INTERNATIONAL
JOURNAL OF
AGRARIAN AFFAIRS
Vol. IV, No. 5, April 1965

Agriculture and the European Common Market IV

Produced by the
University of Oxford Institute of Agrarian Affairs
in conjunction with the International Association
of Agricultural Economists

Price 10s. 6d. net

OXFORD UNIVERSITY PRESS
LONDON

By SOL SINCLAIR[1]

EEC'S TRADE IN AGRICULTURAL PRODUCTS WITH NON-MEMBER COUNTRIES[2]

IT is the thesis of this paper that the Common Agricultural Policy (CAP), adopted by the European Economic Community (EEC) in January 1962, is a move to promote economic development in the agricultural sectors of the six member nations and as such, plays a vital and integral role in the total developmental process in these countries. The author believes that the fears of non-member nations, particularly those producing surplus agricultural products, that their total exports of farm products to the EEC will be reduced greatly by the CAP, are exaggerated. Instead it is noted that the growth of the economy of the EEC, both before and after the adoption of the CAP, provides opportunity for increased trade with non-member countries if the latter are willing to make some adjustments.

The belief of non-member nations that as exporters of temperate-zone farm products they are facing a declining market in the Community is supported by most of the scholarly studies made of this problem. By and large, these studies have assessed the possible impact of the CAP regulations upon the trading opportunities of a non-member country with the EEC. Most of this analysis has been (1) in terms of static comparative advantage, and (2) in isolation from the effect that all other EEC policies will have on total trade. In other words, the studies dealing with the impact of the CAP have tended to restrict themselves to an examination of the regulations for agriculture as these relate to imports from non-member countries on the basis of existing resource endowments and comparative efficiency. The validity of conclusions derived from such a partial, rather than a general, analysis is questionable. Furthermore, since these studies use existing national price levels, or an average of these prices, their conclusions are, at best, educated guesses.

A much more fruitful approach, which the author will adopt in this paper, is to consider the CAP within the framework of economic growth and along with other EEC policies that affect trade. The

[1] Professor and Head, Department of Agricultural Economics, University of Manitoba, Winnipeg, Canada.

[2] I wish to acknowledge the helpful suggestions from Professors O. P. Tangri and J. C. Gilson who read this paper, and to thank Mrs. O. P. Tangri who assisted in its editing. I assume full responsibility for the views expressed and conclusions drawn.

dynamic process of economic growth affects all sectors of an economy by continually changing the patterns of comparative advantage and thus changing the variety and quantity of production. This is bound to produce changes in trading patterns. All these important inter-sectoral relationships should be taken into account before judgement is passed on the effects of a particular policy. If, in their totality, EEC policies produce improved economic welfare, any single policy should not be condemned for its impact, unless it can be shown that it detracts from, rather than adds to, total welfare.

A few statistics will show that the policies adopted by the EEC have been successful in achieving economic development. The general index of industrial production for the Community stood at 141 in 1963 (1958 = 100). The index of average hourly gross wages in industry was in excess of 150 in January 1964. Total foreign trade rose by 75 per cent. in 1963 over 1958 with imports growing somewhat faster than exports in recent years.[1] Since 1958 the annual average growth rate for the gross national product was in excess of 5 per cent., and over 4 per cent. on a *per capita* basis. This was the highest rate for any western industrial nation. While this growth rate was attained in 1952 after the post-war rehabilitation, its continuation after 1958, when other nations experienced a decline, attests to the influence of the economic policies on growth in the Community.

I

It is difficult to determine whether the new arrangements for trade by the EEC, i.e. the common external tariff (CET) and the system of levies and sluice prices, are adversely affecting commerce with non-member countries. In respect to trade the EEC is a customs union. As contracting parties to the GATT in forming the customs union, the six nations were required to adopt a schedule of duties and other regulations of commerce that 'shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of the commerce', applicable before the customs union was established.[2]

Neither is it easy to appraise the CET rates and the levy system of the CAP in terms of the previously existing tariff and non-tariff restrictions. The general dialogue between the EEC and other GATT members has provided no conclusive evidence on this point.

[1] Source: EEC Statistical Office, *General Statistical Bulletin*, 1964—No. 5 and *Monthly Statistics*, 1964—No. 5.

