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Proceedings of a Conference

on

PROBLEMS AND PROSPECTS IN ATLANTIC AND CONTINENTAL AGRICULTURAL TRADE

University of Guelph, Guelph, Ontario, 27 September 1970

Department of Agricultural Economics
University of Guelph

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The Department of Agricultural Economics of the University of Guelph seized the occasion in September 1970 of a visit by Dr. Jacques van Lierde of the Agricultural Directorate of the Commission of the European Economic Community to mount a one day conference on agricultural trade policy. The conference was attended by 70 leaders of farm organizations, agro-industries and government agencies, and constituted part of the extension program in agricultural economics supported by the Ontario Department of Agriculture and Food.

Problems of world trade in temperate agricultural products are currently receiving much attention. Indeed, whether and how they are resolved will determine in large measure the kind of world economic order and the political relationships between continents and states which will be established in the 1970s. The formation and subsequent enlargement of the European Economic Community has brought these trade and geo-political issues into sharp focus. Canada's external agricultural trade strategy and domestic agricultural policies will be the subject of much anxious debate over the next few years. It was therefore felt that the papers presented before an invited group of Ontario farm leaders could appropriately be made available to a wider audience.

S. H. Lane
Professor of Agricultural Economics
and Extension Coordinator

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INTERNAL AND EXTERNAL ASPECTS OF EEC AGRICULTURAL POLICIES

Dr. Jacques van Lierde[1]

The Present Common Agricultural Policy of the Six

The farmers of the European Economic Community are confronted with the problem that their incomes are relatively low even though they have increased their efficiency of production at a rate equal to or even faster than other comparable professional groups. In other words, there is a disequilibrium between the contribution that farmers make to the economic growth of the Community on the one hand, and the share of the income of the Community they receive on the other. Different explanations are given for these difficulties. Some believe that the main causes of the economic and social difficulties are attributable to deficiencies in the structure of the industry and that income levels and living conditions in agriculture have lagged behind those in other professional groups because the rate of decrease in number of people working in agriculture has not been rapid enough to compensate for increasing productivity and production. Others claim that the unfavourable situation is caused primarily by the market and price policy which, through its relatively high prices, has contributed substantially to an increase in productivity and production. Certainly both causes underliethe difficulties.

Until recently, the Common Agricultural Policy has focussed on marketsand prices and a Common Market and Price Policy has been realized for more than 90% of the total agricultural production. Between the Six member countries there are no longer any trade barriers - there is one common market with one common price, together with one common policy with regard to trade with third countries and one common financial responsibility for the financial consequences that result from this policy.

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[1] Senior Administrator, Agricultural Directorate, EEC Commission, BRUSSELS.

Different systems of price intervention have been followed for cereals, rice, dairy products, beef, pigmeat, and for some products (9 in total) from the fruit and vegetable sector. A free price system applies for eggs and poultry and most of the products from the fruit and vegetable sector. A deficiency payment system is followed for products for which there is a small production, and which in general, are concentrated in certain areas (hard wheat, rye, oils, seeds, and tobacco). An indirect system of limitation of supply is applied for sugar. Different systems are also applied with regard to policies toward third countries. In some cases, imports can enter freely (e.g. oils and seeds); in others, levies in the form of variable import duties are applied (e.g. cereals and dairy products); and in still other cases, tariffs are applied (e.g. fruits and vegetables). For some products, a combination of tariffs and levies are applied (e.g. beef).

The price policy that has been followed up until now has not been able to solve the farm problem; too often price and income policies have been tied to each other and too often price has not been able to fulfill its real economic function which is to indicate economic production possibilities. For a number of reasons, of which high financial cost is certainly not the least important, it is apparent that it will not be possible to solve the farm problem by means of higher prices. This means that other measures will have to be found.

Proposals for Modification of the Common Agricultural Policy

At the end of April 1970, the EEC Commission submitted to the Council of Ministers, a set of five proposed directives and one regulation[1] for improving the

[1] A regulation is of direct application in the whole of the Community, while a directive has to be transmitted through the national legislature. This means that in the case of directives, each member-state has certain possibilities to adapt the legislation to its specific situation.

structure of agriculture. They were based upon the Memorandum on the Reform of Agriculture, which was released in November 1968, and which stipulated, in general terms, means whereby a fundamental reform of the whole of agriculture could be realized. The Memorandum stated that in order to achieve reasonable incomes and social conditions for farmers, an equilibrium between supply and demand, and reduced expenditure on support for agriculture it was necessary; -

(i) - to move out 5 million of the 10 million people working in agriculture in 1970,
(ii) - to remove 5 million hectares of land from production (12½ million acres) out of a total of 70 million hectares (175 million acres),
(iii) - to remove 3 million milking cows from production out of a total of 22 million.

The Memorandum has been subject, (as the Commission desired), to a serious public debate involving all those concerned with the future of European agriculture. Farmers and their organizations, from the local level up to the national and Community level, have participated very actively in this debate.

The general reaction to the Memorandum has been agreement on the assessment of the economic and social situation and also on the objectives that should be achieved, but as far as some of the means are concerned there have been divergent points of view. As a result, the Commission has recommended certain fundamental modifications to what was stipulated in its Memorandum of 1968. The most important modification concerns the production structure. The Commission has given up its original idea of "production units" and "modern agricultural enterprises" as well as the technological-economical threshold, which was to be utilized as a yard-stick to measure economic viability. Under the new proposals, a potential economically viable farm is expressed in terms of volume of production, not in terms of acres or number of milking cows as was stipulated in the Memorandum; and also, in terms of its planned development over a period of 6 years or even more in certain areas. These criteria are much more flexible than those stipulated in the Memorandum.

A potentially economically viable farm is considered to be a farm on which the farmer -

(i) has adequate professional capacity,
(ii) keeps farm accounts,
(iii) has a rational development plan for his holding by which he can prove that in principle within a period of six years it:
  a) will provide two full-time workers with an annual gross income of from 10,000 to 12,500 dollars per person, and
  b) will not require more than 2300 hours of work per year per man using modern production techniques.

The criterion of adequate professional capacity will work to the benefit of the more dynamic farmers. It will be up to the member-states to define this criterion more precisely. However, the conditions should be such that the criterion can be met by professional performance as well as by professional experience.

The criteria retained are economic (gross income) and social (2300 hours per year per man). There are no economic criteria in the sense of a guaranteed income. The goal is to create structural conditions so that a well managed farm can get a reasonable gross income. What the net income of the farmer will be will depend upon his own management.

The Commission's proposed directives cover:-
i) modernization of farms,
ii) reduction of labour on farms,
iii) retraining of farmers,
iv) reduction of land in agriculture,
v) measures regarding the adjustment of certain types of production (e.g. shifting from dairying to meat production).

The proposed regulation concerns market structure and deals with producer groups and their unions.

Measures to Improve Production Structure

To help farmers decide whether they would be better off outside agriculture and to determine for what work they should be retrained, the Commission proposes the creation of socio-economic information centres. These centres would locate and analyze cases where some reorientation is desirable and advise the persons in question whether they should remain in farming or move to another occupation and take advantage of various financial inducements that are being offered to those leaving agriculture.

1. Grants to Encourage Withdrawal of Labour and Land From Farming

Farmers 55 years of age or older who quit farming and relinquish their land will be eligible for an annual income payment of at least 1000 dollars per year until age 65. At that time they would become eligible for the national pension and, in addition, would receive an annual grant equivalent to the difference between 1000 dollars and the value of their national pension. Farmers under 55 years of age would be encouraged to leave the land by a departure grant equal to at least eight times the rental value of their land. Both age groups may also obtain advance payments of rent for nine years on rental contracts entered into for at least 18 years. Farm workers whose jobs disappear may also obtain the income supplement. Member-states are allowed to adjust these provisions to their own conditions and can decide who qualifies for assistance, the actual indemnities to be paid, and the minimum farm land to be ceded.

Of course, it is not easy to predict precisely the number of farmers who will take advantage of these possibilities. However, based on the number of farmers who will be 55 years of age or older between now and 1975 (2.1 million), the number of farms between 1 and 20 hectares in size being farmed by operators who are 50 years of age or older, (1.7 million), and the proportion of farmers who do not have a successor, it has been estimated that 1.4 million farmers will apply for these grants between 1970 and 1975. This number represents 55 per cent of the farmers who are 50 years of age or older at the present time (1,180,000) and 12 per cent of the farmers who are presently less than 50 years of age and operating farms less than 20 hectares in size (220,000).

In the Community, there are 3.7 million full-time farms with from 1 to 20 hectares of land. The average size of this group of farms is about 7 hectares. Since it is from this size group that it is anticipated that most of the outflow of farmers from agriculture will come the amount of agricultural land that is likely to become available during the five-year period can be estimated. Accordingly it is predicted that about 9.8 million hectares (7 x 1.4) or roughly one-seventh of the total land that is cultivated in the Community will be available to be reallocated. Some of this land will be taken out of agriculture entirely and diverted to forestry, recreational, and other uses and the balance will be re-allocated to agricultural uses in a manner consistent with the objective of achieving economically viable farms. This land will be either sold, or rented for at least 18 years, to farmers who can demonstrate that they have potentially viable operations or sold or rented for at least 18 years to land agencies of member states.

2. Measures To Assist Those Remaining in Agriculture

Under the proposed program farms which satisfy the criteria mentioned above for potential economic viability will be eligible for various forms of assistance. These will include:

a) a grant of up to 100 dollars per year for 3 years to help defray the costs of bookkeeping.
b) a starting grant of up to 5000 dollars
c) government guaranteed loans
d) investment aids for a period of 15 years for investments in other than land and new farm buildings. These aids would be in the form of a rent subsidy equivalent to 6 per cent of the value of the investment.

In addition, it will be only these farms that will be eligible to acquire the additional land that becomes available as farmers leave agriculture and turn their land over to the government agencies. This land would be available for either purchase or rental but the Commission definitely favours rental.

3. Measures to Achieve a Better Equilibrium Between Supply and Demand

To prevent the accumulation of surpluses as a result of modernizing the agricultural structure, the Commission proposed that some of the land taken from non-economic farms be reserved for reforestration, tourism, and recreation. Member-states are enjoined to adjust their land policy so as to prevent new areas being used for agriculture. Also, programs for the conversion of farm land to forests or for recreational use will be established. To encourage reforestration, governments will offer grants covering a substantial portion of the costs to land owners who undertake reforestration and who retire from farming, for a period of 9 years.

Measures are also foreseen in the animal sector to reorient production away from the surplus area (milk) to the deficiency area (beef). Dairying would be assisted only in areas with good natural production conditions. For beef production farms would receive a subsidy of 60 dollars per hectare for the first 3 years. Moreover, until the end of 1973, a slaughter premium of 200 dollars per cow would be granted provided the owner had at least 2 milk cows and that the whole herd was slaughtered.

Measures to Improve Market Structure

The Commission has also submitted a modified proposal for the creation of producer groups and their unions. The Commission wishes to stimulate the creation and development of producer groups and their unions. A producer group is a group of farmers that is freely established and under which the members subject themselves to certain disciplines with regard to production and marketing in order to improve quality and to control supply.

A union consists of a number of producer groups. Provided they are recognized by their member-states, producer groups and unions would be eligible to receive certain subsidies to assist their establishment and to finance the construction of packaging and storage facilities.

Financial Cost

It is proposed that 50 per cent of the costs of the production structure program and 30 per cent of the market structure program be borne by the European Agricultural Fund with the balance being paid by the member-states.

Summary

Through these policies the Commission hopes to create an agriculture structure which will enable those farmers who wish to stay in agriculture to realize a reasonable income, and at the same time, make it possible for those who wish to leave farming to do so under conditions that are acceptable from the humanitarian point of view. The proposed goals with regard to reasonable incomes and social conditions require a better equilibrium between supply and demand. This, it is hoped, will be achieved by taking land out of cultivation, shifting from dairy to beef production and by restructuring production and marketing. Through all these measures it is also hoped to reduce the costs of government.

The Possible Consequences of the Enlargement of the European Community

An assessment of the probable consequences of the extension of the common agricultural policy to the 4 candidate states - Great Britain, Ireland, Denmark, and Norway - is not just a theoretical exercise. The farm organizations and some governments within the Community have, up to a recent date, let it be understood that the countries wishing to join the Community must accept the instruments of the Community - common prices, the common financial responsibility - and must eliminate certain subsidies. Given this situation, several questions are pertinent. To what extent are the agricultures of the Six and the Four complementary? What are the possibilities of achieving an equilibrium in the market? What are likely to be the consequences on world markets?

The following views reflect the personal opinion of the author[1] and are not to be considered as an official point of view of the European Commission. The above questions are examined in terms of both static and dynamic assumptions.

Static Analysis of the Consequences of Enlargement of the Community

If one disregards the possible effects of the integration (essentially the effect of changes in prices for agricultural products and the enlargement of the markets) on the level of production and consumption, the structure and geographical distribution of production etc., it is quite easy to trace the net effects of the consequences of the integration. In comparing the degree of self-sufficiency of the Six with the Four candidate states, it is apparent that for a number of important products, there is an obvious complementarity:-

- Europe of the Six has a surplus of about 6 million metric tons of wheat; the bloc of the Four imports about 4.3 million tons.

- The Six have a surplus of 1.2 million metric tons of sugar; the Four have a deficit of 1.9 million tons.

- The Community has a surplus of 150,000 - 200,000 tons of butter; the Four import 230,000 tons.

