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SECOND EUROPEAN CONFERENCE OF AGRICULTURAL ECONOMISTS

DIJON, SEPTEMBER 1978

EUROPEAN AGRICULTURE IN AN INTEGRATING ECONOMY

AGRICULTURAL TRADE RELATIONS BETWEEN THE EEC
AND TEMPERATE FOOD EXPORTING COUNTRIES

by

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I Confrontation versus Cooperation in Agricultural Trade

World trade in temperate-zone agricultural products is only a small and decreasing fraction of total trade. At the beginning of the 1970s world exports of temperate-zone food and feed products represented less than 10 per cent of total world exports (Mackie, 1973). In political terms, however, the importance of agricultural trade has been growing instead. This is due not only to the violent fluctuations which shook the world food economy and the markets for raw materials in general since 1972. The growing importance which has been attached to agricultural trade in attempts at managing international economic relations reflects also the fact that the structure and organization of the world food economy and of international trade in agricultural products diverges more and more from the principles governing world trade in general. Apart from the recent wave of protectionist practices in industrial trade, the world trade system has been characterized since World War II by a progressive liberalization of trade in non-agricultural products which was paralleled by an unprecedented growth of the volume of trade. In agricultural trade, however, the intensity of protectionism was not reduced; at best it remained unchanged. While cooperation became the main theme in shaping the international relations between increasingly inter-linked national economies, the development of agricultural trade relations was in constant danger of leading to confrontation.

The European Community has, willingly or not, a considerable influence on the structure of worldwide agricultural trade. No other trading partner in the world has higher gross or net imports of temperate-zone agricultural products than the Community. And even on the export side the EC ranks among the largest gross exporters of farm products in the world(1). But it is hard to avoid the impression that the Community is still far away from fully understanding its role in the world food economy and from acting with

(1) In 1976 EC gross food exports to third countries amounted to 10.5 billion US \$ as compared for example to USA gross food exports of 21.8 billion \$ or Canadian gross food exports of 4.7 billion \$. (GATT, 1977).

the corresponding sense of responsibility. At the time when the EEC was established and the first set of Community policies was developed, the western world, and above all the USA, implicitly accepted the rather inward looking behaviour of the Community in order to support the process of political unification in Western Europe. With a decreasing pace of progress towards a political and economic union in Europe, however, the harmful external effects of community policies, especially in the area of agricultural trade, became more and more felt. "The confrontation [in agricultural trade negotiations] left a residue of bitterness and disillusion outside Europe towards a development which otherwise should have been welcomed by the family of nations" (Warley, 1976, p. 288).

The lack of cooperation in agricultural trade is demonstrated not only by the notoriously divergent positions, mainly between the EC and the USA, in international negotiations as conducted for example in the framework of GATT. It is reflected also by the development of trade flows. Degrees of self-sufficiency in agricultural production in the EC have shown an increasing trend for most major products since the Common Agricultural Policy (CAP) is in operation. Among the whole set of farm products which with respect to climatic conditions could be produced in significant amounts in the Community at all, feed grains is the only major product category in which the Community is still a net importer. And even in feed grains the Community's degree of self-sufficiency is successively increasing. The large volume of EC agricultural imports which so often is cited by EC officials in order to demonstrate the openness of the Community consists - apart from feed grains - mainly of products which cannot be produced in the EC at all (like the tropical beverages), can be produced only in limited quantities or in certain seasons (like some fruits and vegetables) or could be produced only at prohibitively high costs (like soybeans). In all other farm products the Community is either self-sufficient or producing an increasing

surplus. There is no doubt that this has nothing to do with comparative advantages of agricultural production in the Community, as EC farm prices are considerably above world market prices and among the highest in the world. Agricultural trade flows, not only in the EC, seem to be determined less by competition among producers than by competition among trade policies.

