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however, much depends upon how much in SDRs is to be created, — a matter on which there has been great reservation. It may be as low as \$ 1 billion or \$ 2 billion a year. This would be meagre and would only give progressive assistance in a quite long term. On the whole question of the size of the SDR creation it is well to be prepared for trouble. The wran-

gles at and before Bretton Woods on the size and distribution of quotas were loud and prolonged. Nevertheless, once established, SDRs and the whole SDR scheme might grow progressively and with far less publicity and international friction than the periodic revision of Fund quotas which at this stage seems the only alternative.

## Common Market

# Britain and EEC — The Problem of Agriculture

by Dr Michael Schulz-Trieglaff, Hamburg

The attitudes of the EEC Member States as well as of the Commission show that Britain will have to accept the Common Agricultural Policy (CAP) as it stands, when joining the Common Market.<sup>1</sup> There is little doubt that serious problems will stem from adapting the principles of the CAP as evolved by the Six — a farm policy, which is entirely different from the current British agricultural policy.

### EEC Farm Policy

The two key elements of the Common Agricultural Policy are uniform price levels for agricultural commodities and the Community financing of support measures, for which the European Agricultural Guidance and Guarantee Fund (EAGGF) was set up by the Six. Uniform price levels are already established for cereals and will come into force for milk and milk products, beef and veal, rice, sugar, oilseeds and olive oil.

Trade in agricultural products between the Six is virtually free of any duties and quantitative restrictions, whereas a variable import levy is charged on imports from countries outside the EEC. The purpose of the variable levies is to neutralise effects of the difference in prices between the Community and the world market; the latter being on the whole lower than the common prices. The amount of the levy is adjusted to the world market price every day in the case of grains, fortnightly for dairy products and quarterly in the case of pork. Refunds on exports of farm products into third countries are the counterpart of levies on imports. They are paid at a rate at least equal to the levies imposed on similar products when imported.

Price-support arrangements for Community producers are dominated by target prices and intervention prices. Target prices are fixed for the marketing centre of the region with the least adequate domestic supplies for the wholesale stage (i.e. Duisburg, Germany).

<sup>1</sup> EWG-Kommission, Stellungnahme der Kommission an den Rat, betreffend die Beitrittsgesuche des Vereinigten Königreichs, Irlands, Dänemarks und Norwegens gemäß Art. 237 des EWG-Vertrages, 205 des EWG-Vertrages und 98 des EGKS-Vertrages, Brüssel, 29. Sept. 1967, Kom. (67) 750, p. 30.

They are not guaranteed prices. In order to keep the actual market price close to the target price, intervention prices are established, at which the Guarantee Section of the Fund will buy from producers without any restrictions. The intervention price (which is about 5—10 per cent below the target price) thus constitutes a guaranteed minimum selling price for producers. The producers receive the intervention price minus transportation costs to the intervention agencies.

The EAGGF is divided into two sections. The Guarantee Section is responsible for the cost of price-support on internal markets. It also covers refunding for exports to non-member countries. The Guidance Section contributes to expenditure on structural improvements. A third of the money for market operations is allocated to this section.

Contributions by the Six to the Fund's financial resources comprise a variable component, which amounts to 90 per cent of the levies on farm products imported from third countries and a fixed key scale as shown below:

Belgium	8.1 per cent	Italy	20.3 per cent
Germany	31.2 per cent	Luxemburg	0.2 per cent
France	32.0 per cent	Netherlands	8.2 per cent <sup>2</sup>

The Member States themselves are responsible for structural adaptation in agriculture. The Community only provides an active lead by co-ordinating the structure policies of the Six and by contributing to schemes for adaptation whenever they further the aims of the CAP.

### British Agricultural Policy

The basic principles of British agricultural policy are a virtually free entry of imports of most agricultural commodities (the only exception being horticultural produce) and the use of the deficiency payment system to support domestic producers. Guaranteed prices exist for the main agricultural products as wheat, barley, milk, sugar-beet, fat, cattle, eggs, and

<sup>2</sup> VO/130 EWG des Rates über die Finanzierung der gemeinsamen Agrarpolitik, Amtsblatt der Europäischen Gemeinschaften, Nr. 165, 21. 9. 1966.

potatoes. Deficiency payments are paid for any amount by which the average realised market price (which is more or less the free market price) falls short of the guarantee in a given period. The method of administration varies between products, but the principles are essentially the same.

