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Changes in the Common Agricultural Market

Interview with Dr Hans Dieter Griesau, State Secretary in the Federal Ministry of Food, Agriculture and Forests, about past and future developments in the EEC's agricultural market.

Mr State Secretary, it has been possible to overcome last year's crisis of the international currency system. Which will be the effect of the Washington decisions on the Common Agricultural Market?

To produce an answer to this question, it is necessary briefly to recapitulate the results of the so-called Washington decisions. On December 18, 1971, the Club of Ten agreed in Washington to fix new rates of exchange for the most important currencies of western industrialised countries. However, these new rates are not yet binding upon members of the International Monetary Fund, in the legal sense of the IMF's rules and regulations. To become new *de iure* parities, they must be registered with the Fund. Up to now, the countries involved use them since December 20, 1971, only as *de facto* rates, also known as "median" or "central" rates of exchange. The legal distinction made by me is of fundamental importance.

What these decisions on currency relations mean for the Common Agricultural Market is in no way different, in principle, from the past effects of the DM and the Dutch guilder floating since May 10, 1971. Farm prices have been fixed in Accounting Units (AU), and so have import levies, export reimbursements, etc. These are accounted for, as in the past, at the former rates of exchange, which are registered with the IMF. However, any cheapening of imports into the Common Market area through actual deviations of currency values from registered rates, and any decline of market prices below the level of farm prices fixed by the Council of Ministers of the European Communities, are being prevented by the system of frontier equalisation levies.

Since it has been agreed in Washington to devalue the dollar, also the French and Italian currencies have now changed their former rates of exchange against the dollar. And therefore the

system of frontier equalisation levies, which applies to Germany and the Netherlands from May, 1971, on, has been extended to France and Italy from January 3, 1972, on. The Community was enabled to do this because the said rates of exchange exist only as *de facto* ones, for the time being, and this permits the continued application of frontier equalisation levies. A European Community decree makes a meeting of its Council of Ministers mandatory within three days after the currencies of the Six are upvalued also *de iure* through registration of the new exchange rates with the IMF, to make the required adjustments.

US-EEC Trade Talks

The Americans were willing to devalue the dollar only on condition that the EEC makes certain concessions, mainly in the field of farm produce. Which kind of concessions was the EEC prepared to make to the USA?

The Council of Ministers had authorised the EEC Commission to negotiate with the United States on behalf of the Common Market. These negotiations have dealt chiefly with problems of agriculture — meaning problems of the commodity trade between the Common Agricultural Market and the USA. Both the Council of Ministers and the Commission agreed that no change in planned price rises for grains within the EEC should be conceded to the USA.

Recently, difficulties in the negotiations largely focussed upon a single grain species — corn (maize). Other questions mainly referred to citrus fruits, tobacco, etc. This was, naturally, important for the southern part of the EEC, where such crops are being grown, but not for the Federal Republic of Germany.

As to the “mountain of grain” which the EEC should create, the demands by the Americans have recently been mitigated considerably. Both parties have agreed that the EEC-stockpile should be increased by between 1.5 and 1.7 mn tons.

Difficulties without Monetary Union

Partly because of the currency crisis, the European Economic and Monetary Union, to which such great hopes had been attached, seems to have seen its demise. But is not, at least, a common cyclical and monetary policy of the EEC an essential condition for smooth operations of the Common Agricultural Market?

I disagree that the European Economic and Monetary Union has given up its ghost. Admittedly, there has been delay, and the agreed timetable of March 1971 (the graduated Werner Plan) could not be adhered to. But it

is precisely the monetary decisions of Washington which have proved the necessity to make even stronger efforts to transform the existing Community into a true economic and monetary union. Already on January 12, 1972, the Commission has submitted to the Council new proposals to continue interrupted progress and to pass the decisions provided for by the Graduated Plan for economic and monetary union.

A long time ago already, the Federal Government has decided to opt for the creation of an economic and monetary union as an essential foundation for the smooth operation of the Common Agricultural Market.

Accounting Unit

You are right, but it will be a long way to its becoming operative. Are there any other chances for obviating recurrent troubles in the markets for farm produce?

