

The European Community and U.S. Farm Exports

In January 1973, the European Community (EC) enlarges its membership from six to nine to become the world's largest trading bloc.

With the addition of Britain, Denmark, and Ireland, EC-9 will account for nearly two-fifths of the world's imports, more than twice the U.S. figure. And the nine countries take close to a third of U.S. agricultural exports.

Thus, the newly expanded community is of considerable significance to the U.S. farmer. First - and perhaps foremost - it will mean the extension of a basically protectionist agricultural policy to Britain, one of the largest food importing nations in the world: In fiscal 1972, Britain bought \$430 million

worth of farm products from the United States.

Farmers are concerned about the impact such an extension could have on U.S. exports. The question is especially relevant at a time when U.S. farm exports are skyrocketing: During the last fiscal year we reported a record \$8.0 billion worth of agricultural products. Our \$2.0 billion favorable balance in farm trade during fiscal 1972 was the highest in five years. Keeping that figure up is vitally important to the Nation's balance of payments.

Specialists at USDA have therefore been studying the matter in order to pinpoint problem areas and make way for possible solutions.

The new members, including Britain, will have until the end of 1977 to adjust to the EC's Common Agricultural Policy (CAP). Although development of the CAP and how it works has been explained often, it is not always fully understood.

High rigid prices in the Community stimulate uneconomic production and curtail demand. These prices are protected under the CAP by variable levies and other devices which deprive outside exporters - such as the United States - of the competitive advantage they might have, and thus reduce imports.

Products that cannot be disposed of through protected markets inside the EC become exports almost automatically through export subsidies. Outside

countries, including the United States, thus lose export markets two ways.

This is not to suggest that all our trade will be adversely affected. But there is no question that certain commodities will be hit.

The impact on tobacco will be one of the most important. In fiscal 1972 the United States exported \$130 million worth of tobacco to the new members (\$100 million to Britain and \$30 million to Denmark and Ireland).

Special EC arrangements exist with tobacco producers such as Greece, Turkey, Tanzania, Uganda, Malawi and Zambia. These countries are already important suppliers to the Community and the U.K., and they are expanding production.

Also, the "no additive" requirement of Britain, which has made it necessary to use high-quality American tobacco, is being lifted. This means British processors will be able to use the lower quality leaf available elsewhere. It also means that in the long run, U.S. tobacco sales to the new members will be less.

Wheat and feed grains will also be affected. U.S. feed grain sales to Britain totaled \$62 million in fiscal 1972, with wheat sales totaling \$38 million (excluding transshipments). When the U.K. joins the Community, higher EC grain prices will be extended to Britain. This is likely to result in a substantial rise in grain production there.

With strong pressures for increased production in other EC countries as well, the likelihood is that U.S. grain sales to the EC-9 will decrease.

In the case of lard, a squeeze will be felt immediately.

Britain is the largest world importer of lard and accounts for the bulk of U.S. lard exports (\$16 million worth went to Britain last fiscal year). The EC, on the other hand, has a high variable levy protection against imports of lard. Assuming that present EC protection is extended to Britain, it is likely that virtually all lard imports for food use from the United States will be eliminated.

Rice exports are apt to experience a pinch. Britain and the other new member countries now admit rice either duty free or at rates not exceeding 5 percent.

However, the EC system for rice includes high producer prices without production controls. The CAP provides for very high variable levies against rice imports, in addition to high export subsidies.

The cost of imported U.S. rice (\$10 million worth went to Britain in fiscal 1972) is therefore expected to rise sharply in the U.K. and other new member countries.

The fresh and canned fruit market will also probably be hurt somewhat. The United States supplied Britain with about \$13 million worth of fresh, dried and canned fruit, and fruit juice, in

fiscal 1972. A combination of higher internal prices, steeper duties, and preferential arrangements will not favor these exports following enlargement.

While all this may sound bleak to the American farmer, it is by no means without bright spots. Soybeans, an increasingly important U.S. crop, will continue to enter the Community virtually duty free after enlargement. This means that the fiscal 1972 figure of close to \$75 million in U.S. soybean exports to the new members is likely to increase.

