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# Agriculture, Trade, and Development: A Comparative Look at U.S., Canadian, and European Community Policies

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# RELATIONS WITH THE THIRD WORLD: VIEWS ON THE NORTH-SOUTH DIALOGUE AND FOOD SECURITY

## The European Community

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### Introduction

The dialogue between the governments in the developed and developing countries, whatever the level or forum, is basically about changing government policies to improve economic growth in developing countries. The willingness of and need for governments to change policies varies. Some governments are not adverse to a few housekeeping improvements in the international effects of their own policies, and in the institutional aspects of the world's economic system. But there are governments who seek major changes, particularly by others.

In broad foreign policy terms, the EC position on the North-South Dialogue could be characterized as somewhere between the mild enthusiasm of Canada and the cautionary approach of the United States. 1/

The dialogue takes place in a diplomatic context, and this brings several biases. One is the emphasis on international rather than national impediments to growth. Another is that the beliefs of government officials in an exaggerated role for governments and international organizations are apt to prevail. Above all, the necessary diplomatic norm of "keeping channels open" ensures that in the dialogue it is difficult to distinguish ritual from reality, views from actions.

The agenda in the dialogue is not fixed and is clearly being influenced by the current poor global economic conditions. To a large degree, the ability of the EC to contribute to internationally coordinated improvements in the world's trading, financial and food security systems have been both improved and hampered by the CAP.

The CAP has an impact on all developing countries, via its trade practices which affect key international agricultural markets. As a result, there is widespread interest in the CAP's external impacts, but the complexities and the number of countries involved has led to either general or topic-by-topic (Lome Convention, sugar, and so on) reviews. There is comparatively little quantitative research on the net impact of the CAP, including export subsidies

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1/ Commission of the European Community. "Communities Policy for the North-South Dialogue," COM (81) 68, Brussels, Belgium, May 7, 1981; and "North South Relations" COM (81) 323, Brussels, Belgium, June 18, 1981.

and other EC policies, particularly aid, on a large number of individual developing countries 2/.

Trade Issues

Trade is featured in the Dialogue and attention is focused on access to markets and supplies and on the level and stability of commodity prices. The EC procedural view is that progress should be made on both trade topics on a global basis in the General Agreement on Tariff and Trade (GATT) and in the commodity fora. The general Community view on trade issues is that priority lies with strengthening the trading system and that special concessions to developing countries have to be supportive of this main mutual interest.

In its foreign economic policy towards developing countries the EC has generally given priority to trade issues, though aid is by no means neglected. Since the EC is still mainly a customs union, EC policy options are apt to be confined to the trade field. Member states have preferred to distribute bilaterally nearly 90 percent of their development assistance funds. The EC's liberal trading stance is marred like that in the United States by sectoral exceptions notably agriculture and textiles. These two sectors loom large in EC trade with developing countries--together they accounted for 24 percent of total EC imports (56 percent of EC imports, excluding petroleum) from developing countries in 1980. The EC emphasizes that 90 percent of its industrial imports and 60 percent of agricultural imports from developing countries enter duty free. Recently, adjustment problems in some industries, current worldwide recession, and EC perceptions of developing countries' needs have led the EC in its negotiating position in the North-South dialogue to put less emphasis on trade. More emphasis has

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2/ Josling, T. "The European Community Agricultural Policies and the Interest of Developing Countries," Overseas Development Review No. I, 1979. London, United Kingdom.

Tangermann, S., "Policies of the European Community and Agricultural Trade with Developing Countries," Proceedings of the 17th International Conference of the International Association of Agricultural Economists, Gower, UK, 1981.

Wagstaff, H. R., "EEC Food Imports from the Third World and International Responsibility in Agricultural Policy," European Review of Agricultural Economics, Vol. 2.1, 1974/75.

World Development Movement, "The CAP and the Developing Countries," London,10ctober 1978.

Centre for Development Research, "The EEC and Agriculture in the Developing Countries, Trends in EEC Agricultural Policy: Possible Consequences for the Developing Countries," Copenhagen, 1981.

Stevens, C. (ed.), The EEC and the Third World, A Survey of the European Community, New York, Holmes & Meier, 1982.

Commission of the European Communities, "The Common Agricultural Policy and the EEC's Trade Relations in the Agricultural Sector (Effects on Developing Countries)," SEC(82) 1223, Brussels, 14 July 1982.

European Parliament, working documents, 1980-81: "Report of the Committee on Development and Cooperation on the Contribution of the EEC on the Fight Against World Hunger," DOC. 1-341/801, August 1980.

European Parliament, working documents, 1982-83: "Report of the Committee on Development and Cooperation on Measures Following the European Parliament Debate on World Hunger," and "Commission of the European Communities. Communication from the Commission to the Council Concerning a Plan of Action to Combat World Hunger," COM (81) 560, June 7, 1982.

been put on financial issues, energy, commodities, and food. In practice, the latter two items have a large trade-policy content.

The EC is only partially equipped to handle the main trade issues. The Common External Tariff does provide a basis for coping with market-access issues, but in terms of access to supplies--important to the EC in view of its mineral and petroleum import dependency 3/--there is no equivalent policy basis. Similarly, except on some CAP products, the EC does not have readily available the legal and policy arrangements to provide much to developing countries on the issue of the level and stability of prices.

In negotiations on international commodity agreements on nonCAP products, there is a good deal of consultation and cooperation between member states; most formalized perhaps for the bilateral arrangements on textiles and steel.4/ Cooperation for multilateral agreements partially reflects the combined importance of the EC-10. For instance, coffee is the leading agricultural export of developing countries and, as the EC imports a third of the world coffee supplies, it has a significant voting weight in any agreement. In addition, the EC can exert a small pricing influence via its own and member states' development assistance policies. By giving aid to coffee production in ACP states, it can insure a preferential margin for these countries over supplies from South America. 5/ The main influence of EC views and actions in practice on market access and pricing is, nevertheless, on products covered by the CAP.

