Surpluses

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FORCES WITHIN THE EC TO STOP THE GROWTH IN AGRICULTURAL SURPLUSES

Tim Josling *

The CAP has always been controversial, but so far has survived serious challenge. However the forces of conservatism and of change are now locked in mortal combats. The next two years will be crucial - because of budget problem. The funds needed to run the CAP will be exhausted within the next 24 months.

Basic problems:

i) production growth has exceeded consumption (and commercial exports) for milk products, soft wheat, barley, beef, wine, and a number of fruits and vegetables. Three types of surpluses are often distinguished:

- seasonal surpluses   eg: wine, durum, olive oil
- cyclical surpluses   eg: beef
- chronic surpluses   eg: milk products, cereals

ii) world markets for surplus commodities not able to absorb them easily. Weakness of $ (or strength of EC currencies) did not help. The EC failed to scale down programs in 1973-75 period when world prices were high. Some help this year from strong $. Another "food crisis" could "help" - but surpluses are in the "wrong" commodities. (i.e., corn, soybeans, etc. have been the growing markets, but these are imported into the EC).

iii) budget cost goes up by proportion of growth in surpluses - eg. 18-20% a year until 1980, but income goes up by "inflation-plus-growth" or, say, 12 percent.

iv) will reach budget limit in 1982. Budget limit is real, for the first time. EC income ("own resources") is made up of levy revenue, customs

* Professor, Food Research Institute, Stanford University. Remarks prepared for Organized Symposium on "The Implications for US Agricultural Trade of Enlargement of the European Community and Future Developments in the Common Agricultural Policy," American Agricultural Economics Association meeting, Clemson, July 26-29, 1981. Gene Hasha, USDA, also contributed some remarks under the same heading at the Symposium.

duties, and up to 1% VAT. Budget cannot be in deficit.

v) "own resources" can only be increased by Treaty revision and ratification by all national parliaments. UK, WG are against raising this limit - at least, without some spending controls on agriculture. Hence the budget "crunch."

Conservation forces - opposing substantial change in the CAP:

i) Vested interests and lobbies, including the EC-wide farm organization COPA-COGECA, and the powerful national ag. lobbies. These groups are well organized, and enjoy considerable public sympathy.

ii) National interest of many members, in particular France, Ireland, Netherlands, Denmark (with tacit support by WG, Belgium, Luxembourg). Italy and Greece have mixed interests--Only the UK lacks a national vested interest.

iii) Locus of decision-making ... agric. ministers often unable to see the problem, let alone solve it. Inevitably, they are too often looking at next national election.

iv) Voting method - de facto unanimity, despite attempts to introduce majority voting. Veto power of any one country blocks change: leads to "tyranny of the minority" and to conservative decision-making.

v) Budgeting method: the agricultural spending (FEOGA) is regarded as non-discretionary spending, i.e., it cannot be touched by the European Parliament. In addition there is no pressure for accurate forward budgeting of Agricultural spending.

vi) Permanence of legislation: there is no built-in termination date for legislation (cf US law), and hence no obligatory review.

Revisionary forces - pushing for "reform" of the policy:

i) Commission - wants more money for other projects, outside agriculture. The Commission has put in numerous reform proposals, mostly voted down by the Council.

ii) Budget officials in WG, UK are concerned with growing net transfers, unconnected to "need" or income levels, to other Community members - largely through the CAP.

iii) Consumers: Becoming aware of the cost of high support prices... annoyed by well publicized export subsidies such as to the USSR. Not part of decision-process, though better representation now in EC, through BEUC the central consumers' organization.

iv) Food Industry, some livestock farmers, and also foreign interests, upset at both price levels and the complexity of CAP regulations.

v) More recently, some French officials have become concerned about the loss of markets within Europe for French grain, due to high prices.

Options facing the EC:

a) do nothing: but status quo is not viable any longer. There will simply be a financial crisis, and some messy ad hoc methods for resolving it.

b) direct budget limits - this will force national governments to step in with additional support for their own farmers.

c) national part-finance - "non-Communautaire," but always available as a last resort. UK has pushed for this solution, but Commission is against it!

d) control surpluses - by price ... most logical solution ... 3% nominal price increases (i.e., no nominal price decreases in strong-currency countries) would keep spending in check. If inflation continued, other programs could grow. Producer taxes ("corresponsibility levies") have been used as a means of limiting the

e) control surpluses - by quantitative means ... i.e., by putting a limit on quantities eligible for support ("quantum", "super levy"). This has been widely discussed, but not tried.

f) new sources of finance - e.g., veg. oil tax. This would also help adjust relative prices, encouraging consumption of animal fat, grain feed, and olive oil. Not popular with compound-feed sector or with overseas interests.

Some mixture of d) and e) <u>will</u> be tried for the surplus commodities, e.g.:

- cereals: lower intervention price for production over a particular tonnage (quantum)

- milk: producer taxes on "excess" production growth - (super levy) or on all production (co-resp. levy)

- beef: more careful control of intervention quantities, by tightening regulations

- f. & veg.: cut back on processing subsidies, and intervention: control acreage, imrprove marketing.

In the past, the policy has not been "managed" to save money ... now it has to be.

Not more than an even chance of these reforms working!

Enlargement puts an additional burden on all of this ... as other papers in this symposium will relate.