"Farmers thereby receive, like farmers elsewhere supported ... better prices than they would in the free market and enjoy the benefits of being isolated from violent price fluctuations." The disadvantage of such an open ended scheme is "that Government is deeply involved in the transaction, and it has to find from its taxation revenue the wherewithal to support farmers".<sup>3</sup> The advantage of the British system is that it makes the cost of support clear. The subsidy bill was £ 270.6 million in 1967/68, including production grants which are only paid for specific purposes like structural improvements.<sup>4</sup>

Since the early sixties imports of butter and bacon are controlled by quota arrangements and minimum import prices and compensatory levies are in force for cereals. For domestic producers a system of standard quantities was introduced. If home production exceeds the standard quantity, the deficiency payments are reduced. All these arrangements aim at limiting the inflationary effects of the open ended scheme of British agricultural support on the subsidy bill. By doing so they necessarily lead to higher prices and a rise in the national food bill. In that way there has been some disenchantment with the traditional cheap food policy.

### Effects on Farm Incomes

When adapting to the different price structures for farm products and inputs as set by the CAP, the distribution of incomes in British agriculture is likely to change considerably. The already existing gap between incomes in different types of farming will be broadened since higher incomes will increase further while lower incomes will decrease or at least increase less.

**Farm Incomes in England and Wales, 1965**

Type of Farming	Average Size (acres)	Net Income (£ per farm)
Dairy	107	1,608
Livestock	160	1,286
Cropping	235	2,936
Mixed	204	2,226
Pigs and Poultry	79	1,694
Horticulture	30	1,538
All Types (excl. Horticulture)		1,889

Source: Ministry of Agriculture, Fisheries and Food, Farm Incomes in England and Wales, 1965, London 1967, Annual Review and Determination of Guarantees, 1967.

The above table shows that cropping and mixed farming (70 per cent livestock, 30 per cent cropping) have the highest incomes in British agriculture. Income in both types of farming is likely to grow under the arrangements of the CAP.

<sup>3</sup> McCrone, G., The Economics of Subsidising Agriculture, London 1962, p. 47.

<sup>4</sup> Annual Review and Determination of Guarantees, 1967, p. 38/39.

Although it is impossible to make a precise assessment, since target prices and intervention prices to be fixed for Britain are unknown at present, there will be an appreciable increase in income in cropping. Calculated on the basis of intervention prices for Rotterdam the increase in sales will be about 40 per cent for wheat and 25 per cent for barley, on the basis of target prices fixed for Duisburg 46 per cent for wheat and 31 per cent for barley. The actual increase will depend on whether farmers realise the target or intervention price.

Cost increases are on the whole unlikely. Fertilisers for which the subsidy will probably have to be abolished under the existing EEC regulations amounts only to 9.2 per cent of total input costs. Labour costs making up for another 25.2 per cent will remain fairly stable, as they already rank among the highest in Western Europe. Costs of machinery and power (21 per cent) might decrease, if the highly protective British tariffs are abolished.

Whereas the average amount of production grants (excluding the fertiliser subsidy) was £ 254 per farm in 1964, cropping farms received just £ 100.<sup>5</sup> It is not yet possible to assess with certainty which of the production grants provided by the British government will be incompatible with the CAP, because precise criteria still have to be established. Under the current rules all grants tied to specific products in a way to effect the prices of these products are incompatible with the aims of the CAP. On this basis, cropping farms might lose about £ 60 per farm.

On the whole the outcome for cropping farms, especially those growing barley and wheat will be rather favourable. Shifting to wheat and barley is profitable and production is likely to increase considerably, e.g. by ploughing grassland. The British Farmers' Unions calculated, in the context with the National Economic Development Plan, that it was technically feasible to expand cereals production by 4.75 million tons between 1964 and 1970.<sup>6</sup> There is little doubt that cereals production will continue to expand even more significantly on the basis of the incentives provided by the present EEC price levels. An expansion of the present production of 13.5 million tons (1966/67) by some 4 million tons seems to be a realistic assessment leaving an import requirement of about 1.2 million tons of wheat and a surplus of barley of about 0.5-1 million tons which can be exported to Member States or third countries.

### Prospects for Livestock

Prospects for livestock, having at present the lowest income per farm (although there are great fluctuations in income between different sizes of farms), are less favourable. The EEC guide-price for cattle is some 30 per cent higher than the British guaranteed price in 1967/68. Since the guide-price is

<sup>5</sup> Ministry of Agriculture, Fisheries and Food, Farm Incomes in England and Wales, 1964, London 1966, p. 38.

