantity exported at world market prices is supported by means of subsidies (the difference between the target price and the world market price). The production however in excess of the maximum allowable does not qualify for the subsidy.

(c) *Rice*

The degree of sufficiency is 80 per cent. France and Italy being the producers. Italy producing about 750.000 tons of paddy annually and France about 140.000 tons.

Trade being as follows :

IMPORTS (milled rice)

Germany	150.000 tons	from Surinam	10.000 tons
France	80.000 tons	from Madagaskar	20.000 tons
Belgium	70.000 tons		
Holland	80.000 tons	(from Surinam)	3.000 tons

Those are figures for 1964 (2)

1. Het landbouwbeleid op. cit. p. 37

2. Euromarktnieuws mei 1964 p. 101

The system is about the same as for cereals with target prices, threshold prices, intervention prices etc. In this case also the threshold prices are reduced by a standard amount for the member countries.

VII THE ECONOMIC EFFECTS OF THE ASSOCIATION

The agricultural products of the associated countries can be grouped into two categories :

- (a) products which are also being produced by European states such as rice, sugar, citrus.
- (b) typical tropical products like bananas, coffee, cocoa, tea etc.

At the Yaounde Treaty of 1964 when the association was renewed the EEC reiterated the main principle of the association viz. products from the associated countries would continue to enter the common market under a preferential regime. Two new elements were however introduced. At the formulation of the common agricultural policy the EEC would take due account of the interests of the associated countries with respect to the first category of products. For the second category of products the preferential margin of the associated countries i.e. the external tariff of the EEC vis-à-vis third countries was drastically revised downwards.

Let us look into this matter. At the foundation of the EEC external duty was as follows for the most important tropical products :

Pineapples	12 per cent
coconuts	5 " "
coffee	16 " "
pepper	20 " "
vanilla	15 " "
nutmeg	20 " "
cocoa	9 " "
tea	18 " "

The external tariffs had caused a storm of protests in non associated countries who feared that they would be injurious to their trade with the EEC. The EEC found their fears justified and at the occasion of the renewal of the Association it lowered the duties. But let us look at the facts.

Imports EEC from non associated developing countries :

1958	5910 million dollars
1964	8684 million dollars
	increase 47 per cent.

Imports EEC from associated countries :

1958	914 million dollars
1964	1147 million dollars
	Increase 25 per cent.

(Source : Algemeen Verslag EEG juni 1965)

In this period exports from the EEC to the non associated countries increased by 12 per cent, but to the associated countries by 15 per cent. The figures provided, disaffirm the thesis of the EEC with regard to

the impairment of trade of the non associated countries. None the less the external duties were lowered as follows :

Pine apples	to 9 per cent
coconuts	" 4 " "
coffee	" 9.6 " " (for Benelux 2 per cent)
pepper	" 17 " "
vanilla	" 11.5 " "
nutmegs	" 15 " "
cocoa	" 5.4 " "
tea	" 10.8 " "

(Source : Achtste Verslag op. cit. p. 361)

The effect of the impairing of the preference of the associated countries was immediately felt. In the annual report of the GATT for the year 1965 it was reported that imports of the EEC from the associated countries dropped two percent as compared with 1964, whereas imports of the EEC from developing non associated countries increased by 21%. (1)

Neither for Surinam did the association cause the enormous increase of exports to the EEC that was expected. From 1961 to 1965 they rose only with about 10 per cent viz. from 5.1 to 5.6 million dollars. (2)

What are the reasons for this unsatisfactory development? Why has trade of the associated countries with the EEC notwithstanding a certain preference developed so unsatisfactorily? There are many reasons.

It will be recalled that the price formation of agricultural products is determined less by economic than by political factors. There are few countries which do not resort to dumping practices so to sustain their agricultural exports. A fixed levy therefore to give any preference at all should be very high. What was easier for the non associated countries than to lower their prices to remain below the prices of the associated countries?

But there is something else. Both Holland and Germany have always been fervent opponents of the association. Only in order to obtain France's signature under the Rome Treaty did they acquiesce with the overt intention of eroding directly or indirectly the preferences of the associated countries. (1)

Already at the signing of the Rome Treaty they succeeded in wresting a few concessions from France in order to temporarily maintain their traditional trade currents with other developing countries. For instance Holland was allowed to continue importing coffee duty

1. International Trade 1965 p. 161
2. cf. Economische Voorlichting Suriname maart 1967 p. 38

1. Holland was the first country to demand the termination of the association, the moment the French colonies became independent. The efforts of Holland — and Germany — to have other countries associated with the EEC should be seen in the light of impairing the preferences of the original associates.

free from third countries, Germany was allowed the same with respect to bananas. At the time Germany got this concession it signed a promise stipulating that it would do everything possible to favour bananas from the associated countries. To illustrate the disloyal manner in which Germany treated this promise let us look at the banana import of Germany. In 1957 total imports from third countries amounted to 335.000 tons and from the associated countries 7000 tons. In 1965 imports from third countries amounted to 583.000 tons and from the associated countries 2000 tons.