Having said this it is tempting to state that the agricultural trade relations of the EC with temperate food exporters are in disarray; to contrast this picture with a description of an ideal free trade situation; to devise a totally new EC trade policy for farm products; and to hope for future generations of policy makers to hear the voices of brave and brilliant economists. Instead, the approach followed in this paper will be different. Starting out from a short account of the development of EC negotiating positions in international talks about agricultural trade which is thought to provide some historical background, it will be argued here that

- i) there are more considerations to be taken into account in agricultural trade than those on which the pure philosophy of free trade is based;
- ii) even if this broader view is adopted, EC agricultural trade policy looks overly protectionist;
- iii) apart from the general protectionist nature of EC farm and trade policy there are some practices in the CAP which are particularly harmful;
- iv) this causes not only economic costs in the agricultural sector but also political and economic costs in other areas;
- v) there are specific political constellations in the EC which aggravate trade problems;
- vi) there is room for more international cooperation which the EC could use without violating vital interests of the Community;

vii) the trading partners of the Community could adopt measures which would enhance the chances for more liberal policies of the EC.

The Tokyo round of multilateral trade negotiations, held under the auspices of GATT in Geneva, is currently in its final stage. Agricultural trade issues figure high in these negotiations. In order to avoid the danger of being overtaken by current events the present paper will not deal with specific questions which are currently negotiated in Geneva. The paper will rather address those more basic problems of EC agricultural trade which, independently of the outcome of the Geneva talks, will have longer run significance (1).

II EC Agricultural Trade Policy and International Negotiations

Like agricultural policies in most countries the development of the CAP has been determined mostly by domestic forces. The trade effects of instruments directed towards controlling the development of the agricultural sector in the Community have always been looked at more or less as by-products of domestic policies. Insofar it could be questioned whether it is adequate at all to talk about an explicit agricultural trade policy of the EC. On the other hand there has at all times been international pressure on the CAP from the side of the Community's trading partners, on which the EC had to react in various international fora. It is neither possible nor necessary here to specify the weight, which these international pressures have actually had in influencing EC farm policies. But for evaluating agricultural trade relations of the EC with temperate zone food exporters it may be helpfull to recall at least some

(1) For an account of agricultural trade problems in current GATT negotiations see Josling, 1977.

major stages of international negotiations on agricultural trade issues directly related to EC policies. The main forum for these negotiations, as far as legally binding commitments are concerned, has been and remains to be the GATT. And the most important negotiating partner of the Community, in terms of political and economic weight as well as with respect to complementary trade interests, is the USA.

The CAP came under international scrutiny already before it really had emerged. The agricultural articles of the Treaty of Rome were already looked at sceptically by a GATT committee in 1958, and in the Dillon Round of GATT negotiations, 1960-62, a first confrontation between the EEC and the USA on a not yet formulated Community farm policy took place (1). The main purpose of the Dillon Round was to conduct negotiations with the EEC according to Article XXIV: 6 of the GATT, which permits the establishment of customs unions provided that the common external tariff of the union restricts trade not more than the individual tariff schemes of the member countries prior to the formation of the union (Curzon, 1976, pp. 168 - 175). The USA feared a restrictive agricultural trade regime in the EEC after the Community had denounced the tariff bindings on products which were supposed to be covered by the CAP, and tried to reach guarantees for access to EEC agricultural markets at the then existing level. The Community was successful in rejecting this demand, and the USA finally accepted an agreement which stated nothing more than that the USA had unsatisfied negotiating rights. The major compensation, apart from the political and strategic aspects of European unification, was

(1) This section of the present paper is based mainly on the excellent analysis of the place of agriculture in post-World War II international negotiations given by Warley, 1976, See also Preeg, 1971, and Corbet, 1976. As these sources underlie the whole of this section, they will not be cited repeatedly.

the commitment of the EEC to bind zero duties on soybeans and protein meals. Shortly before the end of the Dillon Round the EEC Council of Ministers decided on the market orders for grain and grain-fed livestock (Frenz, 1976, p. 6) and thus revealed the way in which the CAP would operate. The variable levy system as the main feature of the EEC market and price policy was never formally challenged in the GATT. Thus, at the close of the Dillon Round the CAP and its main instruments were in principle internationally accepted or at least tolerated. As the future common farm price levels had not yet been decided upon at this stage it was not fully clear in which way the harmonization of previously national agricultural policies in Europe would affect trade flows. However, compared with the widespread use of quantitative trade restrictions in national policies of the member countries, the basic instruments of the CAP looked rather liberal.

