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Intereconomics

Suggested Citation: Hartmann, Monika; Schmitz, Peter Michael (1988) : EC agricultural reform policy—The beginning of a new form of protectionism?, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 23, Iss. 4, pp. 151-158, <https://doi.org/10.1007/BF02925103>

This Version is available at:

<https://hdl.handle.net/10419/140136>

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Monika Hartmann and Peter Michael Schmitz*

EC Agricultural Reform Policy – The Beginning of a New Form of Protectionism?

The European Community regards its current agricultural policy “reforms” as an adjustment to the reality of the market and hence as a contribution to easing the strains in world agricultural trade and reducing worldwide distortions in resource allocation. A detailed analysis gives ground for scepticism.

The growing protectionism of many industrial countries towards agriculture is moving ever closer to centre stage in the current trade policy debate. By assisting their domestic farm sectors, these countries have created a supply far in excess of the demand in their home markets. Helped by export subsidies, the inevitable surpluses are offloaded in the world market, where they have pushed the prices of agricultural products down to a historical low. A large part of the blame for these distortions in agricultural trade is laid at the door of the European Community, but the United States, Japan and not least the group of EFTA countries are also in the dock and are facing demands to liberalise their agricultural policies.

The economic problems facing the farm sector in many industrial countries have reinforced the external pressure to reform national agricultural policies and triggered the search for possible solutions. The agricultural negotiations within GATT and the reform efforts within the EC since the beginning of the eighties reflect moves in this direction. The European Community regards its agricultural policy “reforms” as an adjustment to the reality of the market and hence as its contribution to easing the strains in world agricultural markets and reducing worldwide distortions in resource allocation.

Against this background, the following article attempts to determine whether the current decisions regarding EC agricultural policy are really a fundamental reform leading towards a reduction in protectionism. It discusses first the requirements that indicators must

satisfy in order to be able to measure trade distortions and then goes on to make a detailed analysis of the external effects of various attempts to reform the Common Agricultural Policy.

Agriculture has moved increasingly to the centre of attention in the GATT negotiations that began recently in Uruguay. There is agreement that there should be a gradual and co-ordinated removal of the obstacles to agricultural trade and that the agricultural sector should be integrated more closely into the world economy. Opinions differ, however, on the way to achieve that objective and on the degree of trade distortion attributable to particular countries or country groups. It is ultimately the latter that determines the adjustment pressure exerted on a country in the search for a set of common rules in international agricultural trade. It is therefore understandable that some countries may wish to play down their contribution to the distortion and fragmentation of world trade and seek to lay as much of the blame as possible elsewhere. This can be seen in the debate about appropriate indicators for measuring trade distortions. The choice of an adequate indicator is of far-reaching importance, since it will undoubtedly be used to assess the need to dismantle tariff and non-tariff barriers to agricultural trade.

What characteristics should the ideal indicator have? It should

- ☐ cover schemes for regulating both foreign trade and domestic markets;
- ☐ take account of volume effects on both the supply and demand sides;
- ☐ include tariffs and non-tariff instruments;

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- ☐ be capable of being calculated for exporting and importing countries alike;
- ☐ be capable of being aggregated to give an overall measure;
- ☐ show not only the extent to which prices diverge from those in the world market but also the degree of divergence from price movements;
- ☐ in particular, take account of the fact that production and input quotas can permanently alter the price-induced volume effects.

None of the indicators that have been used meets all of these requirements, so that the choice tends to depend on the issue in hand. If it is a question of measuring the external consequences of national agricultural policies, protection coefficients¹ or producer subsidy equivalents (PSEs)² are often used. However, even proposals to widen the coverage of these indicators³ do not resolve the basic problem that not all volume effects on the supply and demand sides are captured or that items are included that have no effect on output, such as transfer payments in the PSE approach.

To cater in particular for trade distortions, a further measure must be devised that directly measures volume effects and is defined in terms of the divergence of trade from the no-intervention state:

$$(1) \quad dT = dS - dD$$

where T represents the volume of trade, d the absolute change, S the volume of supply and D the volume of demand.

