THE EFFECT OF EUROPEAN ECONOMIC COMMUNITY TARIFFS ON UNITED STATES WHEAT EXPORTS

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INTRODUCTION

Within recent years, the shape of the North Atlantic trade has changed due to the emergence of the European Economic Community - "a new dimension has been added to the structure of world trade."[1] The economic integration of different countries into a region, which is now described as economic regionalism, with a view to form regional blocs in order to promote economic growth within the whole region is perhaps the greatest economic phenomenon of twentieth century. As a result, the emphasis has been shifted from the country to the region with regard to trading policies. Today the bloc is the medium through which the trading policies of individual countries are being put into harmony. The new pattern has been imposed over the conventional pattern of multi-lateral trade between nations as envisaged by the Reciprocal Trade Agreements Act of 1934, and the General Agreement on Tariffs and Trade which was reached in 1947.

The establishment of the European Economic Community, also known as the European Common Market, has caused world wide concern. The reformulation of United States foreign trade policy, the desire of Great Britain to change its historic Commonwealth ties in order to secure membership in the Community, the rethinking of Soviet policy concerning the economies of Eastern Europe, and the increasing interest of the underdeveloped world in this new approach to economic organization are all manifestations of this concern.[2]

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[1]"The Changing Shape of the World," Monthly Review, November-December, 1962 (Federal Reserve Bank of Kansas City) p. 7.

[2]Donald R. Sherk, "The European Common Market," Iowa Business Digest, Spring 1962 (State University of Iowa) p. 5.

Statement of the Problem: It is increasingly being emphasized that the existence of the European Economic Community is a challenge to the United States in two ways.[1] First, a developed Europe would become a more vigorous competitor for world markets that are now being enjoyed by the United States. The economic integration of the six highly industrialized countries, providing opportunities for rapid economic growth, a more effective allocation of the area's resources, and efficiencies which characterize large scale production is unquestionably a threat to United States dominance in the world economy. Second, it may effect the domestic trade in the United States by cutting down the exports which now go to the European Economic Community countries. The new tariffs will give preference to goods produced within the European Economic Community over those produced elsewhere.[2] A reduced level of exports would serve to retard economic development and employment opportunities of the United States.

The Community's common agricultural policy will affect United States farm exports in two ways. First, it will extend national preference to the producers through out the entire Common Market area rather than a single country. Second, a bigger market will stimulate competition among the farmers of the European Economic Community and will encourage more efficient production.

The purpose of this study is to evaluate the impact of the tariffs of the European Economic Community which have come into being as the result of the Community's Common Agricultural Policy, on United States wheat exports to the Common Market.

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[1]Ibid, p. 28.

[2]Arthur Billings, The European Market (New York: The Chase Manhattan Bank) p. 23.

United States Agriculture Versus European Economic Community Agriculture: The United States and the European Economic Community are the two leading trading blocs of the world. Together they account for over half of the combined world export and import trade and forty five percent of world agriculture trade.[1] Common Market agriculture is less efficient than United States farming. Cost of production is generally higher than in the United States. There are some 9 million farms, over 5 million are of 12 acres or less.[2] Much of this land consists of scattered strips which can not be adapted to mechanization of farming. The result is that there are strong demands from the farmers for protection against products from other countries with lower costs. No doubt there are some farms which can compete with the American farms and even beat them. The Community will naturally encourage these sectors because the industrial sector is demanding more and more labor.[3]

Farmers make up twenty-five percent of the labor force and are a definite power in determining the policy of the Community. The gap between farm and non-farm income has brought government price support for several crops in most Common Market countries a number of years back. This system of support or target prices has been carried forward into the Community's agricultural policy.[4]

The United States has a tremendously productive agricultural plant from which it is exporting fifteen percent of the production. The number of farms

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[1] Robert L. Tonz and Alex D. Angelidis, "U.S. Agriculture Trade with the European Economic Community," Foreign Agricultural Trade of the United States October 1962 (United States Department of Agriculture) p. 5.

[2] "The European Common Market in Brief," Foreign Trade Backround, September 1962, (United States Department of Agriculture) p. 3.

[3] John MacCallum, "European Economic Community," The Farm Quarterly, Vol.17, No. 3, Fall 1962, p. 4.

[4] Loc. cit., p. 3.

total only 3.5 million as compared to 9 million of the Common Market. For the year ending June 1962 agricultural exports reached a record level of 5.1 billion dollars. This total includes both exports for dollars and exports under Public Law 480 (The Trade Development and Assistance Act of 1954, as amended). If Public Law 480 sales are deducted, dollar agricultural exports account for about 20 percent of United States total merchandise export earnings.[1]

TABLE 1

VALUE OF UNITED STATES AGRICULTURAL EXPORTS TO EUROPEAN ECONOMIC COMMUNITY

Year	Commercial Sales	Govt. Program	Total
	(million dollars)		
1957	822.3	317.6	1,139.9
1958	665.4	180.6	846.0
1959	817.5	124.3	941.8
1960	1,031.8	83.9	1,115.7
1961	1,097.5	93.6	1,191.1

Tonz and Angelidis, op. cit., p. 9.

BACKGROUND

Benelux: The year 1921 witnessed the establishment of the customs union between Belgium and Luxembourg. The Netherlands joined this union in 1944.

[1]Charles S. Murphy, Statement of the Under Secretary of Agriculture before the Sub-Committee on International Exchange and Payments of the Joint Economic Committee, Wednesday, December 12, 1962, p. 2.

"Today Benelux constitutes a single market, with a common external tariff and no legal obstruction to the free movement of goods, capital or labor among the three members."[1] The idea of United Europe has become very popular since World War II as a result of the devastation of Europe during the war. The political division of Europe into East and West after the war, and the political, military and economic deterioration of non-communist Europe help speed up the process of unification.

Organization for European Economic Cooperation: United States support in the form of the Marshall Plan in 1947 for rehabilitation helped draw the European countries together. The formation of the Organization for European Economic Cooperation in July 1947 was a landmark in the history of Europe. Originally fourteen, the Organization for European Economic Cooperation later expanded to membership of eighteen nations. The organization "built a significant body of traditions and habits in day-to-day international consultation" with regard to trade liberalization, monetary stabilization and convertibility which paved the way for further integration of some of these economies.[2] The sharp edge of nationalism was blunted and the nations who were at war two decades ago learned to cooperate with each other.

The Coal and Steel Community: In the year 1949, France and Italy made an attempt to form a customs union which failed. However, the European Coal and Steel Community was established on April 18, 1951 by France, Germany, Italy and the Benelux countries. Since 1952 the tariff and quota restrictions on these products among the six countries have been abolished, discrimination in

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[1]Billings, op.cit., p. 4.

[2]J. Warren Nystrom and Peter Malof, The Common Market: European Community in Action (Princeton: D. Van Nostrand Company Inc., 1962) p. 13.

transport rates and many legal obstructions have been eliminated. The European Coal and Steel Community is a supranational authority in its structure. It envisaged not only the creation of a customs union but also the removal of all other barriers to trade, payments and movement of factors of production associated with coal and steel. The European Coal and Steel Community provided a stepping stone toward the subsequent additional economic integration of the six countries.

The Benelux countries proposed the establishment of the European Common Market in June 1955 by presenting the Benelux Memorandum to the foreign ministers of the European Coal and Steel Community in Italy.[1] The plan proposed a general economic integration through the creation of a common market. In April 1956, an agreement was reached between the six countries to draft treaties for a common market and an atomic energy community. One year later on March 25, 1957, the treaties establishing the European Economic Community and the European Atomic Energy Community were signed and came into effect on January 1, 1958.

The European Economic Community: The agreement of March 25, 1957, known as the Treaty of Rome, gave birth to a new economic unit in the world which is as populous as the United States. The European Economic Community countries combined have a population of 179 million and "cover a land area of 450,000 square miles, or about an eighth the size of United States."[2] The people have a high degree of technological skill. They produce automobiles, machinery, chemical products and many other industrial goods for export as well as for domestic use. According to Professor Hallstein, there has been an increase of 73 percent in internal

[1]Sherk, op.cit., p. 10.