Nevertheless, from then on the Community was under constant international pressure to change its system of farm support and to limit its level of protection. The position of the USA, the main protagonist for a more liberal agricultural trade policy in the Community, however, was relatively weak for at least two reasons. First, the USA had missed the opportunity, whether it existed at all or not, to influence the basic structure of the CAP in the decisive early stage before 1962. Second, the USA, fighting abroad for liberal agricultural trade policies, had reserved for itself the unlimited right to restrict agricultural trade by quotas and fees as far as domestic agricultural programmes made this necessary. This open-ended waiver from the general GATT rules was granted to the USA in 1955 and is still in existence - and in use. Contradictions between demands of the USA in international negotiations and its own agricultural trade policy have always undermined the US bargaining position (Sorenson, 1973).

While in the Dillon Round the emerging CAP was only modestly criticized, in the Kennedy Round, 1964-67, the growing body of EC agricultural market regulations was frontally attacked by the USA and

other exporters of temperate-zone agricultural products. The USA experienced balance-of-payments problems and hoped for relief through expansion of agricultural exports. Like other agricultural exporters the USA began to be hurt by the EC market orders and wanted to check the growing agricultural protectionism in Western Europe before it was too late. The 1962-63 "chicken war", caused by the substitution of high CAP levies for low German duties on poultry imports to Germany, on which the USA reacted by compensatory retaliation (Curzon, 1976, pp. 210 - 213), was not yet forgotten. And the USA wanted principally to apply the basic GATT philosophy of market-oriented trade to the agricultural sector, too. The EC, on the other hand, was in a difficult situation with respect to negotiations about external trade in agricultural products. After the basic decisions about the general nature of the market orders had been taken with comparatively little difficulties, the formulation of the detailed market regulations and, above all, the agreement among member countries about the common farm price levels absorbed the full attention of the Community. To consider external demands in attempts at reconciling the member countries' interests was at least an extremely touchy task. After all the liberalization of internal agricultural trade in the EC was a major achievement which was supposed to compensate the agricultural exporters among the member countries for the improved access to their non-agricultural markets which the more industrialized member countries gained.

The initial position of the USA in the negotiations which centred mainly on grain was that the variable levies of the EC should be replaced by fixed tariffs which should be bound and subjected to the same 50 per cent cut which was envisaged for manufactured goods. When this position proved not to be a starting point for negotiations with the EC, the USA fought for a guaranteed share of the EC markets for wheat and feedgrains and later, when even this was denied, for the assurance on the side of the EC not to increase self-sufficiency ratios. When the EC finally offered to keep, subject to certain qualifications, a maximum self-sufficiency in grains of 90 per cent, the USA and other exporters found this offer

not acceptable as this could have meant an absolute reduction in their exports, the degree of self-sufficiency in grains of the EC at that time being about 85 per cent. The USA eventually dropped all other demands on the CAP and settled, apart from EC duty reductions for nonvariable-levy products, for agreements to raise the floor price and increase the importers' contributions to food aid in the International Grains Agreement.

The initial EC position in the Kennedy Round negotiations on agricultural trade had been orientated towards consolidating current policies and possibly limiting further trade restrictions. The Community proposed the famous "montant de soutien" approach which meant binding the existing margins of support against increases. This approach would have left domestic farm policies free to decide on the instruments used to protect the farming industry but would have established ceilings to the level of protection, defined as the difference between the domestic producer price, adjusted for non-price support measures, and a world market reference price. The reference price could have been negotiated which might have provided incentives for exporters to observe minimum export prices. The USA and other exporters did not accept the "montant de soutien" proposal as it looked by no means like a step towards a liberalization of agricultural trade but rather like a freezing of the existing trade barriers. The exporters wished to apply the general rules of the GATT to agricultural trade and felt that the EC wanted to keep agriculture separate and to establish specific procedures for agriculture. The EC proposal did not include the prospect of expanding agricultural exports which was the main objective of the USA.