A percentage representation that is identical for importing and exporting countries would also be conceivable for the purposes of an international comparison for individual products:

$$(2) \quad \frac{dT}{TW} = \frac{dS - dD}{TW}$$

where TW stands for the volume of world trade.

Indicators (1) and (2) could also be used to show macro-economic surpluses, which according to conventional indicators only occur in markets with

excess supply. Excess capacity can equally well occur in deficit or import markets and hence lead to macro-economic losses. The above measure would show this irrespective of the country's trade status and would also describe the external consequences of national policies precisely. The higher the figure, the greater the country's contribution to the distortion of world agricultural trade. It should therefore be added to the catalogue of possible indicators for use in the trade policy debate. The idea behind it is not new, but a generalisation of the indicator of "trade creation and trade diversion effects".⁴

The Agrimonetary System

The monetary system specific to the European Community's agricultural sector is not generally brought into the discussion of external issues, but in fact the monetary compensatory system and the reform of the agrimonetary system in 1984 have lasting repercussions on agricultural trade.⁵

Separate "green" exchange rates were introduced in 1969 to shield agriculture against the effects of exchange rate changes; for countries with stronger currencies these are above the actual market or central exchange rate, while for member states with weaker currencies they are below. These exchange rate divergences, which are still in force, lead to divergences in EC administered prices and can only be sustained by levying monetary compensatory amounts at the borders.⁶ In principle, member countries are committed to the elimination of exchange rate divergences, but progress has been repeatedly set back by changes in central or market exchange rates. This means that in the annual farm price review ministers must deliberate not only on common prices in ECUs but also on the remaining scope for adjustment in the green rates used to translate the common prices into national currencies.

Since production and consumption depend on prices in national currency, an analysis of external trade effects or the impact of protectionism solely on the basis of common prices in ECUs can be misleading, as a comparison of the annual price adjustments in ECUs and in national currencies weighted for all countries and products clearly shows;⁷ in national currencies prices

¹ Cf. World Bank: World Development Report, Washington D.C. 1986, pp. 112 f.

² Cf. OECD: National Policies and Agricultural Trade, Paris 1987, pp. 100 ff.

³ Cf. S. Tangermann, T. E. Josling, S. Pearson: Multilateral Negotiations on Farm-Support Levels, in: The World Economy, Vol. 10 (1987), No. 3, pp. 265-281.

⁴ Cf. J. E. Meade: The Theory of Customs Unions, Amsterdam 1955.

⁵ Cf. also A. Swingbank: European Community Agriculture and the World Market, in: American Journal of Agricultural Economics, Vol. 62 (1980), No. 3, pp. 426-433.

⁶ Cf. Bureau of Agricultural Economics: Agricultural Policies in the European Community - Their Origins, Nature and Effects on Production and Trade, Policy Monograph No. 2, Canberra 1985.

⁷ Ibid., p. 79.

have been raised significantly more than the ECU prices indicate.

This trend was reinforced by the reform of the agrimonetary system in 1984, which entails harmonising differing national prices at the level of the highest, generally the level in Germany. The potential scope for national price increases is thus equal to the appreciation of the DM against the currencies of other member countries. On the assumption that exchange rate adjustments over the next two years will be the same as between January 1986 and January 1988 and that the resulting scope for price increases is fully exploited, prices will rise by the following percentages in EC countries, even if they are frozen in terms of ECUs:

Netherlands	— 3.1	Spain	8.5
Belgium and Luxembourg	2.3	Italy	7.8
Ireland	14.6	France	10.0
Denmark	4.7	Germany	0
Portugal	27.2	Greece	31.1
United Kingdom	17.0		
		Community of Twelve	9.0

This in-built inflationary mechanism also increases the degree of agricultural protection and thus further distorts trade flows.⁸ The distorting effect increases with the weight of the DM in the ECU currency basket, as the ECU/dollar exchange rate has a decisive influence on the degree of protection. Every future revaluation of the DM within the European Monetary System implicitly increases the weight of the DM within the ECU and hence the value of the ECU in dollars. Since the weights of currencies within the basket are adjusted very infrequently, this constitutes another source of growing, currency-induced protectionism.