<sup>6</sup> National Farmers' Union, British Agriculture and the Common Market, London 1966, p. 10.

protected by customs duties supplemented, when necessary, by variable import levies, market prices should be equal or above the guide-price so long as even an enlarged Community will not be self-sufficient. Imports from third countries will be subject to common external tariffs of 20 per cent. As Britain imports about 55 per cent of its requirements returns on mutton and lamb are likely to increase.

On the other hand feed costs for cereal-based feed will grow up because of higher common grain prices. Self-grown feed will be more expensive, too, as present acreage payments cannot be kept under the CAP. Furthermore, livestock farms will also incur heavy losses from lower production grants. At present they receive grants of some £ 500 per farm which is about one quarter of their net income<sup>7</sup> — a proportion which is even higher in the case of small hill farms in Scotland and Wales. Under the EEC rules they might lose the calf, hill cow and hill cattle subsidies, i.e. about £ 300 per livestock farm.

There is little doubt that the large amount of small inefficient livestock farms will be placed in jeopardy under the CAP. Many of the small farms will be forced to go out of business. As small livestock farms are mainly concentrated in certain areas, the Government could tackle this problem of adjustment by working out regional development planning for which the EAGGF provides assistance of 25-45 per cent of the actual cost. Provided this is going to happen, beef production will be increasingly concentrated in the hands of efficient large-scale livestock farms.

It is doubtful whether British farmers can realise the target price for milk which is roughly equal to the present pool price of the Milk Marketing Boards export, as no support measures on the liquid milk market exist. Feed costs on the other hand, making up for pork there are no intervention measures under because of higher grain prices.

#### Small Farm Holdings

The abolition of production grants will affect dairy farms less than any other type of farming, as dairy farms get on average just £ 898 per farm. If the calf subsidy is incompatible with the CAP regulations, they will lose £ 39 per farm.

Profitability will be reduced in dairy farming by higher feed costs, lower subsidies and probably lower returns in liquid milk. Lower profitability and greater price fluctuations are most likely to decrease the number of small holdings in dairy farming (at present about 30 per cent of the total dairy herd is kept on small farms) and simultaneously increase concentration. Nearly the same holds true for pig and poultry production which to a large extent comes from small farms. With the exception of a basic price for pork there are no intervention measures under the CAP. It is therefore particularly difficult to assess price changes for British producers. On the basis of

<sup>7</sup> Ministry of Agriculture, Fisheries and Food, *Farm Incomes in England and Wales, 1964*, London 1966, p. 38.

recent price levels returns on poultry will increase by 50 per cent, whereas returns on pork and eggs will remain unchanged. Producers are thus faced by a twofold problem. Uncertainty about future prices, which are most likely to be less stable than the guaranteed prices and higher costs of cereal-based feed, which amounts to about 70 per cent of total input costs. There is hardly any doubt that concentration in pig and poultry production will be further increasing.

Effects of the CAP on British horticulture stem mainly from the fact that tariffs and quantitative restrictions on imports from other members of the Community will be removed. Tariffs will be charged on imports from third countries but advantages for British growers will be limited since competition from within the EEC is stronger than from outside.

Horticultural holdings in Britain are on the whole smaller than in other countries of the Community. Growers in Italy have cheaper labour force and like the French climatic advantages. Dutch growers, being very near to the main British markets, are higher specialised, better organised in co-operations and have a superior advisory service.

As profitability of small holdings is likely to decrease considerably smaller inefficient growers will be squeezed out. Nevertheless the highly efficient growers will ensure that a substantial domestic industry remains in existence though much depends on the various improvement schemes for the horticultural industry which the Government worked out during the last years.

#### Effects on the Cost of Living

Although it is clear that higher producer prices in the EEC will lead to an increase in the cost of living it is almost impossible to make a precise assessment, as much depends on how food processors and retailers mark up their prices. According to the Government the increase in the cost of food might lie within the range of between 10 and 14 per cent, which is equivalent to an increase of 2.5 to 3.5 per cent in the cost of living. The estimate is based on the assumption that world prices as well as EEC prices remain unchanged. According to Mr. Warley retail prices of food would rise by some 8 per cent, giving an increase in the cost of living between 2 and 2.5 per cent.<sup>8</sup>

A comparison between retail prices of selected consumer goods (covering 69 per cent of total expenditure on food in Britain in 1965) shows that food prices in 1965 were on average 28 per cent higher in EEC countries than in Britain, when weighted with the British pattern of consumption.<sup>9</sup> This figure can be interpreted as a rough estimate of the likely increase in the cost of food in Britain when joining the EEC if the following assumptions are made:

□ The implementation of common prices in the EEC

<sup>8</sup> Warley, T. K., *Agriculture: The Cost of Joining the Common Market*, London 1967, p. 45.