Looked at from the point of view of the USA in the mid-sixties the refusal to negotiate about the EC proposals is intelligible. Developments since then have changed the picture. The USA and other exporters might be happy now to see the EC binding its levels of support or its self-sufficiency ratios. The EC, on the other hand, never again came back to its proposals of the Kennedy Round.

From a global point of view the development of the international system of agricultural trade might have benefited if the EC proposals had been adopted. There are certainly numerous problems and shortcomings in the "montant de soutien" approach, and modified versions of the original concept might prove preferable (Heidhues, 1976). The centre point of the proposal, which is making domestic farm support measures of all kinds subject to the same international scrutiny as tariffs on manufactures, would still constitute an important step forward in international negotiations on agricultural trade. And even the by far less ambitious approach of binding maximum self-sufficiency ratios looks advantageous in times of nearly unrestricted growth of self-sufficiency on EC agricultural markets.

Agricultural issues which figured prominently already in the Kennedy Round are even more important in the current Tokyo Round (1). Previous rounds of GATT negotiations have been rather successful as far as tariff cuts in trade with manufactures among industrialized countries are concerned. Non-tariff measures, trade in temperate-zone agricultural products and the improvement of the trade situation of the Third World remained unfinished businesses which were explicitly given priority by the negotiating parties of the Tokyo Round. Above all the USA have laid great emphasis on the need for progress in the area of agriculture, and shortly before the Tokyo Round was formally launched in 1973 the US Department of Agriculture suggested in the Flanigan Report that the USA should be prepared to withdraw from the GATT if a satisfactory liberalization of agricultural trade could not be reached (Warley, 1976, p. 289).

(1) For detailed accounts of agricultural problems in the current Multilateral Trade Negotiations see Harris, 1977, Josling, 1977, and Warley, 1978.

Judged from the divergent initial negotiating positions of the main protagonists, however, the prospects of the Tokyo Round leading to substantial adjustments in agricultural trade policies of the western world look rather poor. The US position, based on the Trade Act of 1975, did not include specific demands or proposals in the area of agriculture. It rather suggested to apply to agriculture the same procedures as are developed for industrial goods. This US position reflects tactical considerations as well as basic philosophy. From a tactical point of view the USA wants to conduct agricultural negotiations directly along the same lines as negotiations on other issues as this constitutes better opportunities to trade off concessions on manufactures which the USA is prepared to make against improved access to EC agricultural markets. The more fundamental point in the US position is the view that agricultural trade issues are not in principle different from other problems in international trade and that market forces should govern agricultural trade in very much the same way as they do in other areas. The EC, on the other hand, sought to separate agricultural negotiations from the rest of the Multilateral Trade Negotiations and was quite successful in this point. The Community approach to agricultural matters in the Tokyo Round emphasizes the need for controlling world agricultural markets by establishing internationally agreed upon rules in the form of commodity agreements. The EC position is less concerned with freer trade in farm products and more orientated towards securing stability.

It is often said that negotiations on agricultural trade suffer from a major divergence in basic philosophy between the USA and the EC, the USA being devoted to the principles of free trade while the EC adheres to interventionist ideas. These divergent approaches, however, happen to correspond rather well with more immediate interests of the two protagonists. There is certainly no more direct way to striving for increased US exports than by arguing that importers should abandon their trade restricting measures and adopt a positive attitude towards free trade. And for EC negotiators the main political objective must be to shield domestic market regulations, which had been developed under great internal difficulties, against external pressures. Both partners

have enough problems in applying to their own policies the principles which they try to impose on other nations. The US domestic farm and agricultural trade policy is far from being governed by free trade philosophy and the EC has more than once had difficulties in fulfilling its obligations in international commodity agreements or even in entering them; the new International Sugar Agreement is a case in point.

The CAP has been attacked by the Community's trading partners in two rounds of GATT negotiations without noticeable effects as far as the main features of EC market orders are concerned, and so far it looks as if there is little chance that the Tokyo Round results will be different in this respect. It may be precipitate to draw conclusions from this superficial analysis. But it is hard to avoid the impression that the Community has been fully absorbed with its internal agricultural problems and has shown little responsiveness to demands of third countries. Global political constellations, weak bargaining positions of other countries and negotiating mistakes of its counterparts may have helped the Community to hold its lines. But this is no excuse for neglecting the international repercussions of its domestic actions.