Attempts by the EC Commission to moderate this inflationary mechanism have foundered so far in the face of national interests. Even the so-called hidden price reductions carried out administratively by tightening the intervention criteria have had an initial impact on producer prices only in strong currency countries; in most member states the uptrend in prices was not reversed. The Community's trading partners would therefore be well advised to scrutinise the

monetary decisions relating to the agricultural sector as well as the decisions on common farm prices.

Guarantee Threshold System

The guarantee threshold system for cereals that had been introduced in the 1982-83 crop year failed in 1985-86, but the same reform concept re-emerged in a different guise and was adopted at the last Brussels Summit as the agricultural stabiliser concept for cereals, oil-seeds and protein feed. It makes provision for an automatic reduction in intervention prices if the volume produced by the EC as a whole exceeds a set amount (the guarantee threshold). For example, the threshold for cereals is 160 million tonnes. At first sight this policy element appears to be market-oriented, but closer examination reveals it to be barely effective and sometimes counterproductive.⁹

The first flaw is that the guarantee threshold is linked not to market equilibrium but to the current production level, which was reached as a result of price support and by any standards is far above the market equilibrium level. Moreover, the agreed rate of price reduction, for example at 3 % a year for cereals, is too small. In free markets a 3 % annual increase in yields would alone lead to a price reduction of between 4.5 and 6 %, if the absolute sum of short-term supply and demand elasticity is estimated at between 0.5 and 0.66.

Secondly, this reform concept completely ignores the demand side. Surpluses can also build up as a result of demand factors, for example if substitution occurs, as has become evident in animal feed, sweeteners and milk consumption. Since the mechanism for automatic price reductions is tied solely to the guarantee threshold, it cannot respond to any signals coming from the demand side. Necessary price cuts do not then occur and the surpluses become worse.

Finally, it can be expected that farmers will switch to producing other CAP commodities. To be successful, market-orientated agricultural stabilisers would therefore have to cover the entire range of products, including those in which surpluses are less of a problem and ones in which the Community is a net importer. This is unlikely to happen, however. In the past the Community has not even been able to adhere to agreed guarantee thresholds. Even if there were formal compliance, there would be enough loopholes to circumvent the arrangement;¹⁰ raising the monthly price

⁸ Cf. P. M. Schmitz: External Effects of EC's New Agrimonetary System. Paper presented at the 13th European Seminar of the European Association of Agricultural Economists on "International Trade and National Agricultural Systems" in Varna/Bulgaria, September 28 – October 3, 1986, p. 5.

⁹ Cf. S. Tangermann: Guarantee Thresholds: A Device for Solving the CAP Surplus Problem?, in: *European Review of Agricultural Economics*, Vol. 1. 1 (1984), pp. 159-168.

¹⁰ U. Koester and H. Terwitte: Breakthrough in Agricultural Policy, or Another Policy Failure?, in: *INTERECONOMICS*, Vol. 23 (1988), No. 3, pp. 103-108.

supplements for grain or the buying-in prices for intervention products, which are currently set at 94 % of the official intervention price, are examples in this respect. Hence this approach to reform is not likely to provide lasting relief to the world market.

Guaranteed Volume Arrangements

The failure of the guarantee threshold system hastened the introduction of volume restrictions, such as the milk production quotas. The politicians expect to be able to ease tensions in the market and the burden on the budget by such means, but in fact even this instrument does not guarantee that the surpluses will be reduced, as will be demonstrated below.¹¹

The announcement that quotas are to be introduced generally induces farmers to increase their production capacity (by expanding their herds or ploughing pasture to increase their arable land, for example) in order to obtain a larger quota. The quota level is then based on an inflated production figure and subsequent reductions in quota are also marginal by comparison with the level of actual consumption in the EC. This applies not only to the milk market but also to the sugar market, which has been subject to production quotas since 1968. One of the reasons why stocks of butter and skimmed milk powder did not decline after the introduction of quotas was that farmers delivered a higher proportion of fat and protein fractions per litre of milk. Since then this loophole has been closed by an ingredients law.