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1 See: Les aspects agricole de l'elargissement de la CEE par Jacques van Lierde et Adrien Zeller - IRRI - Bruxelles; No. 3-5; Chronique de la Politique Etrangère: Septembre 1970.

- In 1967/68, the Four had a deficit of 1.7 million tons of fresh fruit, a portion of which was supplied by the Six.

- In 1967/68, in beef, the Community of Six had a deficit of 600,000 tons; the Four had a surplus of 350,000 tons.

- For pigmeat, eggs, and poultry, both the Six and the Four are self-sufficient.

- Both the Six and the Four are deficit regions for coarse grains and oils and fats other than butter.

Dynamic Analysis of the Consequences of Enlargement

It has been affirmed - among others by Francois Perroux - that international economic integration is a process of "destruction and reconstruction". In other words, integration would lead to modifications. The most important changes that are expected are reorientation of production, regional specialization, modernization, and finally progress.

What are likely to be the major changes resulting from the Four joining the Six, in the level of production in each member-state, in production structure, in the location of production etc.? It is impossible to give a complete answer to these questions but a general answer can be given by assuming that the existing rules of the Common Agricultural Policy are adopted by the Four. Suppose then that the Common Market Agricultural Policy is extended to the Four candidate states and more specifically three of the essential elements of it:-viz.

i) the common price policy,

ii) the principles of the integral guarantee of outlets for most of the products for which there is a price intervention with the exception of sugar,

iii) the subsidy policy

A comparison of the price levels of the Community with those of the Four, indicates that for most of the agricultural products, Great Britain, Ireland, and Denmark have lower prices, and sometimes to a considerable degree, than the Community. Norway, however, has prices which are clearly above those of the Six. One group of products seem to be an exception to the rule. These are the horticultural products for which the candidate-states, in general, are less price-competitive than the countries of the Six.

The most notable price differences exist for cereals and beef. Prices for beef in Ireland, for instance, are on a level which is about 40% of the price level prevailing in the Community.

If one compares the guarantees with regard to outlets given to producers in the Six and the Four one sees that in the Four, in certain cases, there is an artificial limitation. This is true for sugar in Great Britain, where the production is strictly under quota. It is also the case for milk, for which there is a guarantee only for liquid milk. For potatoes, the Marketing Board established a maximum acreage per farm; for pigmeat, barley, and wheat, guarantees are also limited to certain quantities that are fixed annually.

In some cases, differential prices are applied. This is the case in Ireland, where small farms receive a higher price for milk than larger farms. In Denmark, there is no limitation of production (with the exception of sugar-beets). However, through the fluctuations of the export markets and through the manipulation and pooling of prices on the internal market with those on the export market, there is considerable fluctuation in the prices producers receive. In Norway, the guarantees offered to producers are unimportant, and there is no limitation of production whatsoever.

A comparison of subsidy policies in the four candidate states also reveals a considerable variation from country to country and if the subsidy policy of the Community is to be adopted a substantial number of existing subsidies would have to be dropped. However, in total, they represent less than 4 per cent of the total value of agricultural production (excluding deficiency payments) and if they were dropped it would mean that the average level of agricultural prices in Great Britain and Denmark would be about 20 to 25 per cent below that of the Community.

In comparing agriculture in the Six and the Four it is also important to examine differences in productivity. On average an agricultural worker in the Community produces the food requirements for 16 persons while in Great Britain the comparable figure is 38 and in Denmark 60. The average production per agricultural worker in the bloc of Four is equivalent to the food requirements of 26 persons. This difference in productivity results from differences in the amount and combination of production factors on individual farms. The average size of milk cow shelters in Great Britain is three times as large as in the Community. The average area per farm which is available for agricultural use in the Four is about 40 acres as compared to 17.5 acres in the Six. In 1964 the average capital invested per worker in agriculture was 4000 dollars in Great Britain, 1000 dollars in Belgium, 2000 dollars in Germany and Denmark and 300 dollars in Italy.

Hence on the assumption that the existing agricultural policy in the Community is adopted by the candidate states, it is apparent that agricultural producers in Britain, Denmark and Ireland would realize a substantial increase in product prices which would more than offset the effect of any subsidies which would have to be eliminated by virtue of joining the Six. However this would not be true for Norway.

The effect of this change in agricultural policy would be reflected in the first instance in Great Britain, Denmark and Ireland by an immediate increase in agricultural incomes and by an improvement in the outlook for future incomes. In the second phase, one would expect to see an increase in the utilization of the existing production capacity; and in a third phase, which may fall together with the second one, an acceleration of investments, intensification of production, and exploitation of the soil.

One can conclude, from this general survey, that the enlargement of the Six to the Ten - even though it might offer some improved prospects for certain products (fruit and vegetables) - does not seem to offer a panacea to the agricultural problem. On the contrary, the enlargement makes still more urgent, the execution of the Memorandum on the Reform in Agriculture within the Six - and probably even setting up a European Plan on Structural Reform in Agriculture.

Whatever the possible consequences of the enlargement of the Community may be, one can expect that agriculture and agricultural policies will be among the most important considerations during the negotiations, even though agriculture would not likely contribute more than 5 to 6 per cent of the GNP of the enlarged Community.

International Agricultural Policy

Prior to 1950, government activities in the international field were limited mainly to trade policy. However since that time food importing countries have tended to place more emphasis on expanding domestic food production and protecting it by means of import quotas and other devices from the competition of cheaper food produced by the traditional exporters. This generated a reaction in the form of export subsidies by the exporting countries. Since the early 1950's the classical operation of world agricultural markets and international competition have been more and more restricted and international trade flows have been determined more by government intervention by both exporters and importers than by competitive considerations such as price and quality.

Within the framework of GATT and OECD considerable efforts have been made to improve this situation but with little success as far as agriculture is concerned. It soon became clear that it was not feasible to develop a satisfactory framework for international trade in agricultural products by relying on the free play of economic forces to evolve such a system. For this reason it is essential that means be developed to reconcile domestic and international agricultural policies on a global basis.

The European Community is of major importance in the formulation of international agricultural policy. The EEC is the largest importer in the world of agricultural products and the second largest exporter. According to F.A.O. statistics the EEC, Great Britain, the United States and Japan account for 65 per cent of the world agricultural imports. The E.E.C. accounts for over 29 per cent and Great Britain for 12 per cent. In 1968 the EEC imported 10.3 billion dollars of food and agricultural products. This represented roughly one-third of the total imports of the Community. In 1958 agricultural imports represented 46 per cent of total imports by the EEC and were valued at 7.4 billion dollars. Although the relative importance of agricultural imports has declined they have increased in absolute terms. The first time that a decrease in agricultural imports occurred was in 1967 but this was temporary and a comparison of agricultural imports during the first 6 months of 1970 with the corresponding period in 1969 indicates an increase of 9 per cent.

In terms of exports, food and agricultural products constitute 8 to 9 per cent of the total exports of the community and are valued at about 3 billion dollars. Part of these exports are the result of production in excess of the domestic needs of the community,[1] but part is due to geographical factors and part to the trading of different qualities or grades of the same product (e.g. wheat and cheese).

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[1] H. Von Verschuer; La place de la politique agricole dans la politique commercial de la commanaté in "Revue du Manché Comman".

Thus the European Community is already very important in the determination of the world trade pattern. If it is enlarged, the significance of the common market for the development and welfare of both the underdeveloped and the developed third countries of the world will become still more important. The Community has always realized this; hence the efforts it has made to develop an international agricultural policy. Though some results have been reached in the field of international agricultural negotiations - e.g. liberalization in the framework of OECD; the tariffs agreements in the framework of GATT; agreements on particular products etc. - one must however conclude that until now no really important decisions have been taken in the field of international agricultural policy. The negotiations undertaken in the framework of the Kennedy Round which could have been of real significance in this field, did not give any positive results for agriculture.

However, H. von Verschuer[1] is of the Opinion that, in the near future, we are about to embark on a new phase stressing general international negotiations and agreements and thereby reach a new starting point for developing international agricultural policy. Assuming that the Six will be enlarged to the Ten, it is probable that negotiations between the Ten and the other members of the existing Free Trade Area in Europe (Austria, Switzerland, Sweden and possibly Finland, Iceland and Portugal) will produce some results. One should not exclude the possibility that thereafter general international negotiations will occur. Reasons for these are, according to H. von Verschuer, the following:

GATT gives certain unions and free trade areas the possibility of waiving the principle of non-discrimination in trade between the contracting parties. This exception is however tied to the condition that the common tariffs which come into effect when a custom union is created, should in their total effect not be higher or more restricted

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1 H. von Verschuer, Die Trager internationalen Agrarpolitik in der agrarpolitischen Willenssildung. Referat:Bonn: Oktober 1970.

than the general burden which existed in the participating areas before the union was created. In the event that tariffs or trade regulations, of which the amount or incidence was fixed in GATT, have in the framework of the necessary adaption to the common external tariff or to the common trade prescriptions of the custom union, to be increased or to be changed to the disadvantage of third countries, then these third countries have to be given compensations. This clearly requires international negotiations.

A second reason may occur in circumstances where the enlarged Community wants, for certain agricultural products, to regulate its relationship to third countries; for instance with the less developed countries. The revision of commonwealth trade preferences is an obvious example of this.

The outlook is thus not a pessimistic one. In the process of negotiations one always will be faced with the alternative of developing an international agricultural policy according to the principle of free international competition or of one international organization and control of agricultural production and markets. The degree to which it will be possible to realize the structural policies which are foreseen in the Community, will certainly affect the direction in which the European Community will go in the future.

Conclusion

The agricultural policy of the Community has reached a turning point; after market and price policy, structural policy now has the limelight. According to the Commission the structural policy should be a selective one along the lines outlined above. The Commission based its policy proposals upon the following principles which were indicated in the Memorandum:

1. A common conception of the reform policy for agriculture among the Member-States but allowing each state to choose the most

appropriate means of achieving the common goals of the reform policy. (Accordingly the Commission has proposed directives (see page 3) for implementation of the structural reform policy whereas in the case of market and price policy, regulations exist which bind the member countries not only to the policy goals but also to the specific means to be utilized to attain them).

2. Permit individual farmers, within the broad constraints of the policy, to use their own initiative to select the best alternatives for their specific situations.

3. Recognize regional differences which exist within the Community.

4. Up to a certain level, a common financial responsibility for the reform of agriculture.

5. The reform of agriculture must be subject to periodic revision at which the results achieved will be related to the measures employed. A pragmatic approach to evaluating policy effects will be followed.

It is practically certain that the first series of six proposals by the Commission will shortly be followed by a second series of proposals which are likely to include a directive on "personal aids" and probably also proposals for the creation of European Marketing Committees and scholarships for children of farmers who cease farming.

In the coming months the various working parties of the Council, the European Parliament, the Economic and Social Committee, farm organizations, and all other organizations that are interested in agricultural policy will discuss all these proposals with representatives of the Commission. Following these discussions, the Ministers of the Member-States, in the framework of the Council, will have to make a decision. It is hoped there is reason enough "to walk with hope in the heart".

GENERAL STATISTICS REGARDING AGRICULTURE IN THE E.E.C. AND IN AN ENLARGED COMMUNITY[1]

	Population Total	Population active in agric.	Per cent of total active population	Total Agricultural Area	Gross Value of Agric. Production as per cent of National Production
	- millions -		per cent	million acres	per cent
Belgium/Luxemb.	10	0.20	5.2	4.2	5.2
Netherlands	13	0.32	7.0	5.5	7.0
France	52	3.00	14.0	83.7	6.4
Germany	62	2.40	9.0	33.7	3.7
Italy	55	4.00	20.0	47.5	10.5
The Six	192	9.90	13.0	174.6	6.0
United Kingdom	56	0.75	3.0	48.5	2.9
Ireland	3	0.30	28.0	12.0	19.0
Denmark	5	0.28	11.7	7.5	9.0
Norway	4	0.22	14.7	2.5	6.5
The Four	68	1.55	5.2	70.5	4.2
The Ten	260	11.45	10.0	245.1	5.5

[1] Source: Financieel Dagblad: September 16, 1970

IMPLICATIONS OF EEC POLICIES FOR ATLANTIC AGRICULTURAL TRADE

Dr. Tim Josling*

Introduction

This is an appropriate time to discuss the future of trade in temperate agricultural goods. Negotiations are in progress exploring the possibility of expansion of the European Economic Community to include Denmark, Ireland, Norway and the United Kingdom. Adherence to the provisions of the Common Agricultural Policy as at present operating within the EEC would represent a major change in agricultural trade policy for the applicant countries. Exporting nations outside Europe are naturally concerned to know the implications of EEC expansion on trade patterns. Their own attitudes towards economic integration in Europe are understandably coloured by the effect on their agricultural markets, and agricultural policy finds itself uncomfortably close to the center of the political scene.

