Does the Common Agricultural Policy damage the Less Developed Countries?

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The impact of the Common Agricultural Policy on developing countries has been of concern to many non-governmental organisations within the Community for many years. In 1983 Trócaire commissioned a major study of this topic by Alan Matthews of the Department of Economics, Trinity College, Dublin. The completed research will be published in late 1985 by Gill and Macmillan in association with Trócaire. This eleven-chapter book, entitled The Common Agricultural Policy and the Less Developed Countries *first describes the food situation in the developing world, the role of developing countries in agricultural trade, the European Community's Common Agricultural Policy and its agricultural trade policy. It then analyses the consequences of the CAP for developing countries and the probable impact of CAP reform by commodity and by country grouping. It discusses the food price dilemma faced by governments in developing countries in balancing consumer and produce interests, the role of export agriculture and the impact of EC agricultural protection on food security in developing countries. Finally, the book draws out the conflicting interests of various developing country groups in reform of the CAP. In this article Alan Matthews synopsises his main findings and their implications.*

The Common Agricultural Policy (CAP) has been an integral part of the European Economic Community (EEC) from the beginning. The price provisions of the CAP are designed to transfer income to European farmers and to maintain a secure supply of food for European consumers. The consequences of this policy for countries outside the EEC have become increasingly contentious now that it has passed the point of self-sufficiency for many temperate zone food products and become a major exporter, with the aid of export subsidies, to world markets.

The CAP has two major consequences for outside countries. First, it results in lower prices for CAP products on world markets, though the effect on the prices of agricultural products which serve as substitutes for CAP products (e.g. oilseeds) is less clear. Second, the operation of the variable levy/refund system of the CAP effectively insulates the internal EEC market from outside fluctuations. This benefits producers and consumers inside the EEC, but it means that the size of the fluctuations which countries outside must face are even larger.

EEC agricultural protection is usually seen as damaging to the interests of the less developed countries (Valdés and Zietz 1980, Fitzpartrick 1982), though more recently there is a growing realisation that many importing LDCs benefit from the availability of cheaper food supplies (Bale and Koester 1984, Matthews 1985). Ireland has been a significant beneficiary of the CAP, given the importance of the agricultural sector and the role which agricultural exports play in the Irish economy. Any changes in EEC agricultural policy are proportionately more important to this country than for any other member state. Thus whether the impact of the CAP on LDCs is positive or negative is of more than usual interest for Irish development organisations. For this reason Trócaire sponsored a study to examine the relationships between the CAP and LDCs, and how LDCs would be affected by changes in the CAP. Some of the findings of this study are presented in this chapter. (The full study will be published by Gill and Macmillan in association with Trócaire under the title *The Common Agricultural Policy and the Less Developed Countries* in Autumn 1985.)

From the range of possibilities for CAP reform, the effect of a complete liberalisation of agricultural trade under the CAP by removing all support to EEC farmers is examined. This is not to imply that this is a prospective or even likely development; it is chosen so as to highlight the costs and benefits, and the conflicts, to which EEC agricultural policy gives rise. A reduction in protection by a smaller amount would have effects roughly proportional to those reported here. Eleven separate commodities are included in the study: wheat, barley, maize, rice (cereals); beef, pork, mutton, poultry (meats); sugar, dairy products and oilseeds. In the case of sugar, CAP reform is assumed to take the form of a reduction in the volume of EEC production brought about by more restrictive quota arrangements. Because the study is intended to measure the consequences of a liberalisation of the CAP regulations for agricultural products, it focuses on trade in unprocessed agricultural products and products after first-stage processing. More highly processed foods do not receive protection from the CAP, although they may face tariffs under the Common External Tariff, but the consequences of reducing these are not investigated.

Before looking at the results, an important caveat must be entered. Calculating the effects of removing agricultural support from EEC farmers requires certain assumptions about how the main actors (farmers, consumers and government policy-makers) in both the EEC and elsewhere would react to the change in the prices of agricultural products which would follow. If these assumptions are changed, then the results presented below would also be different. Thus the results should be treated as broad orders of magnitude rather than precise indicators of the effects of CAP reform, and they are contingent on the particular assumptions used when making the calculations. The following tables are based on the 'standard run' assumptions of the study. The most important of these are that centrally-planned economies react to the change in the world market prices in the same manner as market economies, and that countries outside the EEC are assumed not to alter their agricultural policies in response to the change in world market prices, implying that these changes are fully reflected in the national markets of these countries.