In political terms, the promise of higher producer prices has always been the trade-off for winning agreement to the introduction of quotas. The fact that this depresses demand and encourages consumers to seek substitutes has been ignored up to now. In this way, however, demand factors stimulate the accumulation of new surpluses that must be regarded as a potential

burden on the world market. Examples of substitutes for milk products are:

- ☐ margarine instead of butter,
- ☐ cold meats or "soya cheese" instead of cheese,
- ☐ soft drinks instead of milk,
- ☐ non-dairy coffee creamer instead of milk or coffee cream.

Where sweeteners are concerned, consumers can opt for:

- ☐ cereal-based sweeteners instead of sugar from beet,
- ☐ synthetic sweeteners instead of sugar.

Demand diversion of this kind is all the more likely, the more the existence of quotas preserves the existing production and processing structures and hence increases inefficiency and production costs, which are passed on to consumers in higher prices.

Political reaction to such substitution effects often takes the form of demands for follow-on intervention on the demand side. Requirements to add a minimum quantity of skimmed milk powder to certain products or the banning of imitations (such as a ban on the introduction of milk substitutes containing non-milk ingredients) are examples of such measures; they do help limit the subsidised exportation of butter and skimmed milk powder, but they also reduce imports of animal feed and vegetable fats and oils. At the same time, there is an increased desire to extend the quota system to imported goods, as reflected in the handling of New Zealand butter or the attempt to agree on voluntary

¹¹ M. Hartmann and P. M. Schmitz: Allokations- und Verteilungswirkungen von Quotenregelungen, in: W. Henrichsmeyer and C. Langbehn (eds.): Wirtschaftliche und soziale Auswirkungen unterschiedlicher agrarpolitischer Konzepte, Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Vol. 24, Münster-Hiltrup 1988.

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export restraints with various trading partners, such as Thailand and Yugoslavia.

Finally, if substitution also occurs on the supply side – more beef and pork instead of milk, for example – quotas merely shift the problem of surpluses to other markets. In the field of factor demand, it can also lead to a reduction in imports of feedstuff, especially soya meal and tapioca. This decline in EC demand in turn depresses the world market prices of animal feed, harming all exporters of the product.

At the same time, there is growing political opposition to further quota cuts, which are urgently needed to restore market equilibrium. The quota system is riddled with exemptions for particular countries or enterprises. National buy-out schemes have become increasingly necessary so that countries can nevertheless remain within their national quotas. A recent ruling by the European Court of Justice will accelerate this process; farmers have successfully appealed for higher quota allocations, since they had participated in earlier subsidised slaughtering programmes and as a consequence had unwittingly drastically reduced the quota to which they were entitled in 1984.

Despite these shortcomings, agricultural policymakers point with pride to the reduction in official stockpiles of butter and skimmed milk powder, which they see as evidence of the success of the guaranteed volume arrangement. This proclamation of success should be treated with caution, however, for intervention stocks are not a conclusive indicator of the presence of overcapacity in a particular sector or product area. For example, any quantity of goods can be cleared with the help of hefty export subsidies, and surplus raw milk can be processed into cheese, condensed milk and other dairy products rather than butter and skimmed milk powder. In this way the butter mountain can be eroded without the surplus really disappearing; all that happens is that the burden of the EC on world markets is redistributed.

Land Set-aside

Besides stabilisers, land set-aside programmes are considered a further method of restricting supply, thereby helping relieve the burden on world agricultural trade. Under the agreements reached in Brussels, EC member states are obliged to offer schemes to take arable land out of production. The EC regulations allow some degree of latitude in the formulation of national

programmes; member countries have the power to decide the level and gradation of premiums and whether to allow set-aside land to be used for other purposes. Participation by farmers is voluntary.