[2] GATT, *Basic Instruments and Selected Documents*, vol. iii, Geneva, November 1958, Art. XXIV, 5 (*a*), p. 48.

A recent CED study of U.S. and EEC tariffs encounters the same difficulty. It states:

> The measures we can present here are not precise indicators of the 'protectiveness' of the two tariffs—the percentage by which imports would be higher if the tariffs were not present. The extent to which a tariff reduces imports depends on many factors in addition to the height of the tariff rates, factors having to do with domestic and foreign demand and supply of the commodities subject to tariffs. To measure or compare the protectiveness of the U.S. and E.E.C. tariffs requires much more information than is available. Even more information is required to measure the extent to which tariffs impair economic efficiency.[1]

Lacking precise measures of the tariff protectiveness of the new EEC regulations, we may use general measures to illustrate the end effect on trade, recognizing that these reflect the influences of more than just the protective elements. These general measures should demonstrate whether the new regulations are more or less restrictive in their effect, i.e. are they responsible for trade diversion or trade creation in relation to non-member countries.

Trade diversion occurs when, as a result of the removal of trade barriers within a customs union, a member country replaces its imports from non-union sources with imports from union countries, and likewise shifts its exports from non-members to members. A customs union may lead to trade creation as a result of the new structure of demand created by the economic development induced by the union. Meade argues that 'the formation of a customs union is more likely to raise than lower economic welfare the higher are the initial duties on each others products which the partner countries remove'.[2] This view is also expressed in a GATT report dealing with the issue of European integration.

> The economies of the European countries are in many respects competitive, both in industry and agriculture; and complete free trade in Europe would enable many economic and efficient firms and farms to undercut their less economic and efficient rivals in other European countries. In addition to these 'trade creating' effects, there are, of course, likely to be some undesirable 'trade diverting' effects, since some European countries are likely to shift from the purchase of cheap supplies from outside sources to more expensive supplies from their partners because the tariff on imports will be charged on the former but not on the latter. But, provided that certain conditions are fulfilled, the trade creating effects in Europe should outweigh the trade diverting effects; and in this case the higher level of industrial output and the increased level of real incomes in

[1] Committee for Economic Development, *Trade Negotiations for a Better Free World Economy*, New York, May 1964, p. 67.

[2] J. E. Meade, *The Theory of Customs Unions*, Amsterdam, 1955.

Europe should lead to a greater demand for raw materials and foodstuffs, part of which should increase imports from outside sources.[1]

The conditions favourable to such increase in imports from outside sources can be enhanced as (1) the area over which the Common Market operates becomes larger, (2) the movement of goods within the Common Market becomes freer, and (3) the barriers set against imports from outside sources are lowered.

One may expect the first condition to occur as the Community grows in the future, as other European nations join the Common Market. The second condition is rapidly being realized. But achieving the third condition of lowering the barriers on outside imports is still uncertain. However, in regard to non-agricultural products, a move to lower these barriers was taken in the Dillon Round under GATT in 1962 and further reductions are under discussion at the GATT and as a result of the proceedings at the United Nations Conference on Trade and Development.

The growth of imports by the EEC since 1958 bears out the stated conclusions of the GATT report as demonstrated by the following indices for 1963:[2]

(1958 = 100)

Total world imports	140
Total EEC imports	176
Total intra-EEC imports	231
Total extra-EEC imports	152
Ratio total EEC/world	126
Ratio intra/extra-EEC	152

Total Community imports grew at a faster rate than for the world. The intra-EEC imports expanded very rapidly and even the extra-EEC imports expanded more rapidly than did world imports. Similar growth was experienced for EEC agricultural imports by 1962 as seen from the following indices:

(1958 = 100)

Total world agricultural imports	108
Total EEC agricultural imports	134
Total intra-EEC agricultural imports	180
Total extra-EEC agricultural imports	124
Ratio agricultural imports, EEC/world	124
Ratio agricultural imports intra/extra-EEC	145

[1] GATT, *Trends in International Trade*, Geneva, 1958, p. 116.

