

AGRICULTURAL PRODUCTION:
EUROPEAN AND WORLD MARKETS

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Community agricultural activity - i.e. operations related directly to production - involve a number of holdings estimated at about 6.5 million for the Community of Ten and about 9.8 million for the Community of Twelve. The EUROSTAT '83 estimate is that there are about 2.8 million holdings in Italy. It is calculated that the numbers working in farming average, in the Europe of Ten, about 7.5 per cent of the total labour force (9.8 per cent in the Twelve), ranging from as little as 2.5 per cent (UK) up to as much as 32 per cent (Greece). At the present time, this industry ensures full food supplies for the Community, so that it can also make a substantial contribution to world trade in a wide range of products.

A few significant figures give an idea of the scale and pattern of agricultural production, as regards the main aspects, with crop products accounting for 45 per cent and livestock products for 55 per cent of the final agricultural production of the Ten. Among crop products, cereals are the most important, with 16.8 per cent (wheat being 44 per cent of this total), followed by fruit and vegetables (11.8 per cent), wine (4.1 per cent) and beets (3.3 per cent). The leading livestock product is milk (18.8 per cent), followed by beef/veal (14 per cent), pork (14 per cent), mutton and goat (1.8 per cent) and eggs and poultry (8.5 per cent).

As for the volume of production, in recent marketing years the Community of Ten has averaged the following production:

- about 130 million tons of cereals, i.e. about 19.5 per cent of world production, behind the United States (280 million tonnes) and Russia (170 million tonnes);
- about 7 million tons of beef/veal, i.e. 15 per cent of world production;
- about 10 million tons of pork, i.e. 20 per cent of world production;
- about 2.2 million tons of butter, about 28.7 per cent of world production, with a derived production of 2.1 million tonnes of milk powder;
- about 2.8 million tons of cheese, i.e. 30 per cent of world production.

To which must be added, to get the full picture, about 12 million tons of sugar, 4.9 million tons of oilseeds, 168 million hectolitres of wine, 16 million tons of fresh fruit, 32 million tons of vegetables, 5.8 million tons of preserved tomatoes and 820 million tons of oil.

Present levels of production and the qualitative pattern of production itself in the Community of Ten (and in coming years we shall be seeing the impact of the enlargement to Spain and Portugal) are the result of major developments as regards quantities and, minor changes, as regards markets, with respect to the situation in the early sixties in the Community of Six. In this connection, the progress of the index of final agricultural production in terms of volume shows that production has increased over the last twenty years in the founding member states at an average rate of 1.9 per cent.

The leader in growth has been the Netherlands at 4.1 per cent, while growth has been slowest in Belgium at 0.6 per cent and Luxembourg. In Italy, the rate has been 1.3 per cent and in Germany 1.7 per cent.

For the ten member states, over a shorter period, the rate has been 1.8 per cent. As regards the composition of output, it should be noted that livestock production has lost some ground since 1966, and crop products have made gains, especially maize and wheat. However, the changes in type of output have been relatively small and it is safe to say that the key feature of the development of agricultural production in the Community has been its steady annual increase, with a trend yielding an appreciable increase in the rate of self-sufficiency for all items.

It would be interesting to analyse in detail the economic and political factors which have contributed to this sharp increase in agricultural production but space permits only a summary.

Briefly, we may note that the increase in production has been accompanied by:

- a sharp contraction in land farmed (6 million ha in 19 years), which means that the increase is not due to more extensive farming;
- a spectacular decline in the number of farmers and farm workers (by 50 per cent in 20 years), which means that the increase is not due to increased employment;
- substantial productivity gains, due mainly to:
 - (a) the increase in use of inputs by farms (compound feed for livestock, fertilizers, insecticides and fungicides, fuels, services, etc.);
 - (b) heavier investment in capital assets (livestock, permanent crops, machinery and buildings and the use of capital needed for current production).