[2]Emile Benoit, Europe at Sixes and Sevens (New York: Columbia University Press, 1961) p. 5.

trade in four years, an increase of 19 percent in Gross National Product and a 29 percent increase in industrial production.[1]

The aim of the European Economic Community is defined as promoting "the harmonious development of economic activities, continuous and balanced expansion, increased stability, a more rapid improvement in the standard of living and close relations between member states."[2] The members are committed to the following.[3]

1. Removal of customs duties and import and export quotas between each other;
2. Establishment of common tariff and commercial policy for states outside the Community;
3. Abolition within the Community of obstacles to the free movement of persons, services and capital;
4. Inauguration of common agricultural and transport policy;
5. Establishment of a system insuring competition;
6. Adoption of procedures for coordination of domestic policies for remedying balance of payments disequilibria;
7. Removal of differences in national law necessary for operation of the Common Market;
8. Creation of a European Social Fund to educate and train displaced workers and to raise their standard of living;
9. Establishment of a European Investment Bank to facilitate economic expansion;
10. Association of dependent overseas territories with the Community.

In order to carry out the policy outlined in the Treaty of Rome, the treaty established numerous agencies. The most important are:

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[1]"President Hallstein Replies," Bulletin from the European Community, September 1962, p. 9.

[2]Committee for Economic Development, The European Common Market and its meaning to the United States, A Statement on National Policy by the Research and Policy Committee of the Committee for Economic Development, p. 92.

[3]Ibid.

1. A Commission, which proposes Community policy and has day to day administrative authority;

2. A Council of Ministers which decides Community policy and has prime executive responsibility;

3. An Assembly which serves as a limited parliament;

4. A Court of Justice which passes judgment on legal issues arising under the treaty.

The Treaty of Rome does not confer supranational powers on these agencies but its importance in promoting the economic integration of these countries could hardly be exaggerated. The Treaty of Rome establishes a transitional period of twelve years during which time the provisions of the treaty will take effect. The twelve year period is divided into three stages, each involving a four year period.

TARIFF STRUCTURE UNDER EUROPEAN ECONOMIC COMMUNITY

Customs Union: The aspect of the Common Market with which United States business is most concerned is the customs union. It is here that the progress has been most rapid. "A customs union is an arrangement among the participating countries whereby all internal barriers to trade among members are dispensed with and a common economic policy with respect to external trade is established."[1]

Part I of the Treaty of Rome imposes three specific measures which are as follows.[2]

1. Reduction and abolition of internal tariffs;

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[1]Sherk, op. cit., p. 5.

[2]Benoit, op. cit., p. 20.

2. Establishment of uniform tariff on imports;

3. Trade liberalization.

The Treaty of Rome allowed twelve to fifteen years for progressive elimination of tariffs and quotas among the six signatory nations and adjustment of external tariff to a common level. The transition period is broken down into three stages of four to five years each. The transition is expected to end by January 1, 1970 but could be extended to January 1, 1973.[1]

<u>The Elimination of Tariffs</u>: Article 14 of the Treaty gives a detailed description of the manner in which the internal tariff duties will be abolished. In respect of each product the basic duty subject to successive reduction shall be the duty on January 1, 1957. Member States shall endeavor to secure at least twenty five percent reduction of the basic duty at the end of the first stage and at least a reduction of fifty percent at the end of the second stage.[2]

If general economic conditions permit, the customs duties may be reduced more rapidly. The Commission will make recommendations for this purpose to the Member States. Any Member State may suspend the collection of custom duties, in whole or in part, from other members of the Community if it so desires and inform other Member States and the Commission of its action. Member States shall also abolish between themselves, not later than the first stage, the custom duties on exportation and charges with equivalent effect.

<u>Internal Tariffs</u>: As a first step all members reduced their tariffs by ten percent on most imports from other members on January 1, 1959. They agreed

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[1]Ibid. p. 21.

[2]Paul Minet, <u>Full Text of the Treaty of Rome and A B C of the Common Market</u> (London: Christopher Johnson, 1962), p. 116.

to a twenty percent cut in 1961. Tariffs were cut by fifty percent on July 1, 1962, instead of July 1, 1965, on industrial products and 65 percent on agricultural products.[1] The Community is ahead of schedule and in view of its rapid progress it is generally hoped that complete elimination of internal tariffs will be achieved by December 31, 1966.

External Tariffs: A uniform external tariff should come into effect by the end of the transitional period. The new external tariff rate will be set at a level representing the arithmetic average of separate tariffs charged by the Member States on January 1, 1957. The external tariff adjustment is being made in three steps. It was laid down that external tariffs were to be cut (or raised) by thirty percent in the first stage, in the second stage by another thirty percent and in the third stage by the remaining forty percent.[2] The first step took place on December 1, 1960, one year ahead of schedule. The second move toward the common external tariff, which took place on July 1, 1963, instead of at the end of 1965, brought the external tariffs another thirty percent up or down to the Community's common external tariffs.[3] Step three which is scheduled to take place at the end of 1969 may also be accelerated. As it is, the Community is two and a half years ahead on its external schedule.

The common external tariff rate could be reduced by reciprocal tariff concessions with the Community's trading partners by a maximum of twenty percent.

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[1] "Summing up 1962: Year of Achievement," Bulletin from the European Community, January 1963, p. 1.

[2] Billings, op. cit., p. 10.

[3] "Common Market Speeds up Customs Union," Bulletin From the European Community, June-July 1962, p. 1.

Exemptions: However, there are many exceptions to these general principles which are set forth in lists A to G of the Treaty which specify special treatment to a large variety of products.[1] A number of chemicals, plastics, paper products and machinery items comprise list A. (List A - import duties to be based on existing French duties).[2] List B contains mainly minor raw material for which the average duties must not be more than three percent. Semi-finished goods which include oils, stone products, leather goods, yarn, building material, glass and non-ferrous metal comprise C list for which the average tariff may not exceed ten percent. List D includes a limited number of inorganic chemicals for which the average tariff may not exceed fifteen percent. The average tariff is set at twenty five percent for a few organic chemicals listed in list E. Included in list F are many chemicals, wood products, raw hides, leather, cotton, hemp, jute, tin, and nickel and many food stuffs on which special tariff rates are imposed which range from zero to eighty percent. List G includes fish, cheese, animal fat, cocoa, wine and spirits. It also includes many basic industrial ores, metals, and chemicals like lead and zinc, petroleum products, alluminum, ferro alloys, alcohol, and synthetic rubber on which the average duty is ten percent. The list includes commodities exempted from duties such as oil seeds, raw hides, tin, and certain textile fibres. High rates are applicable largely to foodstuffs, eighty percent on sugar, thirty percent on tobacco, twenty four percent on butter, and sixteen percent on green coffee.[3]

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[1]Benoit, op. cit., p. 267.

[2]W. O. Henderson, The Genesis of the Common Market (Chicago: Quadrangle Books, 1962) p. 160.

[3]Benoit, op. cit., p. 268.

Quotas and other restriction: The Treaty provides that all import quotas and similar restrictions within the Community be removed by the end of the transition period. Article 31 prohibits the Member States from introducing new quantitative restrictions or measures to that effect. According to Article 33 of the Treaty, all the bilateral quotas have to be converted into global quotas open to all other members of the Community without discrimination by January 1, 1959. The global quotas have to be increased by at least twenty percent in their total value compared to the previous year. The quotas shall be increased annually in the same proportion in relation to the preceding year in accordance with the same rules.[1] Quotas on industrial goods among the six have already been abolished since 1961.

Not only goods but capital and labor eventually should move freely within the Community. Since May, 1960, restrictions on the movement of personal capital and transfer of funds connected with short term financing of commercial transactions have been abolished.[2]

The new average tariff level is subject to negotiations on a reciprocal basis. However, the Treaty of Rome warns the Commission, while negotiating external tariff cuts, from creating any economic disturbances which are detrimental to the economic growth of Member States.

