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# *Policies of the European Community and Agricultural Trade with Developing Countries*

## 1 INTRODUCTION

The Common Agricultural Policy (CAP) of the EC and policies of the EC *vis-à-vis* the Third World have at least one feature in common. Both belong to those policy domains in which policies on the Community level, as opposed to national policies of the member countries, play an important role. This is not to say that national policies are no longer significant in both areas. But it means that the Community has been surrendered the sole responsibility for a major subset of policy instruments, as in the case of agricultural policy, or that national policies have been complemented by an active and extended Community policy, as happened in the case of policies towards the Third World. This common feature, however, does not guarantee, and in fact has not always entailed, that policies in both domains are consistently co-ordinated and harmonized. It rather has become a conventional wisdom to state that the Common Agricultural Policy has done much harm to the Third World and is in notorious conflict with aid and trade policies of the Community.

The present paper makes an attempt at analysing the nature of this conflict. Limited space prohibits comprehensive coverage of even the major issues involved. Instead, a rather subjective choice of some specifically controversial points is made. In the following section the impact of the CAP on the Third World and analytical problems in evaluating it are discussed. Section 3 broadens the framework and deals with agricultural trade in the context of EC trade preferences for developing countries. In the final section some possible changes in EC policies are indicated. Throughout the paper the problems are mentioned, rather than investigated extensively. An earlier paper by the same author presents a slightly more detailed discussion and some statistical evidence (Tangermann, 1978).

## 2 THE COMMON AGRICULTURAL POLICY AND AGRICULTURAL TRADE WITH THE THIRD WORLD

The main objective of the CAP is to protect farmers in the member states from too high a pressure to adjust in the process of economic change. In practical terms this means that the CAP is orientated towards supporting European farmers' incomes. This domestic objective is pursued with instruments which have decisive external effects on the international level. Income support is brought about by price protection which necessarily affects trade in agricultural products. In this respect the CAP is not much different from agricultural policies in many other industrialized countries and their effects on agricultural trade of the Third World. The specific method of price support in the CAP, however, results in some peculiar consequences which deserve special attention.

### *Agricultural protectionism in industrialized countries and its significance for LDCs*

The trade structure of most developing countries is characterized by a predominant share of raw materials in total exports. It seems logical to conclude from this that LDCs have a comparative advantage, indeed in many cases the exclusive potential, to produce raw materials. Any policy of industrialized countries which impedes trade in raw materials must, therefore, be detrimental to LDCs. Protectionism in agricultural trade falls under this heading. The CAP would, then, have to be considered particularly harmful, as it provides for comparatively high rates of protection (farm product prices in the EC are among the highest in the world) and because of its comprehensiveness (currently about 90 per cent of the value of agricultural production in the Community is covered by CAP market regimes).

The view that most developing countries have "natural" advantages in raw materials including agricultural commodities is, however, contrasted by the statement that agricultural protectionism in industrialized countries typically applies to temperate zone products in which few if any developing countries are competitive at all (Heidhues, 1977). Looked at from this angle, liberalization in agricultural trade would primarily benefit exporters among the industrialized countries, above all the highly competitive farming industry in North America.

These differing views indicate that the impact of agricultural policies in industrialized countries on the Third World can be evaluated only on the basis of an analysis which differentiates with respect to commodities and countries concerned. At least, commodities exported by LDCs (and those countries which export them) have to be distinguished from commodities imported by LDCs (and those countries which import them). On their export side the developing countries are certainly hurt by protectionism in industrialized countries. But even this statement is only partly useful, because it deals only with actual exports and neglects potential exports. However, any empirical investigation of these issues is extremely difficult.

An analysis of current trade flows does not provide the necessary information as lack of exports of certain products from developing countries could be explained as well by low competitiveness as by import restrictions in industrialized countries. Even the fact that a given developing country is currently importing a certain product on a large scale is not necessarily an argument against its potential export capacity, as recent developments in India's wheat economy may demonstrate.