Fundamental troubles were caused by tying farm prices to an Accounting Unit which has always been based on the dollar and its gold contents. Such crises will be unavoidable always when new rates of exchange are fixed between currencies. Economic theory and economic experts have now acknowledged that parity changes must be expected in regular intervals of a few years. The present system of agreements on farm prices is in no way able to withstand a policy of this kind, which entails frequent shifts in exchange rates, and such shifts will always reproduce stresses and strains.

The Research Advisory Council of the Ministry is still in the process of thinking how such troubles could be avoided. We are not yet able to offer a fool-proof solution to this problem.

But we must be clear about one thing: what our farmers' associations frequently demand—fixing of farm prices in national currencies—is politically simply unworkable, for it would imply dismantling of the common market for agriculture, and our partner nations would, without doubt, see in such measures its wilful destruction. No Minister of Food and Agriculture, no Minister of Economics, no government, no matter what its political makeup or colour, could ever be prepared to agree to such a policy.

Do you think that the present frontier equalisation levies could become a permanent feature of the EEC's agricultural market, and do you see in them a contribution to overcoming the ever threatening crisis of farm produce markets?

Frontier Equalisation Levies

I agree with our Federal Minister of Economics and Finance, Professor Schiller, that the system of frontier equalisation levies might be usefully adopted as a permanent feature. The levies could be used as a long-term measure, because since they are in force, it can be seen that no change in trade flows has occurred. The free exchange of goods across frontiers has in no way been hampered or obstructed, which means that we have adhered to the prescriptions of the EEC Treaty as the basis of the Common Market.

Economically, therefore, it would be easily possible to stick to this system, but it is highly questionable whether it would be accepted politically. It is likely that our partners would see in its permanent adoption a violation of the spirit of the Common Market, leading in the long run to its disintegration, unless we accept that frontier levies will be collected only for a limited time and

on a declining scale. In other words, we would have to plump for a kind of procedure which has been used once already for two years in the past, after France had devalued its currency. Yet I make free to doubt whether frontier equalisation levies collected for two years only could be of any help to our farmers in mastering their difficulties. Such a short period of assistance is worthless, because its very brevity prevents revaluation of prices from bringing farming the benefits that could perhaps be expected — and we can prove that this is so from our experiences after the 1969 revaluation of the DM.

Double Function of Prices

The common agricultural policy rests on the assumption that its policy on prices is to regulate both incomes and the equilibrium of the market. Does it not make more sense to release farm prices from having this double function, as was suggested by the Federal Chancellor Brandt already during the summit conference in the Hague.

Common agricultural policy has been mainly restricted to marketing and price regulating measures in the past. To extend, as it will be necessary, the policy of the Community to structural, social, educational and regional measures has been decided upon in principle by the Council, when it sat on May 25, 1971. Details of this are being discussed in Brussels.

It will be necessary to supplement present common agricultural policies in that way. Individual member states, though to a different degree, have already been embarking on many such measures within their national frontiers. These are designed to boost the economic strength of rural areas and to improve farmers' and farm wor-

kers' incomes. Over and above that, the development set in train by these measures is to create equilibrium of supply and adapt production to demand. Only after this policy has been crowned with success, will it be possible to reexamine the double task of agricultural prices. However, the intention to regulate incomes will always play a decisive part in forming price policy.

Structural Reforms

In 1971, fundamental decisions have been adopted in Brussels about agricultural reform, and these are now leading to detailed new prescriptions. What progress has already been made?

Based on that decision, the Commission has worked out several guiding lines dealing with numerous partial aspects of the problem, which had already been named in the decision. Several meetings of the Council of Ministers have been discussing these structural proposals, but it was found that by far the most difficult point at issue—similarly as it has been nationally—has been the definition of full-time occupation in a farm unit, because such units would have to be supported from the joint Community Fund. The question arises which part of farm policy is to be left to be regulated nationally by individual governments. This is of eminent importance for Germany, because we, for our part, intend to carry out deliberately planned and important support measures. During these meetings of the Council, it could be seen that the conflicts of interest were still very wide.

Will we see, in the future, more fundamental changes of the structure of farming, and which are the conditions for such shifts to be carried out?