Leaving aside the repercussions and circumvention problems of land set-aside programmes, the expectations as to the area affected by this measure (about 1 million hectares)¹² themselves show that this instrument will not be able to provide significant relief in the world agricultural markets. The remarks that follow attempt to quantify this conclusion for the 1987-88 crop year. Given the average yield of 4.5 t/ha in the Community of Twelve, the setting aside of 1 million hectares of grain land would reduce the EC cereal crop of 160 million tonnes by 2.8 %. This potential supply-side reduction in the surplus by 4.5 million tonnes would be completely offset in 1987-88 merely by the decline in demand for grain from the EC animal feed sector; there would be no benefit to the world grain market. However, it is interesting to investigate the effect that a 1 million hectare reduction in the area under cultivation would have on world market prices, disregarding demand reactions. For the sake of simplicity, let us assume a completely liberalised and integrated world market, completely price-inelastic supply in the rest of the world and a price elasticity for aggregate world demand of -0.33 ; under those circumstances, a 2.8 % reduction in the EC supply, which accounts for 12 % of world agricultural production, would cause world market prices to rise by only 1 %. By contrast, a whole series of empirical studies have shown that the Community's price support policy depresses world grain prices by around 9 %.¹³ Hence, even if it would lead to a corresponding reduction of grain production, the setting aside of 1 million hectares could offset at most 11 % of the distortion in world grain prices caused by the EC. This estimate of the beneficial effect on the world market must be further modified if one also takes account of the problems of control and acceptance, as well as side-effects and repercussions.

First, it can be expected that the acceptability of this instrument will be limited at national level, so that far less than 1 million hectares of arable land will be set aside. A country that reduces its share of EC agricultural production by offering attractive set-aside schemes not only throws a heavy burden on its national budget but also weakens its own negotiating position if a national distribution of production quotas becomes unavoidable

¹² Cf. E. Schmitt: Gegenwärtige und zukünftige Entwicklungen auf den EG-Märkten für pflanzliche Erzeugnisse und Konsequenzen für die BR Deutschland, in: *Agrarwirtschaft*, Vol. 37 (1988), No. 4, pp. 101-110.

¹³ See, for example, U. Koester: Policy Options for the Grain Economy of the European Community. Implications for Developing Countries, Research Report 35, International Policy Research Institute, Washington 1982.

at some time in the future. This risk is far from negligible, since a single year's productivity improvements, running at an annual rate of 3 %, can outweigh the reduction in output that can be achieved by land set-aside, necessitating further political intervention. Hence from the national point of view there is little incentive to offer attractive set-aside schemes, with the consequence that the planned cut in output will not be attained.

In addition to the problem of national acceptability, the relief that land set-aside is expected to bring to world agricultural markets will be reduced by a series of adjustment reactions.

□ The artificially induced scarcity of land will encourage the development of land-saving technologies and shifts in production structure towards high-yielding varieties of grain. The result will be an intensification of agricultural production on the remaining available land, particularly where the potential for increasing yields is still substantial, flexible crop rotation is practised and land is allowed to lie fallow.

In this way the reduction in the area of land under cultivation will be partly or wholly offset by rising average yields per hectare.

□ At the same time, limiting the scope for expansion of the area under cultivation causes the labour capacity released by land set-aside to be deployed in livestock production, aggravating the surpluses in this area. Trade problems would therefore not be resolved, but merely shifted to other products.

□ The possibility of using the "set aside" arable land as pasture or to grow lentils, chick-peas and vetches must also be open to criticism. This aid-assisted switch in production is merely a hidden subsidy for high-volume, protein-rich on-farm feed at the expense of grain and imported grain substitutes, leading to a relative increase in grain surpluses or a decline in imports of grain substitutes.