This paper will concentrate on the implications for Atlantic agricultural trade of the establishment and the enlargement of the EEC. The emphasis will be on grains and livestock products, though it is recognized that there are many difficult problems in the area of fruits, oil seeds, fibres and tobacco. It is not easy to separate the implications of EEC enlargement on Atlantic trade from repercussions in other regions. North American exports compete with products from Europe in Asian markets, and such competition may be as important as direct trading conditions across the Atlantic. Two types of questions arise when looking at implications of enlargement of North American trade. First one can ask about the direct effects on trading patterns of a change in agricultural trade policy in the short and medium term on reasonable assumptions about the application of the CAP to the wider community. Such a question

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is by no means straight forward. One needs to have a reasonable idea as to how the presently constituted CAP will be applied over a period of transition. One also needs to accumulate evidence of past reactions of producers and consumers to policy changes - in particular to changes in price. But if the exact figures are hard to come by at least the problem is easy to state. The second type of question is at the same time more complex and more important. This involves asking about the future conditions of trade over the next decade. One then becomes involved in speculation of future changes in policy, rather than the ramifications of a current policy applied to a different group of countries. Such speculation is by no means idle. The impact over the next few years of EEC enlargement would significantly alter the context in which national and international policies are discussed. Political attitudes, often treated as invariable constraints in economic analysis, have a habit of changing rapidly in response to economic conditions. Politics includes among other things the art of presenting change as stability.

The remainder of this paper will be divided into four parts. The first section will identify the interest of the US and Canada in European markets; the second will discuss briefly the apparent impact of recent European policy trends on North American export markets. Both these sections rely heavily on previous work by other authors. The third section will suggest some possible effects of adoption of the CAP by the United Kingdom and the other applicant nations in terms of supply and consumption patterns. Although there have been previous detailed studies of these effects, the question is of sufficient importance to warrant a reappraisal. Material from this section will necessarily be influenced by the participation of the author in an extended study directed by Michigan State University and supported by the USDA. This study will be completed by the end of 1970 and will demonstrate the effect of enlargement on net import balances for grains and livestock of the applicant countries under a variety of assumptions about future price policies for agricultural goods. It is not intended that this present paper should include a preview of the USDA-MSU results, but clearly involvement in the large study has provided some of the ideas incorporated in this paper. The fourth section will be concerned with some observations as to the longer term implications of EEC enlargement, and offers some comments on how North American policy makers might react to the problems posed by further European integration.

North American Interests in EEC Enlargement

In a recent publication from the Canadian-American Committee, J. Price Gittinger has neatly summarized the major trends in Atlantic agricultural trade since the war.[1] The immediate post-war period saw the European countries place exclusive emphasis on reviving domestic farm production and displacing imports. Relative normalcy returned by the mid 1950's but protectionist attitudes were by this time firmly established among farmers and farm leaders. Continuing foreign exchange crises provided fertile ground for mercantilist ideas, but prosperity brought an impressive expansion in demand for farm imports. Most of this expansion was in coarse grains; the main supplier was the United States and the growing market was continental Europe. Canada, heavily involved with selling wheat to the slowly growing UK market, did not share proportionately in the growth of Atlantic trade.

This growth in trade has recently been reversed and US exports to Europe have declined since 1966.

Table 1 shows the importance of European markets to US and Canadian exporters of agricultural goods. Over one quarter of US exports went to the EEC countries over the period 1965-67. The UK market, however took somewhat less than 8 per cent of US trade. The position is reversed in the Canadian case; the UK took about 23 per cent and

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[1] J. Price Gittinger, North American Agriculture in a New World, Canadian-American Committee, 1970.

TABLE 1 DESTINATION OF CANADIAN AND U.S. AGRICULTURAL EXPORTS, 1965 - 67 ($U.S. Millions)[a]

DESTINATION	U.S. EXPORTS 1965 - 67 AVERAGE		CANADIAN EXPORTS 1965 - 67 AVERAGE	
	VALUE	PERCENT	VALUE	PERCENT
E.E.C.	1,596	27.1	194	15.6
U.K.	454	7.7	280	22.6
OTHER EUROPE	596	10.1	44	3.6
TOTAL EUROPE	2,646	44.9	518	41.8
JAPAN	912	15.5	155	12.5
LDC'S	2,218	37.6	208	16.8
SOCIALIST	118	2.0	359	29.0
TOTAL	5,894	100.0	1,240	100.0

[a] Excludes trade between US and Canada

Source: J. Price Gittinger, p. 11

the EEC 16 per cent of Canadian agricultural exports. But for both the US and Canada the proportion of trade going to Europe as a whole was above 40 per cent. For both North American exporters, Japan was a major and expanding market but exports to Japan were only about one third those to Europe. Sales to LDC's and Socialist countries accounted for 40 per cent of US exports and 46 per cent of Canadian trade.

Table 2 gives more detail of the European markets, and indicates the growth of Atlantic trade over the decade 1955-57 to 1965-67. US wheat exports contracted in value as did Canadian exports to a lesser extent, to both the EEC and the UK. The EEC market for U.S. feed grain expanded at some 30 per cent per year, and there was a similar strong growth in oil seeds and meals. The tobacco market was fairly strong over the decade but cotton exports declined. Canadian agricultural exports showed a very small increase in total over the period, as compared with the strong upward trend in US sales to the EEC.

It is fashionable to trace the recent slowdown in Atlantic agricultural trade to the development of the Common Agricultural Policy of the EEC. Over a transition period ending in 1967 the conditions of trade both within the community and with third countries were harmonized. The development of an economic union - as opposed to a simple common market - dictated the application of common policies in key areas of the economy. The task of the 1960's was to develop such common policies of which the most far reaching was in the field of agriculture. To establish a policy across countries very different in the character of their agricultures required enormous effort and skill. The CAP was designed to harmonize conditions of trade within the Six by the removal of internal trade barriers. This would in the normal way encourage production to concentrate in those parts of the community favoured by low relative costs. Given that capital and labour were also to be mobile within the EEC, this would have implied a pattern of farm production determined by climatic and soil conditions and proximity to markets - much as one sees in Canada, Australia and the USA.

TABLE 2. U.S. AND CANADIAN AGRICULTURAL EXPORTS TO EEC AND U.K. 1955-7, 1965-7 AND AVERAGE ANNUAL CHANGE

	US EXPORTS TO EEC	US EXPORTS TO UK	CANADIAN EXPORTS TO EEC	CANADIAN EXPORTS TO UK
WHEAT AND WHEAT PRODUCTS				
1955-57 $ US MILL.	125	47	113	159
1965-67 $ US MILL.	93	34	111	138
AVE.ANNUAL CHANGE %	-2.56	-2.77	-0.18	-1.32
COARSE GRAIN AND FEED				
1955-57 $ US MILL.	154	86	13	57
1965-67 $ US MILL.	614	118	24	37
AVE.ANNUAL CHANGE %	29.87	3.72	8.46	-3.51
OILSEEDS & NUTS				
1955-57 $ US MILL.	88	7	28	19
1965-67 $ US MILL.	287	19	31	21
AVE.ANNUAL CHANGE %	22.61	17.14	1.07	1.05
TOBACCO				
1955-57 $ US MILL.	74	123	1	18
1965-67 $ US MILL.	125	123	1	27
AVE.ANNUAL CHANGE %	6.89	0.00	0.00	5.00
TEXTILE FIBERS				
1955-57 $ US MILL.	271	100	1	1
1965-67 $ US MILL.	103	29	1	3
AVE.ANNUAL CHANGE %	-6.20	-7.10	0.00	20.00
ALL OTHER GOODS				
1955-57 $ US MILL.	256	68	9	31
1965-67 $ US MILL.	267	103	24	50
AVE.ANNUAL CHANGE %	0.43	5.15	16.67	6.13
TOTAL AGRIC.EXPORTS				
1955-57 $ US MILL.	968	413	165	285
1965-67 $ US MILL.	1,489	426	192	276
AVE.ANNUAL CHANGE %	5.38	-0.12	1.64	-0.32

SOURCE: Based on J. Price Gittinger, Table 3, p.13.

But this would have imposed adjustment costs on these areas protected by the former national policies. The economic cost of the political act of establishing the CAP arose from the decision to establish a uniform level of protection viz-a-viz third countries that was high enough to obviate the need for massive resource adjustment in the less favoured agricultural areas of the community.

All this was well understood in Europe, and indeed the development and application of the CAP was by any standards a significant diplomatic achievement. Even more remarkable was the fact that such major shifts in agricultural policies for the member nations should have been accomplished with so little concern for the interests of third countries. The European Commission, though staffed by men who were by no means autarchic in their outlook, found itself preoccupied with the reconciliation of domestic conflicts within the community. Perhaps unwittingly it acted as an effective buffer to isolate the individual nations from world trade developments, reinforcing the isolationary effects of the variable element in the CAP levies and restitutions. Even during the Kennedy Round negotiations, when agricultural trade was initially to be treated in a manner analogous to industrial trade, the Commission was able to avoid any direct bargaining over the CAP.

Political reasons for the development of a highly protectionist trade policy for agricultural goods in an economic block whose treaty was predicted on the desirability of trade are easy to find. It is common to emphasize the strategic strength of the agrarian interests in the power base of the European countries. There is also some evidence that the architects of the CAP underestimated the impact of the commercialisation of European agriculture on output response to high farm prices. There also seems to have been an idea, naive in retrospect, that inflation would in some mysterious way rescue the CAP from its own excesses. But in the present context it is more relevant to examine the reaction of the USA to European integration and to the CAP. For a complex of political motives the US administration was committed to the idea of a united Europe and supported the development of the EEC.

If some setbacks were forecast in agricultural exports, this would be a minor price to pay for European political rehabilitation. Moreover the US was not at that time in a position to cast the first stone in any confrontation on agricultural trade policies. American domestic farm policy had for years been isolated from commercial trade conditions, and the US had gone to great lengths to incorporate into the Havana Charter - later to become the basis for the GATT - exemptions to the general rules which justified the use of those methods of domestic price support which formed the core of US agricultural policy.[2] It would have been somewhat unconvincing in the early 1960's for the US administration to apply any diplomatic pressure on the nascent EEC to negotiate the CAP provisions multilaterally. Right up through the early stages of the Kennedy Round it was possible for the EEC to argue, with emotion if not economic logic, that 'world prices' were too distorted by subsidies abroad to be taken seriously as indicators of appropriate domestic price levels.

It should also be recalled that in the formative period the CAP coincided with a realisation that much of the world lived on food rations which would not support a prosperous American or European. It was difficult to justify talk of surpluses in basic foodstuffs caused by generous price supports when many were predicting imminent famine for the third world. In a major food crisis, the development of productive potential in the EEC was surely not to be discouraged. There are still some to whom artificial restriction of supply of agricultural goods is tantamount to genocide by starvation.

Perhaps the major reason, in retrospect, why the implication for agricultural trade of the CAP caused so little concern was that the European market for agricultural imports in fact expanded rapidly during the period until 1966. To be sure some regular suppliers were hard

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[2] See D. Gale Johnson "Agriculture and Foreign Economic Policies: Implications for Producers", Agricultural Economics Research Paper, Univ. of Chicago, 1965.

hit. Denmark lost a lucrative German market for livestock products; France supplanted the US as the major grain exporter to Italy; some Eastern European trade was diverted elsewhere. But in general the increased prosperity favoured imports of feed grain from the major supplier, the USA. Academics could argue that the trade expansion would have been greater without the high levels of the CAP prices, but such an argument had little diplomatic appeal.

Three factors have combined to change the situation in the last few years. First there has been a major change in US agricultural and trade policy. Starting from the Food and Agriculture Act of 1965, the last two administrations have sought to restore some of the balance between domestic and international policies. The programs for cotton, wheat and feed grains have swung from high domestic prices coupled with export subsidies, to prices much closer to trade levels supplemented by various direct payments. Moreover the whole attitude of US trade policy, especially in grains has become more competitive. Serious trade impediments still linger in dairy and meat products, but the stance of US agricultural trade policy is significantly more liberal today than five years ago. The second major change in the situation is the imminent prospect of EEC expansion to include, in particular the United Kingdom. In absolute terms, the UK market for US agricultural exports is barely one quarter of the size of the EEC market. But there is a strong psychological reason why the UK market is important. To many, the UK is one of the few countries which has preserved a liberal import policy for temperate agricultural goods. The predominant use of the deficiency payment system is taken as evidence that UK consumers are allowed to buy food at "world prices" rather than bearing directly the cost of farmer support. While not entirely accurate, this picture lends weight to the presumption in the US that entry of the UK into the EEC will finally close the door on much of Atlantic agricultural trade. Though this may sound overly dramatic to Europeans, it is clearly behind the statements of many in Washington who see the outcome of the enlargement negotiations as crucial to Atlantic commercial policy. Accession of the UK is also of interest to Canada, who until now have been able to face European developments with something akin to equanimity.

The third major factor which has precipitated the recent interest in the CAP has been the emergence of the strong downward trend in European imports of farm goods mentioned above, in conjunction with increased competition in third markets. US agricultural exports to Europe have been seriously set back in the few years since 1966. The next section serves to summarize these effects; in the present context it is notable that this reversal comes at a time of balance of payments problems in the US, of considerable perplexity in deciding on a future course for commercial policy and of uncertainty as to the future growth of the LDC markets. The CAP is now a live potential issue in Atlantic diplomatic circles.

North American Trade and The Community Of Six

It is useful to classify the impact of the formation of the European community, and in particular the establishment of the Common Agricultural Policy, under four headings:

1) Direct loss of European export markets due to:
   a) Increased EEC production
   b) Decreased EEC demand
   c) Changes in intra EEC trade patterns

2) Indirect loss of export markets due to
   a) Increased EEC competition in third markets
   b) Increased competition from other countries in third markets

3) Increased domestic competition from
   a) EEC exports
   b) Other country exports

4) Macro economic effects, including
   a) Impact on balance of payments of US and Canada
   b) Impact on balance of payments abroad
   c) Influence on income growth

None of these effects can be quantified with any measure of accuracy. The same is true of any major shift in economic policy. It is possible to get some idea of the order of magnitude of these effects by looking at developments since the full operation of the CAP in 1967. Clearly the last three years contain elements which are not directly attributable to the full operation of the CAP; in particular the 1967 and 1968 crop years in Europe were marked by unusually favourable weather conditions. But decisions cannot wait until economists have all the data they need. Inevitably policy attitudes will be shaped by inadequate information. A fuller discussion of the impact of the full implementation of the CAP is to be found in the USDA bulletin 'The European Community's Agricultural Policy:Implications for US Trade'[3]. Data for the 1969 calendar year have become available since the publication of that bulletin and are incorporated in the present review.