The Impact of LDCs under the Standard Run Assumptions

Table 1 summarises the levels of EEC protection assumed in the study, and the effect on world prices of removing this. The impact on world prices is relatively minor for most commodities, in the range 1 to 6 per cent. Dairy products are the exception, where the impact is much greater, both because of the high rates of EEC protection in the dairy sector and the important role of the EEC in the world dairy market. The price effects for individual commodities would be greater if the reduction in protection was confined to a single commodity rather than undertaken in the context of a general liberalisation of the CAP.

Table 1: **Impact of CAP reform on world price levels, standard run assumptions**

Commodity	EEC nominal protection rate %	Increase in world prices %
Wheat	16	0.7
Barley	27	2.9
Maize	34	0.5
Rice	36	0.1
Sugar	(1)	6.0
Beef	35	3.9
Pork	30	4.0
Mutton	72	5.0
Poultry	30	3.2
Butter	70	10.5
Skim powder	43	7.5
Oilcake	(2)	-7.9
Vegetable oils	(3)	5.0

Notes: (1) Production reduction of 3.5 m tonnes assumed
(2) Consumption reduction of 7.0 m tonnes assumed
(3) World price increase of 5 per cent in standard run assumed

Source: Author's calculations

The effects on other countries of eliminating support for EEC agriculture under the standard run assumptions are shown in Table 2. LDCs as a group would be disadvantaged by a reform of the CAP under these assumptions. They would lose from higher world prices for cereals, dairy products and most meats and from the lower world prices for oilseed protein. They are shown to gain from higher prices for pigmeat and for vegetable oils. The former result is dependent on a predicted major expansion of Chinese pork exports, the realism of which may be questioned. LDCs would also benefit from higher world market sugar prices, but the possible loss of the benefits under the Sugar Protocol attached to the Lomé Convention offsets the gain in the standard run.

Table 2: **Summary of effects of CAP reform on other country incomes, standard run assumptions, $ million**

	Cereals	Sugar	Meats	Dairy	Oilseeds	Total
Net Exporters						
Developed countries	186	106	278	177	-342	405
Less developed countries	19	545	210	12	-87	701
Net Importers						
Developed countries	-121	-424	-193	1	234	-503
Less developed countries	-143	-345	-238	-228	-69	-1023
Net Balance						
Developed countries	65	-318	86	177	-109	-99
Less developed countries	-123	200	-27	-215	-156	-323
less sugar and beef transfers		-191	-20			
Less developed countries	-123	9	-47	-215	-156	-542

Source: Author's calculations

As well as the overall impact on LDCs, it is of interest to know how these gains and losses from eliminating EEC agricultural protection would be distributed among LDCs. When the effects are broken down by continent, the major winner is Latin America (Table 3). With only 11 per cent of the Third World's population it takes about half the gains to net exporters, but only its proportionate share (in relation to population) of the losses. Its net gain is calculated at around $230m. Africa is the continent which proportionately would be hardest hit by CAP reform. It would hardly share at all in the benefits of higher world prices for temperate zone products, but it would bear 30 per cent of the total income losses, resulting in a net loss of around $240m. Asia's net loss would be around $310m.

Table 3: **Breakdown of LDC gains and losses by continent**

Continent	Net Balanee $m	Share total LDC GDP %	Share net exporters' gains %	Share net importers' losses %	Share LDC population %
Africa	-242	12	8	29	14
Latin America	227	36	53	14	11
Asia	-308	53	40	57	75

Source: Author's calculations: UNCTAD *Handbook of International Statistics,* New York, 1984

Both Africa and Asia contain some relatively high income countries (for example: the North African and Middle Eastern countries respectively) as well as many low income countries. A breakdown of gains and losses from CAP reform by LDC income group is shown in Table 4. This table shows that all LDC income groups are made worse off by liberalising the CAP, but the bulk of the losses are borne by the low and high income LDCs. The reason the low income LDCs are so adversely affected is that they obtain a relatively small proportion of the net exporters' gains.