Agricultural Trade

The founders of the CAP can barely be blamed for not forseeing the extent the CAP would impact on EC relations with developing countries. The trade policy stance at that time included no quantitative import restrictions, privileged market access for former colonies, and a predisposition to manage international commodity markets with formal commodity arrangement was considered to be in the interest of the developing countries.

But the powerful motor of a politically driven agricultural policy of high and stable farm support prices has now pushed EC agriculture beyond the security of the self-sufficiency ideals. Now EC agriculture has a growing dependency on the uncertain outcomes of the annual bargaining between EC governments over EC budgetary issues and on imperfect international agricultural markets. The disposal of the surpluses, particularly the half in budgetary terms (some $7.9 billion in 1980) that is disposed of with explicit export subsidies, has hampered the growth of political confidence within the Community in EC ideals, and brought new external strains for the EC in the numerous relationships that make up the interdependencies of international trade.

The CAP now distorts agricultural trade of developing countries in several ways for CAP and CAP-related products. Generally, the volume imported into the EC is lowered by relatively high internal prices and import restrictions.

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3/ Stakhovitch, A., "A European View of Commodity Problems: Stabilization of Prices and Stabilization of Receipts," in Stabilizing World Commodity Markets, F. G. Adams, and S.A. Klein (eds.), Lexington, 1978.

4/ D. Hurd, "Political Cooperation," International Affairs, Summer 1981.

5/ The European Development Fund has spent or is expected to spend at least 100 million ECU on coffee development largely to expand coffee exports--see "Coffee, Cocoa, Bananas," European Information--Development, DE 34, Jan. 1982.

Conversely, for some products, the volume of imports is increased or maintained by special quotas or lowered tariff rates for selected developing countries and by the additional demand generated for nongrain feeds because of high bilateral prices for cereals. Non-EC demand may have increased and taste preferences changed because of exports of subsidized prices.

Generally, export earnings and production of developing countries are lowered by import restrictions. However, some developing countries increase or maintain their export earnings because of special market-access conditions. Earnings from and production for non-EC or third country markets are likely to have been lowered as a result of export subsidies.

Quantitative insight into the initial effects of those distortions and the extent of the transfers to and from the developing countries is patchy and somewhat overtaken by recent events; notably the increased use of export subsidies and cereal substitutes. Current trade levels provide a starting point.

The EC member countries, council, and commission are apt to counter charges of protectionism by emphasizing both the size of EC agricultural imports and the modesty of the exports. Agricultural imports from developing countries in 1980 on a per capita basis were $114, compared with $62 in the United States, and $48 in Canada. The agricultural trade surplus that developing countries earned in EC-9 markets--$15.7 billion in 1980--is probably more important in the economic growth of more countries than the other major developing country trade surplus on petroleum. In contrast, the developing countries' agricultural trade deficit with North America was $7 billion ($5.8 billion with the United States and $1.2 with Canada) in 1980. Of the EC's agricultural imports in 1979 from developing countries, 59 percent entered duty free. Duties (related to both the CAP and food industry protectionism) were imposed on 33 percent and levied on 7 percent. Of the EC exports to developing countries, 90 percent directly benefited from export subsidies.

Restrictions on Market Access

Border protection has played an important role in the EC's achievement of both a high degree of food self-sufficiency and farm-price stability. Also, to a less obvious extent EC farmers' incomes have been increased. The income-redistributive effects of those distortions have affected relations between EC member states; between the EC and other developed, lower cost producers (Australia, Canada, Yugoslavia, New Zealand, and the United States); and between the EC and developing countries. The restrictions as far as developing countries are concerned, cover CAP and CAP-related products and provide the food industry with considerable protection.

Johnson, 1964; Cline, and others, 1978, and Valdes and Zietz, 1980, 6/ have assessed quantitatively the impact on developing countries of agricultural trade protectionism by developed countries. Valdes and Zietz estimate that a

6/ Johnson, D.G. "Agriculture and Foreign Economic Policy, J.F.E. Dec. 1964. Cline, W.R. and others "Trade Negotiations in the Tokyo Round--A Quantitative Assessment" Brookings, 1978. Valdes, A. and Zietz J. "Agricultural Protection in OECD Countries: Its Cost to Less Developed Countries", IFPRI Research Report No. 21, Dec. 1980.

5-percent reduction across the board in tariffs and other trade barriers for 99 commodities imported by 17 OECD countries results in 36 percent of the benefits in increased trade, approximately $3 billion, going to the developing countries. Valdes and Zietz indicate that South American beef and sugar exports were particularly affected by EC import controls. In the model developed, the EC was initially a net exporter of $120 million in sugar and its derivatives. After the 50 percent cut in tariffs, the EC reduced its sugar exports by $690 million and increased its imports by $644, with a net effect for developing countries of increasing exports of sugar and derivative products by $1.3 billion per year.

Other recent research on the impact of EC-trade measures on developing country trade takes more account of export subsidies. Richards 7/ suggests that removal of the EC sugar-support measures could increase other countries sugar-export earnings by 15-24 percent a year, some $365-570 million a year for the developing countries. Some unpublished work by Paarlberg and Sharples 8/ suggests the world wheat price could be 4 percent higher in the absence of EC export subsidies. With wheat imports of the developing countries at 10 million tons in 1981/82 and at an average gulf price of $170 a ton, this 4 percent rebate for wheat imports, partially at wheat-exporters' expense, could have been worth $687 million to developing countries in reduced wheat-import payments. Both of these studies concluded that the EC would remain a net exporter of respectively sugar and wheat. Such results seem to indicate that the current costs to the developing countries of lost export sales due to EC market-access restrictions may be less than the earlier studies implied.

A plausible interpretation of the available quantitative work could be that, whereas in the past there was clear evidence that the CAP had a significant net cost to the developing countries, now the current situation is not so clear. The size of the potential market for developing countries in the EC may have shrunk because of improved competitiveness of European producers. And removal of the export subsidies, in the short term, could, in the aggregate, make the developing countries worse off.