III Some Economics of EC Agricultural Protectionism

Agricultural protectionism, in Europe as well as elsewhere, is opposed not only by exporting countries which suffer directly from it. It is also criticized within the protectionist countries because of its alleged negative welfare effects. This criticism is based on the neoclassical conviction of the welfare-maximizing nature of free trade. Free trade, however, is no longer a general proposition of economic analysis but rather a special limiting case since it has been demonstrated in a growing body of literature that there are several conditions which require government intervention if an allocative optimum is to be reached (1). There are some specific cha-

(1) An excellent analysis of these issues is given by Corden, 1974.

racteristics of agricultural product and factor markets which could suggest that government interference with trade is a necessary prerequisite of an optimum. An evaluation of EC agricultural trade policy would, therefore, be incomplete if these qualifications of the free trade philosophy would not be considered. The major qualifications with respect to the agricultural sector result from the multidimensional nature of the relevant set of policy objectives, the main additions to the typical analysis of maximum static welfare being security of supplies, market stability and acceptable farm incomes. While a detailed analysis would go beyond the scope of this paper, some remarks seem in place (1).

The need to secure supplies of food constitutes undoubtedly a reason for government intervention in a group of countries which, because of their comparative disadvantage in food production, would otherwise be heavily dependent on world market supplies. In general this argument may apply to the EC situation. The current EC farm price policy, however, can by no means be justified on these grounds. Not only has there never been any explicit Community decision on the level of food production desired for security reasons or on a sensible combination of stocks and current production. Actual production levels as induced by the CAP are simply far beyond what would be necessary to insure against emergency cases.

A related but still rather different objective is that of market stability. Agricultural product markets, characterized by typical supply fluctuations and low short run price elasticities of demand and supply, have an inherent tendency towards instability which calls for government action. The constitutive elements of CAP market orders, variable levies and intervention prices, are thought to fulfil this function. However, if stabilization were the main motivation of the CAP, there were no reason to set EC farm prices as high above world market levels as they are now. Furthermore, stability is not an objective which could be pursued without regard to the costs involved. In the CAP stability is provided not only for grain which is central to the whole agricultural sector and easily storeable

(1) A more elaborate investigation of these issues is provided for example in Tangermann, 1976.

at the same time. Stabilization has been pushed forward also on markets where it is by far more costly and less efficient, like for beef, fruits and vegetables. Finally, the EC method of securing stability for domestic markets adds considerably to the instability of world markets and shifts the burden of instability to other countries (Josling, 1977 a). In this respect the behaviour of the EC is significantly different from that of the USA (Heidhues and Hollstein, 1978). It is tempting to draw parallels with the attitude of the Soviet Union which has increasingly used the world market as a residual supplier and thereby aggravated worldwide instability (Johnson, 1977). Yet the EC has at least not speculated against the world market and made profits out of its price fluctuations.

Providing acceptable incomes for farmers, finally, is obviously the predominant objective of the CAP. This motivation, which generally lies behind agricultural protectionism, is often also interpreted in terms of mitigating the negative consequences of social change, lowering the pressure for outmigration from agriculture or securing a fair distribution of the benefits of economic growth (Heidhues, 1977). There is little doubt that this objective in principle is broadly accepted. The specific constellation of low growth rates of demand for food and high rates of productivity growth in agriculture necessitates outmigration of labour from agriculture. This process of social change is painful as such and is accompanied by income pressure on those groups of farmers who have low opportunity costs. In countries with an unfavourable farm size structure and a high surplus of labour in agriculture the adjustment process takes a considerable time during which governments cannot avoid supporting low-income farmers. Basically this means effecting income transfers from the non-agricultural sector to farmers' households. It is the method by which these transfers are brought about, which is controversial among politicians as well as among economists. In the EC, like in many other countries, income support for farmers is effected via market prices for farm products. Apart from the question whether this method is effective at all - the income transfers may be written down into land values (Johnson, 1973) or absorbed by decreasing outmigration (Tangermann, 1978) - it is

criticized mainly because of its distributionary consequences and its negative effects on global welfare.