Table 4: **Breakdown of LDC gains and losses by income class**

Income Group	Net Balance $m	Share total LDC GDP %	Share net exporters' gains %	Share net importers' losses %	Share LDC population %
Low income	-183	29	15	28	74
Middle income	-13	16	30	22	13
High income	-127	56	55	50	14

Source: Author's calculations: UNCTAD, *op. cit.*

Table 5 shows the distribution of gains and losses from CAP reform distinguishing between major LDC oil exporters and non-oil LDCs. The major oil exporters gain virtually nothing from higher world market prices for temperate zone foods, but account for almost half the total losses to LDCs. The consequences for non-oil LDCs of EEC agricultural trade liberalisation are more finely balanced, and they more or less break even after the loss of Sugar Protocol and Lomé Convention transfers are accounted for. It might be argued that oil-producing LDCs should be in a position to pay the higher cost of food imports following CAP reform, and that attention should properly be focused on the non-oil LDCs. However, the category of major LDC oil producers is a very mixed one. It includes large, populous LDCs such as Indonesia and Nigeria and low income LDCs such as Congo and Angola, as well as the capital-surplus Middle Eastern countries. It would be very arbitrary to exclude the former two groups from the LDC category, and the contribution of the capital-surplus Middle Eastern countries (Saudi Arabia, Libya, Kuwait, and the United Arab Emirates) to the LDCs' import deficit on temperate zone foods, while significant, is still limited by their relatively small populations.

Table 5: **Breakdown of LDC gains and losses by oil and non-oil exporters, $ million**

	Cereals	Sugar	Meats	Dairy	Oilseeds	Total
Net Exporters						
Oil exporters	0	2	6	0	4	12
Non-oil LDCs	19	543	205	12	-90	689
Net Importers						
Oil exporters	-55	-200	-127	-112	3	-491
Non-oil LDCs	-88	-145	-110	-116	-73	-531
Net Balance						
Oil exporters	-54	-198	-121	-112	7	-479
Non-oil LDCs	-69	398	94	-103	-83	157
less sugar and beef transfers		-191	-20			
Non-oil LDCs	-69	207	74	-103	-83	-54

Source: Author's calculations

These results are subject to many qualifications which are discussed in the larger study. The size of the agricultural sector in many LDCs has been artificially depressed by the discriminatory agricultural policies which their governments have pursued. The LDC agricultural sector would be larger under an incentive farm policy, and many LDCs which are now importers of temperate zone food might become net exporters, thus changing the balance of advantage from CAP liberalisation for LDCs as a group.

Another issue concerns the relative valuation of producers' and consumers' interests in LDCs arising from higher food prices. In these calculations, the impacts by country are obtained by assuming that a change of one unit in producer income is equivalent to a similar change in consumer income. There may be reasons to weight changes in the income of the two groups differently. If producers and consumers are drawn predominantly from different strata in the country's income distribution, then on equity grounds one might want to give greater weight to changes in the income of the poorer group. If the savings propensities of the two groups or the multiplier effects of their spending are different, there may be a case for differential weighting on growth grounds. Or if unemployment results from the policy change, then the valuation of costs and benefits will be quite different to what it would be if employment levels remain unchanged.

EEC agricultural protection makes employment creation in agriculture more difficult for LDCs, and thus intensifies their need to create employment in the non-agricultural sectors. If as a result of the CAP LDCs import more food than they would otherwise do, this places an even greater onus on the EEC to keep its markets open to manufactured goods imports from LDCs. Agricultural protection results in higher food prices and lower prices for manufactured goods in the EEC than would otherwise be the case. Some may argue that this schizophrenic trade policy is not sustainable in the longer run.

Despite these qualifications, the results show that higher world food prices resulting from a reduction or removal of CAP protection would disadvantage the majority of LDCs, at least in the short run. It may be that adjustments in the longer run would change, even reverse, this conclusion — though much more empirical evidence must be assembled to show this. But the long run will be too long for many of the people affected by the change, and policy recommendations based on the short run impacts are relevant.

Conflicting Interests in CAP Reform

The conclusion that a majority of LDCs would be disadvantaged by reduced CAP protection does not imply, paradoxically, that the CAP should not be reformed. Nor is it legitimate to argue that, because CAP reform would lead to more losses than gains for LDCs, even higher CAP protection should be sought by them. It is one thing to recognise that benefits and liabilities have been established by the existing policy. It is quite another to argue that this policy should be maintained or even strengthened. This requires a comparison between the relative merits of the existing policy and other options designed to achieve the same objective.