Besides restrictions on market access and export subsidies, another feature of the CAP, as currently implemented, is that it damages developing countries as a result of a policy of understocking, which destabilizes international markets. There are financial incentives in the EC to understock, if export subsidies are allowed and used, since it can be cheaper to sell with such subsidies rather than to store. The EC has not used storage policy to absorb the shocks of domestic production fluctuations. EC production instability is highly correlated with EC export instability. Since the EC has significant sugar-production instability, as shown by Schmitz and Koester 9/ and its share of world production and trade has increased, it has increased world sugar-

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7/ Richards, I.M. "EEC Sugar Support Policies and World Market Prices: A Comparative Static Analysis," Australian Bureau of Agricultural Economics, January, 1982.

8/ Personal communication of Philip Paarlberg and Jerry Sharples, Economic Research Service, USDA, December 1982.

9/ Schmitz, P.M. and Koester, U. "The EC Sugar Market Policy and the Stability of World Market Prices for Sugar" Paper presented at the Trade Research Consortium Meeting. 17-18 Dec. 1981. Berkeley, California.

instability. The recent changes in the EC's sugar-stocking policy may lessen in the future some of this transference of domestic production instability onto the international sugar market, in which developing countries in 1980 accounted for 64 percent of exports and 41 percent imports. The wheat case is discussed subsequently under food security.

Since its creation, the Community has endeavoured to reconcile the conflicting interests of its own agricultural producers and food-processing industries with similar interests in developing countries. There have been numerous efforts to reduce the impact of the import controls associated with the CAP on developing countries.

Encouragement of Market Access

The CAP principle of Community preference is apt to foster an ethos whereby anything that could be produced domestically and is not, is somehow a concession to, or a positive gesture in favor of non-Community countries. Agricultural imports into the EC from developing countries have been encouraged, or at least allowed into the EC market by, in effect, five different types of preferential trade arrangements. Most of these are arranged in a hierarchy, with some former colonies having more favorable access than other developing countries, who have more favorable access than developed countries. These preferences have a tangible value to the recipients, and they provide solid evidence of EC concern that economic growth in developing countries should not be hampered by EC agricultural protectionism. The arrangements probably hamper the unity of the Group of 77 in mounting a diplomatic offensive against the CAP. The arrangements probably cover less than a quarter of total agricultural imports, and less than half of the agricultural imports from developing countries. The schemes cover the Overseas Departments of France, Mediterranean countries, and the ACP countries. In addition, they include the Community's generalized system of preferences and agreements governing trade in nongrain feeds.

Overseas Departments. Since the establishment of the CAP, exports including agricultural exports, from the Overseas Departments of France have largely free access to the EC market. These departments include Guadeloupe, Martinique, Guiana, Reunion, and Ste. Pierre and Miquelon. The population of the Overseas Departments is very small (1.24 million in 1980), and their agricultural exports to the EC at $313 million in 1980 were 1 percent of EC agricultural imports from developing countries. They are of some significance in the management of the sugar regime of the CAP as their sugarcane exports to the EC (336,500 tons in 1980) were equal to about 5 percent of EC sugar exports. There are other arrangements for the Departments that affect developing countries' agricultural exports to the EC, such as the assurance of two thirds of the French banana market to Guadeloupe and Martinique.

Mediterranean Countries. The EC's foreign policy perspective on relations with developing countries in the Mediterranean basin continues to evolve. Initially, historical trade and aid linkages of international member countries were repackaged into an EC context. Then a broader Mediterranean policy evolved, which sought the harmonization of EC policies and tariff concessions to equalize the competitive trade position (not trade concessions) among the Mediterranean countries. Taylor 10/ has suggested the principal motivations

10/ R. Taylor, "Implications for the Southern Mediterranean Countries of the Second Enlargement of the European Community," Europe Information Development, June 1980.

for the EC's Mediterranean policy at the outset were essentially political and strategic. The Mediterranean was seen as an EC zone of strategic importance on the exposed southern flank of the Atlantic Alliance where the Soviet Union had been increasing its naval presence. More recently, the general issues of relations with Arab countries, the Middle East conflicts, and the security of petroleum and gas supplies have colored EC views on relations with mediterranean countries. Some of the factors behind the EC's Mediterranean policy have a striking resemblance to those behind the U.S.-Caribbean policy. 11/

Bilateral agreements with Mediterranean countries cover trade arrangements and various forms of cooperation and financial aid. The countries are the Maghreb--Algeria, Morocco, and Tunisia; the Mashreq--Egypt, Jordan, Syria, and Lebanon; and Cyprus, Malta, Israel, Portugal, Turkey, and Yugoslavia.

In general the EC is the major trading partner and runs a trade surplus with each of the countries. EC financial aid to southern Mediterranean countries, averaged on an annual basis 1977-81 about $145 million; in recipient per head terms, most of this aid was in the $1 to $3 range (except for Cyprus at $10 and Malta at $15).

The individual agreements have common elements:

- Duty-free access to the EC for industrial goods;
- Preferential access for some major agricultural products, but within well-defined limits;
- Access to EC development grants and loans;
- Renunciation by the EC of preferential access to the Mediterranean countries; and
- Consultation mechanisms.

In view of the similarity in climate between the Mediterranean countries and EC members bordering the Mediterranean, a higher proportion of the Mediterranean farmers' agricultural output may be in competition with EC agricultural production than compared with the output from other developing countries. In general the import provisions of the CAP for Mediterranean agricultural products are of three types: substantial barriers (relatively high tariffs--sometimes a reference price system throughout the year); lower barriers for noncompetitive, off-season products (new potatoes and tomatoes); or duty-free access where there is not much EC production (citrus). The principal competitive products imported from the Mediterranean countries include: olive oil, wine, some citrus, and potatoes. The export value of EC

11/ "Caribbean Basin Initiative," U.S. State Department Bulletin, April 1982.

trade concessions to Mediterranean countries may be around $200 million. Hunt 12/ has suggested that in relation to the main concessions on fruit and vegetables: "... the tariff concessions in the agreement have been of marginal benefit to the third countries which possess them. In periods of oversupply, the concessions can be suspended. In periods of undersupply, there is ample room for countries with and without concessions to enter the market so that benefits to the third country supplier, which has the concessions, are marginal. The proliferation of such concessions among a wider range of commodities and to a broader group of countries has further weakened the benefit to any single country. The tariff concessions, however, do enable the countries which possess them to retain part of the levy that generally goes to EEC producers and exporters through the farm income and export subsidy programs of the CAP."