Agricultural price support places a relatively high burden on low non-farm incomes and benefits mainly high-income farm households (Josling and Hamway, 1972). General protection of farm prices does not allow to support specifically the incomes of those groups within agriculture which are deemed to need the most help. Attempts at concentrating support on those commodities which yield particularly welcome distribution patterns within agriculture are in danger of leading to highly negative allocative results. EC milk market policy is a case in point.

The main criticism of price support, however, has always been that it distorts trade flows and prevents the domestic economy as well as other exporting countries from making full use of the international division of labor. The resulting reduction of economic welfare represents a dead weight loss which is associated with the income transfer to farmers. Accordingly it has been argued by many authors that it were preferable to look for more direct ways to support farm incomes and to avoid distorting agricultural product markets. On the other hand many arguments have been raised against publicly financed direct income support for farmers. Two main objections have emerged. First, the welfare loss due to price distortion may in reality be rather small, as some empirical estimates indicate (Warley, 1976, pp. 299 - 302). For Germany, for example, it has been estimated that the real economic loss caused by the distorted factor allocation is in the order of magnitude of .3 per cent of GDP (Koester and Tangermann, 1977). Second, public money is scarce and it may be difficult to raise appropriate funds. At least it seems possible to mobilize larger sums at less political cost by market intervention (Heidhues, 1977). With respect to the EC additional problems would be caused by the changes in inter-country income transfers which would result from substituting direct payments for price support.

None of these arguments, however, can be taken as absolute. If the market intervention is rather heavy it may cause negative distributionary by-products and economic costs which are intolerably high if compared with the intended income transfer to needy farmers. If, in addition, the market policy is run in a way which results already in tremendous budget outlays, then this policy creates more problems than it solves. The CAP may have reached this stage. The negative side effects of farm and trade policies in the Community have gained more and more importance if compared with the basic objectives of the CAP.

Sometimes it is claimed that the problems associated with the CAP are caused not by the nature of instruments chosen but by the way in which these instruments have been used. Certainly the damage would have been less, domestically and on the world markets, if the farm price level would have been set lower. But the destabilizing effect on the world markets, for example, is a general attribute of the variable-levy system, independently of the level of threshold prices. And the vague or negative distributionary consequences are a basic feature of price support. Finally, there is a fundamental problem of logic. In the process of political decision making (at least in a somewhat idealistic model of this process) an instrument is used to reach an objective (say, a support price is set to attain a desired farm income). The instrument may be inadequate because it does not allow to reach the objective or because it causes undesired side effects (say, market distortions and financial burdens). But normally there is no such thing like a "good" instrument which has been "badly" used. Statements of this kind either imply blaming politicians of making irrational decisions or express that their objectives are not accepted. If the outcome of a policy which used a "good" instrument is judged disappointing, this can mean that the instrument was not used to properly fulfil the objective (say, prices were set too high so that farm incomes were higher than necessary), which is irrational policy making. It also can mean that the objectives pursued by policy makers are not accepted by the

disappointed analyst, which case is beyond the limits of scientific evaluation. In all other cases the instrument must have been inadequate. The difficulties of EC agricultural policy may actually consist of a mixture of all three problems. Decision making in the CAP may have been less than fully rational, the objectives of the CAP may have been "wrong" and the instruments employed may have been inadequate. But it may well be that there would have been more rationality in decision making and more scrutiny in questioning the objectives if the instruments available had been better chosen in the first place.

IV Some Basic Problems in EC Agricultural Trade Policy

In the preceding section it has been argued that the nature of the CAP instruments as well as the way in which these instruments have been used is overly protectionist. This causes economic costs in the Community. It also causes economic costs for other food exporting countries. These countries have put and continue to put pressure on the Community in order to change its farm policy. The Community has at all times been reluctant to react to these pressures. There is considerable danger that the exporters retaliate by refusing to lower or even by increasing their barriers to imports from the EC. Up until the Kennedy Round there has been, at least on the side of the USA, some willingness to accept the CAP as an obviously unavoidable cornerstone of a European unification which was desirable for political and strategic reasons. Meanwhile this indulgence has gone. Ongoing confrontation in agricultural trade could now mean economic losses with respect to EC export interests, and political costs.

