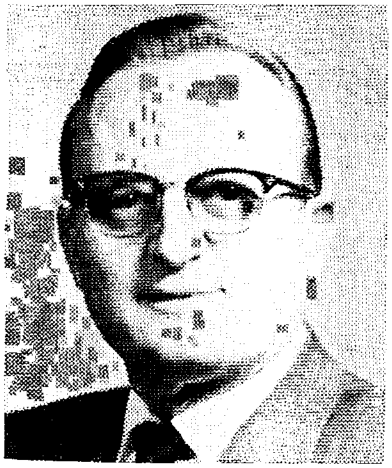

The European Common Market and U.S. Agriculture Trade

UNITED STATES DEPARTMENT OF AGRICULTLRE

Washington 25, D. C.

Talk by Robert L. Trontz, Chief, Trade Statistics and Analysis Branch, Development and Trade Analysis Division, Economic Research Service, U. S. Department of Agriculture, at meeting of National Association of College Teachers of Agriculture at Fort Hays, Kansas on April 1, 1963.

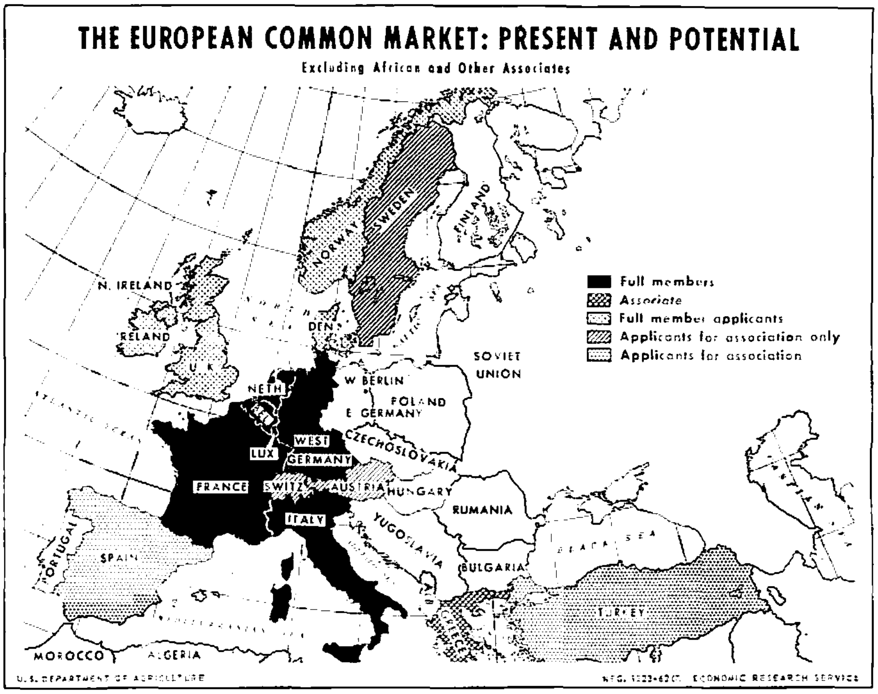

FIG. 1

My comments today on the European Common Market will be presented in two major parts. First, I shall present background information on the Common Market including its historical basis, and its Common Agriculture Policy. This in turn will provide the setting for the second major part which is devoted to a discussion of the magnitude of U. S. agriculture trade as well as an analysis of U. S. agriculture trade prospects with the European Common Market.

PRESENT MEMBERS

The newly emerging European Common Market, officially known as the European Economic Community (EEC), consists at present of six full member countries and one associate (Fig. 1) The member countries include France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg. Greece, which has associate status, is to be permitted full membership after a transition covering a period of years. The combined population of these 7 countries is close to that of the United States, which totals 188 million.

The income of the EEC, including Greece, as measured by the gross national product, was $177 billion in 1961 and equaled less than half that of the United States. Although the EEC has quite a way to go to catch up with the income producing capacity of the United States, it has been making rapid progress in this direction. Its rate of growth in recent years has been ahead of the United States. For the three year period ending in 1961, the gross national product of the EEC increased 24 percent compared with 17 percent for the United States.