The enlargement of the EC-10 to include Spain and Portugal will substantially erode the trade concessions in the EC's agreements with the Mediterranean countries. The enlarged Community will then have a surplus in most Mediterranean products. Morocco and Tunisia are likely to be the hardest hit, and olive oil the first big market to disappear. According to EC commission estimates, the EC-12 would likely have a structural olive oil surplus of 200,000 tons. This quantity is equivalent to four times what Tunisia, the EC's biggest external suppplier, exported annually to the EC-9, in recent years.

The ACP Countries. The Lome Convention, which provides for trade and aid to developing countries, is the centerpiece of the EC developing country relation- ship. Not only is the Lome Convention a format for institutional links with half of the Group of 77, it is also seen as providing a superior set of relations with the Third World compared to those of the United States or other developed countries.

The provisions of the 1980-85 Convention between the EC-10 and 61 mostly poor developing countries in Africa, the Caribbean, and the Pacific (the ACP countries) cover: trade cooperation (free access, without reciprocity, to EC markets); insurance schemes (STABEX, for export-earning stabilization on 43 mainly tropical agricultural products); SYSMIN (for maintenance of productive capacity for minerals); a sugar protocol to provide price guarantees and market access for 14 ACP sugar exporters; industrial cooperation (training, technology transfer, and finance); agricultural cooperation (finance, training, and a Technical Centre for Agricultural and Rural Cooperation); and financial and technical cooperation. Under the European Development Fund (EDF), a total 5.7 billion ECU over the 5-year period is provided.

One summary, somewhat extreme, view of Lome, is that of Green, 13/ who has characterized Lome as "a not very major redrawing of a particular set of colonial merchantilist relationships to take account of not very extreme peripheral state pressures for a less uneven deal within the old order, and has had remarkably little overall impact either on the EEC or the ACP components with the probable exception of their respective beet and cane sugar sectors. It is a reflection of relationships, not a major causal factor".

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12/ H. D. Hunt. "Fruit and Vegetable Exports from the Mediterranean Area to the EEC," World Bank Staff Working Paper No 321, March 1979.

13/ R. H. Green "The Child of Lome: Messiah, Monster or Mouse?" in The Political Economy of EEC Relations with African, Caribbean and Pacific States, Frank Long (ed). London: Pergamon Press, 1980.

Certainly the trade and aid significance of Lome for the EC economy is small. In 1980, 3.6 percent of EC imports and 3.1 percent of EC exports were with ACP countries, and this pattern has not changed very much. ACP exports are nearly all primary products (the biggest item is oil from Nigeria), and their imports from the EC are nearly all manufactures. The agricultural imports from ACP countries, 30 percent of the total, were worth $7.8 billion in 1980. These accounted for 17 percent of EC agricultural imports from all developing countries, and 12 percent of total EC agricultural imports.

The CAP has affected at least three of the Lome provisions: trade cooperation, export earnings, stabilization, and financial aid. 14/ On trade, the CAP is a factor affecting competitive products; notably it is a factor in the establishment and management of EC import quotas for duty- free access for sugar or beef from ACP countries. In relation to the insurance schemes, STABEX does not cover CAP products such as rice, sugar, and beef, so ACP exports, above the largely static sugar and beef quotas to the EC, are not covered. The financing of the CAP from Community funds could be a factor in determining the product coverage of STABEX. The desire to limit expenditure on aid, such as for STABEX, in order to finance the CAP, may be one of the reasons why minerals are not covered by STABEX. For instance, the cost of including copper in 1976 would have been more than twice the annual allocation to STABEX of the funds available (112 million ECU), so they were cut back by half. 15/ In 1981, claims were four times the funds available (112 million ECU), so EC member countries doubled their contribution and cut back the payments by half.

The main economic component of Lome concerns EC developing country trade. Under Lome, 98 percent of ACP exports enter the EC duty free. Imports subject to duty are negligible and only 2 percent are subject to levies (rice, sugar, and beef).

Hewitt and Stevens 16/ point out that the Lome concessions ignore the dynamic context of changes the ACP countries desire in the structure of their trade. Most of the exports from the ACP countries are raw materials which would get duty-free access anyway, the preferential access for some products--cocoa and bananas--is partially at the expense of other developing countries, and the ACP countries are not in a position to benefit greatly from duty-free access for industrial products.

The main exception to the freedom from customs duties and quantitative-restrictions is for imports of agricultural products which are directly or indirectly covered by the CAP. Basically, for duty-only items ACP countries are granted exemption, and, for levy products there are a series of special arrangements. For beef and veal, rice, fruit and vegetables, and raw tobacco there is total or partial exemption under certain conditions notably quantitative limits.

One of the two main economic concessions concerns an annual quota of 30,000 tons of beef and veal for four African counties--Botswana, Kenya, Madagascar,

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14/ Harris, S., and others. The Lome Convention and the Common Agricultural Policy. Commonwealth Secretariat, December 1978.

15/ B. Persaud, "Export Earnings in the ACP/EEC Convention" in F. Long, (ed.).