This danger is aggravated if the EC continues to top its generally protectionist policy occasionally by measures with a particular trade disruptive character. The import ban for beef and the obligation to purchase skim milk powder when importing soybeans have been typical examples for the tendency to export domestic EC problems to the world markets. Furthermore there is obviously a frightening willingness to discount legally binding international obligations in Com-

munity discussions about measures which are suggested for alleviating domestic market problems. Import restrictions are easily proposed in these cases without regard to tariff bindings and GATT obligations. Public debates about possible barriers to imports of oilseeds and feedgrain substitutes have caused considerable trouble in the exporting countries concerned. Debates of this kind in the Community are not only useless because they cannot lead to action, they are highly detrimental with respect to their consequences for the external face of the Community.

Apart from these specific measures the most trade disruptive feature of the CAP, with respect to long run consequences as well as to immediate effects, are the variable export restitutions. Applied indiscriminatively this practice of individualized export dumping allows to penetrate established export markets of other countries, irrespective of anything like competitiveness of producers. It could be argued that theoretically the detrimental external effects of variable import levies are the same as those of variable export subsidies because it does not matter whether the EC decreases total world market demand by restricting its imports or increases total world market supply by subsidizing its exports. But in reality there are at least two important differences. First, trade flows are not only determined by prices and quantities; traditional trading relationships play a role, too. If a traditional supplier has been pushed out of his established market by occasional dumping practices he may find it hard to gain access again. Second, in practical policy there is a certain understanding that high cost countries may protect their producers by restricting imports. There is little willingness, however, to accept that these countries try to turn comparative advantages around and push producer support to a degree where they become exporters. The political costs of EC export subsidies are, therefore, well above those of import levies.

Similar considerations apply to the evaluation of export subsidies from the domestic point of view. Import restrictions, if compared to direct income support, may have the political advantage of effecting the income transfers to farmers invisibly. Export subsidies, on the other hand, are not only visible. In the eyes of consumers and tax-

payers they are particularly annoying as they are looked at not as support for domestic farmers but as subsidies for foreign consumers. Summarizing these remarks one can only conclude that the degree to which the Community has to resort to export restitutions demonstrates how far the CAP has been misled.

How can the deficiencies of the Community's agricultural trade and farm policies be explained? There are certainly a host of reasons. The most important of them are probably related to deeply rooted problems with respect to the supranational nature of the CAP. Even for single countries it is difficult to reconcile domestic interests with international responsibilities in agricultural policy. Extreme difficulties in balancing member countries' interests in the CAP make the Community even less responsive to international needs. For a long time a compromise in the CAP was found only at the highest level of protection which was sought by any member country. This tendency is reinforced by the way in which the agreement to bear "common financial responsibility" is interpreted and practised. The way in which the FEOGA operates means that there is actually common financial responsibility on the margin. Raising support levels, therefore, may be beneficial for single countries even if it constitutes an economic loss for the Community as a whole (Koester, 1977). To cope with this institutional bias towards increasing protectionism the Community should consider whether regulations can be found which link national economic benefits to national financial contributions on the margin without affecting the basic pattern of inter-country transfers in the Community.

Proposals like this are usually opposed by arguing that they run counter to the spirit of the Community as such. The fundamental problem of the CAP, however, is that it is a policy on Community level without a real supranational character. It leads to summing up national interests without the need to develop a supranational responsibility. Some indication of this divergence is the traditional difference in attitudes between the Commission and the

Council of Ministers. The Commission has typically been cautious with respect to increasing support levels but has been overruled by the Council. Only recently the Commission has been more successful in its attempts at convincing the Council that price increases for surplus products should be moderate. In terms of trade policy the Commission has often shown more willingness to consider liberalization than the Council (Harris, 1977, p. 7). As long as the single member countries' interests play a more important role in the CAP than the overall outcome of this policy, it may well be advisable to strengthen the element of national responsibility.