The merger of the Common Market economies is to cover a 12 year period ending in 1970 if it goes according to schedule. The date may be extended to 1972. The 12 year transition period is divided up into phases of 4 years each. During each of these 4 year phases, internal barriers to trade are to be progressively abolished. The first 4 year phase was completed on January 1, 1962. Important steps toward merger of the industrial economy were taken during the first phase. There were substanital cuts in internal tariffs and complete abolition of quota restrictions on industrial goods traded among member countries.

Agriculture, which was excluded from the first phase because of difficulty in getting agreement on a common agricultural policy, has been included in the second phase which began in January 1962. The first Community-wide regulations for agriculture commodities went into effect July 30, 1962 for wheat, feed grains, flour, poultry and eggs, fruits and vegetables, wine, live hogs, and hog carcasses.

In addition to the member countries and Greece there are more than sixteen overseas political entities, chiefly African countries, affiliated with the Common Market by a convention of association, which is in the process of negotiation. These overseas countries and territories have an estimated population of 60 million. The overseas countries and territories enjoy special trade and aid benefits from the European Common Market but are not a part of the Common Union since they reserve the right to establish individual tariffs on imports not only from non-Common Market countries but also from Common Market countries.

POTENTIAL MEMBERS

Besides allowing themselves a 12 year period ending in 1970 to merge their economies the 6 original members of the EEC have a built-in blueprint for expansion beyond the 6 original members.

This blueprint provides that an applicant may seek one of four kinds of affiliation. The first two kinds are broad enough to include political as well as economic union, while the second two kinds are basically economic.

First, the applicant country may seek membership in the EEC. If it is accepted, it becomes a full member of the club with the same privileges and obligations as the other members. The United Kingdom applied on this basis and its application was vetoed by the French. A unanimous vote is necessary for approval.

A second kind of affiliation occurs when a country becomes an EEC associate as an interim step to becoming a full member. Greece as an associate of the EEC is in this category. Greece is to be permitted full membership after a transition period. Meanwhile, Greece is to benefit from tariff reductions already effected among the 6 original members, but will have the right to impose tariffs on EEC goods over a 12 to 22 year period to protect and to develop the Greek economy. In addition, Greece is to apply the EEC common external tariff, in step with the mutual tariff cuts between Greece and the Community.

A third type of affiliation comes about when a country gains associate status only. Switzerland is seeking that kind of relationship with the EEC. The Swiss are historically neutral and do not desire to become politically integrated with the other countries, but they do desire to seek a certain degree of economic intergration.

The fourth kind of affiliation with the EEC includes a form of association that is being worked out with the overseas countries and territories that have special relations with the members of the EEC. With the expansion of the European membership in the EEC additional overseas and territories that have long-standing and special trade agreements with the European applicants would likely become affiliated as associated overseas countries and territories. Although such advanced Commonwealth countries as Canada and Australia would not likely be eligible to become associated with the EEC, many of the overseas countries and territories associated in some capacity with the United Kingdom would be eligible. Examples of such potential overseas associated countries are Bermuda, Hong Kong, and Ghana.

The French veto of the United Kingdom's application for membership in the EEC has temporarily slowed up the potential expansion of the EEC. The members of the European Free Trade Association (EFTA) made up of the United Kingdom, Norway, Sweden, Denmark, Switzerland, Austria, and Portugal still have their applications pending for some kind of affiliation with the EEC. The European Free Trade Association differs from the European Economic Community in several major respects. The association members have their own external tariffs, they do not have a Common Agricultlral Policy, and they do not plan to become politically unified.

Ireland which is not a member of EETA also has its application pending for full membership in the EEC. If the seven countries now members of the European Free Trade Association (EFTA) and Ireland were to join the EEC, all of Western Europe outside the Iron Curtain except Finland would be merged into one giant economic union with a European population of nearly 300 million people. The EEC would then indeed become an economic giant with a population almost three-fifths bigger than that of our own country.

Such an enlarged EEC also would likely include, if it folllows the precedents of the past, many additional overseas countries and territories as associates. Of particular significance in this connection would be the developing trade partners of the United Kingdom.

HISTORICAL BASIS

How did the Common Market develop? What is its background? How does it fit in with other Eurpoean Community organizations?