Among the factors of economic policy, there is no doubt that the CAP, through the various market organisations, has made a major contribution to providing farmers with an assured income which has enabled them to limit the risks attendant upon medium-term investment and on borrowing to cover current expenses.

The policy, with all its shortcomings, must be seen as the key to the remarkable expansion of production in the Community, even in areas where strictly economic considerations would have restrained growth.

Let me also stress that from 1978 onwards, the rate of increase in inputs and investment slowed down sharply so that, in the early eighties, agriculture seems to have been caught in a recession quite comparable to that besetting other industries in Europe. The recession in agriculture has also, of course, been partly a matter of the changes made to the CAP from 1980 onwards, in terms of reduced income guarantees and financial coresponsibility.

This is a particularly important consideration for those who at Community and national levels are preparing for coming discussions on further reforms of the policy, especially as the changes made so far have encroached on farmers' incomes but have failed to achieve any substantial reduction in the rate of growth output. The fact is that the European Economic Community has now, as we have seen, crossed the self-sufficiency threshold for many products, in some cases by a long way.

Among the few products for which the Community of Twelve has not yet reached self-sufficiency are oilseeds and related products and by-products, including items for livestock feed, maize (66 per cent), fresh fruit and citrus fruit (88 per cent and 69 per cent), mutton (78 per cent) and tobacco (40 per cent).

The main items of which the Community produces more than it needs are preserved tomatoes (166 per cent), sugar (133 per cent), butter (131 per cent), milk powder (129 per cent), wheat (125 per cent), rice and olive oil, beef/veal (105 per cent), poultry (103 per cent), and pork. The bulk of this formidable output of food is, of course, consumed in the countries in which it is produced, but a proportion which is far from negligible enters into intra-Community trade and serves to swell a substantial flow of exports onto the world market.

Despite trends to internal and external consumption, the Community has not succeeded in finding markets for all of its output of certain products, either within the Community or outside, and for some years the milk, beef, and to some extent cereals surpluses have been raising serious problems both because of their cost and because of the threat they constitute to market equilibrium.

THE EUROPEAN MARKET

Economic growth, refined consumer tastes and the Community preference ensured by individual market organisations for free movement of goods in Europe have conferred upon the European market an importance which it could hardly have been achieved without the Treaty of Rome and the CAP.

Between 1968 and 1972, intra-Community farm trade among the six countries averaged about 6,000 million ECU. Nowadays, the figure for the same six countries is 39,000 million ECU. In 1985 trade in agricultural products between the ten member countries reached 58,000 million, corresponding to 33 per cent of the value of final agricultural production (i.e. including value added) or 20 per cent of agricultural production at farm level. These are very significant figures, even if the totals given above mask wide differences

within product groups, in that for example, for some items, notably citrus fruit and fresh vegetables, exports to the Community market have an importance for Italy well below the Community indices.

This observation, already made elsewhere, confirms our perception that the internal Community market remains an important outlet for the member countries' production. The right response for the Community authorities must be to ensure effective Community preference for all sectors, while the farmers must make every effort to provide for the European consumers those products which are qualitatively in line with their requirements.

The development of scientific and market research, and of the processing sector, is definitely an important aspect of efforts to make the very most of the large consumer market which Europe now offers.

THE WORLD MARKET

The increase in the agricultural production of the Community of Six, then Ten and now Twelve, has induced the Community to seek new outlets abroad, so that the world market is now taking, as much of certain items, if not more, than are sold within the Community.

In 1984, Community agriculture and exports reached a value of about 31,000 million ECU, this being 18 per cent of the value of final agricultural production.

For a wide range of dairy products (50-60 per cent of world trade), wheat flour, eggs (31 per cent), poultry (31 per cent), wine (40 per cent) the Community is the leader on the world market. The volume of exports of Community sugar (15 per cent of the world market) is second only to that of Cuba, and for beef/veal the Community's exports (18 per cent) exceed those of traditional exporters like Argentina and Austria.

At the same time, the Community has increased its own imports, which reached about 54,000 million ECU in 1984, making it the world's leading importer. The increase in imports is mainly due to an increase in purchases of products which the Community does not produce and to purchases of animal feed supplements.