[2] Source: Indices calculated from data in EEC Statistical Office, *Monthly Statistics*, 1964—No. 4; *Agricultural Statistics*, 1963, U.S.D.A.; and UN *Statistical Yearbook*, 1962.

Agricultural imports since 1958 did not expand at the same rate as did total imports either in the world or in the EEC. However, when growth in EEC imports is compared to that of the world, it is seen that the ratio of 126 for total imports does not differ significantly from the ratio of 124 for agricultural imports. Similarly, the intra/extra-EEC ratios of 152 for total imports and 145 for agricultural imports are not significantly different, although here the influence of the 1962 stockpiling of cereals by some EEC members in anticipation of the CAP may obscure the real growth in the intra/extra-EEC ratio.

It should be noted that increases in EEC agricultural imports occurred before the inception of the CAP. It is still too early to assign any definite impact upon EEC agricultural imports from the application of the CAP. The figures for 1963, the first full year under this policy, show further expansion of such imports. The indices are as follows:

(1958 = 100)

Total EEC agricultural imports	144
Intra-EEC ,, ,,	205
Extra-EEC ,, ,,	130
Ratio intra/extra-EEC agricultural imports	158

The higher intra/extra-EEC ratio at 158, points to some gain by the member countries over non-member suppliers when compared to 1962. In terms of absolute change it is observed that the member countries have gained over non-members as suppliers of farm products to the EEC. This is seen from the following:

Ratio of intra-EEC : extra-EEC agricultural imports

(in actual dollar values)

1958	1:4·4	1961	1:2·9
1959	1:3·5	1962	1:3·0
1960	1:3·2	1963	1:2·8

Member gains were greatest in 1959, the first year after the EEC came into being. Since then the shift of imports to member countries has been more gradual, except that in 1962 the trend was reversed as a result of the pre-CAP stockpiling.

The foregoing data illustrate the developments in imports by the EEC since its inception. Imports have increased in total but at a faster rate among member countries. Agricultural imports have also grown but at a slower rate. For these there is trade diversion to member countries although non-member countries are also gaining. However, the diversion to member nations has slowed up showing no appreciable increase in 1963, the first full year of the CAP. Thus, overall, the EEC and CAP have created new trade for all.

II

The primary objective behind the move for economic integration among the Six was to increase total output through more efficient use of resources so that the level of living of all their people will rise. Economic growth in the industrial sector progressed rapidly and at a good rate once post-war rehabilitation was completed about 1952. This is seen in the general index of industrial production which was 85 in 1955 (1958 = 100), rising to 132 by 1962. Agriculture due to its inefficient organization displayed a slower growth. The index of agricultural output (basis 1958/9 = 100) was 94 in 1955/6 and rose to 107 in 1961–2. This slower growth rate can be explained in terms of Rostow's stages of economic development.[1] It is not an exaggeration to say that in the six EEC nations one can find sections of agriculture in each of these stages, with, perhaps, a skewing towards the traditional in Italy, France and in parts of Germany.

Community farms vary over a wide range of productive efficiency. This is seen from available reports on crop and livestock yields.[2] In some instances, technological efficiency is high due to the large use of non-farm inputs, but there is a lag in economic efficiency due to poor management, over-capitalization, small size and fragmentation of the farms, excess labour, &c. In other instances, both technological and economic efficiency is low. This is the result of a combination of inadequacy in the natural environment, lack of capital, low educational level of the operator, smallness of the farm, &c. There are, of course, many farms that are highly efficient on all scores and whose contribution to national economic growth is substantial.

Because their agriculture was least developed the EEC provided specifically for it through the Common Agricultural Policy, which should be regarded as a move to promote economic development throughout the agricultural sector. While most discussions centre on the market aspect of the policy with its emphasis on levies and other

[1] W. W. Rostow, *Stages of Economic Growth*, University Press, Cambridge (Eng.) 1960, p. 179. The stages are identified as (1) the traditional society; (2) the pre-take off stage; (3) the take off stage; (4) the drive to maturity; (5) the age of high mass consumption.

[2] See: EEC Statistical Office, *Agrarstatistik* reports for 1963. FAO *European Agriculture in 1965*, Geneva 1961.

protective measures, it should be remembered that the policy also provides for a variety of social improvements, for structural reorganization and for capital injection in agriculture. The objective with respect to the entire economy and for agriculture is to create conditions that will insure a desirable rate of economic growth in the Community.