The working basis for the Common Market was drawn in 1957 by the Treaty of Rome. This Treaty was signed by representatives of the six member countries. The Treaty and the Common Market came into effect on January 1, 1958. Although the Treaty itself deals with economic affairs it clearly implies that countries whose economies are closely integrated will tend to develop common views if not common efforts with respect to major political matters. An illustration of this development may be found in the history of Germany. In 1833, for example, Prussia and other independent German States agreed to impose no tariffs against each other, to adopt uniform tariffs against other countries, and to divide up the customs revenue received among themselves. This agreement was the forerunner if not the major factor in the economic and political unification of Germany.

It is clearly evident that the Common Market did not suddenly occur. Besides its historical antecedents it was preceded by the culmination of a series of important events a decade before the Treaty of Rome. These events prepared the way for Eurpoean economic and political integration. In 1947 the United States announced the "Marshall Plan" (the European Recovery Program) as a means of assisting European recovery from the ravages of war. In 1948 the Organization for European Economic Cooperation (OEEC) was created to help carry out the Marshall Plan through joint estimates of requirements and the coordination and distribution of Marshall Plan aid among the affected countries. In 1948. also. the first concrete step toward regional integration in Western Europe occured when the Benelux Customs Union was established. This union included Belgium, the Netherlands, and Luxenbourg. A year later the North Atlantic Treaty was signed. Then came the three European Community Organizations: In 1951 the ECSC. the European Coal and Steel Community; in 1958 Eurat the European Atomic Community; and also in 1958 the EEC, the European Economic Community or the Common Market.

The three European Community organizations were brought into existence. among other purposes, to end the conflicts that had divided Western Europe for so long and to establish the foundation of an ever closer union among the people of Europe. It is within the framework of the European Communitites that the advance toward the union of Europe is expected to be achieved. The three Communities, which together may be referred to as the European Community. provide an impressive demonstration of the originality and vitality of the Western world's approach in creating new institutions to cope with changed economic and politcial conditions through peaceful evolution rather than by violent revolution.

Although the Communities have been in existence only a relatively short time. their achievements are already historic. One of the most notable of these achievements is the laying of the groundwork for the economic political union of two former enemies. France and Germany. As such it exceeds the accomplishments of the Roman Empire in its period of greatest glory. At no time was ancient Rome able to bring the Teutonic tribes occupying the land of present day Germany into its mighty Empire

COMMON AGRICULTURAL POLICY

Another historic achievement of the Common Market is the formulation and implementation of a common agricultural policy. The formulation was achieved in January 1962 after a long and strenuous discussion. The EEC Council of Ministers, the policymaking body of the Common Market. approved at that time the essentials of the first Common Agricultural Policy of Europe. It is a detailed legislative code on agriculture and consists of a complex of measures adopted concurrently and as an organic whole. A transitional period of 7 ½ years is provided for gradual implementation of the Common Agricultural Policy. During the transitional period. that is until 1970. each member country will adjust its internal prices for those commodities having target (desired or goal) prices toward the developing common level of target prices within the Community. In like fashion. each country will continue adjusting its level of external tariffs and other agricultural commodities toward the common external tariff level for the Community.

After the Common Market becomes fully operational around 1970. it will be operating under a policy much like that between the 50 States of our Nation. There will be no tariffs among the individual members. and there will be a common policy on imports from outside countries. Agricultural price supports. where they exist. will be uniform for the Common Market as a whole. In addition, there will be no restrictions on the movements of goods, capital, services, and workers. The free mobility of resources will represent a marked departure from the practices of the past. This free mobility of resources means, for example, that a French farm family could move to Western Germany to live just as readily as an American farm family could move from Kansas to South Dakota. It also means that this European farm family would be in a trade area much larger than any in which it had ever lived before.

U. S. AGRICULTURAL TRADE WITH PRESENT MEMBERS

The trade area represented by the EEC is the largest market in the world for agricultural products. The United States is the leading country of the world as a supplier of agricultural products for the Common Market. The United States' share of total Common Market agricultural imports averaged 13 percent in recent years. Furthermore, the United States has been holding its own in this important market while other countries as a group have been falling a bit short of maintaining their combined share. Common Market imports from other countries (excluding intra-EEC trade) declined from 73 percent of the total in 1953-56 to 69 percent in 1958-61. Inasmuch as the United States has not picked up what the other countries have lost. it is presumed that the EEC countries have advanced further along the path of self-sufficiency.