A direct evaluation of comparative advantage on the basis of micro economic data is empirically difficult because of lack of reliable data for international comparison and theoretically questionable with respect to the underlying economic reasoning. Thus, one is left with the necessity to hypothesize about the changes in trade volumes which would take place in LDCs if world market prices would increase as a consequence of reduced protection in industrialized countries (see, for example, FAO, 1971, and Valdes, 1979). There is, however, by no means a consensus among researchers in the area of international trade as to the rate by which world market prices for agricultural commodities would increase if protectionism were abandoned (Johnson, 1973), and we know relatively little about the way in which the export volumes of developing countries would react to these price changes. Thus it is extremely hard to estimate quantitatively the welfare losses which individual exporting countries in the Third World have to bear as a consequence of the inward looking agricultural and trade policies of developed countries.

Equally difficult is an assessment of the way in which LDCs are affected on their import side. One line of argument is concerned with the impact of industrialized countries' policies on self-sufficiency in food in the Third World. Depressed world market prices, it is argued, provide weak incentives for output expansion in developing countries which, therefore, remain dependent on supplies from developed countries and exposed to the vagaries of the world market. This statement may be a correct description of actual developments, as some developing countries made relatively little efforts to increase their agricultural production. Yet, it is not necessarily a logical criticism of the behaviour of industrialized countries. If there had been stronger desires to expand own food output in these developing countries, there would have been policy instruments available to provide domestic producers with better incentives while still, as a nation, benefiting from low import prices.

Similar remarks apply to investigations which show that protectionism in industrialized countries places a foreign exchange burden on LDCs because it induces them to import more than they would have done otherwise (Valdes, 1979). If a country suffers from balance of payments problems, an increase in its import prices does certainly not help this country. The reduced volume of imports, as caused by higher world market prices, could as well have been reached by domestic measures. Rising import prices as such impose a loss rather than a benefit on an importer. Here again it has to be stressed that this result of economic reasoning does not necessarily explain reality where governments may hesitate to promote domestic agricultural expansion unless rising import prices force them to do so.

In terms of economic welfare the Third World gains from protectionism in those temperate zone products in which LDCs are net importers.[1] The size of this gain differs widely among countries and commodities. The overall amount of the gain for the Third World, however, will hardly be negligible. Consider for example the case of grains. On aggregate the developing countries import considerable amounts of grain. During the past decades the total volume of grain (net) imported by developing countries increased at high rates, indeed (Heidhues, 1977). Several countries in the Third World are heavily dependent on grain imports to sustain minimal levels of food supply and encounter major balance of payments problems. For these countries as for the developing countries on aggregate, policies of price support to grain farmers in industrialized countries, as implemented for example in the EC, must be beneficial. This applies not only to concessionary grain exports to these countries, effected as food aid and at least partly designed as surplus disposal in industrialized countries. The greater part of the benefits stems probably from comparatively low prices at which these countries can import grain commercially from the world market.

Of course it has to be noted that farm support policies in developed countries with their depressing effects on world market prices are by no means invented in order to help the Third World. While grain trade policies of the USA exhibit at least a certain amount of feeling of responsibility for world market developments, the EC grain policy lacks any sign of taking more into account than just domestic problems. But still it could be detrimental for the Third World on aggregate and rather disastrous for some individual developing countries if the EC would, according to many suggestions of its critics, lower its price support to grain farmers, which would result in decreased exports of soft wheat and increased imports of coarse grains and corresponding price rises on world grain markets. Importing countries currently are to a certain extent unintentional free riders on domestic farm support policies in industrialized countries. This fact, however, tends to become forgotten in international debates about the effects of protectionism in agricultural trade. In the GATT negotiations, for example, liberalization of trade in temperate zone agricultural products is essentially looked at as an issue to be discussed among industrialized countries. Developing countries in these negotiations are primarily seen in their role as exporters who would anyhow gain from decreasing protectionism in developed countries.