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[1]Minet, op. cit., p. 125.

[2]Henderson, op. cit., p. 160.

RELATIONSHIP TO OTHER INTERNATIONAL TRADE ARRANGEMENTS

The Rome Treaty is not in contradiction to the international institutions of cooperation that are designed to maintain and protect free world solidarity. Two such agreements related to the present discussion are the General Agreement on Tariffs and Trade, and the International Wheat Agreement. The six Common Market countries are members of these institutions and they have affirmed their intention to carry out their duties in them fully.

The Reciprocal Trade Agreements Act: United States trade was liberalized as a result of the Reciprocal Trade Agreements Act of 1934. Tariffs have been lowered by seventy percent from what they were in 1934.[1] Any further reductions are difficult because the present rates protect industries that are sensitive to import competition. Import controls limiting the quantity which foreign suppliers can sell in the United States market are applicable today to only five commodities - cotton, wheat and wheat flour, peanuts, certain manufactured dairy products, and sugar.[2]

United States trade with most countries is regulated under the Reciprocal Trade Agreements Act. However, these negotiations in recent years have taken place under the auspices of the General Agreement on Tariffs and Trade. The general Agreement on Tariffs and Trade was first negotiated in the year 1947.

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[1]Committee for Economic Development, A New Trade Policy for the United States, A Statement on National Policy by the Research and Policy Committee of the Committee for Economic Development, April 1962, p. 6.

[2]Murphy, op. cit., p. 3.

The General Agreement on Tariffs and Trade: The important provisions that relate to the present topic are:[1]

1. The contracting parties are committed to the policy of non-discrimination under the most-favored-nation principle. Any duty reduction extended to one country under an agreement must be extended to other countries for the like products;

2. The Agreement prohibits quantitative restrictions. However, there are three exceptions to this general rule:

   a) Countries are allowed to impose quotas to meet balance of payment difficulties.

   b) A country is permitted to impose import restrictions on agriculture or fishery products if like domestic products are subject to equally restrictive production or marketing limitations.

   c) Underdeveloped countries are permitted to use restrictive trade measures, in the interest of development, subject to approval of contracting parties.

3. The Agreement recognizes that closer integration of national economies is a desirable objective and that a customs union may serve to facilitate trade between the participating countries while not raising barriers against the trade of others.

4. Under the Agreement, a country may withdraw the concessions or suspend obligations if the increased imports cause or threaten serious injury to home producers. Countries affected by such action must be informed of such action either before or soon after withdrawing such concessions with a view to reaching an agreement. If agreement is not reached, and the action nevertheless taken, the other parties thus affected by the action can withdraw equivalent concessions.

After the formation of the Community, the United States entered into negotiations with the Common Market as a unit for the purpose of arriving at tariff rates which would replace the previous individual member tariff bindings which were negotiated under the General Agreement on Tariffs and Trade and to negotiate reductions in these rates. In this way favored treatment by countries in the European Economic Community to each other does not violate the principle of non-discrimination in General Agreement on Tariffs and Trade.

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[1]Committee for Economic Development, The European Common Market and its meaning to the United States, op. cit., p. 116.

The most recent tariff negotiations were completed in Geneva in March, 1962. They were the most extensive and complex ever carried on under the Trade Agreements Act. The United States sought in these negotiations on behalf of United States agriculture:[1]

1. To secure concessions in the common external tariffs on agricultural products which would permit healthy trading relations between the United States and the European Economic Community.

2. To insure access to the Community's markets covered by the Common Agricultural Policy.

The tariff concessions granted by the European Economic Community will become effective in stages as the Common Market countries complete their gradual adjustment toward the common external tariff. The common external tariff will become effective by January 1, 1970.

The United States was able to secure concessions for about seventy percent of its farm product exports, including cotton, soybeans, tobacco, tallow, hides and skins and certain fruits and vegetables. During the second round of the negotiations, United States granted concessions on agricultural products amounting to 142 million dollars of which half were concessions to the European Economic Community Countries. The United States obtained concessions on agricultural items to a total value of 161 million dollars.[2]

The European Economic Community also agreed to a twenty percent cut in the level of their ultimate external tariffs in response to similar concessions from the United States.[3] However, the United States was seriously handicapped

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[1]Irwin R. Hedges, The European Common Market and United States Agriculture, December, 1962, (United States Department of Agriculture) p. 7.

[2]"Agriculture and Tariff Negotiations-30 years of U.S. Tariff Reductions," Foreign Agriculture, April, 1963, (United States Department of Agriculture) p. 4.

[3]Sherk, op. cit., p. 28.

as a result of limits to its bargaining power. The new legislation in the form of the Trade Expansion Act of 1962 has been designed to correct this disadvantage.

The Trade Expansion Act: The Trade Expansion Act of 1962 was signed by President Kennedy on October 11, 1962. The new act, which is effective until July 1, 1967, gives the President of the United States authority to:

1. Negotiate reciprocal agreements reducing the tariffs to zero on products in which the United States and the European Economic Community account for as much as eighty percent of world trade;

2. Lower tariffs on agricultural commodities by more than fifty percent in any trade agreement with the Common Market if it is determined that such action would benefit United States exports of the like articles, (i.e., both would lower tariffs on the same article, for instance, corn for corn);

3. Negotiate reciprocal tariff cuts of as much as fifty percent on all goods. The president may now negotiate tariff reductions on entire categories of products, instead of item by item - a procedure which is expected to be more effective in multilateral negotiations;

4. Reduce or eliminate all tariffs or other restrictions on imports of tropical goods if the Common Market does so, and if the goods are not grown in significant quantities in the United States.

In the subsequent years, the impact on the United States trade will depend on the outcome of the future negotiations which in turn will be influenced by the authority of the Trade Expansion Act.

The International Wheat Agreement:[1] The other agreement which governs multilateral trade is the International Wheat Agreement. The International Wheat Agreement is a treaty among more than forty wheat importing and exporting countries including Russia and Poland. Member countries are involved in over ninety percent of the world's trade in wheat. However, only one third of the

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[1]Acknowledgement for this material is due to Dr. George R. Montgomery, Professor, Department of Economics and Sociology, Kansas State University.

world trade in wheat is directly under the provisions of the International Wheat Agreement.

The objective of the Wheat Agreement are to assure supplies of wheat to importing countries and market of wheat to exporting countries at stable prices.

The salient features of the Agreement are:

1. An agreed maximum and minimum price range for trade with in the Agreement;

2. An obligation on the part of each importing country to purchase a designated percentage of their total commercial purchases from member countries when prices are within the Agreement's price range;

3. A joint committment by exporting nations to make wheat available within the price range so that importing countries may discharge their purchase obligations;

4. To provide for an annual review of the world wheat situation.

Trade under the International Wheat Agreement does not involve any governmental intervention other than those necessary to see that the International Wheat Agreement committments are fulfilled. The President of the United States delegated authority to the Secretary of Agriculture, under the International Wheat Agreement Act of 1949, as amended, on May 23, 1963 under which special arrangement will be made for United States wheat exports under the International Wheat Agreement.

"The Secretary is now empowered:[1]

1. To make available, or cause to be made available, through Commodity Credit Corporation, such quantities of wheat and wheat flour and at such prices as are necessary to exercise the rights, obtain the benefits, achieve the objectives and fulfill the obligations of the United States under the IWA.

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[1]"United States Department of Agriculture Given Authority to Administer Wheat Agreement Operation," Foreign Agriculture, June 3, 1963, (United States Department of Agriculture) p. 6.

2. To prohibit or restrict the importation or exportation of wheat or wheat flour and issue such rules and regulations as he may deem necessary in the implementation of the IWA."

The basic minimum and maximum prices in the present Agreement range between $1.62½ to $2.02½ per bushel as compared to $1.50 to 1.90 in 1959. In turn, exporters are obligated not to export under the minimum price. But if the United States farmers should produce wheat in such quantities far in excess of domestic and export needs, the prices of wheat will fall below the International Wheat Agreement minimum. Exports by the United States at such prices will result in the collapse of the Agreement. This will not be permitted. Moreover, the Common Market countries can increase their wheat production and curtail their imports sharply without defaulting their International Wheat Agreement pledge. The committment by the importing nations to purchase a designated percentage of their commercial wheat imports from member countries permits them to expand their domestic production as much as they desire.