Without doubt, very drastic structural changes will have to be initiated wherever there is overemployment of agricultural labour. Yet, to introduce such changes, it is not only an efficient social policy which has to be devised but there must be alternative employment for the younger generation. To offer them training and new jobs, the infrastructure of certain areas within the Community must be modernised. This is why regional economic and structural agricultural policies in the Community are but two sides of the same medal. Consequently, we shall be obliged to give support to the two fields of endeavour and to cause progress to be made by them within the Community.

Through the accession of new member states, it may be possible to instil new energies into this process, because the UK and Denmark are in the lucky position of having optimal structures of farming, which increases the scale of differentials between member countries. But the process of improvement has started both through the Community and within individual states many years ago. That there is now a Community in being has led to accelerated and intensified progress.

Relations with Commonwealth

Negotiations with the new applicants for membership have recently been completed. Will not especially the association with the states of the British Commonwealth lead to strong shifts in the agricultural structure of the six original member countries?

Treaties of accession to the Community have been signed on February 22, 1972, with the United Kingdom, Denmark, Eire and Norway, and this leads to the expectation that all these countries will enter the Community as

full members, as foreseen, by January 1, 1975.

Relations between members of the Commonwealth with the UK will thereby be greatly changed: up to now, they belonged to a zone of preferential tariffs, whose origin was historical, but in the future, they will be treated as third-party countries. Without doubt, this will generate many difficulties for them, especially for those countries which largely depend on commodity exports, and whose products have a long tradition of being marketed mainly in Britain. The Community does not ignore these difficulties, and that is why it tries to help these countries to achieve adequate solutions for them, so that they do not drop into a void with their trade.

It has been agreed for New Zealand to continue to export much of its butter and cheese to Britain under specially-favoured conditions: up to the close of 1977, New Zealand will be allowed to ship 80 p.c. of the present quantities of butter and 20 p.c. of the cheese which it sells now to Britain to market there.

Furthermore, sugar producers among Commonwealth countries, whose sugar sales were hitherto guaranteed by agreement up to a maximum of 1.7 mn tons (including the Australian quota) at regulated prices, will continue to sell adequate quantities to the UK. But shipments which are so guaranteed will be earmarked exclusively as supplies to the British market, and they will not

directly influence markets in other Community countries.

GATT-Negotiations on Agriculture

The Community's growth will necessitate new GATT negotiations. Do you believe that it may be possible to include agriculture in worldwide trade liberalisation through these talks?

GATT rules provide, in cases of extended customs unions, for negotiations on compensation — e.g. in the case of Britain, because British import levies, which have been tied down to the lower GATT level, may have to be raised after Britain's entry into the EEC. The Community must offer compensation for this, but not necessarily in the markets for farm produce.

The Community has also promised, in order to help overcome the effects of the monetary crisis in the USA, to start comprehensive talks on facilitating world trade. I am sure that the field of agriculture will have to play an important part in these negotiations. However, all-embracing GATT negotiations about trade treaties require careful preparation. The first thing that has to be done is to agree on methods, guidelines, and aims of negotiation. GATT members have already taken the first steps to this end.

And what chances do you give such negotiations for reaching practical and practicable success?

Useful predictions about the possible issue of such talks are of course exceedingly difficult. When the last multilateral trade negotiations, under the Kennedy Round, took place, we saw the talks about farming resulting, apart from some other results, in certain tariff cuts. But these reductions were much more modest than those for industry. Conflicting interests, as you know, are omnipresent in all farm produce markets. And I would not be surprised if, during worldwide negotiations about some products, both the USA and the EEC might suddenly find themselves in the dock as defendants, many other countries pointing accusing fingers at them.

When such negotiations start, it will certainly be necessary to pay attention to potential counter-offers of other negotiating partners. If other negotiating partners are prepared to throw open the doors to their own agricultural markets which are no less strongly-protected, much more widely to imports, and if, for example, the USA could find it in its heart to renounce the exceptional GATT permissions granted to it without limits of time or scope, I am certain that the EEC, too, would be willing to make wider concessions. There could also be chances to liberalise trade for tropical crops, since the EEC is not interested in protectionism for them. But in this case, the interest of its African associated states must not be hurt.

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