*Destabilization: a specific feature of the Common Agricultural Policy*

While it is hard to derive general conclusions about the overall effect of agricultural protectionism in the EC on the situation of developing countries, there is at least one aspect of the CAP which is obviously detrimental to the world food economy and has specifically negative consequences for developing countries. The combination of variable import levies/export restitutions at the border and fixed intervention prices internally shields EC markets for agricultural products against fluctuations on world markets. This means that the EC makes nearly no contribution to the stabilization of world markets for agricultural products. Instead of bearing a fair part of the burden of instability in the world food economy the EC rather exports a large share of its internal supply and demand fluctuations. Thus by granting stability to the domestic market the EC aggravates the problem of instability on world markets. An obvious example of this behaviour was the reaction of the EC to the boom on international food markets 1972–75 (Josling, 1977). In this respect the CAP compares unfavourably with agricultural policies in the USA which in the past bore a major part of the burden of instability (Heidhues and Hollstein, 1978).

Clearly the EC, neither as an importer nor as an exporter of agricultural commodities, has an interest in fluctuating world markets. The destabilizing effects of the CAP again have been unintended by-products of the preoccupation with stable domestic markets and of the inflexibility in adjusting a supranational policy to changing conditions in the environment. During the recent negotiations in the framework of GATT and about a new international grains agreement the EC has shown some signs of willingness to accept a more responsible role. But still one feels that the EC is not sufficiently prepared to make a significant contribution to the stabilization of the international food economy.

Theoretical economists obsessed with static welfare economics still argue about the international distribution of gains and losses from instability (Turnovsky, 1978), and empirical research on the effects of fluctuating world markets still has not reached a consistent conclusion as to whether export fluctuations do or do not hamper economic development (Stein, 1977). From a pragmatic point of view, however, one may state that neither producers nor consumers nor governments like instability as such and that the negative consequences of world market instability are the more felt by a country the worse the balance of payments situation of that country is and the less the opportunities of that country are to diversify its exports and imports. From this point of view developing countries with high shares of agricultural commodities in their export earnings or with urgent needs to import food are most heavily affected by world market instabilities as caused or aggravated, among others, by the behaviour of the EC (Johnson, 1975).

## 3 THE FRAMEWORK OF EC TRADE POLICIES *vis-à-vis* DEVELOPING COUNTRIES: A DOUBLE HIERARCHY OF CONCESSIONS

Agricultural trade relations between the Community and the Third World have to be seen in the context of overall EC trade policies *vis-à-vis* developing countries. While the CAP in general exhibits a high degree of protectionism, the Community has granted developing countries a whole array of trade concessions. This raises the question of consistency in EC policies. Without going into any detail some remarks on this issue seem in place. The main point to be made here is that the Community has established a complex system of trade preferences, which, however, have not been shaped according to the global needs of the Third World. Instead the trade concessions of the Community rather reflect the structure of EC interests with respect to domestic output composition and foreign policy relations.

*The commodity structure of concessions*

Variable levies are provided in the CAP for those products for which the most intense support is desired. These are in principle commodities which are produced in the Community in noticeable amounts and contribute significantly to farmers' incomes. *Ad valorem* duties are in cases combined with variable levies (e.g. beef). Mostly, however, duties are provided for those products which play only a minor role in EC agricultural production and which are not close substitutes for domestic products. Such commodities, finally, which are used in EC agriculture only as inputs and do not compete with domestic production, as is the case with feeding-stuffs like oilseeds, enter the Community with low or zero tariffs.

Concessions on trade with third countries are, according to this classification, less harmful to Community producers if they take the form of reductions in *ad valorem* duties, and most intense if they apply to variable duties. This said, it is not surprising to find that most concessions in agricultural trade which the EC has offered to developing countries concern reductions of or exemptions from *ad valorem* duties. Most of these concessions apply either to agricultural raw materials for manufacturing, which are treated by the Community like industrial products, or to products listed in Annex II of the Treaty of Rome which contains agricultural commodities which have low significance in the EC and are not covered by the CAP (Harris, 1975; Ritson, 1978). These concessions do no, or hardly any, harm to farmers in the Community and have the main effect of lowering prices for EC consumers.