THE COMMON AGRICULTURAL POLICY

<u>The Treaty of Rome</u>: The Rome Treaty calls for development of a Common Agricultural Policy within the Common Market. As defined in Article 38 of the Treaty of Rome "the Common Market shall extend to agriculture and trade in agricultural products. Agricultural products shall mean the product of the soil, of stock-breeding, and of fisheries as well as produce after the first processing stage which are directly connected with such products."[1]

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[1]Minet, <u>op. cit</u>., p. 130.

Objectives: Article 39 describes the objectives of the Common Agricultural Policy which are:[1]

1. To increase agricultural productivity by developing technical progress and ensuring the rational development of agricultural production and optimum utilization of factors of production, particularly labor;

2. To ensure a fair standard of living for agricultural population by increasing the individual earnings of persons engaged in agriculture;

3. To stabilize markets;

4. To guarantee regular supplies;

5. To ensure reasonable prices in supplies to consumers.

Organization: There will be a common organization for agricultural markets which will take one of the three forms, depending on the products involved:[2]

1. A system of common rules to control competition;

2. Compulsory coordination of several national systems of market regulations;

3. A European Marketing Board.

Phases of Development of the European Economic Community: There have been two different phases of the European Economic Community thus far. The first phase from 1958 through 1961 could be called the "industrial take off" period. This four year period, which was devoted to the industrial development of the Community, turned out to be a success. Employment and wage rates and purchasing power were at record levels.[3]

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[1]Ibid., p. 131.

[2]Committee for Economic Development, The European Common Market and its meaning to the United States, op. cit., p. 96.

[3]Raymond A. Ioanes, "Recent Common Market Development and U. S. Agriculture," An address by the Administrator, Foreign Agricultural Service, U.S. Department of Agriculture, before the National Farm Institute, Des Moines, Iowa, February 15, 1963, p. 1.

The second phase covering the year 1962 might be termed the "Agricultural Policy Phase."[1] Agriculture was excluded from the first stage because of lack of agreement on steps to harmonize national agricultural policies. However, an agreement was reached in January 1962 towards establishing a Common Agricultural Market. The Common Market launched a new system of controlling the grain trade on July 30, 1962. The previous regulations, different in each country, were replaced and a uniform system governing the wheat and feed grain trade was adopted.[2]

Main Features: Agriculture is exempted from Treaty's rules of competition except to the extent decided by the Council. Subsidies have been authorized in order to protect the unfavorably situated agricultural operations and for economic development. The main features of the Common Agricultural Policy include:[3]

1. Control of farm products through common marketing authorities;
2. Establishment of common prices and abolition of trade barriers within the Community;
3. Control of imports through variable levies, fees, minimum prices, and in some cases, quantitative restrictions;
4. Use of funds to finance market operations and subsidize exports;
5. Establishment of quality standards.

Classification of Common Agricultural Policies: The Common Market's Agricultural Policy can be divided into two types of policies. One category comprises the measures for long term agricultural adjustments, such as land consolidation,

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[1] Ibid. p. 1.

[2] Hedges, op. cit., p. 1.

[3] Hedges, op. cit., p. 4.

meliorations, farm credit, technical training, and help for shift out of marginal farming. The second category comprises the market and price policy.[1]

At the beginning, the members of the Community agreed that the first steps toward establishing a common market for agricultural products will be taken in 1962 and set 1969 as a target date for its completion. This means that by the end of 1969 all tariffs, quotas, and other regulations restricting intra-community trade will be removed for agricultural products. By the end of that period the present individual tariffs will be replaced by a uniform system of tariffs for the entire Community.

Minimum Import Prices: Imports quotas on agricultural products from Member States will be replaced by a national system of minimum import prices during the transition period in a way which shall not

1. Reduce existing trade between members of the Community;
2. Prevent expansion of such trade;
3. Prevent the "progressive development of a natural preference" among the members of the Community.[2]

The Member States will set the minimum prices in the initial stage but the Council will set the minimum price criteria on which national prices must be based. Minimum prices are subject to revision by a qualified majority in the Council if they fail to meet the above listed three criteria. The Council will decide by simple weighted majority what system to follow for the remaining

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[1]"European Common Market Agricultural Proposals and Implications on U.S. Agriculture," Foreign Agriculture Circular, August 26, 1960, (United States Department of Agriculture) p. 7.

[2]Committee for Economic Development, The European Common Market and its meaning to the United States, op. cit., p. 96.

national minimum prices at the end of the transitional period.

Article 148 of the Treaty describes the manner in which the votes of its member shall be weighted. They are shown in Table 2.[1]

TABLE 2

DISTRIBUTION OF VOTES IN THE EUROPEAN ECONOMIC COMMUNITY

Country	Votes
Belgium	2
France	4
Germany	4
Italy	4
Luxembourg	1
Netherlands	2

The import prices must equal domestic support prices of the importing nations. Most food products will be subject to variable levies which might be high due to the difference between world commodity prices and the fixed internal prices of the Common Market nations. For other products, protection will be provided by the external tariffs in the same way as other products.[2]

Old System: According to the old system each state had a separate set of regulations. In Belgium and Luxembourg, wheat imports were also controlled by compelling flour millers to use a prescribed percentage of domestic wheat.

[1]Minet, op. cit., p. 135.

[2]Billings, op. cit., p. 13.

The monthly target price for the 1960 domestic wheat crop in Belgium and Luxembourg averaged \$2.56 per bushel. This price was payable on 700,000 metric tons, the portion of the crop required to maintain a 70 percent mixing ratio. Quantities marketed in excess of the figure had to be sold in the export market or diverted to feed grains at whatever price the market would fetch. The problem was to assure maximum use of home grown wheat and at the same time maintain bread quality. A minimum of 30 percent imported quality wheat is considered necessary to have flour of desirable quality.[1]

In France, the Cereals Office exercised rigid control over imports and exports. Farmers had to sell to dealers authorized to buy for the Cereal Office. Resale prices were also fixed by that office. The support price varied from \$1.80 to \$2.13 per bushel during 1960-61 depending on the quantity delivered. This price was limited to 6.8 million metric tons referred to as "quantum" which varied from year to year depending upon the size of the crop and domestic milling requirements. Support prices were subject to deductions for various taxes and storage and handling charges including "resorption" tax to cover losses on exports. Subsidies were given for exports because the support price was higher than the world market price. The losses were covered in part by the resorption tax and in part by the Federal Treasury. For exports of nonquantum wheat, farmers receive the average price at which the wheat was exported during the marketing year.[2]

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[1]Leo J. Schaben, Impact of Common Market Proposals on Competitive Status of U. S. Bread and Feed Grains in the European Economic Community Area, October 1961 (United States Department of Agriculture), p. 18.

[2]Ibid., p. 18.

In Germany, monthly minimum and maximum prices were fixed in four separate regions related to location of milling facilities and transport cost from surplus to deficit areas. In 1960-61, the minimum price was $2.97 per bushel and the maximum was $3.08. The Import Agency bought from producers when they were unable to obtain guaranteed minimum prices and producers sold the grain in the open market whenever market prices rise above the fixed maximum. Import licenses were issued to lowest bidders for specified quantities and countries from where the grain was to be imported. Eighty percent of home grown wheat should be used for milling according to the regulations in 1960-61. Importers had to conclude a contract with the Import and Storage agency by which the latter bought the imported product at the import c.i.f. price and resold it immediately to him. The difference between the two prices was known as the skimming charge and was pocketed by the government. The skimming charge was fixed at a high enough level to equalize the price of imported grain with that of home grown product.[1]

In Italy, producers were guaranteed a price for a specified quantity of the crop. Wheat and flour imports were a State function. "Federazione Italiana Consorzi" was responsible for the administration of imported wheat and sold it at the same prices as the home grown wheat. The support price for the 1960 crop was $2.72 to $2.93 per bushel for soft wheat and $3.52 to $3.74 for durum. These prices were guaranteed for compulsory pooled wheat which in turn was sold at a considerable mark up to the flour millers. Compulsory deliveries of soft wheat were 800,000 tons and 200,000 tons for hard wheat in 1960-61. Farmers could sell the rest of the crop to the private traders at whatever price they were willing to accept.[2]

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[1]Ibid., p. 17.