Because of this two-fold increase, the Community's agricultural trade balance had a relatively modest deficit of 25,000 million ECU in 1979, which then contracted to 18,000 million ECU, but has since increased again to 23 and 27,000 million ECU in recent years, averaging about 25,000 million ECU.

However, the relative stability of the overall deficit masks quite substantial changes in the pattern of bilateral trade balances. The most important of these have been:

- the reduction in the deficit vis-à-vis the United States, due mainly to an increase in Community exports (from 6,100 million ECU in 1980 to 4,500 million ECU in 1984);
- the increase in the deficit vis-à-vis the ACP countries, due to an increase in imports from those countries, 3,700 million ECU in 1980 to 6,100 million ECU in 1984;

- an increase in the surplus vis-à-vis Japan through growth in Community food exports to that country (372 million ECU to 957 million ECU);
- the Community's penetration of and consolidation on the world market with respect to a significant proportion of the excess agricultural production is a result of substantial efforts (involving strain of various kinds) made in external trade policy, in the organisation of Community and international operators and in finance, with steadily growing costs to the EEC budget.

The world market for agricultural products is an extremely sensitive market on which industrialized and developing agricultural countries compete but from differing positions in terms of political and economic power, the importance of them to the world market, and the varying strategic significance of the products.

Just after the war the trading powers operating on world markets adopted a sort of Magna Carta, the General Agreement on Tariffs and Trade (GATT), imposing trading discipline. Multilateral negotiations have been held from time to time to supplement or interpret the Agreement and attempt to find solutions for the main differences of opinion.

It is a fact that the Community is competing with a group of countries which are just as determined to conquer or consolidate their positions on the markets, like the United States (cereals, grain derivatives and fodder grain, livestock and meat, eggs and poultry, etc), Canada (cereals, meat and by-products), Australia (meat, cereal and sugar), New Zealand (meat, dairy products). To this group must be added Argentina, Brazil, and Cuba for products like cereals, meat and sugar. But it must be acknowledged that, despite some shortcomings, the Community's external trade policy has the fundamental objective of achieving stabilization of the world market, in the context of its status as exporter but at the same time leading importer of a wide range of products from some of the very countries which would be happy to see Community exports on the world market curbed.

While the history of the Community in this field has been punctuated with trade "wars" with certain other countries, it is also true that the Community itself has always been prepared to negotiate and indeed has often taken the initiative in this. This is the spirit in which it is preparing for the new multilateral round, believing that the other GATT member countries will be in a position to acknowledge that:

the accession to the Community of new members states must inevitably entail a change, sooner or later, in trade flows in favour of the preferential Community area;

the Community, given its position with regard to imports and exports, is entitled to retain a fair share of the world market;

the wide range of systems of financing exports, operated in various forms by many competing countries as well, must not have the effect of aggression on world markets and a resulting reduction in the fair share won on that market.

CONCLUDING CONSIDERATIONS

Given this review of production, the Community market and the world market for agricultural products makes it clear that the sharp increase in output has imposed on Community policy a quite active defence in terms of trade policy of the Community market to safeguard Community preference and action to seek out and consolidate outlets on the world market.

This approach has, it is true, enabled the Community to maintain an effective rate of expansion of the sector, but it has also engendered situations and strains which need to be adjusted or eased. Agricultural expenditure on market support, chargeable to the Community budget, has increased in the past faster than the Community's own resources have increased, but the present "budgetary discipline" now prohibits this. The same policy on prices and markets has led, as already noted, to a build-up of surpluses, the disposal of which will not only be very costly but may also further destabilize world markets. The trading partners at world level have adopted aggressive policies in an attempt to curb or adjust the development of Community exports.

These knots cannot be unravelled without study and reflection. I hope very much that the Community institutions and the national authorities will be able to work together in the search for the best solutions at a time which is crucial for the CAP and, indeed, for the process of European integration itself.

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