16/ Hewitt, A., and C. Stevens, "The Second Lome Convention in EEC and the Third World: A Survey, C. Stevens (ed.), Holmes Meier, 1981.

and Swaziland. These imports, nearly all of which are to the United Kingdom, are free of customs duties, and the levies applicable are reduced by 90 percent, provided an amount equivalent to that reduction is collected by the beneficiary countries. The export (f.o.b.) value of these shipments at $2,000 a ton is approximately $60 million. The EC is a beef exporter, so this concession has an EC budgetary significance in terms of additional expenditure on beef-export subsidies.

The sugar arrangements provide for 14 ACP states (and 4 territories) to supply the EC with 1.28 million tons of white sugar at a guaranteed price. At 18 cents a pound, this commitment is worth $508 million. The EC commission uses the example of Mauritius (quota, 487,200 tons). The difference between the guaranteed price for the 1977/78 crop year and the average world price (July-December 1977) amounted to, taking its quotas into consideration, approximately 68 million ECU, and for the 1978/79 crop year, approximately 84 million ECU; that is over 10 percent of its GNP, 27 percent of its total export earnings, or coverage of 1 year's imports of Community equipment and manufactures.

Generalized System of Preferences (GSP). The CAP is generally considered to have been a major influence on the agricultural content of the EC's GSP scheme. The Community's scheme was the first and is the largest of the 11 tariff preference schemes adopted by OECD countries. Begun in the period 1971-76, the schemes have the objective of increasing developing country export earnings, promoting their industrialization, and accelerating their economic growth. They offer exporters in developing countries the advantage of lower tariffs over developed country exports competing on most favored nation (MFN) terms. The schemes were adopted by the OECD countries on a unilateral, nonbinding basis and are now an important feature of international-trade policy. In 1980, imports eligible for inclusion in all GSP schemes from over 100 beneficiary countries were about $55 billion, equivalent to 31 percent of dutiable imports from all beneficiary developing counties.

In practice, however, and perhaps for reasons to do with the preliminary notification requirements, the absence of incentives to request GSP treatment and rules of origin, the amount of imports actually accorded GSP treatment in 1980 was $25 billion. In the same year, actual EC, United States, and Canadian imports under the GSP reached respectively $9.3, $7.3, and $0.75 billion. Nearly three quarters of this trade is with 10 countries (in order of importance): Taiwan ($1.7 billion, benefits only from the United States), South Korea ($1.5 billion), Hong Kong ($1.5 billion), Brazil ($1.4 billion), followed by Yugoslavia, India, Mexico, Malaysia, Singapore, and the Philippines.

The preference schemes are a compromise between the developing countries' desires for unrestricted market access and fears in the industrialized countries about market disruption. The concern that the schemes should not be prejudicial to the OECD economies has led to a relatively poor coverage in the agricultural sphere. The EC scheme has evolved to cover, by 1981, some 317 processed agricultural products with an offer value of $2,088 million (1,820 million ECU). Actually, $1,870 million (1,625 million ECU) were exported under GSP. GSP covers roughly about 8 percent of total developing country agricultural exports to the EC. About 80 percent of these GSP imports have either tariff reductions ranging from 20-50 percent or are granted duty-free access (covering 73 products), and for which there are no quantitative limitations. The average preferential margin for agricultural products in 1981 was 7.4 percent.

There are five sensitive products, whose import offer value was $380 million ($340 million ECU), which are subject to individual or global tariff quotas. These are soluble coffee, cocoa, butter, two types of pineapple, and Virginia tobacco. In these cases, there is an automatic introduction of custom duties once the national limit in a Community country is reached. Except perhaps in the case of tobacco, these quantitative restrictions, for which the ceilings and EC country allocations have largely remained constant in recent years, reflect protectionism of the food-processing industry rather than of agricultural production.

In practice, there has been an evolution in the EC's GSP towards greater consideration of the least developed countries. Since 1977, this group has had complete exemption from duties on industrial products (including textiles) without any limitation. Since 1979, they have had duty-free access on all the agricultural products on the GSP list, and since 1981, some new products were added just for the least developed countries. The EC commission proposals for the GSP for 1983-85, reflecting pressures from the European Parliament, include the suggestion that the least developed countries receive the same benefits as ACP suppliers (duty-free access, except on levy items) on agricultural products (CCT, Chapters 1-24). This could be a step toward removing some of the discrimination between the poorer countries, that the present hierarchy of EC schemes has created.

In the EC's agricultural trade relationship with developing countries the GSP does not loom large, partially because, as stated earlier, 59 percent of the imports from developing countries already enter duty free. Some idea of the extent of the concession can be gleaned from relating the GSP utilization figure--1,675 million ECU in 1981, to the total value of imports from developing countries on which duties are levied, 6,636 million ECU in 1979 (one-third of the total); those are very roughly the concessions related to about a quarter of the total value of dutiable imports. The major constraints on improving the offers, namely protection for EC farmers, protection for EC food processors, and some protection for ACP farmers and food processors from competition from other countries in EC markets have not been analyzed in quantitative terms. The track record shows that the Community has tried to make progress with the agricultural content of the GSP, both in terms of redistributing benefits between developing countries and in increasing the overall level of benefits.

Cereal Substitutes

The EC imports large amounts of cereal substitutes and complements to them (for example, soybeans). This is a result of its policies of high cereal prices (and inappropriate price relations between cereals) and of low levels of protection on the substitutes and some of their complements. Imports of cereal substitutes such as cassava, citrus pulp, molasses, and maize gluten feed are apt to be viewed by the Commission and EC wheat producers in "cereal equivalent" terms. This perception, reinforced by the CAP principle of Community preference, sustains the view that the cereal substitutes are an import concession, and this provides a justification for export (with subsidies) of an equivalent amount of cereals. Claude Villain, the former EC Director-General for Agriculture, claimed in 1981 the EC was still a net "cereal equivalent" importer. Such views seem to be partially sustained by the United States, said Villain, because it would be more logical if cereal exporters who complained about EC cereal exports would urge the EC to stop importing cereal substitutes which made such cereal exports necessary. In practice, he said some exporters unreasonably complain of a lowering in EC

grain imports, and at the same time take advantage of the expanding EC market for cereal substitutes.