[2]Ibid., p. 19.

In Netherlands, wheat imports were controlled by compulsory utilization of home grown wheat and a quantitative restriction on wheat flour. 65,000 tons was allowed duty free and any excess is dutiable 3 percent ad valorem. There was also a monopoly fee of 8.7 cents per bushel on wheat imports and 82 cents per 100 pounds for flour imported for human consumption. The import levy was rebated on exported flour. Flour millers used 30 percent home grown wheat at fixed support prices. The support price for 1960-61 was $2.33 per bushel. Profits arising out of support operations were paid into Agricultural Equalization Fund.[1]

New Regulations: The original date for inauguration of a Common Agricultural Policy was July 1, 1962 but due to some technical difficulties the Council postponed the date to July 30, 1962. This date marked the beginning of the seven and a half year period during which a common market in agriculture is to be established. During the preparatory period the internal levies will be reduced gradually as prices in the Community countries are harmonized and ultimately they will be abolished at the end of the period.[2]

The agriculture department of the community is responsible for the day to day application of the new regulations. For grain, it involves the daily calculations of new base prices for each class of products. These base prices are communicated daily to the relevant government bodies of the six member countries. The amount of the import levy is calculated on the difference between the base price and the threshold price, determined annually for each particular country. The Commission also determines the base price for calculations of subsidies to be paid to community exporters of grain.[3]

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[1]Ibid., p. 18.

[2]"Agriculture Common Market in Operation," Bulletin from the European Community, September, 1962, p. 3.

[3]Ibid.

On July 30, 1962, specific commodity marketing regulations went into effect for wheat and wheat flour, feed grains, pork, poultry and eggs, fruits and vegetables, and wine.

These levies have been imposed as a result of the Common Agricultural Policy which aims to:[1]

1. Place most products under administrative control of common marketing authorities;

2. Establish a common level of support prices for each agricultural commodity;

3. Abolish intra-community trade barriers;

4. Rely on a system of variable import levies to make up the difference between world prices and the higher internal price level of the community for most imported products which compete with the community's own products;

5. Control the level of supplies coming to the market;

6. Finance market operations including subsidiation of necessary export through stabilization funds financed by revenues from variable import levy system.

VARIABLE LEVIES

Two variable levies are being used for grain between now and 1970. One will be imposed on each Member State on imports from other Members. The second will be imposed by each Common Market country on imports from non-member countries. Use of a levy on imports from third countries is intended to equalize import prices with prices in each of the European Common Market countries. The variable import levy on grain imported from member countries is scheduled to

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[1]"Britain, the Common Market and American Agriculture," Foreign Agriculture, February 18, 1963, (United States Department of Agriculture) p. 3.

be eliminated completely by 1970. The variable levy on imports from third countries will, however, remain.[1]

The two pillars on which the new system stands are the target prices and variable import levies. The target prices, which are internal wholesale prices set up by each member country, are scheduled to be brought to a Community-wide common level by 1970.[2]

Target Prices: The target prices will be adjusted to a uniform level by increasing the lower ones and reducing the higher. The variable import levy is always equal to the difference between the world market c.i.f. (cost, insurance, freight) price and target price backed off to a c.i.f. seaboard level.[3]

Intervention Price: Besides target prices, member countries have also been assigned intervention prices and threshold prices. Intervention prices are guaranteed or support prices while threshold prices are equivalent to minimum import prices.[4]

Threshold Prices: The threshold price is derived by a downward adjustment of target price which includes a deduction for freight and other costs necessary to transport the grain from port of entry to the desired area plus the import price for non-member countries which is to be the lowest daily world market c.i.f. price adjusted to quality at the principal port of entry. Additionally,

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[1]Tonz and Angelidis, op. cit., p. 15.

[2]Hukins, op. cit., p. 1.

[3]Ibid.

[4]"European Economic Community Countries Set Grain Target Prices," Foreign Agriculture, August 12, 1963, (United States Department of Agriculture) p. 10.

a small fixed charge is added to give further advantage to the community's grain.[1]

The lowest of the resulting adjusted c.i.f. prices for each commodity for each country are selected as standardized c.i.f. prices. The difference between these standardized c.i.f. prices and the applicable threshold price determines the levies to be applied to third countries.

This system replaces all other restrictions on imports such as quotas, compulsory mixing, monopolies and state trading formerly under national policies of the member states. The charges made to all non-member countries are the same and therefore, in this manner, non-discriminatory.[2]

<u>Producer's Price</u>: Currently, the producer's price of wheat is about $2.15 per bushel in France and $2.85 in Germany.[3]

The Council of Ministers of the European Economic Community has set the upper and lower limit for the 1963-64 target prices of wheat in June, 1963 as required by the Community's Common Agricultural Policy. The target prices are designed to be applicable to the wholesale level of trade. Target prices in the deficit producing sections of individual countries should be no greater than the upper limits and the target prices in the surplus producing areas should be no less than the lower limits.

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[1]Tonz and Angelidis, <u>loc. cit</u>.

[2]"European Economic Community President, in Nebraska, Outlines Agricultural Policy," <u>Bulletin from the European Community</u>, January 1963, p. 6.

[3]"European Economic Community Projects French Grain Output," <u>Foreign Agriculture</u>, February 18, 1963, (United States Department of Agriculture) p. 5.

TABLE 3

PRODUCER'S PRICE OF WHEAT IN THE EUROPEAN ECONOMIC COMMUNITY AND THE UNITED STATES

Country (average 1958-60)	$/bu.
Belgium-Luxembourg	2.54
France	1.99
Germany	2.71
Italy	3.03
Netherlands	2.15
European Economic Community (simple average)	2.49
United States	1.76

Elmer W. Learn, Long-Term Effects of Common Market Grain Policies March 1963 (United States Department of Agriculture) p. 8.

TABLE 4

UPPER AND LOWER LIMITS OF TARGET PRICES OF WHEAT IN THE EUROPEAN ECONOMIC COMMUNITY

Year	Upper Limit (dollars per metric ton)	Lower Limit
1962-63	$ 118.92	$ 89.42
1963-64	118.92	89.42

"European Economic Community Countries Set Grain Target Prices," Foreign Agriculture, August 12, 1963, (United States Department of Agriculture) p. 10.

Following the Council of Ministers' decisions on upper and lower limits for target prices, Member States have announced their target prices for wheat for 1963-64. These target prices compared with those of the previous year are as follows:

TABLE 5

TARGET PRICES OF WHEAT IN THE EUROPEAN ECONOMIC COMMUNITY COUNTRIES

Year	Belgium	France	Germany	Italy	Netherlands
		(dollars per metric ton)			
1962-63	$ 102.60	$ 90.40	$ 118.88	$ 104.40	$ 91.99
1963-64	104.60	92.20	118.88	102.40	98.34
Change	+2.00	+2.20	-	-2.00	+6.35

Ibid.

The upper and lower limits will be gradually brought together as the European Economic Community moves toward a common price level. The target prices in the deficit areas of the Community are different from those that prevail in the surplus areas of some of the Member States. Derived target prices are permitted for some marketing centers if natural market conditions result in more than five percent difference between the market price in the deficit area and the market price in the areas of surplus production.

The intervention price is directly related to the target price and is generally five to ten percent less than the target price. Government agencies are required to purchase all quantities of wheat offered at the intervention prices. In this way the derived intervention prices were permitted to be some what higher than ninety percent of the related target prices.