A. Direct Export Losses in European Markets

It is not easy to identify the impact of price unification on European production levels. There has for instance been a strong upward trend in grain production in the EEC since the mid 1950's - an increase which is attributable to higher yields rather than acreage changes. Barley and corn production has increased at a faster rate than output of wheat. The EEC has in fact been a net exporter of barley for the past five years. Table 3 shows in detail the changes in consumption, production and trade for grains in the EEC over the recent past. Although still a major net importer of grains, the import deficit has fallen from 11 million tons in 1965-6 to under 4 million tons estimated for 1969-70. Most of this change can be accounted for by the increased production of 3.9 million tons of corn and a similar amount of barley. As also shown in the table the US has suffered proportionately to the fall in total imports. Canada on the other hand has found its market for hard wheat quite stable over

[3] USDA Foreign Agricultural Economic Report, No. 55, 1969.

TABLE 3 EEC PRODUCTION AND UTILIZATION OF GRAINS, 1965 - 66 — 1969 - 70 (Thousand m.t.)

CROP YEAR	ACREAGE	YIELD	PRODUCT	CONSUMPTION FEED	CONSUMPTION TOTAL	IMPORTS TOTAL	IMPORTS FROM US	INTRA-EEC TRADE	EXPORTS	NET EXPORTS
WHEAT										
1965-6	26,259	1.16	30,369	5,346	27,609	4,245	1,500	938	5,838	1,593
1966-7	24,801	1.06	26,309	5,540	27,417	4,280	1,536	690	4,479	199
1967-8	24,038	1.30	31,107	5,829	27,741	3,615	1,265	1,361	4,917	1,302
1968-9	25,226	1.28	32,290	8,025	29,451	4,250	1,645	2,900	5,200	950
1969-70	25,034	1.26	31,460	9,500	31,000	3,525		2,600	6,650	3,125
CORN										
1965-6	4,757	1.44	6,832	13,515	15,367	10,696	6,832	1,153	1,877	-8,819
1966-7	4,893	1.63	7,976	14,822	16,794	11,022	5,177	1.085	1,910	-9,122
1967-8	5,118	1.62	8,215	15,482	17,651	11,172	5,907	665	1,643	-9,529
1968-9	5,058	1.92	9,702	15,194	17,455	9,368	4,979	1,763	1,983	-7,385
1969-70	5,923	1.80	10,680	15,697	17,898	8,681		1,750	1,587	-7,094
BARLEY										
1965-6	10,045	1.19	11,850	8,956	12,641	2,379	688	1,463	1,345	1,034
1966-7	10,870	1.14	12,366	9,666	13,370	1,875	440	1,341	1,211	664
1967-8	11,315	1.41	15,877	11,008	15,042	1,908	314	1,573	1,723	185
1968-9	11,268	1.37	15,457	10,544	14,280	1,405	89	2,219	1,866	461
1969-70	11,551	1.36	15,739	10,953	14,779	1,388		1,748	2,475	2,475
TOTAL COARSE GRAINS										
1965-6	26,262	1.15	29,837	34,107	42,106	16,214	9,554	2,809	3,736	-12,478
1966-7	27,043	1.17	31,673	35,872	43,947	15,683	8,311	2,639	3,592	-12,091
1967-8	27,480	1.34	36,950	38,536	47,054	15,170	7,005	2,542	3,624	-11,546
1968-9	26,966	1.40	37,411	36,700	44,853	12,300	5,249	4,300	4,100	- 8,200
1969-70	27,692	1.40	38,220	37,300	45,500	11,150		3,800	4,200	- 6,950

Source: USDA Grain in the European Community, pg. 20, 21 the last five years. US feed grain exports to the EEC have not been so low since 1962. The strong market growth in the early years of the CAP has apparently been entirely offset in the last few seasons.

Not that all US exports to Europe have been as hard hit as feed grains. Table 4 examines the value of US-EEC exports in the major agricultural commodities over the past four calendar years. The drop in feed grain trade is of course reflected in these value figures as well as in the tonnage. But the market for oilseeds and meals has remained firm, and indeed shown some growth. Similarly the small trade in livestock products has not suffered extensively - with the possible exception of poultry meats. Trade in fruits (mainly citrus, and canned fruits) has also held up in recent years. Total value of the export commodities as listed in Table 4 has dropped by 20.8 per cent from 1966 to 1969. This overall drop of 7 per cent a year contrasts with a fall of 17.5 per cent a year in the value of feed grain exports, and a total decline of 52.4 per cent over the period. Clearly such figures over a short time span do not give an adequate picture of the effect of the CAP on Atlantic trade. What they do show, however, is the magnitude of the problem as seen by the USA. Whether or not the decline in feed grain trade is permanent is of little concern to a US administration faced with a change in trade patterns of these dimensions. They cannot afford to wait and see.

B. Impact in Other Markets

If production increases in Europe have the effect of reducing the demand for imports then exporting countries must either find alternative markets or else reduce their own production. In the case of feed grains there may have been some cutback in US output through the acreage payments scheme that would not have been necessary in the absence of the CAP. Australian (and perhaps even Canadian) wheat acreage might have been higher if it were not for the European policy. The same might be true of Danish livestock production and US poultry and egg output. However, the initial impact is more likely to be a diversion of the product that would have entered the EEC into other markets.

TABLE 4. U.S. EXPORTS OF SELECTED AGRICULTURAL GOODS TO THE EEC, 1966-69 ($ US Million)

COMMODITY	1966	1967	1968	1969
FEED GRAINS:	476.4	373.6	337.6	227.0
CORN	340.3	304.3	314.5	221.2
SORGHUM	82.3	44.4	16.5	5.8
BARLEY & OATS	53.8	24.9	6.5	0.1
RICE	18.8	25.7	31.2	31.0
WHEAT AND FLOUR	107.3	96.4	84.0	57.2
OILSEEDS AND PRODUCTS:	464.8	477.4	486.2	499.6
CAKE AND MEAL	149.9	156.6	174.8	190.2
OILSEEDS	278.7	294.2	298.5	295.0
VEGETABLE OILS	15.6	8.2	12.9	14.4
BEEF AND VEAL (excl.variety meats)	0.6	0.6	0.5	0.4
PORK (excl.variety meats)	1.3	0.4	0.1	0.2
POULTRY AND EGGS	23.6	18.5	16.8	14.8
VARIETY MEATS, (fresh & frozen)	35.0	34.4	31.5	37.3
DAIRY PRODUCTS	1.2	1.2	0.9	1.1
FRUIT & PREPARATIONS:	66.3	64.5	50.5	78.5
FRESH FRUIT	24.3	26.8	14.5	24.8
CANNED FRUIT	27.3	19.0	14.4	22.8
TOTAL SPECIFIED COMMODITIES	1,195.3	1,092.7	1,039.3	947.1

SOURCE: USDA The European Community's Common Agricultural Policy, and USDA US Foreign Agriculture Trade, May 1970.

If a market is already over supplied and prices are weak, the extra EEC production adds to world 'surpluses' even where the EEC itself is a net importer of the product concerned. For those commodities in which the EEC is an exporter, the extra production, if sold on the world market with the aid of a restitution, either depresses price or causes other countries to reduce their production. If the export restitution is designed to help maintain domestic market prices, then farmers responding to this price are in fact producing for the purpose of exporting with the subsidy. There is some evidence that this has happened recently in the EEC.

The export of French barley to Japan in 1968, and the export of French wheat to Taiwan and Japan in 1969 are dramatic examples of European production being moved in third markets with the aid of special subsidies and export restitutions. In 1968 the US market for barley in Japan dwindled from an average of 217 thousand metric tons over the four previous years to virtually nothing, while Japanese purchases from France rose from a mere 15 tons (over the previous four years) to 339 thousand tons.[4] Both Canada and the U.S. were hit by the wheat sales to Taiwan and Japan which effectively precipitated the collapse of the International Grains Arrangement.[5] In other cases, such as the sale under massive export subsidies of French wheat to Communist China in 1968, it is less easy to establish the extent of injury to other exporters.

In addition to the increased competition from the EEC itself, one would expect that other exporting countries will seek to displace North American exports from non-European markets. Thus South African and Argentine corn has been diverted to markets in which US corn exports have been sold. Competition among the US, Canada, Australia and Argentina for the Asian wheat market could be expected to intensify. Here again the establishment of injury is much more difficult than the presumption that it must exist. The USDA bulletin already refered to goes into detail on the size of US export markets in various countries and their vulnerability to this indirect pressure from the retrenchment of the European market, but is only able to instance a few cases where obvious changes have

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[4] USDA, op.cit. p. 40

[5] J. Price Gittinger, op.cit., p. 68.

taken place as a result of the CAP.[6]

C. Increased Pressure on Domestic Markets

It is to be expected that in addition to increased competition in the export sector some pressure would be felt in the US and Canadian domestic markets. Here again it is simple to state the presumption but difficult to demonstrate with empirical evidence. One is reduced to citing the odd example rather than presenting an analysis. The case of dairy product exports to the US is an instance of potential pressure on domestic markets. The US found it necessary to impose commodity-by-commodity quotas in an effort to offset the EEC subsidies on exports of such goods as cheese, condensed milk, and various mixtures containing dairy products.[7] Some of the increased trade in meat products coming from Denmark could also be attributed to the loss of EEC markets for these goods.

In addition to the direct effects in export and import markets one would also be expecting cross commodity effects. These are of two main types. Subsidized expansion of livestock production could be expected to increase trade in feed grains and other feeds. Thus the US might lose its market for poultry but gain somewhat on the extra feed imports required by the EEC. But the EEC, in common with most countries, has not chosen to support livestock farmers (with the exception of the dairy farmer) to anything like the same extent as arable producers. The margin of support over and above the compensation for the high cereal prices has been modest for pigmeat, poultry and eggs. This margin may in fact be increasing as feed conversion rates move ahead of those used to calculate the feed-cost compensation levies. The second main cross-commodity effect is that of substitution - most importantly among grains and between grains and other feeds. In so far as the EEC subsidies, wheat exports, more feed grains are imported to meet the

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[6] USDA, op.cit., p. 29

[7] USDA, op.cit., p. 88

livestock requirements. Similarly by subsidizing dairy product exports these goods are diverted from competing with grain in animal rations. Perhaps the most noticable substitution among feeds has been the remarkable shift away from the use of grains by compounders in the Netherlands. A variety of 'junk feeds' are being incorporated in feed mixtures according to the price-nutrient relationships. These grain substitutes are in general free from the high variable levies of the products they replace. In so far as some of these products emanate from North America, the impact of the reduction in grain imports is reduced.

Impact of Enlargement on North American Trade

Whatever agreement is reached in negotiations between the applicant countries and the present EEC, it is probably reasonable to assume that the trade policy aspects of the CAP will be applied to the enlarged community. Problems of internal financing of the Farm Fund, of Commonwealth sugar, of transition periods and temporary consumer subsidies and of adjustments for New Zealand will pre-occupy the negotiators. It is unrealistic to expect any change in the external face of the CAP until after the confusion surrounding expansion has subsided. This being the case one can look at the effect of CAP price levels and instruments on the applicant countries to get some idea of the impact of enlargement on Atlantic trade. Once again it is useful to make the distinction between direct and indirect export losses, and domestic market effects.

A. Direct Effect on Export Markets

It has been assumed by most commentators that the UK farmers will react to a price increase of some 40 per cent on grain prices by expanding cereal acreage. However, recent work has cast doubt upon this prediction. Davey and Weightman have explored the question from the standpoint of the optimal output plans of representative farms. This method incorporates resource restrictions of land, capital and labour and also examines choices between enterprises in a way that is difficult to achieve in aggregate methods of analysis. Instead of a strong increase in cereal acreage during a transition to high CAP prices, cereal acreage actually could decline on many farms if farmers chose enterprises on the basis of relative profitability. This decline would be due to 1) limitations of resources in particular working capital and labour, 2) rotational constraints in the predominately cereal areas of Eastern England and 3) competition with grassland, the favoured enterprise in the wetter western regions, as grass fed cattle production becomes a more profitable venture than at present. The prospect for the US and Canada is mixed; there would be no great increase in the amount of wheat and barley produced in the UK, but any hope of a rapid expansion in feed grain imports to the US as livestock production increased could be dashed by the relative attractiveness of livestock grazing in the farming pattern. Egg production would be considerably less profitable, cutting corn imports. Production of hogs and poultry could expand even with high grain prices as a result of the relative decline in the profitability of alternative livestock enterprises. Assuming no great change in the grain content of livestock rations, feed grain requirements in the UK in the event of entry could be 36 per cent below that obtaining, if EEC entry did not materialize. But as was noted earlier, in the Netherlands feed compounders have freely substituted for grains. The total feed grain import needs could in 1977 be below present levels in the event of entry to the EEC.