The present Common Market and the United States are the two leading trading areas of the world. Together they account for over half of the combined world export and import trade and almost half of the world agricultural trade.

The Common Market is the number one market in the world for United States farm exports. In fiscal year 1961-62 the United States shipped about $1.2 billion worth of farm products to the Common Market out of total farm product exports to all areas of the world amounting to $5.1 billion. The major U. S. commodities exported to the Common Market were cotton, feed grain, wheat and wheat flour, soybeans, and tobacco. Large quantities of lard, tallow, fruits, vegetables, meats (including poultry meat), hides and skins, rice, and other products were also shipped to the Common Market. Exports to the Common Market accounted for 23 percent of all U. S. farm product exports and 33 percent of U. S. exports of farm products sold for dollars in fiscal year 1961-62. Exports to Greece equaling less than 2 percent of total U. S. agricultural exports to the EEC, were mainly shipments under Goverment programs.

Besides being a major exporter of agricultural and nonagricultural products to the Common Market, the United States is also a major importer of products from the Common Market. The United States imported over $2.4 billion worth of commodities from the Common Market in fiscal year 1961-62, but had a net export balance of $1.2 billion.

The Common Market is not an important source for U. S. agricultural imports. Agricultural shipments to the 7 countries totaled $1.2 billion in fiscal 1961-62 and were over 4 times the value of agricultural imports from these countries. The value of agricultural imports from the Common Market was less than $300 million yearly during the past 5 years. Many of the imported products are specialty items which add to the variety of the American diet and contribute to the high standard of American living.

Recognizing that the countries constituting the Common Market represent an important outlet for agricultural exports, let us turn now to an appraisal of our prospective trade with this major area.

TRADE PROSPECTS

The United States Government is wholeheartedly supporting the development and further expansion of the Common Market as a means of strengthening both the peaceful tendencies of Western Europe and its economic and political position. An integrated Western Europe would be a powerful ally in the struggle between the free peoples of the West and the totalitarian powers of the East.

Whether or not U. S. agricultural exports will rise with economic growth and increases in per capita income in Common Market countries depends to a certain extent upon the implementation of the Common Agricultural Policy. As it now stands an important share, approximately 60 percent, of U. S. agricultural exports to the Common Market are likely to have a relatively favorable prospect in the future. These commodities will not be restricted by variable import levies, which are likely to be trade restrictive for certain U. S. agricultural exports. Principal commodities in the group that will be free of variable import levies include cotton, soybeans, tobacco, fruits, vegetables, lard, tallow, and expressed vegetable oils. Although escaping the variable levies, certain commodities such as tobacco, fruits, and vegetables will be faced with fixed levies. Many of these duties may be high enough to prevent expansion of U. S. exports or to reduce their access to the Common Market.

Of major importance in the Common Agricultural Policy is the system of variable import levies. These variable import levies were put into effect on July 30 against exports of feed grains, wheat and flour, poultry, and eggs to the Common Market from nonmember countries. U. S. exports of these commodities averaged 40 percent of total agricultural exports to the seven EEC countries during 1961-62. In addition to the variable import levies, there are also equivalent fixed levies on poultry and eggs.

The variable import levies are designed to offset the difference between world prices of commodities and the desired prices in the Common Market. This system promotes a policy of protection, self-sufficiency, and price equalization in the Common Market countries. Of the four commodities: Feed grains, wheat and flour, poultry and eggs on which the variable import levies have been imposed, there are two which account for most of the value of the total U. S. agricultural exports to the EEC subject to these levies. Wheat including flour and feed grains, which make up most of the U. S. surplus of agricultural commodities, account for 90 percent of the export value of the four commodities on which the variable import levies have been imposed by the EEC.

Short Term Impacts

The imposition of the variable levies has reduced significantly U. S. exports of several important commodities. Exports of the four commodities: Feed grains, wheat, wheat flour, and poultry and eggs shipped to the Common Market since August, the beginning of the imposition of the variable levies through January were 25 percent below the comparable six months in the previous year while U. S. exports of other commodities to the EEC not subject to the variable levies have declined by approximately 5 percent.