TABLE 6

TARGET PRICES OF WHEAT IN DEFICIT AREAS AND SURPLUS AREAS IN THE EUROPEAN ECONOMIC COMMUNITY: 1962-63

Country	Deficit Area		Surplus Area	
	(dollars per metric ton)			
France	Marseillis Dunkirk	97.18	Chartres Orleans Chateaudun	90.40
Germany	Duisberg	118.88	Sinbach	111.12
Italy	Naples Ravenna Bologna	110.40	Ravenna	104.40
Belgium	Malines	102.60	----	
Luxembourg	Luxembourg	117.00	----	
Netherlands	Rotterdam Deventer	91.99	----	

L. P. Schertz, Basic Provisions of European Economic Community Regulations, June 1963, (United States Department of Agriculture) p. 2-3.

TABLE 7

INTERVENTION PRICES OF WHEAT IN DEFICIT AREAS AND SURPLUS AREAS IN THE EUROPEAN ECONOMIC COMMUNITY: 1962-63

Country	Deficit Area	Surplus Area
	(dollars per metric ton)	
France	87.46	84.97
Germany	110.62	106.62
Italy	102.40	99.20
Belgium	95.40	----
Luxembourg	111.00	----
Netherlands	84.25	----

Ibid. p. 4-5.

The threshold prices are used to calculate the levies on imports and also give protection to internal target prices and intervention prices.

TABLE 8

THRESHOLD PRICES OF WHEAT IN THE EUROPEAN ECONOMIC COMMUNITY AT THE BEGINNING OF THE CROP YEAR 1962-63

Country	Wheat (dollars per metric ton)	Durum Wheat
France	95.54	113.41
Germany	121.00	127.00
Italy	109.60	142.59
Belgium	98.20	108.00
Luxembourg	116.20	122.00
Netherlands	91.99	96.69

Ibid. p. 7.

The levy system that has been adopted by the Common Market has a different effect on the competitive positions of different qualities of products. As a result of the levy, cost of higher priced products are increased by the levy a smaller percentage of their c.i.f. prices than are the cost of lower priced products.

TABLE 9

REPRESENTATIVE AVERAGE LEVIES APPLICABLE IN JANUARY 1962
IN THE EUROPEAN ECONOMIC COMMUNITY
(monthly average)

Country (dollars per metric ton)	Wheat
France	42.43
Germany	66.70
Italy	56.38
Belgium	44.60
Netherlands	40.91

Ibid. p. 11.

WHEAT TRADE OF THE UNITED STATES AND THE EUROPEAN ECONOMIC COMMUNITY

United States Wheat Exports to the European Economic Community: The United States exports more than one billion dollars worth of farm products to the European Economic Community countries and buys a little over two hundred million dollars worth of agricultural goods from them.[1] In the year 1962, the Common Market bought 1.2 billion dollars worth of agricultural products from the United States. Agricultural sales were thirty five percent greater in 1962 as compared to 1958. During the 1958-62 period, feed grains and soybeans shipments were more than doubled.[2] From 1954-60, United States exports of all kinds of agricultural products to the Common Market countries doubled with over half the increase coming during 1958-60.[3]

[1]MacCallum, op. cit., p. 3.

[2]Murphy, op. cit., p. 5.

[3]Sherk, op. cit., p. 28.

Wheat and wheat flour exports have been a relatively small part of the total farm exports to the European Economic Community. Table 10 shows the value of such exports for five recent years.

TABLE 10

VALUE OF UNITED STATES WHEAT AND WHEAT FLOUR EXPORTS TO THE EUROPEAN ECONOMIC COMMUNITY

1957	1958	1959 (million dollars)	1960	1961
118.8	67.7	56.5	55.8	185.6

Tonz and Angelidis, op. cit., p. 8.

Wheat Production in the European Economic Community: The Common Market includes countries which are important in wheat production. The production of wheat in the European Economic Community is given in Table 11 and 12. France is listed among the surplus wheat producing countries. French production normally equals almost half of the area's total. During the two years 1960-62, France produced a combined total of twenty three million tons of the fifty three million ton wheat production in the European Community.[1] In 1962 the wheat crop in France reached a record level of fourteen million tons, thirty percent above the 1959-61 annual average. This was due to the high yield per acre rather than to increase in the acreage. The acreage under wheat cultivation is estimated to be around eleven million acres in France.[2] There is some fear that France might want to put more acres under wheat

[1]"French Wheat Crop Outlook Poor for 1963," Foreign Agriculture, May 13, 1963, (United States Department of Agriculture) p. 7.

[2]"French Wheat Exports to European Economic Community Show a Big Drop," Foreign Agriculture, March 11, 1963, (United States Department of Agriculture) p. 5.

cultivation, but this need not be so in view of the fact that other crops may be more profitable than wheat. A study released by the Commission of the European Common Market has projected French production in 1970 at several assumed prices. According to them the maximum area that could be returned to grain production is about four million acres. The study expects that an increase of more than twenty percent in French prices is required to increase the grain area by four million acres. Such an increase in French price level would mean a price near the German level.[1]

TABLE 11

WHEAT PRODUCTION IN THE EUROPEAN ECONOMIC COMMUNITY

Year	Harvested Acres (1000 acres)	Yield (bushels)	Production (1000 metric tons)
1957	27,708	32.5	24,528
1958	27,589	32.4	24,330
1959	26,699	35.6	25,845
1960	26,309	33.7	24,136
1961	25,628	32.9	23,101

Learn, op. cit., p. 12.

[1] "European Economic Community Projects French Grain Output," Foreign Agriculture, February 18, 1963, (United States Department of Agriculture) p. 5.

TABLE 12

WHEAT PRODUCTION IN THE EUROPEAN ECONOMIC COMMUNITY
(Countrywise - 1957-59 average)

Country	Harvested Acres (1000 acres)	Yield (bushels) per acre	Production (1000 metric tons)
Belgium-Luxembourg	558	53.5	812
France	11,303	35.0	10,752
Germany	3,174	46.4	4,012
Italy	12,025	27.2	8,901
Netherlands	272	58.9	435
Total	27,332	33.5	24,913

Ibid., p. 13.

The European Economic Community is a major producer and consumer of agricultural products. It is the world's largest importer of agricultural products and, second to the United States, the world's largest exporter. However, wheat production in the Community does not fulfill its requirements. United States wheat exports make up part of this deficiency but have declined during the past ten years. The Community obtained forty-five percent of its imports from the United States in 1951-53 but only eighteen percent in 1960.[1] The United States wheat exports to the Community are shown in Table 13. Table 14 shows the total domestic wheat production, exports and percentage of products exported. The post war recovery of Europe, substantial increase in output, and trade with competing nations are responsible for

[1]Jiryis S. Oweis and Alex D. Angelidis, "Agriculture Imports of the European Common Market," Foreign Agriculture Trade of the United States, April, 1963 (United States Department of Agriculture) p. 35.

this decline. However, this decline was reversed in 1961 when imports more than trebled due to a crop failure in the Community, especially in Italy.[1] The import requirements of the Common Market vary from year to year depending on the size of the Community's crop. Community's exports and imports of wheat are shown in Tables 15 and 16. A good crop obviously results in reduced imports. According to the United States Department of Agriculture, most of the decline in wheat exports of the United States to European Economic Community has been the result of reduced dollars sales due to increase in the production of wheat in the Common Market area. The variation in the figures of wheat production for the years 1957 thru 1961 show only a slight increase in the European Common Market production. The variations are not great enough to prove a trend toward an increase in wheat production conclusively in the European Economic Community. The wheat exports of the United States to the European Economic Community also show a great variability and do not conclusively indicate a definite downward trend at this stage.

TABLE 13

UNITED STATES WHEAT AND WHEAT FLOUR EXPORTS TO
THE EUROPEAN ECONOMIC COMMUNITY

Year (July to June)	Belgium-Lux	France	Germany	Italy	Netherlands
		(1000 metric tons)			
1957-1958	59.8	0.3	555.9	87.2	214.8
1958-1959	131.7	72.7	432.4	29.5	348.5
1959-1960	90.1	0.1	262.6	53.6	317.1
1960-1961	122.8	44.1	188.6	1,397.2	346.8
1961-1962	160.5	105.5	386.3	537.3	693.8

United Nations, Food and Agricultural Organization, World Grain Trade Statistics, 1957-58 Table 8, p. 20. 1958-59 thru 1961-62 Table 8, p. 24.