Turning to the demand for foodstuffs at the retail level, it has been estimated that the higher prices implied by the CAP would severely hit consumption of beef and mutton and of course butter if EEC entry did not significantly raise income levels. Pork consumption would expand somewhat, as would cheese and margarine. The British housewife struggling to make ends meet would apparently feed her family more bread. Barring any technical changes in the grist, Canadian wheats would still find a market in the UK; increased production of semi-hard varieties of wheat could however cut into Australian trade. Total consumption of wheat for food would decline marginally. A convenient way to summarize the impact of higher retail prices on UK food demand is to say that it eliminates about five years normal market growth. If, however, the UK were to experience a period of faster economic progress as a result of accession to the Community, then by 1977 food consumption would (with the exception of butter and margarine) be approximately the same as would have been the case with no entry and slower growth.

Denmark and Ireland would, if they became members of the EEC along with the UK, find lucrative export sales of livestock products. In addition to higher prices on intra-EEC trade they could presumably count on export subsidies to dispose of goods in non-European markets. As countries with comparatively small populations, the change in consumption patterns resulting from somewhat higher prices would have only a marginal effect on Atlantic trade; the major direct impact of accession of these two countries and of Norway could be a growing demand for soybeans and soybean meal as livestock production was enhanced.

B. Indirect Effect in Third Markets

If UK accession were to reduce net grain import requirements to about 5 million tons per year, then significant quantities of Australian wheat and US and South African corn could be displaced to other markets. Clearly any substitution of French grains for imports from these countries within the expanded EEC would relieve pressure elsewhere to a corresponding extent. Such a switch to providing for the UK market is of course in line with the intention of the CAP. It may however be not in the best interests of the UK, at least in the short run. If any restriction is placed on the contribution of the UK to the Farm Fund it is better for the UK to import from third countries and transfer the levy to Brussels, rather than pay high prices for European farm goods and then further direct budget transfers to cover the Fund deficit.

The major diversions will probably arise in the markets for livestock products, in particular dairy products from New Zealand and Australia and beef from

South America. In so far as Canada and the US are not major exporters (except to each other) of these commodities, third country diversion is unlikely to be a major factor.

C. Increased Import Competition

Some increased pressure on the domestic markets of the US and Canada could be expected from the diversion of exports from the enlarged EEC. This will be most acute in beef and in dairy products. The US has the choice of tightening up import restrictions or of allowing this intrusion to affect domestic producers. In the present mood of the US Congress, further trade restrictions would be implemented. There is the possibility of the US tightening restrictions on lamb imports under the Meat Import Law if diversion of New Zealand supplies from Europe became important.

With the return of a Conservative government in the UK the prospect of the introduction of variable levies for grains and livestock products faces exporters overseas even if the EEC is not enlarged. US corn and Canadian wheat would face variable import barriers but at levies considerably lower than in the EEC market. There would be little impetus to domestic production in the UK from the change in policy. There could however be a marked switch in feeding patterns away from grain, though to a lesser extent than under the CAP prices. Food consumption patterns would not be radically altered, though imports from Denmark (and Ireland if that country were outside the tariff wall) would be curtailed. The change to variable levies is designed to suit domestic fiscal objectives relating to a switch from income to consumption taxes; the impact on Atlantic trade is likely to be moderate.

Policy Implications of EEC Enlargement

It was suggested earlier in the paper that expansion of the EEC to include the UK, Denmark, Ireland and Norway was of significance to agricultural trade policy in a more fundamental way than the diversion of

What becomes difficult to forsee is not so much the direction in which agricultural trade policy will move--sooner or later there will be support policy disarmament among industrial countries--but how much further mercantilist policies will proceed before the political reaction sets in. It is on this question that EEC enlargement could have considerable impact. During negotiations with the UK the countries of the Six will be faced--for the first time since the CAP became a major political rather than agricultural issue--with the question of the place of the low cost supplier. In particular it will be crucial as to whether New Zealand is granted a permanent role as supplier of sheepmeats and dairy products to Europe or whether there is an agreement to reduce such imports over an adjustment period. The question of the future of the CAP is in fact much more important to the UK in the long run than the problems of adoption of the present policies. The UK would be paying a major share of the cost of European farm programs even with lower prices than at present. What is of major concern to the UK is the future growth of expenditure on intervention and restitution payments, and in particular the fact that such payments at present are not contributing to the solution of the adjustment problem in agriculture but rather to its perpetuation.

Most countries agree that the temperate food trade problem must be tackled internationally in the near future. No country has as yet taken any initiative in proposing solutions. One opportunity for such an initiative would be the renegotiation of the International Grains Arrangement in the coming year. Harmonisation of grain policies at least to remove the element of competitive subsidisation of exports could lead the way for other products. In this North America has a large stake. An attempt could be made to incorporate rice and feed grains in the pact. A realistic degree of price flexibility could be incorporated so that the burden of market control does not fall on one or two countries. Individual country policies could be made subject to review and signatories would agree to limitations on domestic price support measures.

exports and increased competition in other markets. Negotiations on enlargement come at a time when there is considerable concern over the whole future of agricultural trade. This concern appears to center on the development of domestic agricultural policies whose prime aim is either to isolate the domestic market from trade conditions, or to offset the domestic and trade policies of other countries. The CAP comes in for criticism because it is the most recent and most blatant example of such a tendency. If export restitutions are used in such a way then the domestic producer is divorced from any knowledge of the true value of his output. Similarly a variable levy misrepresents to the importer the cost of the commodity which he purchases. So long as domestic prices are set almost regardless of trade conditions the isolation of both producer and consumer is complete. This introduces an element of instability in trade which encourages similar isolationist policies by other countries. The Western industrial countries are affluent enough to pay for such regression; subsidy offsets subsidy and exchequers and treasuries compete for markets. The developing world is less fortunate in that agricultural production is a large part of economic activity and foreign exchange earning potential. Farmers are too numerous to be favoured by an urban population chasing illusive social peace by open ended support systems. But even in the affluent West there is increasing realisation that agricultural support buys neither peace nor rural prosperity. The full transfer to farmers through the CAP and the various national agricultural policies has been estimated at around $15 billion.[8] This corresponds to over $4,000 per farmer in transfer payments alone. The transfer per farmer is only slightly less in the UK despite the different support system. In spite of these transfers there is still a farm income problem in Europe. One cannot in a competitive industry effect a lasting increase in resource returns through the price system. But price reductions impose capital losses on those committed in the industry. Any restoration of agricultural trade must therefore be accompanied by domestic adjustment programs which will themselves be expensive.

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8 H.B. Malmgren and D.L. Schlechty, 'Technology and Neo-Mercantilism in International Agricultural Trade' American Journal of Agricultural Economics, 51,(5),Dec./69 p. 1325.

The formation of the EEC and the establishment of the Common Agricultural Policy has helped to precipitate the present trading problems; the enlargement of the Community would seem to be an appropriate opportunity to begin the long process of restoration of order to the world market for farm goods.

IMPLICATIONS OF THE EEC COMMON AGRICULTURAL POLICY FOR CANADIAN AGRICULTURAL TRADE

R.E. Latimer*

Introduction

For convenience, I would like to deal with my subject by looking at what has happened in recent years in several main sub-topic, or problem, areas. These will be: (1) exporting to the EEC under the CAP or, in broad terms, the access question, (2) effects of the CAP on Canadian agricultural exports in third markets; (3) effects of the CAP on the Canadian domestic market; (4) the question of possible enlargement of the EEC, and, (5) effect of the EEC/CAP system on the international trading environment. Wherever possible I will describe in some detail developments in particular commodities in order to illustrate the sorts of preoccupations we have in the trade relations field in following the establishment and operation of the CAP. But, first, a review of Canada's agricultural export trade with the EEC in global terms.

The EEC is an important market for Canadian agricultural products. In the last two years, 1968 and 1969, an average of $153 million worth - or of the order of 20 per cent - of our total exports to the EEC consisted of agricultural products. Main agricultural exports in 1969 in thousands of dollars were: wheat - 97,491, wheat flour - 344, rye - 759, purebred cattle - 852, various meats including horse meat - 1,663, hatching eggs - 401, fresh apples - 347, canned cherries - 397, seed potatoes - 358, canned beans - 1,799, sausage casings - 434, unmanufactured tobacco - 584, hides and skins - 7,079, undressed furs - 4,424, seeds for sowing - 958, flaxseed - 19,082, mustard seed - 2,619, rapeseed - 3,182, and inedible tallow - 1,729. In addition, we usually have substantial sales of barley to the EEC but in 1969 these were nil due to excess supplies in that area.

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Looking at the period from 1957, when the Community was formed, to 1969 exports of agricultural products from Canada to the EEC exhibited a fair degree of stability. They varied from year to year within a range of $140 million to $221 million, with an average of $179 million over the 13 years. Agricultural exports in the last two years ($156 and $150 million, respectively) were at the lower end of this range - indeed they represented a decline of over 25 per cent from each of the three previous years (1965-67).

Looking at agricultural exports in relation to total exports from Canada to the EEC, an even more startling picture emerges. The rather static situation for agricultural products contrasts sharply with that for total exports, which increased fairly steadily from 1957 on so that by 1969 they had more than doubled from the start of the period. In other words, agricultural exports experienced a serious decline in relative terms. In the five year period before the CAP started in 1962 the percentage of agricultural exports to total exports to the EEC amounted on average to 41 per cent, varying from year to year within a range of 34 to 46 per cent. But starting in 1962 a downwards trend in this percentage set in and by 1969 exports of agricultural products from Canada to the EEC amounted to only about 18 per cent of total exports.

With respect to individual items exports of wheat declined from 67.3 million bushels on average in the period 1955-61 to 58.7 million bushels on average in the period 1962-67. For some other items the comparisons on an average basis for the same periods are: barley 5.3 to 6.3 million bushels, flour 140 to 60 thousand hundred-weight, tobacco 2.6 to 4.3 million pounds, cheddar cheese 1,165 to 815 hundred-weight, apples 8.3 to 3.2 million pounds, processed fruit 0.88 to 2.6 million pounds, processed vegetables 1.6 to 14.8 million pounds, rapeseed 1.4 to 1.7 million hundred-weight, flaxseed 2.7 to 2.5 million hundred-weight, (i.e. including wheat, five increases and five decreases). Thus those that increased were barley, tobacco, processed fruit, processed vegetables and rapeseed. Those that decreased were wheat, flour, cheese, apples and flaxseed.

Access

The operation of the Common Agricultural Policy is generally assessed by outside suppliers such as ourselves largely from the point of view of its impact on our exports. The impact on a given product is largely determined by the price of the product which the authorities within the Community wish their producers to receive. Once this is set, the other two important factors are the price at which the product can be delivered c.i.f. EEC border points from non-EEC countries and a variable import levy which in general represents the difference between the domestic price and the lowest c.i.f. offer price. Regardless of the price at which a product covered by the CAP can be delivered to an EEC border point that product cannot be sold inside the Community at less than the EEC domestic price because the levy spans the difference between the two. In the case of wheat for example this gives rise to an import charge of some 91% ad valorem. Therefore, it is not possible for imported products to be sold in the Community at prices lower than the EEC domestically produced commodity. In most cases, import prices are in fact considerably above this level because of the operation of the levy system. Imports are, therefore, effectively relegated to a residual role as regards supplying consumer needs within the Common Market since domestic production tends to be taken up by the market first. Also, unlike a tariff the levy cannot be absorbed by the exporter to make an imported product competitive on a price basis with domestic products.

The use of relatively high support prices for agricultural products within the EEC plus productivity increases have led in recent years to an increasing degree of self-sufficiency in many agricultural products. Thus we find, for example, that increasing wheat production, particularly in France, has changed the EEC in the last ten years from a major wheat importer to an important wheat exporter and in certain years even a net exporter.

It follows from this then that the EEC as an import market for wheat has declined significantly in recent years. In our case, as is indicated from the figures I gave earlier, wheat exports to the EEC have declined substantially since the introduction of the CAP. While it may not be possible to attribute this decline entirely to the CAP, the fact that wheat production in the EEC has in the meantime risen over 20% would seem to lend strong support to this contention.

I have referred so far to the items where the mechanism of the variable levy applies. In the case of apples in effect a straight tariff system applies but we have recently witnessed the temporary imposition of quota restrictions to deal with a problem of over supply resulting from excess production within the Community. The concept of imports being relegated to a position of residual supplies and not being permitted to compete with domestic production is not limited to cases where the levy mechanism is used.

As regards oil seeds, where Canada has a major export interest, the tariff is bound free but subsidies have been used to ensure that whatever is produced within the Community will have whatever advantage is needed to ensure that domestic production is fully absorbed and again traditional outside suppliers are squeezed. Support prices for rapeseed (achieved in this case by a subsidy to crushers) are almost double the world market price.

In the case of tobacco, state monopolies in France and Italy restrict Canadian opportunities. Further, proposals are in play in the EEC for a system of excise taxes which would discriminate in favour of EEC domestic types and grades over high-cost, higher quality imported flue-cured tobacco.

In the case of processed fruits and vegetables, in addition to the tariff a minimum import price system is proposed involving import certificates, minimum import prices and prior deposits with forfeiture of the last, if imports take place at less than the minimum prices. So far the main products of interest to Canada, canned cherries and canned wax beans, are not on the list of items to which this system would apply but there is, of course, the possibility that they might be added in the future.

Third Markets

When the CAP was developed we feared increased activity by the EEC with respect to agricultural exports to third markets. In expanding on this point, I would like to review developments in the Japanese import market for barley, as this is a rather classic case.

