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# EC Policy and Developing Countries

by Dr Dietrich Kebschull, Hamburg \*

**The EC's Common Agricultural Policy (CAP) tends to restrict imports of farm produce to that part of demand which is not met by domestic production. The author analyses nature and extent of the problems arising therefrom for the LDCs that are heavily dependent on exports of agricultural goods.**

**T**he Common Agricultural Policy of the European Community is one of the foundation stones upon which European integration is to be built. On the other hand, a common development policy can be said to exist only in disjointed bits and pieces, which adumbrate a future design, including the European Development Fund, association and preference treaties with the former French colonies and the countries of the Mediterranean littoral, as well as general preference rules. In view of the rigid attitude shown by the French Government, which is opposing that of the other Community countries by insisting that associated countries only be included, Community development policies are most likely to remain stuck, for quite some years to come, in the stage of measures taken by member states individually.

## Conflicting Aims

As an overriding purpose, binding upon all the member states of the Community, and underlying all development policies of the EC, the improvement of economic and social conditions in the countries of the Third World may be described. Within this policy, improving the standards of living, especially among the poorest elements of the population, must have top priority. This — slightly modified — main aim for economic growth is supplemented by several more objectives the most important of which are the increase of gainful employment and the strengthening of the balance of payments, with attendant maximisation of price stability.

At the present time, from about half to four fifths of all employed persons in LDCs are active in

farming (see Table 1), and since a fundamental transformation of LDCs' economic structure cannot be expected in the short term, farm production and the export of farm produce play the dominant part on the way towards the stated objectives. Individual EC countries, therefore, in their development policies, endeavour to meet this need. But the chances open to both LDCs and development policies are heavily dependent on the CAP of the Community.

**Table 1**  
**Persons Employed in Farming in Selected Regions**  
(in p.c. of total employment)

Latin America	45
Far East	65
Middle East	70
Africa	77
European Community	6
United States	5.7

Source: FAO Production Yearbook 1970, p. 24.

Whilst the building bricks of development policies are to be found mainly in the field of foreign trade and foreign relations, CAP's principal aim is the protection of the Community's own, narrower interests. The CAP's main purposes are the parity between farming and other incomes and the maintenance of stable markets for farm produce. But even if there were watertight protection against outside interference, the CAP's several own aims would be in conflict with each other, because trying to obtain parity of incomes compared with other sectors of the national economy by manipulating prices only, high prices which would be

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fixed as a support to high incomes must inevitably lead to overproduction and oversupply of farm produce, which could only be obliterated by destroying and/or stockpiling of food, and by subsidised exports to non-Community countries and/or the granting of free gifts of food to LDCs that are at risk from starvation of their populations.

The acuteness of this conflict within the CAP would only be made keener by possible imports of farm produce into the Community area. To counter rising oversupply and a growing imbalance in farm markets, the EC has to take refuge in crass protectionism, through protective import duties, similar import levies, physical controls (import quotas, etc.), and market regulations.

This being so, it is almost one of the staidest of truisms that conflicts of interest must arise between a development policy aiming at developing a modern agriculture directed towards high exports of farm produce, on the one hand, and a predominantly intra-EC oriented internal CAP in favour of a distinct economic grouping on the other hand. In this context, problems will arise for LDCs not only from imports of goods into the EC area being hindered but also through EC countries subsidising their own exports of farm produce to extra-EC countries, which preempt potential foreign currency earnings of farm produce suppliers from LDCs, which would otherwise help to accumulate much-needed development capital.

### **Imports Regulated by Market Organisations**

Hopes harboured by LDCs about vigorous growth of their own agricultural exports to the area of the Common Market have been sorely disappointed, as can be seen from the fact that the volume of imported farm produce from LDCs, expressed in percentages of total Common Market imports of farm produce, dropped from 36.6 p.c. in 1963 to a mere 29.2 p.c. in 1970. How serious this development is comes out even more clearly in the fact that total Community trade (in respect of non-Community countries) with farm produce, over the period, grew only by 32.6 p.c. and thus was far less dynamic than total external trade of the Common Market towards non-Community countries, which rose by 84.9 p.c. This is a strong challenge to the advocates of a deliberate export strategy in the whole Third World.

