

Discussion

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We are all grateful to Mr. Gundelach for taking the time to prepare a paper for this meeting, even though his schedule of meetings in Brussels prevented him from delivering it in person. Since the paper is such an authoritative statement of the view of the Community on EC-U.S. agricultural trade relations, it would be inappropriate for me to elaborate on this position. My comments will therefore be of two kinds. First, I wish to highlight some of the underlying trade issues affecting EC-U.S. relationships which might otherwise be hidden in the diplomatic phrasing of Mr. Gundelach's paper. I have no wish to open wounds that politicians are attempting to heal, but in a conference of this kind the issues should presumably be faced squarely. Then, I wish to add some remarks of my own on two specific aspects of EC policy which have a potential impact on trade. *

Mr. Gundelach's paper stresses the interdependence of U.S. and EC agriculture. It is true that the domestic policies of each have an impact on the other, and that both have positions of heavy responsibility in the world food economy. But there is one important factor which arises from the farm policies pursued which has prevented this interdependence from leading to mutual understanding over the past two decades. U.S. agriculture is in large part oriented towards world markets, whilst European agriculture has enjoyed a high degree of isolation from these same market forces. This is particularly true in the grain market. Whilst U.S. farmers are made aware of the swings and roundabouts of the international grain trade, EC farmers know that there is an open-ended option of selling grain into intervention, at prices which would seem very attractive to producers in the United States, to be disposed of on world markets by means of equally open-ended export subsidies. So long as this continues, defacto interdependence can coexist with mistrust and policy conflict.

To a certain extent, this is a matter of the difference in policy price levels themselves. If the Community were able to bring CAP prices down to a level more closely related with those which they could reasonably be expected to obtain on world markets, the import levy-intervention-export subsidy system would represent a modest but effective stabilization device, causing occasional consternation to other countries but hardly qualifying as a major source of international tension. U.S. farmers might still envy their European counterparts, but they could not

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argue that longer run and profitable trading outlets were being denied. But such is not the case. The Community is presently tied to a system whereby farmers are guaranteed price rises dictated by internal rather than external factors.

Mr. Gundelach appears to be saying that the outcome of the negotiations on prices for the 1978-79 season represents a turning point, and that farmers have been given a clear signal that their period of isolation is over. This seems to be putting excessive weight on some minor victories that the Commission has had over protectionist pressures in Europe. It is true that CAP prices increases in terms of "units of account" were held to about 2 per cent, but with the recent changes in the monetary equivalents of the unit of account (the so-called "green" currency rates) the policy prices expressed in terms of national currencies will actually rise by nearly 8 per cent. Though regarded by European farmers as niggardly, such price increases are not likely to appear to U.S. agricultural interests as evidence of a determined effort to reduce the high levels of protection provided by the CAP. The reason lies not primarily with the Commission: even if Mr. Gundelach shared the views of the British government, that CAP prices should more closely reflect international market conditions, I cannot at present see any hope for his wishes to be granted by the Agricultural Ministers of Germany, France, and the Benelux countries.

I mentioned that this fundamental conflict of domestic policies and objectives was in part related to policy prices. There is an equally important aspect of this conflict which relates to the method of support. The CAP system of market organization is designed specifically to remove the impact on internal prices of variations in both domestic output and world market availabilities. It follows that the Community is in effect "exporting" the impact of its own production instability, and, more importantly, declining to shoulder any significant part of the burden of world market instability. It has been left to other countries to absorb the major variations in grain output and demand. The remark of Mr. Gundelach that countries should not pass adjustment burdens onto others must imply that he has in mind some dramatic shift in the nature of the CAP. No such proposals have emerged from Brussels.

Let me take this point one stage further in the context of the negotiations for a new wheat agreement. The essence of such an agreement to stabilize prices must be that individual countries take actions with respect initially to the management of stocks and then, depending on the nature of the market imbalance, by altering domestic supplies. In a weak market, under present CAP operations, export subsidies would be increased so as to avoid pressure on domestic markets. Under a wheat agreement involving coordinated stock and supply management, the EC would have to *reduce* export subsidies, build up stocks, and eventually allow some degree of price reduction in domestic markets in order to stimulate consumption and curtail production. I don't question the sincerity of the Commission in favoring such an agreement, but I find it more difficult to detect any willingness on

the part of the Agricultural Ministers of the EC to contemplate the consequences. The evidence from the sugar sector is not encouraging. This is the one sector of European agriculture where quantitative controls are a part of the domestic policy — and yet the Community has been unable so far to sign the International Sugar Agreement because the domestic implications of the discipline of export entitlements were too strong to stomach. There really are no easy options on the question of world price stability: international cooperation and burden-sharing rests entirely on the willingness of governments to make the appropriate domestic responses.