An intermediate position is held by wine, fruit and vegetables. These products have considerable importance for farm incomes in specific parts of the EC and still are not afforded variable levies, mainly for technical reasons.[2] On the other hand Mediterranean and African countries have strong interests in these products. Major trade concessions in this area are restricted to Mediterranean and ACP countries. In part they are limited to certain months, restricted to specified quota and include obligations to observe minimum import prices. But still they are important achievements.

When it comes to leviable products concessions become sparse. This is the domain of major temperate zone products. The only two products of this group for which the EC has granted concessions are beef and sugar. Nevertheless these are probably the temperate zone products for which developing countries are most competitive. With both products concessions are restricted to ACP countries.[3] For beef they take the form of exemptions from the fixed duty while additional variable levies remain unaffected.[4] Sugar, finally, is the only product for which exemptions from variable levies – for a given maximum volume of imports – have been granted. Furthermore in the case of sugar the Community guaranteed a price comparable to domestic producer prices.

*The country structure of concessions*

The productwise hierarchy of EC trade concessions is paralleled by a complex hierarchy of trade arrangements between the EC and specific groups of third countries (Tulloch, 1975; Coffey, 1976; Tovias, 1977). These country-specific trade concessions in part reflect a multiplicity of European foreign policy interests, ranging from old colonial responsibilities to military–strategic considerations.

By ranking groups of EC trading partners according to increasing degrees of preferential treatment, the following rough classification emerges. Non-beneficiaries are those developed countries, mainly non-European, who, being contracting parties to GATT, enjoy nothing more than most-favoured-nation (MFN) tariff treatment. Worse off than these countries are only non-GATT partners who are discriminated against, mainly state trading countries. Countries in these groups have to bear the full burden of EC agricultural protectionism.

Next to these categories come already those developing countries which are subject to treatment under the EC Generalized System of Preferences. While these countries have duty-free access to the Community market for industrial products, subject to effectively binding ceiling limitations for "sensitive products", in the area of agricultural trade the preferences are restricted to duty concessions for certain agricultural goods. Though the list of agricultural goods covered has been successively extended to include more products of specific interest for single developed countries, it still applies mainly to products which are unimportant in international trade and have low significance for Community producers and processors. It basically leaves out all products subject to the CAP.[5] In a sense significant for the attitude of the EC is that in 1974, when the GSP schemes of the United Kingdom, Denmark and Ireland were adapted to that of the Community, the slightly more liberal treatment of agricultural products in the schemes of the joining countries was downward adjusted to the EC practice (Murray, 1977).

By far more intense are the trade preferences which the Community provided in what became called its Global Mediterranean Policy. This policy originated from the necessity to take into account old political and economic links between France and the Maghreb countries, was extended for reasons of equal treatment to other Mediterranean countries competing with Maghreb exports, and had to be still further diversified for the sake of avoiding political disequilibrium (Andersen, 1975). This somewhat accidental development was consolidated and converted into a deliberate policy of establishing closer political and economic relations with a region of major interest for the Community, when a new round of negotiations was initiated in 1975 under the notion of a global concept of Mediterranean policy. Preferences in agricultural trade offered to Mediterranean countries cover a considerably greater number of products than the GSP and are of specific significance in the area of fruit, vegetables and wine. The core products of the CAP, however, which are protected by variable levies, are essentially not affected.

It is hard to evaluate whether the African, Caribbean and Pacific (ACP) countries, which is the last group of developing countries to be mentioned here,[6] are treated better or worse than the Mediterranean countries in terms of trade concessions. Formally the preferences granted to ACP countries under the Lomé Convention range further. On the other hand the significance of and competitiveness in some products concerned is higher in Mediterranean countries so that ACP countries in some cases can make less use of the preferences. Nevertheless the ACP countries is the only group which is afforded concessions for central CAP products like beef and sugar. Furthermore the ACP countries are treated specifically as they are exempted from the general application of safeguard clauses in specific cases like beef. Apart from the preferential tariff treatment this latter privilege at times has caused specific trouble among discriminated developing countries.