In this connexion the most slashing criticism is directed against the Community's market regulations by which farmers are screened against any outside competition with the utmost strictness and through measures which are truly germane only to controlled economies under central ad-

ministration. This is where deliveries from LDCs to the EC only developed a growth rate of 11.7 p.c. in 1963/70, which was far less than the simultaneous — already very modest — overall growth of farm produce imports of the European Common Market, that reached 32.6 p.c. The LDCs' share in total Common Market imports thus was depressed from 31.3 p.c. to 19.9 p.c.<sup>1</sup>

Trade in produce subject to EC-market regulations does not, in the main, deal with goods of which LDCs themselves are short (so that their non-existent or scarcely existing exports could not be interfered with), for the produce so manipulated consists mainly of beef, veal, pork meats, rice, bread and coarse grains, sugar, wine, tobacco, vegetable and animal fats and oils, milk and dairy products — all of which taken together represented, in 1970, approximately one full third of LDCs' agricultural exports, and 11.5 p.c. of LDCs' total exports. Countries most grievously

**Table 2**  
**Contributions of LDCs in Supplying the EC's Import Demand\* for Individual Products by Market Regulations 1963 and 1970**  
(in p.c. of total imports)

	1963	1970
Live pigs, pork meat, etc.	6.37	4.80
Bread and coarse grains, manufactured and processed grains, etc.	23.57	18.53
Fruit and vegetables, fresh and chilled	30.08	18.12
Eggs	5.01	0.52
Poultry, poultry meat, etc.	0.49	0.98
Wine	57.08	27.15
Rice	57.74	34.49
Dairy products	0.19	0.01
Beef cattle, beef and veal meat	12.47	13.82
Vegetable and animal oils and fats	54.87	37.50
Sugar cane, sugar beet, raw and refined sugar	52.31	32.01

\* Import demand consists of intra-Community trade and imports from extra-Community countries, taken together.

Source: Statistical Office of the EC, Monthly Statistics.

affected by the market regulations are those of Latin America, including Uruguay, the Argentine, and Paraguay, more than half of whose export earnings come from such goods, and some countries of the Mediterranean littoral.

### **Discouraging Effects**

The LDCs' — already limited — sales chances will show a further decrease, due to the growing volume of intra-Community trade. A changeover to vertical diversification within the exporting countries, which usually can be recommended, is prevented by the market regulations, as soon

<sup>1</sup> All figures derived from Statistical Office of the EC.

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as there appears a threat to the Community's own productions. It can hardly be denied that

☐ several countries' export possibilities are already now restricted by the market regulations and that

☐ in view of the highly protective measures of the EC, countries where good conditions for the development of corresponding productions are existing, do without their establishment or intensification, respectively.

Ostensibly, the strict principle of the market regulations has been softened up, particularly in recent years, by the Community's association and preference policies towards African and Mediterranean countries, but it must never be forgotten that all of these special favours granted to such countries are severely limited in scope and are offered always with the reservation that they do not "interfere with market equilibrium". Moreover, preferential treatment being extended to a few selected countries situated in the immediate economic sphere of influence of the European Community makes it even more difficult for the remaining LDCs (especially the Latin American ones) to gain access to the Common Market. In spite of all the undoubted advantages accruing to preferred countries by these special favours, market regulations as an instrument of economic policy must be condemned from the point of view of worldwide development policy geared for growth as harshly as subsidised exports.

### Commodity Imports

But of far greater importance for total export supply by LDCs than farm produce subject to EC market regulations are, and always were, industrial and agricultural raw materials.

The main causes of this development are:

☐ the one-sided growth of single-crop plantation economies under the rule of these countries' former colonial masters;

☐ "comparative advantages" of such commodity exports because of the climate and natural environment in such countries;

☐ the fact that people wake up relatively late to the need for accelerated economic diversification. However, closer inspection of the conditions of world trade reveals that almost all industrial raw materials are allowed to enter industrialised countries free of import duties, and that trade barriers against imports of tropical agricultural raw materials from AASM countries are relatively low.

That associated and non-associated states are being treated inequally in these markets is not