First, some points on the overall barley situation in the EEC. In 1955 total EEC barley production amounted to 5.6 million tons but by 1968 this had increased markedly to 15.2 million tons. With France providing the main source, EEC barley exports to third markets increased from 15.9 million bushels on average for the period 1955-1961 to an average of 55.9 million bushels for the period 1962-67, that is, an increase of some 251 per cent. Indeed the production and trade picture in the EEC has changed such that in two recent years, 1964 and 1968, it became a net exporter of barley rather than a net importer as is usually the case.

Turning to the Japanese market, this had been a traditional and important outlet for Canadian barley for several years before 1968/69. In the 1967/68 crop year Japan was Canada's most significant market for barley, taking 38% of our exports. Furthermore, Japan met 60% of its barley requirements by imports from Canada. France, on the other hand, had only supplied sporadically to Japan: from 1956-67 it only twice shipped barley to Japan and had not participated at all in the Japanese market for the three or four years prior to 1968.

In the 1968/69 crop year this picture changed dramatically. The restitution payments for French barley to Japan was increased steadily from US $42.00 to a level of US $56.00 per ton. The latter amount represented a subsidy of US $1.22 a bushel, and an amount more than

32 cents above the Canadian sale price for feed barley, FOB Canadian Pacific ports. Thus for about a year there was a continuous downward trend in the price of French barley due to the restitution, undercutting our prices by from 2¢ to 10¢ per bushel. It is noteworthy that this activity was concentrated in one market, as the rebates to other countries in Northeast Asia remained virtually unchanged.

The result of these price cutting practices was that in the 1968/69 crop year France became by far the largest supplier of barley to Japan, and Canada was virtually eliminated from the Japanese barley market. Our sales declined by over 315,000 tons, representing a loss in export value of the order of $16 million.

I am happy to say that in 1969/70 we regained our barley business in Japan, but the situation outlined above for the preceding year illustrates vividly the severe difficulties and disruption which exporters can face in third markets due to the CAP. High support prices induce increased domestic production, leading to surpluses. These are then disposed of on world markets through the use of enormous export subsidies, perhaps concentrating aggressively on one market in order to capture it from traditional suppliers. As we have seen in the case of Japan, the successive increases in EEC export restitutions went much beyond the objective of meeting world prices and had the effect of pre-empting the Japanese market for barley, through continued erosion of market prices. The effect on prices was a seriously damaging residual aspect of the French barley operation in Japan. Although we regained our business to that market, it had to be at the lower world prices dictated by the level of the EEC restitution for barley.

CAP and the Canadian Domestic Market

Our own domestic market has not been immune from experiencing adverse effects from the CAP.

In recent years there has been a heavy world oversupply of dairy products, of which CAP induced excess production in the EEC was a very notable factor. This oversupply situation has resulted in depressed international prices in this product sector and further import pressure on the Canadian support programme. Taking processed cheese, for instance, the cost advantage, could be expected to force others into similar action and the eventual replacement could be anticipated of at least 25 million pounds of Canadian cheddar cheese, or over one-third of the amount of our natural cheddar which goes into processed cheeses of various forms and compositions.

In the case of condensed milk, we ascertained that one Canadian firm was proposing to discontinue an arrangement whereby this product is manufactured for it by one of the two Canadian manufacturers of condensed milk, and to turn to imports for its requirements. The loss of the volume of production involved and, again, the competitive position resulting from the lower cost of imports could be expected to force the others to discontinue Canadian production and also turn to imports. The result, as with processed cheese, would be further additions to our surplus stocks of dairy products, and similar developments were anticipated for some other products.

Apart from our longstanding market in the U.K. for specialty natural cheddar, we have little access abroad for cheese, and notably not in the EEC. Consequently, marketing for this, as well as other dairy products, is largely oriented to the domestic scene. Canada does, however, have a Dairy Stabilization Program which is designed among other things to bring overproduction under control and to induce greater rationalization into the industry. These objectives are implemented through the terms of the support program, in that the level of price support decreases as the volume of production purchased by government increases. The differential in the rate of payments for under-quota and over-quota production was widened significantly for 1970/71. There is evidence that this increased differential is effective in reducing offerings of whole milk to manufacturers, thereby restricting their output of dairy products. Also, the number of farmers shipping manufacturing milk and cream has declined by about 50,000 or almost one-third during the past few years.

It will be appreciated that it is not compatible with the existence of such a stabilization program to try at the same time to withstand the pressures and serious disruption to it which, as I have described, were occurring or threatened, mainly from subsidized EEC exports.

Enlargement

The proposed enlargement of the EEC to include the U.K. and possibly other EFTA countries brings with it important implications for Canadian agricultural exports to the enlarged Community. There is, of course, the argument that such a union should be a spur to economic growth within the area and lead to an expansion in the consumption of a wide range of goods and services. To the extent that Canada can take advantage of any such growth opportunities which may develop, we will reap the benefits of EEC enlargement.

There are, however, a number of elements which, if they remain unchanged, could have very detrimental effects on our agricultural trade to Europe and offset, at least in the agricultural sector, many of the gains from a general growth in the market. Over 60 per cent of our agricultural exports to Europe go to a single market, i.e. the United Kingdom. The bulk of this trade would be adversely affected by U.K. adoption of the CAP as it now stands including the present level of price supports.

Many of our exports to the U.K. would face tariffs or levies for the first time. We now enjoy free entry for virtually all our agricultural exports shipped to that market. Secondly, we would lose our preference vis-a-vis non-Commonwealth suppliers such as the United States and Continental European countries. Thirdly, the

U.K. would be extending free entry to other members of the enlarged Community rather than to us, a so-called reverse preference.

What would be the effects of these changed trading conditions? There would almost certainly be a diversion of trade for certain products away from the U.K. market. Part of this would be caused by the fact that the prices of our products, once they have the levy added on, would be too high for U.K. consumers. This would be particularly so in the face of unrestricted access from Continental sources (e.g. cheese). For other products, the high producer support prices associated with the CAP would bring increased U.K. production. This would naturally reduce the need for our exports of barley and possibly wheat. While it is argued that there would continue to be a need for Canadian quality wheat our experience in other markets makes it difficult to be complacent. For still other products, the loss of the British Preference would make them less comparative vis-a-vis U.S. sources (soybean products, dried peas and beans).

It, of course, would not be fair to imply that all is rosy in the U.K. market and that the only threat is the prospect of the U.K. adoption of the CAP. The U.K. has embarked on a programme of its own designed to increase domestic production of grains and meat. However, the British levels of support are substantially lower than those of the EEC and Canada's access to the British market is now at least as favourable as that enjoyed by outside suppliers including present EEC members. This situation would, of course, change.

Trade Environment

Finally, it seems fair from a Canadian agricultural export point of view to consider the CAP in terms of its effect on the general international environment for trade in agricultural products and the prospects for trade liberalization in this sector.

Developments in agricultural policies in various countries but most particularly within the European Economic Community have impeded international efforts looking to a further liberalization of trade in this sector.

During the Kennedy Round, a major effort was made to bring agriculture more fully within the substantive negotiations. This meant going well beyond the conventional attack on tariffs and external barriers. It required an attempt to bring into negotiation domestic support policies.

These efforts gave rise to a confrontation between major agricultural exporters, including Canada, whose production is based on competitive factors and countries whose domestic producers are shielded by high support, subsidies and incentive policies. In some respects the issue came at a particularly difficult time for the EEC. The Community was engaged with the elaboration of the CAP.

The issues involved clearly brought out two divergent approaches to agricultural trade policy. On the one hand, there is the approach which - while recognizing the special factors in agriculture and making full provision for them - nevertheless seeks to move in the direction of more efficient allocation of resources internationally, greater competition and specialization, and expanded trade. In short, this approach seeks to improve the relative position of the economic producer vis-a-vis the diseconomies.

On the other hand, there is the approach, best exemplified by the montant de soutien doctrine as initially put forward by the EEC. In this view, agriculture is treated as different in kind from other sectors of world trade as being outside the normal rules and purposes of trade negotiations between countries. The object of negotiation is not so much to reduce barriers and open markets to competition and to expand world trade, as to harmonize existing domestic support policies and to consolidate the relative positions of producers in the various countries regardless of their relative efficiencies.

Canada, the United States, and other major exporters were prepared to accept the political fact of life that the EEC and UK support policies could not be altered or reduced. We concentrated our efforts in seeking the adoption of commitments designed to counteract the production effects of these policies. The concept of the "self-sufficiency ratio" by which any surpluses over the negotiated figure would go out of the commercial market was a promising avenue. However, it did not prove possible at this time to secure commitments that would ensure against further incentives to production. By common accord, the exporting countries decided that it was preferable in these circumstances to forego any specific provisions on access in the new agreement, and to continue to rely instead on our existing contractual rights. This issue is open, - an unfinished business for the future.

I have sought in the above outline to indicate some of the range of implications for Canadian exports of agricultural products. I have not gone on to indicate what Canada would propose to do in response to these developments - how we might safeguard Canadian trade interests which are at risk or how we might seek to adjust the balance if satisfactory solutions cannot be found. I have not been disposed to embark on an exercise of threats. There is however, an increasing conviction in official circles that a firm response is required <u>now</u>.

IMPLICATIONS OF FREE TRADE IN AGRICULTURAL PRODUCTS BETWEEN CANADA AND THE UNITED STATES

Dr. David L. MacFarlane[1]

I feel that the subject as stated above is a "non-starter" or a "non-issue". I do feel that from a research point of view it is an important subject. From a policy point of view it is so unrealistic as to be scarcely worth discussing. It is simply not feasible in the political climate of the 1970's. And the exceedingly difficult question of the required institutional harmonization is a nightmare. However, what I intend to do is not to examine the implications of free trade across the border, but rather to look at the implications of reducing tariff and non-tariff barriers in major sectors of Canadian agriculture - or at least for major products.

I should like to commence this statement by paying my respects to research already done. A very considerable amount of research on the implications of free trade, and including complete free trade on a continental basis has been completed already.[2] The important thing at the moment is to consider policy issues, and it is in this context that I congratulate

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[2] (1) Heady, E.O.(ed) A North American Common Market, Ames, Iowa State University Press 1969. (2) The Economic Council of Canada: Conference on International Trade and Canadian Agriculture. (3) The several monographs of the Canadian - American Committee, both sponsored by the Private Planning Association including Trant, MacFarlane and Fischer: Trade Liberalization and Canadian Agriculture. (4) McCalla, A.F. "A Duopoly Model of World Wheat Pricing", Journal of Farm Economics, 48:3:1966. (5) Canadian Agriculture in the Seventies, Queen's Printer, Ottawa, 1970.

the University of Guelph for holding this conference. Similar conferences should be held across Canada.

While there are, of course, all kinds of methodological problems involved in determining comparative or competitive cost advantage, there is an apparent consensus that Canada does have such advantage or potential advantage in the following commodities: wheat, feed grains, oil seeds, live cattle, cheddar cheese, some fruits and vegetables and some meats. Among the fruits and vegetables are two most important commodities: potatoes and apples. Among the meats are pork and veal. The above listed products comprise about 70 to 80 per cent of the income generated in Canadian agriculture. This then shows the strength of the industry. The table on page 45-6 of the Task Force report shows the surprisingly large number and range of products for which Canada is an important exporter. One should add at this point Dr. Gordon MacEachern's warning that the extent of our comparative advantage can shift fairly rapidly. Our concern must be to make it shift favourable for Canada. And we can. When we stress potential comparative cost advantage, we are saying that with the rapid adoption of known technology and a re-structuring of our farms, we could enjoy a very wide competitive advantage in most of the products listed.

The above approach provided the basis for the Task Force analysis of the various commodity sectors which it considered. Unfortunately this most important point does not come out sufficiently clearly in the Task Force Report. We accepted and used as our general position a proposition stated by Professor Earl Heady, namely that domestic demand for almost all farm products would grow so slowly in the 1970's, that it will be possible to meet or more than meet all the increases in domestic demand out of production increases arising from technological change alone, e.g., higher yields of crops, higher yields per cow and per sow, etc. Thus, if Canadian agriculture is to have a better future in the 1970's than it actually had in the 1960's that future can be found only in exploiting fully the broad opportunities which exist in export markets.

The Task Force brought together the best information available with respect to projected demands in export markets. With the exception of wheat, where any kind of projection is hazardous, the export outlook is not discouraging. In fact in such areas as livestock and meats, fruits and vegetables, feed, grains and oilseeds, it is quite encouraging. And even in the face of the jungle of agricultural trade restrictions erected over many many years, the expansion of exports of farm products over the past fifteen years is again most encouraging. If Canada strengthens its competitive position <u>vis-a-vis</u> other temperate-climate agricultural exporting countries, there is indeed a very large scope for expanded exports. There is also scope for expansion of our industry in replacing with Canadian products the present very large imports of temperate-climate imports.

The above underlines the importance which the Task Force gave to the necessity for rapid improvements in productivity. These can be achieved and we must adopt agricultural policies which will encourage them. Also important is the adoption of agressive new marketing and pricing policies in Canada. Above all, a change in Canada's trade policy posture (more on this later), and the use of domestic economic policies which at once achieve high employment rates and a reasonable degree of price stability is required. One of the most significant pieces of news in a long, long time is the recent announcement that the consumer price index held constant in the month of August compared to July and actually declined in September. This is the first time in over 60 months that this has been true. Nothing would strengthen Canada's position in export markets more than the moderation of the rate of inflation. Thus whether we agree with government policy or not, we must give it high marks for this achievement. This does not mean that we are out of the inflationary woods; rather that we are doing better than most other countries and that the prospects for keeping inflationary price increases within acceptable limits are good.