The privileged treatment of the ACP countries has far reaching historical roots. Most of the ACP countries are former colonies of EC member countries. At the insistence of France special arrangements for colonies were guaranteed already in the Treaty of Rome which provided for the colonies the opportunity of association with the Community. After most colonies had become independent the Yaoundé Convention was signed in 1963 and renewed in 1969. A similar development took place when the United Kingdom entered the Community in 1973 and sought compensation for the less developed Commonwealth countries. This led finally to the Lomé Convention of 1975, which, in addition to trade concessions, covers aid, industrial co-operation and a scheme for stabilizing export earnings of ACP countries (STABEX).

*Global versus discriminatory approaches*

The trade and aid policy of the EC *vis-à-vis* the Third World is very much characterized by what could essentially be called a discriminatory philosophy. It is discriminating against products which in the EC are considered sensitive in economic and political terms; agricultural products covered by the CAP are a major case in point. It is discriminating in favour of countries which have had or which are hoped will establish close political and economic links with the Community. It is tempting to describe this approach as a policy which is governed more by the interests of the Community than by the interests of the beneficiaries.

On an abstract level this policy could be contrasted by an approach which is global in the sense that it embraces any developing countries meeting a general set of criteria and covers all products which are significant from the point of view of the developing countries (McQueen, 1979). Clearly such a design were preferable as an approach towards a worldwide balanced political and economic development. One could argue that a community of countries, devoted to the general principle of integration, should more easily be able to adopt such a global approach than a single nation.

But one has to question whether this is a realistic alternative. If the EC had been denied the option to design its policy according to spheres of interest, would the alternative outcome have been more favourable for the Third World as a whole? The answer to this question is highly speculative. Part of it might be provided by comparing the EC policy with policies of other countries towards the Third World. Viewed from this angle the record of the EC does not look altogether bad.

## 4 ASPIRATIONS OF THE THIRD WORLD AND POTENTIAL OF THE EC

It is not easy to find a balanced evaluation of EC policies *vis-à-vis* the Third World. On the one hand the major endeavour of the Community to devise an active and progressive policy towards those countries for which it feels a specific responsibility has to be acknowledged. On the other hand some EC policies have clearly been detrimental to individual developing countries and the Third World as a whole.

In the specific field of agriculture, EC policies have exhibited positive as well as negative aspects, as has been discussed above. From the point of view of aspirations in the Third World many problems remain unsolved. Beyond some of the rhetorics in current international negotiations there are a number of concrete demands of developing countries concerning agriculture which have to be seriously considered if the state of the world food economy is to be prevented from deteriorating. These demands can be roughly summarized in four points:

1 Increased and secure access of developing countries' agricultural exports to markets in developed countries, at stable and high prices;
2 Safe supply of food imported by developing countries, at stable prices;
3 Long run commitments to an adequate volume of food aid for countries with chronic food scarcities and a sufficient stock of food reserves for emergency relief;
4 Increasing flows of financial and technical aid for the development of agricultural production in the Third World.

The EC could certainly improve on its current record and make major contributions to meeting these demands. With respect to Third World exports the list of products subject to duty concessions has to be further extended, ceilings have to be lifted and duty reductions to be increased. The list of products treated as "sensitive" will have to be reconsidered and serious efforts to extend concessions to leviable products covered by the CAP are necessary. What seems most important is that the use of safeguard clauses should be far more limited. Disruptive import restrictions in "emergency" cases are extremely harmful for the long run development of Third World's exports.

In terms of current CAP developments a reorientation of EC policies on sugar and beef markets is urgently needed. This should be very much in the self-interest of the Community, because financial costs on these markets are mounting. Furthermore current discussions about alleviating problems on EC milk and grain markets by imposing barriers on imports of oilseeds and grain substitutes should be finally turned down. It means not only cheating EC milk producers if expansionary effects of generous increases in price support for milk are counteracted by raising feed costs. Such import barriers would also hit developing countries' exports. Furthermore these discussions have a noticeably negative influence on the climate of international trade negotiations as they run counter to the interests of the USA and reveal a low degree of feeling committed to GATT rules on the side of EC agricultural policy-makers.