<sup>9</sup> For further details see Schulz-Trieglaff, M., *Großbritannien als Mitglied der EWG—Konsequenzen einer Integration des Agrarsektors*.

is without any influence on the cost of food in the Six. Assessments made by the Commission show that the effect is negligible.

The price level in the EEC countries as well as in Britain does not change until Britain joins, which is unlikely, but no reasonable assessment is possible.

If Britain joins consumer prices adapt to the EEC level. Common prices for the wholesale stage will be nearly the same in all member countries, although the price system for Britain still has to be fixed. Increased competition can force British processors and retailers to adapt their margins if these are higher than in the Community. If, on the other hand, British processors and dealers are more efficient than those on the Continent, the outcome is quite uncertain.

The British pattern of consumption does not change. There is hardly any evidence for this assumption because demand for certain products is most likely to decrease with increasing prices.

The food items not included in the above calculation (products for which no common prices exist) also increase by 28 per cent. On most of these products the common external tariffs is imposed, but its effect on consumer prices is uncertain.

In view of these uncertainties, the estimated increase in the cost of living of about 7 per cent can be taken as no more than an indication of order of magnitude.

#### Cost to the Balance of Payments

The effects of applying the CAP on Britain's balance of payments would consist of the following elements, which can be grouped under price- and production-effects:

##### Production-effects:

Increase in domestic agricultural production which leads to a reduction in import requirements.

Increase in British exports of agricultural products into the Community and/or third countries.

Increased self-sufficiency of an enlarged Community which might lead to disruptions of the trade and economies of traditional British trading partners and thus affect British exports.

##### Price-effects:

Levies on imports from third countries. 90 per cent of the revenues will have to be paid into the EAGGF guarantee section.

Increase in expenditure on imports from member countries.

Higher wages as a result of the increase in the cost of living and the abolition of the Commonwealth-Preference System might lead to higher export prices and thus to a reduction in British exports.

Any assessment of the likely balance of payments cost for Britain of applying the CAP must be based on these effects. In order to get the total cost to the balance of payments budgetary contributions to the EAGGF have to be added to the above cost. It will be

clear that an accurate estimate of the cost to the balance of payments cannot be obtained because of the impossibility of getting the necessary data.

There is little doubt, however, that as Britain is a large food importing country there will be a substantial net outflow of foreign exchange. If, for instance, an increase of domestic butter production by some 40,000 tons and domestic cheese production by some 30,000 tons is assumed, the additional cost to the balance of payments for imports of dairy products from within a self-sufficient EEC might amount to DM 1,420 million as compared with 1965.

#### Imports of dairy products 1965 and after joining the EEC

(DM million)

	1965	After joining*
butter	1,646.4	2,820.0
cheese	451.4	698.1
total	2,097.8	3,518.1

\* Import requirements, butter 400.000 tons, cheese 130.000 tons.

If, on the other hand, higher grain prices lead to a substantial expansion of domestic production, the cost to the balance of payments might be even lower than in 1965. The savings might lie within the range of between DM 163.9 million and 750.4 million.

#### Imports of grain crops 1965 and after joining the EEC

(DM million)

	1965	after joining	
		I. 1	II. 2
wheat	1,282.0	410.0	820.0
barley	79.5	— 353.0 3	— 176.5 3
maize	860.0	1,414.1	1,414.1
total	2,221.5	1,471.1	2,057.6

1 Wheat imports 1 million tons, barley exports 1 million tons.  
2 Wheat imports 2 million tons, barley exports 0,5 million tons  
3 exports.

A calculation by the British Government shows that the net cost to the British balance of payments of applying the CAP regulations as they stand might lie within the range of between £ 175 million and £ 250 million including budgetary contributions.<sup>10</sup>

The Commission has stated that Britain's contribution to the EAGGF might amount to some £ 265 from levies, which is about 50 per cent of all contributions from levies and to some £ 290 in all, which again is about 45 per cent of the total expenditure of the EAGGF. These figures are obviously too high as they do not consider trade diversion effects and the likely increase in domestic production.<sup>11</sup>

Nevertheless, Britain will be the largest single contributor to the cost of the EEC farm policy, even if repayments from the EAGGF like export subsidies and assistance for structural improvements are taken into account.

<sup>10</sup> Ministry of Agriculture, Fisheries and Food, The Common Agricultural Policy of the EEC, London 1967, p. 20.

<sup>11</sup> EWG-Kommission, Stellungnahme der Kommission an den Rat, Brüssel, 29. Sept. 1967, Kom (67) 750.