Other products, such as pulses and hides and skins, should not be adversely affected, though they do not rank in importance with soybeans.

The enlarged EC promises to be a powerful force in the world economic community that can adversely affect the U.S. foreign trade picture.

In testimony before a U.S. House of Representatives subcommittee last year, a high USDA official conceded that "without reform of the CAP the outlook is not a happy one."

International trade experts at USDA are looking to continuing negotiations in order to deal with the new situation after expansion.

Among the top priority items in such negotiations are U.S. recommendations that present EC protective devices, such as variable levies and quotas, be replaced by fixed duties.

Whatever emerges from the negotiations, there is no question that the American farmer has a great stake in the outcome.

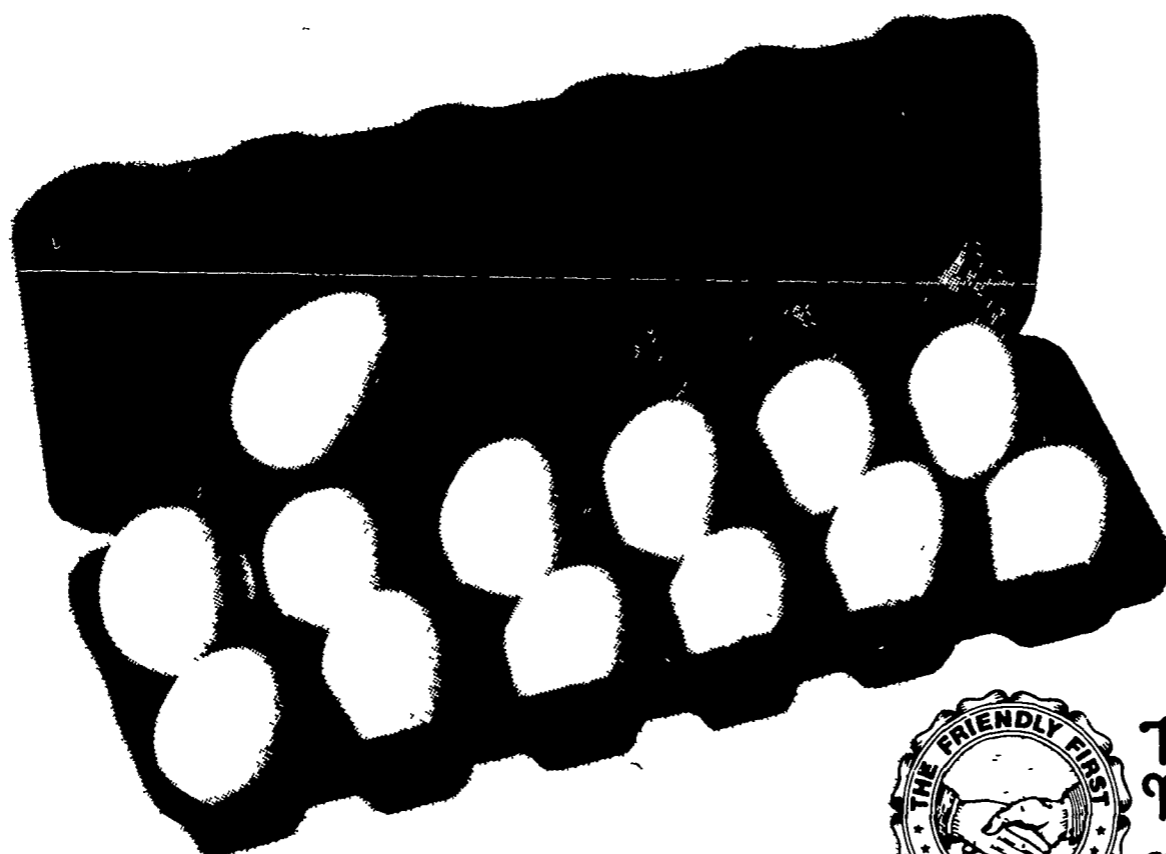
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