V EC Agricultural Trade Policy and International Responsibilities

Agricultural protectionism is deeply rooted, and liberalization of trade in temperate-zone food products and feeds, if it takes place at all, is a slow and painful process. International confrontation does little to enhance this process, and changes in agricultural trade policies will be determined more by domestic pressures than by complaints from abroad. Pressures for change have built up already in the Community, and there are possible steps forward in the CAP which would be beneficial domestically and welcome abroad at the same time. Without violating vital interests EC farm policy makers could demonstrate that the Community is prepared to shoulder more international responsibility. Possible actions lie in the areas of stabilization, disruptive measures, market sharing and food aid.

The Community has always argued that world market stability is important per se and a necessary prerequisite of liberalizing agricultural trade. Its own contribution to worldwide stability has so far been rather negative. The Community could considerably improve on its past record by playing a more active role in international endeavours and by absorbing more instability at home. In the current negotiations about a new international grains agreement which run parallel to the Tokyo Round the EC has agreed to cooperate in an internationally coordinated stock policy, but the Community should accept to bear more of the burden. Domestically

the Community could contribute to more stable world markets by making its import levies somewhat less variable and by widening its own price band between threshold and intervention prices. The latter would have the great advantage of decreasing the financial burden of the market orders along with limiting the export of EC instability to the world markets. On its grain markets the EC has already made some progress in this direction while the beef market policy provides a highly negative example.

With respect to trade disruptive measures it is desirable that the Community reduces and eventually abandons the use of export subsidies. Not only is this dumping practice an offence for the exporters; it causes excessive budget outlays in the Community which are increasingly criticized by taxpayers. The Community should not injure other countries because of its inflexibility in developing adequate farm policies. Along the same lines the Community should refrain from trying to solve domestic market problems by restricting imports of competing products; soybeans and grain substitutes fall under this heading.

Market sharing arrangements are certainly no optimal instrument from the point of view of free trade oriented economic analysis. However, they could constitute second best solutions. The Community could consider to guarantee a certain share of its markets to low cost producers for whom the export of the commodity concerned is vital. New Zealand's exports of dairy products and Argentine beef exports are examples. The incidental effect that this would increase the pressure for change of the respective EC market policy could only be welcome.

In terms of food aid two improvements are necessary. The Community should increase the quantities shipped and take up commitments of a more long run nature to grant fixed amounts of food aid irrespective of the domestic market situation. Decisions of this kind are urgently needed in the recipient countries, would be helpful for the Community's trading partners and would alleviate domestic market problems.

Though all of these actions could be implemented unilaterally by the Community, it would be politically easier and economically preferable if other major countries in agricultural trade would go along. From an EC point of view at least two issues are particularly important. First, the exporters should develop a more positive attitude towards the Community's quest for stability and should be less reluctant to enter into stabilizing agreements. In the case of grains and oilseeds the Community needs assurances that in shortage situations it is not behind in the row. Second, for the EC it would constitute a major improvement if the USA, Canada and Japan would loosen their quantitative import controls, mainly for dairy products and beef. Even if this would not directly lead to increased EC exports to these countries, it would alleviate the world market situation and reduce pressures on EC market policies.

Adjustments of the kind envisaged here are by no means radical. But they could do much to limit confrontation and to enhance co-operation in international agricultural trade. It is an unfortunate coincidence, however, that the Tokyo Round, which may be the last occasion on which agricultural trade issues are dealt with in the context of a major round of multilateral trade negotiations (Warley, 1978), takes place in a period of sluggish economic growth, high unemployment and stagnating population growth in the Community. A general economic situation of this kind is rather unfavourable for political decisions to liberalize agricultural trade (Heidhues and Tangermann, 1978). On the other hand the Community has to consider that increasing agricultural imports to Europe may be a prerequisite of expanding markets for EC industrial exports. Furthermore, basic decisions on adjustments in farm and agricultural trade policies of the the Community are unavoidable; they should be orientated towards long run developments rather than derived from current problems. The EC has an important role to play in improving the state of the world food economy.

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