EC imports of cereal substitutes in 1981 were estimated at 18 million tons, of which 10.5 million tons, or approximately $945 million worth (at $90 a ton) came from developing countries. The main developing country shipments--6.5 million tons in 1981--are of cassava, with a f.o.b. value, at $90 a ton for pellets, of $585 million. If the Commission's "cereal equivalent" argument is taken at face value, the 10.5 million ton figure implies that cereal-substitute imports from developing countries possibly cost the EC budget $500 to $750 million.

The EC is endeavoring to limit both the cost to the EC budget and the erosion of cereal farmers' incomes, attributable to the imports of cereal substitutes. Estimates of the forgone quantity of home-grown cereals that would have been consumed in the absence of the cereal substitutes in the EC vary a great deal. Stohr has suggested that the use of cereals in compound feeds would be no more than 3-4 million tons higher. This was because compound feed production would have developed more slowly, and the substitutes would have been replaced not by cereals but by oilcakes (some of which come from developing countries). Also, he felt the additional cereals used would largely be imported feed grains.

While the extent of the developing countries' share of the additional burdens cereal substitutes impose on the EC budget is a matter for more research, the benefits to developing countries from the trading opportunities in cereal substitutes are already fairly clear. The benefits to Thailand, for example, from nongrain feed exports are substantial. In 1980, the export earnings from cassava, 90 percent of which went to the EC, were equivalent to 2.2 percent of GDP; they accounted for 21 percent of the agricultural exports, 12 percent of total exports, and earned $730 million. The regional impact on growth from income and employment is also very significant, as much of the production is in one region, the Northeast Region. The export restraint agreements the EC has recently negotiated with Thailand (quota set at 5 million tons for 1982 with a possible 500,000 tons extra), Indonesia (500,000 tons), and China, seem, at this stage, to limit further increases in imports. Shipments above these levels will pay more than the 6-percent ad valorem duty currently levied, and will compete with zero-rated corn gluten and citrus pulp, much of which comes from the United States.

## Pricing

Commodity Pricing Issues. The EC has long stressed the importance of commodity-pricing issues. Its basic stance is that international commodity agreements and insurance mechanisms like its own STABEX and the multilateral schemes like the IMF Compensatory Financing Facility can be in the mutual interests of all participants in international markets, and should be used wherever feasible. There is perhaps, more so in the past, an ideological content in EC views; this has weakened somewhat and there is more pragmatism now. There are various examples of pragmatism on pricing issues. The EC did not join the International Sugar Agreement, though some coordinated stockholding with the members of the International Sugar Organization is now underway. The negotiations over the UNCTAD Common Fund showed that the EC, while sympathetic to international action on pricing issues, does not accept the thesis that markets should be rigged to transfer resources to developing countries. Nevertheless, there remains much skepticism and little confidence in unorganized international agricultural markets.

The Community believes that an international grains arrangement with pricing provisions is an essential prerequisite for an adequate standard of international food security. To what extent this is a posture rather than a substantive position is not very clear, but the evidence perhaps now supports the former view. The publicized reasons for the breakdown of the International Wheat Convention negotiations include divergencies between countries over stock levels. The EC understocks relative to its use of world markets. In the absence of an international wheat agreement, it has not developed and published a formal stock policy like the main cereal exporter, the United States. This issue is discussed further in a later section on food security.

Though hardly discussed in Community statements on commodity-pricing issues and barely analyzed in commission documents, including a recently requested report for the European Parliament, the Community's export subsidies are such that the Community and its CAP policies are daily influencing the prices developing countries receive for their exports and pay for their imports.

The main commodity markets affected are those for beef, dairy products, sugar, and wheat. These commodities accounted for 24 percent of developing countries' agricultural imports in 1979. CAP products account for 91 percent of EC agricultural exports to the developing countries. Products whose prices are influenced by EC export subsidies accounted for about a third of developing countries' agricultural exports to the world.

Basically, production and export subsidies are apt to damage the functioning of international markets. They contribute to sending the wrong price signals to producers and consumers. The impact on any one country depends upon the market situation, and the trade barriers and market shares of the main traders. In general, world-market prices are lower than they would have been if there were no export subsidies. When international prices are strong, probably the main effect of EC export subsides is on the volume sold, as exporters without export subsidies loose that share of the market taken by the EC. When international prices are weak, probably the main effect is upon prices, as the price level applying to all exporters is depressed further by the EC undercutting other exporter's prices.

Financial Issues and Development Assistance

In the early eighties the EC considered the two principal financial issues in the North-South dialogue to be: (a) financing deficits and growth in the nonoil developing countries, and (b) investing oil surpluses. Official international initiatives were deemed necessary in relation to support and supplement private-sector recycling by sustaining the flow of credit from banks, to encourage other forms of resource transfer using market mechanisms, and to improve official development assistance (ODA). In relation to the topical issue of developing country indebtedness, there is no use of credit measures in the CAP comparable to the role export credits play in U.S. agricultural trade policy.

The Community, in many of these wide ranging global financial issues, serves mainly as a forum for the evolution of a common position. The Community has few formal policies in the regulatory/bureaucratic sense in many of these fields. The EC's development assistance program, is small in financial terms, relative to that of the total for the individual development assistance programs of member countries. In 1980, EC disbursements at $1.5 billion were

equivalent to 12 percent of the total of EC members' official development assistance, including that channeled through multilateral organizations. EC aid is channeled through the European Development Fund; the general budget (food aid--$437 million, aid to non-ACP countries--$202 million, and to Mediterranean countries, which altogether totaled $668 million in 1980); and the European Investment Bank (project aid to non-EC countries mostly went to Mediterranean countries, and to a lesser extent ACP; totaling totaled $295 million in 1980). Geographically, Africa receives 67 percent of the aid, Asia 20 percent, and South America 7 percent.