This policy agrees with the thinking of many outstanding economists. For example W. A. Lewis states:

> . . . it is not profitable to produce a growing volume of manufactures unless agricultural production is growing simultaneously. This is also why industrial and agrarian revolutions go together and why economies in which agriculture is stagnant do not show industrial development.[1]

Lewis's view implies the necessity of a balanced growth between agriculture and industry, stressing that economic expansion, particularly of underdeveloped countries, cannot come from a crash programme on the industrial side alone. An efficiently expanding agriculture is a prerequisite for national economic development as shown by the history of the United States, England and Japan.

In the post-reconstruction period in Europe, the European Recovery Program reduced the reliance of the EEC countries on agriculture by providing the initial capital and other stimuli necessary for industrial expansion. However, to allow agriculture to lag was not only politically unacceptable, but it was economically undesirable both for agriculture and for the rest of the economy. Thus, even before the EEC, the six nations had introduced legislation to subsidize and protect their agriculture.

Whether or not the notion of the necessity for balanced growth between agriculture and other sectors of the individual EEC country economies was behind the adoption of the CAP, it is certainly a valid justification for it. With this is associated the market policy which takes the pragmatic approach that rising farm incomes are necessary in an economy where incomes in other sectors are rising. The implementation of all aspects of the CAP can thus be considered essential to a maximum contribution from agriculture to total welfare.

III

Johnson and Mellor describe the nature of agriculture's contributions to overall economic growth.[2] These include (*a*) increased food

[1] W. A. Lewis, 'Economic Development with Unlimited Supplies of Labour', *The Manchester School of Economic and Social Studies*, vol. 22, no. 2, p. 173.

[2] B. F. Johnson and J. W. Mellor, 'The Role of Agriculture in Economic Development', *The American Economic Review*, vol. li. no. 4, pp. 571–2.

supplies, (*b*) transfer of manpower to industry, (*c*) increased capital accumulation, (*d*) expansion of exports of farm products, and (*e*) increased demand for industrial products. For developed countries two more contributions can be added: (1) meeting emergencies in war and peace, and (2) assisting economic development abroad.

Even before the introduction of the CAP, agriculture in the six EEC countries had expanded its production and was becoming an increasingly important factor in the development of the area. On about the same acreage under production total agricultural output increased by about 17 per cent. between 1955 and 1961. This permitted the feeding of a growing population at a higher level of consumption while maintaining approximately the same level of self-sufficiency in production. The level of self-sufficiency for all cereals in 1953–5 was 86·4 per cent. and 85 per cent. in 1959–60. For all meats for the same periods it was 98·7 per cent. and 95·5 per cent. respectively. Similar trends are indicated for all other products domestically produced. At the same time, and despite the protection provided farmers through import restrictions, the share of private consumer expenditure on food is declining. This contributes to industrial development since it means that food costs do not add to the pressures for wage increases. Furthermore, the increasing efficiency in food production also reduces inflationary pressures.

Undoubtedly agriculture's most important contribution in the EEC is its continuing release of workers for an expanding industrial sector. In 1950 agriculture had over 30 per cent. of the total work force. In 1962 this was down to 19·5 per cent. The release of four million workers to industry and other non-agricultural employment in the Community must be regarded as a crucial factor for progress in an area experiencing slow population growth. While immigration is an important source for additional labour, the principal supply is the farm population. The stimulant of alternative opportunity in industry in the EEC is not sufficient to shift the necessary workers out of agriculture because many do not have the skills, nor are they socially ready to adjust to an urban-industrial environment. This emphasizes the need for a social policy along with a farm structure policy, as provided in the CAP to prepare and release farm workers for industrial employment.