For wheat the variable import levy ranges from $ .69 per bushel in the Netherlands to $1.81 per bushel in West Germany. The West German levy is almost 100 percent above the U. S. export price of wheat.

Wheat flour exports are confronted with a variable import levy of $1.96 per hundredweight in the Netherlands—the principal EEC market for U. S. wheat flour. The Dutch levy is 46 percent of the U. S. export price of wheat flour.

Feed grain exports must overcome variable import levies ranging from $ .10 per bushel for corn in Italy to $1.25 per bushel in West Germany. Most of our increase in feed grain exports to the EEC has come about from the increase in exports to Italy. The $ .10 a bushel levy adds only 8 percent to the U. S. export price of corn.

Poultry, of course, is in the news also as an important U. S. export to the EEC that is being affected by a variable import levy. The EEC levy on poultry in West Germany—the leading EEC outlet for U. S. poultry meat exports—equals 12 cents per pound. As such it amounts to an added charge to the U. S. export price of poultry. This added charge increases the U. S. export price by 44 percent.

Smaller wheat flour and poultry and egg exports have reflected these higher import charges under the CAP. The variable import levy has been particularly effective in reducing shipments of wheat flour into the Netherlands. The decline in wheat grain exports from 1961's unusually high level reflected mainly an increase in European output in 1962. In effect, only part of the decrease in U. S. wheat exports to the EEC were brought about by the variable levy. Pork in the form of variety meat, on which the variable import levy was postponed, moved out in less volume in 1962 because more variety meats were available in Europe. Feed grain shipments were larger in response to Italian trade liberalization, lowered availabilities from competing suppliers, and possibly some anticipation of the dock strike in late December.

Among the non-variable levy commodities, increase in exports occurred for fruits, vegetables, and soybeans. The increases were not sufficient, however, to offset export declines for such major commodities as tobacco and cotton.

Long—Term Outlook

In addition to our interest in the short-term impacts of the EEC's Common Agricultural Policy on N. S. agricultural exports, we are equally concerned about the long-term outlook for U. S. agricultural exports to this major market.

Of particular interest is the long-term outlook for U. S. exports of grains, especially wheat and feed grains. Besides accounting for most of the value of U. S. commodities exported to the EEC on which variable import levies have been imposed, grain represents the Market's most important crop. Almost half of the EEC's total cropland is planted to grain. In addition, grain is the major input in the production of livestock products, especially pork, poultry and eggs.

EEC officials hope to set grain prices so that wheat and feed grains can be substituted freely both in livestock feeding and land used for production.

This practice differs greatly from that which we follow in the United States. In our country, for example, substitution of wheat for corn for feeding livestock is not profitable because of the price spread (the support price of corn is only 63 percent of that for wheat) and an abundant supply of feed grains. Also on the land use side, substitution of wheat acreage for feed grain acreage has been prevented by the acreage allotment progran.

The EEC selection of its common price for grains is as yet to be determined. The price level that is selected will be of major importance in determining the future volume of EEC imports of grain and livestock products, farm production, as well as the level of farm income and consumer prices in the EEC.

The selected EEC price level will likely lie somewhere between the low French level and the high German level. Prices would be more competitive, and EEC imports would be less restrictive than they would under the German price level. For wheat the French support level was $2.17 per bushel while the German level was $2.92 per bushel in 1961-62. Selection of the German level would encourage increased production from the less-efficient high-cost producers.

A study of the long-term outlook for Common Market grain policies was made recently by Dr. Elmer W. Learn of the University of Minnesota while on an assignment with the Economic Research Service of the U. S. Department of Agriculture. The study evaluated the Common Agricultural Policy of the EEC, among other things, and gave projections for Common Market imports of wheat and feed grains for the year 1970, when the agriculture policies of the Common Market will be fully unified.

The long-term projections reveal that the United States will likely suffer a decline in U. S. exports of wheat but has a more favorable prospect of maintaining its feed grain exports. The projections are not forecasts but rather serve principally as outlines of the relative magnitudes of possible future trade.