**Table 3**  
**Main Export Products of Selected LDCs and Their Contribution to Total Exports, 1971**

(in p.c.)			
Country	Main Export Products	Their Share In Total Exports	Combined Share in Total Exports
Egypt	Cotton	60.0	60.0
Ethiopia	Coffee	55.8	55.8
Equatorial Africa (Chad)	Cotton	67.5	67.5
Afghanistan <sup>1</sup>	Dried Fruit	32.4	
	Karakul hides	16.9	
	Cotton	20.6	69.9
Algeria <sup>2</sup>	Crude Oil	66.0	66.0
Argentina <sup>1</sup>	Meat	26.8	
	Coarse Grain	12.0	
	Wheat	8.6	47.4
Bolivia	Tin	48.6	48.6
Burma	Rice	48.5	
	Teakwood	22.6	71.1
Burundi	Coffee	79.7	79.7
Ceylon (Sri Lanka)	Tea	58.8	
	Rubber	15.8	74.6
Chile <sup>1</sup>	Copper	73.0	73.0
Dominican Rep.	Sugar	57.2	57.2
Ecuador	Bananas	51.1	51.1
Gambia	Groundnuts	92.5	92.5
Ghana <sup>2</sup>	Cocoa	68.0	68.0
Haiti	Coffee	42.8	
	Bauxite	13.6	56.4
Honduras	Bananas	51.0	
	Coffee	12.3	63.3
Indonesia	Crude Oil	45.5	
	Rubber	16.1	61.6
Iran	Crude Oil, Oil products	87.5	87.5
Iraq	Crude Oil, Oil products	95.8	95.8
Jamaica	Alumina	38.2	
	Bauxite	26.6	64.8
Colombia <sup>2</sup>	Coffee	60.8	60.8
Libya <sup>2</sup>	Crude Oil, Oil products	99.6	99.6
Nigeria	Crude Oil	71.0	71.0
Pakistan	Jute, jute goods	28.4	
	Cotton	11.9	40.3
Panama	Bananas	56.2	56.2
Paraguay	Meat	31.9	
	Timber	16.0	
	Oilseeds	12.5	60.4
Peru	Fish meal	31.1	
	Copper	19.1	50.2
Rwanda	Coffee	50.3	50.3
Sierra Leone	Diamonds	58.6	58.6
Somali	Living animals	49.9	
	Bananas	26.0	75.9
Sudan	Cotton	61.1	61.1
Syria	Cotton	42.2	42.2
Trinidad and Tobago	Crude Oil, Oil products	77.3	77.3
Tunisia	Crude Oil	25.4	
	Olive Oil	21.2	
	Phosphates	18.8	65.4
Uganda	Coffee	52.9	52.9
Uruguay	Meat	33.8	
	Wool	31.4	65.2
Venezuela	Crude Oil, Oil products	92.3	92.3
Vietnam	Rubber	76.5	76.5
East Africa (Mauritius)	Iron ore	84.8	84.8
West Africa (Togo)	Phosphates	35.1	
	Cocoa	31.2	66.3
Yemen	Refined oil products	75.2	75.2
Zaire <sup>2</sup>	Copper	67.1	67.1
Zambia	Copper	92.9	92.9

<sup>1</sup> 1969, <sup>2</sup> 1970.

Source: Derived from International Financial Statistics, Vol. XXV, No. 11, Washington D.C., Nov. 1972, p. 42 et seq.

exclusively due to the protectionist principles embraced by the European Community but mainly to the behaviour of those states hitherto in receipt of preferential treatment.

AASM countries oppose vehemently attempts to make them cede their own advantages to their competitors among LDCs, and this was seen clearly when the European Community intended to drop or suspend import duties for raw coffee beans, cocoa beans, and palm oil, and a number of less important tropical products, in order to make life easier for Latin American producers. The good intention of the EC Commission founded on the rock of the embittered protests of associated countries.

This happened although preferential treatment is, after all, not so important and effective as all that. Recent empirical studies have proved beyond any doubt that preferential treatment of selected countries, especially in the field of raw materials, has not led to a significant loss of trade for other extra-Community countries<sup>2</sup>. Even though generalisations based on the results of such investigations should be guided by great caution, they make it abundantly clear that the price factor is decisive for sales in the Community's markets to a limited extent only.

Given this very slight braking effect of preferences on such goods, it may be stated that the CAP of the Community is of little importance for the most valuable export products of LDCs (always with the exception of the Latin American republics). In fact, exports of crops used for food and luxury consumption, such as coffee, tea, cocoa, and spices, have grown between 1963 and 1970 by 62.9 p.c., i.e. by a rate that is fivefold the one applying to food crops subject to market regulations, and almost twice as much as total agricultural imports from LDCs. Nevertheless, their share in total world exports went down in this product group from 36.4 p.c. to 31.9 p.c.

#### **Non-agricultural Policy Obstacles**

To accuse the European Community's agricultural policy of being the nigger in the woodpile — and especially the only one — responsible for this kind of development would be a fallacy. Because, in these cases, the main causes of obstacles placed in the path of imports are:

- ☐ the lack of income elasticity on the side of demand;
- ☐ the drop in potential demand by the impact of fiscal and other taxes and imposts;
- ☐ the improved utilising of available raw materials through technological progress;

- ☐ growing competition from substitute materials and synthetics;
- ☐ the dampening effect of non-tariff obstacles and of administrative measures on imports; and
- ☐ the lack of knowledge about potential markets and the inefficient use of marketing aids in the highly diversified markets of the Community countries.