The resulting additional strains in world agricultural markets are obvious. Moreover, state intervention to restrict the volume of production creates incentives to

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exploit the scheme illegally for personal gain and thus further reduces the effectiveness of the measures. The incentives for circumvention are particularly strong if there is little or no chance of verification. This is precisely the situation facing the Community. The predominance of small farms with scattered holdings of land makes effective verification of set-aside commitments virtually impossible.¹⁴ The particular configuration of the EC schemes also gives rise to problems in this respect. Confining the programmes to CAP commodities and allowing the possibility of rotating the set-aside land or using it for alternative purposes greatly exacerbates the problem of control. Farmers are therefore directly encouraged,

- ☐ not to set aside the stated area or to set aside less than stated;
- ☐ to take mainly marginal land out of production, despite claiming higher-rate premiums;
- ☐ to increase their arable land artificially by bringing pasture under the plough.

In short, the land set-aside programmes should be regarded with considerable reserve as an instrument for easing the strains in world agricultural trade. Problems of acceptability, circumvention and adaptation reduce their potential benefit and may intensify the problems of trade in substitute products, particularly if the introduction of land set-aside schemes is taken as justification for increasing external protection for products in which the Community is not self-sufficient.

Loopholes

For non-EC countries, the covering of the "loopholes" in the Community's agricultural trade policy is probably the most problematic aspect of the current agricultural reform efforts and will require particularly close attention. The reforms entail reducing those agricultural imports that have relatively liberal access to the Common Market despite competing with domestic farm products. Unlike the reform policies examined above, which are primarily orientated towards the internal market, this strategy implies a deliberate and direct impairment of world agricultural trade.

The gaps in the EC grain market organisation are undoubtedly most annoying to the Community. Whereas grain, as a CAP core commodity, enjoys a relatively high level of protection (68 % for wheat in 1986-87), grain substitutes with a high protein and starch content enter

the EC duty-free or at very low tariffs. As was to be expected, in recent years grain has been increasingly forced out of the feeding trough by cheaper imported feedstuffs. This trend has made the question of imported grain substitutes an increasingly sensitive issue in the farm policy debate and reinforced demands for this "loophole" of EC agricultural policy to be closed. Numerous proposals have been made since the beginning of the eighties, entailing, on the one hand, an increase in the Community's external protection against grain substitutes. The scope for measures of this kind is severely limited, however, by the consolidation of customs duties for high-protein and starch-rich feedstuffs under the GATT, so that the only way to increase the level of protection is to impose quantitative import restrictions. The Community took a first step in this direction in 1982, when it concluded a "voluntary" export restraint agreement with Thailand to cover manioc, of which Thailand is the world's largest exporter. Further agreements of this kind with Indonesia and Brazil followed. Regardless of their specific form, voluntary export restraints must be considered extremely dubious from the standpoint of development policy. The forced curtailment of export production for political reasons has manifold adverse effects on resource allocation in the countries concerned.¹⁵ These include:

- ☐ the release of factors of production that cannot achieve a comparable marginal productivity in terms of value in other sectors. Given the lack of alternative employment in many developing countries, the problem of unemployment is therefore exacerbated, with all the negative effects that has on the social structure and macro-economic growth;
- ☐ the devaluation of long-term investments geared towards creating or expanding capacity in the export sector affected by the agreement. Misdirected investment is a particularly serious problem for developing countries, where capital is relatively scarce and thus has a high opportunity cost;
- ☐ the rise in marginal costs, since production is subject to additional uncertainty, namely the external political risk. As a consequence, the competitiveness of the export sector declines;
- ☐ a further increase in the trade deficit, already at a critical level in many developing countries; this has repercussions on currency stability and Third World debt.

¹⁴ Cf. G. Schmitt and C. Thoree: Flächenstilllegungen: Lösung für die EG-Agrarprobleme?, in: *Agra-Europe*, Vol. 27 (1986), No. 9 of 3. 3. 1986, Sonderbeilage, p. 12.

¹⁵ Cf. A. Basler: Auswirkungen einer möglichen EG-Importsubstitution bei Futtermitteln auf die Entwicklungsländer, in: *Landbauforschung Völknerode*, Vol. 37 (1987), No. 3, pp. 164-174.