Agriculture in the EEC is also making its contribution to overall national economic growth through capital accumulation, and demand for industrial products. Investment in agriculture, exclusive of land, increased by 13 per cent., to $61 billion, between 1955 and 1960. Agricultural exports continued between 9 and 10 per cent. of total value of increasing exports during the same period. Farm purchases of non-farm inputs have increased substantially. For example, farm machinery purchases more than doubled between 1952 and 1959. Use of fertilizer increased by 58 per cent. in about the same period. This in an area where large quantities of fertilizer were already being used.[1]

From the international viewpoint an efficient agriculture in a nation means a continuing supply of necessary foodstuffs with a minimum expenditure for manpower and resources, an important factor during war as demonstrated by Canada and the United States. Even during a cold war it adds strength to a nation in its negotiations with potential adversaries through the confidence that its food supply is safe. In peace time, and in the light of current thinking, a nation's ability to aid developing nations is enhanced by its own efficient agriculture. It may supply food products or provide the technical know-how to assist such nations to raise their own agricultural productivity and consequently promote their economic growth. Some of the EEC countries, notably France and West Germany, are contributors to foreign aid, particularly among the associated overseas territories. But they have gone beyond that in such instances as the financial support to Greece when she became associated with the EEC.

As stated earlier, non-member countries are quite concerned about whether they will be able to export farm products to the EEC. Part of this concern is justified and arises because the countries believe that the implementation of the CAP will bring structural changes in farms, an increased adoption of modern technology, a greater use of non-farm inputs and highly protective variable import levies, sluice prices, &c. which will increase agricultural production. This is bound to change the pattern of imports, but until we get a clearer view of the ultimate level of prices established under the CAP, we will be unable to draw definitive conclusions about potential farm product exports to the Community.

Further evidence to justify the fear of non-member countries that farm exports to the EEC will decline stems from the unwillingness of the Council of Ministers to act on a single cereals price for the Community, the delay in finalizing details on the policy for beef, veal

[1] The figures quoted were derived from data in several EEC reports, but mainly from *Agrarstatistik*, and *Monostatistik* for the years 1961 through 1964, published by the EEC Statistical Office, Brussels.

and dairy products, and the reluctance to modify significantly the restrictions that led to the 'chicken war'.[1]

Non-member suppliers of farm products obviously would prefer that the EEC should gradually reduce the barriers on imports of such products. This would admit larger quantities from surplus producing countries to the economic advantage of all. Such reasoning would also be in accordance with the basic philosophy of the Rome Treaty and the stated sentiments of EEC officials. Articles 18 and 110 of the Treaty express willingness of member states to contribute 'to the development of international commerce and the reduction of barriers to trade' (Art. 18) and 'to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers' (Art. 110). With respect to agriculture the EEC Commission stated:

> The main objectives of the proposed arrangement include making European agriculture more competitive, avoiding surplus production and abstention from any artificial stimulation of production.[2]

To immediately adopt such a policy would, however, be economically undesirable and politically unacceptable in the EEC. The new system of levies and other protective measures in the CAP replaced a host of similar national measures designed to raise the level of farm income. It would be political suicide for any government if it agreed to a drastic reduction of these measures under any Community policy. But whether this means that the Council of Ministers is contravening the basic philosophy of the Rome Treaty is not clear as we cannot forecast its action even by the time the single market stage is reached by 1 January 1970.

The provisions for variable import levies, sluice prices and tariffs against imports from non-members are aimed at the improvement of farm income, but they could, in association with the other elements of the CAP, advance agricultural efficiency to the point of competitiveness with other developed countries for the major farm products.

In commenting on this point, and with respect to European agriculture, the FAO expresses the belief that:

> . . . it seems hardly possible to doubt that the cumulative advance in farm technology and the resulting increase in productivity which has been observed

[1] This article was written before agreement on a single cereals price was reached. This action, however, does not change the main conclusions drawn.

[2] 'The Problems of External Trade and the European Commission's Proposal on a Common Agricultural Policy', EEC Commission, Porte-Parole Group, Brussels, September 1960.

during the past decade can be taken as the starting point for an analysis of the likely development of European agriculture during years to come. . . . The considerable backlog of new technology now built up cannot but influence further developments in an upward direction.