All this has not been caused by the Community's CAP; at the most it can be regarded as its side-effect. This said, it is clear that any export-oriented development policy does not only have to pay attention to the Common Agricultural Policy of the EC but also to all the other aspects and facts of general economic policy.

In regard to CAP, however, two additional and important points have to be made:

- ☐ attention has to be drawn to regulations governing the prices of agricultural raw materials;
- ☐ and to the administrative treatment of processed products.

As to the development of prices, one may generalise that LDCs have been demanding for a long time commodity agreements for all commodities that are exposed, in the long term, to pressures on their prices. When, of all the regions in the world, the European Community with its high walls of protection against third-party countries, argues in favour of a rejection of such agreements and emphasises its limited freedom of action in this field, because commodity agreements are distorting the price mechanism of world markets, this can only be branded as an awful mixture of naïveté and arrogance.

#### **Treatment of Processed Food Products**

Whilst the importation of goods into the EC area remains free of duty if they do not compete with products of Common Market countries, processed farm products are usually subject to rather high rates of duty, because in the past processing and manufacture of such products used to be, at least to a large part, the business of European countries<sup>3</sup>. This kind of import policy sets up obstacles in the path of vertical diversification in farming, which is indispensable for LDCs because it often is the point of departure for their industrialisation and for creating new jobs on their own territories.

<sup>2</sup> Karl Fasbender, Hajo Hasenpflug, Franz-J. Jägerler, Dietrich Keschull, EWG-Zollpräferenzen und Welt handelsstruktur (EC-Tariff Preferences and World Trade Structure), Hamburg, 1973, p. 243.

<sup>3</sup> B. Balassa, The Effects of the Kennedy Round on the Exports of Processed Goods from Developing Areas, UNCTAD, Trends and Problems in World Trade and Development, 15 February, 1968. TD/69.

This policy also reduces the chances for LDCs earning more foreign currency through creating added value at home.

The principles of development policy make it clear beyond doubt that it is specifically processing industries which ought to be favoured in commodity producing countries, because it is precisely in processing their own raw products in which LDCs generally are geographically most favourably located and, because of their usually low wages, possess genuine comparative advan-

tages. But as long as the EC's CAP, whose purpose it is to establish parity between industrial and agricultural personal incomes, prevents the migration of processing industries to the sources of industrial crops, there will always be an unbridgeable gap between interests. The clash of competitors grows fiercer when projects financed by the European Development Fund and the European Investment Bank, as well as large parts of technical aid, aim directly or indirectly at setting up processing industries for manufacturing from indigenous crops.

The European Community's association and preference policies have reduced tariff rates and the effectiveness of import quotas and, in some cases, done away with them entirely. Non-associated countries and those which were not granted preferential treatment have enjoyed far more limited progress in this direction through the Community's general preference system in the sector of farming. This system provides for tariff reductions and lifting of quota regulations for 150 processed farm products with a total import value of, at most, \$ 44 mn. Of a total import of farm produce from non-Community countries of altogether \$ 2.4 bn., this is a miserly share of only two p.c.<sup>4</sup>. This is hardly an improvement vis-à-vis the original situation.

#### **The Way Out of the Dilemma**

In order to think realistically, it must be assumed that the European Community's CAP will not be changed fundamentally in the foreseeable future, and that its development policy, even though its cooperative character may possibly be strengthened, will cling to its traditional aims. This means that existing difficulties for LDCs could be overcome only in part. No incisive improvement can be expected in the area of those goods which are subject to market regulations. On the other hand, there are fair chances for LDCs in the fields of all other markets for products whose imports are not physically restricted.

In all these cases, LDCs ought always to insist, as they have done so far, on the conclusion of commodity agreements and on the granting of improved preferences, especially for processed products. With all this, the beneficial effect of tariff reductions must not be overestimated. In order to increase the relatively modest demand and to influence its elasticity, additional steps must be taken.