[1]Ibid.

TABLE 14

UNITED STATES WHEAT EXPORTS: EXPORTS, TOTAL PRODUCTION, AND PERCENTAGE OF PRODUCTION EXPORTED, 1954-1962

Export fiscal year ending June 30			Production			Share of production exported ending June 30		
Average 1954-60	1961	1962	Average 1953-59	1960	1961	Average 1954-60	1961	1962
			(million bushels)					
391.6	660.9	716.5	1090.6	1357.3	1234.7	36%	49%	58%

"Export Highlights," Foreign Agriculture Trade of the United States, September 1962, (United States Department of Agriculture) p. 11.

Before establishment of a Common Agricultural Policy, the United States was able to deal with Common Market countries separately. And since there was no Common Agricultural Policy, the member countries had no tariff advantage and paid the same duty as did the United States. As a result of the Common Agricultural policy, the producers in the European Economic Community have been guaranteed a market for all they can produce at the price level set by the government. The pressure for high internal prices will be great. The high internal prices, in turn, will provide a powerful stimulus to uneconomic production which might cause a substantial decrease of United States wheat exports.[1] It is sometimes suggested that a more extensive use of subsidies would substantially increase United States agricultural exports. But if export subsidies are used indiscriminately, they will not only disrupt orderly international trade but could also endanger the balance of payments condition. Any undue disruption of trade patterns might bring about retaliatory measures not only for goods thus subsidized but against other products as well.[2] The expansion of agriculture in Europe compels the United

[1]Murphy, op. cit., p. 9.

[2]Ibid., p. 4.

States to consider whether its trade policies will harmonize with the Common Market structure. The extent to which the United States will be able to do this depends upon whether the European Economic Community countries choose the road of multilateral trade or protectionism.

TABLE 15

WHEAT AND WHEAT FLOUR EXPORTS OF THE EUROPEAN ECONOMIC COMMUNITY

Year	Belgium-Lux	France	Germany	Italy	Netherlands
		(July to June) (1000 metric tons)			
1957-1958	35	2,284	659	874	7
1958-1959	91	1,059	663	887	13
1959-1960	138	1,772	791	445	5
1960-1961*	17	1,559	825	67	12
1961-1962*	65	1,833	1,179	80	12

*Preliminary figures.

United Nations, Food and Agriculture Organization, World Grain Trade Statistics 1960-61, Table 1, p. 14.

United Nations, Food and Agriculture Organization, World Grain Trade Statistics 1961-62, Table 1, p. 14

TABLE 16

WHEAT AND WHEAT FLOUR IMPORTS OF THE EUROPEAN ECONOMIC COMMUNITY

Year	Belgium-Lux	France	Germany	Italy	Netherlands
		(July to June)			
		(1000 metric tons)			
1957-1958	429	255	2,619	379	1,032
1958-1959	492	548	2,431	79	1,213
1959-1960	407	328	2,094	112	1,113
1960-1961*	482	401	2,204	2,371	940
1961-1962*	485	360	3,515	902	1,360

*Preliminary figures.

United Nations, Food and Agriculture Organization, World Grain Trade Statistics 1960-61, Table 2, p. 15.

United Nations, Food and Agriculture Organization, World Grain Trade Statistics 1961-62, Table 2, p. 15.

Wheat Types Demanded in European Economic Community: The French produce soft wheat which compares with soft Red Winter variety grown in the United States. This type of wheat is in small demand in the Common Market Countries due to the fact that they are all reaching a self sufficiency level in soft wheat.[1] Imports of soft wheat into the European Economic Community might suffer due to the increase in French wheat production but hard wheat of good quality will do better simply because France cannot grow enough hard quality wheat for Europe. Five to eight years ago United States provided soft wheat to Europe but as their domestic wheat production has increased, the Community's import demand has changed to hard quality wheat. Today, the Common Market countries require high gluten wheat, such as Hard Red Spring of the United States, which

[1]"French Wheat Crop Outlook Poor for 1963," Foreign Agriculture, May 13, 1963, (United States Department of Agriculture) p. 7.

they cannot produce in abundance. They also have a deficit in durum wheat which France is unable to produce in substantial quantities. The Europeans prefer northern spring wheat which is grown in the Dakotas, Montana, and Minnesota. They also like the hard red winter wheat from Kansas, Nebraska, Colorado, Texas and Oklahoma.[1]

For purpose of exports to the Common Market soft wheat and good quality hard wheat have to be considered separately. Due to the built-in preference for Common Market products, France has the first opportunity to fulfill the wheat requirements of member states so far as soft wheat is concerned without any price increase since it has a vast unused productive capacity. "Superimposing the increased prices and expanding production it becomes a virtual certainty that the Common Market will be a consistent exporter of soft wheat."[2] However, the situation is different for good hard wheat because the Common Market countries will continue to import hard quality wheat to blend with their own soft wheat to make flour. This would enable the United States to continue shipments of hard wheat amounting to perhaps about thirty million bushels per year.[3]

The Implications of Variable Levies: Seventy percent of United States agricultural exports to the Community will not be restricted by variable levies. Principal commodities in this category include cotton, soybeans, tobacco, fruits, vegetables, tallow and vegetable oils. A fixed duty will be charged on these items. The remaining thirty percent of trade includes grains which will be subject to variable levies. These include wheat, corn, grain sorghum and rice.[4]

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[1]MacCallum, op.cit., p. 7.

[2]Hukins, op. cit., p. 3.

[3]Ibid., p. 3.

[4]Tonz and Angelidis, op. cit., p. 14.

There is great apprehension that United States wheat exports to the European Economic Community will decline substantially in the future in view of the new price support program that has come into being as a result of the Common Agricultural Policy. Variable levies have been imposed on a number of commodities like feed grains, poultry, eggs, pork, wheat and wheat flour. These levies will vary from time to time not only to equalize the price of the imported product with the Common Market's internal domestic price but also to afford a price preference for marketing of domestic production. The prices are being brought to a uniform level which is likely to result in higher prices for wheat for France and some lowering in Germany and other member countries. The French producer will probably respond more quickly to the incentive to expand production than the Germans and others will respond to reduce it. This simply means a reduced market for United States wheat exports to the European Economic Community.

The Commission has proposed that the price policy should be used to create and maintain a balance between production and imports on the one hand and demand on the other. This means that although preferential treatment will exist for the members of the Community, price policy will not be used in an effort to satisfy internal demand completely by internal resources. At the same time prices will not be fixed at the world market level simply because the agrarian structure of European Economic Community does not allow for this.[1]

The maintenance of expansion of United States exports, industrial and agricultural, depends greatly on the success of future negotiations with the

[1]Hans-Broder Krohn and Jacques Van Lierde, "proposed Criteria for Fixing the Prices of Agricultural Products in the European Economic Community" in "The European Economic Community," International Journal of Agrarian Affairs, Vol. III No. 5, June 1963, p. 243.

European Economic Community to reduce its external tariffs or otherwise assure trade access. The European Economic Community countries want the United States tariff to be lowered on industrial products and the United States wants the European Economic Community agricultural tariffs to be reduced. Reliance must be placed on the ability to negotiate which means that the United States should be ready to grant concessions in order to receive concessions. The Trade Expansion Act of 1962 gives the United States bargaining power to offer broad and deep cuts to the Common Market in exchange for concessions on agricultural exports from the United States. Armed with this bargaining power the United States may obtain access to their agricultural markets including those which are presently protected by variable levies. The United States is urging that the minimum import price feature of this system may be eliminated or the minimum price be reduced substantially.[1]

At the next meeting on the General Agreement on Tariffs and Trade the United States will try to reach a grain agreement with the European Common Market in order to obtain reasonable access to the Common Market. This might be accomplished by imposing a maximum limit on variable fees and assured import quotas. At present, the United States has an interim agreement with the European Common Market that if the Common Agricultural Policy results in a decline of United States quality wheat exports, action will be taken to correct the situation.[2]

Recently the Common Market President Walter Hallstein explained that the Community's agricultural policy "pins its faith to a non-discriminatory multilateral world trade in which the consumer has the last word on what amounts and

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[1]Murphy, _op. cit._, p. 12.