To exploit these export opportunities the Task Force pictured a Canadian agricultural industry with 125,000 to 150,000 commercial farms which could, with further expansion in size and improvement in technology, cope in the rugged world of international competition in agricultural products. This would leave some 250,000 small, inadequate, low income farms. In fact, the Task Force stated bluntly that there are over 100,000 farms families in poverty, regardless of how poverty is defined. For the small farm sector it suggested a dozen different means to supplement incomes so that the Task Force highest level policy goal "all Canadian families to have at least a minimum standard of living" would be realized in the 1970's.

Thus, in effect, we were suggesting two farm policies for Canada: (1) a policy to expand and improve the clearly strong commercial sector; and (2) policies to cope with low incomes. The Task Force Report repeatedly states that these two types of policies should be quite separate, and criticized past policies on the basis that they attempted to solve commercial farm problems by using income supplements suited to the small farm-poverty sector. These, the Report states, became an actual barrier to strengthening the commercial sector of our agriculture. In the above context the Task Force is asking, in terms of agricultural policy, for a total break with the past.

In an earlier draft to this paper I dealt briefly with some of the issues of economic analysis which are concerned with the question of a Continental free trade situation. I drew heavily on Professor McCalla's paper referred to in the first footnote to this paper. I shall not repeat these arguments, but rather refer the reader to Professor McCalla's excellent analytical paper.

We noted earlier comparative cost situations may change fairly rapidly. This would affect some of McCalla's conclusions with respect to a Continental, or at least a Canada-United States free trade area for feed grains. (This was strongly recommended by the Task Force). Here I am referring to what may properly be called the corn revolution which is taking place in eastern Ontario and in much of the best agricultural area of the Province of Quebec. Grain corn is on the way to becoming an important crop in eastern Ontario and in the Province of Quebec. The Quebec acreage has increased from 0 in 1965 (or at least from a figure too small for the Bureau of Statistics to report) to 85,000 acres in 1970. Further very rapid expansion is expected. Corn has the double advantage of being a high pay-off crop in this particular area and of changing the agriculture from industrial milk production to cash grain and meat production. Thus the most encouraging aspect of the very unsatisfactory industrial milk sector of agriculture is that it might be contracted as grain corn and complementary enterprises take over. This is a new technology given to us by plant breeders and by the agricultural machinery industry which not many years ago perfected the corn combine. Think of the Province of Quebec with corn yields equal to those of the United States. But that's the way it is. And as our technology and farm management improves still further we should set a target of 100 bushels of grain corn per harvested acre. Many eastern Ontario farmers far exceed that level every year. The technology mix tells me we can surpass Iowa.

Again in terms of possible expansion of agriculture, I should point to barley. Many prairie farmers can secure a higher income from high yielding barley than they can from 23 bushels per acre of wheat. As we get barley breeding research directed from its preoccupation with malting barley, there is hope for really high-yielding feed barleys. This barley can be sold in competition with United States corn which has an export of in excess of five hundred million bushels. The recent change in Canadian Wheat Board pricing of export barley is most encouraging and would seem to be a confirmation of our strong competitive position in world export markets, and of the desirability of a Continental free trade in feed grains. The Task Force documented its findings on this question. Similarly, the Task Force documented the case for going to Continental free trade or at least a Canada-United States free trade for livestock products. Here the opportunity is very great indeed. The Task Force took the general position that North America could not in the 1970's gear up to become even self-sufficient in beef. We found much the same situation for fruits and vegetables pointing to specific commodities for which there are opportunities for very significant expansion of output.

The message of the Task Force is that Canada assert a new posture with respect to international trade in agricultural products. This implies getting down to negotiations, product by product, hopefully on a multilateral basis through G.A.T.T. or some successor agency; and, if this does not come off, then we turn to bilateral arrangements with the United States, or Continental ones, including Mexico.

While I regard the above approach as most promising, Canada should continue its activity through G.A.T.T., through UNCTAD, through FAO commodity committees and other such groups to get the importing countries, particularly the European Economic Community, to moderate some of the more ridiculous barriers against imports. They should also look seriously at the implications of their internal agricultural policies on efficient agricultural exporting countries and on their own consumers. While these efforts should continue, the Task Force was in no respect hopeful of important achievements in this area. On the other hand, it was very hopeful of the possibilities which could be realized if Canada did embrace a really aggressive trade posture in multilateral or bilateral negotiations. Before making such a recommendation the Task Force was careful to determine that commodity items on which it suggested negotiations were in fact negotiable, particularly with the United States.

The climate for expanding trade in farm products is clearly discouraging. But so it was in the mid-1950's and through the 1960's. And yet agricultural trade, even commercial agricultural trade, expanded encouragingly. The same will likely be the experience of the 1970's. Current economic and political facts have a way of becoming economic history. And economic history tells us just this: the prizes go to the efficient, to the country with a strong innovative agriculture, to the country which manages its economy well. Canada has things going for it.

RECONCILING NATIONAL AGRICULTURAL AND INTERNATIONAL COMMERCIAL POLICIES

T.K. Warley[1]

The Setting

Previous speakers at this conference have set the scene for this contribution. Dr van Lierde has described the common agricultural policy (CAP) of the European Economic Community and the forces which are moulding it. Dr. Josling and Mr. Latimer have dealt with its generally adverse trade consequences. Dr. MacFarlane has made a characteristically strong plea for freer trade at least at the continental level. These papers polarize the issue to be addressed in the present paper, "whither world trade policy for farm products in the 1970's?"

This is an opportune time for this matter to be considered here in Canada. The EEC has virtually completed the price policy component of the CAP and the third attempt at enlargement of the Communities seems "doomed to succeed". The Canadian agricultural industry's stake in the West European Market for farm products is large and threatened. The USA has the same sharply focused concern in respect of its agricultural export trade and is paying particular regard to agricultural matters in hearings presently being held by a sub-committee of the Joint Economic Committee of Congress. More generally, individual countries and the international community are attempting to formulate foreign economic policies and trade strategies for the 1970's with a view to maintaining the momentum of trade liberalization after the Kennedy Round tariff cuts are completed in 1972, and to deal with the problems left unresolved by successive rounds of negotiations on international economic policies in the GATT, UNCTAD, and elsewhere.

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Agricultural trade policy is one of the central and more difficult of the unresolved global issues. It is common knowledge that agricultural trade has been by-passed by the broad sweep of liberalization of trade, payments, and investment which has characterized the post-war world. In marked contrast to the situation which has been created in respect of trade in most non-farm goods, protection against the free movement of agricultural products is high, rising, variable in incidence and degree, commonly accorded by non-tariff means, and not subject to negotiated diminution. In addition, preferences abound, markets are subject to disruptive action arbitrarily taken by national governments and producers' organizations, and there is little redress to parties whose legitimate trade interests are harmed.

The reasons for this unhappy situation are well known. Trade policy in farm products has been consistently and universally subordinated to domestic agricultural policy. National agricultural policies have been dominated by the imperatives of income support for the rural community and balance of payments difficulties. The instrumentalities employed in farm policies have generally expanded production and discouraged consumption, increased supplies available for export and decreased net import requirements.

The situation is currently particularly acute in respect of dairy producers, wheat, sugar and some oils and fats. For these products there is surplus productive capacity, excessive physical stocks, pressure on prices, aggressive use of massive export subsidies or import restrictions, and painful and expensive alleviative or adjustment policies are being forced on governments and producers.

Future Concerns

The concern for the immediate future is that the situation may worsen. The CAP is beginning to bite and imports of temperate products have recently tended to decline. The Community has disposed of large surpluses of wheat, dairy products and sugar in a disruptive and harmful manner. The CAP is gradually being extended over a wider range of products and some proposals (e.g. the proposed tax on protein meals and oils) threaten exports of commodities which have previously done well in the EEC market. Enlargement of the Community bodes ill for the farm exports of third countries. It would appear that extension of the CAP to United Kingdom, Denmark, Ireland and Norway will encourage European production of farm products, reduce aggregate consumption, thereby reducing net import requirements or increasing export availability, direct trade from extra-European to intra-European sources, extend in time the viability of the CAP as it now stands by spreading its costs over new members. In addition, the EEC is forming a network of preferential trade arrangements with countries in the Mediterranean basin and Africa. This action threatens the trade principle of non-discrimination (enshrined in the GATT and at the heart of post-war international commercial relations) and the agricultural trade interests of some outside suppliers.

Another cause for concern is the so-called "Green Revolution" in the less developed world. The foreboding here is that the startling increases in grain production associated with the technological package of new varieties, fertilizer, irrigation and pest control measures may close the food aid safety valve which has alleviated the surplus situation in Western agriculture, particularly in grains, throughout the last two decades.

Finally, there is a very real fear that conflicts on trade matters - and particularly on agricultural product trade - may exacerbate the inward looking or isolationist tendencies which are increasingly evident amongst the Western community of nations and lead to the disruption of traditional political groupings, alliances and affinities.

There can be little doubt that national agricultural policies have in the past impeded (and lately in some commodities begun to reverse) the development of world trade in temperate zone farm products and the economically efficient use of world agricultural resources. Why has this situation been tolerated for so long and been, until the 1960's, the source of surprizingly little concern? A number of contributory factors may be cited.

First, whilst agricultural policies may have impeded trade development they have not prevented it. Agricultural protectionism has coexisted with a growth rate in trade in agricultural products which, by historical standards, has been brisk. Agricultural trade in the OECD area grew at the rate of 6 per cent a year in the decade 1958-1968, faster than the rate of growth of national income and agricultural production. Trade in some products has developed particularly vigorously, meat, feed grains, protein feeds, fruits and vegetables and processed foods are notable examples. At least until the closing years of the last decade, Canadian and US agricultural exports have expanded in total even to Europe. Some significant tariff reductions have been negotiated in GATT for minor products, and bilateral arrangements have expanded market opportunities for some products and some countries.

Second, total world trade has grown at an astonishing rate (doubled between 1958 and 1968 and grew by about 12 per cent in 1968 and again in 1969) and this, together with the declining relative importance of commodity trade and the rising level of direct foreign investment, has alleviated the policy tensions and balance of payments pressures which might otherwise have been generated.

Third, the U.S. in particular was, until very recently, prepared to pay some economic price for the political goal of encouraging first European post-war reconstruction and subsequently European and Atlantic unity. Had this not been the case the US could have been expected to press more vigorously against the CAP from its inception.

Fourth, all countries have been in an ambiguous position in the international debate on agricultural trade policy. All the major countries have high cost and uncompetitive farm sectors which they have sought to protect and support,and policies which reduced market opportunities for outside suppliers or led to the need to subsidize the disposal of export supplies. That is to say the US, Canada, Denmark, Australia and New Zealand have been as culpable in behaviour, if not in degree, as have the EEC, UK and Japan, which are typically singled out as the "guilty" parties. The result has been that there was no unequivocal and generalized desire to see trade in farm products liberalized, that the approach to trade expansion has been highly selective with respect to countries, commodities and timing, and the credibility of its advocates correspondingly low.

Fifth, there may also have been institutional inadequacy. The GATT, the principal focus of international trade matters, is committed by procedure and philosophy to securing trade liberalization by arranging and orchestrating periodic tariff binding and cutting conferences at which balanced concessions are mutually exchanged. In a situation in which non-tariff trade barriers overwhelmingly predominate, where reciprocal concessions are not readily determined, and where liberalization was manifestly not feasible, the traditional GATT procedures and philosophy have proved singularly sterile.

There are many signs that the relative international quiescence on agricultural trade matters of the past is giving way to a more active concern, harder stances, and a new determination to find solutions to farm trade problems. The exporters are becoming increasingly concerned about the economic damage wrought on their trade and their agricultural industries by agrarian protectionism in their traditional or potential markets. They have seen the member states of the EEC squabbling like fishwives over the economic burdens and benefits of union and have found it hard to justify paying an economic price to foster a political unity and amity which seemed remote, if not illusory. Failure to effect fundamental reform of the international monetary system has necessitated that exporters continue to pay attention to the balance of payments constraint on meeting their domestic economic, social and political objectives, and commodity trade is still a significant component of their external accounts. Equally, there are groups in importing countries who view with rising anxiety both the internal financial and welfare burdens and the external political tensions and rivalries generated by their national farm policies. Hence much urgent thought is currently being given to the search for means by which agricultural trade disruption may be avoided and,indeed, how the agricultural trade dynamic can be sustained. It is to some features of this matter that this paper now turns.

Two realities

It is essential that we abandon for all relevant time horizons the myth that agricultural production and exchange are going to be determined by the simple tenets of comparative advantage and the market mechanism. There is no country in which the government is prepared to impose a purely market regime on its agricultural sector, nor yet a country in which farmers themselves would be prepared to accept the naked dictates of the market. In particular, we must appreciate the position of the EEC. The Community is faced with an agricultural industry which is structurally archaic, technologically backward and grossly over-manned. Millions of its farmer families have been bypassed by the general rising affluence of the post war years, and experience real poverty and deprivation. The rural regions of Europe are having to cope with a social and cultural revolution of unprecedented severity. Europe is hard pressed to accommodate to the same technological explosion in agriculture which began to beset North American in earlier decades. To a diminishing but still significant degree the CAP is still the cement of the economic union.