Industrialised countries could do much to this end by cutting down taxes and non-tariff obstacles in

**Table 4**  
**EC-Tariff Rates for Selected Raw Materials and Processed Products After the Kennedy Round**  
(in p.c.)

Products	Nominal Rates	Effective Rates
Meat		
fresh and frozen	17.8	
manufactured meat products	19.5	44.3
Fish		
fresh and frozen	14.9	
processed (preserved) fish	18.7	35.8
Fruit		
fresh fruit	13.9	
preserved fruit	20.6	28.9
Vegetables		
fresh	9.9	
tinned	14.8	22.7
Cocoa		
Cocoa beans	3.2	
Cocoa powder and butter	18.2	126.6
Chocolate	18.0	19.3
Groundnut oil		
Groundnuts	nil	
Unrefined groundnut oil and groundnut cattle cakes	7.5	92.5
Refined groundnut oil	15.0	179.7
Coconuts		
Coconuts	nil	
Coconut butter, unrefined, and coconut cattle cakes	10.0	85.4
Refined coconut butter	15.0	186.3
Rubber		
Natural latex	nil	
Rubber products	7.9	16.3
Timber		
Tree trunks	1.0	
Sawn timber	1.6	4.0
Plywood	11.3	19.6
Wood products	8.7	16.3
Wool		
Raw wool	nil	
Wool yarn	5.7	17.5
Woollen fabrics	16.5	38.1
Woollen garments	15.4	19.2
Cotton		
Raw Cotton	nil	
Cotton yarn and filaments	10.0	32.9
Cotton cloth	12.0	19.1
Cotton garments	14.0	20.8
Jute		
Raw jute	nil	
Jute fabrics	19.6	53.3
Jute bags and sacks	15.5	14.0

Source: B. Balassa, op. cit., and author's own estimates.

<sup>4</sup> Review of the Schemes of Generalized Preferences of Developed Market Economy Countries, Operation and Effects of Generalized Preferences granted by the EEC, United Kingdom, Japan. UNCTAD, TD/B/C.5/3; 6; 7.

the path of imports of individual goods, which have so far militated against higher sales. LDCs, on the other hand, would have to make serious efforts to adapt themselves better than in the past to conditions in industrialised countries. This means that attempts to market their products must be combined with planned market research, perpetual advertising, adaptation of product design and presentation to consumers' habits<sup>5</sup>, and the use of the most cost-effective and profit-effective distribution system<sup>6</sup>.

Only in succeeding in this way in meeting the notions on quantity and quality of potential users

<sup>5</sup> Christian Wilhelms, Klaus Boeck, Market and Marketing in the Federal Republic of Germany — a Manual for Exporters from Developing Countries, Hamburg, 1971.

<sup>6</sup> Dietrich Kobschull, Axel Borrmann, Franz-J. Jäger, M. Rasul Schams, Ursel Steuber, Vermarktung und Verteilung von Rohstoffen (Marketing and Distribution of Commodities), Hamburg, 1973.

of the goods used will it be possible to increase the sale of farm produce. *Pari passu*, this is equally true of all processed products, whose manufacture needs to be built up (and in spite of the obstacles existing within the European Community).

Measures to be taken in this context ought to be carried out both by and in favour of all LDCs. To limit development policies of the EC to the group of associated and preferentially treated countries would set up new difficulties and discriminations, whose creation must be avoided right from the start. Although development policy may be directed towards similar aims of LDCs, which are in a similar situation, it must never forget the entirety of all these states and therefore must not allow a small restricted group of countries to monopolise the benefits from development aid.

## High Food Prices: The Tip of an Iceberg

by Dr Jimmie S. Hillman, Tucson \*

**High food prices generate symptoms which are more obvious than their underlying causes. For these the following article suggests some fundamental explanations, laying stress on monetary issues.**

**T**he news media, housewives, politicians and citizens at large have confronted economists for explanations of the continuing food price rise and soaring consumer prices in general, and they have demanded to know, "Why can't we do something about it?" Questions have taken the form of implied attempts to blame the Russian grain purchase of 1972, or some elusive middleman between farmer and consumer — the packer, the processor, the distributor or the retailer — for the woes of consumers.

Fact is, there is no single "foreign devil" nor single "dirty politician" on which we can blame the recent consumer malaise. This is not to say that tactical errors have not been made such as were surely committed by some US, Canadian and Australian officials in the Russian grain deal, but by and large, attempts to pinpoint the cause(s) for such problems as high food prices have been illusory.

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Stating generalizations about cause and effect in the complex technological world which has emerged since World War II has tended to place the credibility of the economist in great jeopardy. Some of us, however, like characters in a Samuel Beckett play, feel "We must go on..." Hence, this, another observation on a few of the problems which plague us. But the reader should be warned that this article can only suggest some broad explanations.

### Agriculture and the Terms of Trade

For a hundred years or more, the terms of trade appear to have been stacked against the farming sector, against raw material producers, and against developing countries whose economic efforts lay heavily in industries in those sectors. This is another way of saying that because of the high productivity of the farm sector in countries like the United States, or because of the poor bargaining power of the agricultural producing sector throughout the world, or both, farm and