With no widely accepted alternative to present agricultural policies in sight it seems highly doubtful at this stage that the stimulus of relatively protected prices and markets will disappear. Even if the orientation of policies be moderately changed, the current tendencies towards higher output per unit of resources seem likely to continue.[1]

Community farmers are well on the way to adopting new technology and better management. They are likely to continue to increase farm output as a result. If the CAP provisions aid them in reducing their costs of production, then such policy can be justified. If it raises the economic efficiency of the industry, protection can be justified on the basis of the infant industry argument. Restrictive actions, which may be judicious and helpful in the shorter run are defensible if in the long run they promote efficiency. However, if the Community should apply such restrictions indiscriminately without recognizing their consistency with the forces of national and international economic welfare then they must be regarded as unwise and damaging to the Community and to the rest of the world.

IV

The foregoing reflections on the Common Agricultural Policy of the EEC are not presented as an apology for the actions of the Community with respect to trade with non-member countries. Rather, it was my desire to examine the contribution of the CAP to the economic development of the six nations as envisaged in the Treaty of Rome. I am not unmindful of the dangers to surplus agricultural producing countries inherent in the agricultural policy, both in the short run as well as in the long run. Neither am I unmindful of the fact that this policy is subject to political manipulation and can be injurious to the economic welfare of non-member nations. At the same time one can point to countervailing forces that provide more than just a glimmer of hope that these restrictive actions will not endure. Discussions among world nations to discover acceptable alternatives to the current trade restrictions for farm products hold out hopes for responsible solutions to the problems of trade. Possible retaliatory actions by non-member countries, favourable attitudes for lower

[1] FAO, *European Agriculture in 1965*, Geneva 1961, p. 21.

protective measures by some EEC member countries, the Community's need to export industrial products, and the threat to inflation and to industrial profitability from unnecessarily high food prices are additional forces that may operate against indiscriminate application of restrictions.

As a surplus producer of farm products Canada is earnestly interested in, and concerned with, the possible impact of the CAP upon her agricultural trade with the Community. Total value of Canadian exports to the Community in 1958 was 61 per cent. greater than in 1955 and has continued at about that level to the present time. Agricultural exports rose by 30 per cent. between 1953–5 and 1959–61. (There was a further rise of about 10 per cent. in 1963, the first full year under the CAP. This is a real rise even when the higher price for grains is discounted.)

Canada contributed about 2 per cent. of total EEC agricultural imports in 1959 to 1961. Wheat was the most important product, representing 31 per cent. of total EEC wheat imports. For all other farm products other than oilseeds (4 per cent.) and hides and skins (2 per cent.), Canada's share represented less than 1 per cent. of EEC imports. Thus, on the one hand, Canada was a marginal supplier of most of the EEC agricultural imports, but, on the other hand, the EEC was an important outlet for her since these countries took nearly 17 per cent. of her total agricultural exports in the years between 1959 and 1962.

Canada's important exports in 1953–5 (5 per cent. or more of the total exports of each class) consisted of six main classes of products, namely, cereals, oilseeds, hides and skins, grass and forage seeds, oilcake and meal, and meats. In 1959–61 exports of eggs and poultry and dairy products replaced meats and oilcake and meal. The other four classes continued to rank in top position of the exports to the Community. All other farm product exports varied in degree only.

These few comments about the Canadian position in relation to the CAP suggest that the EEC could continue to be an important outlet for those classes of product which are now prominent in Canada's sales to the Community.[1] However, Canada is interested in the Common Market as an expanding outlet for all of its surplus products. Her efforts therefore should be directed towards negotiation with the

[1] For a full discussion of the implications of the CAP for Canadian agriculture, see my report *Common Agricultural Policy of the EEC and Its Implications to Canadian Exports*, soon to be published by the Canadian Trade Committee, Montreal, Canada.

EEC through the GATT for overall reduction of trade restrictions, recognizing at the same time that the Common Agricultural Policy is likely to promote agricultural efficiency and make the Community more self-sufficient in many farm products. We need to realize that the structure of trade is bound to change as the Community develops. Consequently Canada may still have a differential advantage in certain exportable items *vis-à-vis* the Community. For a variety of reasons these may still include cereals and oilseeds, &c. But the differential advantage could be in other farm products such as luxury and convenience foods since the demand for these rises in an affluent society. Or since it is easier to compete under an EEC tariff than under a variable import levy, Canada might export industrial products. These are the challenges to Canada as the CAP develops and the EEC moves towards the single market stage by 1 January 1970.