The level of Community plus member-country aid compares very favorably with North American performance. In 1981, ODA from EC countries was more than double that of the United States. In per capita terms, ODA was for the EC, Canada, and the United States, respectively $50, $45, and $31 in 1980. A similar pattern occurs in aid to the agricultural sector, where commitments by EC countries in 1980, which totaled $1.6 billion, compared with $1 billion from the United States.

The CAP has had a perceptible influence on the EC development policy in at least four ways. It provides:

- Competition for budgetary allocations;
- Pressure for aid to certain countries because of CAP trade problems, such as, Thailand;
- Pressure not to provide project aid for products that would compete with EC production, such as, sugar; and
- Pressure for food-aid allocations, in preference to other forms of development assistance.

In the EC, the competitive process for funds between different policy areas is not quite the same as in a national administration. The multilateral arrangements for the EC budget are such that national annual parliamentary authorizations are largely not needed. The EC Council of Ministers has exercised its wide discretion to allocate most funds to the CAP (62 percent of expenditure), to the detriment of other policies, including development (4 percent of expenditures in 1982). This seems likely to continue.

Both from a donor and recipient perspective, there is a margin of substitutability between trade and aid. Bilateral trade imbalances, partially as a result of trade distortions, have often been made more politically tolerable by increasing aid levels. The EC used aid as a factor in the agreement with Thailand to limit exports of cassava to the EC. So the additional EC aid funds channeled to Thailand, one of the more successful developing countries, are either at the expense of other poorer developing countries, or the real value of total funds available for concessional development assistance has been reduced by such actions.

The quality of aid can also be influenced by pressures derived from the CAP to limit competitive crop production by aid recipients. While the attempts of the United States to limit World Bank loans for palm oil development--as such oils compete with U.S. soybean oil--are well known, there are similar pressures within the EC, namely to limit aid to sugar projects.

Food aid seems to have sufficient credibility among taxpayers in donor countries to make it one of the more acceptable forms for the transfer of resources to developing countries. Such transfers are, in general, declining

in real terms, so additional pressures from the CAP to increase food aid at the expense of less restricted forms of aid become more pertinent. A recent example is the case of Zimbabwean sugar. To meet the request for a sugar quota, the EC had to reconcile the conflicting desires, not to increase the global quota and not cut the existing quotas. As a result, Zimbabwe received a quota based on the unexhausted quotas of other ACP states and a promise that if this was insufficient, the sugar would be exported as food aid.

Food Aid

EC member countries, in view of their traditional role as food importers, have not, until recently, had the capacity to be major suppliers of food aid. Nor have they been very enthusiastic about food aid as a development policy technique. This lack of enthusiasm is partially reinforced by EC budgetary procedures and politics, since domestically produced food aid involves income redistributive effects between member countries. Nevertheless, the combined food aid programs of the member states and the EC are substantial, involving an expenditure of ECU 644 million in 1980.

The EC's main commitments on cereals for food aid were increased by 29 percent in 1981, when the new Food Aid Convention (FAC) replaced the earlier 1976 version. The Community provides 22 percent of the FAC commitment (1.65 million tons: 928,000 tons by EC institutions and 770,000 tons by member states). The EC is the major supplier of dairy products as food aid, though the amount has basically remained constant since 1976.

In terms of EC budgetary expenditure, the cost of food aid in millions of units of account (UA) in the period 1975-79 was successively UA 189, 438, 295, 518, and 644.

Food aid policy has been in the public limelight in the EC in recent years. Reports by the EC Court of Auditors revealed various administrative and political problems. 16/ For example, the auditors found that it took an average 377 days for cereals and 535 days for dairy products to arrive in Asia's ports once the program had been agreed. Three incompatible policies that limit the usefulness of EC food aid to recipients are:

- Annual programming, to ensure Council control over distribution;
- Distribution to a large number of countries, often in small quantities (26 countries got 22 percent of supplies); and
- Small, dispersed staff.

The CAP undoubtedly contributes to the availability of food aid, especially of wheat for food aid. So far, the Council of Ministers has not yet decided to explicitly increase the amount of wheat going to food aid. Though current world-market conditions are conducive to an increase in food aid shipments, such shipments remain in EC budgetary terms more expensive than shipments, using export subsidies. Nevertheless the EC has some room to maneuver in the North-South context on food aid, in view of public support and the physical availability of supplies.

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16/ E. C. Court of Auditors, "Special Report on Community Food Aid," 30 October 1980, DOC. 1-662/80.

## Food Security Issues

The EC views food security as a priority issue in the North-South dialogue. For food issues, there is a suitable international forum--the World Food Council, which is small (36 members), global (all countries participate in the selection process), has a broad mandate, and meets annually at the ministerial level. Other subject areas in the dialogue--such as energy--lack such a forum and so far, there is no institutional format for the "global" North-South dialogue.

In the EC view, the primary means to achieve food security is to increase food production, particularly in the poorer developing countries. Responsibilities for this lie with the developing countries themselves, to implement national food plans or strategies (price and credit policies, storage, transport, land tenure, development of cooperatives, and so on) to increase food production. To support these endeavors, the EC Council believes the international community, as the EC has done, should provide backing for the preparation and implementation of food strategies in individual countries. In addition, the Commission believes endeavors should be made to improve the volume and quality of aid to agriculture, improve agricultural research, and in particular, evolve production systems less dependent on imported energy.

Meanwhile, as long as countries are dependent on food imports, they can be helped, in the commission's view, by greater stability in international markets for cereals and other commodities; better storage/reserve systems appropriate to their needs; an EC export policy (longer term contracts and credits); and by greater access for agricultural products in industrialized (including EC) countries' markets. Improvements in the volume/quality of food aid are seen as a measure to particularly help the poorer countries.

Rather than wait for the outcome of the North-South Dialogue and partially in response to greater public concern and pressures from the European Parliament, the Commission made proposals "towards a plan of action to combat world hunger" in 1981 and "a special programme to combat Hungerhin the world" in June 1982, that basically consist of a series of development policy measures to improve the food situation, particularly in the poorer developing countries. The Council has responded mainly by increasing food aid for the least developed countries, some of which were channeled though the International Emergency Food Revenue (IEFR).