With respect to the desire for stable supplies of food for imports the interests of the EC as a major grain importer very much coincide with those of grain importing countries in the Third World. Thus in the negotiations in the framework of GATT and for a new international grains agreement the EC could have backed the stand of the developing countries. To be credible, however, the Community has to show a serious willingness to shoulder a greater share of the burden of stabilizing international grain markets. To this end the EC has to be prepared to make a major contribution to an internationally co-ordinated stock policy and to adjust the destabilizing nature of its own market policy.

With respect to food aid and development aid, finally, the first step of the EC should be to fully meet its international commitments with respect to the volume of aid given. Furthermore provisions should be made for steadily increasing this volume. Commitments to raising annually the volume of aid by at least the rate of increase in the overall budget of the Community may be considered. In food aid longer run commitments are necessary. In financial and technical aid a broader geographical distribution according to the needs of recipient countries should be envisaged.

What are the main restrictions limiting further EC efforts towards improving agricultural relations with the Third World? First, there is the currently unfavourable climate in the overall economy. For agricultural policy this means in the first place that high rates of unemployment impede outmigration of labour from agriculture and structural adjustment of the farming industry. Liberalization of agricultural trade which increases adjustment needs is a particularly difficult political task under these conditions. The difficulties are aggravated by the slump in population growth, as a considerable cut in demand expansion means that agricultural market policies will have to be adjusted for this reason already.

Second there is the intrinsic inflexibility of the CAP which makes any adjustment difficult. The agricultural policy of the Community represents a delicate balance of the national interests of the member countries. Any movement which changes this balance leads to a round of negotiations in which compensating package deals are decided. This situation explains in part why the CAP reacts so slowly to internal and external pressures and why it is so difficult to co-ordinate EC agricultural policies with other policy domains.

Third, the problems involved in further enlarging the Community have to be mentioned. Not only will the process of negotiating and preparing the access of Greece, Portugal and Spain absorb much political and administrative activity and detract attention from external developments. Economic structures and commodity interests of the three newcomers are similar to those in some developing countries. And clearly outsiders will see their demands considered by the Community far behind the needs of entering countries. New problems in agricultural trade of the Community with the Third World will emerge which have not been covered by this paper.

Finally, at a somewhat different level, the Community will find itself increasingly locked up in divergencies of interests between Mediterranean and ACP countries on the one hand and the rest of developing countries on the other. Every significant additional concession offered to the first group is criticized by the latter as aggravating the discriminatory approach of the EC. Any attempt at broadening the range of beneficiaries is increasingly opposed by the Mediterranean and ACP countries as it lowers their margin of preferences and erodes their current benefits. Developing a balanced approach of Community policies towards the Third World as a whole will be one of the major tasks ahead.

## NOTES

[1] Strictly speaking this is not necessarily true for all importers. If the price increase on world markets, resulting from liberalization of agricultural trade, were high enough and supply and demand response in the country concerned strong enough to make the country switch from an import to a sufficiently large export position, even a currently importing country could benefit from an increase in world market prices. In practice, however, these cases may not be too important.

[2] In situations of extremely low import prices, however, otherwise fixed *ad valorem* duties for these products may be increased. Thus in practice the import regime for these products comes close to variable levies.

[3] In the case of sugar some other developing countries are included with minor quantities.

[4] Unless the exporting country charges an export tax. In this case the

variable levy can be reduced by up to 90 per cent.

[5] Main, and important, exceptions are some concessions in the area of processed fruit and vegetables.

[6] In addition to the preferential schemes quoted here, the Community has entered into a number of bilateral agreements, with individual developing countries, mainly in South-east Asia, covering particular products.

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## DISCUSSION OPENING – BRUCE L. GREENSHIELDS

Professor Tangermann states that his paper is an attempt to analyse the nature of the conflict between the European Community's Common Agricultural Policy (CAP), which some argue harms the developing countries, and EC concessionary trade policies which purport to help the developing countries.