[2]Murphy, _op. cit._, p. 11.

quantities shall be imported and from what countries."[1] Variable levies could be applied in an exceedingly restrictive manner to the detriment of imports or they may be applied in a liberal manner so as to permit reasonable access for imports. The European Economic Community has given assurance that the latter is its intention.[2]

The Future of United States Wheat Exports: The chief effects of the new price policy will not be felt until after the 1963 harvest since no increase could come about before that time. Although wheat production in the European Economic Community in 1962 was twenty-one percent higher than that of the previous year, the increase was the result of a rise in yields rather than acreage.[3] However, exports of wheat from the United States and European Economic Community countries declined to forty one million dollars in 1962-63 from one hundred and twelve million dollars a year earlier. Wheat flour exports were reduced to eleven million dollars from sixteen million dollars a year earlier.[4] Despite the European Economic Community's grain regulations which are aimed to stimulate intra-community trade, the French had trouble in exporting their soft wheat surpluses to other Common Market countries. Only 50,000 tons, or five percent, of the French wheat went to the member countries as they have all reached a self-sufficiency level so far as their soft wheat requirements are concerned. Because of this the French moved about two million tons of their surplus to the Soviet bloc and Mainland China. However, this was a bitter

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[1]"European Economic Community President, in Nebraska, Outlines Agricultural Policy," Bulletin from European Economic Community, January 1963, p. 5.

[2]Hedges, op. cit., p. 5.

[3]Tonz and Angelidis, op. cit., p. 15.

[4]"Exports to the European Economic Community August 1962 - July 1963," Foreign Agricultural Trade of the United States, September 1963 (United States Department of Agriculture) p. 24.

experience for the French since a large subsidy of $1.15 had to be paid for exports to the third countries.[1]

The Community's wheat and flour imports average around five million metric tons. About four and a half million tons come from non-member countries. Approximately one and a half million tons are imported for quality reasons. Imports of United States quality wheat average between 350,000 and 400,000 tons annually. The future of United States quality wheat exports may not be gloomy because the Common Market depends on outside resources for practically all hard quality wheat which it cannot grow for itself on a self sufficiency level because of climatic conditions. Therefore, it appears that no severe restrictions will be put on this type of wheat imports from non-member countries.

As long as the United States can supply this quality wheat, market prospects appear favorable. It is up to United States farmers to produce this quality wheat and deliver it to Europe at prices competitive with other countries producing this type of wheat.

SUMMARY AND CONCLUSION

The European Economic Community was established on January 1, 1958. The economic integration of the six member countries, Belgium, France, Germany, Italy, Luxembourg and Netherlands, is expected to be complete by 1970.

During the transition period internal barriers to trade among the member countries are being dispensed with and a common policy with respect to external trade is being adopted.

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[1]"French Wheat Exports to European Economic Community Show a Big Drop," Foreign Agriculture, March 11, 1963 (United States Department of Agriculture) p. 10.

The European Economic Community's common agricultural policy went into effect on July 30, 1962. As a result, variable levies have been imposed on a number of commodities including wheat.

The Rome Treaty is not in contradiction to present international trade agreements such as the General Agreement on Tariffs and Trade since the latter recognizes a customs union. Neither is the Common Agriculture Policy in contradiction to the International Wheat Agreement because the wheat agreement does not impose any specific restrictions on the import and export of wheat.

The extent to which the future of wheat exports of the United States will be affected depends upon the ultimate price level in the European Economic Community which is not yet known. However, presently the lowest support prices in individual countries in the Common Market are considerably higher than the support prices in the United States.

The Common Agricultural Policy of the European Economic Community provides a great competitive advantage to producers in the Common Market which might step up wheat production in that area to self sufficiency level so far as soft whe is concerned. As a result, the exports of United States soft wheat will decline.

The European Economic Community will continue to be a good source for exports of hard quality wheat because it can not grow enough hard quality wheat for itself. Moreover with the increase in income in the Common Market area the demand of wheat itself may change from soft to hard quality which might lead to an increase of hard quality wheat exports to that area.

Reliance must be placed on future negotiations with the European Economic Community. United States should be prepared to grant concession to the Common

Market on industrial goods in order to obtain a favorable market for its agricultural products. The Trade Expansion Act of 1962 would go a long way to achieve this objective.

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THE EFFECT OF EUROPEAN ECONOMIC COMMUNITY TARIFFS
ON
UNITED STATES WHEAT EXPORTS

by

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AN ABSTRACT OF A MASTER'S REPORT

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The purpose of this report is to evaluate the impact of the trade policies of the European Economic Community (Common Market) on United States wheat exports to that area.

The European Economic Community is the culmination of a series of historic developments leading toward economic integration in Europe beginning with the formation of Benelux (Belgium, Netherlands and Luxembourg) in 1921, followed by the establishment of the Organization for European Economic Cooperation in 1947, and the European Coal and Steel Community in 1951. The European Economic Community was established by the Treaty of Rome signed by Benelux, France, Germany and Italy on March 25, 1957 and which came into effect on January 1, 1958.

The aspect of the Common Market with which the United States is most concerned is the customs union. Elimination of barriers to trade among the Common Market nations and the establishment of uniform trade policies are the major objectives of the customs union which are expected to be acheived by 1970. The internal tariffs applying to the nations in the Common Market have been cut on the average by fifty percent on industrial goods and by sixty five percent on agricultural commodities up to July 1, 1962. Quotas on industrial goods have already been abolished between the six Common Market countries. External tariffs are also reaching the uniform level.

The Common Agricultural Policy which went into effect on July 30, 1962 envisages the abolition of all tariffs, quotas and other restrictions on agricultural products by the end of 1969 within the Community. Import quotas on agricultural products from member states have already been replaced by a national system of minimmm import prices. During the transitional period import prices are set to equal domestic support prices. The prices are being brought to a uniform level which will result in higher prices for France and some lowering in Germany and other member countries.

As a result of the Common Agricultural Policy two variable levies are being imposed on wheat between now and 1970. One will be imposed by each member state on imports from other members. The second will be imposed by each Common Market country on imports from non-member countries. The variable levy on wheat imported from member countries will be eliminated by 1970. The variable levy on imports from third countries will remain but may change. Use of a levy on imports is intended to equalize import prices with support prices in each of the Common Market Countries.

The European Economic Community is a major producer and consumer of agricultural products. However, wheat production in the Community does not fulfill its requirements. The Community produces around twenty-four million metric tons of wheat annually. It imports roughly about five million tons. Approximately one and a half million tons are imported for quality reasons. The United States exports of wheat to the Community are around 1,500,000 tons. 350,000 to 400,000 tons of United States wheat exports the Common Market are for quality reasons. However, the imports of the Community vary greatly from year to year.

Due to the imposition of the variable levies the export of soft wheat to the Common Market, which is produced there, will probably decline. Since the Common Agricultural Policy did not go into effect until July 1962, it is too early to see much actual change in United States exports of wheat so far. It seems likely, however, that the Common Market will continue to encourage domestic production in an effort to maintain self sufficiency to the extent possible. The situation for hard wheat is different because the Common Market countries cannot grow this kind of wheat in substantial quantities on account of climatic conditions. Therefore, it appears that the shipments of hard wheat will be maintained in the future. There is no indication that Common Market policies will discriminate against the United States compared to other external sources of wheat. Presently the United States has an agreement with the Community that corrective action will be taken by the Community if the quality wheat exports by the United States to that area decline. However, reliance must be placed on future negotiations with the European Economic Community which are scheduled to take place in 1964 under the auspicies of the General Agreement on Tariffs and Trade.