So far the Commission has not tackled the question of what contribution a reform of the Common Agricultural Policy could make to the world food system by, in particular, seeking better complementarity with developing countries' agriculture. The CAP is one of the main reasons why the Commission, in its recent initiatives, has used only development policy options. The main, shorter term international agricultural policy option to deliver improved food security for all countries has long been considered by the Council and the Commission to be an international grains arrangement. However, this involves an agreement among others with the United States, an agreement that has thus far proved elusive.

The commission's recourse, to development policy options only to improve developing countries' food security (either bilaterally or multilaterally), is influenced by the CAP. Presumably, the commission has recognized that its main CAP-related proposals are not currently feasible. An international

grains arrangement to stabilize the market is seen as not feasible due to lack of U.S. support and the EC-U.S. conflicts over wheat export subsidies. Similarly, EC member states are not supportive of more agricultural trade liberalization to provide developing countries with more export earnings to pay for food import.

Some of the enthusiasm for development policy options may be traced to some evidence that stabilization of the international cereals' market will solve only some of the many food security problems of the developing countries. In 1980, only 6 percent of total cereal consumption in the poor countries (those with per capita incomes below $699 in 1978) was imported; whereas, the middle-income countries imported about 23 percent of their cereal consumption. However, of the 76 countries in the low-income group, 38 imported more than 21 percent of their consumption. So the functioning of the international cereals market, which is the main international relations issue in the food security aspects of the dialogue, seems to be important for about half the poor countries; though in population terms, they account for only 9 percent of the population of this group of developing countries.

By pooling risks--across regions and time--the international cereals market can provide the cheapest insurance of cereal availability. The EC, along with other major users of the market--who are not poor countries--collectively determine market size and structure and so determine the food security capability of the international cereals market. Flexibility in the cereal-trading system stems from adjusting stocks, consumption, and production levels.

Stock adjustment. While all countries need stock policies for national food security purposes, it is primarily the major traders who have reserve or buffer-stock responsibilities because of the size of their international market shares and their interests in expanding the cereal-trading system and bringing greater stability to farmers' incomes and consumer prices. The major traders do not usually distinguish between stocks used in the management of their domestic markets and stocks used in relation to trade. In the first instance, it is stocks used in relation to trade that are of concern to the international community.

Clearly the CAP has improved the capacity of the EC to use reserves in an internationally responsible manner. The physical supplies are there, though the storage capacity may not be. Yet the consensus of academic research and the opinion of other major stock holders is that the EC understocks. The CAP provides the option of understocking because of the use of explicit export subsidies, which have not been extensively used by the other major exporters since 1972. The EC has a financial incentive to use such subsidies as it is cheaper from the EC budgetary point of view than to hold in stock a higher proportion of the current surplus. The CAP's administrative arrangements, notably the public financing of intervention stocks--as in the United States--are conducive to a greater degree of international reserve coordination. In contrast, in Australia where growers finance the stocks, stock levels tend to be low relative to instability in production and trade.

The usual criticism of EC stocking policies--that the stocks are too low and are procyclical so that the EC destabilizes the international market--needs clarification. This is not really a criticism of the CAP, per se, but merely a criticism of Commission budgetary practice. Where the CAP really constrains the EC position on use of stocks for market stabilization is in the field of consumption adjustment.



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Consumption adjustment. Flexibility in the use of cereals for animal feeding is an important element of world food security. Of the 40 percent of the world's cereals used for animal feed, over 80 percent is consumed in OECD and CMEA countries. The quantities involved in consumption adjustments in recent years have been very large relative to stock and trade levels. In 1974, OECD feed use fell by about 8 percent, or 23 million tons, as a result of developments leading to higher prices. This quantity was equivalent to 17 percent of world stocks, 15 percent of world trade, and 48 percent of developing country imports in 1974. The EC does not contribute to such flexibility. In that year 85 percent of the fall in OECD feed consumption occurred in the United States, which accounts for just half of the feed consumption in OECD countries. This inadequate sharing of the burden of international adjustment reflects the domestic price-stabilization objectives and policy instruments of the CAP. These objectives and instruments fall within the purview of national sovereignty, but the international effects are considerable.

Production adjustment.--Under the CAP, most domestic producers are not responsive to world-market conditions, particularly price signals. This domestic policy choice does not absolve the EC from its international responsibility to ensure that its policies are at least neutral toward, if not supportive of, the international trading system. Again, the unwillingness to allow domestic prices to move with international prices lends support to the notion that the EC should incur temporary stockholding responsibilities, corresponding to the amount that the international price signals would have taken out of production.

Quantitative research is needed to estimate stockholding levels required to offset effects of the EC's limited use of consumption and production adjustment. While such work is essential for measurement of the international impact of EC cereal policy, this impact should not be over estimated. U.S. cereal production at 334 million tons is a much more significant international food security factor than EC production at 130 million tons.

## Conclusion

The priority that the EC gives to the North-South Dialogue and the priorities within it are changing. Currently, the slowdown in the international economy and related financial issues (IMF quotas, debt levels) are the EC's major international preoccupation. In terms of international food security, the need for more cereal stocks, if not stocking policies, has disappeared. So far, the EC's general policy performance towards the developing countries compares very favorably with the main practical standard available--U.S. performance. More detailed analysis at the developing country level, taking account of aid, trade, and export earnings foregone due to protectionism (CAP, textiles or otherwise) may well confirm this. The negative impact of the CAP on developing countries is being tackled, but it is not on the same scale as that of OPEC or of U.S. monetary policy. 17/

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17/ Bergsten, C. F., "The Costs of Reaganomics," in Foreign Policy, Fall 1981, suggests each additional percentage change in U.S. interest rates adds perhaps $4 billion to developing country deficits, and that such a change has a bigger impact than a 1 percent change in oil prices.