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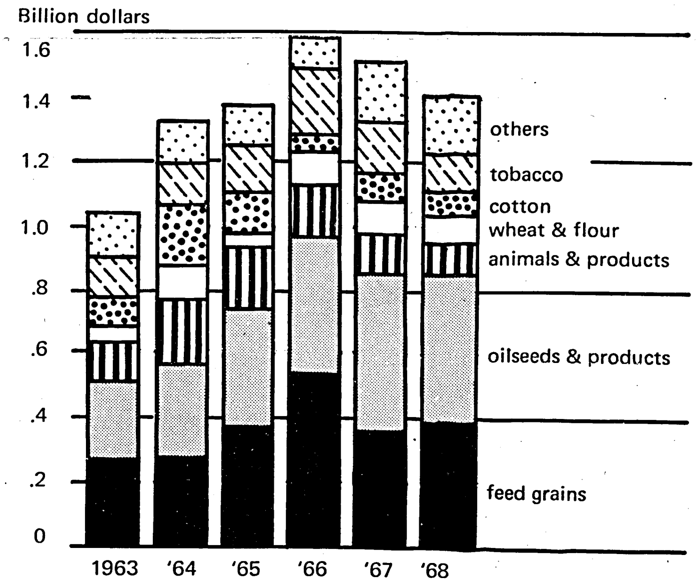
AGRICULTURAL SURPLUSES in the European Economic Community (EEC) could have serious implications for U. S. farmers, who sell about a fourth of their exports to EEC countries—$1.4 billion last year. Not only has this block (France, West Germany, Italy, and the three Benelux countries) been the most important cash customer for U. S. farm products, but, a number of products exported to other countries compete directly with those in surplus in the EEC. The United States, for example, has just initiated a direct subsidy to exporters of lard to the United Kingdom. The subsidy is being made in an effort to regain a traditionally U. S. market lost to heavily subsidized EEC exporters.

EEC Provides a Major Market for American Farm Exports



SOURCE: USDA.

To encourage agricultural production and raise farm incomes in the EEC block, a common agricultural policy was initiated in 1962. A uniform set of "target" prices was established for livestock and grains, and a single agency, the Guidance and Guarantee Fund, was set up to administer the policy. When prices drop to a certain level below the target price, the Fund buys up products and stores them until prices return to levels where the products can be exported or sold on the domestic market. Although prices are supported, production is not restricted. Farmers are protected from foreign competitors by a system of variable import levies (common to all six countries) that insulate domestic prices from changes in world prices.

Under this arrangement, artificially high prices have increased the supply of most products. Surpluses developed quickly in products, such as butter, with substitutes that are not supported. At the start of 1968, butter stocks in Western Europe had increased almost 100 percent since the new price policy was instituted. EEC stocks total over 280,000 tons. This compares to 98,000 tons of U. S. butter in storage. With lower priced margarine available, consumers have not been willing to buy the increased supply. The large surplus of butter has prompted one EEC official to suggest a tax on both domestic and foreign vegetable oil.

It is thought that the surplus, which has become expensive, could be alleviated by raising the cost of the principal ingredient of margarine and lowering the support price of butter. However, milk production in Europe is tied closely to beef production, which EEC officials have wanted to increase. In Europe, most cattle serve as both milk and meat animals. And in the EEC, livestock prices are supported at higher levels than feed grains. The results have been an increase in cattle raising and liberal use of feed grains. Not only has the output of beef and veal increased, but also the output of milk—about 25 percent in the last eight years. This raises a serious question of whether a lower support price for milk would have much effect on production of butter, although a lower price would presumably increase consumption.

A tax on oil cake has also been proposed. Such a tax would tend to decrease the amount of cake used as animal feed, setting back productivity per cow and increasing the cost of both meat and milk production.

Whatever effect these proposed taxes have on the dairy surplus, they will provide a new source of revenue for the Guidance and Guarantee Fund which may be the primary reason for them.

The cost of the EEC's agricultural program has mounted rapidly, increasing from $38 million in 1962 to $1.8 billion in 1967. Expenditures for the current fiscal year are projected to $3.1 billion. (The United States government spends about $3.4 billion on price supports and related activities.) Controversy among EEC members has stemmed from the fact that some countries, especially Germany, are donating much more to the fund than they are receiving back in price-support payments and export subsidies. This new source of funds would be most acceptable to all the EEC members.

If the oil tax is imposed, it will dry up another market for U. S. oils, especially soybean oil. This would be serious any time—since about a fourth of all dollar-exports of vegetable oils go to EEC countries—but it would be even more serious now that world markets are glutted with fats and oils and U. S. soybean supplies have risen to record heights.

The United States has warned that if the taxes are imposed, it will retaliate by raising tariffs on EEC exports to this country. In the long-run, protectionist policies benefiting particular groups not only boost costs to consumers (by interfering with the economic allocation of goods and productive resources) but shrink exports as well.

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