Lower world prices as a consequence of the CAP benefit poor consumers in LDCs. It has not been argued that high protection to European agriculture is the best way of assisting this group. Indeed, the CAP is very much a second-best policy in this regard. The CAP *does* damage producers while providing some aid to low income consumers. Many of the benefits of lower farm prices *do* leak away to relatively well-off consumers or benefit relatively well-off countries. Most important, the CAP is the cause of income losses and distributional controversies within the EEC itself which are a continuing source of uncertainty. For all these reasons a continuation or an increase in CAP protection is not being advocated here. What is being pressed is that reform of the CAP would damage a potentially vulnerable group in LDCs, and that claims to the contrary lead to their interests being overlooked.

From this perspective, three policy issues appear relevant:

— how best to safeguard the interests of LDCs and consumers within LDCs adversely affected by CAP liberalisation;
— how best to protect and promote the interests of LDCs disadvantaged by CAP protection;
— whether LDCs have any preferences regarding the mechanism of CAP reform.

On the first issue, higher world food prices might be offset for some countries by increased deliveries of food aid, or by the operation of a 'concessional sales' window in a new international Wheat Agreement. The difficulties and dangers of food aid are well-known, but if it is accepted that food aid is intended to substitute for commercial imports which would have been undertaken in any case, and if it is linked to the implementation of 'food strategies' which give a higher priority to agricultural growth in LDCs, it can have a useful role to play. Cash aid to support nutrition interventions targeted on low income households could also play a valuable role.

The compensation of temperate zone food exporting LDCs in the event of a continuation of CAP protection could take a variety of forms. In the case of sugar, where LDC cane producers have a clear comparative advantage over EEC beet production, a reduction in EEC sugar production quotas together with the maintenance of the Sugar Protocol would confer positive benefits on LDCs, though 80 per cent of the gains from higher world sugar prices go to only five countries (Cuba, Brazil, the Philippines, the Dominican Republic and Thailand). In the case of other products (beef, grains, other meats) the levy-rebate arrangements in force for certain beef exports from some ACP countries might be extended to other low income exporters, though there are few potential beneficiaries in this category at the present.

For middle income LDCs, particularly the Latin American countries which bear the brunt of the cost of CAP protection at the moment, and which are rapidly developing an industrial capacity, compensation might be sought in the industrial sector through improved import arrangmeents. The EEC Commission has already proposed that compensation of the Mediterranean countries adversely affected by the further enlargement of the EEC should take the form of

Sugar Protocol-type arrangements (Tunisian olive oil) and increased aid for industrial investment.

With respect to the preferred route to CAP reform the importance of reducing price instability on world markets to enhance the food security of LDCs must be emphasised. The form of protection provided by the CAP (variable import levies and export refunds) makes the maximum contribution to destabilising the world market. The CAP mechanisms prevent any adjustment of production and consumption within the EEC to periods of high or low prices on world markets. This places the burden of adjusting to these situations disproportionately on the other participants in the world market, particularly the low income countries.

One route to reform would be to maintain the average level of protection to EEC agriculture, but to do this by means of a constant tariff, so that fluctuations in world market prices were reflected in EEC markets. This enlargement of the world market would, of course, help to dampen those fluctuations which do occur. It would mean that EEC farmers could no longer depend on a guaranteed minimum price for their produce, while EEC consumers would find food prices, particularly of meats, much more variable. But in the absence of global stockholding arrangments, greater food security for one part of the world can only be achieved at the expense of greater food insecurity for the other.

The implications for Irish development co-operation policy follow from the above. Ireland should recognise that CAP reform will adversely affect many LDCs, particularly in Africa and Asia, and should support compensation in the form of more food aid and cash aid for nutrition programmes in these cases. It should recognise the need for improved arrangements for LDC temperate food exporters, by supporting EEC membership of the International Sugar Agreement with a negligible export quota and by supporting the extension of the levy-rebate arrangement to other low income exporters. It should recognise that liberal import arrangements for manufactures from LDCs are a *quid pro quo* for agricultural protection. Finally, it should seek ways to make the EEC market more responsive to world market trends in order to enhance the food security of food-importing LDCs. Many of these proposals run counter to the short term interests of particular groups: farmers, consumers and workers, in Irish society. It will be necessary to begin a debate to discuss how these burdens should be shared.

References

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