The conclusion one draws from reading his analysis is that there is no conflict between these two sets of policies. While there may be an apparent theoretical conflict between protectionist policies on the one hand and concessionary trade policies on the other hand, there is no conflict between the actual effects of the two sets of policies as implemented by the EC. This conclusion follows from Professor Tangermann's assertions that EC protectionism does not harm the developing countries – he even maintains that in some cases it benefits them – and that the EC's concessionary trade policies do not in general include agricultural commodities that are protected by the CAP, thereby causing no injury to EC agriculture.

I have no quarrel with his claims about the actual effects of EC concessionary trade policies, but I find the claims about the effects of the CAP to be an unconvincing apologia for EC protectionism. Professor Tangermann states that liberalization of the EC's agricultural trade would primarily benefit the more developed countries, especially those in North America. This, he says, is because EC protectionism applies mostly to temperate zone agricultural products. Yet I would argue (and this is a verifiable fact) that all of the products covered by the CAP are produced by developing countries, in many cases in significant quantities, and in other cases at least the potential for significant production exists. And more importantly, many temperate zone products substitute in consumption for tropical zone products. Thus policies which affect temperate zone products indirectly affect tropical zone products as well.

Professor Tangermann further asserts that developing countries which are net importers of temperate zone products *benefit* from EC protectionism because EC protectionist policies depress world prices of these commodities. That EC protectionist policies depress prices is a moot point, but if we accept for a moment that they do, I suggest that the gains in consumer surplus from lower world prices of these products could be offset by losses in producer surplus, depending on the demand and supply elasticities and degree of protection in the importing countries. In any case, Professor Tangermann provides no evidence that the net change in social welfare would necessarily be positive.

This same criticism applies to his argument that the developing countries which are net importers of temperate zone products are free riders on the CAP. He again is ignoring the supply side of the market in developing countries and the fact that increases in world commodity prices positively affect farmers' incomes even if the country was a net importer of temperate zone products during some historical period.

Professor Tangermann points out that destabilization of world commodity prices is a feature of the CAP that distinguishes it from protectionist policies of developed countries outside of the EC. But he then attempts to discount empirical evidence that world price instability necessarily hampers economic development in the developing countries. He states that theoretical economists *obsessed* with static welfare economics have not reached consistent conclusions on this issue. Yet he implicitly uses the same static welfare model to make his point that lower commodity prices increase welfare in developing countries which are net importers of temperate zone products.

Professor Tangermann further suggests that if developing countries had stronger desires to expand their own food production, they would use policy instruments that would enable them to benefit from low import prices, presumably without undermining producer incentives. I would be interested in what specific policy instruments he would recommend to accomplish this. I would also like to know why the burden of adjustment to EC protectionist policies falls on the developing countries, and why the developing countries are, as he implies, in a better position to use policy instruments than the EC. After all, the EC could also benefit in social welfare terms, using Professor Tangermann's line of reasoning, by importing commodities which are available on world markets at prices well below EC intervention prices.

## GENERAL DISCUSSION – RAPPORTEUR: A.J. NYBERG

Two questions were asked in the general discussion and both were concerned with the impact of expanding the EC to include the Mediterranean countries and the relationship between the CAP and EC Policies.

In reply to the opener's remarks, Professor Tangermann felt his paper had been misinterpreted. He did *not* state there was no conflict between CAP and EC and conflicts with LDCs were apparent and obvious. He agreed the EC has not granted the concessions it should have. He reiterated he did *not* state that liberalization of trade policies would help LDCs; but indicated that other authors *have* made such a statement. He reemphasized that producers in the EC will gain from protection – the producers' surplus will not be less if a country is a net importer.

In replying to the questions he apologized for the fact that the impact of EC enlargement was too big an issue to comment on. However, he indicated that support prices on (say) wine in Spain and Greece will necessarily be high, as high as in other EC countries, and production will certainly expand. The trade of third country producers will undoubtedly be hurt.

Participants in the discussion included Magid Slama and Roberto Pasca.