The other major issue regarding European trade policy raised in Mr. Gundelach's paper is that of agricultural exports from the Community. First let me say that I find it disappointing to hear the Commissioner putting such emphasis on the trade imbalance in agricultural goods with the United States. Bilateral trade balances are a weak guide to policy at the best of times in a world of convertible currencies. Concern with bilateral balance by commodity group gets close to denying the advantages of trade altogether. It would have been more appropriate, in my opinion, to have pointed to the need to expand *nonagricultural* exports from Europe, to the United States and elsewhere, in order to allow agricultural and other imports to be financed. This brings us back to the MTN. The problem facing European trade negotiators at present, as for the past 15 years, lies in the fact that progress in the dismantling of industrial trade barriers within the GATT has been seriously hampered by the apparent inability of those responsible for the making of agricultural policy in the EC to formulate domestic programs in a way which is consistent with these broader Community trade objectives.

I can only interpret the emphasis on agricultural exports to stem, not from a strong desire on the part of European farmers to get into such markets, but from a concern on the part of the Commission for some help in alleviating the mounting financial cost of the CAP, particularly in dairy products. Whilst I would not argue against a relaxation of U.S. dairy import policies — for in the case of dairy products the U.S. market is as far out-of-touch with world conditions as that in Europe — the real gains to be had in the improvement of world dairy trade come from lowering protection in a number of countries, the United States, EC, and Japan included, to allow greater access from exporters such as Australia and New Zealand. A few more tons of subsidized butter and cheese from Europe to the United States is as likely to perpetuate the underlying problems as to solve them.

Next, I would like to comment on two specific aspects of European policy which seem to me to have important implications for trade. The first has to do with the question of the relative price levels among European countries. As everyone engaged in trade with Europe knows, the Common Agricultural Policy hides some remarkably uncommon features. Prices of agricultural commodities in Germany have in recent months been 40 per cent above those for comparable goods in the United Kingdom, with prices in other member states somewhere in between. This

has arisen from the system of special exchange rates used to translate "common" prices into national currencies, originally devised to smooth out effects of currency fluctuations on administered farm price levels. The price differences which have emerged under this system during the period of floating rates appear not entirely by chance to be broadly consistent with divergent national views on the appropriate levels of support prices. Governments have enjoyed a flexibility in pricing policies through their defacto control of "green" rates of exchange that they never envisaged in the earlier phases of the CAP. United Kingdom support prices for most commodities, for example, are probably little higher than they would have been if Britain had retained a national agricultural policy. Access to that market is not so free as in the days before enlargement of the Community, but neither is it so constrained as might be thought by cursory examination of "common" EC price levels, or as would be implied by a precipitate dismantling of the "green-rate" system.

The importance of this system for the future of U.S.-EC trade lies in the way in which an eventual return to common prices might be achieved. If one takes the view that it is politically impossible for price levels in the strong-currency countries, notably Germany, to be reduced, uniform prices will imply a progressive denial of access to the markets of the weak-currency countries. European agriculture would be, in effect, riding on the coattails of the deutsche mark. Such was never the intention of the architects of the CAP. I need not elaborate on the other alternatives, but a way must be found, in European as well as other interests, to prevent an inadvertent upward drift in price levels which would leave Community agriculture on an even higher price and cost plateau relative to other major trading nations.

The second aspect of policy which is emerging as a major issue both within Europe and outside is that of further enlargement to include Greece, Spain, and Portugal. In political terms, such an expansion seems both logical and desirable. The implications for trade are more contentious. The main difficulty, with respect to agricultural products, is how to satisfy the several demands of new entrants for expanded markets, of present members for adequate protection for existing production patterns, and of taxpayers and finance ministers for a limit to the budget cost of enlargement. The solution is painfully obvious: outside suppliers, whether in the United States, Latin America, North Africa, or elsewhere, will have to absorb much of the burden by restricting exports to the Community of 12. The number of farmers sheltered by the CAP will expand by about 50 per cent, many of them genuinely in need of constructive programs for structural adaptation and market improvement. Despite warnings from the Commission about the dangers of excessive reliance on artificial market support for the products of the Mediterranean regions, the logic of the CAP is that markets be created at the expense of foreign suppliers. Unless and until this whole approach to farm policy — in grains and livestock as well as in olive oil, wine, and citrus fruit — is radically changed, the

CAP will continue to be a source of tension within the Community and embarrassment in external relations.

I apologize for ending on a pessimistic note, but I do not believe that one can hide the very real problems faced by the EC in the area of agricultural trade. Whilst one can understand and sympathize with these problems, the real task is to devise imaginative solutions. I hope that considerations of Mr. Gundelach's frank and clear paper can proceed in that constructive direction.