In these circumstances to expect governments, and particularly European governments, to abandon agrarian protectionism and interventionist policies is illusory. The most that can be looked for is "enlightened protectionism", a gradual modulation of its most disruptive features, some attempt to avoid further deterioration of exporters' positions and, just possibly, a willingness to contemplate a graduate improvement in their opportunities.

The corollary of this view is that to adopt the position (which has found repeated expression in and by the US) that agricultural trade arrangements must "take the same path and advance at the same speed" as arrangements governing trade in manufactures, is not only unproductive but, worse, counter-productive since it impedes a constructive dialogue and the search for more fruitful paths and solutions.

The second proposition to be made is that belligerence in international economic policy is not a promising tactic. There are those who hold a contrary view. They advocate, for instance, matching subsidy for subsidy, repudiating the International Grains Arrangement, challenging the legality of the EEC's levy system in GATT, demanding compensation and threatening retaliation for each transgression of the GATT code, and so on. My view is that such a posture would be expensive, ineffective, and counter productive insofar as it exacerbated an already poor trade environment and transformed difficulties into antagonisms. The current need is for a more "sophisticated commercial diplomacy".

Alternative Arrangements

Three factors seem to be basic to the search for new arrangements to govern world trade in temperate agricultural products. The first is the view expressed above that, except for minor products, arrangements for most commodities will not involve liberalization in the simple tariff-cutting sense. Second, since every commodity is different in respect of such matters as the countries interested in its exchange, its market prospects and characteristics, the variables to be influenced, and the instrumentalities which might appropriately be deployed, each product will likely have to be treated differently in trade arrangements. That is to say, generalized formulae, (such as that proposed by the EEC in the Kennedy Round) will most probably not be applicable. Third, because national farm policies are the root of international trade problems in temperate agricultural products, international commercial policy will have to influence domestic farm programs, and both importers and exporters will need to accept obligations.

There is a great diversity of instrumentalities which might appropriately be employed. These range along a continuum, with the polar positions being occupied by codes of acceptable behaviour to formal, comprehensive, international commodity agreements having a greater control of more variables than any ICA implemented hitherto.

Rules of good conduct are not unfamiliar. The G.A.T.T. charter itself is essentially such. The anti-dumping code formulated in the Kennedy Round is a particular example. In agricultural matters, FAO has been responsible for articulating principles to which national farm price support policies should adhere and rules to be followed in surplus disposal programs. The former must be counted a failure, the latter has been very valuable indeed and has reduced, though not eliminated, the trade disruptive effects of surplus disposal activities in the last two decades. Codes of good conduct for the future might re-affirm GATT principles relating to the avoidance of discrimination and the unfair use of export subsidies to establish unreasonable market shares, or commit governments to limit price guarantees to specific quantities of national output or to secure an appropriate mix of agricultural price, structural and market policies. There's nothing very dramatic in such a development. As indicated, such codes would for the most part merely re-affirm principles which are already the fabric of the GATT. Nonetheless, it may well be worthwhile and feasible to have countries commit themselves to various patterns of trade behaviour, to give form to the principles of restraint and consultation, and to ensure that a concern about international effects is part of the calculus of national actions.

At the other end of the spectrum of arrangements it might be feasible and desirable to negotiate formal international commodity agreements going far beyond those of the past. That is to negotiate ICA's for particular products which place binding committments on both exporters and importers in respect of such matters as international price ranges for commercial transactions, access committments, minimum and maximum stocks, the level and financing of food aid supplies, and the level, method and extent of national price support programs.

Such comprehensive commodity agreements are not entirely unknown. Thus the present coffee and sugar agreements contain internationally agreed and binding provisions on export quotas, access commitments, permissible production targets and minimum and maximum stocks, and internationally financed market development and adjustment assistance schemes. Furthermore, in the discussions in the grains group in the Kennedy Round the international community examined the following elements of a comprehensive grains agreement,binding national support levels, percentage self-sufficiency targets, the joint financing of aid programs, and international trade prices. In the event, these matters were discussed in isolation from each other and not as a coherent "package" of mutually supporting instrumentalities, and only a limited agreement on the latter two elements was achieved. However, with hindsight, had a comprehensive grains agreement been attainable, it may be speculated that the agreement would have been more viable than the limited Wheat Trade Convention proved to be, that the competitive subsidy wars in grains witnessed since 1967 would not have occurred, and that international supply management through national production control and adjustment assistance would have been implemented at an earlier date.

Between these extremes all manner of arrangements may be appropriate and feasible for particular commodities. For some, market scheduling may be all that is needed. The UK's agreements with her suppliers of beef and eggs on the complementary scheduling of exports with the availability of domestic supplies is an example. For other products, market sharing arrangements may be possible. The sharing arrangements of the UK and the US with their dominant suppliers of bacon and dairy products and beef respectively are examples of existing arrangements. Agreements on minimum export prices, such as the Paris agreement on whole milk powder and the more recent agreement on skim milk powder, may also find wider employment. Informal agreements amongst exporters (with tacit importer approval) on export prices, market shares and production policies, such as those currently in force for hard and soft fibres, may also be appropriate. And formal commodity agreements of the traditional kind in which only a limited range of variables are influenced may be negotiable.

As stated earlier, the needs and opportunities vary amongst commodities. Two specific instances of current concern will illustrate the point. If there is genuine desire for a new international wheat agreement which will be more viable than those in force hitherto, many observers would take the view that it would have to contain more provisions and be more coherent than recent wheat agreements. In particular, it might need to resemble very closely the draft I.W.A. of 1943, and embrace a target price range, export quotas related to negotiated market shares, minimum and maximum stocks, a food grains aid 'pool', and national production targets related to domestic consumption, export quotas and maximum stocks for exporters and agreed levels of self-sufficiency for importers. Something less is required for dairy products. Here, an international compact involving the placing of further limits on competition through export subsidy by agreement on minimum export prices for a wider range of products, an international program to use milk powder in FAO's proposed Dairy Development Aid Scheme, and agreement that national governments will continue present programs to reduce total milk production capacity or limit the amount of production on which income subsidies are paid, may be sufficient for the time being.

Some Implications

First, future international compacts must seek to influence directly and explicitly, to the degree required, the effects of national agricultural policies. Secondly, governments have got to be willing to implement international commitments by manipulating the provisions of their national agricultural policies. This may involve the management and possibly reduction of resource commitment levels and output, the divorce of income support from the support of product prices, institutional innovation to influence such factors as export pricing and stock levels, and so on.

Third, it is unquestionably the case that international agreements on agricultural trade matters involves some "loss of national freedom of action". A more productive way of regarding this may be to talk of "pooling of sovereignty to the degree necessary to attain domestic goals in the area of foreign economic policy". In principle this need be no more extensive or irksome than governments have found necessary and tolerable in other areas of international economic policy, e.g. in cooperation on international monetary policy. (Indeed one looks forward to the day when Ministers of Agriculture meet as frequently and productively in Geneva or Rome as central bank directors now meet in Basle.)

Fourth, it is imperative that the international dimension of national agricultural policies be kept to the forefront of the internal debates which are being conducted on domestic agricultural policies. Finally, that contentious issue, domestic supply management, should be viewed, in part, in relation to this international dimension. We must not view supply management as hitherto, solely as an instrument of brutal self interest, inward looking and restrictive, but as a necessary component of internationally agreed agricultural and trade policies.

The Locus of Initiative

Where will the initiative for a new dialogue on agricultural trade policy in the 1970s be found?

Historically the US has exercised leadership in international economic policy. But the U.S. now seems preoccupied with its internal social problems and its involvement in South East Asia and the Middle East. There is evidence of a weariness with the role of leader in world affairs; and of new isolationist and protectionist trends. Equally, there is no evidence that this administration is any more enamoured of international commodity arrangements (especially those involving internal policy obligations) than were its predecessors. And the presently most influential farm organization, the Bureau, is adamant and explicit in its opposition to any international arrangements for farm products other than straight liberalization.

The remaining temperate agricultural product exporting countries (which are relatively even more dependent on trade in farm products than is the United States) have no collective position and individually can exert little leverage in international affairs. Moreover, several of them are bent on making bilaterally advantageous arrangements. Thus Denmark and Eire are concerned to secure membership of the EEC and hence preferential access to the protected EEC food market; New Zealand is concentrating on securing the future of her dairy product and lamb sales to Europe; and the others, Canada, Australia, Argentina, etc., are, in international terms, not noticeably influential.

Looking to the major importers for initiatives is equally unpromising. They are unlikely to be moved to seek new initiatives by the desire for reciprocal trade concessions on farm and manufactured products since, after the Kennedy Round cuts in tariffs on manufactures, this route is about exhausted of opportunities. Nor is it evident that their undoubted dissatisfaction with the financial and other burdens of their farm policies has yet reached the point where there is a will to replace high cost internal production with lower cost imports and seek a new order in world agriculture. On the contrary, many will argue that the EEC will, for the next few years, be preoccupied with modifying the CAP in the ways indicated by Dr. van Lierde, digesting new members, broadening the scope of the economic union, and attempting some form of political union. That is to say external initiatives by the Community may well be the victim of its renewed internal dynamic. So far as the UK is concerned the evidence would support the view that its foreign economic policy is focussed primarily on securing membership of the Community and making the necessary internal adaptations.

Timing

The question of the optimum timing of the initiation of a major search for new trade arrangements for farm products is also one without an agreed answer. There does not appear to be universal support for a new major negotiating conference in 1971 or 1972 to maintain the momentum of trade liberalization generated in the Kennedy Round. In any event it may be that a traditional negotiating conference is inappropriate for dealing with the next generation of problems, non-tariff barriers, sensitive sectors, agricultural trade, etc. Furthermore, two incompatible viewpoints on timing are discernible in exporting countries. There are those who argue that agricultural trade arrangements should be tackled at an early date whilst the CAP is in transition and before enlargement is accomplished. An alternative view supporting delay has it that the exporters should avoid the appearance of trying to sabotage enlargement of the EEC, that the larger Community should be given time to reformulate the CAP, and that a better environment will result when the UK has secured membership because of that country's widespread trade relationships and supposedly outward looking trade philosophy. Another equally pertinent reason for delay is that, as yet, there is no consensus amongst exporters of particular commodities as to exactly what kind of trade and commodity arrangements they want to see implemented.

Modalities and Institutions

A key innovative feature of the Kennedy Round negotiations was that the U.S. forced a consideration of agricultural trade problems by linking this issue to negotiations on liberalizing trade in manufacturers. It is doubtful if this leverage can be exerted again, not least because it is by no means certain that there will be any further full-scale negotiating conferences of the type which have served so well during earlier years. Indeed, the international community faces a most difficult task in finding new methods of handling the complex issues which lie ahead. Means have to be found for integrating elements of international economic policy which have been previously dealt with separately. That is, barriers to trade, the exchange rate adjustment mechanism, international liquidity creation, capital flows, the transnational integration of production, and adjustment assistance have somehow in the future to be dealt with as related and intertwined components of the international economic order rather than in isolation. Similarly, the residual trade impediments - non tariff barriers, export subsidies, national procurement policies, domestic assistance programs, etc. - are not amenable to the simple technique of reciprocal tariff cutting which has served to date. This is manifestly true of agricultural trade impediments where national support policies have to be part of the fabric of negotiations. Reciprocity of concessions and equivalence of commitments will be difficult to establish. Furthermore, it would appear that the progressive harmonization of national agricultural and international commercial policies requires more than periodic negotiating conferences. Rather one envisages a series of continuous, multi-institution and commodity centred dialogues with negotiations per se being but the terminal and least dramatic stages of painstaking, highly technical, low-profile and protracted exercises. One can envisage a four stage sequence. First consultations on broad issues, for instance, establishing a consensus on the future course of production and demand, the reconciliation of national plans, and the articulation of common principles. Second, meticulous examination of commodity situations and the identification of the sources of problems and of the range of policy options available for the latter's resolution. Commodity centred negotiating conferences would follow third. Finally, would come the implementation, policing and periodic review of internationally agreed programs. Presumably the agricultural committee of OECD, FAO tudy groups or GATT orking parties, UNCTAD or GATT, and Commodity Councils are the appropriate loci for each of these stages. Certainly no one agency has a unique competence.

Living with disorder

We should not exaggerate the consequences of failure to bring a better order into world agricultural markets and our inability to promote an economically more rational use of world agricultural resources. No one would deny the importance to the economies of certain countries, regions and commodity groups of preserving and improving access to world markets for farm products. Nonetheless, the truth of the matter is that agricultural protectionism and regionalism are not new phenomena. Indeed, free trade in farm products has been characteristically exceptional and short lived. At the same time as we have witnessed an intensification of agrarian protectionism we have experienced an unprecedented growth in global incomes, trade, and economic cooperation. No one believes that economic progress will cease if agricultural trade and production are not rationalized. The probable outcome of the latter situation is that we shall settle for marginally lower future growth rates, the reduction being progressively lower as the agricultural industry and commodity trade diminish in economic importance. In the short and intermediate term there will unquestionably be trade difficulties and painful adjustments to be made. In the longer term, a burgeoning world population, the growth of effective demand in the less developed countries, the liberalization of access to the Japanese market, and the growing demand for feed grains and livestock products in the developed areas all promise expanding opportunities for agricultural exchanges. Even more important, it would, in my view, be foolish in the extreme to risk political schisms and to deny ourselves the benefits of expanding exchanges of manufactured products, capital, services and technology and a progressive extension of international economic cooperation by overreacting to difficulties and disappointments experienced in agricultural trade matters.