Agriculture by Cynthia Parsons

Pressure mounts on the CAP

European budget-cutters and U.S. free marketeers think Europe's 8 million farmers are "over-producing."

The European Community suspended advance farm subsidy payments in an unprecedented action that reflects the severity of the 10-nation economic community's growing budget crisis. The decision to halt the customary practice of issuing advance payments on all export contracts until January 1984 was taken on Oct. 11 at a special joint meeting in Athens of Common Market foreign, finance, and agriculture ministers. The Common Agricultural Policy (CAP) funds were almost gone, and the EC chose to stall rather than deal with British and West German demands to reform the CAP, which will come to a head before the December EC summit.

Advance payments were initially frozen for 10 days until the European Parliament approved the release of new funds for the CAP, which was down to its last $550 million. On Oct. 12, a supplementary budget of $1.48 billion was agreed upon, but a three-month suspension was announced as a precautionary move to keep CAP spending within its budget.

Ordinarily, each exporter received his export incentive on submission of a letter of intent. That amounted to an interest-free loan of up to 30 days. Now, the payments will not be made until he presents the bill of lading, though an individual country can give the advance payment and later be reinbursed by the CAP.

Britain and West Germany, which pay substantially more into the community than they get back, are opposing any increase in the EC budget without a radical reform of the CAP. For the first time, the Netherlands has come out in support of the British with a proposal to put legally enforceable limits on the growth in farm spending.

The CAP has long been eyed by free marketeers in the United States as an impediment to the destruction of nation-states which insist on supporting their own agricultural sectors. Should the CAP be dismantled, it would not mean an increase in U.S. exports; rather, the world would be thrown into a massive food crisis. The memory of the food shortages of the 1930s and 1940s still hangs over Europe, an obstacle to altering EC agricultural policy.

Since U.S. exports started to decline in 1981, pressure on the EC to halt Europe's "growing surpluses" and cries of "protectionism" have escalated. U.S. exports to the EC were down 40 percent last year. Pressed by the grain traders, the U.S. Department of Agriculture began making formal complaints to GATT. Secretary Block does not want the EC to pay its farmers higher prices for grain production regardless of how low the manipulated market price falls.

The main drain on the EC budget has indeed been increased subsidies to compensate for the past two years of very low crop prices.

Now the EC has finally put forward a reform outline for discussion. The reforms, vague in time frame, amount to budget and production cuts. They include a review of direct aid and premiums; automatic dismantling of monetary compensatory amounts, the special duties and subsidies on inter-EC trade; and a more "restrictive" farm price policy.

One item which will not sit well in Europe is an internal quota system on milk production. Two that have already drawn responses from the United States are a tax on EC vegetable oil consumption, which would harm U.S. soybean interests, and import restrictions on non-grains such as corn-gluten feed.

U.S. Deputy Undersecretary of Agriculture Alan Tracy has complained that although the European Commission recommends that EC grain prices be aligned with world prices more quickly, it "offers no timetable." "We have strong doubts that the current EC reform effort will do what Commission officials claim it will." Tracy had to admit that the CAP policy was good for increasing food production, but moaned that it was costing U.S. agriculture "up to $6 billion a year in displaced trade."

Daniel Amstutz, the USDA's undersecretary for international affairs, testified before a Senate Agriculture subcommittee that the "balance sheet" on trade in wine and other specialty products runs heavily in favor of the Community. He said that even though the tax on feed imports would not be large, it would serve as a "foot in the door" and could lead to far greater taxes in the future. He also said that the United States will not give up the right to duty-free entry of corn gluten meal, because this right was paid for with concessions during previous trade talks.

The House Agriculture Committee and others have sent letters to U.S. Trade Representative William Brock saying "We urge that the U.S. protest to the Community in the strongest possible terms . . . and make it clear that if any of [the restrictive proposals] is adopted, it would result in serious political repercussions in the United States and lead to economic retaliation by this country."