The EEC market for wheat will be restricted largely to quantity hard wheats for blending purposes. Quality requirements will become more stringent, because pressure, in terms of relative prices of domestic versus imported wheat, will be strong to use a maximum of domestic wheat. In the past, Canada has demonstrated a competitive advantage over the United States in this regard. As a result of the Canadian advantage the U. S. share of wheat imports into the EEC declined 32 percent in 1954-56 to 22 percent in 1959-61.

The United States has fared much better on feed grain exports to the EEC than it has for wheat. The United States accounted for 41 percent of total EEC imports of feed grains in 1959-61.

Projected U. S. sales of grain to the EEC have been made under alternative conditions—assuming that the U. S. share of EEC imports stays the same as in 1959-61. The alternative conditions range from the EEC policy based on the higher German price level to an EEC policy based on the lower French price level.

The higher German price level would tend to encourage EEC output and reduce total EEC imports to 3.4 million metric tons from the 1957-59 average of 11.4 million metric tons. On the other hand. the lower French price would have the effect of reducing the EEC expansion in grain production and thereby keep total EEC imports at 8.8 million metric tons.

U. S. exports of wheat to the EEC are projected under the alternative German and French conditions at 0.4 million metric tons under each condition as compared to U. S. exports of wheat to the EEC of 1.1 million metric tons in 1957-59.

U. S. exports of feed grains to the EEC are projected at 0.6 million metric tons under the German price level and 2.9 million under the French price level. The latter total is the same as U. S. exports of feed grains to the EEC in 1957-59.

The major impact of the EEC grain policy is expected to come about in France—the most important grain producer in the Community. In 1957-59 France had about two-fifths of the EEC grain area and accounted for approximately the same share of EEC grain production. France has the lowest level of prices and along with Italy is among the lowest in rank in the EEC in yields and the use of fertilizer. Further, significant areas of land in France currently idle, in grassland or fallow might be used for grain production if producers are provided the appropriate incentives. Estimates of the additional French acreage that might be devoted to grain range from 2 to 7 million.

CONCLUSIONS

The use of variable import levies and other import restrictions by the European Common Market will likely bring about a significant change in the U. S. agricultural trade pattern with this important area in future years. Restrictions on imports from nonmember countries are already being brought to bear to implement the EEC's Common Agricultural Policy. The restrictions on wheat and feed grains, accounting for 90 percent of U. S. exports of the 4 commodities subject to variable levies, along with the restrictions on poultry give rise to particular concern, as the Common Market area is the major dollar market for these commodities. However, it appears that the United States in the years ahead will remain a favored supplier of feed grains and quality wheat, neither of which can be produced in sufficient amount within the Community. Restrictions on wheat flour and poultry meat will likely reduce exports. The United States has negotiated, and will continue to negotiate, with the EEC to maintain favorable access to the growing EEC market. A stronger U. S. negotiating posture is possible under authority contained in the recently-passed Trade Expansion Act. Probably the most important facet of the European Common Market is that, with increased economic activity and higher standards of living, it will become a much stronger dollar market for U. S. agricultural commodities as a whole. Economically advancing countries have traditionally been the best dollar markets for U. S. agricultural products.

PROBLEM: IMPROVEMENT OF COLLEGE TEACHING OF AGRICULTURE

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Assumption No. 1

College teaching of agriculture can be improved.

Question No. 1: How can college teaching of agriculture be improved?

Question No. 2: Can college educational programs in agriculture be improved other than by improving instructions

- Objectives
- Curiculum
- Services to students
  - Counciling, advisement, organizations, etc.

Assumption No. 2

You, the agriculture teacher, are willing to "improve" your teaching.

Question No. 1: Are you able to do the job?
What about: subject matter.
Concern for students
Ability to inspire
Methods of teaching

Question No. 2: Do you have the tools you need?
Classroom
Library materials
Laboratory
Farm facilities
Audio-visual
Transportation for field trips
Lab Assistants

Question No. 3: Does your work load permit a "first class" job?
Do you have time and arrangements for:
Adequate preparation
Taking courses at own school
Sabatical leaves
Your own research program

Question No. 4: What are the criteria of excellence in these matters concerning improvement of teaching,

Question No. 5: Can NACTA establish such criteria, and would they be helpful to NACTA members?

Question No. 6: What studies, if any, should be sponsored or encouraged by NACTA at this time?