Voluntary export restraints must therefore be regarded as an instrument that can ruin the export-oriented development strategies of the countries concerned and consequently reduce their macro-economic growth. By adopting this form of protectionism the Community is displaying its ambivalent attitude towards the Third World. On the one hand the EC calls upon developing countries to play a more active part in world trade and supports their efforts in this regard by making a series of trade concessions; on the other hand, it simultaneously concludes voluntary export restraint agreements that discriminate against those very countries that have demonstrably pursued an active policy of export promotion.

It is not only in its use of voluntary export restraint agreements that the EC resorts to non-tariff trade barriers, however. Alternative measures aimed similarly at protecting the loopholes of the EC market organisation in grain or other products have the same negative impact on developing countries, since in essence they are all aimed at reducing these countries' export opportunities. In the past they have included aid for producing or processing pulses and oil-seeds, but also for feeding skimmed milk powder to livestock. The increased use of these products in the EC feedstuffs sector has not only caused a relative reduction in imports of feed but has also accelerated the switch away from domestically produced grain as animal feed. The use of grain in the EC feedstuff sector fell by 5 % in 1987-88 alone, thereby intensifying the problem of surpluses in this market. It is understandable that the Community is currently engaged in a feverish search for alternative measures that will effectively restrict imports of grain substitutes while at the same time ensuring the disposal of internally produced grain. In this connection, the proposal to introduce a fats tax and calls for a premium for the use of grain as a feed additive have gained momentum of late. The decision at the Brussels Summit to impose "discipline" to curb overproduction is being seen as conferring the right to adopt protectionist measures of this sort. The demands for offsetting measures are in no way confined to the narrow field of feedstuffs, but are for increased subsidisation for the production of all agricultural products in which the Community is not self-sufficient and curbs on imports of highly protected commodities that currently enjoy preferences, such as New Zealand butter.

The measures described here to close the

Community's loopholes are based on a variety of approaches, but they all have the common objective of replacing imports by internally produced goods.

A continuation or extension of this strategy would have far-reaching adverse effects on world agricultural trade:

□ the policy of import substitution leads to a fall in the world market prices of products in which the EC is not self-sufficient. This further distortion of international agricultural trade cuts across the present worldwide attempts at liberalisation.

□ The heightening of non-tariff barriers to trade reduces export earnings in third countries, with all that entails for employment, growth and the balance of payments.

□ At the same time, the Community increases uncertainty in world agricultural markets. The USA and other large exporters of agricultural products will react to the "neo-protectionism" of the EC by taking appropriate retaliatory measures. This increases the danger of a worldwide trade war and a further man-made food crisis.¹⁶

Those who will be worst affected by this policy are clearly the people of the Third World. Import substitution in the EC feedstuff sector, in particular, would cause lasting harm to the poor regions of the world, since developing countries supply around 55 % of EC imports of feedstuff. Import substitution here would therefore sharply reduce their earnings from exports of oil cake, tapioca and other grain substitutes. Since income from this source constitutes a significant part of the foreign exchange earnings of some developing countries, such a reduction would have far-reaching negative effects on their entire economies.

In addition, the politically induced reduction in imports of feedstuffs jeopardises the profitability of industries producing feed as a by-product (cereals, oil-seeds, sugar). The further expansion of industries processing agricultural products, which is a first and important step towards industrialisation in many developing countries, is therefore prevented.¹⁷

To sum up, the Community's efforts to reform its agricultural policy will not lead to a lasting curb on production and are oriented increasingly towards import substitution. Existing trade distortions are therefore merely being transferred to other markets and enforced by means of new instruments. Any potential beneficial effects on world markets are likely to be outweighed by the creation of new areas of protection.

¹⁶ Cf. U. Koester and A. Valdés: Reform of the CAP: Impact on the Third World, in: Food Policy, Vol. 9 (1984), pp. 94-98.

¹⁷ Cf. A. Basler, op. cit., p. 174.