In a report prepared by a group of German experts it is argued that Germany cannot purchase from the associated countries because their prices are 40 per cent higher than from Colombia and Ecuador — their traditional banana suppliers.

In 1960 Colombian prices were 13.4 U.S. cents per kilogram and in 1965 12.9 cents. Ecuadorian prices were 13.3 and 14.2 cents respectively. We see here stable prices, but at the same time prices of products from the EEC countries increased by about 3 per cent per annum, due to the creeping inflation in Europe. In other words the terms of trade deteriorated seriously for the Latin American countries. They must deliver increasing quantities of their bananas for the same quantity of European goods. (1)

The amount 13 cents is the c.i.f. price of bananas delivered in Germany. Consumers pay in Germany about 30 cents per kilogram. Consequently German business receives 17 cents and the Latinos 13 cents for every kilogram of banana sold. But from the 13 cents the Latinos receive we should still deduct the freight charges of the German ships that transport the bananas.

If Germany were to purchase a greater quantity of its banana needs from the associated countries this would naturally lead to an increase of prices in Germany. But would this be injurious for the Latinos? Hardly. Germany imports on or about 600.000 tons of bananas per year and the associated countries would only be able to supply a very small part of these. Also the price elasticity for bananas is low and smaller than unity. That means that if prices rise by a certain percentage the demand decreases but by a smaller percentage. The total amount the Latinos would receive for less bananas would consequently be higher.

VIII CONCLUDING NOTE

The agricultural policy of the EEC has many aspects. For the sake of brevity we have not entered into too many details. When we review what we have so far said we observe that with regard to the European agricultural sector the EEC has been able to invent an extraordinary efficacious system to completely insulate the European market from other countries producing the same products. The system of variable levies is really unique and most effective.

1. cf. Das Bananen-Protokoll im EWG-Vertrag, Seine Bedeutung und die Prüfung von Änderungsabsichten. Institut für Wirtschaftspolitik von der Universität Köln. Köln 1967

The measures being applied on behalf of the associated partners however can barely be termed satisfactory (1). The factual development of trade illustrates this. The associated countries are not happy with this situation. They therefore approached recently the EEC with the following requests :

- that the EEC countries should stimulate the consumption of tropical products in general, by means of the elimination of internal duties for instance excise taxes.
- that the member countries should favour products from the associated countries when making purchases for the public sectors.
- that the EEC should also apply a system of price stabilization for the products from the associated countries.
- that the EEC should take anti-dumping measures against third countries. (2)

The EEC seems to be more interested in world wide solutions of the developing countries. In 1963 it made a proposal to the GATT (General Agreement on Tariffs and Trade) for the regulation of international trade in agricultural products. In this proposal the EEC proceeds from the fact that national support of agricultural products is something that has come to stay. What the countries ought to do is to agree not to extend further the aid which they give to farmers. Production will consequently not be further artificially stimulated. According to the proposal of the EEC the normal world market price should be stabilized as an international reference price. The only support the national governments should be allowed to give the farmers would be the difference between the domestic price and the international reference price. For certain products like sugar production should be restricted. (3)

The proposal of the EEC is one of the hundreds made after the second world conflict to stabilize the international commodity markets and can hardly be termed realistic. Problem: on what level should prices be stabilized? There are too many conflicting interests involved in this affair. We do not believe that the time is ripe for solutions on a world wide scale. All efforts in this direction have failed in the past. One should in our opinion start at the bottom by organizing trade in small groups of countries (4). In accordance as these countries stimulate each other and grow together a trial can be made to enlarge the group. The EEC itself presents a beautiful example of what mutual coöperation can realize. Economic growth in the member states has been remarkable.

1. An exception is vegetable oils for which the EEC will have reference prices. It will pay the associated countries 90 percent of the difference between the world market prices and the reference prices. Costs 13 million dollars U.S. per annum.
2. Verslag van de gemengde groep deskundigen voor de afzet van de produkten van oorsprong uit de GASM aan het Associatie Comité, maart 1967.
3. Het Landbouwbeleid van de EEG op cit. p. 51 sec.
4. Compare ; Walther R. W. Donner, Suriname en de EEG, Paramaribo 1962 p. 87 sec.

Already in 1961 I proposed that the Caribbean countries should come together to seek solutions for their problems which in many respects are similar (5). It is more than time that we coöperate and harmonize our development plans. It is about time that we learn more from each other. With interest I follow the plans of some Caribbean countries to form a Caribbean market. I do hope that we Caribbeans in an increasing degree will discard our individualistic nature and tendencies which are apt to lead us nowhere and that mindfull of the saying "united we stand, divided we fall", we seek ways and means of promoting this coöperation. This Caribbean Food Crops Conference proves that we are in the right direction. May we proceed along these lines.

5. Walther R. W. Donner ; *The Financial Mechanism of the Netherlands Antilles*, Amsterdam 1961 p. 157